

The Expansion of Trade Mark Protection under Article 5 (1) (a) of the European Trade Mark Directive and Its Impact on Parallel Importation

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Abstract

Today, a trade mark may signify not only the commercial origin or the quality features of the products bearing it but also a brand image that consumers might wish to be associated with. Some trade mark owners have been investing in the creation and development of a brand image through advertising and other marketing techniques in order to attract consumers to their trademarked products. In order to safeguard the investment by trade mark proprietors, the protection given to trade marks under Article 5 (1) (a) of the Trade Mark Directive (TMD), which used to protect merely the origin and quality guarantee functions under the essential function theory, has been expanded to cover the communication, investment or advertising functions (so-called “modern” functions) through the judgments of the Court of Justice of the European Union (CJEU). This expansion was not met with universal approval and resulted in an ongoing debate that had a direct impact on number of areas within the European trade mark law.

On the other hand, there is a long-recognized conflict between the exercise of the exclusive rights associated with trade marks and one of the main principles of the European Union (EU), namely the free movements of goods principle. This principle, which aimed to integrate the economies of member states, requires that traders should be free to move their goods within the European Economic Area (EEA), without any “artificial” obstacles such as the territorial nature of trade marks and their associated exclusive right. The case law of the CJEU resolved this conflict through recognizing the principle of European exhaustion which later was implemented by Article 7 (1) of the TMD. According to this principle, the rights of trademark holders are exhausted in relation to goods which have been put on the market under the trade mark within the EEA by the owners or with their consent.

However, there is an exception to this general provision. According to Article 7 (2) of the TMD, the rights of trade mark owners will not be exhausted if the owners have a legitimate reason for opposing the further commercialization of the goods in order to ensure that their trade mark can continue to perform its functions. This thesis examines the expansion of trade mark protection under Article 5 (1) (a) of the TMD and its impact on the rights given to the trade mark owners under Article 7 (2) of the TMD to oppose the further commercialization of their branded products in the context of parallel importation.

Declaration

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Dedication

This thesis is dedicated to my grandfather who could not live long enough to see me graduate.

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Abbreviations

AG: Advocate General

Ch.: Chancery Division Law Reports

CJEU: Court of Justice of the European Union

CMLR: Common Market law Reports

ECR: European Law Reports

EEA: European Economic Area

EEC: European Economic Community

ETMR: European Trade Mark Reports

EU: European Union

EWCA Civ: Court of Appeal Civil Division

FSR: Fleet Street Reports

J: Justice

KB: King's Bench

LJ: Lord Justice

Rome Treaty: Treaty of Rome 1957

RPC: Reports of patent Cases

TM: Trade Mark

TMD: Trade Mark Directive

TMR: Trade Mark Registration

UK: United Kingdom

WIPO: World Intellectual Property Organisation

Table of Statutes

Trade Marks Registration Act 1875

Trade Marks Act 1905

Trade Marks Act 1919

Trade Marks Act 1938

Trade Marks Act 1994

Table of European Legislation and Treaties

Trade Mark Directive (Council Directive No. 89/104/EEC (Repealed by EU Directive 2008/95/EC), to approximate the laws of the Member States relating to trade marks)

Treaty of Rome 1957

Table of International Treaties

Nice Agreement 1957(Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks)

Trade Related Aspects Agreement (TRIPs) 1994

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- Adam Opel v Autec* [2007] E.T.M.R. 33
- Adidas-Salomon v Fitnessworld* [2004] E.T.M.R. 10
- Aktiebolaget Volvo v Heritage* [2000] F.S.R. 253
- Anheuser-Busch v Budejovický Budvar, Národní Podnik* [2005] E.T.M.R. 27
- Antoni Fields v Klaus Kobec* [2006] WL 901118
- Arsenal FC v Matthew Reed (C-206/01)* [2003] E.T.M.R. 19
- Arsenal v Reed* [2001] 2 C.M.L.R. 23
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- Arsenal v Reed* [2003] 1 C.M.L.R. 12
- Arsenal v Reed* [2003] 1 C.M.L.R. 13
- Arsenal v Reed* [2003] 2 C.M.L.R. 25
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- Avnet v Isoact* [1998] F.S.R. 16
- BMW v Deenik* [1999] 1 C.M.L.R. 1099
- BMW v Deenik* [1999] E.T.M.R. 339
- Boehringer Ingelheim v. Swingward (C-143/00)* [2003] Ch. 27
- Boehringer Ingelheim v. Swingward* [2007] 2 C.M.L.R. 52
- Boehringer Ingelheim v. Swingward* [2008] 2 C.M.L.R. 22
- Bravado Merchandising Services Ltd v Mainstream Publishing (Edinburgh) Ltd* [1996] F.S.R. 205
- Bristol-Myers v Paranova* [1997] 1 C.M.L.R. 1151
- British Sugar v James Robertson* [1997] R. P. C. 28
- British Sugar v James Robertson* [1997] E.T.M.R. 118
- Budějovický Budvar, národní podnik v Anheuser-Busch Inc (C-482/09)* [2012] E.T.M.R. 2
- Busch v. Budejovický Budvar* [2005] E.T.M.R. 27
- Celine v Celine* [2007] E.T.M.R. 80
- Centrafarm, BV and Adriaan de Peijper v. Winthrop, BV (C-16/74)* [1974] 2 C.M.L.R. 480
- Centrafarm, BV v. American Home Products (C-3/78)* [1979] 1 C.M.L.R. 326

cf Oracle America v M-Tech Data [2012] 3 C.M.L.R. 28

Christian Dior SA v Evora (C- 337/95) [1998] E.T.M.R. 26

Compass v Compass [2004] R.P.C. 41

Copad v Christian Dior (C-59/08) [2009] E.T.M.R. 40

Davidoff v Gofkid [2003] E.C.R I-389

Decon v Fred Baker [2001] R.P.C. 17

Deutsche Grammophon v Metro (78/70) [1971] C.M. L. R. 631

Doncaster Pharmaceuticals v Bolton Pharmaceutical[2006] E.T.M.R. 65

Ellerman v C-Vanci [2006] WL 1887018

Etablissements Consten S.A. and Grundigverkaufs –GmbH. v. E.E.C. Commission (Cases 56/64 & 58/64) [1966] C.M.L.R. 418

Frits Loendersloot v. George Ballantine (C-349/95) [1998] 1 C.M.L.R. 1005

Glaxo Group v Dowelhurst [2000] 2 C.M.L.R. 571

Google France and Google Inc v Louis Vuitton Malletier, Google France v Viaticum Luteciel and Google France v CNRRH (C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30

H Young v Medici [2004] F.S.R. 19

Hag I [1974] 2 C.M.L.R. 127

Hag II [1990] 3 C.M.L.R. 571

Hoffmann La Roche v Centrafarm (C-102/77) [1978] E.C.R. 1139

Holterhoff v Freiesleben [2002] E.T.M.R. 79

IHT v Ideal-Standard (C-9/93)[1994] 3 C.M.L.R. 857

Intel Corp Inc v CPM United Kingdom Ltd (C-252/07) [2009] E.T.M.R. 13

Interflora Inc v Marks & Spencer (C-323/09) [2012] E.T.M.R. 1

John H. Andrew v. Kuehnrich [1913] 30 R.P.C. 677

Keurkoop v Nancy Kean [1983] 2 C.M.L.R. 47

Loendersloot v George Ballantine & Sons [1998] 1 C.M.L.R. 1015

L'Oréal v Bellure [2009] E.T.M.R. 55

L'Oréal v eBay [2011] E.T.M.R. 52

LTJ Diffusion v Sadas [2003] F.S.R. 34

MajorBrothers v. Franklin & Son [1908] 1 K.B. 712

Merz & Krell GmbH (C-517/99) [2002] E.T.M.R. 21

Miss World v Channel 4 [2007] E.T.M.R. 66

MPA Pharma v Rhone-Poulenc [1996] E.C.R.I-3671

O2 v Hutchinson [2006] EWCA Civ 1656

Och-Ziff v OCH Capital [2011] E.T.M.R. 1

Orifarm v Merck [2011] E.T.M.R. 59

Origins v Origin [1995] F.S.R. 280

Parfums Christian Dior v Evora (C-337/95) [1997] E.T.M.R. 323

Pfizer v Eurim-Pharm [1982] 1 C.M.L.R. 405

Pharmacia & Upjohn v Paranova (C-379/97) [2000] 1 C.M.R.L. 51

Primark Stores v Lollypop Clothing [2001] E.T.M.R. 30

Portakabin v Primakabin [2010] E.T.M.R. 52

Powell v. Birmingham Vinegar Brewery Company [1896] 2 Ch. 54

Reed v Reed [2004] E.T.M.R. 56

R. v Johnstone [2004] E.T.M.R. 2

SA CNL-Sucal NV v Hag GF AG (C-10/89) [1990] 3 C.M.L.R. 571

Sandforth's Case [1584] Cory's Entries, BL MS. Hargrave 123, fo. 168

Saville Perfumery v June Perfect [1941] 58 R.P.C. 147

Scandecor v Scandecor [2001] E.T.M.R. 74

Sebago v GB-Unic [1999] 2 C.M.L.R. 1317

Silhouette v Hartlauer [1998] 2 C.M.L.R. 953

Sony v Tesco [2000] E.T.M.R. 102

Southern v. How [1956] Popham's Reports 143

Trebor Bassett v The Football Association [1997] F.S.R. 211

Viking Gas v Kosan Gas(C-46/10) [2011] E.T.M.R. 58

Zino Davidoff v A & G Imports [1999] E.T.M.R. 700

American Cases

Hannover Star Milling Co. v. Metcalf 240 U.S. 403 [1916]

Chapter 1 - Introduction

1.1 Research Background

A trade mark is an intellectual property which a person or a firm, who will be using it in the course of trade, may obtain through registration.¹ When a trade mark has been registered by the authorised institutions, the owner of the registered trade mark is given exclusive rights on his or her trade mark within the territory of registration in relation to specific kinds of products. In the European trade mark law, the exclusive rights conferred by a registered trade mark are set out in Article 5 of the TMD.² It defines what will amount to an infringement whereby the scope of the exclusive rights given to trade mark owners is outlined.

According to the subsections of Article 5 of the TMD, a registered trade mark will be infringed if a mark which is identical with the registered trade mark is used for products which are identical with those for which the trade mark is registered. However, if either or both of these marks and the products in question are similar rather than identical, there will be infringement if the latter use of the earlier trade mark will be likely to cause confusion to consumers. Moreover, unauthorised use of an identical or a similar mark on totally different products will also be an infringement if the repute of the registered trade mark would be harmed by this use. It is important to note that the application of this provision also expanded to the circumstances where the products were similar or identical following the rulings of the CJEU in *Davidoff v Gofkid* and *Adidas-Salomon v Fitnessworld*.³

¹ It is necessary here to note that passing off is a tort that protects un-registered trade marks. Therefore, the un-registered trade marks are the subject of passing off rather than trade mark law.

² It is necessary here to note that this thesis focuses on the European trade mark law and that this is governed by the Trade Mark Directive (DIRECTIVE 2008/95/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 22 October 2008 to approximate the laws of the Member States relating to trade marks). Trade mark law in the United Kingdom is governed by the Trade Mark Act 1994 which is interpreted in accordance with the Trade Mark Directive.

³ *Davidoff v Gofkid* [2003] E.C.R I-389; *Adidas-Salomon v Fitnessworld* [2004] E.T.M.R. 10

The protection of trade mark under Article 5 of the TMD will be examined in the context of parallel importation in this thesis. The exclusive right that a trade mark owner would apply in the case of parallel importation is likely to be the one given them under the first subsection of Article 5 (1) (a); since parallel imports, as will be detailed below, are the same products of the same registered trade mark imported from a different market. Therefore, we will merely focus on the trade mark right provided under the first subsection of Article 5 (1) rather than the ones provided under the other subsections of Article 5.

On the basis of the exclusive right which is provided under Article 5(1) (a) of TMD, a trade mark owner can prevent third parties from the use of the mark in the course of trade within the territory of the exclusive rights of the registered trade mark in relation to the goods and services for which the trade mark has been registered, and bring an infringement action against third parties to prevent them using the mark without consent. Nevertheless, the owner of a trade mark does not enjoy an absolute monopoly over any use of the trade mark in relation to the designated products. According to the CJEU's case law, the exercise of this one exclusive right conferred on the owner of a trade mark is limited to situations where functions that the trade mark is supposed to perform are adversely affected.⁴ Therefore, identifying the functions performed by trade marks plays a crucial role in drawing the scope of the exclusive rights which could be conferred on the owner of the trade mark.

The functions that a trade mark performs may be divided into three.⁵ The first one is the origin function which indicates the commercial origin of products bearing the trade mark.

The second one is the quality guarantee function which conveys information about the quality

⁴ This is referred as the “function theory” or the “functions doctrine.” Senftleben M., ‘Function theory and international exhaustion-why it is wise to confine the double identity rule to cases affecting the origin function’, *European Intellectual Property Review*, (2014), 36(8), 518-524; Kur, A., ‘Trade marks function, don’t they? CJEU jurisprudence and unfair practices’, *International Review of Intellectual Property and Competition Law*, (2014), 45(4), 434-454

⁵ This scheme of classification was mentioned in *Christian Dior v Evora* by AG Jacobs who drew it from Cornish (Intellectual Property, 3rd edition) before being picked up by CJEU in *L’Oreal v Bellure* [2009] E.T.M.R.55.

features of the products bearing the trade mark. In other words, it provides an economic assurance to consumers about the potential quality of the trademarked products. The third function is an umbrella function and covers the communication, investment or advertising functions which are also called the “modern functions.”⁶

Before the adoption of the functions theory, the CJEU applied the essential function theory in determining the scope of the rights given to trade mark owners under Article 5(1) (a) of TMD. In other words, a trade mark owner could exercise his/her exclusive rights given under Article 5(1) (a) of TMD if the unauthorized use of the third party affects or is liable affect the ability of the trade mark to perform its essential function. The essential function of a trade mark has been defined by the CJEU in *Hoffmann La Roche v Centrafarm* as the ability of the trade mark to guarantee the identity of the origin of the marked product to the consumers or end users by enabling them, without any possibility of confusion, to distinguish the products from others which have another origin.⁷ In order for a trade mark to be able to fulfil its essential function, it must offer a guarantee that all products bearing it have originated under the control of a single undertaking that is responsible for their quality.⁸ Therefore, the essential function theory which the CJEU applied in the interpretation of the scope of the trade mark rights given in Article 5(1) (a) of TMD consists of the origin function and the quality guarantee functions of trade mark that we defined above.⁹

⁶ It is necessary here to note that the CJEU addressed the investment and advertising functions separately in the recent cases such as *Google France* and *Interflora v. Marks & Spencer* although they have been mentioned all together in *L’Oreal v Bellure*. In this thesis, they will be considered all together unless it needs to be considered separately. “Modern functions” is used by Tarawneh. Tarawneh J. ‘Nature of Trade Marks’ available at [http://login.westlaw.co.uk/maf/wluk/app/document?docguid=12C502B009B0511E3BD88F5B8083E6997&context=41&crumb-action=replace&crumb-label=Nature of trade%0A marks](http://login.westlaw.co.uk/maf/wluk/app/document?docguid=12C502B009B0511E3BD88F5B8083E6997&context=41&crumb-action=replace&crumb-label=Nature%20of%20trade%20marks) visited at 29.09.2014

⁷ *Hoffmann La Roche v Centrafarm* (C-102/77) [1978] E.C.R. 1139 at [7]

⁸ *Hag II* [1990] 3 C.M.L.R. 571 at [13]; *Arsenal v Reed* [2003] 1 C.M.L.R. 12 at [48]

⁹ It is necessary here to note that AG Jacobs stated in *Christian Dior v Evora* the “quality or guarantee function” can be regarded as part of the origin function if the origin function has been understood in the broader sense which covers “both the use of the marks actually to tell consumers specifically where goods or services come from and also a looser image to distinguish one line of goods or services from another on the market, in cases where consumers have no interest in source as such but only as the key to qualities.” However, “Radicals who strive for a broader, more “modern”, approach” understand the origin function “only to cover the first specific

Nevertheless, the approach of the CJEU started to change with its reluctant acceptance, at least in the beginning, of the argument that there might be additional functions that a trade mark could perform in addition to its essential function. The first significant signal of this change was given in *Arsenal Football Club v Reed*.¹⁰ The CJEU held that the unauthorized use of third parties must affect or be liable to affect the ability of a trade mark to perform its functions, in particular its essential function. Although, the CJEU indicated that essential function of indicating origin is not the only function protected under 5 (1) (a) of TMD, the other functions that merit protection were not identified in that case. The identification of these additional functions came later in *L'Oréal v Bellure*¹¹ where the quality guarantee as a distinct function and the communication, investment or advertising functions in addition to the origin function were found to merit protection under the provision of Article 5(1) (a) of TMD.¹² In other words, the scope of the trade mark rights protected in Article 5(1) (a) of TMD expanded through the judgments of the CJEU.

The expansion of the scope of protection given to trade mark owners under Article 5 (1) (a) of the TMD had a profound impact on a number of areas within European trade mark law and one of these areas is the exhaustion regime which was established as a defence to trade mark infringement under Article 7 of the TMD and as mechanism to resolve the long-recognized conflict between the exercise of trade mark rights and the free movement of goods principle

usage.” As the quality guarantee function identified as a distinct function later by the CJEU in *L'Oréal v Bellure*, we will use the origin function, in this thesis only to cover the first specific usage which is telling consumers specifically where goods and services come from. *Christian Dior v Evora* [1998] E.T.M.R. 26 at [AG 41]

¹⁰ It is necessary here to note that it is arguable that it was first signalled in *Hölterhoff v Freiesleben*. “It anticipated this shift in its judgment in *Hölterhoff v Freiesleben*”, Griffiths A., ‘The trade mark monopoly: an analysis of the core zone of absolute protection under Art. 5(1)(a)’, *Intellectual Property Quarterly*, (2007), 3, 312-349, at p. 337; *Arsenal Football Club v Reed* [2003] E.T.M.R. 19

¹¹ *L'Oréal v Bellure* [2009] E.T.M.R. 55 ; *Google France and Google Inc v Louis Vuitton Malletier, Google France v Viaticum Luteciel and Google France v CNRRH* (C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30; *Interflora Inc v Marks & Spencer* (C-323/09) [2012] E.T.M.R. 1

¹² As mentioned earlier, the CJEU picked up the categorisation that AG Jacobs had used in *Christian Dior v Evora*.

within the EU.¹³ This principle, which aims to integrate the economies of member states, requires that traders should be free to move their goods within the European Economic Area (EEA).¹⁴ The free movements of goods principle was established in Article 30 of the Treaty of Rome¹⁵ which says that those quantitative restrictions on imports and all measures having the same effect shall be prohibited between member states. This means that parallel trading¹⁶ within the EEA, which occurs when trade marked products which were intended for sale in one of the EEA's member state are exported from their original destination to another member state for resale where the authorised distribution channel of the same products already exist, is a permitted economic activity because of the EU's policy of establishing an internal European market.

Having said this, Article 36 of the Treaty of Rome¹⁷ stated that Articles 30 to 34 shall not prevent prohibitions or restrictions on imports, exports or goods in transit justified on grounds of the protection of industrial and commercial property, such as intellectual property rights. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between member states. The incompatibility of these two articles and role of intellectual property rights within the European internal market needed to be resolved. The resolution came from the CJEU and according to the early case law of the CJEU, such prohibitions and restrictions might be justified for the protection

¹³*Centrafarm v. Winthrop* (C-16/74) [1974] 2 C.M.L.R. 480; *Hoffmann-La Roche v Centrafarm* (Case-102/77) [1978] 3 C.M.L.R. 217; *Centrafarm v. American Home Products* (C-3/78) [1979] 1 C.M.L.R. 326; *Bristol-Myers v Paranova* [1997] 1 C.M.L.R. 1151

¹⁴ The European Economic Area comprises the members of the European Union and Iceland, Liechtenstein and Norway. It will be discussed later in Chapter Five.

¹⁵ now Article 34 TFEU (the Treaty on the Functioning of the European Union)

¹⁶ "Parallel importation occurs when an intellectual property owner or his licensee sells protected products in one national market under such circumstances that those products can be purchased there for export and imported into another country for sale against the wishes of the intellectual property owner and in competition with identical products enjoying equivalent protection in the second country." Hays, T., *Parallel Importation under European Union Law*, Sweet & Maxwell, (2004), London, p. 1. It will be discussed later in Chapter Five.

