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## **Brand-napping**

-goodwill protection for well-known trademarks

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# Abbreviations

ECJ	European Court of Justice
EU	European Union
IP	Intellectual Property
IPR	Intellectual Property Rights
IPQ	Intellectual Property Quarterly
JT	Juridisk tidsskrift vid Stockholms universitet.
NIR	Nordiskt Immateriellt Rättsskydd
OHIM	Office of Harmonization for the Internal Market
TRIPs	Trade Related Aspects of Intellectual Property Rights
UDRP	Uniform Domain Name Dispute Resolution Policy
WIPO	World Intellectual Property Organization
WTO	World Trade Organization
WTR	World Trademark Review

# 1 Introduction

## 1.1 Aim of paper

The aim of this paper is to investigate the legal protection for goodwill in the EU and the ability to resist unfair value transfers of the vital parts of a brand concept. On the basis of that, this paper aims also at outlining necessary proactive measures for brand-owners willing to protect the power of attraction, image and prestige of their brands by strengthening their legal position.

## 1.2 Hypothesis and research question

My hypothesis for this thesis is based on the assumption that the legal system primarily is designed to protect trademarks as symbols of origin for certain goods and services and therefore unable to provide sufficient protection for brand goodwill.

Based upon the hypothesis I have outlined three research questions that will be used as guidance for the investigation undergone in this paper. These questions will be answered separately in the conclusion of this paper. These questions are:

- *To what extent is goodwill being recognized as an autonomous objective in need of protection in the EU?*
- *From a trademark and marketing law perspective, what is required in order to obtain goodwill protection and what are the implications of such protection?*
- *Proactively, how should a brand-owner act on the market in order to best support a goodwill claim in Court?*

## **1.3 The method**

For the purpose of the analysis I have primarily used customary legal method i.e. legal text, preparatory works, case law from the European Court of Justice and legal doctrine. National case law has also been used to some extent for illustrative purposes. To construct a more practical and nuanced perspective I have used interviews with legal practitioners Mikael Spångberg, general counsel and vice president of legal affairs at The Absolut Company, and Karin Nordborg, brand law director at Essen International. The analysis is also characterized by personal reflections, opinions and reasoning.

## **1.4 Delimitations**

This thesis exclusively investigates the legal protection for goodwill on a Community level as provided in trademark and marketing law and it is not within the scope of this thesis to analyze national differences in the legal protection between member states.

Measures for obtaining trademark protection in the EU i.e. national, international and Community registration procedures and conditions for establishment are excluded from this paper. The same applies to any legal consequences arising as a result of trademark infringements, such as liabilities etc.

## 2 Background

### 2.1 The role of brands and trademarks

The traditional role of trademarks and trade symbol is to indicate the commercial origin of goods and services and guarantee consumers and other stakeholders a certain level of quality. In establishing a strong commercial identity, exclusive rights to trademarks and trade symbols has become increasingly important for any actor willing to compete on the global arena. According to Nordborg it is important to understand the difference between trademark and brand but also the symbiotic relationship that exists between them. “Trademark” is the legal term and represents a distinctive mark or symbol to which an actor can obtain an exclusive right whereas “brand” is a broader term also including associations produced by a trademark, such as goodwill, image and prestige.<sup>1</sup> Brands have the potential of attracting consumers, employees, financiers etc. and could be used to establish long lasting relationships on the market. According to Petrusson a brand can be considered an intellectual phenomenon representing the ability of a specific firm to enhance value for consumers and other stakeholders.<sup>2</sup>

Today, brands are increasingly being recognized as independent asset of firms.<sup>3</sup> They function primarily as communication vehicles and carriers of firms’ collected value. In September 2009, the Coca-Cola brand was ranked the world’s most valuable brand, valued to incredible \$M 68,734.<sup>4</sup> In my opinion, it is important to realize that the value of a brand results from large investments that need solid legal protection.

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<sup>1</sup> Interview with Karin Nordborg 100215

<sup>2</sup> Petrusson, Ulf, *Intellectual Property and Entrepreneurship*, p. 220

<sup>3</sup> Levin, *Lärobok i Immaterialrätt*, p.361

<sup>4</sup> [http://www.interbrand.com/best\\_global\\_brands\\_intro.aspx?langid=1000](http://www.interbrand.com/best_global_brands_intro.aspx?langid=1000), last visited on June 1, 2010.



## 2.2 The brand-napping phenomenon

Brand-napping<sup>5</sup> has been described as a one-sided and free value transfer of the vital parts of a brand concept.<sup>6</sup> Actors who are trying to establish commercial identities on the market may, consciously or unconsciously, try to exploit the goodwill, image and prestige of already established brands by the creation of associations. In doing so, exploiting actors gain an unfair advantage on the market in relation to competitors and at the same time the value of well-reputed and established brands is damaged. The damaging effects of brand-napping such as brand dilution occur over time why it is difficult to accurately estimate financial losses but it is clear that these unfair value transfers lead to lost distinctiveness for brands which eventually will require brand-owners to make new investments in marketing etc.<sup>7</sup> It also tends to create confusion on the market with the effect that consumers risk being misled about the commercial origin of goods and services.

The more valuable a brand is, the more exposed it is to unfair value transfers. In one way it could be argued that brand-napping as such is an indication of a brand-owner's success in building something of real value. According to Spångberg brand-napping is commercially viable and the benefit to an infringer is greater than the potential damage that such an actor may suffer.<sup>8</sup> Otherwise it would not be worth taking the risk.

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<sup>5</sup> Also described as “free-riding” and “piggybacking”

<sup>6</sup> Spångberg, Mikael, *Att dra otillbörlig fördel av ett varumärkes renommé*

<sup>7</sup> Interview with Karin Nordborg 100215

<sup>8</sup> Interview with Mikael Spångberg 100216

# 3 Trademark law analysis

## 3.1 Well-known trademarks

Defining what constitutes a well-known trademark and the rights that a proprietor of such a mark can claim has been subject to extensive discussions in the legal doctrine. The term “well-known marks” was first introduced in the 1883 Paris Convention and refers to a mark that is notoriously known<sup>9</sup> in a specific territory. Article 6bis in the Convention states that all contracting parties, if their legislation so permits, must refuse to register and prohibit the use of a trademark, which constitutes a reproduction, an imitation, or a translation, liable to create confusion, of a mark that is considered to be well-known in that country and used for identical or similar goods. This also includes cases where the essential part of the mark constitutes a reproduction or an imitation liable to create confusion with a well-known mark.<sup>10</sup> Unfortunately, neither article 6bis in the Paris Convention or article 16.3 in the TRIPs Agreement contain a definition nor any clear guidance as to a universal definition of what exactly is meant by the term well known.<sup>11</sup> Notwithstanding the lack of a clear definition, the term has been frequently used in numerous national trademark laws and has been given different interpretations in different countries.

The WIPO Resolution from 1999, adopted as a supplement for the interpretation of the Paris Convention and the TRIPs Agreement, has to some extent clarified the issue of how to define a well-known mark. The WIPO Committee of Experts concluded that neither the quantitative approach based on percentages of the relative sector of the public, nor the qualitative approach, based on evaluating the value of the mark, was

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<sup>9</sup> “Notoirement connue”

<sup>10</sup> Article 6bis (1) Paris Convention

<sup>11</sup> Tatham, *WIPO Resolution on Well-Known Marks: A Small Step or a Giant Leap?*

acceptable as the basis for the definition of a well-known mark.<sup>12</sup> This standpoint was later confirmed by the ruling of the European Court of Justice in the *Chevy-case*.<sup>13</sup> The objective of the ECJ has been to establish an authoritative but non-exhaustive list of criteria within the EU to be used by national courts and IP offices in determining whether or not a mark is well known. Still, the legal doctrine provides useful insights of the advantages and disadvantages of both the quantitative and qualitative perspective.

