Consumer Products Marketing

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ARNOLD & PORTER LLP

Court decisions, new and pending laws, and regulations arise every day affecting companies that produce and market consumer products. Our *Consumer Products Marketing* newsletter summarizes notable policy and regulatory developments, as well as court decisions, in the areas of consumer protection, Lanham Act, trademark, privacy, EU, and consumer product safety. Our aim is to keep you informed of these issues with a concise overview of selected developments. Attorneys in all practice areas listed are available to answer any questions you may have in regard to any of these issues. To reach the editor for any reason, contact Randal_Shaheen@aporter.com.

CONSUMER PROTECTION[1]

FTC Chairman Deborah Platt Majoras Outlines Initiatives

FTC Chairman Deborah Platt Majoras outlined upcoming FTC initiatives, including those related to consumer protection, in a November 2004 speech at the ABA Antitrust Section Fall Forum. Under the new Chairman's leadership, the Commission will continue to focus its efforts on fighting consumer fraud, including identity theft. Citing the success of the National Do Not Call Registry, Majoras also described continuing efforts to safeguard consumer privacy. The Commission will concentrate on protecting consumers from computer spam and spyware, in addition to unwelcome telemarketing.

Possible Bounty for Spam-Catchers

In September 2004, the FTC released findings detailing the feasibility of a bounty system that would reward private individuals who help the FTC and others identify and prosecute spammers under the CAN-SPAM Act of 2003. The CAN-SPAM Act, effective in January of 2004, required that the FTC conduct a study and issue such a report to Congress as to whether such a bounty system would improve enforcement of the Act. The FTC believes that friends or business associates close to the spammers would be in the best position to provide whistle-blowing information. The Commission estimates that would-be informers would need reward incentives of $100,000-$250,000 in order to overcome a number of concerns, including possible professional retribution, personal legal liability, loss of income, and retaliatory conduct by the spammer. If Congress were to institute such a system, the FTC recommends tying the award to the issuance of a final court order instead of enforced civil penalties.

Hispanic Consumer Fraud Initiative

Companies that market their products to Hispanic consumers should be aware that the Federal Trade Commission is cracking down on consumer fraud directed at Spanish-speaking persons. This Fall, the Commission announced six actions against companies that they claim advertised fraudulent products and services through national Spanish media, the Internet, and Spanish telemarketing campaigns. The Commission also kicked off a consumer awareness campaign that provides Spanish-

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speaking consumers with information on how to submit a complaint to the FTC and how to receive free consumer education information from the agency. Companies that place Spanish-language advertisements may want to double-check their translations to ensure that they are not inadvertently making false or misleading claims.

LANHAM ACT[2]

Court Decisions:

"America's Favorite Pasta" is Inactionable Puffery

American Italian Pasta company sought a declaratory judgement after receiving a letter from New World Pasta Company demanding that it stop using the phrase "America's Favorite Pasta." New World claimed that this advertising slogan falsely implies that American's is a "national" brand or the nation's number one selling pasta. Survey evidence showing that consumers interpreted "America's Favorite Pasta" to mean "the number one brand" (33%) or "national brand" (50%). The court concluded, however, that "America's Favorite Pasta" could not be objectively measured as either true or false and therefore was inactionable puffery.

The case suggests that a survey cannot convert an inherently subjective and generalized claim into a factual statement actionable under the Lanham Act. As well, this case also supports that, when litigation appears inevitable, the recipient of a demand letter charging false advertising may bring suit for a declaratory judgement, arguing no deceptive advertising. This maneuver is a viable way for a would be defendant to select the forum. *American Italian Pasta Company* v. *New World Pasta Company*, 371 F.3d 387 (8th Cir. 2004).

Court Holds That Lanham Act Claims Must Be Pled with Particularity, Noting Unsettled Nature of the Law

A federal court in New York recently held that false advertising claims under the Lanham Act must adhere to a heightened pleading standard under Federal Rule of Civil Procedure 9(b), which requires a plaintiff to plead allegations of fraud "with particularity." *Volunteer Firemen's Insurance Services, Inc.* v. *McNeil & Co., Inc.*, 221 F.R.D. 388 (W.D.N.Y. 2004). The court cited disagreement among courts that have confronted this issue. Ultimately, the court concluded that the purposes of the heightened pleading requirement of Rule 9(b)—to protect the defending party's reputation, to minimize strike suits, and to provide detailed notice of fraud claims—apply in the context of competitor-versus-competitor false advertising suits. The court dismissed the Lanham Act claim but granted leave to amend the claim so that it comports with the requirements of Rule 9(b).