¹⁷ now Article 36 TFEU (the Treaty on the Functioning of the European Union)

of the rights that form the specific subject-matter of property.¹⁸ In other words, the CJEU recognised the “existence” of intellectual property rights but restricted the “exercise” of these rights. This restriction, however, does not cover the specific subject matter of these intellectual property rights.

To identify the specific subject matter of trade marks, the CJEU introduced the essential function theory in *Hoffmann-La Roche v Centrafarm*. The CJEU also identified the specific situations where prevention constituted a disguised restriction between member states within the meaning of Article 36. The guideline provided by the CJEU in this case to resolve the incompatibility of the Articles of the Rome Treaty and to solve the conflict between trade mark owners and parallel traders focused on safeguarding the essential function of trade marks and the rights needed to protect this function, other rights will be exhausted.

The exhaustion of the trade mark rights, the exhaustion regime, was regulated under Article 7 of the TMD when the Directive was introduced. According to Article 7(1), the rights of trade mark holders are exhausted in relation to the goods which have been put on the market under the trade mark within the EEA by the owner or with his/her consent. However, Article 7 (2) of the TMD states that trade mark owner can exercise his/her rights against the further commercialization of goods if there are legitimate reasons for him to do so, especially in situations where the condition of the goods is changed or impaired after they have been put on the market.

*Bristol-Myers v. Paranova*¹⁹ was the first judgment of the CJEU, after the adoption of the TMD, to consider in detail the legitimate reasons that could be used by a trade mark owner to

¹⁸ *Deutsche Grammophon v Metro* (78/70) [1971] C.M. L. R. 631; *Centrafarm v. Winthrop* [1974] 2 C.M.L.R. 480; *Hoffmann-La Roche v Centrafarm* [1978] 3 C.M.L.R. 217; *Centafarm, BV v. American Home Products* [1979] 1 C.M.L.R. 326

¹⁹ *Bristol-Myers v. Paranova* [1996] E.T.M.R. 1

oppose the further commercialisation of trademarked products within the meaning of Article 7 (2). The CJEU took its essential function-oriented ruling given in *Hoffmann-la Roche v. Centrafarm* a step further and established a detailed guideline for the exhaustion regime which was concerned with the reputation of a trade mark as well as its essential function. In an apparent shift from its previous decisions, the concept of legitimacy was interpreted by the CJEU in *Bristol-Myers* to include the reputation of a trade mark as part of the legitimate interests that a trade mark owner should be able to protect within the European Exhaustion regime. This was a significant development since the CJEU's case law that was developed prior to the adoption of TMD limited the specific subject-matter of trade mark to its essential function.

The shift under *Bristol-Myers*, has become even more significant as a result of the recent CJEU decisions²⁰ on the additional functions of trade marks and the need to protect such functions. This expansion of the functions and their protection will have a direct impact on the European exhaustion regime under Article 7 of the TMD and in particular on Article 7(2) and its legitimate expectation doctrine as well be discussed throughout the thesis.

²⁰ *L'Oréal v Bellure* [2009] E.T.M.R. 55; *Google France and Google Inc v Louis Vuitton Malletier, Google France v Viaticum Luteciel and Google France v CNRRH* (C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30; *Interflora Inc v Marks & Spencer* (C-323/09) [2012] E.T.M.R. 1

1.2 Aims of Research

The aim of this thesis is to examine the expansion of the scope of the trade mark protection given to the trade mark owners under Article 5 (1) (a) of the TMD and its impact on the legitimate reasons which can be used by the trade mark owners under Article 7 (2) of the TMD to oppose the further commercialization of the goods. Therefore, the exclusive right established under Article 5 (1) (a) of the TMD and their impact on the European exhaustion regime will be the focus of this thesis. The exclusive right conferred on the owner of trade mark in Article 5(1) (a) of TMD enables him/her to prevent third parties from the use of the mark in the course of trade in relation to the goods and services for which the trade mark has been registered.

However, the exercise of the right conferred on the owner of a trade mark under Article 5(1) (a) of the TMD is limited by the CJEU's recent case law to situations where functions that a trade mark performs are adversely affected. Therefore, the functions that a trade mark performs need to be examined in detail so as to determine the exact scope of the exclusive rights which has been given to trade marks under the Article 5(1) (a) of TMD. A modern trade mark may perform its origin function, which can be simply defined as guaranteeing consumers the commercial origin of the goods or services, and the economic functions which were recently identified by the CJEU's case law as the quality guarantee as well as the recently identified communication, investment or advertising functions.

The origin function of a trade mark differs from the other functions inasmuch as it involves a legal guarantee, whereas the other functions refer to various economic applications of that legal guarantee.²¹ Therefore, functions that a trade mark performs can be divided into two

²¹ "However, those functions seem to be merely derivatives of the origin function since there would be little purpose in advertising a mark if it were not for the function of that mark as an indicator of origin, distinguishing

main categories: so-called “origin function” of a trade mark and “economic functions” of a trade mark. The origin function of trade mark and its historical development will be examined in the Chapter Two. The functional evolution of trade mark as an origin indicator will play an important role in the understanding of the economic functions which are derived from the origin function.

The origin function of a trade mark, which is to guarantee to consumers the identity of the trade marked product’s origin by enabling them to distinguish it without any risk of confusion from products of different origin, will be examined in Chapter Two under three periods: “pre-industrial period”, “industrial period” and “post-industrial period”. The reason behind dividing the evolution of trade mark into three different periods is to indicate the significant changes in the concept of trade mark as an origin indicator as a direct result of the developments of the business activities and the business organisations in the last two centuries. Industrialisation was a key factor in the changes in the concept of trade mark as an origin indicator. Hence, industrialisation is used as central point to divide the development of trade mark as an origin indicator.

A trade mark as an origin indicator gives consumers a guarantee that all products bearing it have originated under a single undertaking which is in a position to control the quality of the products. Hence, consumers may perceive a trade mark as an economic guarantee for the likely products quality. More specifically, consumers expect the quality of all trademarked products to be consistent with each other; because they have originated under the control of one undertaking which is in a position to control their quality. Moreover, a trade mark, after gaining a level of recognition and reputation, gives its owner an opportunity to create, through advertising or other marketing techniques, a brand image of quality, modernity,

the trade mark owner's goods from those of his competitors.” *Christian Dior v Evora* [1998] E.T.M.R. 26 at [AG 41]

luxury or other similar desired attitudes or lifestyles which consumers wish to be associated with in order to gain the loyalty of consumers. These functions that a trade mark performs in addition to its origin function; namely the quality guarantee function and the advertising, investment or communication functions will be examined under the economic functions of trade mark in Chapter Three of this thesis.

The economic functions of trade mark in addition to its origin function are identified by the CJEU in *L'Oréal v Bellure*²² as being "... that of *guaranteeing the quality* of the goods or services in question and those of *communication, investment or advertising* [Emphasis Added]" and found to merit protection under the provision of Article 5(1) (a) of the TMD.²³ In other words, the scope of trade mark protection provided under 5 (1) (a) of TMD has been expanded through the judgments of the CJEU to protect the quality guarantee as a distinct function and the communication, investment or advertising functions as additional functions to the origin function. Hence, the economic functions of trade mark play a crucial role in understanding the expanded scope of trade mark protection under Article 5(1) (a) of TMD.

Having said this, the expansion of trade marks protection to cover the economic functions of trade marks may give rise to the underlying issue of whether there is an accepted rationale to expand the protection to cover the economic functions performed by trade mark, in particular the communication, investment or advertising functions. For this reason, the economic justification of trade marks will be examined in the context of the search costs theory to determine whether there is an economic rationale to grant exclusive rights given under Article (5) (1) (a) of the TMD for the protection of those additional functions.

Accordingly, the information provided by trade marks about the product quality through their origin and quality guarantee functions and the role it plays in resolving the issue of

²² *L'Oréal v. Bellure* (C-487/07)[2009] E.T.M.R. 987

²³ *Ibid.*, at [58]

information asymmetry in the market place will be examined. Moreover, the wider economic benefits that consumers derive from trade mark as a means of quality assurance will be discussed in the context of the search costs theory and the validity of using this theory as an economic rationale for the justification of the exclusive rights enjoyed by trade mark owners under the provision of Article 5 (1) (a) of TMD in order to protect a trade mark origin and quality guarantee functions.

However, and due to the expansion of the protection given to trade marks through the CJEU recognition of the “additional” or “modern” functions the thesis will try to assess how these modern functions may enhance the power of trade mark as a quality assurance and whether the search costs theory can be used as an economic rationale for the protection of these modern functions. Having said this, the modern functions do not only enhance the power of a trade mark as quality assurance but also create a source of psychological and social satisfaction which consumers may gain by purchasing the products bearing the trade mark. Hence, this thesis will discuss how the role of a trade mark as a source of emotional and/or social satisfaction may increase the overall benefit that consumer can derive from products bearing the trade mark and whether such role can be used as a justification for the wider protection given to trade marks by the CJEU in recent cases.

Article 5(1) (a) of TMD enables a trade mark owner to prevent third parties from using in the course of trade a sign which is identical to the registered trade mark in relation to the goods and services for which the trade mark has been registered for, if one of the functions that a trade mark supposed to perform is adversely affected. Therefore, aside from the harm to the functions condition which was introduced by the CJEU, there are three criteria for the ground of infringement under Article 5 (1) (a) of the TMD. Firstly; that the trade mark must be used in the course of trade, which is a prerequisite for the whole infringement criteria under the TMD, and is referred to as the trade mark use requirement. Secondly, the use of a sign that is

identical to the registered trade mark and this is referred to as the identical sign requirement and finally the use of the identical sign on identical products and this is referred to as the identical products requirement.

The sign, which is identical to the registered trade mark, must be used in the course of trade in order for the use of the third party to be considered as an infringing use. The trade mark use prerequisite was at first limited by the CJEU to uses that indicate the commercial origin of products bearing the mark. The CJEU's interpretation of the trade mark use prerequisite in *BMW v Deenik*²⁴ addressed the use of trade mark as a badge of commercial origin and considered such use as a prerequisite to infringement. However, the trade mark use prerequisite under Article 5(1) (a) of the TMD has been reformulated by the CJEU case law which expanded the trade mark protection under Article 5(1) (a) as a result of the evolution of the functions theory of trade marks. *Arsenal v Reed*²⁵ is the case where the shift in the CJEU's approach towards the trade mark use prerequisite started as will be explained in detail later in the thesis. The CJEU elaborated on the "use in the course of trade" prerequisite later in *Google France*²⁶ which is the case where the issue of whether the unauthorised use of a registered trade mark on the internet by a third party satisfies the trade mark prerequisite within the meaning of Article 5 (1) (a) was discussed. The reformulation of the trade mark use prerequisite by recent cases have also expanded the scope of protection given to trade mark owners which in turn had a direct impact on the legitimate expectation theory used by the owners to stop parallel importation within the EU under Article 7(2) of the TMD. Accordingly, this thesis will discuss the reformulation of the trade mark use prerequisite and its impact as well as the other two infringement requirements under Article 5(1) (a), namely the identical sign requirement and the identical products requirement in Chapter Four.

²⁴ *BMW v Deenik* [1999] 1 C.M.L.R. 1099

²⁵ *Arsenal v Reed* [2003] 1 C.M.L.R. 12

²⁶ *Google France* [2010] E.T.M.R. 30

Once the expanded scope of the trade mark protection given to the owners under Article 5 (1) (a) of the TMD has been discussed, the parallel importation within the EEA will be revisited in order to assess the impact of the expansion of trade mark protection on the European exhaustion regime under Article 7 of the TMD. To understand this impact, the general concept of the parallel importation within the EEA will be explained. Moreover, the development of the European exhaustion regime, as a regional exhaustion regime, and its use as a tool to regulate parallel importation within the EEA will also be discussed in this chapter.

The analysis of the European exhaustion regime will be divided into two parts. In the first part, the adoption of the “free movement of goods” principle under the Rome Treaty and its role in the emergence of case law that established the European exhaustion regime will be discussed. The doctrines that the CJEU developed, starting from the “existence and the exercise of the rights” to the “specific subject-matter of trade mark”, in order to resolve the conflict between the trade mark holders and parallel traders within the meaning of Article 36 of the Rome Treaty will form the core of this part. Furthermore, the use of the CJEU of the essential function theory in its early judgments as the basis to the specific subject-matter doctrine will also be assessed in this part.

In the second part, the development of the CJEU’s case law after the adoption of the TMD, which regulated the European exhaustion regime under Article 7 of the TMD, will be examined. As discussed earlier, Article 7 (2) of the TMD enables the owner of a trade mark to oppose the further commercialisation of their trademarked products if there is a legitimate reason to do so. The concept of legitimacy and its interpretation by the CJEU will also be examined in this part.

The CJEU established a detailed guideline for the repackaging of products by parallel traders before resale, to determine whether there is legitimate reason for trade mark owner to oppose

it, in its judgment in *Bristol-Myers v. Paranova*. The repackaging issue and legitimacy will be examined in the light of the CJEU's case law. The criteria set up for the repackaging in *Bristol-Myers v. Paranova* was expanded by the CJEU to some of the other processes carried out by the trader before the resale of the product. This will be examined distinctly under the topics of "rebranding issue and legitimacy", "relabeling issue and legitimacy" and "use of the trade mark as an advertising or promotional device and legitimacy." Each of those scenarios will be discussed in the context of the CJEU's case law which elaborated on the criteria set in *Bristol-Myers v. Paranova*.

In order to assess the impact of the expansion of trade mark protection on the legitimate interests of trade mark owner to oppose the further commercialisation of trademarked products, each of the *Bristol-Myers v. Paranova* conditions will be also examined distinctly in the light of the recent developments in the CJEU's case law in relation to the trade marks function theory. In this regards, it must be noted that there has been a significant development in relation to the trade mark reputation criterion which might be used as a legitimate interest to stop parallel importation after the expansion of the trade mark protection under Article 5(1) (a) of the TMD. The significance of this development will be illustrated in the thesis with a detailed study of the cases that dealt with this issue.

In *Christian Dior v Evora*²⁷, the CJEU discussed whether the use of a trade mark by the parallel trader as an advertising or promotional device may in principle be a legitimate reason to stop parallel importation within the meaning of Article 7 (2) of the TMD if that use damages the reputation of trade mark. In *Copad v Christian Dior*²⁸, the owner of the trade mark opposed the further sale of the products on the basis that selling the luxury trademarked products to a discount store in contravention of a provision in the licence agreement damaged

²⁷ *Christian Dior SA v Evora* (C- 337/95) [1998] E.T.M.R. 26

²⁸ *Ibid.*, at [57]-[58]

the allure and prestigious image which conferred on the products an aura of luxury. The CJEU was asked to determine whether the trade mark owner could invoke such a provision to oppose further commercialisation of the products on the basis of Article 7(2) of the TMD.

In *Portakabin v Primakabin*, the CJEU discussed whether a trade mark owner is entitled to prohibit an advertiser from advertising the resale of products manufactured and placed on the market in the EEA by that the owner or with his consent if there is a legitimate reason, within the meaning of Article 7(2) of the TMD, which justifies him opposing that advertising, such as use of that sign which gives the impression that the reseller and the trade mark owner are economically linked or use which is seriously detrimental to the reputation of the mark.²⁹

In *L'Oréal v eBay*, the CJEU discussed whether the trade mark owner may oppose the resale of an unboxed perfume or cosmetic product bearing his trade mark where the removal of the packaging has not resulted in the absence of that information, such as information relating to the identity of the manufacturer or the person responsible for marketing the cosmetic product, if the owner establishes that the removal of the packaging has damaged the image of the product and, hence, the reputation of the trade mark.³⁰

In *Viking Gas v Kosan Gas*, the CJEU discussed whether there is a legitimate reason for trade mark owner to oppose the further commercialisation of trademarked products when the use by trader of the trade mark seriously damages the reputation of that mark or when that use is carried out in such a way as to give the impression that there is a commercial connection between the trade mark proprietor and that trader.³¹

²⁹ *Portakabin v Primakabin* [2010] E.T.M.R. 52 at [92]

³⁰ *L'Oréal v eBay* [2011] E.T.M.R. 52 at [83]

³¹ *Viking Gas v Kosan Gas*(C-46/10) [2011] E.T.M.R. 58 at [37]

The detailed assessment of the CJEU's recent case law, especially after the expansion of the trade mark protection to cover the economic and the modern functions under Article 5 (1) (a) of the TMD, is of great importance in order to evaluate the gradual switch from the traditional approach that views trade mark merely as an origin indicator to the contemporary approach which recognises the economic and emotional significance of trade marks as a badge of quality assurance and investment. In this thesis, the gradual evolution of the court's views of trade marks and their functions will be used to explain and assess the legitimacy argument in the context of parallel importation within the meaning of Article 7 (2) of the TMD.

It is necessary here to note that the European Commission's recent proposed legislation to amend the TMD in the light of the Max Planck Institute report on the overall Functioning of the European Trade Mark System (Draft TMD) seeks to limit the protection under the double identity clause (laid down in Article 5 (1) (a) of the current TMD) to cases affecting merely the origin function.³² However, this proposal has been met with some antagonistic reactions from a number of commentators.³³ The author hopes that this thesis will contribute to this lively discussion by analysing the rationale of the extension of trade mark protection under Article 5 (1) (a) of the TMD, beyond the origin function, and the impact of this extension on the rights of trade mark owners under Article 7(2) of the TMD. There are ongoing arguments which suggest developing appropriate defences mechanisms instead of limiting the scope of trade mark protection in the double identity rule, laid down in Article 5(1) (a) to the

³² The European Commission commissioned a study to evaluate the current functioning of the European trade marks system to identify any needed improvements and to assess the need for further harmonization. The review was carried out by the Max Planck Institute and was published in 2011. In March 2013, the European Commission formally adopted its proposals to review the European trade marks Regulation and the Directive. The European Parliament and the Council, as co-legislators, are currently reviewing the Commission's proposals. Available at http://ec.europa.eu/internal_market/indprop/tm/index_en.htm visited at 18/10/2014

³³ Kur, A., 'Trade marks function, don't they? CJEU jurisprudence and unfair practices', *International Review of Intellectual Property and Competition Law*, (2014), 45(4), 434-454 at p. 434

origin function.³⁴ Such arguments are of great value and could offer a solution to the wider issues surrounding the infringement criteria under the TMD. However, this thesis merely focuses on analysing the extension of trade mark protection in Article 5 (1) (a) within the context of the European exhaustion defence. Therefore, the arguments suggesting establishing appropriate limitations on trade mark rights through defences will not be covered as a whole in this thesis.

1.3 Research Methodology

The research in this thesis was conducted using theoretical legal analysis, which includes an examination of European cases through information gathered from primary and secondary sources. Primary sources include the official intellectual property and trade mark journals, relevant legislation and leading cases. Secondary sources include the relevant official reports, comments of academic and contemporary discussion in the media. The legal analysis applied in this project serves firstly to illustrate the theoretical framework of the thesis and secondly to substantiate the critical review of legal issues raised and discussed.

It is important to note here that while the main part of legal analyses carried out in the thesis concerned European and English Law, some aspects of the research involved areas that do not necessarily attach to a particular legal system such as the economics of trade mark and the study of trade marks as a source of emotional and social tools in the context of branding and brand images as discussed in the second chapter of this thesis. This project is to some extent concerned with the economic and social analysis that serves to assess the justification of trade mark rights and its impact in a number of contentious areas within trade mark law such as parallel importation.

³⁴ Senftleben M., 'Bringing EU trade mark protection back into shape-lessons from keyword advertising', <http://www.epip.eu/conferences/epip06/papers/Parallel%20Session%20Papers/SENFTLEBEN%20Martin.pdf> visited at 18/10/2014; Dinwoodie, G.B. , 'Lewis & Clark Law School Ninth Distinguished IP Lecture: Developing Defenses in Trademark Law', Lewis and Clark Law Review 13/1 (2009), 99 (152)

It also needs to be noted that a legal historical approach was used in the first chapter of this thesis. This approach was used to assess the current status of the European trade mark law by explaining the historic sources of the law on one hand and the evolution of the trade marks themselves, on the other, from information tools designed to protect consumer from deception after the industrial revolution eroded the personal relationship between the manufactures and consumers to investment tools that help shape the structure of their owners business organisations.

Moreover, one of the main objectives of the research methodology used in this project was to gather opinions, through commentary and case law, on national trade mark systems as well as the European trade mark system and to consider the various arguments put forward during the drafting of the legislation. This is of great importance to the understanding of the law and its interpretation as demonstrated by the recent discussions on the recent attempts by European Commission to reform the current European trade marks system.