### 3.1.1 Quantitative and qualitative elements

The complex process of determining whether or not a mark is well known includes both quantitative and qualitative elements.<sup>14</sup> Obviously, a mark cannot be considered well known if it is not known to a certain extent in a specific territory. The European Court of Justice has in general been reluctant in establishing any strict limits on percentages for well-known marks and has strived towards a more qualitative approach. The general opinion in the legal doctrine is that notoriously known marks as referred to in Article 6bis require an establishment of a minimum 50% of the target group.<sup>15</sup> However, a notoriously known mark is not identical to a mark that “has a reputation in a Member State” as stipulated in the Directive.<sup>16</sup> In the *Chevy-case*, Advocate General Jacobs clarified that a well-known mark (has a reputation) does not require the fulfillment of the criteria for a notoriously known mark. Based on this, a mark that is known by less than 50% of the relevant sector of the public could still be considered well known in a member state. The predominant opinion in the legal doctrine is that less knowledge about a mark could be compensated by other relevant conditions, such as if a mark is perceived as a highly qualitative mark or represents a

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<sup>12</sup> Tatham, *WIPO Resolution on Well-Known Marks: A Small Step or a Giant Leap?*

<sup>13</sup> C-375/97, *General Motors v. Yplon S.A*

<sup>14</sup> Kur, *Well-Known Marks, Highly Renowned Marks and Marks having a (High) reputation – What’s it All About?*

<sup>15</sup> Levin, *Noveller i varumärkesrätt*, p.32

<sup>16</sup> Council Directive 2008/95/EC, art. 5.2

high amount of goodwill for consumers in a specific territory.<sup>17</sup>

Advocates of the quantitative perspective have argued that a strict limit on percentages is to be preferred to increase predictability for all market actors. With a strict limit, trademark owners may be assured that they enjoy an extended scope of protection for their mark, which will facilitate their strategic business decisions. According to Grundén it is of importance that the protection for well-known marks is clearly limited and that the extended scope of protection is not given on an arbitrary basis. By using traditional market surveys, determining the level of establishment of a mark in a specific territory, resource-demanding processes before Court may also be avoided.<sup>18</sup> There have also been suggestions that a well known mark should be defined by its monetary value. Tatham suggested in his study to the WIPO that a well known mark must be known by at least 50% of the potential purchasers and 60% of the relevant trade circles and have a value, calculated by an internationally accepted method, of at least \$2000 million.<sup>19</sup> Tatham's study was only intended for internal utilization within WIPO and has never been published but it contributed to the formation of the WIPO Resolution and illustrates the reasoning that the value of a mark must somehow be considered in this process. According to Spångberg it is fortunate that the protection for well known marks is market-dependent.<sup>20</sup> He argues that the 50% limit is a bit low and that knowledge of the mark among 60-70% of the relevant target group should be requested for a mark to be considered well known, depending on the products made available under the mark. For example, 50% knowledge might be sufficient for food products as a whole but in the case of bananas, a higher degree of knowledge must be presumed.<sup>21</sup>

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<sup>17</sup> Pehrson, *Chevy-målet – EG-domstolen tolkar anseendeskyddet i varumärkesdirektivet*; Kur, *Well-Known Marks, Highly Renowned Marks and Marks having a (High) reputation – What's It All About?*; Wessman, *Kodakdoktrinen under förändring*

<sup>18</sup> Tatham, *WIPO Resolution on Well-Known Marks: A Small Step or a Giant Leap?*

<sup>19</sup> Tatham, *WIPO Resolution on Well-Known Marks: A Small Step or a Giant Leap?*

<sup>20</sup> Spångberg, Interview 100216

<sup>21</sup> Spångberg, Interview 100216

In the *Chevy-case* from 1999, the European Court of Justice declared, "...a mark is to be considered well known if it is known by a significant part of the public concerned by the products or services which it covers, in the territory where it is registered or in a substantial part of it."<sup>22</sup> In this ruling, the Court stated that it was not possible to decide in exact percentage what a "significant part of the public" actually meant and that nothing in the Directive, either the letter or the spirit, inferred that the trademark must be known by a given percentage of the public.<sup>23</sup> Does this imply that quantitative parameters are irrelevant and market surveys are no longer to be used as guidance in this process? That is most likely not the case. The Court does not reject the reasoning that the number of persons that know about a trademark impacts whether or not the criterion is fulfilled. Advocate General Jacobs underlined the importance of national courts taking into consideration all relevant facts of the case in examining whether the criteria is fulfilled and in particular the market share held by the trademark, the intensity, geographical extent and duration of its use, and the size of the investment made by the undertaking in promoting it.<sup>24</sup>

According to the qualitative perspective it is the value of the mark that should be in focus in determining whether or not a mark is well known. Levin has argued that the examination should be done from a qualitative rather than a quantitative perspective and it is not the percentage but the actual damage in the specific case that should determine whether or not a trademark should enjoy an extended scope of protection.<sup>25</sup> It is the image, goodwill and power of attraction of the used trademark that is in need of protection and it is therefore these qualitative factors that primarily must be considered in the assessment of a mark.<sup>26</sup> Also, the effect of using a high quantitative bar is that less known but solid high-quality marks risk being excluded from protection extending to non-similar products. This could be

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<sup>22</sup> C-375/97, *General Motors v. Yplon S.A.*, § 23, 30

<sup>23</sup> C-375/97, *General Motors v. Yplon S.A.*, § 25

<sup>24</sup> C-375/97, *General Motors v. Yplon S.A.*, § 27

<sup>25</sup> Levin, *Skyddet utanför varuslagsgränserna i EU*

<sup>26</sup> Levin/Wessman, *Varumärkesrättens Grunder* p.138

exemplified by the earlier used Kodak-rule in the Swedish Trademark Act, which required an establishment of the mark among 80-90% of the target group and about 20% establishment among the public with the result that very few marks were considered well known.<sup>27</sup> It was recognized that a trademark that didn't meet the high criteria of establishment could still be considered well known and be connected to values that went beyond the similarity of goods.<sup>28</sup>

Assessing the qualitative parameters of a mark in practice is a complicated process that includes determining a marks capability to create associations.<sup>29</sup> Traditional market surveys simply examining the level of establishment cannot be used as indicators of a marks quality and value. According to Wessman, market surveys must be adjusted to better fit the criterion "well known" before being used as an instrument in this process. By integrating a qualitative dimension into the market surveys they could constitute the basis for a more nuanced assessment.<sup>30</sup> In practice market surveys should for example include questions on the kind of associations that a certain mark creates.

### **3.1.2 Relevant target group**

Defining the relevant target group is a critical part in the process of determining whether or not a mark is to be considered well known. The TRIPs Agreement states that account must be taken to "...the knowledge of the trademark in the relevant sector of the public, including knowledge in that member obtained as a result of the promotion of the trademark".<sup>31</sup> According to legal doctrine, knowledge of the earlier mark in the relevant sector of the public should normally be sufficient for a mark to qualify as a well known mark and it is not required that the earlier mark is publicly

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<sup>27</sup> Levin/Wessman, *Varumärkesrättens Grunder*, p.137

<sup>28</sup> Pehrson, *Kodakregeln och renommésnylning*

<sup>29</sup> Levin/Wessman, *Varumärkesrättens Grunder*, p.140

<sup>30</sup> Wessman, *Kodakdoktrinen under förändring*

<sup>31</sup> Art. 16.2 in the TRIPs Agreement

known.<sup>32</sup> This standpoint was confirmed by the European Court of Justice in the *Chevy-case* where it declared that “the degree of knowledge required must be considered to be reached when the earlier mark is known by a significant part of the public concerned by the products or services covered by that trade mark”.<sup>33</sup> The “public concerned” in this case must in my opinion be interpreted as the persons that the mark is targeting, for example hairdressers or professional athletes. It has been subject to debate whether it is the target group of the earlier mark or the target group of the younger mark that should be used to evaluate whether or not a mark is well known. But in order for there to be any negative consequences for the earlier mark, the group of persons that the earlier and the younger mark is targeting must to some extent overlap.<sup>34</sup> The predominant opinion seems to be that it is sufficient that the earlier mark is known by a significant part of its own target group, even if knowledge of the earlier mark among the target group of a younger mark could impact the assessment of whether a younger mark is taking unfair advantage of, or is detrimental to, the distinctive character or the repute of the earlier mark.<sup>35</sup>

According to Nordborg defining a product’s relevant target group in practice is problematic in Sweden, especially since the Swedish Courts in general tend to interpret the target group too broad. For example, for a perfume that is targeting men in the age of 25, the Court might define the relevant target group to be all men between the ages of 15 and 85. This gap is based upon a lack of understanding among the Swedish Courts of how brands are built up today but it is something that probably will change over time.<sup>36</sup>

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<sup>32</sup> Tatham, *WIPO Resolution on Well-Known Marks: A Small Step or a Giant Leap?*

Wessman, *Varumärkeskonflikter* p.363

<sup>33</sup> C-375/97, *General Motors v. Yplon S.A.*, § 26

<sup>34</sup> Pehrson, *Chevy-målet – EG-domstolen tolkar anseendeskyddet i varumärkesdirektivet*

