

Trade Mark Use Doctrine in the European Union and Japan (*)

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The scope of the regulatory power of the trademark law in the market-place is constantly being tested against the new developments in technology. Today, the rights arising from the trademarks often cover many activities going beyond the mere misrepresentation of goods and services. Market transparency, is not anymore the sole goal of the trademark law. In this comparative study, we will contrast European and Japanese approach to the doctrine of trademark use, i.e. doctrine that decides whether the trademark laws extend rights to regulate a particular use of a sign prior to any considerations of confusion or unfair advantage. Evolution of the law in the two countries illustratively shows the gradual departure from origins of trademark protection, still persisting in Japan, to more advanced, but not necessarily better, systems of protection in the European Union.

I Introduction

The scope of the regulatory power of the trademark law in the market-place is constantly being tested against the new developments in technology. Today, the rights arising from the trademarks often cover many activities going beyond the mere misrepresentation of goods and services. Market transparency, is not anymore the sole goal. To conceptualize the historical development, it is useful to contrast two different roles of the today's trademark law: (1) protection against *misrepresentation* and (2) protection against *misappropriation*. The two are not hermetically sealed water-tight compartments, to be sure. The two categories help to roughly distinguish two distinct goals of today's trademark policy: the goal of (1) guaranteeing market transparency for existing businesses and (2) guaranteeing exploitation of the other business opportunities embodied in the sign, such as a possibility to expand to dissimilar markets, to exercise control over the references to one's own business or to engage in cross-border price discrimination.

It is virtually undisputed that the essential function of the trademark is to grantee the source of products. If consumers can rely on the indicators of origin of the products, they are able to reward and punish their producers. If the communication channel works and the trade flourishes, it is inevitable that a trademark starts accumulating a lot of economic value in itself. The mark becomes a value independent to products it is used to label. Others, especially the competitors, will then naturally try to take the advantage of this value by either comparing themselves to established players or building upon their

products. Whenever the law tries to prevent this from happening, by allocating exclusive exploitation of this accumulated value with the trademark holders, even when any effective distortion to the communication channel is absent, it protects against misappropriation.

II TRIPS

The aim of Article 16(1) first sentence TRIPS is to guarantee certain level of protection against situations of *misrepresentation*. The provision requires that the use of a sign is liable to confuse the addressees as to the source of the goods and services and thus protects only the essential source-identifying function. Since the TRIPS Agreement does not define the confusion, it is up to the Member States to decide on their own test of its interpretation. The situation is less clear with respect to Article 16(2) second sentence of TRIPS. According to this provision, in cases of double identity, "a likelihood of confusion shall be presumed". Regardless of whether the presumption is rebuttable or not, it is clear that protection was offered only against the kind of uses that are liable to confuse at least *in abstracto*. Hence non-source identifying uses are not covered by the said provision. The aim of Article 16(3) TRIPS on the other hand, is to guarantee certain level of protection against *misappropriation without misrepresentation* and is therefore available only to a subset of all trademarks – known as well-known trademarks. The analysis concludes that even this provision does not force the Member States to relinquish the concept of the source-identifying use.

(*) This is a summary of the report published under the 2014FY Industrial Property Research Promotion Project (2014FY-2016FY) Entrusted by the Japan Patent Office.

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III Japan

The Japanese Trade Mark Act (jTMA) co-defines the scope of the trademark holder's right in several of its provisions. An action of a potential infringer has to qualify as “use” (Art. 2(3) jTMA) and has to constitute an act of actionable infringement (Art. 37 jTMA). Following the 2014-amendment, in order to commit a trademark infringement, the sign also has to be “used in such a manner that consumers may recognize the goods or services as those pertaining to the business of a particular person” (Art. 26(1)(vi) jTMA). This requirement of source-identifying use is a codification of the case-law that has developed this requirement since 70-ties by requiring use “as a mark distinguishing the own [goods] from the others”. According to some, it confirms that the burden of proof with regard to “use as a trademark” lies with the defendant. The source-identifying use is not only a precondition for the trademark infringements, but equally applies to related torts of unfair competition under the Japanese Unfair Competition Act (jUCA), such as causing confusion (Art. 2(1)(i) and Art. 2(1)(xiii) jUCA). Although the anti-dilution protection of “famous indications” in the unfair competition law (Art. 2(1)(ii) jUCA) does not explicitly require presence of confusion, the literature and case-law generally demand source-identifying use also here. Only the torts concerning protection against slavish imitation of the configuration of another person’s goods (Art. 2(1)(iii) jUCA), use of domain names for illicit gain (Art. 2(1)(xii) jUCA) and circulation of false allegations against competitors (Art. 2(1)(xiv) jUCA) do *not* require source-identifying use. Since the Japanese unfair competition law does not contain a general clause of anti-competitive conduct and the list of prohibited practices outlined in Article 2(1) of the jUCA is exhaustive, the non-envisaged acts can be only actionable based on Section 709 of the Japanese Civil Code. In the past, the courts were generally reluctant to extend the scope of wrongful actions beyond the scope of the legislated intellectual property rights.