1.4 Research Structure

This thesis comprises six chapters including an introduction and conclusion. Individual chapters are organised as follows:

Chapter One is the introduction of this thesis and provides an overview as to the background of the carried research and its aims. The research methods and the research structure are also explained in this chapter.

Chapter Two deals with the definition of trade mark, its origin function and the historical development of trade mark and the law regulating them. In this chapter, the origin function of trade mark is divided into three parts: “pre-industrial period”, “industrial period” and “post-

industrial period.” Within each period, the significant changes in the nature of trade mark as an origin indicator as a result of the developments in the business activities and organisations will be examined.

Chapter Three analyses the economic functions of trade mark. These functions are divided into two main parts in the chapter, namely the quality guarantee function and the communication, investment or advertising functions. Within each part, the emergence of these functions and their development within the national and European case law are examined. The economics of trade marks in the context of the search costs theory and the role of trade mark as a source of emotional and social satisfaction tool are examined in this chapter in order to assess the justifications for the expansion of trade marks protection under Article 5 (1) (a) of the TMD.

Chapter Four examines the protection of trade mark under Article 5 (1) (a) of the TMD from a legal point of view where three criteria are set for establishing infringement under Article 5 (1) (a) of the TMD. Accordingly, this chapter will be divided into three parts, namely the course of trade prerequisite, identical sign requirement and identical products requirement.

Chapter Five analyses the parallel importation within the EEA in order to assess the impact of the expansion of trade mark protection, under Article 5 (1) (a) of the TMD, on the practice of parallel importation. Parallel importation is first explained by exploring the ongoing economic arguments made for and against it because of its incompatibility with trade mark rights. The chapter then explores the European exhaustion doctrine which is divided into two parts, namely the development of the doctrine before the TMD by the CJEU and the evolution of the doctrine after the introduction of the TMD with particular emphasis on the case law after the CJEU recent shift towards recognising the additional/modern functions of trade marks.

Chapter Six concludes the thesis with a summary of the previous chapters and a presentation of the findings of the research conducted. The chapter will assess in particular the expansion of trade mark protection due to the evolution of the trade marks function theory and the impact of this expansion on the practice of parallel importation within the EEA.

Chapter 2 - Origin Function of Trade Mark

2.1 Introduction

Under European trade mark law, when a trade mark has been registered by the authorised institutions, the owner of the registered trade mark is given exclusive property rights on his or her trade mark within the territory of registration in relation to specific kinds of products³⁵. On the basis of the exclusive right which is provided under Article 5(1) (a) of TMD, a trade mark owner can prevent third parties from the use of the mark in the course of trade within the territory of the exclusive rights of the registered trade mark, and bring an infringement action against third parties from using the mark without consent.

Nevertheless, the exercise of this one exclusive right conferred on the owner of a trade mark is limited to situations where functions that the trade mark performs are adversely affected. This means that the owner of a trade mark does not enjoy an absolute monopoly over any use of the trade mark in relation to products of relevant kind. Therefore, identifying the functions performed by trade mark plays a crucial role in drawing the boundaries of the exclusive rights which has been conferred on the owner of the trade mark. In other words, the functions that a trade mark performs need to be examined in detail so as to determine the exact scope of the exclusive trade mark rights which has been given to trade mark owners under the Article 5(1) (a) of TMD. A modern trade mark performs origin function which is to guarantee to consumers the commercial origin of the goods or services, and the economic functions which

³⁵ The term 'product' is used to cover both goods and services unless the context requires otherwise.

were recently identified by the CJEU's case law³⁶ namely to guarantee the quality of the goods or services in question and of the communication, investment or advertising associated with them.

Moreover, a trade mark owner cannot always exercise his exclusive rights to prevent third parties from the use of the mark. The free movements of goods principle that the members of the EEA have adapted in order to integrate their economies into one single market might limit the exercise of the exclusive rights conferred on the trade mark owner. Therefore, Article 7(1) of the TMD regulates that a trade mark shall not entitle the owner to prohibit its use in relation to products which have been already put on the market in the EEA by the owner of that trade mark or with his consent.³⁷

However, the next paragraph of Article 7 provides an exception to this provision. According to 7 (2) of the TMD, paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialisation of the products, especially where the condition of the products is changed or impaired after they have been put on the market. Situations which may afford legitimate reasons to oppose the parallel importation of trade marked products have been discussed in CJEU's case law since the adoption of the Trade Mark Directive. The CJEU have tried to balance the conflict between the free movement of goods principle and the trade mark owners' interest in the protection of the functions of their trade mark when determining whether a situation falls within the provision of Article 7 (2) of TMD.

The aim of this thesis is to examine the consequences of the expansion of the scope of rights provided under Article 5(1) of TMD on the application of European exhaustion principle.

³⁶ *L'Oreal v. Bellure* (C-487/07)[2009] E.T.M.R. 987

³⁷ First Directive 89/104/EEC of the Council, of 21 December 1988, to Approximate the Laws of the member States Relating to Trade marks, article 7(1)

More specifically, we will try to examine the expansion of the scope of rights provided to trade mark owners under Article 5(1) (a) of TMD to protect the economic functions of trade mark through the judgments of the CJEU. Then, we will analyse the impact of this expansion on the European exhaustion regime, in particular on the situations which may afford legitimate reasons for trade mark owner to oppose the use of trade mark without their consent.

Hence, the scope of the exclusive trade mark rights given to trade mark owners under Article 5 (1) (a) of the TMD will be examined in detail under the third chapter of this thesis prior to revisiting conflict of these rights with the European exhaustion regime under the fourth chapter of this thesis. In order to understand the scope of the exclusive rights provided for the protection of trade mark, we will explore the functions of a trade mark in the first two chapters of this thesis. As mentioned above, a modern trade mark performs origin function which is to guarantee to consumers the commercial origin of the goods or services, and the economic functions which were recently identified by the CJEU's case law³⁸ namely to guarantee the quality of the goods or services in question and of the communication, investment or advertising associated with them.

The origin function of a trade mark differs from the other functions inasmuch as it involves a legal guarantee, whereas the other functions refer to various economic applications of that legal guarantee. Therefore, functions that a trade mark performs can be divided into two main categories: so-called "origin function" of a trade mark and "economic functions" of a trade mark. In the second chapter of this thesis, we will explain the origin function of trade mark which also plays important role in the understanding of the economic functions which are derived from origin function. In the third chapter of this thesis, we will examine the quality or guarantee function and communication, investment or advertising functions of a trade mark.

³⁸ *L'Oreal v. Bellure* (C-487/07)[2009] E.T.M.R. 987

It is important to note that the functions that a trade mark performs have been developed since the trade mark use first appeared in the society. In order to understand the functions that today's trade mark perform, the functional evolution that trade mark has undergone needs to be analysed. Having said this, the historical development of trade mark started to occur in its origin function. As will be explained in detail below, economic functions of trade mark were lately derived from its origin function. Therefore, origin function of a trade mark will be explained with its historical development in the second chapter of this thesis.

2.2 Definition of Trade Mark

Prior to examining origin function of a trade mark in detail, we will briefly explain what is meant by trade mark and the functions of trade mark. Society has used symbols as shorthand representations of objects, beliefs and thoughts for ages. Trade mark is one of these symbols used in trade which may be composed of words or other signs. A trade mark may be described as a “traditional form of expression” and “valuable conveyors of information” that enable people to convey a message to their customers about the origin of product that they own or want to trade in or other kind of messages.³⁹

Trade mark is a merchant symbol used on products to express message to consumers. Despite the fact that people could sell their products without affixing a symbol, a need for people to individualise their own products in the marketplace appeared. The increase of trade mark use on products led to attempts to deceive consumers by affixing reputable marks on common products without the mark owner's permission. In order to prevent these attempts, the mark owners applied the law for the protection of their trade mark use. Nevertheless, the recognition of trade mark law as a separate field came with the significant changes of business activities and developments of business organisations. Since then, the scope of trade

³⁹ Maniatis, S.M., Sandres, A.K., ‘A consumer trade mark: protection based on origin and quality’, *European Intellectual Property Review*, (1993), 15(11), 406

mark rights has been developed because of the functional changes and improvements of trade marks.⁴⁰

Trade marks historically had a single and simple function, that is to identify the maker or seller of the products to which they were attached.⁴¹ As will be detailed below, this function of trade mark has evolved from identifying the physical source of the products to identifying the commercial source of them. It is important to note that, the identity that a trade mark indicates also has the capacity to acquire a reputation with consumers because of the material quality features of the products bearing the mark.⁴² In other words, consumers might come to perceive trade mark as guaranteeing a certain quality in products to which it was attached.⁴³ Positive reputation of this kind was a base for establishing the economic functions of a trade mark.⁴⁴

With the growth in organized trade and the increasing use of trade marks by producers to identify their products and guarantee their genuineness the need for legal systems to help to protect the use of trade marks by the traders appeared.⁴⁵ In other words, the legal systems have developed exclusive rights on trade mark used by traders which enable the trade mark to perform its functions. Prior to analysing functions that a trade mark performs under the second and third chapters of this thesis and the scope of the granted exclusive rights which enable a trade mark to perform its functions under the fourth chapter, we will give the legal definition of a trade mark.

⁴⁰ Bently L. and Sherman B., *Intellectual Property Law*, Oxford University Press, (2009), 3rd edition, Oxford at 805

⁴¹ Drescher, D.T., 'The transformation and evolution of trademarks—from signals to symbols to myth', *The Trademark Reporter*, (1992), 82, 308

⁴² Griffiths A., 'The trade mark monopoly: an analysis of the core zone of absolute protection under Art.5(1)(a)', *Intellectual Property Quarterly*, (2007), 3, 315

⁴³ *Ibid.*

⁴⁴ *Ibid.*

⁴⁵ Blackett, T., *Trademarks*, Macmillan Press, (1998), 1st edition, 6

Article 2 of the TMD⁴⁶ defines a trade mark as “...any sign capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of goods or of their packaging, provided that such signs are capable of distinguishing the goods or services of one undertaking from those of other undertakings.”⁴⁷ Section 1(1) of the TM Act 1994, which reflects Article 2 of the TMD, describes it as “any sign capable of being represented graphically which is capable of distinguishing goods or services of one undertaking from those of other undertakings.” In Article 15.1 of the TRIPS Agreement⁴⁸ 1994, it is defined as being “any sign, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings, shall be capable of constituting a trademark.”

Although the definition of trade mark is given, the functions that a trade mark performs are not identified in the legislation. Instead, the functions that a trade mark performs are detailed in case law. Therefore, we will try to examine the functions of trade mark in the light of the case law, in particular the Court of Justice European Union’s (CJEU) case law. We divided in this thesis the functions of a trade mark into two: origin function and economic functions. In this chapter, we will explain the origin function that a trade mark performs within its historical development.

2.3 Origin Function of Trade Mark

The CJEU has defined the essential function of trade mark and repeated the same definition by using almost identical words in many cases. According to that definition, a trademark must enable its consumers or end users to recognise products for which it has been registered

⁴⁶ First Directive 89/104/EEC(European Economic Community) of the Council, of 21 December 1988, to Approximate the Laws of the Member states Relating to Trade Marks

⁴⁷ available at <<http://oami.europa.eu/en/mark/aspects/default.htm>>

⁴⁸ Agreement on Trade-Related Aspects of Intellectual Property Rights

among other products coming from a different source without any risk of confusion.⁴⁹ In other words, the use of a trade mark on a product enables the individualisation of the product by creating a link between the product and “the sign” used as trade mark.⁵⁰

Here, it is important to explain briefly the role of the “sign” as the origin function of a trade mark. Trade mark law provides traders an opportunity to establish an exclusive link with a sign.⁵¹ A trader can choose a sign and apply to the authorities for the registration of this sign as a trade mark. However, when the consumers see the sign, they should be capable of clearly identifying the owner of the trade mark as the commercial source of the products offered under the mark.⁵² In order for a sign to be registered as a trade mark, the sign must have a distinctive character. This is because; consumers can distinguish products of one undertaking from those of others without any confusion only if the sign affixed on goods as a trade mark is capable of identifying products of one undertaking from those of others.

This distinctive character requirement corresponds to the origin function of a trade mark.⁵³ In relation to this point, the CJEU has commented that “signs or indications that are not capable of fulfilling the essential function of a trade mark cannot enjoy the protection conferred by registration.”⁵⁴ The necessity of distinctiveness has been also pointed out by the CJEU in the earlier cases. In *Hag II*, it has been stated that “an undertaking must be in a position to keep its customers by virtue of the quality of its products and service, something which is possible only if there a *distinctive marks* which enable customers to identify those products and

⁴⁹ *Hoffmann La Roche v Centrafarm* (C-102/77) [1978] E.C.R. 1139 at [10]

⁵⁰ Maniatis, S.M., Sandres, A.K., ‘A consumer trade mark: protection based on origin and quality’, *European Intellectual Property Review*, (1993), 15(11), 406

⁵¹ Senftleben, M., ‘The trademark Tower of Babel-dilution concepts in international, US and EC trademark law’, *International Review of Intellectual Property and Competition Law*, (2009), 40(1), 45

⁵² *Ibid.*

⁵³ *Ibid.*

⁵⁴ *Merz & Krell GmbH* (C-517/99) [2002] E.T.M.R. 21 at [236]

services [Emphasis added].⁵⁵ Similarly, Lord Nicholls states in *Scandecor v Scandecor* as follows:

“A trade mark is a badge of origin or source. The function of a trade mark is to distinguish goods having one business source from goods having a different business source. *It must be ‘distinctive’*. That is to say, it must be recognisable by a buyer of goods to which it has been affixed as indicating that they are of the same origin as other goods which bear the mark...”(Emphasis added) ⁵⁶

As briefly explained above, in order for a sign to be registered as a trade mark, the sign must have a distinctive character. In other words, distinctiveness is a legal requirement for a sign to be used as a trade mark to perform its origin function in modern trade mark law. However, distinctive signs have been used as trade mark for centuries in order to distinguish the products of a particular producer or trader from those of others. In other words, the history of origin function of a trade mark starts with the history of trade marks.

Thus, we will examine the history of the trade mark so as to understand origin function of a trade mark. Here, the historical development of the trade marks is examined under the three main periods: “pre-industrial period”, “industrial period” and “post-industrial period”. The reason to examine origin function of a trade mark in three different periods is to clarify the significant changes in the concept of origin owing to the developments in the business activities and organisations. Industrialisation was on threshold of the changes in the general concept of origin and therefore origin function of a trade mark. Hence, industrialisation is used as key point to divide the functional changes of trade mark as an indicator of origin.

⁵⁵ *SA CNL-Sucal NV v Hag GF AG* (C-10/89) [1990] 3 .C.M.L.R. 571 at [13]

⁵⁶ *Scandecor v Scandecor* [2001] E.T.M.R. 74 at [16]

2.3.1 Pre-Industrial Period

2.3.1.1 Ancient Times

Though trade mark law took shape as a separate and recognized area of law over the second half of the 19th century, the use of a mark on products by makers or traders started as early as ancient times.⁵⁷ Mankind has used marks on goods which have been made or sold since the earliest history of which we have any knowledge.⁵⁸ The first kind of marking known was probably the branding of cattle and other animals.⁵⁹ On the wall paintings of ancient Egypt it is possible to see cattle being branded by Egyptian field workers.⁶⁰

However, any use of a mark on products cannot necessarily be counted as a trade mark. In order to decide whether a mark used on products is a trade mark or not, the use to which it is put is considered. In other words, when products are sold under a mark which intends to indicate by whom the products are made or sold, the mark becomes a trade mark.⁶¹ A mark which merely indicates possession of an article is not enough to be deemed as a trade mark. Producers or traders used a trade mark in order to inform their customers or end users as to the exact source of the products.

The majority of the known oldest marks are borne by pottery, the remains of which can be found commonly in the Mediterranean region, in particular around ancient civilisations such as Etruria, Greece and Rome.⁶² However, possibly the oldest ones are borne by pottery jars

⁵⁷ Sherman, B. and Bently, L., *The Making of Modern Intellectual Property Law: The British Experience, 1760-1911*, Cambridge University Press, (1999), 1st edition, Cambridge, 166; Diamond, S.A., 'The historical development of trademarks', *The Trademark Reporter*, (1975), 65, 265

⁵⁸ Rogers, S.E., *Goodwill, Trade-Marks and Unfair Trading*, A.W. Shaw Company, (1914), Chicago

⁵⁹ Diamond, S.A., 'The historical development of trademarks', *The Trademark Reporter*, (1975), 65, 266

⁶⁰ *Ibid.*, 267

⁶¹ Trade Marks Registry; Moorby, R. L.; Ward Dyer, F. J.; Myall, D. G. A., *A Century of Trade Marks: a commentary on the work and history of the Trade Mark Registry, which celebrates its centenary in 1976*, H.M.S.O., (1976), London, 1

⁶² Clifton, R., *Brands and Branding*, The Economist in association with profile books, (2009), 2nd edition, London, 14; Trade Marks Registry; Moorby, R. L.; Ward Dyer, F. J.; Myall, D. G. A., *A Century of Trade*

found in Transylvania and likely to have been made as long as seven thousand years ago.⁶³ *Prima facie*, these seven thousand years old marks are unlikely to be equivalent to true trade marks, used to indicate source. Nevertheless, it has been argued that "...the way in which the marks were formed, by combinations of straight lines, remained for many thousands of years (certainly well into the 16th century) characteristic of many marks which were undoubtedly true trade marks."⁶⁴

In Ancient Rome, it was certain that some of the marks on Roman pottery were true trade marks because many known Roman potters' marks can be attributed with assurance to certain identifiable ateliers.⁶⁵ Thousands of different Roman potters' marks have been identified as in use during the period of approximately three centuries between 35 B.C. and 265 A.D.⁶⁶ Principles of Roman Commercial Law developed the acknowledgement of the origin and the title of potters' marks.⁶⁷ A purchaser of products bearing an imitated mark could bring a civil action against the true proprietor of an imitated mark.⁶⁸ However, it appears that the highly-developed law system of Romans did not prevent makers of lower quality potteries from imitating the marks used by well-known pottery makers in order to deceive consumers.⁶⁹ It is important to note that it is possible to see some of these imitation Roman potteries bearing

Marks: a commentary on the work and history of the Trade Mark Registry, which celebrates its centenary in 1976, H.M.S.O., (1976), London, 1

⁶³ Trade Marks Registry; Moorby, R. L.; Ward Dyer, F. J.; Myall, D. G. A., *A Century of Trade Marks: a commentary on the work and history of the Trade Mark Registry, which celebrates its centenary in 1976*, H.M.S.O., (1976), London, 1

⁶⁴ *Ibid.*, 1

⁶⁵ Clifton, R., *Brands and Branding*, The Economist in association with profile books, (2009), 2nd edition, London, 14

⁶⁶ Diamond, S.A., 'The historical development of trademarks', *The Trademark Reporter*, (1975), 65, 271

⁶⁷ Blackett, T., *Trademarks*, Macmillan Press, (1998), 1st edition, 5; Clifton, R., *Brands and Branding*, The Economist in association with profile books, (2009), 2nd edition, London, 14

⁶⁸ Trade Marks Registry; Moorby, R. L.; Ward Dyer, F. J.; Myall, D. G. A., *A Century of Trade Marks: a commentary on the work and history of the Trade Mark Registry, which celebrates its centenary in 1976*, H.M.S.O., (1976), London, 1

⁶⁹ Blackett, T., *Trademarks*, Macmillan Press, (1998), 1st edition, 1; Clifton, R., *Brands and Branding*, The Economist in association with profile books, (2009), 2nd edition, London, 14

fake Roman marks which were made in Belgium in the early part of the 1st century and exported to Britain in the British Museum.⁷⁰

Beside the pottery marks, oil lamps, knives, swords and other iron items bearing the names of their makers which belong to Ancient Rome have been found by archaeologists.⁷¹ One of them was a Roman oil lamp mark, Fortis, which appears to have been very successful because specimens bearing that mark come not only from Italy but from almost all of Europe, including France, Germany, Holland, England and Spain.⁷² Similarly, some pharmaceutical products bearing the name of their creator were circulated in Ancient Rome.⁷³ One of them, ointment for the treatment of the eyes bearing the name of the Roman doctor on its container, was evidently an important export item.⁷⁴ Some food products such as wine or cheese for export were also marked to indicate the geographic origin of these goods.⁷⁵ For instance, the famous Etruscan Luna cheese was marked with a picture of the city; one Roman epigram speaks of “a cheese from Luna. This cheese marked with the likeness of the Etruscan Luna will serve your slaves a thousand times for breakfast.”⁷⁶