<sup>35</sup> Wessman, *Varumärkeskonflikter* p.364

<sup>36</sup> Interview with Karin Nordborg 100215

### 3.1.3 Geographical prevalence

In order for a mark to be considered well known, it must have a reputation in a Member State.<sup>37</sup> It has been questioned if it is sufficient that a mark is well known only in a part of a Member State, for example a city or a region, or if it is required that the mark is well known in the entire member state. In the *Chevy-case*, the European Court of Justice addressed also this question by declaring “...a trade mark cannot be required to have a reputation 'throughout' the territory of the Member State. It is sufficient for it to exist in a substantial part of it.”<sup>38</sup> What constitutes a substantial part of a Member State was not clarified by the ECJ in this case but it was underlined that a trademark could be well known in a region, as for example in the Dutch-speaking part of Belgium, and Advocate General Jacobs noted that cultural and language differences in a Member State must be taken into consideration.<sup>39</sup>

In November 2007, the ECJ issued a preliminary ruling in the Spanish *Fincas Tarragona-case*, which further clarified the meaning of a mark being considered well known in a substantial part of a Member State. Here, the Court explained that the customary meaning of the expression “in a Member State”, as stated in the Directive, does not include a situation where “...the fact of being well known is limited to a city and to its surrounding area, which together do not constitute a substantial part of the Member State.”<sup>40</sup> This ruling is in line with the *Chevy-case* but contradicts some earlier interpretations of the Directive in the legal doctrine.<sup>41</sup> In my opinion, both these cases illustrate that it is not possible to set out strict geographical limits for where a mark must be considered well known. Instead, an overall assessment must be made, including both cultural and language dimensions.

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<sup>37</sup> Council Directive 2008/95/EC, Art. 5.2

<sup>38</sup> C-375/97, *General Motors v. Yplon S.A.*, § 28

<sup>39</sup> C-375/97, *General Motors v. Yplon S.A.*, § 47

<sup>40</sup> C-328/06, *Alfredo Nieto Nuño v. Leonci Monlleó Franquet*, § 18

<sup>41</sup> See for example Pehrsons reasoning in NIR 1999 p.426 that the County of Stockholm might constitute a substantial part of Sweden.



## 3.2 The scope of protection

### 3.2.1 Exclusive rights

By registering a trademark, the proprietor acquires an exclusive right in a trademark as a special sign for the purpose of distinguishing goods or services. Consequently, the proprietor shall be entitled to prevent all third parties not having his consent from using any sign identical or confusingly similar with the trademark in relation to his or her goods or services in the course of trade.<sup>42</sup> The exclusivity includes affixing the sign to the goods or on packaging, offering goods or services on the market under that sign, importing or exporting goods under the sign and using the sign on business papers and in advertising.<sup>43</sup> Also oral use of a trademark is covered by the exclusivity.<sup>44</sup> The *Arsenal-case* illustrates the fact that the exclusivity practically covers all sorts of commercial use. In this case, an Arsenal supporter had, without permission from Arsenal Football Club, sold supporter equipment marked “Arsenal”. The supporter claimed that the use did not indicate trade origin and that it would be perceived as a badge of support and loyalty of affiliation to the trademark proprietor but these claims were all rejected by the ECJ declaring

*“...the proprietor, in this case, is entitled to prevent such use. It is immaterial that, in the context of that use, the sign is perceived as a badge of support for or loyalty or affiliation to the trade mark proprietor.”<sup>45</sup>*

The exclusivity is subject to restrictions and it only covers use in the course of trade. Consequently, all private use falls outside the scope of protection since such use is normally without any relevance for the proprietor.<sup>46</sup> Use of a mark that does not have the purpose of distinguishing goods or services is also not covered by the exclusivity. For example, arranging a collection of

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<sup>42</sup> Council Directive 2008/95/EC, Art 5.1

<sup>43</sup> Council Directive 2008/95/EC, Art 5.3

<sup>44</sup> Bernitz, *Immaterialrätt och otillbörlig konkurrens*, p.264

<sup>45</sup> C-206/01, *Arsenal Football Club v. Matthew Reed*, § 62

<sup>46</sup> Levin, *Lärobok i Immaterialrätt*, p.448

trademarks or publishing a book on the development of trademarks does not constitute an infringement of the exclusive right.<sup>47</sup> Article 6 in the Directive explicitly states a number of restrictions that must be respected by the proprietor. In the course of trade, a third party should for example always be allowed to use his own name or address as well as indications concerning the kind, quality, use, geographical origin etc. of the goods or services.<sup>48</sup>

### **3.2.2 Protection beyond the likelihood of confusion**

According to the main rule, two trademarks are to be deemed confusingly similar only if they relate to goods of identical or similar kind.<sup>49</sup> The similarity between the marks and the similarity between the goods are the two most relevant factors when assessing the likelihood of confusion.<sup>50</sup> These two factors are closely connected and interrelate meaning that they cannot be compared isolated from each other.<sup>51</sup> Identical or very similar marks require a lower degree of similarity between the goods. Consequently, identical or very similar goods require a lower degree of similarity between the marks. In Scandinavia, this is known as the “Product-rule” and the ECJ has confirmed that this rule is in accordance with the Directive and applicable throughout the EU.<sup>52</sup>

#### **3.2.2.1 Similarity of goods**

According to Article 5.2 in the Directive, well-known marks enjoy an extended scope of protection that does not require similarity between goods.<sup>53</sup> The basis for this exception is that some trademarks have a certain quality of recognition and are in need of protection beyond situations of direct competition.<sup>54</sup> An uncontrolled use of a well-known mark for non-similar goods could lead to dilution of the trademark and its built up

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<sup>47</sup> Levin, *Lärobok i Immaterialrätt*, p.448

<sup>48</sup> Council Directive 2008/95/EC, Art 6.1

<sup>49</sup> Council Directive 2008/95/EC, Art 4-5

<sup>50</sup> Other relevant factors are the recognition of the mark on the market and the associations, which can be made with it. Council Directive 2008/95/EC, Preamble (11)

<sup>51</sup> Bernitz, *Immaterialrätt och otillbörlig konkurrens*, p.257

<sup>52</sup> C-342/97, *Lloyd Schuhfabrik v. Klijsen Handel*, § 28

<sup>53</sup> Also confirmed by C-251/95, *Sabel v. Puma*

<sup>54</sup> Levin, *Lärobok i Immaterialrätt*, p.432

goodwill. But this goodwill protection is not limited to non-similar goods. In both the *Davidoff-case* and the *Adidas-Salomon-case*, the ECJ declared that well known marks enjoy goodwill protection also in relation to goods of identical or similar kind.<sup>55</sup> Article 4.1 in the WIPO Regulation later confirmed this. In my opinion it is a logic conclusion since the need of protection against free-riding on well known marks is the same, irrespective of whether the goods are similar or not.

### **3.2.2.2 Similarity of marks**

The degree of similarity between marks constitutes the most relevant criterion in relation to the extended goodwill protection for well-known marks. According to the Directive, the proprietor of a well-known mark has a right to prevent any third party from using an identical or similar mark, but this has been further refined by the ECJ. It is not a requirement that two marks are confusingly similar or that there is a risk for confusion in order for goodwill protection to apply.<sup>56</sup> In the above-mentioned *Adidas-Salomon-case* the ECJ declared.

*“...It is sufficient for the degree of similarity between the mark with a reputation and the sign to have the effect that the relevant section of the public establishes a link between the sign and the mark”.*<sup>57</sup>

The existence of such a link or connection must be appreciated globally and all relevant factors must be taken into account. In the *Intel-case* from 2008, the ECJ further clarified this issue.

*“...A link exists when, for the average consumer, the later mark calls the earlier mark with a reputation to mind”.*<sup>58</sup>

Consequently, only the fact that an earlier mark is unique and well known for certain types of goods and those goods are not similar to the goods for

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<sup>55</sup> C-292/00, *Davidof v. Gofkid*, C-408/01, *Adidas-Salomon v. Fitnessworld Trading*

<sup>56</sup> See for example C-251/95, *Sabel v. Puma* § 20

<sup>57</sup> C-408/01, *Adidas-Salomon v. Fitnessworld Trading*, § 31

<sup>58</sup> C-252/07, *Intel v. CPM*, § 63

which a later mark is registered, does not necessarily imply that there is a link. Normally, a high degree of similarity between marks is required in cases where the goods are not similar to prove that a third party has been taken unfair advantage or caused detrimental effects to a well known mark. But according to Wessman, it is questionable whether an unconditional requirement for a very high degree of mark similarity is consistent with an overall assessment, taken into account many different factors, as advocated in the *Chevy-case*.<sup>59</sup>

### 3.2.3 Unfair advantage

Well-known marks have a value of their own and function as independent carriers of associations and information. A proprietor of a well-known mark can prevent the use of a sign that “... without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark”<sup>60</sup> It should be noted that the criteria “unfair advantage” and “detrimental effects” alternate meaning that it is sufficient for one of them to be fulfilled for a trademark infringement to be presumed. However, in practice it is very common that the two criteria coincide because it is rarely that an infringer acts with a pure intention to cause damage to a well-known mark, without any ambitions to take commercial advantage of the procedure.

