

Peanut Butter Crunch!

The Full Federal Court recently ruled on Kraft's appeal in the Kraft v Bega dispute over the ownership and use of KRAFT trade marks and "trade dress" for the peanut butter previously sold by Kraft, in *Kraft Foods Group Brands LLC v Bega Cheese Limited* [2020] FCAFC 65. In reaching its decision the Court upheld the earlier 2019 Federal Court decision of Justice O'Callaghan in *Kraft Foods Group Brands LLC v Bega Cheese Limited* [2019] FCA 593.

Background

Kraft Walker Cheese Company Pty Ltd was incorporated in Australia in 1926, and subsequently changed its name to Kraft Foods Ltd in 1951. It started selling "Kraft Peanut Butter" in Australia in 1935, and registered the word "Kraft" as a trade mark in 1959, and subsequently registered the hexagonal Kraft logo and the tag line "NEVER OILY NEVER DRY".

In addition to its registered trade marks, Kraft also used the following unregistered packaging features:

- A yellow lid since the early 1990s
- The hexagonal Kraft logo in a central position on their label since around 1997
- A clear jar (looking brown when filled) with a yellow lid and a yellow label with a blue nut shape (for "smooth") and a red nut shape (for "crunchy") from around 2007.

Kraft Foods Ltd changed its name to Mondelez Australia (Foods) Ltd ("MAFL") and Kraft Foods Inc changed its name to Mondelez Global LLC in 2012, following a change of name and company restructure internationally. As part of the restructure, MAFL purported to assign all of its registered and unregistered trade marks to Kraft Foods Group Brands LLC, its IP holding company in the United States, following which MAFL used all registered and unregistered trade marks in Australia under a master licence agreement from that global holding company.

"Trade Dress" or "Get-up"

Kraft used a number of registered trade marks on their peanut butter, including the word "KRAFT", the hexagonal Kraft logo, and the "NEVER OILY NEVER DRY" phrase, in addition to the "Trade Dress" described above (which was not registered as a trade mark).

Kraft's internal licence agreements defined "trade dress" as the "characteristics of the visual appearance of a product packaging including the shape or appearance of the container, graphic design, colour scheme or design, or a combination ... that serve as a source identifier and are used on the package in combination with a licensed" brand. "Trade dress" is sometimes known as the "gestalt", "look and feel" or "get-up" of a brand or product.

Kraft tried (ultimately unsuccessfully) to register the above "trade dress" as a trade mark in January 2017.

Kraft Sale to Bega Cheese

In January 2017 Mondelez Global LLC and MAFL sold all of the business, assets and goodwill of MAFL to Bega Cheese Ltd.

Bega started manufacturing and selling peanut butter under the "Bega" brand and "Good Nut" brand in Australia in July 2017 following completion of the sale and purchase, using the Kraft peanut butter recipe and the factory acquired in the sale, and the trade dress previously used by Kraft and MAFL.

The registered "KRAFT" word and hexagon trade marks remained with Kraft Foods Global Brands LLC, but the "NEVER OILY NEVER DRY" trade mark was assigned to Bega.

The Court also considered a number of radio and television advertisements broadcast by Bega in late 2017, describing or showing 'a jar of Kraft peanut butter, as an announcer says "Australia's favourite peanut butter has changed its name to Bega peanut butter." The Kraft label on the jar is then peeled off, revealing the Bega peanut butter label. The announcer continues: "It's never oily, never dry, with the same taste you've always loved, and now Australian owned and made. Bega peanut butter."

During 2017 KRAFT branded peanut butter stopped being sold in Australia, following the sale of Kraft's food business in Australia to Bega Cheese Ltd.

Subsequently, Kraft Foods Group Brands LLC contracted Sanitarium to develop a new peanut butter recipe, very similar to its old recipe that had been sold to Bega. From April 2018, Kraft Foods Group Brands LLC started selling its "new" peanut butter in Australia. The peanut butter was made in a different factory through its subsidiary HJ Heinz Company Australia Ltd, and offered for sale to the public under the "KRAFT" registered trade marks and using the same trade dress previously used by Kraft and MAFL, together with the tag line "Loved since 1935".

This meant that from April 2018 there were then two different peanut butter brands being sold in Australia using essentially the same "trade dress":



*images from first Kraft v Bega court decision

First Federal Court Case

Kraft Foods Group Brands LLC and Heinz issued the first Federal Court proceeding, claiming that Kraft owned the trade dress and that Bega did not acquire any rights to the trade dress because the rights to those unregistered trade marks were owned by a different international IP holding company and not by the Australian business purchased by Bega, and further that the master trade mark licence agreement (which it claimed covered the unregistered trade marks as well) had expired on 31 December 2017, after which time Bega Cheese did not have any rights to use the trade dress. Kraft claimed that Bega had breached the master licence agreement and that the use by Bega of the trade dress was misleading or deceptive conduct under the Australian Consumer Law, or passing-off.