Roman traders used these marks on their products as a response to the expansion of trade.⁷⁷ Trading over great distances substituted for the method of doing business directly with an artisan in his shop.⁷⁸ This change led to the need for source identification because of demands of customers from distant markets for repeat orders although traders were individuals rather

⁷⁰ Trade Marks Registry; Moorby, R. L.; Ward Dyer, F. J.; Myall, D. G. A., *A Century of Trade Marks: a commentary on the work and history of the Trade Mark Registry, which celebrates its centenary in 1976*, H.M.S.O., (1976), London, 1

⁷¹ Drescher, D.T., ‘The transformation and evolution of trademarks—from signals to symbols to myth’, *The Trademark Reporter*, (1992), 82, 310

⁷² Diamond, S.A., ‘The historical development of trademarks’, *The Trademark Reporter*, (1975), 65, 271

⁷³ Drescher, D.T., ‘The transformation and evolution of trademarks—from signals to symbols to myth’, *The Trademark Reporter*, (1992), 82, 310

⁷⁴ Diamond, S.A., ‘The historical development of trademarks’, *The Trademark Reporter*, (1975), 65, 272

⁷⁵ Drescher, D.T., ‘The transformation and evolution of trademarks—from signals to symbols to myth’, *The Trademark Reporter*, (1992), 82, 310

⁷⁶ Rogers, S.E., *Goodwill, Trade-Marks and Unfair Trading*, A.W. Shaw Company, (1914), Chicago

⁷⁷ Diamond, S.A., ‘The historical development of trademarks’, *The Trademark Reporter*, (1975), 65, 272

⁷⁸ *Ibid.*, p.270

than enterprises.⁷⁹ They wanted to inform their consumers in distant markets as to the exact origin by attaching their unique marks to their products. By doing so, they represented their address to their consumers who might wish to place repeat orders.⁸⁰ In relation to trade mark use by Romans, Kohler says:

“All of this shows us a side of Roman commercial relations, although resting on different principles, [which] were not, in their results, as different from our own as has been generally supposed; the Roman world in the time of the empire was moved by the same general impulses of trade as today. These manufacturers’ marks are not unique; they are connected with the same system of marking that is known in modern trade”.⁸¹

Drescher also comments on Roman trade marks as follows:

“ The application of ... marks ... to goods traded over great distances represents trademark use in the modern sense; that is, these marks became symbols of good will identified with a single source” .⁸²

Hence, Diamond comes to the conclusion that roman trade marks performed the same basic functions as modern trade marks.⁸³

In my opinion, there are some similarities between the trade mark of ancient times and modern trade mark. First, traders or producers of ancient times used trade mark to convey information as to the origin of products which is similar to origin function of modern trade mark. The difference is that origin function of ancient marks identifies the maker, the physical origin of products while modern trade mark is used to indicate the commercial origin

⁷⁹ *Ibid.*, p.270

⁸⁰ *Ibid.*, p.270; Drescher, D.T., ‘The transformation and evolution of trademarks—from signals to symbols to myth’, *The Trademark Reporter*, (1992), 82, 310

⁸¹ “Joseph Kohler, with his wide range of scholarship, utilized a great deal of the then available archaeological material in his reconstruction of the early history of trademarks and trademark law.” *DAS RECHT DES MARKENSCHUTZES*(1884) cited from Schechter, F.I., *The Historical Foundations of the Law Relating to Trade-Marks*, Columbia University Press, (1925), 1st edition, New York; Rogers, S.E., *Goodwill, Trade-Marks and Unfair Trading*, A.W. Shaw Company, (1914), Chicago

⁸² Drescher, D.T., ‘The transformation and evolution of trademarks—from signals to symbols to myth’, *The Trademark Reporter*, (1992), 82, 301, 310

⁸³ Diamond, S.A., ‘ The historical development of trademarks’, *The Trademark Reporter*, (1975), 65, 270

of products, which we will examine in detail below. Moreover, the marks used by traders or producers of ancient times on their products were also conveying a message to buyers or end users as to the material quality features of those products. In that sense, the trade mark of ancient times was used by traders or producers to build up reputation about their productions or trades. This economic aspect of the ancient marks has a similarity with the economic aspect of modern trade marks which we will analyse below.

2.3.1.2 Medieval Times

With the fall of the Roman Empire, the elaborate and highly sophisticated system of trade gradually collapsed.⁸⁴ Western Europe entered the Dark Ages in about 500 A.D.⁸⁵ During this period, the use of trade marks almost disappeared.⁸⁶ However, with the renaissance of trade in twelfth century and with the rise of town and urban units which had won a degree of autonomy to some extent from feudal authorities medieval industry regulated by guilds, organisations of merchants or craftsmen, appeared.⁸⁷ During the mediaeval period, roughly between the fourteenth and sixteenth centuries, the use of marks increased again as an outcome of developments in trade.⁸⁸

Different kinds of marks were used in medieval times. It is possible to divide medieval marks into a number of categories such as personal marks, house marks, proprietary marks, and production marks. Personal marks, including coats of arms and signets or seals, were used to

⁸⁴ Clifton, R., *Brands and Branding*, The Economist in association with profile books, (2009), 2nd edition, London, 14

⁸⁵ Diamond, S.A., 'The historical development of trademarks', *The Trademark Reporter*, (1975), 65, 272

⁸⁶ *Ibid.*, p.272

⁸⁷ Drescher, D.T., 'The transformation and evolution of trademarks—from signals to symbols to myth', *The Trademark Reporter*, (1992), 82, 311

⁸⁸ Diamond, S.A., 'The historical development of trademarks', *The Trademark Reporter*, (1975), 65, 272

identify individuals.⁸⁹ House marks, affixed to a house, were a kind of personal mark to identify the family who lived there.⁹⁰ Proprietary marks were used to indicate the ownership of goods, either for the benefit of clerks who could not read or in order that, in case of shipwreck or piracy, goods might be identified and reclaimed by their owner.⁹¹ Finally, production marks were used to indicate the origin of goods in order to trace the origin of sub-standard goods.⁹² In relation to the differentiation of medieval marks, Girling states:

“One theory is that in early times some kind of mark was fixed on the ridge pole of a house as a magical protection. By degrees this house-mark came to be regarded as the personal mark of the owner of the house. Later, it was used as an ownership mark on his goods and chattels. If he engaged in trade it was natural that he should use the mark to identify his goods. It was, in fact the forerunner of the modern trade-mark”.⁹³

Having said this, Schechter divided medieval marks into two main categories: “merchants’ personal or proprietary marks” and “production marks”.⁹⁴ Though both of these marks were used on products by merchants, there was a significant difference between them. Production mark was designated as an identifier of exact origin of products to which it was attached while proprietary mark was used to indicate merely the ownership of products and had nothing to do with the source of them.⁹⁵ The other difference between proprietary mark and production mark is that proprietary mark was optionally but usually attached to the products by their owners while production marks was compulsorily attached to products by law.⁹⁶ It is also important to note that merchants might use the same sign for both marks though these

⁸⁹ *Ibid.*, 272

⁹⁰ *Ibid.*, 272

⁹¹ Schechter, F.I., ‘The rational basis of trademark protection’, *Harvard Law Review*, (1926-1927), 40, 833

⁹² Trade Marks Registry; Moorby, R. L.; Ward Dyer, F. J.; Myall, D. G. A., *A Century of Trade Marks: a commentary on the work and history of the Trade Mark Registry, which celebrates its centenary in 1976*, H.M.S.O., (1976), London, 2

⁹³ Girling, F.A., *English Merchants’ Marks*, Oxford University Press, (1964), London, 9

⁹⁴ Schechter, F.I., ‘The rational basis of trademark protection’, *Harvard Law Review*, (1926-1927), 40, 814

⁹⁵ *Ibid.*, 814

⁹⁶ *Ibid.*, 814

two marks are different from each other. Regarding to this, Schechter states that “...the same mark might and did often serve the dual function of personal or property mark and production mark.”⁹⁷

It has already been noted that medieval industry regulated by guilds, organisations of merchants or craftsmen appeared after the twelfth century. These guilds and organizations were firmly controlled by groups of artisans.⁹⁸ The members of these guilds and organizations were required to use a production mark.⁹⁹ So, the medieval production marks were compulsory regulatory marks for the member of guilds which aimed to convey clear and unequivocal message to officers of the guild about the identity of makers of goods to which marks were attached.¹⁰⁰ This system helped to find the individual master responsible when defective products came from one of those sources. In 1266, England enacted the first bakers’ compulsory marking law.¹⁰¹ Regarding to bakers’ compulsory mark, a passage from a book of instructions for coroners and sheriffs, based on ordinances going back to the fourteenth century, states:

“[A] Baker must set his owne proper marke upon every loafe of bread that hee maketh and selleth, to the end that if any bread be faultie in weight, it may bee then knowne in whom the fault is”.¹⁰²

Medieval production marks were the indicators of source, like modern trade marks. However, medieval production marks differs from modern trade marks in certain points. The fundamental difference between these production marks and modern trade marks, as mentioned above, is that production marks are kind of “police marks” derived from the

⁹⁷ Schechter, F.I., *The Historical Foundations of the Law Relating to Trade-Marks*, Columbia University Press, (1925), 1st edition, New York

⁹⁸ Diamond, S.A., ‘The historical development of trademarks’, *The Trademark Reporter*, (1975), 65, 277

⁹⁹ *Ibid.*, 277

¹⁰⁰ Drescher, D.T., ‘The transformation and evolution of trademarks—from signals to symbols to myth’, *The Trademark Reporter*, (1992), 82, 319

¹⁰¹ Diamond, S.A., ‘The historical development of trademarks’, *The Trademark Reporter*, (1975), 65, 277

¹⁰² *Ibid.*, 277

craftsman's liability.¹⁰³ Though they indicated the source of products, thereby enabling consumers to distinguish marked products from the same kind of products made by other craftsmen, the reason why production marks were used on goods was to fulfil an obligation rather than to try to use it to convey message as to the origin of products or the material quality features of products in order to gain the loyalty of consumers.¹⁰⁴ Regarding to this, Drescher says that: "...the medieval ... mark was a "liability mark "which only later evolved into as "asset mark" as a valuable symbol of individual good will."¹⁰⁵

Having said this, medieval mark owners' individual liability for defective work warranted that products to which their production mark attached were of a quality consistent with the standards of guilds.¹⁰⁶ In other words, craftsman's production mark served as a warranty of quality to be expected from a particular source.¹⁰⁷ In this sense, the individual liability of craftsmen for the quality standards of their products corresponds to some extent to the commercial responsibility of modern trade mark owners as to the quality of marked products.

Another difference between medieval marks and modern trade marks is pointed out by Drescher, using the example of a medieval mark owner, John Odinsay, who was a master blade smith at the guildhall of London blade smiths.¹⁰⁸ Drescher says that "no matter what type of knife, axe, lance head or other work John Odinsay might produce, that work would bear his raven mark. John Odinsay's mark, then, did not identify the product; it identified him."¹⁰⁹ Medieval production marks used to be equal to the identity of the maker of the

¹⁰³ Drescher, D.T., 'The transformation and evolution of trademarks—from signals to symbols to myth', *The Trademark Reporter*, (1992), 82, 319

¹⁰⁴ *Ibid.*, 320

¹⁰⁵ *Ibid.*, 319

¹⁰⁶ *Ibid.*, 320

¹⁰⁷ *Ibid.*, 320

¹⁰⁸ *Ibid.*, 320

¹⁰⁹ *Ibid.*, 320

products.¹¹⁰ In other words, although medieval production marks were the indicators of source like modern trade marks, they identify the maker, the physical origin of products while modern trade mark indicates the commercial origin of products bearing it. Moreover, medieval production marks did not provide their consumers any quality assurance as to the likely product quality as the mark was not used by the craftsman to individualise a product who produce at a certain quality.

2.3.2 Industrial Period

The industrial revolution, which commenced in Britain in the eighteenth century, was a real milestone in the history of trademarks.¹¹¹ In this period, modern production methods substituted for the handwork of older times.¹¹² This led to the increase of production capacity and of production units in size. Along with the development of manufacturing, distribution extended to more distant markets.¹¹³ In fact, the need for the extension of distribution occurred as a result of increase of production.¹¹⁴ All those changes have given rise to the mass marketing of manufactured goods.¹¹⁵

With the industrial revolution, especially in the late the nineteenth and early twentieth century, the increased use of trade marks appeared.¹¹⁶ Some of today's well known trade marks such

¹¹⁰ Maniatis, S.M., Sandres, A.K., 'A consumer trade mark: protection based on origin and quality', *European Intellectual Property Review*, (1993), 15(11), 407

¹¹¹ Blakeney, M., 'Trade marks and the promotion of trade', *International Trade Law & Regulation*, (1999), 5(6), 140

¹¹² Diamond, S.A., 'The historical development of trademarks', *The Trademark Reporter*, (1975), 65, 289

¹¹³ *Ibid.*, 289

¹¹⁴ *Ibid.*, 281

¹¹⁵ Clifton, R., *Brands and Branding*, The Economist in association with profile books, (2009), 2nd edition, London, 14

¹¹⁶ *Ibid.*, 15 ; Diamond, S.A., 'The historical development of trademarks', *The Trademark Reporter*, (1975), 65, 265, p.282

as Coca-Cola soft drinks, Quaker oats and Shredded Wheat breakfast cereal emerged in this period.¹¹⁷ Wilkins explained the explosion of trade mark use in the United States as follows:

“All the US companies in the late nineteenth and early twentieth century that became multinational enterprises- based on their sales abroad- offered trademarked goods. So, too, all the successful European multinationals that invested in the United States in this same period sold trademarked products”.¹¹⁸

2.3.2.1 Emerge of Modern Trade Mark Law

The increased use of trade marks in this period caused malicious attempts. Unauthorised use of popular marks on similar products in order to deceive consumers led owner of trade marks to seek protection against the unauthorised uses. “The origin and the nature of the legal right” for the protection of the use of a trade mark was emerged from the species of remedy given for its violation.¹¹⁹ The hundreds of cases involving trade marks were brought and decided under the head of fraud, deceit, misrepresentation, forgery and so on, all of which were grounds of action either in equity or at common law.¹²⁰ The first reference to trade mark protection in the English courts was thought to be in the case of *Southern v. How* which was decided in the reign of Queen Elizabeth I.¹²¹ Protection of the use of the trade mark was

¹¹⁷ Clifton, R., *Brands and Branding*, The Economist in association with profile books, (2009), 2nd edition, London, 15

¹¹⁸ Wilkins, M., ‘The neglected intangible asset: the influence of the trade mark on the rise of the modern corporation’, *Business History*, 34, 68

¹¹⁹ Lloyd, E., *The Law of Trade marks with Some of Account of Its History and Development in The Decisions of The Courts of Law and Equity*, (1865), 2nd edition, London available at www.westlaw.com

¹²⁰ Trade Marks Registry; Moorby, R. L.; Ward Dyer, F. J.; Myall, D. G. A., *A Century of Trade Marks: a commentary on the work and history of the Trade Mark Registry, which celebrates its centenary in 1976*, H.M.S.O., (1976), London, 4

¹²¹ Lloyd, E., *The Law of Trade marks with Some of Account of Its History and Development in The Decisions of The Courts of Law and Equity*, (1865), 2nd edition, London; Rogers, S.E., *Goodwill, Trade-Marks and Unfair Trading*, A.W. Shaw Company, (1914), Chicago; Schechter, F.I., *The Historical Foundations of the Law Relating to Trade-Marks*, Columbia University Press, (1925), 1st edition, New York

undertaken by the court on the basis of preventing fraud. *Southern v. How* was first reported in *Popham's Reports* in 1656,¹²² which stated that:

“22 Eliz. an action upon the case was brought in the Common Pleas by a clothier, that whereas he had gained great reputation for his making of his cloth, by reason whereof he had great utterance to his benefit and profit, and that he used to set his mark to his cloth, whereby it should be known to his cloth, and another clothier perceiving it, used the same mark to his ill-made cloth on purpose to deceive him and it was resolved that the action did well lie”.¹²³

However, *Southern v How* was disregarded as the earliest basis for trade mark law in English legal history with the discovery of *Sandforth's Case* which provide the historical bridge linking guild regulation of trade marks to the development of trade mark jurisprudence by the common law courts as early as mid-sixteenth century.¹²⁴

Although there was protection in the use of a trade mark in those cases, it had no relation to trademark law. This is because “there was no property recognized by the law in any trademark or trade name; but there was a sort of qualified right therein recognized by the law.”¹²⁵ Regarding the protection of trade marks, Sebastian, who was an English authority on trade marks at the beginning of the 20th century, said that

¹²² It is important to note that there are four later reports of *Southern v. How*. Those are; *J. Bridgeman's Reports* (1659), *Croke's Reports* (1659), *volume 2 of Rolle's Reports* which contains two conflicting accounts of *Southern v. How*. “... (1) Three of the five reports contain no reference whatsoever to the clothier's case in Elizabeth.(2) Of these three reports only one(*Popham*) definitely states the action to have been by the clothier whose mark had been infringed. Of the two others, one (*Croke*) is equally definite that the action was defrauded purchaser, and other (2 *Rolle* 26), while not perhaps so positive in this regard, likewise believes that the action was by the vendee. (3)*Popham* reports Dodderidge to have remembered that the clothier's action occurred in 22 Elizabeth,2 *Rolle* says 23 Elizabeth, while *Croke's Report* states 33 Elizabeth. (4) Only two of the five reports (*Popham* and 2 *Rolle* 5) agree that *Southern v. How* was decided in 15 Jac. I, the other three reports giving other and different dates for the decision.”; Schechter, F.I., *The Historical Foundations of the Law Relating to Trade-Marks*, Columbia University Press, (1925),1st edition, New York

¹²³ Lloyd, E., *The Law of Trade marks with Some of Account of Its History and Development in The Decisions of The Courts of Law and Equity*, (1865), 2nd edition, London

¹²⁴ *Sandforth's Case*, Cory's Entries, BL MS. Hargrave 123, fo. 168 (1584); Stolte, K. M., 'How Early Did Anglo-American Trademark Law Begin? An Answer to Schechter's Conundrum', *Fordham Intellectual Property, Media and Entertainment Law Journal* , (1997), 8(2), 505-547, p. 544

¹²⁵ Stephen, H.J., *Mr. Serjeant Stephen's New Commentaries on the Laws of England*, Butterworth & Co., (1914), 16th edition, London

“it is possible that this right was recognized as early as the reign of Queen Elizabeth [1] ; it was rate established in 1833, when a decision was given which indicates a marked departure from the rules governing the ordinary action for deceit”.¹²⁶

The decision Sebastian applied for his argument was given in the case of *Blufeld v. Payne*, in which it was decided that “the act of the defendant was a fraud against the plaintiff and if it occasioned him no specified damage, it was still to a certain extent an invasion of his right.”¹²⁷ Nevertheless, the English Courts relied upon the authority of *Southern v How* to establish “the antiquity of their jurisdiction” to prevent the unauthorized use of trade marks until the beginning of the 20th century.¹²⁸

Increasing recognition and use of trade marks in commercial practice led to the introduction of registration system for trade marks and the crystallisation of trade mark law.¹²⁹ Side by side with the early industrial period trade marks, Trade Marks Registration (TMR) Act by which first English trade mark register was introduced came into force in 1875.¹³⁰ An exclusive right to a trade mark which is capable of being acquired by registration was first given by the TMR Act in 1875.¹³¹ Despite the fact that protection of trade mark use in England started under the head of fraud, deceit, misrepresentation and so on as early as the 16th or 17th century, the formation of modern trade mark law begins with the TMR Act in

¹²⁶ Sebastian, L.B., *The Law of Trade Mark Registration*, Stevens and Sons Limited, (1922), 2nd edition, London

¹²⁷ Sebastian, L.B., *The Law of Trade Mark Registration*, Stevens and Sons Limited, (1922), 2nd edition, London

¹²⁸ *Blanchard v. Hill* (1742), *Crawshay v. Thompson* (1842), *Burgess v. Burgess* (1853), *Hall v. Barrows* (1863), *Hirst v. Denham* (1872), *Magnolia Metal Company v. Tandem Smelting Syndicate Ltd.* (1900); Schechter, F.I., *The Historical Foundations of the Law Relating to Trade-Marks*, Columbia University Press, (1925), 1st edition, New York

¹²⁹ Sherman, B. and Bently, L., *The Making of Modern Intellectual Property Law: The British Experience, 1760-1911*, Cambridge University Press, (1999), 1st edition, Cambridge, 167

¹³⁰ Clifton, R., *Brands and Branding*, The Economist in association with profile books, (2009), 2nd edition, London, 15

¹³¹ Stephen, H.J., *Mr. Serjeant Stephen's New Commentaries on the Laws of England*, Butterworth & Co., (1914), 16th edition, London