In order for the criteria unfair advantage to apply, the younger mark must include some sort of free-riding element. In the *Intel-case*, the ECJ stated that when determining whether or not a younger mark is taking unfair advantage of an earlier mark, the perception of the persons targeted by the younger mark is critical.<sup>61</sup> The ECJ also addressed the burden of proof indicating that free-riding without damage to the well-known mark might not be enough to establish unfair advantage in a particular case.<sup>62</sup> This ruling was met with strong reactions throughout the EU since a change in the

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<sup>59</sup> Wessman, *Varumärkeskonflikter*, p.367-368

<sup>60</sup> Council Directive 2008/95/EC, Art 5.2

<sup>61</sup> C-252/07, *Intel v. CPM*, § 80

<sup>62</sup> Porter, Hamish, *Protection of Well known marks after Intel*

economic behaviour of the average consumer in practice was considered very difficult to prove.

In 2009, the concept of unfair advantage was clarified by the ECJ in the *L'Oréal-case*, which constitutes a breakthrough in this area. In this case, a company had marketed imitations of L'Oréal's well-known perfumes and compared the fragrance of their cheap perfumes to that of luxury perfumes produced by the L'Oréal group. Some of the imitations, such as bottles and packaging, were generally similar to L'Oréal's products although the similarity was unlikely to mislead industry or the public. The ECJ initially stated that the concept of taking unfair advantage of the distinctive character or the repute of a well-known mark does not require a likelihood of confusion or a likelihood of detriment to the distinctive character or the repute of the mark.<sup>63</sup> Instead of focusing on the detriment to the well-known mark, it is the benefit of the younger mark that is central to the assessment.

*"...The advantage arising from the use by a third party of a sign similar to a mark with a reputation is an advantage taken unfairly by that third party of the distinctive character or the repute of that mark where that party seeks by that use to ride on the coat-tails of the mark with a reputation in order to benefit from the power of attraction, the reputation and the prestige of that mark and to exploit, without paying any financial compensation, the marketing effort expended by the proprietor of the mark in order to create and maintain the mark's image"*<sup>64</sup>

Clearly, this is an expression of the increased willingness of the ECJ to protect the investments made and prevent image transfers and unfair exploitation of the goodwill of well-known marks.<sup>65</sup> Compared to the above-mentioned *Intel-case*, the *L'Oréal-case* represents a shift in perspective since a proprietor of a well-known mark is no longer required to show a change in economic behaviour of the average consumer (damage) or that

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<sup>63</sup> C-487/07, *L'Oréal v. Bellure*, § 50

<sup>64</sup> C-487/07, *L'Oréal v. Bellure*, § 50

<sup>65</sup> Spångberg, *Att dra otillbörlig fördel av ett varumärkes renommé*

there is a risk of such a change in the future to prove that a third party is taking unfair advantage of the well-known mark. In my opinion, this ruling points to the heart of the free-riding problem. The expression “riding on the coat-tail” illustrates the fact that it is not about using a mark that is likely to be confused with a well-known mark but to be associated with the same values, the image and the prestige. These are the objectives in need of legal protection. The company marketing the imitations intentionally put themselves as close as they possibly could to L’Oréal’s products, without thinking that they might have crossed the line. Yet, it is the very intention to free-ride that makes them cross the line in this case. According to Nordborg, the *L’Oréal-case* represents a big step forward for brand-owners and perhaps a too big step and it is likely that there will be a reaction by the ECJ in the near future.<sup>66</sup>

### 3.2.4 Detrimental effects

The exploitation of a well-known brand concept could be detrimental to the distinctive character, or to the repute of the mark. The detrimental effect may consist of the dilution of goodwill of the well-known mark or a risk that the public is being misled concerning the commercial origin of the mark, which implies that there is a connection between the well-known mark and the younger mark.<sup>67</sup> The question of detrimental effects was addressed in the earlier mentioned *Intel-case* where the ECJ ruled that the more immediate and strongly the earlier mark is brought to mind by the later mark, the greater the likelihood that the use of the later mark is detrimental to, the distinctive character or the repute of the earlier mark.<sup>68</sup> This is in line with the reasoning in the *Chevy-case* that the stronger the earlier mark’s distinctive character and reputation, the easier it will be to accept that detriment has been caused to it.<sup>69</sup> According to Levin goodwill damages are the most sensitive to a brand owner since they cannot always be repaired or

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<sup>66</sup> Interview with Karin Nordborg 100215

<sup>67</sup> Levin, *Lärobok i Immaterialrätt*, p.445

<sup>68</sup> C-252/07, *Intel v. CPM*, § 67

<sup>69</sup> C-375/97, *General Motors v. Yplon S.A.*, § 30

be estimated in money.<sup>70</sup> Also, goodwill damages have an impact over time, which makes them even more harmful to the brand owner.

### 3.2.4.1 Dilution of goodwill

Dilution normally occurs when a mark identical or similar to a well-known mark is being used for unrelated goods and services, with the effect that its distinctiveness is eroded. For example, when the world famous car-brand Rolls Royce is used for baby carriages, socks or cigarette lighters, the touch of elegance and exclusiveness is lost. Uncontrolled use of a mark could result in such dilution of a mark's distinctiveness that it must eventually be abandoned.<sup>71</sup> In the *Intel-case*, the Intel Corporation sought to invalidate the registered trademark "Intelmark" owned by a global marketing firm. Intel argued that since the Intel brand was so well known it should automatically be protected once a connection was shown, rather than having to wait for the damage to occur. Otherwise the mark would, as Intel put it, "suffer a death by a thousand cuts".<sup>72</sup> The ECJ disagreed and confirmed that in a dilution claim, proving the existence of a connection between two conflicting marks is not sufficient.

*"...Proof that the use of the later mark is or would be detrimental to the distinctive character of the earlier mark requires evidence of a change in the economic behavior of the average consumer of the goods or services for which the earlier mark was registered consequent on the use of the later mark, or a serious likelihood that such a change will occur in the future."*<sup>73</sup>

This implies that there is no dilution as long as Intel's sales remain unaffected by the use of the conflicting mark. But what exactly constitutes a change in the economic behaviour? Spångberg argues that since the ECJ has not exemplified this it will be difficult to interpret how the principle should be applied in cases where different products are sold under identical or

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<sup>70</sup> Levin, *Noveller i varumärkesrätt*, p.216

<sup>71</sup> Levin, *Lärobok i Immaterialrätt*, p.433

<sup>72</sup> C-252/07, *Intel v. CPM*, § 18

<sup>73</sup> C-252/07, *Intel v. CPM*, § 81

similar marks.<sup>74</sup> Since the Intel-case, proprietors of well-known marks have a heavy burden of proof in dilution claims and this was not changed by the Loreal-case, which targeted the scenario of a third party taking unfair advantage. As mentioned earlier, it is common that these two criteria coincide and in such cases, it might be favorable for a proprietor of a well-known mark to claim “unfair advantage” rather than “detrimental effects” since on the basis of current law, it is easier to prove free-riding than actual or future damage.

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<sup>74</sup> Spångberg, *Att dra otillbörlig fördel av ett varumärkes renommé*



# 4 Marketing law analysis

## 4.1 Unfair competition

The exclusive position provided by intellectual property rights does not cover all situations that threaten a brand. Marketing law constitutes an important complement to IP law in order to address goodwill free-riding and misleading imitations of well-known brands in advertising. The creation of associations is vital within all sorts of advertising, which makes this arena particularly exposed to unfair market behaviour such as goodwill free-riding and image transfers. Thus, it is the objective of marketing law to protect consumers and uphold an effective, fair and loyal competition between actors on the internal market of the EU. By protecting investments and stimulating creative effort, IPRs have a major impact on the competing conditions in the marketplace. The trademark system enables actors to individualize their business concepts, products and services and distinguish them from others. Simultaneously, trademarks function as communication vehicles informing consumers about a company's identity, core values, environmental and social responsibility etc. As such, trademarks have dual roles in both promoting competition and constituting a legal monopoly with anti-competitive effects. It is the mission of marketing law to balance these roles and protect brand owners' interests of securing return on their investments.