Consumer Organization Lacks Standing to Sue Under the Lanham Act

The Lanham Act is strictly limited to suits by competitors; it is *not* a consumer protection act. That well-established legal principle has not stopped consumer organizations from continuing to try to sue for false advertising under the Lanham Act. Such suits consistently fail for lack of standing. Another recent example is *Made in the USA Foundation* v. *Phillips Food, Inc.*, 365 F.3d 278 (4th Cir. 2004), which affirmed the dismissal of a suit brought by a nonprofit consumer organization. Amazingly, the Made in the USA Foundation did not even "dispute that it was suing as a consumer." The District Court and Court of Appeals had no difficulty dismissing the case for lack of standing. The court noted, "[a]t least half of the circuits hold (and none of the others disagree) that the…Lanham Act…bars a consumer from suing under the Act" (citing cases from the Second, Third, Fifth, Seventh, and Tenth Circuits).

1 Arnold & Porter's Antitrust & Trade Regulation Group has extensive experience in consumer protection matters before the Federal Trade Commission (FTC), State Attorneys General, and the National Advertising Division (NAD). Members of our group include Bob Pitofsky, former FTC Chairman and Director of the Bureau of Consumer Protection; Mike Sohn, former FTC General Counsel; Bill Baer, former FTC Bureau of Competition Director; Debbie Feinstein, former Assistant to the FTC Bureau of Competition Director and Attorney Advisor; Randy Shaheen and Amy Mudge who collectively have practiced in this area for over 20 years. In our EU offices, Tim Frazer, and Susan Hinchliffe have advised clients on numerous consumer protection matters.

2 Arnold & Porter LLP attorneys have significant experience with Lanham Act deceptive advertising counseling and representing both plaintiffs and defendants in deceptive advertising litigation. The firm has represented companies and advertising agencies in diverse product areas (including some seminal cases in the pharmaceutical sector) and has handled both literal-falsehood cases and implied-falsehood cases, which require scientifically designed surveys. Attorneys in the firm with Lanham Act experience include Joel Freed, Chuck Ossola, Helene Madonick, Suzy Wilson, Randy Shaheen, Roberta Horton, and Randy Miller.

TRADEMARK[3]

Philip Morris v. *Otamedia*

A&P lawyers served as co-counsel in a groundbreaking case, in which a federal district court ordered the transfer of certain domain names to plaintiff Philip Morris USA, Inc., even though the plaintiff did not claim intellectual property rights in the domain names. The District Court for the Southern District of New York ordered that the registrations for the domain names yesmoke.com and yessmoke.com, which point to two web sites through which Otamedia Limited unlawfully sold illegally imported Philip Morris brand cigarettes to U.S. consumers, be transferred to Philip Morris USA. *Philip Morris USA, Inc.* v. *Otamedia Ltd.,* 331 F. Supp. 2d 228 (S.D.N.Y. Aug. 20, 2004). The court acknowledged the "apparently unprecedented nature" of relief sought by Philip Morris, but found that because Otamedia persisted in violating the injunctive relief afforded by an earlier judgment against it, prohibiting the unlawful importation of Philip Morris branded cigarettes, equity considerations made it "necessary and appropriate" to transfer the ownership of the Internet domain names.

Otamedia, a Belize corporation with operations in Switzerland, sold cigarettes on its web site, which could be accessed through its two domain names. The earlier judgment stated that Otamedia displayed logos and images "confusingly similar" to Philip Morris trademarks and illegally sold "gray market cigarettes"—ones intended for sale abroad but instead sold to customers in the United States. Thus, Otamedia's actions infringed and diluted Philip Morris trademarks in violation of the Lanham Act and New York General Business Law and also violated the Imported Cigarette Compliance Act.

