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Israel: Smells Like CHANEL's Second Round in the District Court

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CA 8668/19 CHANEL v. SCENTWISH LTD— Supreme Court decision dated October 31, 2021

The Israeli Supreme Court has recently remanded to the District Court for further review a claim for a declaratory order filed by ScentWish Ltd. against Chanel S.A. ScentWish is an Israeli company which repacks regular sized parallel imports of well-known perfumes (including Chanel's perfumes) into 8ml packages and markets them under the names of the original perfumes and their manufacturers at a discounted price. Importantly, ScentWish's packages included a disclaimer whereby: "ScentWish merely repackages original perfumes. ScentWish is not related to the manufacturer of this perfume in any way" (free translation from the Hebrew; "**the Disclaimer**").

The claim - for a declaratory order of non-infringement - was filed by ScentWish following receipt of a C&D letter from Chanel, the world renowned luxury goods' manufacturer and the owner of the well-known trademark "CHANEL" and additional well-known trademarks for CHANEL's perfumes (such as "No. 5" and "COCO MADEMOISELLE").

The District Court held that subject to certain amendments to the Disclaimer's wording and prominence as well as the addition of ScentWish's trademark alongside Chanel's Trademarks, ScentWish may benefit from the defence of Genuine (fair) Use (set forth in Section 47 of the Trademarks Ordinance [New Version], 1972 ("**Genuine Use**"). Under the Genuine Use defence a person is allowed to use, *inter alia*, any genuine description of the character or the quality of his/her goods, when otherwise such use would have constituted a trademark infringement. According to case law, in order to qualify as Genuine Use, the use: (i) must not be misleading; and - (ii) must be essential (in the sense of being practically necessary) as well as reasonably and fairly proportional.

Chanel appealed the **District Court's Ruling** and the Supreme Court remanded the case to the District Court, to determine, based on the expert opinions filed by the parties, whether the rebottling materially alters the perfumes' properties. The Supreme Court ruled that such alteration is relevant to the test concerning likelihood of customers' misleading. In case that the rebottling materially alters the perfumes'

properties (which should be established by concrete evidence) and the customers might indeed be misled to believe that the perfumes' properties remain unchanged, the defence of Genuine Use will not apply (notwithstanding the fact that the use is not misleading with respect to the source of the goods/services or the defendant's affiliation with the trademark owner).

The Supreme Court also ruled that damage to the image of Chanel's trademarks as a result of ScentWish's use may render the use unfair and therefore not qualifying as Genuine Use. In this respect, the Supreme Court addressed the tension between freedom of occupation and free competition, on the one hand, and the trademark owner's property (namely, the economic value of the trademark and its positive image), on the other hand. It was noted that while usually the interests of freedom of occupation and free competition will prevail, cases involving well-known and registered trademarks are exceptional. In such cases, if the use of the trademark is likely to cause monetary injury to the trademark owner, it will be considered unfair, unless adequate measures are taken to prevent such injury. With respect to ScentWish's use the Court held that Chanel did not substantiate its argument whereby the image of its trademarks was likely to be damaged due to the simple, generic and not prestigious packages used by ScentWish. The Court did not address Chanel's argument regarding monetary injury caused by the alteration of the perfumes' properties, as it was held that such alteration (if proved) will in any event render ScentWish's use misleading and therefore the Genuine Use defence will not be available to ScentWish, as discussed above.

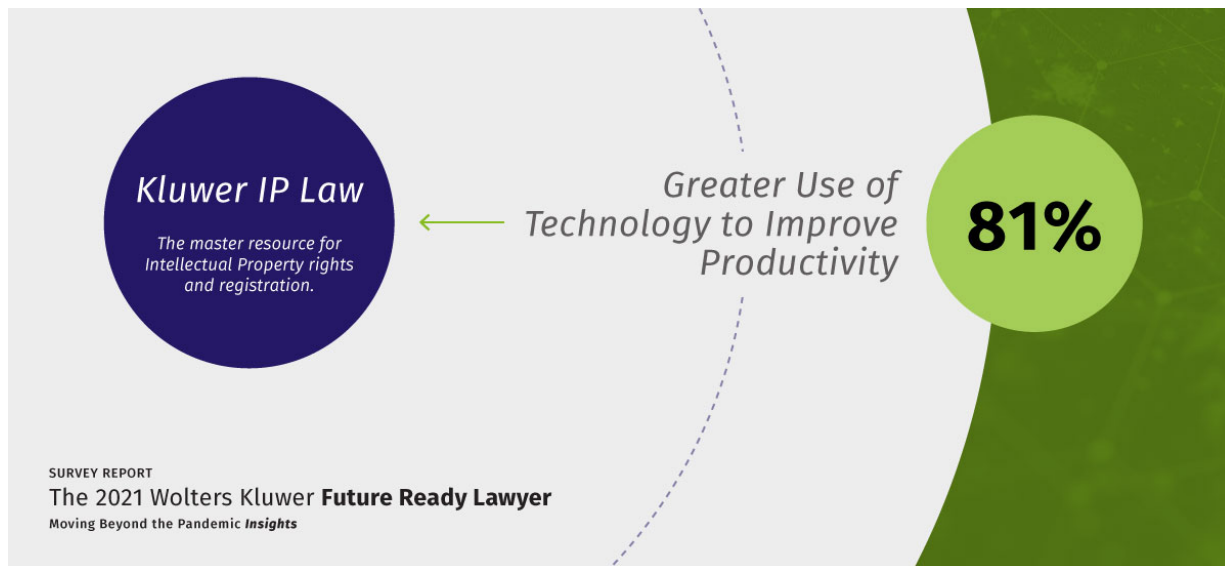
The decision is an exception to the trend in Israeli case law during the past few years of outweighing the interests of freedom of competition and occupation over the trademark owners' proprietary rights.

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