Unfair competition constitutes a collective term for competitive actions that are dishonest and unfair particularly against competitors.<sup>75</sup> In article 10bis of the Paris Convention, nationals of the contracting parties are assured protection against unfair competition defined as any act of competition contrary to honest practices in industrial or commercial matters. Acts of such nature as to create confusion regarding the commercial origin of goods or services and acts that discredit the distinctiveness or reputation of a

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<sup>75</sup> Bernitz, *Immaterialrätt och otillbörlig konkurrens*, p.309

competitor are typical examples of unfair competition and prohibited market behaviour.<sup>76</sup> What exactly constitutes an act of unfair competition is defined by what is done by actors acting honestly in a specific market, which allows for a certain degree of flexibility among the national courts of the contracting parties. Most continental European countries provide a general cause of action in unfair competition. For example, German law has for a long time provided protection for signs and packaging, which enjoy a reputation irrespective of consumer confusion under a national unfair competition act whereas UK law purports to comply with the Paris Convention through a combination of the passing off doctrine, malicious falsehood and various statutory provisions.<sup>77</sup> The Directive on Unfair Commercial Practices and the Directive on Misleading and Comparative Advertisement regulate unfair competition on the EU market.

#### **4.1.1 Unfair commercial practices**

The European Directive on Unfair Commercial Practices only applies to business-to-consumer practices and seeks to eliminate differences, which can distort competition on the internal market.<sup>78</sup> It includes minimum criteria for consumer protection meaning that a member state may impose stricter criteria and aims to harmonize marketing legislation within the EU. The Directive specifically targets marketing activities that unfairly impact on consumers, including practices that confuse or mislead consumers. According to the ECJ the average consumer, who is reasonably well informed and reasonably observant and circumspect, should be used to evaluate whether an advertising activity is unfair.<sup>79</sup> Another condition for the Directive to be applicable is that it has some kind of commercial effect on the average consumer, meaning that the advertising unfairly impacts his transactional decisions in relation to products. The Directive also includes a “black list” of commercial practices, which are in all circumstances considered unfair. This list is not limited to business-to-consumer practices

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<sup>76</sup> Art. 10bis (3) Paris Convention, substantiated by the TRIPs Agreement

<sup>77</sup> Steward/Badger, *Unfair competition – where next for English law?*

<sup>78</sup> Council Directive 2005/29/EC, Preamble (3)

<sup>79</sup> Council Directive 2005/29/EC, Preamble (18)

but also includes business-to-business practices and in several EU states, including Sweden, it is directly applicable as law.<sup>80</sup> It includes a number of prohibited aggressive advertising practices, such as promoting a product similar to a product made by a particular manufacturer in such a manner as deliberately to mislead the consumer into believing that the product is made by that same manufacturer, when it is not.<sup>81</sup>

## 4.2 Misleading imitations

Protection against misleading imitations in advertising is central to maintain the goodwill and reputation of well-known brands and prevent trademark erosion. The main objective is to protect consumers and other market actors from being misled about the commercial origin of goods, which could potentially lead to distortion of competition within the internal market.<sup>82</sup> All acts of such nature as to create confusion on the market, including advertising acts, are prohibited according to the Paris Convention.<sup>83</sup> This is also reinforced in the EU by the Directive on Unfair Commercial Practices, which prohibits commercial practices that deceives or is likely to deceive the average consumer about elements such as usage, quantity, commercial origin and characteristics of a certain product or causes confusion with products or trademarks of a competitor.<sup>84</sup> In essence, misleading advertising is likely to affect the economic behavior of consumers by causing them to take transactional decisions that they would not have taken otherwise. These consequences are unfair, not only from a consumer perspective but also for brand owners who are looking for returns on their investments.

### 4.2.1 Imitation of distinguishing features

Imitating the distinguishing features of an established competitor could be an effective advertising strategy for an actor launching a brand or a new product line. Among the most common features are imitations of packaging,

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<sup>80</sup> Bernitz, *Immateriellrätt och otillbörlig konkurrens*, p.312

<sup>81</sup> Council Directive 2005/29/EC, Annex 1, § 13

<sup>82</sup> Council Directive 2006/114/EC, Preamble

<sup>83</sup> Art. 10bis (3.1) Paris Convention

<sup>84</sup> Council Directive 2005/29/EC, Art 6

brands, titles, fonts, domain-names and advertising concepts in relation to everyday consumer goods such as food or hygiene items.<sup>85</sup> By imitating the distinguishing features of an original, the advertiser seeks to identify his goods with the goods of an already established actor and exploit the goodwill of that actor by implying that there exists a commercial connection between the two. Typically, an advertiser provides his products with a packaging very similar to the market-leading original but without being identical.<sup>86</sup> In determining whether advertising constitutes a misleading imitation, account shall be taken to all its features. However, for an imitation to be deemed misleading, it is fundamental that the original is distinctive, known to a certain extent on the market and that there exists a likelihood of confusion to the average consumer. Distinctiveness in this context implies that the imitated product has an esthetical appearance that differentiates it from other products.<sup>87</sup> A large market share, high advertising costs and high sales are indicators of the original being well known on the market. Also, the advertisement of the original in a certain packaging over a long period of time indicates a high level of establishment. A likelihood of confusion exists when an imitation creates a similar overall impression as the original with the effect that the average consumer is left with the same memory image. This requires either that the products in question are of similar kind or that the average consumer has strong reasons to believe that they have the same commercial origin.<sup>88</sup>

#### **4.2.2 Imitation of external shape or appearance**

Misleading imitations are not always related to surrounding objects like packaging, brands or domain names. They might as well consist of the shape and appearance of the product itself. The reasons for imitating a shape of another product may vary. In some cases, a certain shape or appearance might be necessary from a functional perspective and technical solutions have more or less determined product design. In other cases, the shape of a

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<sup>85</sup> Bernitz, *Immaterialrätt och otillbörlig konkurrens*, p.320

<sup>86</sup> Bernitz, *Immaterialrätt och otillbörlig konkurrens*, p.323

<sup>87</sup> Ståhl, *Konkurrensrättsliga aspekter på skyddet för väl ansedda varumärken* p.54

<sup>88</sup> Bernitz, *Immaterialrätt och otillbörlig konkurrens*, p.322

product is mainly determined by its esthetical function and power of attraction and this is where free-riding problems tend to occur. The Directive on Misleading and Comparative Advertisement does not protect imitations whose appearance mainly is determined by its technical function.<sup>89</sup> The underlying reasoning is that such products should be available to all in order to secure public interest of efficient competition on the internal market, provided that they are not protected under intellectual property rights.<sup>90</sup> Products whose shape is mainly determined by its esthetical function are protected against misleading imitations but in practice it could be difficult to draw the line between technical and esthetical elements of a product.

### **4.3 Comparative advertising**

Because of the willingness to promote competition on the internal market and to provide useful information for consumers, comparisons in advertising with competitors' products or activities are principally permitted as long as they are relevant, correct and fair.<sup>91</sup> Usually, the motive of referring to a competitor in advertising includes claims of the advertiser's goods being better, bigger, faster or cheaper than theirs. In order for comparative advertising to be permitted it may not be misleading, it must compare goods or services that are intended for the same purpose and it must objectively compare relevant, verifiable and representative features of those goods or services. Also, a comparison may not single out another actor or his goods in ways that create confusion on the market, or discredit, or take unfair advantage of, the reputation of that actor or his goods.<sup>92</sup> The list of criteria explicitly stated in the Directive on Misleading and Comparative Advertising is cumulative, meaning that all criteria must be fulfilled in order for a comparison in advertising to be permitted. The regulation on comparative advertising applies both to business-to-business and business-

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<sup>89</sup> A similar provision exist within trademark law

<sup>90</sup> Bernitz, *Immateriäl rätt och otillbörlig konkurrens*, p.322

<sup>91</sup> Bernitz, *Immateriäl rätt och otillbörlig konkurrens*, p.337

<sup>92</sup> Council Directive 2006/114/EC, Art. 4 (a-h)

to-consumer practices and is characterized by full harmonisation within the EU.

The issue of comparative advertising was addressed by the ECJ in the *Toshiba-case*, where an equipment manufacturer sold spare parts to Toshiba's photocopiers and used the name "Toshiba" and Toshiba's original spare parts numbers alongside their own order numbers in advertising in their product catalogue. One of the main questions in this case was whether or not the features compared were relevant, verifiable and representative. The ECJ argued that the use of another person's trademark may be legitimate in cases where it is necessary to inform the public of the nature of the products or the intended purpose of the services offered.<sup>93</sup> The use of Toshiba's original spare parts numbers enabled consumers to identify corresponding products, which indicates that the comparison was made between products with equivalent technical features, in other words, a comparison of relevant, verifiable and representative features within the meaning of the Directive on Misleading and Comparative Advertising.<sup>94</sup> This ruling is an expression of the competition-friendly approach of the ECJ where comparative advertising is considered to promote and stimulate competition and create an effective internal market.