Bega claimed that it had purchased the rights in the trade dress (being an unregistered trade mark) because it had purchased all assets including goodwill of MAFL's Australian peanut butter business, and under Australian law unregistered trade marks can not be separated from goodwill and can only be transferred as part of a transfer of the business as a whole. Bega claimed that Kraft's use of the trade dress was misleading or deceptive conduct, and that Kraft's advertising that their new peanut butter was "Loved since 1935" was misleading or deceptive.

The primary judge in the first Federal Court decision held in May 2019 that Bega had acquired the rights to the trade dress, and that:

- i. *"goodwill is inseparable from the business to which it adds value and cannot be dealt with except in conjunction with the sale of that business"*.
- ii. *"because the Peanut Butter Trade Dress was an unregistered trade mark, it designated to a consumer that the trade origin of the products on which it was applied was separate and distinct from the trade origin of all other peanut butter products that do not have the Peanut Butter Trade Dress applied to them"*.
- iii. *"the assignment or licensing of unregistered trade marks is not possible without the assignment of the underlying goodwill of the business"*.
- iv. *"even if Kraft Foods Inc or any member of its group had purported to license, assign or otherwise 'shift' the Peanut Butter Trade Dress from KFL to an upstream company in the Kraft Foods Inc group, it would have been ineffective as a matter of Australian law", and Kraft "could not have assigned the rights in the Peanut Butter Trade Dress to any other member of the Kraft Foods Inc group without also assigning its peanut butter business, which (on any view) it did not do"*.
- v. *"Kraft had not established by production of the licence agreements that KFL used the Peanut Butter Trade Dress or the Kraft trade mark as a licensee" and "none of the licence agreements mentioned the Peanut Butter Trade Dress or the Kraft trade mark"*.
- vi. *"Having found that the rights to the Peanut Butter Trade Dress were sold to Bega in July 2017, it followed that Bega was entitled to use the Peanut Butter Trade Dress in the business that it acquired and Bega was entitled to take action to protect its goodwill in its peanut butter*

business by preventing use of the Peanut Butter Trade Dress by others, including Kraft".

- vii. *"Kraft engaged in misleading and deceptive conduct and passing off through its use of the Peanut Butter Trade Dress"*.

Judgement of the Full Federal Court on Appeal

Kraft appealed against the decision and the Full Federal Court dismissed the appeal in April 2020.

The Full Federal Court upheld the primary judge's decision and held that:

- a. *"there was no assignment of the goodwill of the peanut butter business from KFL to Kraft Foods Global Brands LLC, this being necessary for the (unregistered) Peanut Butter Trade Dress to be assigned as a matter of Australian law. The fact that Kraft Foods Global Brands LLC could exercise control over the character and quality of the products was due to the requirements for the licensing of registered marks. It did not change who held the rights in relation to the Peanut Butter Trade Dress"*.
- b. *"as a matter of Australian law, an unregistered trade mark may only be assigned with an assignment of the goodwill of the business ... the agreement did not allocate the rights in relation to the Peanut Butter Trade Dress to Kraft Foods Group Brands LLC ... It follows that the rights in relation to the Peanut Butter Trade Dress remained with MAFL following the Restructure", and the trade dress was therefore validly transferred by MAFL to Bega as part of the sale of the peanut butter business in Australia.*

Lessons

We can draw the following lessons from this case:

1. Under Australian law, it is clear that, although a registered trade mark can be assigned on its own, unregistered trade marks (such as the trade dress in this case) and goodwill can only be assigned to another party when the whole of the business to which it relates is transferred and sold.
2. It is preferable to register any unregistered trade marks having commercial value, including trade dress, "get-up", tag lines, logos, labelling or packaging where possible, as relying on unregistered common law trade mark rights can unnecessarily complicate matters and lead to unintended results.
3. Any party selling or purchasing unregistered trade marks will have to exercise extra caution, particularly if trade marks are held by an IP holding company and licensed to a trading entity.

Companies engaging in comparative advertising which specifically refers to and makes claims about their competitors must exercise extra caution to ensure that everything they say is true and correct and not misleading.

Companies should be extra careful to make sure that they understand their own intellectual property ownership and licensing structure, including what IP is owned by which entity and under what rights it is used, and to whom any goodwill arising from such use accrues, particularly in relation to any marketing and advertising campaigns and in relation to any sale of IP, goodwill and/or business.