IV European Union

In Europe, harmonization of the trademark law took place in 90-ties, when the European Community enacted the Directive 89/104/EEC (harmonizing the national trademark law) and the Council Regulation (EC) No 40/94 (creating a supranational trademark system). Prior to the harmonization, some countries such as Germany protected only source-identifying function in their trademark laws and other than source-identifying uses of signs were dealt with under the auspices of more flexible unfair competition laws. Among other things, this meant that pre-harmonization status quo in countries like Germany, the Netherlands and Switzerland did not generally prohibit

international parallel imports. In some other Member States, however, the trademark law would protect against unauthorized uses in general unless some opposite justifications could have been offered.

When the Directive 89/104/EEC was adopted, no explicit agreement existed on how to bridge the two worlds. However, in its Article 5(5), the Directive stipulated that the above-mentioned scope of rights “shall not affect provisions in any Member State *relating to the protection against the use of a sign other than for the purposes of distinguishing goods or services*, where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark”. The protection of trademarks was then divided into a) double identity cases, i.e. use of same sign for same services (Art. 5(1)(a) TMD) and b) similarity cases (Art. 5(1)(b) TMD). Moreover, the Directive envisaged optional anti-dilution protection for reputed trademarks (Art. 5(2) TMD). Thus for ordinary non-reputed trademarks, as a general rule, likelihood of confusion was meant to be required. In the double identity cases, however, no such condition was stipulated. The protection was meant to be absolute. This absolute protection soon started conflicting with the limiting nature of Art. 5(5) TMD. Although one might argue about the scope of the provision, it is undeniable that Art. 5(5) must have had some purpose. Arguably, the idea was that while source-identifying uses are being harmonized under Art. 5(1-2) TMD, non-source-identifying uses were left intact and thus unregulated in the hands of the Member States. The Member States could then either regulate such uses in their trademark laws, unfair competition or other laws, or not regulate them at all.

The Court of Justice of the European Union then step by step extended 5(1-2) TMD to cover also non-source-identifying uses, such as pure references to a competitor (*O2, Hölderhoff*) and to competitor’s products (*Gillete, BMW*), or indications for the purposes of illustration (*Adam Opel*). By doing this, the Court basically gradually “hovered up” any economically sensible meaning from Article 5(5) TMD and “dumped it” in the area of Article 5(1-2) TMD. Although the case-law of the CJEU might have seemed to have oscillate for a long time between traditional and extensive approach, in *L’Oréal v eBay* (2011) the framework of the Court became clearer.

The picture of exclusive rights, as painted by the CJEU today, is very asymmetric. Although the common notion of the trademark use now covers probably most of the non-source-identifying uses, the impact of this on the scope in the non-identity (similarity) situations (Art. 5(1)(b) TMD) at first appears to be zero because there the negative effect on the essential function is always required.

In other words, for all the similarity scenarios the extension of use seems of no avail. However, this is not completely true for two reasons. First, the trademark holder can avoid its application by broadening his list of the registered goods and services. Second, as soon as the trademark becomes reputed, the trademark holder obtains protection for these other functions as well, since the CJEU extended applicability of Art. 5(2) also to similarity scenarios. The impact of these two circumstances should thus not be underestimated. Very easily, the Court can slip into *de facto* protecting also other functions in a large number of cases, which would mean an important switch to a very generally offered protection against misappropriation in the trademark law.

The European Commission has recently attempted to limit protection available in the context of non-source-identifying uses with its recast of the Trademark Directive.

V Conclusions

The above discussion provides several lessons for both Europe and Japan.

In Japan, the marked difference in legal situations with the western countries led several scholars to propose a more extensive protection, usually modeled after the EU's system, arguing that the Japanese trademark system should protect also other functions than the essential function of indicating the source of goods and services. In fact, I believe that is the last thing that Japan should do – at least as far the trademark law is concerned. If the European situation teaches any lessons, it should be that non-existence of common unfair competition law, in which the case-law could “ventilate” its ad hoc appeals to justice or inefficiency, only leads to pressure on the formalized types of intellectual property protection. Apart from the trademark law, also *sui generis* database law and even the copyright law in the European Union provide rich examples of this. To prevent this inflation of IP rights, provided that such pressure occurs in the case-law, Japan could at most consider making its own unfair competition law more flexible.

For the European Union, the Japanese situation illustrates that even when the source-identifying use is required, trademark law is generally able to take a good care of the needs of the market and the trade can still flourish under these conditions. Although the European Commission should be credited for trying to bring the genie of trademark functions back to the bottle, maybe it would be more useful to remedy more general pattern that goes beyond the trademark law – the lack of a flexible instrument such as unfair competition law on the EU level.

To remove the pressure from the formalized forms of IP protection that are harmonized, the EU legislator could, as a first step, consider harmonizing also pure B2B unfair competition law. Maybe the judges of the CJEU would then themselves naturally push the genie back into the bottle. Unless this happens, the EU unfair competition law is likely to develop under the cover of other intellectual property rights, such as trademark law, which is far from being optimal.