### **4.3.1 Use of third party's symbol**

In order to make comparative advertising effective, it may be indispensable for an advertiser to make reference to a competitor's goods, trademarks or trade symbols. Such use does not breach a competitor's exclusive trademark right as long as it complies with the conditions laid down in the Directive on Misleading and Comparative Advertising and the purpose is to highlight differences.<sup>95</sup> Consequently, the use of a third party's symbol in comparative advertising is never allowed if the comparison includes free-riding or

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<sup>93</sup> C-112/99, *Toshiba v. Katun* § 34, the ECJ also referred to C-63/97, *BMW v. Deenik* § 58-60

<sup>94</sup> C-112/99, *Toshiba v. Katun* § 38-39

<sup>95</sup> Council Directive 2006/114/EC, Preamble (14-15)

denigrating elements. Recently, the trend in Europe has been to restrict the use of trademark law to resolve comparative advertising disputes and it has become easier for actors to use competitor's trademark and trade symbols in their own advertising. In 2008, there was a dispute concerning comparative advertisement between the two major telecom actors O2 and Hutchinson 3G in the UK.<sup>96</sup> In a rather aggressive television advertisement, Hutchinson 3G compared the price of its mobile telephone services with those of O2 with the message that some of their services were cheaper than those of O2. The advertisement used the name "O2" together with an image of bubbles, which was a clear reference to O2's trademark. O2 did not claim that the advertisement was misleading, but argued that the use of bubbles similar to their own bubble image trademark was not "indispensable" in order to make a fair comparison.<sup>97</sup> The ECJ initially declared that the use of a third party's trade mark in comparative advertising constitutes trade marks use in the course of trade according to the Trademark Directive and is therefore potentially actionable. However, a brand owner cannot enforce its right to prevent the use of a sign identical or similar to the trademark if the advertisement complies with the conditions for legitimate comparative advertising and also provided that there is no likelihood of confusion among the public.<sup>98</sup> Based on this ruling, Hutchinson 3G could have gone even further and used exact reproductions of O2's typeface and bubbles in their campaign without having crossed the line.<sup>99</sup> Even if this ruling does not target goodwill free-riding as such, the effect of using competitor's distinctive trademarks in comparative advertising will most likely effect the goodwill and reputation of these brands in the long run. A legitimate comparison highlighting differences in price etc. is desirable from a competition perspective even if it inevitably attracts negative attention to the other brand. When the intention is to compare and not to free-ride on the goodwill, a brand owner might not be able to use legal tools to stop a

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<sup>96</sup> C-533/06, O2 v. Hutchinson 3G

<sup>97</sup> Taylor, *Comparative advertising – the ECJ fizzles it up*

<sup>98</sup> C-533/06, O2 v. Hutchinson 3G, § 69

<sup>99</sup> Taylor, *Comparative advertising – the ECJ fizzles it up*

comparative advertisement. Yet, a brand owner is not totally out of control since he could use other tools to decrease the impact of bad-will. Adjusting price levels, product development, increased product quality and the launching of other advertising campaigns are some examples of suitable actions to take in these situations.

### **4.3.2 Unfair advantage**

Comparative advertising could include free-riding elements. By comparing in advertising its own products or business concept to the products or business concept of a famous and respected brand, an actor may unfairly be associated with the image, prestige and quality of that brand. Taking unfair advantage of the reputation of a trademark, trade name or other distinguishing marks of a competitor or of the designation of origin of competing products constitutes prohibited advertising behaviour according to the Directive.<sup>100</sup> But is it practically possible to separate free-riding behaviour from fair comparative advertising? In my opinion, it seems to be a very thin line in cases where famous brands are being used in advertising. There are two important cases from the ECJ that to some extent clarifies the area. In the above mentioned *Toshiba-case*, the ECJ assessed whether the use of Toshiba's original spare parts numbers in advertising implied that the equipment manufacturer was taking unfair advantage of Toshiba's reputation and goodwill. The ECJ declared that this was not the case.

*“... An advertiser cannot be considered as taking unfair advantage of the reputation attached to distinguishing marks of his competitor if effective competition on the relevant market is conditional upon a reference to those marks.”<sup>101</sup>*

The ECJ stressed the importance of considering the overall presentation of the advertising in order to make the determination and stated that the equipment manufacturer in this case would have difficulty in comparing its

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<sup>100</sup> Council Directive 2006/114/EC, Art. 4 (f)

<sup>101</sup> C-112/99, *Toshiba v. Katun* § 54



products with those of Toshiba without referring to Toshiba's spare parts numbers. Also, it was important in this case to look at the actual effect on the group of persons at whom the advertising is directed to find out whether the numeric references create an association in the meaning that the persons associate the manufacturer with the reputation of Toshiba.

In the recent *L'Oréal-case*, the ECJ came to a different conclusion as regards comparative advertising.<sup>102</sup> A company advertising imitations of L'Oréal's products to retailers used comparison lists to indicate which of L'Oréal's fragrances their imitations resembled. The ECJ argued that the underlying purpose of the comparison list was to draw the attention of the relevant public to the original L'Oréal fragrance and that it is sufficient that the advertisement indicates that it relates to an essential characteristic of the original product such as, in this case, the fragrance of the goods in order for it to be unfair.<sup>103</sup> The prohibition therefore applies to any imitations, even if not counterfeit.

*"... Comparative advertising which presents the advertiser's products as an imitation of a product bearing a trade mark is inconsistent with fair competition and thus unlawful, any advantage gained by the advertiser through such advertising will have been achieved as the result of unfair competition and must, accordingly, be regarded as taking unfair advantage of the reputation of that mark."*<sup>104</sup>

This implies that an advertiser using comparative advertising cannot claim, implicitly or explicitly, that his goods constitute imitations of goods made available under a well-known trademark. This is also in accordance with Article 4(g) in the Directive, which states that it is prohibited to present goods as imitations or replicas of goods bearing a protected trade mark or trade name. The free-riding element in this case is the imitator's intention

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<sup>102</sup> See also section 3.2.3

<sup>103</sup> C-487/07, *L'Oréal v. Bellure*, § 76

<sup>104</sup> C-487/07, *L'Oréal v. Bellure*, § 79

with the advertisement, which is to be associated with the reputation and the goodwill of the well-known mark. The ECJ concludes that such behaviour constitutes unlawful comparative advertisement since the advantage is taken unfairly within the meaning of Article 4(h) in the Directive. Consequently, a proprietor of a well-known trademark is able to prevent an advertisement, which implicitly evokes the idea of imitation or reproduction of a registered trademark. This ruling widens the scope of protection for brand-owners not only from a trademark law but also from marketing law perspective and provides them with yet another tool to prevent free-riding on their reputation. It is an expression for an increased willingness of the ECJ to view goodwill itself as an objective in need of legal protection also when it comes to advertising activities. In my opinion, this ruling represents on a general level a collision between two different interest's within the internal market of the EU; promoting competition through comparative advertising and investment protection. The competition friendly approach of the ECJ was tested in the *L'Oréal-case* and in many ways it marked the boarder for what constitutes fair comparative advertising. Here, investment protection was prioritized by the ECJ since the free-riding elements were quite evident.

When analyzing and comparing these two cases it is clear that they include substantial differences that lead to their different outcomes. In the *Toshiba-case*, the comparative element in the advertisement was necessary from a technical aspect to inform consumers about the use of the corresponding spare parts in order to enable competition. In other words, the purpose with the comparative advertisement was not to free-ride on the reputation and goodwill of Toshiba. But in the *L'Oréal-case*, it was not necessary for the advertiser to use comparison lists in order to be able to compete. Rather, the primary objective of the advertiser was to be associated with the values of L'Oréal. It is likely to believe that the goods in question may impact the determination of unfair advantage in comparative advertisement. Goods that have a strong technical character, such as shavers or car parts, must be comparable in advertising to the well known originals in order to inform consumers about the use, the technical fit etc. in order for them to compete.

But the use of non-technical goods, such as make-up or whiskey, does not require the same connection to the original in comparative advertisement.