1875. Sir Duncan Kerly stated with regard to the beginning years of trade mark law: “The law on this subject cannot be traced back further than the nineteenth century.”¹³²

TM Act 1905 and TM Act 1919 followed the TMR Act 1875, subsequently. Those acts were also followed by the TM Act 1938 to satisfy the commercial needs of the early twentieth century.¹³³

2.3.2.2 The Evolution of Origin Theory: from physical origin to commercial origin

As mentioned above, in pre-industrial period trade marks used to identify the makers of the products.¹³⁴ However, the industrial revolution led to crucial changes in the structure of organizations and business activities.¹³⁵ The companies were characterized by a separation of producer and consumer through a distribution chain.¹³⁶ In other words, the emergence of the mass distribution system caused the loss of the traditional direct relationships between the maker of products and the consumer of products.¹³⁷ Schechter explained the effect of this change on trade mark use after industrial revolution as follows:

“A trademark may be affixed to goods by a manufacturer thousands of miles away from the consumer, or by an importer or jobber who has not manufactured but merely selected the goods and put them on the local market, or by a commission merchant who

¹³² cited from the 5th edition of *Kerly's Treatise on the Law of Trade-marks* by Schechter, F.I., *The Historical Foundations of the Law Relating to Trade-Marks*, Columbia University Press, (1925), 1st edition, New York

¹³³ Rosler H., ‘The rationale for European trade mark protection’, *European Intellectual Property Review*, (2007), 29(3), 101

¹³⁴ Maniatis, S.M., Sandres, A.K., ‘A consumer trade mark: protection based on origin and quality’, *European Intellectual Property Review*, (1993), 15(11), 407

¹³⁵ Griffiths, A., ‘Modernising trade mark law and promoting economic efficiency: an evolution of the Baby Dry judgement and its aftermath’ (2003), 1, 5

¹³⁶ Wilkins, M., ‘The neglected intangible asset: the influence of the trade mark on the rise of the modern corporation’, *Business History*, 34, 68

¹³⁷ Blakeney, M., ‘Trade marks and the promotion of trade’, *International Trade Law & Regulation*, (1999), 5(6), 140-146, 140

has not selected the goods or rendered any service relating to them except to sell such as may have been sent to him by the owner”.¹³⁸

The producer’s identity and reputation were no longer known to the purchaser through the intimacy of personal familiarity between seller and purchaser.¹³⁹ Nevertheless, the need for an undertaking to differentiate its products from similar products of other undertakings remained even though the identity and reputation were not sustained any more by personal connections.¹⁴⁰ Hence, the role that a trade marks play in trading has become more crucial than it used to be. In the late 19th century, in the case of *Powell v. Birmingham Vinegar Brewery Co.*, Lord Justice Lindley stated:

“Persons may be misled and may mistake one class of goods for another, although they do not know the names of the makers of either. A person whose name is not known but whose mark is imitated is just as much injured in his trade as if his name were known as well as his mark. His mark as used by him has given a reputation to his goods. His trade depends greatly on such reputation. *His mark sells his goods* [Emphasis added]”.¹⁴¹

¹³⁸ Schechter, F.I., ‘The rational basis of trademark protection’, Harvard Law Review, (1926-1927), 815

¹³⁹ Wilkins, M., ‘The neglected intangible asset: the influence of the trade mark on the rise of the modern corporation’, Business History, 34, 68

¹⁴⁰ *Ibid.*,68

¹⁴¹ The fact of the case were that: “For thirty-five years the plaintiff had made, from a secret recipe, and sold in round glass bottles, a sauce which he called “Yorkshire Relish,” and those words were impressed into the glass of the bottles, and were printed, together with the plaintiff’s name, on the labels fastened to the bottles, and without the plaintiff’s name on the wrappers in which the bottles were sold. The plaintiff’s trade was very large and profitable; and some years ago he had registered the words “Yorkshire Relish” as an old trade-mark of his own; but, after litigation with the defendants, those words had been expunged from the register. The plaintiff had, however, hitherto succeeded in preventing any person other than himself from using the words “Yorkshire Relish” to denote a sauce. The defendants had not discovered the plaintiff’s secret, but they were making and selling, under the name of “Yorkshire Relish,” and in bottles similar to those of the plaintiff, a sauce very like the plaintiff’s sauce, and at a lower price. The defendants printed their own names on their own labels, and there were certain other differences in the labels and in the wrappers; but the evidence proved that the defendants’ sauce could be, and in some instances had been, mistaken by ordinary buyers for that made by the plaintiff” and “Held, by the Court of Appeal (Lindley, Kay, and A. L. Smith L.JJ.), affirming the decision of Stirling J., that the plaintiff was entitled to an injunction to restrain the defendants from selling their sauce as “Yorkshire Relish” without better distinguishing it from the sauce made and sold by the plaintiff.” “APPEALED by the defendants from a decision of Stirling J., restraining them from using the words “Yorkshire Relish” as applicable to sauces other than those of the plaintiff’s manufacture without clearly distinguishing the same from the sauce of the plaintiff.” The appeal was dismissed. *Powell v. Birmingham Vinegar Brewery Company* [1896] 2 Ch. 54

The changes in the structure of organizations and business activities led to the functional revision of trademarks. A trade mark no longer indicates that products to which it has been affixed came from a particular physical origin.¹⁴² In other words, they do not identify by whom the products has been made as they used to do in pre-industrial period.

If trade marks cannot be described as indicators of physical source of the products any more, how should we describe the new role that trade mark is playing? Schechter argued the new concept of trade mark as an identifier of origin in the early 20th century while the Supreme Court of the United States in the leading case of *Hannover Star Milling Co. v. Metcalf* was defining “the primary and proper function of a trademark” as being “to identify the origin or ownership of the goods to which it is affixed”.¹⁴³ Schechter claimed that:

“to say, as courts frequently do, that a trade-mark indicates either origin or ownership may have been an adequate explanation of its function to Gerard Malynes and his temporaries, but today only by ignoring realities can one sat that to the consuming public a trade-mark actually indicates the specific ownership or origin of goods to which such trademark is affixed. Give a popular product with an international or at any rate a consumption through the complicated channels of modern distribution, a knowledge of its specific source can by no means generally be attributed to those who purchase it”¹⁴⁴

Here, Schechter argued the definition of a trade mark applied by the Supreme Court of the United States on the basis that the conventional views of trade mark theory fails to take into account new commercial practices.¹⁴⁵ He also described what a modern trade mark indicates as follows:

available at www.westlaw.com

¹⁴² Drescher, D.T., ‘The transformation and evolution of trademarks—from signals to symbols to myth’, *The Trademark Reporter*, (1992), 82, 313

¹⁴³ Schechter, F.I., ‘The rational basis of trademark protection’, *Harvard Law Review*, (1926-1927), 40, 833

¹⁴⁴ Schechter, F.I., *The Historical Foundations of the Law Relating to Trade-Marks*, Columbia University Press, (1925), 147

¹⁴⁵ Pickering, C.D.G., *Trade Marks in Theory and Practice*, Hart Publishing (1998), 43

“A trade-mark merely guarantees to the consumer that the goods in connection with which it is used emanate from the same source or have reached the consumer through the same channels of trade as certain other goods that have given the consumer satisfaction and that bore the same trade-mark”.¹⁴⁶

Trade marks do not indicate that all of the products to which they were affixed have a same physical source or have been made by the same manufacturer.¹⁴⁷ The origin function of modern trade marks does not focus on the indication of the physical origin of the products. Rather it focuses on the identification of the product itself.¹⁴⁸ Thus, modern trade marks may possess an identity independent from the maker of the product.¹⁴⁹

A modern trade mark merely indicates that there is an economic link of some kind between the products to which it has been attached and one particular undertaking and this undertaking has responsibility for the presence of these products on the markets.¹⁵⁰ In other words, all products bearing a particular trade mark have originated under the unitary control of one undertaking which accepts economic responsibility for those products.

In *MajorBrothers v. Franklin*¹⁵¹, Major Brothers, the plaintiffs, were salesmen of vegetables on commission in Covent Garden Market dealing largely in the vegetables of a grower named Webb, on whose care and skill in selecting, grading, and packing they knew they could rely. They registered a trade mark and painted the same upon the baskets in which they sold the vegetables. Their practice was to send baskets with their trade mark upon them to Webb, who

¹⁴⁶ Schechter, F.I., *The Historical Foundations of the Law Relating to Trade-Marks*, Columbia University Press, (1925), 150

¹⁴⁷ Griffiths, A., ‘Modernising trade mark law and promoting economic efficiency: an evolution of the Baby Dry judgement and its aftermath’, *Intellectual Property Quarterly*, (2003), 1, 5

¹⁴⁸ Drescher, D.T., ‘The transformation and evolution of trademarks—from signals to symbols to myth’, *The Trademark Reporter*, (1992), 82, 338

¹⁴⁹ *Ibid.*, p. 338

¹⁵⁰ *Supra.*, (Griffiths, 5)

¹⁵¹ *MajorBrothers v. Franklin & Son* [1908] 1 K.B., at [712]

filled the baskets and forwarded them by train to them. The plaintiffs' trade mark was well known, and products sold by them under that mark had a high reputation in the market.¹⁵²

Due to a dispute between them and the railway company Major Brothers refused to take delivery of nine baskets forwarded by Webb. Therefore, the railway company procured the baskets to the defendants under an indemnity to sell the contents of these nine baskets in the market. The defendants sold the contents in or from all the baskets themselves. Hence, the plaintiffs brought an action against the defendants for infringement of their trade mark, claiming damages and an injunction.¹⁵³

The defendants argued that the products are not the products of the plaintiffs by virtue either of manufacture, selection, certification, dealing with, or offering for sale within the meaning of s. 3 of the TM Act 1905. The person indicated by that section is Webb who selects, deals with, and offers for sale the products in question.¹⁵⁴

However, Jelf J. stated in his judgement as follows:

“...they [the plaintiffs] say that although these goods, being carrots and parsley, are clearly not their manufacture, and although they have not been in this particular case actually selected by them in the sense of being placed before them, the good chosen and the bad rejected, nevertheless they are their property in that qualified sense which is intended by this section by virtue of selection. They contend that it is a selection to get the goods in the best and most reliable market from the best gardens and growers... Under all these circumstances I come to the conclusion that all these defences fail”.¹⁵⁵

In this case, the role of *Major Brothers* were to select a producer who grows good quality vegetables, selects the good ones and place them in a trade marked basket. Even though the vegetables were not grown or selected by *Major Brothers*, they were the undertaking that

¹⁵² *Ibid.*, at 712

¹⁵³ *Ibid.*, 712 - 714

¹⁵⁴ *Ibid.*, 715

¹⁵⁵ *Ibid.*, 716 - 719

takes the economic responsibility for the quality of products sold in trade marked baskets. Since, when vegetables in trade marked baskets were purchased, they would be linked with *Major Brothers* regardless of by whom they have been grown and by whom they have been packed. Here, the function of trade mark is to indicate the trade origin of products rather than the physical source of products. Trade origin is the undertaking which takes the responsibility for the quality of trade marked products.

Therefore, the new role of origin function was to enable consumers to comprehend that two products bearing the same trade mark came from a particular trade origin and that is responsible for the quality of these products. Nevertheless, the source of those products can be anonymous to them. In other words, consumers might not know where the products have been derived from. In the matter of McDowell's Application, it was said by Lord Justice Warrington:

“...The deception which I think the registration would be calculated to produce is that the two products emanate from the same source, and for the purposes of the present question it does not, in my opinion, matter whether the public do, or do not, know what source is”.¹⁵⁶

Similarly, in *Major Brothers v. Franklin*, consumers were unaware of the physical origin of the products they purchase. Nevertheless, they did not need to know the physical origin of products as long as they have a responsible who can receive the issues as to products in trade marked baskets they purchase. *Major Brothers* as the trade origin took the responsibility for the quality of the products by attaching their trade mark on the baskets that the products placed in.

Major Brothers was the case that illustrates the change of the origin function in the beginning of the twentieth century. In the following years, another important decision indicating that a

¹⁵⁶ Schechter, F.I., 'The rational basis of trademark protection', Harvard Law Review, (1926-1927), 40, 817

trade mark can convey messages further than indicating the owner of the products was given by the Court of Appeal in the case of *John H. Andrew v. Kuehnrich*.¹⁵⁷

In this case, *A. & Co.* were the owners of four registered trade marks for steel, namely “A”, “B”, “C” and “A B” all in the device of diamond. Though all of these marks had been in use since the registration, they were used as quality marks and a further mark, consisting of a hand bearing a scimitar with the word “Toledo” upon it, was attached the products. *Kuehnrich* began to use a mark consisting of the letters “A B C” in a device of consisting of a presentation of interlocked sections of steel. After *A. & Co.* became aware of this, they applied for registration of a mark consisting of letters “A B C” in a triple diamond as an associated mark. *A. & Co.* took an action for infringement and for passing off against *Kuehnrich*. The court held that the conduct of the defendant in calling his steel “A B C” and encouraging others to do so was calculated to mislead having regard to the fact that *A. & Co.*’s product was well known as “A”, “B”, “C” and “A B” and that *A. & Co.* were entitled to an injunction to restrain infringement and passing off. The defendant appealed.¹⁵⁸

The appellant claimed that *A. & Co.* had used “A”, “B”, “C” and “A B” as quality marks, that is, to indicate a class, not to indicate and origin; therefore, these marks should be removed from the Register.¹⁵⁹ Nevertheless, Buckley L. J. stated in the decision as follows:

“I have no doubt that the marks in question were used as quality marks, but that does not necessarily exclude user as a trade mark...A mark does not necessarily cease to be a Trade Mark because it conveys also something further, namely, that the goods indicated as being goods of a particular maker are goods of that maker of a particular

¹⁵⁷ *John H. Andrew v. Kuehnrich* [1913] Reports of Patent, Design and Trade Mark Cases, No.25, Vol. XXX, 677-698.

¹⁵⁸ *Ibid.*, 677-679.

¹⁵⁹ *Ibid.*, 682.

kind. There is, I think, ground for saying here that these marks were used as Trade Marks in this sense, and none the less because they were also used as quality marks".¹⁶⁰

Here, it was pointed out that the function of a trade mark is to indicate the maker of the products to which it was attached. Nevertheless, a trade mark can convey something further than indicating the maker of the products and this does not affect the use of trade mark as an indicator of origin. In other words, it was recognized that a trade mark may convey further messages than merely indicating the origin of the products. The recognition of that in an early twentieth century case can be considered as an important step in the recognition of economic functions of modern trade mark. Nevertheless, the alteration of the origin function of a trade mark from indicating physical origin to indicating commercial origin cannot be seen in *John H. Andrew v. Kuehnrich* as the Court considered the function of trade mark as indicating the maker of products. Since, the physical source that the products derived from and the commercial origin that had responsibility for those products were the same undertaking in this case unlike *Major Brothers v. Franklin*. As mentioned above, *Major Brothers v. Franklin* was the case that the trade mark was recognized as an indicator of the origin which accepts the commercial responsibility of the trade marked products rather than indicator of the origin which merely manufactures the trade marked products.

It is important to note that the consumers in fact do not attach importance where the trade marked products have been manufactured or by whom they have been made. In other words, consumers do not regard a trade mark as a signifier of the physical source of products that it has been attached. Rather, as Schechter pointed out, consumers regard a trade mark as an identifier of commercial origin which has responsibility for the likely product quality bearing

¹⁶⁰ *Ibid.*, 695-696.

the trade mark.¹⁶¹ Connection indicated by a trade mark is not between the marked products and a particular, known source but between the marked products and a source from where previously satisfactory products emanated.¹⁶²

This view of origin function is confirmed by the CJEU in *Hoffmann-la Roche v Centrafarm* where it was stated that:

“The consumer is not interested in the commercial origin of goods out of idle curiosity; his interest is based on the assumption that goods of the same origin will be of the same quality”.¹⁶³

Therefore, the CJEU used the essential function theory to draw the boundaries of the exclusive property rights conferred on the owner of the trade mark under Article 5(1) (a) of the TMD. According to the essential function theory which was defined in *Hoffmann-la Roche v Centrafarm*, as being “to give the consumer or final user a guarantee of the identity of the origin of the marked product by enabling him to distinguish, without any possible confusion, that product from others of a different provenance”, a trade mark must constitute a guarantee that all products to which the trade mark has been affixed have been manufactured under the control of a particular trade origin to which responsibility for the quality of those products can be attributed.¹⁶⁴

Products bearing a particular trade mark are originated under the control of a commercial origin which is the one signified by the trade mark. However, the physical source or sources of those products are anonymous to consumers. It is important to note that some products might be derived from the same physical origin and be entirely identical to the products bearing a particular trade mark. However, they do not have the same commercial origin with

¹⁶¹ Schechter, F.I., *The Historical Foundations of the Law Relating to Trade-Marks*, Columbia University Press, (1925), 150

¹⁶² Pickering, C.D.G., *Trade Marks in Theory and Practice*, Hart Publishing (1998), 43

¹⁶³ *Hoffmann La Roche v Centrafarm* (C-102/77) [1978] E.C.R. 1139 at [604]

¹⁶⁴ *Hoffmann La Roche v Centrafarm* (C-102/77) [1978] E.C.R. 1139

those products bearing a particular trade mark unless the owner of that trade mark stands for the responsibility of presence of these products on markets.¹⁶⁵

*Primark Stores v Lollypop Clothing*¹⁶⁶ is a recent case which illustrates the recognition of commercial origin as the origin of products that trade mark signifies. In this case, the Primark applied for judgment against Lollypop in its claim for trademark infringement on the basis that Lollypop had supplied jeans identical to those supplied by Primark and which contained sewn-in labels identical or similar to those used by Primark and sewn-in to its jeans. Lollypop had an arguable defence that the allegedly infringing products were actually Primark's goods.

¹⁶⁷

The court held that even if those products were identical to Primark's products and were manufactured to Primark's specification, they were not actually Primark's products until they had been adopted by Primark. The fact that the products had been manufactured to Primark's order did not mean that Primark had adopted the products as its own. In the absence of any such adaptation, it could not be said that Primark was the source of the products or that Primark had accepted responsibility for their quality. Therefore, Lollypop had no arguable defence to the claim.¹⁶⁸

In the case, it is highlighted that some products in the market might be made by the same manufacturer and might be identical to those products bearing a particular trade mark; but they may not have the same commercial origin unless and until the owner of trade mark stands for the responsibility of the quality of those products in the market. Thus, the development of trade mark as an origin indicator from the physical source of products to the

¹⁶⁵ Griffiths, A., 'Modernising trade mark law and promoting economic efficiency: an evolution of the Baby Dry judgement and its aftermath' (2003),1, 5

¹⁶⁶ *Primark Stores v Lollypop Clothing* [2001] E.T.M.R. 30, at [334-343]

¹⁶⁷ *Ibid.*, at 334.

¹⁶⁸ *Ibid.*, at 335.

commercial origin of products can be clearly seen in the case of *Primark Stores v Lollypop Clothing*.

2.3.3 Post-Industrial Period

Since the end of the Second World War during which profound improvements to the well-being of much of the world's population have occurred, exploitation of trade marks to the world has appeared.¹⁶⁹ The collapse of communism, the rise of mass media and arrival of the internet has contributed to the exploitation of trade marks.¹⁷⁰ They have become an important marketing tool for the trade mark owners to broaden their marketplace with the contribution of advertising. Some of trade marks have become worldwide known brands such as Coca Cola drinks, McDonald's burgers and Levi's jeans. Products of a trade mark reached the shelves of the shops in different markets around the world through a variety of organizational structures and business devices.¹⁷¹ The changes of organization structures and business practices in the post-industrial period was well summarised in a paper, *Reform of Trade Marks Law*, issued by the Department of Trade and Industry in September 1990, just before the TM Act 1994 came into force. It is stated in this paper as follows:

“Whatever may have been the position in 1938, the public is now accustomed to goods or services being supplied under the licence from the trade mark owner. For example there has been growth of franchise operations...”¹⁷²

In post-industrial period, the trade mark law has responded to the changes arising from the exploitation of trade marks. As will be seen below, TM Act 1994 adopted a more liberal approach to the assigning and licensing of trade marks compared to TM Act 1938. The trade

¹⁶⁹ Blackett, T., *Trademarks*, Macmillan Press, (1998), 1st edition, 6

¹⁷⁰ Clifton, R., *Brands and Branding*, The Economist in association with profile books, (2009), 2nd edition, London, 15

¹⁷¹ Griffiths, A., 'Modernising trade mark law and promoting economic efficiency: an evolution of the Baby Dry judgement and its aftermath', *Intellectual Property Quarterly*, (2003), 1-37, 5

¹⁷² *Scandecor v Scandecor* [2001] E.T.M.R. 74, p. 814,815

mark owners can assign or license their business to other enterprises under the 1994 Act easier than they could do under the TM Act 1938. However, the possibility of assignment and licensing of trade mark to a different enterprise affects the structure of origin directly. The business running by the trade mark owner can be divided between the different enterprises. Assignment or licensing of a trade mark by its owner to a separate firm or an individual in practice brought an issue as to the notion of origin function. As mentioned above, a trade mark conveys a message that all the products bearing it originated under the control of a single undertaking which is in a position to control the quality of products. In the case of assigning or licensing the use of trade mark from the owner of a trade mark to a different enterprise, it is an issue whether all the products bearing a particular trade mark can still be accepted as the products originated under the control of “one undertaking.”