Otamedia did not deny that it continued to sell gray market cigarettes on its web site. However, it challenged the judgment modification by arguing that transfer of its domain names would have destroyed its entire business, the majority of which, according to Otamedia, did not violate the original order. The court agreed that the legitimacy of Philip Morris' request for modified relief depended in large part on the percentage of sales of gray market Philip Morris cigarettes by Otamedia, as compared with sales of other products, on Otamedia's web site. It found that Otamedia's Internet business was devoted "almost exclusively" to cigarette sales, and that at least a "substantial percentage" of those sales were to customers in the United States of gray market Philip Morris cigarettes.

The court's modified order is noteworthy for two reasons. First, it used a type of relief—proscribing certain lawful conduct to effectively enjoin unlawful conduct—usually reserved for antitrust cases. Second, the transfer of ownership of domain names—described by the Court as "novel"—may offer trademark infringement plaintiffs a new, effective relief option when the infringement was perpetrated on the Internet. As stated by the court, Philip Morris "identified an efficacious means to enforce the Judgment, a means inherent in the very same technology by which Otamedia has to date been able to violate it with impunity."

PRIVACY[4]

California Releases Guidelines for Complying with Privacy Laws

The Office of Privacy Protection of the California Department of Consumer Affairs recently released guidelines to aid businesses in complying with the California Online Privacy Protection Act ("COPPA"), which became effective on July 1, 2004, and S.B. 27, the "shine the light law," which became effective on January 1, 2005.

COPPA requires each commercial web site or online service that collects personally identifiable information on consumers residing in California to conspicuously post a privacy policy statement (i) identifying the categories of personally identifiable

[3] Arnold & Porter has extensive experience in all areas of trademark and domain name law, including emerging issues in the areas of federal dilution law and nominative fair use over the Internet. Members of the group include, in our DC offices: Chuck Ossola, Roberta Horton, Jim Walsh (former Administrator for Trademark Policy and Procedure at the PTO), Joel Freed, and in our LA office: Suzy Wilson, Ron Johnston, and Jim Blackburn.

[4] Arnold & Porter's Privacy Team provides legal and strategic counsel to help clients meet their privacy obligations in a demanding, evolving, and competitive marketplace. Our attorneys have held significant senior government positions, including Jeff Smith, former General Counsel of the CIA; Bob Pitofsky, former Chairman of the FTC; Ron Lee, former General Counsel of the National Security Agency; and Rick Firestone, Chief of the Common Carrier Bureau of the FCC. Others with extensive experience in this area include Nancy Perkins, Scott Feira, and Donald Stepka in our DC office; Gregory Fant in our LA office; and Sarah Kirk in our London office.

information collected, (ii) disclosing the categories of third parties with whom the information may be shared, (iii) describing the process, if any, by which a consumer may review his or her own collected information, (iv) describing the process for communicating changes in the policy, and (v) stating the effective date of the policy. Because it can often be reasonably assumed that California residents access a web site, most businesses that collect personally identifiable information through their sites will want to make sure they comply with COPPA.

S.B. 27 requires most businesses that share their customers' personal information for direct marketing purposes to publicize a contact point for consumers to inquire how the business shares personal information with other businesses for direct marketing purposes, and to disclose certain information in response to such inquiries.

Appendices 2 and 3 of the document contain the text of S.B. 27 and COPPA, respectively, and explain briefly what is required to comply with each law. The Recommended Practices section gives a number of tips intended to steer businesses clear of traps that might lead either to noncompliance with the laws or to misunderstandings with consumers. Thus, the recommendations go beyond what is strictly necessary to comply with a literal reading of the statutes. The Introduction notes that these are "neither regulations, nor statutory mandates, nor legal opinions." They are, however, a pronouncement of the state agency that oversees California's consumer protection laws, and will therefore likely be cited by consumers bringing complaints alleging violations of COPPA and the "shine the light" law.

Most of the suggestions in the Recommended Practices section are matters of common sense, but having them collected and organized can help focus clients' discussions with counsel as they formulate appropriate policies and procedures, and help prevent overlooking one or more of the many considerations that enter into these decisions.

FTC Issues Final Rules Classifying Emails Under the CAN-SPAM Act

On December 16, 2004, the Federal Trade Commission released final rules interpreting the federal anti-spam statute, the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (or the CAN-SPAM Act). The rules aim to differentiate more heavily regulated "commercial" emails from less heavily regulated "transactional or relationship" emails and other emails. All who use email to communicate with customers should familiarize themselves with these distinctions to ensure that they comply with the CAN-SPAM Act and avoid the harsh penalties that can result even from technical violations.