### **4.3.3 Discrediting acts**

Discrediting is closely linked to free-riding since they often occur simultaneously in comparative advertising. Acts of such nature as to discredit or denigrate the goods, the commercial activities or the trade marks of a competitor are prohibited both according to the Paris Convention and to the Directive.<sup>105</sup> Discrediting statements or information about a competitor in advertising may seriously damage his reputation and the process of repairing a damaged reputation is often costly and sometimes even impossible for a brand owner.<sup>106</sup> The reasons for discrediting a competitor in comparative advertisement may vary. Common for this type of behaviour is that the advertiser despises or ridicules the goods or activities of a competitor in order to appear superior. A prerequisite for this effect to occur is that the discredited competitor has an established reputation on the market that the advertiser can take advantage of. In that sense, discrediting or denigrating a competitor in advertising is just another version of free-riding on his reputation. Unlike traditional free-riding, discrediting acts may not only be aimed at one specific competitor but several competitors or even an entire industry.<sup>107</sup>

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<sup>105</sup> Paris Convention, Art 10bis 3(ii), Council Directive 2006/114/EC, Art 4(d)

<sup>106</sup> Nordell, Marknadsrättens goodwillsskydd, p.45

<sup>107</sup> Nordell, Marknadsrättens goodwillsskydd, p.94

## 5 Proactive measures

The purpose of the legal analysis was to analyze the legal protection against value transfers and to outline the legal tools available to protect goodwill in the EU. Based on that, this section will focus on how to strengthen the legal position for brand-owners by strategic market behaviour. What kind of proactive measures are necessary to take in order to establish goodwill protection? These measures apply both to established actors and to new entrants on the European market willing to build a strong goodwill case that will stand in Court. A precondition for goodwill is obviously that the products and services made available under the brand are of high quality, distinctive and capable of creating goodwill associations. Therefore, the outlined measures in this section do not target product and service development as such but focuses merely on strategic market behavior.

### 5.1 Targeting the relevant target group

A proactive measure for a brand-owner is to clearly define the relevant target group for the products and services offered under the brand. Based on the TRIPs Agreement and the ruling of the ECJ in the *Chevy-case*, it is the degree of knowledge of the trademark in the relevant target group that determines whether or not a trademark is to be considered well known.<sup>108</sup> Defining the relevant target group at an early stage will facilitate brand-owners' decisions on investments and the target group will also be used as a reference point both for quantitative and qualitative elements to support a goodwill claim in Court.<sup>109</sup> The goodwill associations must be anchored among this group since this is where the "link" between the well-known trademark and the conflicting sign must be found.<sup>110</sup> How should the relevant target group be defined? This will have to be determined on a case-by-case basis depending on the products and services made available under

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<sup>108</sup> See also section 3.1.2, Art. 16.2 TRIPs Agreement, C-375/97, *General Motors v. Yplon S.A.*, § 26

<sup>109</sup> See also section 3.1.1

<sup>110</sup> C-408/01, *Adidas-Salomon v. Fitnessworld Trading*, § 31

the brand but in my opinion it is strategically important not to define the relevant target group too narrow since the Courts in general tend to give a quite broad interpretation.<sup>111</sup> For example, the definition should not be made on the basis of brand-owners' customer lists. A too narrow definition risk undermining a goodwill claim and it also requires a higher degree of knowledge among the circuit, considerably more than 50%.<sup>112</sup> From the trademark law analysis it is clear that a high degree of knowledge in the relevant target group normally is sufficient for the trademark to qualify as a well-known trademark. However, in practice I think the knowledge of the earlier trademark in the target group of a later trademark and among the public will reinforce brand-owners' possibilities to protect goodwill for example in a dilution claim.<sup>113</sup> Proactively, brand-owners must therefore not only target their defined target group but also strive towards a general knowledge of their trademark and associated goodwill among the public in order to strengthen their legal position on the market.<sup>114</sup>

Widespread knowledge requires large investments from brand-owners and the ECJ has repeatedly expressed its willingness to protect such investments.<sup>115</sup> In both the *L'Oréal-case* and the *Chevy-case* the ECJ underlines the importance of the size of the investment in marketing as a particular important factor when considering all relevant facts of the case. Naturally, such investments will also influence other important factors such as the market share held by the trademark, the monetary value and geographical extent. As a proactive measure, a brand-owner must therefore early invest in marketing efforts in order to build a strong legal position and create a certain image on the market. In my opinion, these efforts must primarily be directed towards the relevant target group but since public knowledge of the trademark also influences the Court's assessment, investments should not be limited only to the target group but cover the

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<sup>111</sup> See also section 3.1.2, Nordborg, Interview 100215.

<sup>112</sup> Spångberg, Mikael, Interview 100216

<sup>113</sup> Wessman, Varumärkeskonflikter p.364

<sup>114</sup> See also section 3.1.2

<sup>115</sup> See for example C-487/07, *L'Oréal v. Bellure*, C-375/97, *General Motors v. Yplon S.A.*

public as a whole. Not all brand-owners are in a financial position to make substantial investments in marketing and this may impact their ability to build a strong goodwill case. A strategy for these actors is to proactively look for alternative ways to spread knowledge about their brand on the relevant market e.g. through co-branding initiatives and the establishment of strategic collaborations and partnerships. In doing so, I think brand-owners can associate their brands with the goodwill of other brands representing similar values and thereby position themselves on the market. Publicity is another measure to be used proactively by brand-owners to support a goodwill claim. Through articles in news-magazines and other media channels attention is given to the brand and this kind of publicity can later be claimed before the Court as evidence for the duration of the use of a brand in a specific market.<sup>116</sup> In the *L'Oréal-case*, the power of attraction, the reputation and prestige of a trademark are specifically expressed by the ECJ as qualitative indicators of brand goodwill and the challenge for a brand-owner is to create such goodwill associations and connect them to the brand.<sup>117</sup> In my opinion, power of attraction, reputation and prestige cannot be established overnight but certain market behaviour could definitely facilitate and accelerate such goodwill associations. In order to create reputation and prestige I think it is important for a brand-owner to proactively position the brand by entering the market on the appropriate level. In combination with a great product or service, the right pricing strategy can prove very useful in targeting the high-end segment and in creating the kind of reputation and prestige that will strengthen the legal position against unfair value transfers.

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<sup>116</sup> Duration is particularly mentioned as a relevant factor in C-375/97, *General Motors v. Yplon S.A.*, § 27

<sup>117</sup> C-487/07, *L'Oréal v. Bellure*, § 50

## 5.2 Protecting distinctive triggers in key geographical areas

As part of strategic market behaviour, a brand-owner must at an early stage consider the key geographical areas for his goods and services since the extended legal protection is dependent on the reputation of a trademark in a member state.<sup>118</sup> I think it is important to consider the competing landscape and investigate the market shares, sales and duration of other brand-owners to evaluate the possibility of obtaining goodwill protection in a specific area before any investments are made. The possibility of obtaining goodwill protection obviously increases in a member state where a brand is already established to some extent compared to a member state where the brand has not yet been introduced. Consequently, an important proactive measure for a brand-owner would be to focus investments to those member states where the brand is already established and ensure that the brand is sufficiently known in a substantial part of these states.<sup>119</sup> This requires that a brand-owner has knowledge of the regional, cultural and linguistic differences in these states and it is also strategically important from a goodwill perspective to secure that the brand is well-known in more than just a city and its surrounding area since this alone does not constitute a substantial part of a member state according to the ECJ.<sup>120</sup> Also, I think the establishment of a brand as well-known in a substantial part of one member state will facilitate a future expansion of the brand and the possibility of obtaining goodwill protection also in other member states. Trademarks and trade symbols should primarily be registered in the territory where they will be used but also in typical counterfeit countries such as China or countries in former Eastern Europe to strengthen the legal position in these territories.<sup>121</sup>

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<sup>118</sup> Council Directive 2008/95/EC, Art. 5.2

<sup>119</sup> See also section 3.1.3, *General Motors v. Yplon S.A.*, § 28

<sup>120</sup> See also section 3.1.3, *C-328/06, Alfredo Nieto Nuño v. Leonci Monlleó Franquet*, § 18

