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Nuts *about it*

With so much acquisition activity in fashion, K&L Gates' **Len Hickey** and **Bianca D'Angelo** look at a case that might hold lessons for the sector.

ON 1 MAY 2019, the Federal Court of Australia delivered its judgment in the dispute between Kraft Heinz Company and Australian dairy company, Bega Cheese Limited about who owned the right to use the distinctive peanut butter packaging.

This packaging was originally developed for use by Kraft Heinz to sell peanut butter in Australia. Despite many years of use, the distinctive packaging was never registered as a trade mark and Kraft Heinz only registered its "Kraft" brand in isolation from the packaging. In 2017, Bega purchased the business that developed the original packaging and commenced selling its own Bega-branded peanut butter in similar packaging.

Kraft Heinz then took legal action against Bega claiming that Bega was not entitled to use the packaging and that only Kraft Heinz could use the packaging because it was an unregistered trade mark owned by Kraft Heinz.

In its judgment, the Court considered a multitude of issues. Ultimately, the Court found that Kraft Heinz did not own the packaging as an unregistered trade mark, and that the original owner was Kraft Heinz's licensee.

The Court further ruled that legal agreements from 2012, which purported to transfer ownership from the licensee to Kraft Heinz, were not legally valid because they did not involve any transfer of the licensee's business to Kraft Heinz. The licensee continued to own all rights in the packaging as an unregistered trade mark until it sold its business to Bega in 2017, at which point Bega became the owner of

those rights. While Kraft Heinz has appealed the Court's decision, this case provides salient lessons if you fail to register trade marks.

Lessons learned

The Court clarified that:

- Unregistered trade marks, including trade dress or get up (eg peanut butter jar packaging), form part of the goodwill of a business.
 - Goodwill which is generated by operating a business (eg by use of an unregistered trade mark) is inseparable from the business to which it adds value. Goodwill does not attach to individual assets that can be carved off from the business.
 - Under Australian law, an entity can't transfer an unregistered trade mark to another entity except in conjunction with the sale of the business.
 - An attempt to assign an unregistered trade mark without an associated business transfer is ineffective under Australian law. This can be so despite the parties to the purported assignment explicitly agreeing to the contrary. Implications in commercial transactions For corporate transactions, valuable unregistered trade marks can often be overlooked. If you plan on selling all or part of your business or acquire someone else's, you need to seek advice to ensure that the core trade mark rights are validly transferred to the purchaser or you.
- Keep in mind these options:
- Selling assets – This may be the preferable option if you want to keep certain assets (eg the business name) and not

others. However, it can also involve the purchase of all assets. If you plan on divesting assets unregistered trade marks cannot be assigned without the related assets and business also being assigned. The sale of the asset(s) has to be accompanied by or carries with it the right to conduct the business.

- Selling shares – In a share sale of all the issued share capital in a company, the entire business will pass to a new owner, including all assets and liabilities. It incorporates the company's goodwill and reputation. A share sale will not generally involve a transfer (or an attempt to transfer) any unregistered trade marks, which would typically remain in the ownership of the company whose shares are being sold. The buyer simply becomes the sole shareholder in the company (and everything with it).

Conclusion

It is prudent to register commercially valuable property such as trade marks. As this case shows, it is critical to do so if you plan on dealing with discrete assets. Unlike an unregistered trade mark, a registered trade mark can be assigned with or without the goodwill of the business concerned in the relevant goods and services. ■

For more information about the matters discussed in this article please contact Len Hickey, Senior Associate at K&L Gates (email len.hickey@klgates.com.au). This article is for informational purposes and does not contain or convey legal advice. The information herein should not be used or relied upon in regard to any particular facts or circumstances without first consulting a lawyer.