Under the post-industrial period, the effect of organisation structures and business practices on the message conveyed by the trade mark with regard to the commercial origin of products will be examined in the light of case law, in particular the judgments of the CJEU. Prior to looking at case law, we will compare the provisions of the TM Act 1938 and the TM Act 1994 in relation to the assignment and licensing of trade mark in order to illustrate the improvement in the TM Act 1994.

The TM Act 1938 had remained in force with amendments until 1994.¹⁷³ Under the TM Act 1938, a registered trade mark was assignable either in connection with the goodwill of business or not. Nevertheless, an assignment of a trade mark which was not accompanied by an assignment of the business in which the mark was used had to be publicly advertised. The practice of licensing trade mark had been legally recognized under the TM Act 1938.

¹⁷³ Rosler H., ‘The rationale for European trade mark protection’, *European Intellectual Property Review*, (2007), 29(3), 100-107,101

However, the unrestricted licensing, under which the licensor had no control over the quality of products sold in the market by licensee, was not permissible.

As mentioned above, the TM Act 1994 has responded to the developments of business activities and structure of organizations and brought substantial changes as to trade mark assignment and licensing agreements. Under the section 24 of the TM Act 1994 a registered trade mark may be assigned in the same way as other personal property and either with the goodwill of a business or independently. Furthermore, the obligation under the previous act to advertise an assignment of a trade mark when the assignment was unaccompanied by the goodwill of the assignor's business has been abolished.

According to the section 28 to 31 of the TM Act 1994, a trade mark may be licensed for some or all of the products for which it is registered and a license to use a registered trade mark may be general or limited. The unlimited license, also called "bare license", under which the licensor has no control over the quality of products sold by the licensee was allowed by the TM Act 1994.

The essential function of a trade mark has been defined in *Hoffmann-la Roche v Centrafarm* by the CJEU as being to guarantee the identity of the origin of the marked product to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the products from others which have another origin. In order for a trade mark to be able to fulfil its essential function, it must offer a guarantee that all products bearing it have originated under the control of a single undertaking which is responsible for their quality.¹⁷⁴ This definition of the essential function has been repeated by the CJEU in the subsequent cases.¹⁷⁵

¹⁷⁴ *Hoffmann La Roche v Centrafarm* (C-102/77) [1978] E.C.R. 1139

¹⁷⁵ *SA CNL-Sucal NV v Hag GF AG* (C-10/89) [1990] 3 C.M.L.R. 571 at paragraphs [14] and [13], *Scandecor v Scandecor* [2001] E.T.M.R. 74 at paragraph [17]

Having said this, the divisions of businesses run by trade mark owners with the assignment or license of the trade mark gave rise to an important issue about the role of trade mark as an origin indicator. The issue was whether the assignment or license of the trade mark affects the message conveyed by trade mark: all products bearing it have been derived from the same commercial source which is responsible for the quality of the trade marked products.

It is important to note that the issue in relation to the effect of structural changes of business organizations on the notion of trade mark as an origin indicator appeared as early as *Hag I*¹⁷⁶ case, which is before *Hoffmann-la Roche v Centrafarm* where the essential function theory was adopted by the CJEU. In *Hag I* case, Hag Bremen was the owner of *Hag* coffee trade mark for Germany, Belgium and Luxemburg. At the end of the Second World War the *Hag* trade mark was sequestrated by the Belgian and Luxemburg authorities and assigned to the Van Zuylen family for these countries. After twenty years later, Hag Bremen decided to sell *Hag* coffee in Luxemburg. However, it was prevented by Van Zuylen on the basis of infringement of its exclusive rights under the national law. The court referred the case to the CJEU, questioning whether it is permissible under the Article 85 or 30 of Rome Treaty.¹⁷⁷ The CJEU held that the Belgian owner was not entitled to prohibit the German owner from marketing its products in Luxemburg under the identical trade mark because products of these two firms had a common origin.¹⁷⁸

Nevertheless, the judgment of the CJEU was criticized by commentators on the basis of understanding of the concept of commercial origin signified by trade mark.¹⁷⁹ According to those criticisms, as a result of the judgment, the consumer would not be able to distinguish

¹⁷⁶ *Hag I* [1974] 2 C.M.L.R. 127

¹⁷⁷ Article 85 of the Treaty of Rome 1957 regulates rules applying to undertakings on competition. Article 30 of the Treaty of Rome 1957 regulates elimination of quantitative restrictions between member states under the free movements of goods policy.

¹⁷⁸ Gagliardi, A., F., 'Trade mark assignments under E. C. law', *European Intellectual Property Review*, (1998), 371-378, 373.

¹⁷⁹ *Ibid.*, 373

the quality of the products purchased by using the trade mark, since products bearing the *Hag* trade mark could have been marketed in Luxemburg by two different, commercially non-related undertakings.¹⁸⁰

Twenty years after the case of *Hag I*, in *Hag II*¹⁸¹, German owner of *Hag* coffee sought to prohibit the use of the identical trade mark by Belgian owner for marketing its products in Germany. In *Hag II* case, the approach of the CJEU was different from that of the *Hag I* case though the facts are the same as in *Hag I* case. In this case, the decision of the ECJ in *Hag I* was overruled. The CJEU revised the notion of a common origin as follows:

“...the word ‘origin’ in this context does not refer to the historical origin of the trade mark; it refers to the commercial origin of the goods. The consumer is not, I think, interested in the genealogy of trade marks; he is interested in knowing who made the goods that he purchases. The function of a trade mark is to signify to the consumer that all goods sold under that mark have been produced by, or under the control of, the same person and will, in probability, be of uniform quality”.¹⁸²

In *Hag I*, the historical link of two different enterprises had been found enough to consider them as one undertaking. However, the decision of the CJEU in *Hag II* emphasized the importance of unitary control on the quality of the trade marked goods when considering whether two different enterprises constitute one undertaking. Thus, according to approach of the CJEU in *Hag II* case, the historical link of two enterprises is not enough to consider them as one undertaking. In order for a group of enterprises to be considered as one undertaking, the quality of all trade marked products must be under the control of a single body.

¹⁸⁰ *Ibid.*, 373

¹⁸¹ *Hag II* [1990] 3 C.M.L.R. 571

¹⁸² *Ibid.*, 586

Although the CJEU gave a new interpretation as the concept of origin in *Hag II* case, there was a compulsory trade mark assignment imposed by the authorities at the origin of the *Hag* disputes. Hence, the question of whether the new interpretation of the CJEU would apply in the cases of the voluntary trade mark assignments was left open in this case.¹⁸³ The answer of this question was given later by the CJEU in *IHT v Ideal-Standard*.¹⁸⁴

IHT v Ideal-Standard is a subsequent case in which previously unified business was divided as a result of a voluntary trade mark assignment. In this case, the American Standard group of companies was the owner of the Ideal-Standard trade mark in Germany and in France for sanitary fittings and heating equipment. In France, they decided to sell its trade mark for the heating equipment sector to an independent French company. The new French owner of the trade mark sold it to another company. This company started to sell its marked products in Germany. The owner of a trade mark registered in Germany brought proceedings for infringement of its trade mark on the marketing in Germany of heating equipment bearing the trade mark which had been manufactured in France. Nevertheless, the trade mark used by the French company was originally the property of a company of the same group which is opposing and it was acquired by a voluntary trade mark assignment. Therefore, the French company claimed that its products had the common origin with the products of German company.¹⁸⁵

However, the CJEU stated as follows:

“...a contract of assignment by itself, that is in the absence of any economic link, does not give the assignor any means of controlling the quality of products which are marketed by the assignee and to which the latter has affixed the trade mark...That

¹⁸³ Gagliardi, A., F., ‘Trade mark assignments under E. C. law’, *European Intellectual Property Review*, (1998), 371-378, 375.

¹⁸⁴ *IHT v Ideal-Standard* (C-9/93)[1994] 3 C.M.L.R. 857

¹⁸⁵ *Ibid.*, p. 861-863

power is lost if, by assignment, control over the trade mark is surrendered to a third party having no economic link with the assignor”.¹⁸⁶

It has been noted that a trade mark in order to fulfil its essential function must offer a guarantee that all products bearing it have originated under the control of a single undertaking which is responsible for their quality. Therefore, an undertaking must be in a position to hold the control of the quality of all trade marked products. The CJEU pointed out that assignment of trade mark voluntarily by the owner of the trade mark to another enterprise is not enough to consider these two enterprises as one undertaking. In order to consider them as one undertaking, the quality of the assignee’s products must be under the control of the assignor.

The CJEU also gave the possibilities of unitary control on the quality of all products bearing the same trade mark in the case of the division of the business by contractual relationships as follows:

“...products put into circulation by the same undertaking, by a licensee, by a parent company, by a subsidiary of the same group, or by an exclusive distributor...In all the cases mentioned, control was in the hands of a single body: the group of companies in the case of products put into circulation by a subsidiary; the manufacturer in the case of products marketed by the distributor: the licensor in the case of products marketed by a licensee...”¹⁸⁷

The possibilities given by the CJEU of unitary control on the quality of all products bearing the same trade mark are derived from a contractual relationship. However, it was noted by the Court of Appeal in *Doncaster Pharmaceuticals v Bolton Pharmaceutical*¹⁸⁸ that consideration of *de facto* relationships between the enterprises may be crucial when

¹⁸⁶ *Ibid.*, 909

¹⁸⁷ *Ibid.*, 908

¹⁸⁸ *Doncaster Pharmaceuticals v Bolton Pharmaceutical* [2006] E.T.M.R. 65

determining whether the products of these enterprises bearing the same trade mark has a common origin.

In *Doncaster Pharmaceuticals v Bolton Pharmaceutical*, the original owner of a trade mark for pharmaceutical products had assigned its Spanish trade mark KALTEN to a separate Spanish company. Doncaster imported the product from Spain for selling in the United Kingdom under the trade mark KALTEN. Then, the original owner of a trade mark assigned its UK trade mark KALTEN to Bolton which apparently has no relation with the Spanish company. Bolton commenced trade mark infringement proceedings on the basis that Doncaster was using the trade mark KALTEN on pharmaceutical products in the UK without its consent. Here, Bolton relied on the previous decision of the CJEU in *IHT v Ideal-Standard*; because that case involved the similar facts.¹⁸⁹

However, the Court of Appeal stated in its decision as follows:

“The assignments and related transactions and the circumstances in which they were made need to be analysed with care in order to see if there was present something behind the decision to split the ownership of the mark on a territorial basis and whether it was designed to conceal the reality of linkage and control so as to disguise a restriction on trade between member states”.¹⁹⁰

Issues with relation to the concept of commercial origin in the case of business division have appeared after the case of *IHT v Ideal-Standard* as well. *Scandecor v Scandecor*¹⁹¹ is a recent case where Lord Nicholls explained the concept of commercial origin in the case of business division by a contractual relationship in the judgment of the House of Lords as follows:

¹⁸⁹ *Doncaster Pharmaceuticals v Bolton Pharmaceutical*, case analysis, available at <www.westlaw.com>

¹⁹⁰ *Doncaster Pharmaceuticals v Bolton Pharmaceutical* [2006] E.T.M.R. 65, p. 917

¹⁹¹ *Scandecor v Scandecor* [2001] E.T.M.R. 74

“... if two or more individuals or companies are trading separately and producing their own goods but there are long-term contractual links between them, an important consideration in deciding whether they form one undertaking for the purposes of Article 2 is the extent to which they collaborate, or act in concert, in matters affecting the quality of their goods”.¹⁹²

Lord Nicholls clarified the point that enterprises which have a contractual link but separate production and trading can be considered as one undertaking if there is collaboration between these enterprises in connection with the quality of products. The key point here is the unitary control of the quality of products. As long as, unitary control over the quality of all products bearing the same trade mark exists, the division of the business does not affect the message conveyed by the trade mark that all products bearing it have been originated under the control of one undertaking.

In the case of licensing, licensor and licensee enterprises constitute one undertaking on the condition that the licensor retains the control of the quality of licensee’s products. As it has been noted by the CJEU in *IHT v Ideal-Standard*, the licensor may retain the control over the quality of the licensee’s products by including in the contract clauses requiring the licensee to comply with his instruction and giving him the possibility of verifying such compliance.¹⁹³ If the licensee breaches any provision of the licensing contract with regard to the quality standards of the products, the licensor is entitled to exercise its rights provided by Article 8(2) of the TMD against the licensee. Article 8(2) of the TMD provides that the proprietor of a trade mark may invoke the rights conferred by that trade mark against a licensee who contravenes any provision in his licensing contract with regard to the quality of the goods manufactured or of the services provided by the licensee.

¹⁹² *Ibid.*, at [51] and [52]

¹⁹³ *IHT v Ideal-Standard* (C-9/93)[1994] 3 C.M.L.R. 857, p. 908

*Copad v Christian Dior*¹⁹⁴ is a case where a licensee contravened a provision in a license agreement by selling the trade mark proprietor's luxury products to a discount store. Therefore, the proprietor was entitled to oppose further sale of the goods where the contravention damaged the allure and prestigious image which conferred on the products an aura of luxury. The CJEU was asked to determine whether a provision in a license agreement prohibiting the licensee, on the ground of the trade mark's prestige, to sell the products bearing the trade mark covered by the contract to discount stores, fell within the scope of Article 8(2) of the TMD.¹⁹⁵

The CJEU stated that for a trade mark to be able to fulfil its essential function, it must offer a guarantee that all the products bearing it have been manufactured or supplied under the control of a single undertaking which is responsible for their quality. Therefore, Article 8(2) of the TMD enables the trade mark owner to invoke his rights where the licensee contravenes provisions in the licence agreement concerning the quality of products bearing the trade mark. In this case, selling the luxury products to discount stores which are not part of the selective distribution network set up under the licence agreement is likely to damage the allure and prestigious image and this is likely to affect the actual quality of the products.¹⁹⁶

The owners of a trade mark can enter into some kind of agreement for exploitation of their trade mark by a third party. The division of business by a voluntary act does not affect the origin function of a trade mark as long as the trade mark owner retains the control over the quality of all products bearing the trade mark. Unitary control over the quality of all products bearing a trade mark is crucial for the trade mark to perform its origin function. As the CJEU explained, a trade mark must offer a guarantee in order to be able to fulfil its origin function

¹⁹⁴ *Copad v Christian Dior* (C-59/08) [2009] E.T.M.R. 40

¹⁹⁵ *Copad v Christian Dior* (C-59/08), case analysis, available at <www.westlaw.com>

¹⁹⁶ *Copad v Christian Dior* (C-59/08) [2009] E.T.M.R. 40, 701,702

that all the products bearing it have been originated under the control of a single undertaking which is responsible for their quality.

As can be understood from the explanation of the CJEU, a trade mark does not only convey information about the origin of the products bearing it, but it also guarantees a particular economic context of that origin. In the essential function theory, the CJEU recognized quality guarantee provided by a trade mark to some extent by saying that trade mark must offer a guarantee that all the products bearing it have been originated under the control of a single undertaking which is responsible for their *quality*. However, the economic aspect of a trade mark is much more than what is explained in the essential function theory. A trade mark provides consumers an economic guarantee that the quality of all trademarked products is likely to be consistent with each other as all the products originated under the control of a single undertaking. Moreover, a trade mark gives its owner an opportunity to create a brand image through advertising which consumers may associate with a certain attitude or lifestyle and therefore want to purchase the products of that trade mark. Thus, the economic role of trade mark needs to be analysed in detail under a different chapter.

2.4 Conclusion

Article 5(1) (a) of TMD grants exclusive rights to trade mark which enables him to prevent third parties from the use of the mark in the course of trade within the territory of the exclusive rights of the registered trade mark, and bring an infringement action against third parties from using the mark without consent. In order for the trade mark owner to exercise this exclusive right conferred on him, the functions that his trade mark performs must be adversely affected. Although the definition of a trade mark is given in the Trade Mark Directive, the functions of a trade mark which needs to be taken into account for determining

the scope of the exclusive rights that trade mark owner can exercise against third parties under Article 5 (1) (a) of the TMD have been identified by the CJEU's case law.

In this chapter, we examined the origin function of a trade mark which can be defined as being to guarantee to consumers the identity of the trade-marked product's origin by enabling him to distinguish it without any risk of confusion from products of different origin. The origin function of a trade mark is in this chapter examined under the three periods: "pre-industrial period", "industrial period" and "post-industrial period". The reason to divide the evolution of trade mark into three different periods is to indicate the significant changes in the concept of trade mark as an origin indicator owing to the developments in the business activities and organisations. Industrialisation was on threshold of the changes in the concept of trade mark as an origin indicator. Hence, industrialisation is used as key point to divide the development of trade mark as an origin indicator.

First, we examine the origin function of trade mark in the pre-industrial period. We subdivide trade mark of pre-industrial period into two: ancient times and medieval times. Since, the difference of market system and business activities between these two pre-industrial times created different reasons for trade mark use. Trade mark of ancient times shows some similarities with the modern trade mark in terms of indicating quality and gaining reputation in free market economy. On the other hand, the individual liability of medieval craftsmen for the quality standards of their marked products corresponds to the commercial responsibility of modern trade mark owners as to the quality of marked products. The essential function of both ancient and medieval periods' trade mark was to identify the origin of products. However, both of the pre-industrial trade marks identify the physical origin of products while modern trade mark identifies the commercial origin of products. In other words, there is a notional difference between the origin function of pre-industrial trade mark and modern trade mark.

Second, we examine the origin function of trade mark in the industrial period. The industrial period of origin function of trade mark started with the increase of trade mark use as a consequence of mass production which commenced with the industrial revolution. The attempt to unauthorised use of popular trade mark for similar products led trade mark owners to seek protection for unique use of their trade mark. 1875 TMR Act in which the exclusive trade mark rights started to be given trade mark owners can be accepted as the crystallisation of trade mark law. We examined an important development in post-industrial period which is the evolution of trade mark from indicating physical source of products to identifying commercial origin of products. *Major Brothers v. Franklin* and *Primark Stores v Lollypop Clothing* are two crucial cases which we analysed illustrating the conceptual change of trade mark as an origin indicator due to changes in the structure of organizations and business activities.

Third, we study the origin function of trade mark in post-industrial period. In this period, the concept of origin that a trade mark identifies has changed owing to the developments arising from the exploitation of trade mark. More specifically, trade mark has become an important marketing tool for the trade mark owners to broaden their marketplace, especially with the contribution of advertising. Therefore, the TM Act 1994 has responded to these developments in business activities and structure of organizations and brought substantial changes as to trade mark assignment and licensing agreements. Therefore, we tried to examine whether structural changes in the origin of trademarked products such as the development of assignment and licensing agreements will affect the message conveyed by trade mark as to the concept of commercial origin. We tried to examine the approaches of the CJEU in the interpretation of the concept of origin due to the division of trade mark use between different enterprises with licensing and assignment agreements or other reasons. *Hag I* and *Hag II* cases, *IHT v Ideal-Standard*, *Scandecor v Scandecor*, *Doncaster Pharmaceuticals v Bolton*

Pharmaceutical and *Copad v Christian Dior* are important cases which we analysed in order to illustrate that the change in the concept of origin in post-industrial period does not create an effect on trade mark to perform its origin function unless trade mark owner who has assigned or licensed his trade mark to other enterprises loose *the unitary control over the quality of trade marked products*.