<sup>121</sup> Interview with Mikael Spångberg 100216

The way in which the exclusive rights are built up in relevant member states influences the possibility of protecting goodwill both from a trademark and marketing law perspective since it determines the scope of protection.<sup>122</sup> A proactive measure is to create, identify and register distinctive brand triggers in relevant member states at an early stage since this will provide a brand-owner with room to manoeuvre without being disturbed by other actors, which may prove valuable in the process of establishing brand goodwill. Not all components of a brand concept function as triggers and since legal protection could be costly it is important to focus on protecting triggers that are capable of communicating the goodwill of the brand and that will be of actual use to the brand-owner.<sup>123</sup> These triggers must be given solid protection and in some cases, double or even triple protection of a trigger might be necessary.<sup>124</sup> The protection of a trigger should be based upon how the trigger is used on the market e.g. a trade symbol being used in red should therefore be protected in red.<sup>125</sup> Also, it should be noted that non-use of a registered trademark for a period of five years would lead to a lost control position. Based on the marketing law analysis, the appearance and design of a trigger must not primarily be determined by its technical function since this would reduce the scope of protection and increase the risk of legal imitations. In my opinion, the shape of a trigger must primarily be determined by its esthetical function and also be somewhat difficult to imitate in order to build a strong legal case against value transfers and misleading imitations.<sup>126</sup> The competition-friendly approach of the ECJ expressed in both the *Toshiba-case* and the *O2-case* provides third parties with far-reaching rights when it comes to comparative advertising and the use of third parties symbols in advertising, which in some cases may influence brand goodwill.<sup>127</sup> To prove that a comparison in advertising is illegitimate and in fact nothing but an attempt to “ride on the coat-tails” a brand-owner must be able to show that the comparison is not necessary

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<sup>122</sup> See also section 3.2 and 4.1

<sup>123</sup> Interview with Karin Nordborg 100215

<sup>124</sup> Interview with Mikael Spångberg 100216

<sup>125</sup> Interview with Karin Nordborg 100215

<sup>126</sup> See also section 4.2.2

<sup>127</sup> C-112/99, *Toshiba v. Katun*, C-533/06, *O2 v. Hutchinson* 3G



from a consumer perspective and this is what differs the *L'Oréal-case* from the *Toshiba-case*. By proactively limiting the amount of technical features and including several non-technical attributes capable of distinguishing the products and services made available under the brand such as designs, colours, fonts etc., I think brand-owners generally will have a better chance in arguing against free-riding behaviour in marketing. Proactively, trademark protection should be combined with other IPR protection such as patents, copyrights, and design protection to further strengthen the legal position and a registered trademark will also provide the brand-owner with a better right in most domain name systems.<sup>128</sup>

### 5.3 Diversification of activities

According to the ruling of the ECJ in the *Intel-case*, a brand-owner has the burden of proof in a dilution claim and must provide evidence of changes in economic behaviour in order to be successful.<sup>129</sup> In my opinion, it is likely to believe that both “unfair advantage” and “detrimental” claims in the future will require evidence of actual or future damage from brand-owners and diversification of activities could be used as a proactive measure to strengthen the legal position. The Virgin brand is a good example of a brand being used for a variety of goods and services such as air travel, cosmetics, music, banking and insurance services. By diversifying their activities, Virgin could more easily demonstrate that a third party’s use of an identical or similar mark would diminish Virgin’s ability to expand into new business areas and that the Virgin brand therefore would suffer economical damages by such exploitation.<sup>130</sup> Diversification of activities under the brand requires substantial investments by brand-owners but there are other ways of expanding into new business areas such as brand licensing. In my opinion, expansion through licensing could prove effective as long as it is characterized by a high level of control in order to maintain the goodwill, image and prestige of a brand in all activities. Otherwise, the expansion

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<sup>128</sup> UDRP § 4a

<sup>129</sup> C-252/07, *Intel v. CPM*, 81 §

<sup>130</sup> Porter, Hamish, *Protection of Well known marks after Intel*

itself could lead to dilution of a brand. This was the case with the Pierre Cardin brand where several licensees benefitted from the goodwill of the brand to commercialize a variety of low quality products with the result that the brand no longer managed to produce any exclusive associations.<sup>131</sup>

## 5.4 Market surveys

Based on the legal analysis, the size of marketing investments, sales over time and the monetary value of a brand may not always be enough to establish legal protection for goodwill since all relevant facts must be considered.<sup>132</sup> In my opinion, a necessary proactive measure is to conduct market surveys in the relevant territories to demonstrate the overall value of a brand with the effect that brand-owners will stand better prepared against potential value transfers. Market surveys are valuable instruments since they could be used to demonstrate both quantitative and qualitative indicators of goodwill, which according to Wessman leads to a more nuanced assessment.<sup>133</sup> To be able to claim a market survey before Court it is important that the data is systematically collected, analyzed and interpreted by reference to a specific issue such as the extent to which a trademark is known in a specific territory.<sup>134</sup> In order for the survey to be considered representative I think it should target a selection of the defined relevant target group since it is the knowledge and perception of the trademark in this circuit that primarily determines the scope of protection. Also, to demonstrate the “overlapping effect” and the attached negative consequences of a value transfer, market surveys may be conducted among the relevant target group of an infringing trademark.<sup>135</sup> Despite the fact the ECJ has been reluctant in establishing a strict quantitative limit on percentages for well-known trademarks it is in my opinion clear that a high percentage of knowledge of a brand at all times will increase the possibility

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<sup>131</sup> Melin, *Varumärkesstrategi – om konsten att utveckla starka varumärken*” p.249

<sup>132</sup> C-375/97, *General Motors v. Yplon S.A.*, § 27

<sup>133</sup> Wessman, NIR 1993, p.217

<sup>134</sup> Christensen, *Marknadsundersökning*, p.9

<sup>135</sup> C-408/01, *Adidas-Salomon v. Fitnessworld Trading*, § 31, C-252/07, *Intel v. CPM* § 80

to protect its goodwill.<sup>136</sup> Proactively, market surveys could be used to demonstrate the actual knowledge, the geographical extent and the duration of the use of a brand but also relevant qualitative conditions such as the amount of goodwill that a trademark represents in a specific territory in order to further strengthen the legal position.<sup>137</sup> The more goodwill associations a brand-owner is able to demonstrate before Court, the easier it will be for him to claim that a third party's use of a similar sign constitutes an "advantage taken unfairly". Therefore, questions in market surveys should in my opinion be formulated to capture consumers' perception of a brand in terms of quality, image and prestige. Market surveys could also be used to demonstrate a likelihood of confusion or a misleading imitation in marketing by clarifying if an imitation creates a similar overall impression as the original in consumers' minds.<sup>138</sup> In the *L'Oréal-case*, the ECJ declared that it is sufficient that an advertisement indicates a relation to an essential characteristic of an original product, such as the fragrance of the goods, in order to demonstrate unfair value transfers in marketing.<sup>139</sup> By including essential characteristics such as designs, packaging, colours etc. in market surveys and proving a clear link between these characteristics and the brand, a brand-owner is able to make proprietary claims on certain characteristics and thereby expand the scope of protection. Considering the current legal situation I think market surveys constitute one of the most important proactive measures to be taken by a brand-owner when it comes to protecting goodwill. Therefore, it is important that they are conducted in a professional manner to ensure reliability of the result and it is advisable to consult an external market research institute, such as the Trademark Committee of the Stockholm Chamber of Commerce.

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<sup>136</sup> See also section 3.1.1

<sup>137</sup> See also section 3.1.1

<sup>138</sup> See also section 4.2.1

<sup>139</sup> C-487/07, *L'Oréal v. Bellure*, § 76, 79

## 6 Conclusion

The aim of this paper was to investigate the legal protection for goodwill in the EU by answering the three research questions outlined in the introduction. In this section I will briefly summarize my answers for each of these questions.

- *To what extent is goodwill being recognized as an autonomous objective in need of protection in the EU?*

Having analyzed the recent rulings of the ECJ in this area my conclusion is that goodwill increasingly is being recognized as an autonomous objective in need of protection and that brand-owners have advanced their positions when it comes to protecting the goodwill of their brands in the EU, both from a trademark and marketing law perspective. I think this tendency is demonstrated in the *Intel-case* but even more in the *L'Oréal-case* where the ECJ clearly expressed its willingness to protect brand-owners' investments and where attention was given to the free-riding intentions of the infringing party.

- *From a trademark and marketing law perspective, what is required in order to obtain goodwill protection and what are the implications of such protection?*

Even if qualitative and quantitative elements are to be considered in determining if a trademark qualifies for goodwill protection in the EU my conclusion is that the quantitative elements still are the most critical in obtaining goodwill protection. The reason for this is probably that they are easier to measure compared to the qualitative elements of a brand, which in some cases might be looked upon as “fuzzy”. My conclusion is also that goodwill protection implies an opportunity for brand-owners to maintain the value of their investments and also to expand into new business areas.

- *Proactively, how should a brand-owner act on the market in order to best support a goodwill claim in Court?*

For a brand-owner it is of great importance to act proactively since this will increase the possibility of obtaining goodwill protection. My conclusion is that by not defining the relevant circulation too narrow and by investing in marketing activities primarily directed towards this circuit, the chances of goodwill protection will increase. Also, protection of distinctive triggers, diversification of activities and the strategic use of market surveys will facilitate a goodwill claim and strengthen the overall legal position.

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Mikael Spångberg, 2010-02-16



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