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Insight & Opinion

Bulk Wine Secrets: What's in a Name?

by Matt Eisenberg

As the bulk wine market picks up steam, the following scenarios are becoming more and more familiar:

â€¢ A winery has excess wine that it knows it cannot sell, or that it cannot sell at its established price point, so it sells off such excess wine in bulk, either to a wholesaler directly or through a broker.

â€¢ A winery simply has wine that is not up to its usual standards so it takes advantage of the bulk market.

â€¢ A consultant winemaker makes wine for a winery that is later sold off in bulk.

The relationship between the winery and the winemaker and/or wholesaler may or may not be governed by an agreement containing nondisclosure provisions and, in any event, the ultimate retailer is typically not a party to such an agreement nor bound by such provisions. At some point there is a whisper down the lane and the inevitable happens: The newly-labeled wine is marketed either directly (through promotional materials) or indirectly (through word of mouth) using the name of the original winery or the original winemaker. The most conspicuous examples of this practice have resulted when high-end wineries, with price points over $100 per bottle, sell off unwanted blend components in bulk and they are blended, bottled and labeled as third party brands (some of whose labels may even suggest the established brand names or appellations) and sold at a fraction of the price. But it is happening in all price categories and it is even sometimes happening to wineries and winemakers with no involvement in the finished wine. In a market desperate for "super-value" bargains, brand values are being degraded, winery and winemaker reputations are being sullied and laws are ultimately being violated.

The Law of Names

In California, an individual's name or a company's name has certain common law protections under the so-called "right of publicity," which right protects the use of names in public for commercial purposes. To prevail in an action to protect such rights, a winery or winemaker must show the appropriation of their name or likeness to the advantage of the wholesaler or retailer, lack of consent and resulting injury. Use of a winery or winemaker's name in promoting a discount brand is clearly done with the intent to attract customers to the wine based on the reputation of the original winery or winemaker, giving such discounted wine an advantage over other similarly priced wines. By attracting consumers to a lower priced wine, the wholesaler and/or retailer devalues both the winemaker and the winery and the distinction of the wines that are authorized to bear either or both such names. Invasion of the right of publicity creates liability under California law.

California has also created by statute an independent basis for recovery for use of another's name when "any person who knowingly uses another's name.... in any manner, on or in products, merchandise, or goods, or for purposes of advertising or selling, or soliciting purchases of, products, merchandise, goods or services, without such person's prior consent." California Civil Code Section 3344(a). This law provides extensive remedies for any such unauthorized use of a person's name, including: actual damages, any profits attributable to the unauthorized use, punitive damages and attorney fees and costs. Under the scenarios above, then, our winery and/or the winemaker have a remedy with real teeth under this California trade protection statute.

In addition, a winery may have trademark rights under federal and state law that would be violated if a third-party wine is sold using such winery's name in a manner that creates confusion in the marketplace. Similarly, a winemaker who uses his name to identify his winemaking services has common law trademark rights in his or her name. By marketing a discount wine through promotional materials, advertisements or on the label as if made by the original winemaker, the winery/wholesaler/retailer creates an association with the goodwill in such winemaker's trademark. Such use without authorization on bulk wine is likely to lead consumers to mistakenly believe that the wine is of the same quality as that which is crafted and overseen through bottling by such winemaker and rightfully bears his or her mark. This false association constitutes trademark infringement.

How to Avoid Bulk Wine Pitfalls

So what should wineries, winemakers and even conscientious wholesalers do to protect themselves from such unlawful marketing schemes? Put a good bulk wine sales or consultant winemaker agreement into place with the following provisions:

1. A strict nondisclosure provision that not only binds the winery to the winemaker and wholesaler but that requires any subsequent purchaser to consent to such nondisclosure before any such purchase is consummated. If a broker is involved, the broker should be asked to acknowledge the agreement.

2. A liquidated damages provision that creates a real disincentive for violation of the nondisclosure provision. The amount of damages must be tied to the expected injury to the winery, winemaker or wholesaler but it should bear some relationship to the amount of profit to be made by the offender, thereby providing some bite to the provision and a relatively painless way to provide a remedy to the aggrieved party. Such a provision would include the recovery of attorney's fees as well in order to ensure that the injured party is not left holding this bag in the event there is the need to seek enforcement of such a provision.

3. An "AS-IS" provision to protect the winery from any claims about the quality of the wine, which is important in all cases and especially where the wine is being sold because it does not meet the quality standards of the winery's released wines.

4. An indemnification provision that requires the offending party to pay the injured party (which could be the winery, winemaker, broker or wholesaler) for the costs of claims arising from the acts or omissions of such offending party.

5. An arbitration provision that provides a faster and more economical means of pursuing claims, with the exception of claims for injunctive relief, which should be specifically carved out (as the winery or winemaker will want to retain the right to go into court to immediately stop any ongoing violations).

What if You Operated on a Handshake?

In the event that no agreements exist or that a winery's agreement provides only limited protection,the winery will, upon discovery of the violation, want to issue a "cease and desist" letter with a demand for monetary damages and legal fees. The best response to such a communication would be a settlement in which the wholesaler and/or retailer promises to cease and desist and to make a monetary payment based on damage to the winery's reputation and reimbursement of any legal fees in exchange for a waiver by the winery or winemaker of its right to pursue litigation. Depending on the circumstances, a retraction letter, communication or some other direct action by the offending party (for example, pulling the wine off shelves or instructing store personnel to cease using a name) may be necessary to "clear the air" of the confusion created in the marketplace.

When Demands Fail

If the wholesaler or retailer continues to violate any agreement or state/federal law in the absence of such agreement, the winery or winemaker can pursue a lawsuit against the offender by way of injunctive relief (to get them to stop) and monetary damages (for injuries suffered to the winery and/or winemaker's reputation).

With recent public announcements of wineries intending to bottle "super-value" offerings using bulk wine from Napa and other established appellations (a move reflecting a trend towards increasing "bulkinization" in the wine industry as a whole), wineries and others with established names need to be extra cautious about their valuable goodwill, trademarks and trade names. **wbm**