The CAN-SPAM Act prescribes more or less intensive regulation of emails depending upon their "primary purpose." "Commercial" emails are "messages the primary purpose of which is the commercial advertisement or promotion of a commercial product or service (including content on an Internet website operated for a commercial purpose)." "Transactional or relationship" emails are messages the primary purpose of which is to facilitate a commercial transaction already agreed to by the recipient, or to administer an existing commercial relationship between the sender and the recipient and are subject to fewer requirements. Recognizing that classifying messages according to their "primary purpose" would be open to substantial interpretation, Congress directed the FTC to "defin[e] the relevant criteria to facilitate the determination of the primary purpose of an electronic mail message." The FTC conducted a rulemaking proceeding in two stages, and released final rules for determining the primary purpose of an email on December 16. The final rules, which are available at <http://www.ftc.gov/os/2004/12/041216canspamfrn.pdf>, take effect on February 18, 2005.

The final rules are very similar to the proposed rules that the FTC released for comment. In particular, the final rules base the classification on the content of the message rather than the intent of the sender. Similarly, the Commission declined to base the classification on the identity of the sender, as a number of nonprofit groups had urged. The FTC observed that many messages sent by these organizations fall into the transactional and relationship category and would thus be exempt from the requirements for commercial messages without any further protection, while some messages from these same senders would fall into the commercial category and should not be exempt. Consequently, businesses and non-profit organizations are subject to the same rules when they send out messages with similar content.

The Commission declined to define the terms "commercial," "advertisement," and "promotion," which appear in the definition of commercial emails, stating its belief that these terms are sufficiently clear.

The FTC was aware that, in the real world, a message will often have more than one kind of content, and thus more than one purpose. The final rules are intended to determine which purpose of a multipurpose message is the primary purpose. Under the final rules, there are four regulatory categories determined by the three classifications above: (1) messages that contain only commercial content; (2) messages that contain both commercial content and transactional or relationship content; (3) messages that contain both commercial content and "other" content; and (4) messages that contain only transactional or relationship content.

Messages that contain both commercial content and transactional or relationship content. If an email contains both commercial content and transactional or relationship content, the primary purpose of the message will be deemed to be commercial if (i) a recipient reasonably interpreting the subject line of the message "would likely conclude that the message contains the commercial advertisement or promotion of a commercial product or service," or (ii) the transactional or relationship content "does not appear, in whole or in substantial part, at the beginning of the body of the message." Note that the FTC takes subject lines seriously—even if the body of the message has no commercial content whatsoever, the subject line could make it a commercial message. The FTC is committed to the notion that recipients should be able to rely on subject lines to determine whether to open or discard an incoming email.

Messages that contain both commercial content and "other" content. If an email contains both commercial content and "other" content (that is, content that is neither transactional nor relationship related), the primary purpose of the message will be deemed to be commercial if (i) a recipient reasonably interpreting the subject line of the message "would likely conclude that the message contains the commercial advertisement or promotion of a commercial product or service," or (ii) a recipient reasonably interpreting the body of the message "would likely conclude that the primary purpose of the message is the commercial advertisement or promotion of a commercial product or service." Relevant factors include (a) placement of the commercial content in whole or in substantial part at the beginning of the body of the message; (b) the proportion of the message dedicated to commercial content; and (c) the graphical prominence of the commercial content (color, graphics, type size and style, etc.). The FTC will rely on the standards and jurisprudence that it has developed to determine prominence in other advertising contexts.

In categorizing emails under the rules, the FTC has articulated several principles. One, noted above, is that its inquiry will look to the effect the message would likely have on a recipient reasonably interpreting its content, rather than on the intent of the sender. Another, also stated above, is that it takes subject lines seriously and will protect recipients' right to rely on them. A third is that adding material to a commercial message will not make it noncommercial. By "substantial part," the FTC noted, it did not mean the mere quantity of verbiage, but rather the nature and value of the information. To "outweigh" commercial content, noncommercial content must be valuable to a reasonable recipient. Content that is not substantial, in this sense, does not count, and the message would be treated as purely commercial.