Therefore, the CJEU used to apply to “the essential function” theory for determining whether a trade mark owner can exercise his exclusive right granted by Article 5(1) (a) of the TMD against unauthorised use of the trade mark by third parties. According to this theory, which is first described in *Hoffmann La Roche v Centrafarm*¹⁹⁷ and has repeated in many subsequent cases, the essential function of a trade mark is “to guarantee to the consumer or end user the identity of the trade-marked product’s origin by enabling him to distinguish it without any risk of confusion from products of different origin.” In order for a trade mark to fulfil its essential function, “it must offer a guarantee that all the goods or services bearing it have originated under *the control of a single undertaking which is responsible for their quality* [Emphasis added]”.¹⁹⁸

Having said this, trade mark has been presented as performing economic functions beyond identifying the commercial origin of the products.¹⁹⁹ Consumers in fact perceive the guarantee of identity of commercial origin as a guarantee of constant quality for products bearing the trade mark; since products bearing a particular trade mark are derived from the same commercial origin which has a unitary control over the quality of those products. This is named as the “guarantee or quality” function of a trade mark. Furthermore, after gaining a level of recognition and reputation through quality, some trademarks evolve into something

¹⁹⁷ *Hoffmann La Roche v Centrafarm* (C-102/77) [1978] E.C.R. 1139

¹⁹⁸ *Arsenal FC v Matthew Reed* (C-206/01) [2003] E.T.M.R. 19

¹⁹⁹ Griffiths A., ‘The trade mark monopoly: an analysis of the core zone of absolute protection under Art.5(1)(a)’, *Intellectual Property Quarterly*, (2007), 3, 321

more than a means of identifying the commercial origin or the material quality of products and attract consumers to the products for some other reason.²⁰⁰ These functions are named as the “communication, investment or advertising functions” of a trade mark. Although the CJEU has recently identified those economic functions that a trade mark performs, the identification regarding to these functions has been used in much older academic literature.²⁰¹

Though the CJEU had hinted at those functions of a trade mark in its earlier judgments, they were not identified until *L’Oréal v Bellure*.²⁰² In this case, the CJEU identified them as being “...in particular that of guaranteeing the quality of the goods or services in question and those of communication, investment or advertising.”²⁰³ In the next chapter of this thesis, we will discuss in detail the economic functions of a trade mark including the quality guarantee function of trade mark as a distinct function and investment, advertising or communication functions of trade mark.

²⁰⁰ Griffiths A., ‘The trade mark monopoly: an analysis of the core zone of absolute protection under Art.5(1)(a)’, *Intellectual Property Quarterly*, (2007), 3, 322

²⁰¹ Cornish, W., *Intellectual Property Omnipresent, Distracting, Irrelevant?*, Oxford University Press, (2004), 1st edition; Diamond, S.A., ‘The historical development of trademarks’, *The Trademark Reporter*, (1975), 65, 265; Maniatis, S.M., Sandres, A.K., ‘A consumer trade mark: protection based on origin and quality’, *European Intellectual Property Review*, (1993), 15(11), 406-415

²⁰² Gangjee, D., Burrell, R., ‘Because You’re Worth It: *L’Oreal* and the prohibition on Free Riding’, *The Modern Law Review*, (2010), 73(2), 285

²⁰³ *L’Oréal v. Bellure* (C-487/07)[2009] E.T.M.R. 987

Chapter 3- Economic Functions of a Trade Mark

3.1 Introduction

It has been already examined in detail under the previous chapter that a trade mark gives consumers a guarantee that all products bearing it have originated under a single undertaking which is in a position to control the quality of the products. Hence, consumers may perceive a trade mark as an economic guarantee for likely quality of the product. More specifically, consumers expect the quality of all trademarked products to be consistent with each other; because they have originated under the control of one undertaking which is in a position to control their quality.

Moreover, a trade mark, after gaining a level of recognition and reputation, gives its owner an opportunity to create, through advertising or other marketing techniques, a brand image of quality, modernity, luxury or other similar desired attitudes or lifestyles which consumers wish to be associated with in order to gain the loyalty of consumers. In this chapter, we will try to examine these functions that a trade mark performs in addition to its origin function; namely the quality guarantee function and the advertising, investment or communication functions.

This thesis aims to examine the expansion of the scope of the trade mark rights given to owners under Article 5(1) (a) of TMD and its impact on the parallel importing within the EEA. Prior to revisiting the parallel importing with the EEA, the exclusive rights provided for the protection of trade mark under Article 5 (1) (a) of the TMD will be examined in detail in the next chapter of this thesis. However, the exercise of the exclusive rights conferred on the owner of a trade mark is limited to situations where functions that the trade mark performs are adversely affected. In other words, identifying the functions that a trade mark

performs has a crucial role in the determination of the scope of the exclusive rights given to trade mark owners. Therefore, we have examined the origin function of trade mark which merits protection under the given exclusive rights in the first chapter of this thesis. Now, we will analyse the economic functions of trade mark which were recently identified and found to merit protection under the exclusive rights given under Article 5 (1) (a) of TMD through the judgments of the CJEU.

As already explained in the previous chapter, the CJEU applied “the essential function” theory for determining the scope of the rights given under Article 5(1) (a) of the TMD that the owner of a trade mark right can exercise to prevent the unauthorised use of his trade mark by third parties until its judgment in *L’Oréal v Bellure*.²⁰⁴ According to the essential function theory, which is first applied in the case of *Hoffmann La Roche v Centrafarm*²⁰⁵ and repeated in many subsequent cases, the essential function of a trade mark is “to guarantee to the consumer or end user the identity of the trade-marked product’s origin by enabling him to distinguish it without any risk of confusion from products of different origin.” In order for a trade mark to fulfil its essential function, “it must offer a guarantee that all the goods or services bearing it have originated under the control of a single undertaking which is responsible for their quality”.²⁰⁶

However, the economic functions of trade mark in addition to its origin function are identified by the CJEU in *L’Oréal v Bellure* as being “... that of *guaranteeing the quality* of the goods or services in question and those of *communication, investment or advertising* [Emphasis Added]” and found to merit protection under the provision of Article 5(1) (a) of the TMD.²⁰⁷ In other words, the scope of exclusive rights provided under 5 (1) (a) of TMD

²⁰⁴ *L’Oréal v. Bellure* (C-487/07)[2009] E.T.M.R. 987

²⁰⁵ *Hoffmann La Roche v Centrafarm* (C-102/77) [1978] E.C.R. 1139

²⁰⁶ *Arsenal FC v Matthew Reed* (C-206/01) [2003] E.T.M.R. 19

²⁰⁷ *L’Oréal v. Bellure* (C-487/07)[2009] E.T.M.R. 987 at [58]

has been expanded through the judgments of the CJEU to protect the economic functions that a trade mark performs in addition to its origin function. Hence, the economic functions of trade mark, which we will analyse in detail in this chapter, play a crucial role so as to understand the expanded scope of trade mark protection under Article 5(1) (a) of TMD.

First, we will examine the quality guarantee function of trade mark in this chapter. We will look at the development of quality guarantee within the essential function theory and the identification of quality guarantee as a distinct function through the judgements of the CJEU. As mentioned earlier, the CJEU used to apply the essential function theory in the interpretation of the scope of trade mark rights under the provision of Article 5(1) (a) of the TMD. According to essential function theory, a trade mark signifies that all products bearing it have originated under a single undertaking which is in a position to control their *quality*. Thus, it might be said that quality guarantee used to form part of the essential function theory. In *L'Oréal v Bellure*²⁰⁸, where the CJEU has elaborated on the views it expressed in previous judgments, quality guarantee was recognized as a distinct function without giving a detailed explanation about the notion of this function in its judgments. However, the CJEU still continues to use the words "essential function" to describe the origin function of trade mark in its recent judgements. Therefore, it is still a matter of question whether the quality guarantee function differs from the quality guarantee which forms part of the essential function theory. The CJEU have not made it clear in its judgments that the essential function of trade mark has been revised and the quality guarantee which used to form part of the essential function theory is now a distinct function.

Then, we will examine the communication, investment or advertising functions of a trade mark which the CJEU identified in *L'Oréal v Bellure*²⁰⁹. A trade mark owner can apply the

²⁰⁸ *L'Oréal v. Bellure* (C-487/07)[2009] E.T.M.R. 987

²⁰⁹ *L'Oréal v. Bellure* (C-487/07)[2009] E.T.M.R. 987

exclusive rights provided under the Article 5(1) (a) of the TMD for preventing the use of trade mark by the third parties without his consent if the communication, investment or advertising functions of his trade mark have been adversely affected. However, a trade mark performs these functions if the owner of the trade mark uses it to that end. More specifically, a trade mark owner must invest in his trade mark by using advertising or other marketing techniques and create additional purchasing motivations for consumers in order to have a trade mark which performs its communication, investment or advertising functions. Therefore, we will analyse the creation of brand image as an additional purchasing motivation to a trade mark and the protection of the investment that trade mark have made in it.

We will also analyse the economic aspect of trade mark (the economics of trade mark) in particular in the light of search costs theory so as to understand whether there is an economic rationale to grant exclusive rights for the protection of those functions. First, we will study the information provided by trade mark as to the product quality and the problem of information asymmetry so as to illustrate the economic importance of trade mark according to search costs theory. Then, we will look at the economic benefits which consumers and trade mark owners can derive from trade mark as a means of quality assurance in the light of the search costs theory. We will try to analyse to what extent search costs theory provides a rationale for the justification of exclusive rights given the trade mark owner under the provision of Article 5 (1) (a) of TMD to protect the functions of trade mark. We will try to examine in particular whether the search costs theory provides an economic rationale for the protection of the communication, investment or advertising functions of trade mark. We will also try to analyse the ancillary benefit, which increases the overall benefit that consumer can derive from products bearing a trade mark, which may support the protection of the communication, investment or advertising functions of a trade mark.

3.2 Quality Guarantee Function

It has already examined under the “origin function of trade mark” that a trade mark identifies the commercial origin of products associated with it. Thus, products bearing a particular trade mark are legally expected to originate under a single undertaking which is responsible for their quality. As a result of this legal guarantee, consumers may have an economic expectation that the quality of the products bearing a particular trade mark will be consistent with each other while trade mark owners have an enthusiasm to make sure that all trade marked products are consistent with each other owing to the economic reasons. We will analyse the economic aspect of trade mark in detail in order to understand how a trade mark functions as a quality guarantee. Prior to detailing the economic aspect of trade mark, we need to explain the development of a trade mark as a quality guarantee within “the essential function theory” of the CJEU and then the identification of quality guarantee as a distinct function in the CJEU’s case law.

The loss of the traditional direct relationship between the maker of products and the consumer of those products, which we examined with its reasons in detail under the previous chapter, increased the importance of trade mark use as a quality assurance. Since, the reputation of a producer because of product quality was no longer known to consumers through the intimacy of personal familiarity between the producer and the consumers. This led producers to use trade mark to communicate with their consumers in order to provide an economic reassurance as to the product quality and in turn gain their loyalty. In other words, trade mark use substituted for face to face relationships and established new communication channels for trade mark owners about their products. Therefore, it is possible to say that the

changes which reform the origin function of a trade mark also led the trade mark to perform economic functions.²¹⁰

The idea that a firm can use a trade mark to perform other functions than the origin indicating function can be seen in the English case law as early as 1914. In *John H. Andrew v. Kuehnrich*²¹¹, Buckley L. J. stated in the judgment of the Court of Appeal that "...A mark does not necessarily cease to be a Trade Mark because it conveys also something further, namely, that the goods indicated as being goods of a particular maker are goods of that maker of a particular kind. There is, I think, ground for saying here that these marks were used as Trade Marks in this sense, and none the less because they were also used as quality marks".²¹² It is important to note that the concept of quality marks in this case is slightly different from the concept of a modern trade mark which performs its quality guarantee function. The key point here is that the trade mark owner was able to use a couple of trade marks to differentiate its own products in terms of their quality as well to differentiate them for the products of others. Hence, it is an important case in terms of illustrating the fact that the Court acknowledged that trade mark embodies messages further than merely indicating the source of the products.

The economic functions that a trade mark performs in a modern sense were identified by Schechter as early as 1920s. According to Schechter, a trade mark indicates, "...not that the article in question comes from a definite or particular source, the characteristics of which or the personalities connected with which are specifically known to the consumer, but merely that the goods in connection with which it is used *emanate from the same - possibly anonymous - source or have reached the consumer through the same channels as certain*

²¹⁰ Phillips J., *Trade Mark Law A Practical Anatomy*, Oxford University Press, (2003) , at 2.35

²¹¹ *John H. Andrew v. Kuehnrich* [1913] Reports of Patent, Design and Trade Mark Cases, No.25, Vol. XXX, 677-698.

²¹² *Ibid.*, at 695-696.

other goods that have already given the consumer satisfaction, and that bore the same trademark [Emphasis Added]".²¹³ Therefore, the "true function" of a trade mark is described by Schechter as being "to identify a product as satisfactory and thereby to stimulate further purchases by the consuming public".²¹⁴ Schechter pointed out here that a trade mark has become an important communication tool for trade mark owners in the absence of personal direct relationship by imprinting an "impersonal guaranty of satisfaction" upon the mind of consumers and creating a desire for further satisfactions. In other words, Schechter emphasized the economic meaning of trade mark for its owner in order to convey message as to the likely consistency of product quality and create reputation to gain the loyalty of consumers.²¹⁵ The formulation of Schechter as to the economic meaning of a trade mark may be accepted as the early identification of the modern economic functions including quality guarantee function of trade mark.

However, the concept of quality or guarantee function performed by a modern trade mark was described by Beier in 1970s as follows:

"..[T]he quality or guarantee function has in my view no independent legal significance. It is derived from the basic function of identifying the origin of goods and simply means that public, from its knowledge that trademarked artefacts have the same origin, often believes these to be of the same quality. But this expectation to the extent that it really exists is not protected by trademark law. Protection against deception of quality is rather a matter for criminal law or the law against unfair competition".²¹⁶

Beier put emphasis on the fact that there is no legal obligation for trade mark owners to provide trade marked products at specific quality.²¹⁷ In other words, a trade mark does not

²¹³ Schechter, F.I., 'The rational basis of trademark protection', Harvard Law Review, (1926-1927), 40, 833, p.816

²¹⁴ *Ibid.*, at p.818

²¹⁵ *Ibid.*, at p.818

²¹⁶ F.K., Beier, 'Territoriality of Trade Mark law and international trade', (1970), 1 IIC 48-72, p. 64 Cited by Phillips J., *Trade Mark Law A Practical Anatomy*, Oxford University Press, (2003) , Chapter 2 .36

²¹⁷ Pickering , C.D.G., *Trade Marks in Theory and Practice*, Hart Publishing (1998), p. 47

provide consumers with a legal guarantee about the likely product quality. The reassurance about the likely product quality provided by trade mark is economic in nature. It is based on an assumption that the owner of a trade mark will not let the quality of the trade marked products decline in order to retain or increase the benefits which he derives from consumers' expectations of consistency.

As mentioned earlier, trade mark is legally expected to signify that trade marked products have originated under the control of a single undertaking and this undertaking is in a position to control the *quality* of them. Therefore, Beier claimed that the quality guarantee is comes from the origin function of trade mark and therefore not a distinct function. The point made by Beier as to concept of quality guarantee conveyed to consumers by a trade mark can be seen in the early judgments of the CJEU.

In *Hag II*, Advocate General Jacobs in his opinion to the CJEU, which is parallel to the opinion of Beier mentioned above, emphasized that quality guarantee offered by a trade mark is an economic in nature. Advocate General Jacobs analysed the theory of quality guarantee function that a trade mark performs with the following words:

“The guarantee of quality offered by a trade mark is not of course absolute, for the manufacturer is at liberty to vary the quality; however, he does so at his own risk and he—not his competitors—will suffer the consequences if he allows the quality to decline. Thus, although trade marks do not provide any form of *legal* guarantee of quality—the absence of which may have misled some to underestimate their significance—they do in economic terms provide such a guarantee, which is acted upon daily by consumers.”²¹⁸

As Advocate General Jacobs pointed out, a trade mark provides to the consumers an economic guarantee that the quality of products covered by the trade mark will be consistent with each other. Though the trade mark owners are not obliged by law to provide trade

²¹⁸ *SA CNL-Sucal NV v Hag GF AG* (C-10/89) [1990] 3 C.M.L.R. 571 at [583]

marked products at a specific level of quality, trade mark owners are willing to provide the quality of the trade marked products at a specific level and take action for recovering it when problems with quality of products arise. We will examine the factors which create incentives for trade mark owners to keep the quality of trade marked products constant in detail under search costs theory.

However, we can briefly explain here the basic economic factors which create incentives for trade mark owners to keep the quality of trade marked products constant. If products covered by a particular trade mark possess certain expected quality, consumers may use this trade mark to identify to them as a source of satisfactory and repeat their purchasing. If products covered by a particular trade mark do not possess certain expected quality, consumers may use this trade mark to identify to refrain from purchasing them. The economic pressure created by the consumers induces trade mark owners to keep the quality of trade marked products constant. In other words, the expectation of consumers as to the likely product quality is a crucial economic factor which creates incentives for firms to keep the quality of their products constant though they are not under a legal obligation to do that.

According to Pickering, this aspect of trade mark cannot be explained directly by the origin function theory.²¹⁹ More specifically, quality or guarantee function that a trade mark performs needs to be considered as a separate function due to its economic nature that cannot be explained by the origin function theory. The CJEU in fact identified the economic functions that a trade mark performs as distinct functions in addition to its origin function in its recent judgements.²²⁰

²¹⁹ Pickering, C.D.G., *Trade Marks in Theory and Practice*, Hart Publishing (1998), p. 47

²²⁰ *L'Oréal v Bellure* [2009] E.T.M.R. 55; *Google France and Google Inc v Louis Vuitton Malletier, Google France v Viaticum Luteciel and Google France v CNRRH* (C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30; *Interflora Inc v Marks & Spencer* (C-323/09) [2012] E.T.M.R. 1

Prior to the identification of the economic functions that a trade mark performs as distinct functions, the CJEU used to apply the essential function theory in the interpretation of the scope of trade mark rights given to trade mark owners under Article 5 (1) (a) of the TMD.²²¹ Article 5(1) (a) of the TMD grants trade mark owners an exclusive right enabling them to prevent all third parties from using in the course of trade any identical sign in relation to identical products in order to ensure that the trade mark can fulfil its essential function. Therefore, the exercise of this exclusive right was reserved to cases in which a third party's use of the sign affects or is liable to affect the essential function of the trade mark. In other words, the essential function theory used to restrict the exclusive control of trade mark owners over the use of their trade marks.

As we mentioned earlier under the origin function of trade mark, a trade mark provide consumers a guarantee that all products bearing it have originated under a single undertaking which is in a position to control the *quality* of them. Thus, the essential function theory which the CJEU used to apply in the interpretation of the scope of exclusive rights involves the quality guarantee function to some extent. In other words, quality guarantee function used to form part of the essential function. However, quality guarantee function was not accepted as a separate function in the early judgments of the CJEU.