Beginning January 1, 2005 Businesses Must Update Consumer Telemarketing Lists Every 31 Days

The Federal Trade Commission's ("FTC") Telemarketing Sales Rule ("TSR") requires businesses that market their products and services to consumers by telephone to follow certain rules. One of the TSR's provisions calls for businesses to "scrub" their calling lists by removing consumers who have listed their telephone numbers in the National Do-Not-Call Registry maintained by the FTC and the Federal Communications Commission. When the TSR was amended in January 2003 to incorporate this and other consumer protection restrictions, the FTC required businesses to edit their lists against the National Do-Not-Call Registry at least every 90 days.

Following a mandate from Congress, the FTC again amended the TSR, requiring businesses to edit their calling lists at least every 31 days. The FTC chose January 1, 2005 as the effective date for this requirement, giving the business community and the agency nine months to prepare for the change. This grace period has now drawn to a close, and businesses should check their procedures to ensure that their consumer telemarketing lists are "scrubbed" against the National Do-Not-Call Registry at least every 31 days. This is also an excellent opportunity for businesses to review all of their telemarketing procedures to ensure compliance with federal and state laws. Violations of the TSR can subject businesses to serious penalties, including fines of up to $11,000 per call.

Businesses that are subject to the TSR must maintain annual subscriptions to the Registry, which cost $40 per area code (or a maximum of $11,000/year for access to the entire database). Note that use of the database is strictly controlled—the information it contains may only be used to comply with the TSR and other telemarketing rules and regulations, and businesses generally may not share subscriptions.

EU[5]

EU Settlement Sets Shelf Space Rules for Coke

The European Commission recently reached a settlement with The Coca-Cola Company and its main bottlers regarding a wide range of issues, including shelf space requirements. The settlement bars Coke and its bottlers from requiring customers to exclusively stock Coke brand carbonated beverages on their shelves, or from requiring that customers dedicate an amount of shelf space for Coke brand cola beverages that is greater than Coke brand cola's share of ambient–temperature carbonated beverage sales for the previous year minus 5%. Similar shelf space allocation guidelines apply to Coca-Cola brand orange carbonated beverages. The settlement also requires Coke and its bottlers to use separate shelf space agreements for cola carbonated beverages and for orange carbonated beverages. Several other issues are covered in the settlement as well, but the terms related to shelf space are of special interest to companies that may be found to be dominant in a fast moving consumer goods market.

CONSUMER PRODUCTS SAFETY COMMISSION[6]

Civil Penalty Issued for Toy Manufacturer Despite Compliance with Mandatory Standard

Battat Inc., a manufacturer of children's drum sets, has agreed to pay a $125,000 settlement to the Consumer Product Safety Commission for allegedly failing to timely inform the Commission of a safety issue under Section 15(b) of the Consumer Protection Safety Act. The manufacturer maintains that the children's drum sticks were tested repeatedly, twice by the Commission itself, and were found to comply with the Commission's small parts requirement and that there is no evidence that the toy actually injured any child or demonstrated a choking, aspiration, or ingestion risk. Additionally, Battat made adjustments to the product a total of six times in an attempt to further secure the tips of the drum sticks. However, the Commission argued that Battat should have informed the CPSC after receiving numerous reports that ends of the drum sticks had come off and that in failing to do so, the company violated the CPSA reporting requirements. This appears to be the first case in which a company was fined by CPSC for an alleged reporting violation where the product evidently complied with an applicable mandatory standard

5 The practice areas of our London and Brussels offices, Arnold & Porter (UK) LLP, and Arnold & Porter (Brussels) LLP, include competition and EU law, litigation, telecommunications, information technology, intellectual property, corporate, biotechnology, pharmaceutical regulatory, product liability, and health care. The offices' clients include multinationals and European concerns ranging from start-ups to *Fortune 500* firms.

6 Arnold & Porter has several attorneys with broad experience on matters involving the U.S. Consumer Product Safety Commission, including two former General Counsels of the agency—Eric Rubel and Jeff Bromme—and Blake Biles, formerly with the Environmental Protection Agency. We take a proactive approach to product safety issues, helping clients establish and audit internal controls. We represent clients in CPSC enforcement actions, as well as in private litigation that can result from CPSC matters.