The idea that there might be distinct economic functions in addition to the origin indicating function of a trade mark was first suggested in *Arsenal Football Club v Reed*.²²² In his opinion to the CJEU, AG Colomer raised an argument as to the traditional determination of the scope of trade mark rights by saying that “it seems to me to be simplistic reductionism to limit the function of the trade mark to an indication of trade origin” because a trade mark can indicate at the same time origin of the products, the quality of the products it represents and

²²¹ *Cnl-Sucal NV SA v Hag GF AG* (C10/89) [1990] 3 C.M.L.R. 571

²²² *Arsenal Football Club v Matthew Reed* [2002] E.T.M.R. 82

also the reputation of the firm. Thus, there is “...no reason whatever not to protect those other functions of the trade mark and to safeguard only the function of indicating the trade origin of goods and services.”²²³

As a result, the CJEU in its ruling hinted at the economic functions of trade mark in addition to its origin function by stating as follows:

“The exercise of that right (the exclusive right under Art.5(1)(a) of the Trade Mark Directive) must therefore be reserved to cases in which a third party's use of the sign affects or is liable to affect *the functions of the trade mark*, in particular its essential function of guaranteeing to consumers the origin of the goods.[Emphasis Added]”²²⁴

In the subsequent cases such as *Adam Opel v Autec*, *Celine v Celine*, *Copad v Christian Dior*, the CJEU continued to emphasise *the functions of trade mark* rather than *the function of trade mark* without giving an explanation as to identity of those functions except from origin function.²²⁵ The identification of those functions came with its judgment in *L'Oréal v Bellure*²²⁶. In *L'Oréal v Bellure* and the subsequent cases such as the *Google*, *Interflora* and *Budvar* cases, the CJEU identified those functions of trade mark in addition to its origin function in order to apply them in the interpretation of the scope of the trade mark rights.²²⁷

In these judgments, the CJEU clarified that in the situation envisaged in Article 5 (1) (a) of TMD, in which a third party uses a sign identical with a trade mark in relation to goods or services which are identical with those for which that mark is registered, the owner of the trade mark is entitled to prohibit that use if it is liable to have an adverse effect on one of the functions of the mark, whether that be the function of indicating origin or one of the other

²²³ *Ibid.*, at [46]- [47]

²²⁴ *Arsenal Football Club v Matthew Reed* [2003] E.T.M.R. 19 at [54]

²²⁵ *Adam Opel v Autec* [2007] E.T.M.R. 33, *Celine v Celine* [2007] E.T.M.R. 80, *Copad v Christian Dior* [2009] E.T.M.R. 40

²²⁶ *L'Oréal v Bellure* [2009] E.T.M.R. 55

²²⁷ *Google France and Google Inc v Louis Vuitton Malletier*, *Google France v Viaticum Luteciel* and *Google France v CNRRH* (C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30; *Budějovický Budvar, národní podnik v Anheuser-Busch Inc* (C-482/09) [2012] E.T.M.R. 2

functions, in particular that of *guaranteeing the quality* of the products in question and those of *communication, investment or advertising*.²²⁸

In short, the functions of trade mark which merits protection under Article 5(1) (a) of TMD include not only the essential function of origin indicating but also other functions, in particular that of *guaranteeing the quality* of the products and those of *communication, investment or advertising*.²²⁹ In *Interflora v Marks & Spencer*²³⁰, the CJEU clarified this with making reference to the relevant recitals in EU legislation and case law as follows:

“With regard to the functions of the trade mark other than that of indicating origin, it should be noted that both the EU legislature—by using the words “in particular” in the tenth recital to [Trade Mark] Directive 89/104²³¹ and in the seventh recital to Regulation 40/94 —and the Court—by using since its judgment in *Arsenal Football Club*²³² the words “*functions of the trade mark*” —have indicated that a trade mark’s function of indicating origin is not the only function of the mark that is worthy of protection against injury by third parties.[Emphasis Added]”²³³

However, it is crucial to note that the CJEU has not given a clear explanation in its judgments as to the concept of quality guarantee function which is identified as a distinct function and found to merit protection under the Article 5(1) (a) of TMD. As mentioned earlier, the CJEU used to apply the essential function theory in the interpretation of the scope of trade mark rights. According to the essential function theory, a trade mark must guarantee that all products bearing a particular trade mark have originated under a single undertaking which is in a position to control the *quality* of the products. Therefore, it might be said that quality

²²⁸ *Ibid.*, at [77] and [79]

²²⁹ *L'Oréal v Bellure* [2009] E.T.M.R. 55 at [58]

²³⁰ *Interflora Inc v Marks & Spencer (C-323/09)* [2012] E.T.M.R. 1

²³¹ ‘... the protection afforded by the registered trade mark, the function of which is *in particular* to guarantee the trade mark as an indication of origin, is absolute in the case of identity between the mark and the sign and goods or services ...[Emphasis added]’

²³² [2003] E.T.M.R. 19

²³³ *Interflora Inc v Marks & Spencer (C-323/09)* [2012] E.T.M.R. 1 at [39]

guarantee used be viewed part of the essential function theory. In his opinion to the CJEU, AG Kokott stated that:

“The use of the term “*quality*” in art.8 (2) of Directive 89/104 recalls *an essential function of the mark*. It must offer a guarantee that all the goods bearing it have been manufactured or supplied under the control of a single undertaking which is responsible for their *quality*.”²³⁴

Prior to the recognition of quality guarantee as a distinct function, one school of thought, which has a conservative view, argued that the essential function of origin indicating is the only function that merits protection under Article 5(1) (a) of TMD and therefore the concept of it should be interpreted relatively capacious.²³⁵ I think the CJEU used to follow the same pattern with the view of this school of thought until its *L'Oréal v Bellure* decision.

However, the other school of thought, which has a liberal view, argued that origin function of a trade mark signifies merely the commercial address of the products bearing it. A trade mark may perform further functions than its origin function and therefore its owner may seek further rights for the protection of those functions.²³⁶ After its *L'Oréal v Bellure* judgment where economic functions of a trade mark are recognized and found to merit protection under Article 5(1) (a) of TMD, the CJEU followed the same pattern with the view of this school of thought. Since, quality guarantee which used to form part of the essential function doctrine is divorced from the origin function which, I think, now signifies merely the commercial address of products.

The CJEU has continued to use the “essential function” in its traditional sense in the some parts of its recent judgments although the quality guarantee function which used to form part

²³⁴ *Copad SA v Christian Dior Couture SA*(C-59/08) [2009] E.T.M.R. 40 at [AG28]

²³⁵ The arguments are reviewed in Cornish, W., *Intellectual Property Omnipresent, Distracting, Irrelevant?*, Oxford University Press, (2004), p. 90

²³⁶ *Ibid.*, p. 90

of the essential function doctrine is recognized as a separate function.²³⁷ However, the notion of the essential function doctrine should be revisited if the quality guarantee identified as a distinct function does not bring something which is different from what is meant by the quality guarantee in the essential function theory. In other words, the CJEU limited the essential function doctrine to signify the commercial origin of the products which is more parallel to the liberal view of the school of thought, called by Cornish as “Green-lighters”²³⁸, we mentioned earlier. Therefore, I think, the CJEU should make it clear in its judgments that the essential function is now limited to the origin function and the quality guarantee which was used to form part of the essential function theory is now a distinct function.

I think, the reason why the CJEU continues to describe the origin function of trade mark as the essential function can be explained again with the statement of the CJEU which is given in *Interflora v Marks & Spencer*.²³⁹ According to the CJEU, there is an important difference between the origin function and the economic functions of trade mark. A trade mark must always perform its origin function while performing its economic functions, in particular for the purposes of advertising or investment, depends on whether the owner of the trade mark wants to use it to that end.

Having said that, this difference between the origin function of a trade mark and its economic functions cannot justify excluding the protection of the economic functions under Article 5 (1) (a) of TMD as long as one of those functions that a trade mark performs have been

²³⁷ *Interflora Inc v Marks & Spencer* (C-323/09) [2012] E.T.M.R. 1 at [38]; *Google France and Google Inc v Louis Vuitton Malletier*, *Google France v Viaticum Luteciel* and *Google France v CNRRH* (C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30 at [82]

²³⁸ This term is used by Cornish for the school of thought who views the essential function as merely the signifier of the origin of the trade marked products. Cornish, W., *Intellectual Property Omnipresent, Distracting, Irrelevant?*, Oxford University Press, (2004), p. 90

²³⁹ “...a trade mark is always supposed to fulfil its function of indicating origin, whereas it performs its other functions only insofar as its proprietor uses it to that end, in particular for the purposes of advertising or investment. However, that difference between the essential function of the trade mark and its other functions can in no way justify—when a trade mark fulfils one or more of those other functions—excluding from the scope of art.5(1)(a) of Directive 89/104 and art.9(1)(a) of Regulation 40/94 acts adversely affecting those functions...” *Interflora Inc v Marks & Spencer* (C-323/09) [2012] E.T.M.R. 1 at [40]

adversely affected by the unauthorised of the third parties.²⁴⁰ In other words, there is no difference between the origin function and the economic functions of a trade mark in terms of meriting protection under Article 5(1) (a) of TMD if the owner of trade mark decided to use its trade mark to convey further messages as to the material quality of products bearing it or a brand image which consumers wish to be associated with.

According to the CJEU, not only the quality guarantee as a distinct function but also the communication, investment or advertising functions that a trade mark perform would merit protection under Article 5 (1) (a) of TMD so long as they have been adversely affected by the unauthorised of the third parties. Thus, the communication, investment and advertising functions of a trade mark in addition to its quality guarantee function needs examining so as to understand the scope of the exclusive rights given to the trade mark owners under Article 5(1) (a) of TMD that they can exercise against the unauthorised use of third parties.

3.3 Communication, Investment and Advertising Functions

A trade mark always performs its origin function which is to signify the commercial origin of products bearing it. Moreover, a trade mark can be used by its owner to convey information as to the material quality characteristics of the products bearing it. If products identified by a trade mark possess certain expected quality, the trade mark can be used by consumers to identify the products to repeat their purchasing. In other words, consumers may perceive a trade mark as an economic assurance as to the likely product quality for their future purchasing. We have already examined the quality guarantee function of trade mark above.

However, a trade mark also enables firms to create additional purchasing motivations in order to attract consumers to their products. Firms may use their trade mark to generate a brand image which might be associated with a desirable attitude or lifestyle such as quality,

²⁴⁰ *Ibid.*, at [40]

elegance, exclusivity, luxury, modernity. The brand image that a trade mark may come to symbolize can be created in a variety of marketing techniques but especially through advertising. Trade mark of this century is in fact the modern form of *communication* incorporating a brand image which can be viewed as the products of *investment* that firms have made in creating it especially through *advertising*.²⁴¹

Therefore, the CJEU held in its recent judgments that a trade mark which performs its *communication, investment or advertising* functions, so-called *modern functions*, in addition to its origin function and quality guarantee function merits protection under Article 5(1) (a) of TMD.²⁴² We will try to analyse the *communication, investment or advertising* functions that a trade mark performs in order to understand the expanded scope of the trade mark rights given to the owners under Article 5(1) (a) of TMD.

A trade mark may signify not only the commercial origin or the material quality features of the products bearing it but also a brand image which a consumer may wish be associated with it. In order for a trade mark to perform its modern functions, the owner of that trade mark needs to make investment in the creation, development and protection of the brand image that his trade mark signifies. The CJEU stated in *Interflora v Marks & Spencer*²⁴³ that a trade mark performs its economic functions only if the owner of the trade mark wants to use it to that end.

It is important to note that the brand image that a trade mark signifies does not necessarily need to be associated with the specific products. Firms can generate a brand image which might be associated with a desired lifestyle and attitude in order to attract consumers to their

²⁴¹ Ghidini, G., *Innovation, Competition and Consumer Welfare in Intellectual Property Law*, Edward Elgar (2010), p. 177; Griffiths, A., *An Economic Perspective on Trade Mark Law*, Edward Elgar, (2011), Cheltenham, p.115

²⁴² *Interflora Inc v Marks & Spencer* (C-323/09) [2012] E.T.M.R. 1 ; *Google France and Google Inc v Louis Vuitton Malletier*, *Google France v Viaticum Luteciel* and *Google France v CNRRH* (C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30 ; *L'Oréal v Bellure* [2009] E.T.M.R. 55

²⁴³ *Interflora Inc v Marks & Spencer* (C-323/09) [2012] E.T.M.R. 1 at [40]

trademarked products. Consumers may develop attachments to the trade mark signifying a brand image in response to their cognitive and emotional experiences which is going to play an effective role in making their decision to purchase.²⁴⁴ The choice of a product because of the attraction of the brand image signified by a trade mark will lead the trade mark to acquire a selling power, which is also called its suggestive value.²⁴⁵

For instance, *Coca-Cola* is not only a registered trade mark for soft drinks or *Apple I Phone* is not only a registered trade mark for smart phones. Firms who own those trade marks succeeded to create a brand image signified by them using advertising and other marketing techniques. Therefore, *Coca-Cola* and *Apple I Phone* express consumers something more than the commercial origin and the material quality characteristics of products bearing them. A *Coca-Cola* drink differs in the minds of consumers from any other trade marked cola drink which can be found in the shelves of a supermarket. Since, *Coca-Cola* presents a brand image which might be associated with an exclusive taste, youth, coolness or other similar lifestyle or attitude and therefore consumers develop emotional attachments to this brand image which will play a crucial role in making their purchasing decision due to the effective use of advertisements and other marketing techniques. It is similar for *Apple I Phone* example. *Apple I Phone* presents a brand image which may be associated with exclusive design, modernity or middle-class lifestyle and consumers develop emotional attachments which will play a crucial role in making their purchasing decision to this brand image due to the effective use of advertisements and other marketing campaigns.

Although brand image that a trade mark signifies is less tangible than its origin and quality guarantee functions, it is as valuable as them and sometimes it is more effective than them to

²⁴⁴ Gerhardt, R.D., 'Consumer investment in trademarks', North Carolina Law Review, (2010), 88, 427-500, p. 459-460.

²⁴⁵ Ghidini, G., *Innovation, Competition and Consumer Welfare in Intellectual Property Law*, Edward Elgar (2010), p. 177; Sakulin, W., *Trademark Protection and Freedom of Expression*, Wolters Kluwer, (2011), Rotterdam, p. 61

attract consumers to the products bearing the trade mark. According to Trimmer, the large part of trade mark's power of attraction belongs to the brand image of a trade mark which encourages consumers to experience their products by offering them to be satisfied emotionally as well as tangibly.²⁴⁶ Therefore, we will try to analyse brand image that a trade mark signifies so as to understand why the large part of trade mark's power of attraction belongs to that brand image.

Consumers can use the products of a specific trade mark which is associated with brand image of quality, exclusivity, luxury, youth, richness or any other certain lifestyle or attitude in order to express others their lifestyle, attitude or preferences. According to Gerhardt, trade mark associated with a brand image has become a *powerful vehicle for self-expression and personal affirmation of beliefs and values* in the twenty first century.²⁴⁷ The choice of a product bearing a particular trade mark associated with a brand image that a consumer will repeatedly show may send strong signals as to the identity, preferences and lifestyle or attitude of that consumer. In other words, consumers of this century may use the products of a particular trade mark which is associated with a brand image as "powerful repositories of meaning" to express their personal unique preferences.²⁴⁸

As an example to this, if I prefer to use a *Breitling* wristwatch, I send the world a different message as to who I am and what I value than if I wear a *Swatch* wristwatch. It is possible to say that both wristwatch brands can be preferred by a young professional who enjoys sport looking wristwatches. However, if I go with the *Breitling* wristwatch, I also express that I am rich enough to purchase an expensive wristwatch, I am worth to wear a classy wristwatch and I have a potential to fly in business class or have golf club membership. Therefore,

²⁴⁶ Trimmer, B., 'The power of attraction: do trade marks have an "image" problem in the English courts?', *European Intellectual Property Review*, (2009), 31(4), 195-201, p. 196

²⁴⁷ Gerhardt, R.D., 'Consumer investment in trademarks', *North Carolina Law Review*, (2010), 88, 427-500, p. 459-460.

²⁴⁸ *Ibid.*, p. 461

consumers may prefer to use a *Breitling* wristwatch in order to express their lifestyle or attitude even though there is a significant price difference between these two wristwatches, and sometimes even if there is not that much quality difference between these two wristwatches.

In addition to affirming personal identity and enhancing individual expression, the choice of the products of a particular trade mark signifying a brand image may give an individual consumer a means of feeling part of a larger community.²⁴⁹ In other words, consumers may prefer to purchase a specific trade mark which is associated with a brand image in order to feel part of a particular, but generally artificial, society. For example, *Burberry* is a well-known British trade mark for clothing with a brand image of luxury. Queen Elizabeth II and The Prince of Wales have granted the company Royal Warrants which is seen as a guarantee of acceptable quality and an indicator of prestige.²⁵⁰ Therefore, consumers may prefer to purchase the products of *Burberry* not only because of its reliable long-term commercial source or quality but also the brand image of British luxury which gives consumers the feeling of being part of high-class society with the taste of British royalty and aristocracy. Similarly, consumers may prefer to use *Apple iPhone* Smartphone although there are cheaper options in the market with almost same quality functions from other reliable commercial sources. Since, *Apple iPhone* Smartphone gives its users a feeling of being part of *Apple* fan society which might be associated with tasteful upper-middle class who cares for the design and appearance of his phone as much as its quality and functions and be willing to pay higher price for getting them.

According to Holt, experiencing trade marks accompanied with a brand image of a certain attitude or lifestyle in today's modern secular society substituted for the rituals of religious

²⁴⁹ *Ibid.*, p. 462

²⁵⁰ Available at http://www.brandfinance.com/knowledge_centre/stories/how-we-valued-the-monarchy-as-a-brand-royal-warrants 12.08.2012

myth that anthropologists have documented in every human society. Einstein elaborates this point in “*Brands of Faith*” as follows:

“Much as religion created meaning for people’s lives over the centuries, now marketers create meaning out of the products that fill our existence. These products come to be not just clothes to wear or cars to drive, but elements of who we are.”²⁵¹

In other words, brand images signified by particular trademarks become a material embodiment of myths.²⁵²

Thus, experiencing a trade marked product associated with a strong brand image sometimes might be more important than purchasing the cheaper or better options of the same product of other trade marks. As an example to this, some motorcycle consumers prefer to use *Harley-Davidson* motorcycles due to its strong brand image of a certain motorcyclist life style which is even supported with stylish subsidiary products such as motorcyclist leather jackets. Therefore, *Harley-Davidson* motorcycle users prefer to purchase the products of *Harley-Davidson* even though there are other motorcycle suppliers selling same or better quality motorcycles with the same or cheaper prices. *Harley-Davidson* means more than being the trade mark of a good quality motorcycle for them. It is a lifestyle they live. It is a social club they involve. Thus, the products of other motorcycle suppliers cannot satisfy the social or emotional desires and needs of *Harley-Davidson* fans even if their quality and reliable commercial source expectations are satisfied by them.

Moreover, consumers can still prefer to purchase the products of a trade mark to which they have developed a personal attachment even after experiencing same or better quality products sold under the labels of different trade marks. Edwards and Day refer to an academic research which was conducted by three scholars from three different universities and founded by

²⁵¹ Einstein, M., *Brands of Faith: marketing religion in a commercial age*, Routledge, (2008), 1st edition, p. 71

²⁵² Holt, D. B., *How Brands Become Icons: the principles of cultural branding*, Harvard Business School Press, (2004), p. 8

London Business School in 2004 in order to provide empirical data for the reasons behind strong brand royalty. According to its results, consumer loyalty to a self-affirming trade mark associated with a brand image is so strong that consumer might stick with their chosen trade mark even after experiencing alternatives that work better. For instance, *Lavazza* coffee trade mark was preferred by one of the respondents, an Italian woman living in the UK, in order to express her Italian identity although there are alternative coffee products that performed equally well or even better. Or, *Vaseline* is chosen as a make-up remover by another woman respondent for its fit with her straightforward, principled image of self although there are alternative make-up remover products that performed equally well or even better.²⁵³

As Ramello and Silva remarked, the relationship between consumers and today's trade marks accompanied by a strong brand image goes beyond "the informational sphere", which is the origin and quality guarantee functions of trade mark, to touch "the emotive and psychological realms", which is the modern functions of trade mark.²⁵⁴ Haig referred to the words of Scott Bedbury, *Starbucks*' former vice-president of marketing, who controversially admitted that 'consumers don't truly believe there's a huge difference between products,' and pointed out that trade marks have to establish 'emotional ties' with their customers so as to gain their loyalty.²⁵⁵

Consumers of this century may purchase a product of a particular trade mark not simply because of the tangible attributes of the product. They also purchase the brand image of quality, luxury, exclusivity, youth, beauty or other certain lifestyles and attitudes accompanying with the trade mark in order to satisfy their social, psychological or emotional

²⁵³ Edwards, H. and Day, D., *Creating Passion Brands: getting to the heart of branding*, Kogan Page, (2005), 1st edition, p. 53-54

²⁵⁴ Ramello, G.B. and Silva, F., 'Appropriating signs and meaning: the elusive economics of trademark', *Industrial and Corporate Change*, (2006), 937-963, p. 947

²⁵⁵ Haig, M., *Brand Failures*, Kogan Page (2003), p. 5

needs and desires in addition to their tangible needs.²⁵⁶ It is possible to say that trade mark itself has become the actual object of consumption rather than the product it represents. Moreover, the product might be used as a vehicle to sell the brand image of trade mark it is attached.²⁵⁷

The appreciation of trade mark itself can be seen as the individualisation of trade mark or separation of it from physical product. Lemley underlined this change in his article: “[T]here is an increasing tendency of treating trademarks as assets with their own intrinsic value, rather than as a means to an end.”²⁵⁸ Trade marks with a strong brand image have acquired a specific economic value which is independent of its associated product. The independent economic value of trade marks accompanied with a strong brand image, which is known as “brand equity” or “brand value”, can be estimated on the basis of some specific measurements. According to Aaker, brand equity is a set of consumer loyalty, brand awareness, perceived quality and brand image associations in addition to perceived quality linked to a trade mark, that add to or subtract from the value provided by a product to a firm or/and to the customers of the firm.²⁵⁹

More importantly, the brand equity of a trade mark might be increasingly significant in the total financial value of firms compared to their tangible assets. For instance, the most significant asset of *Coca-Cola Company* is probably the brand value of its registered *Coca-Cola* trade mark.²⁶⁰ According to report of *Brand Finance Brand Evaluation Consultancy Company*, the estimated brand equity of *Coca-Cola Company* was \$ 26 billion in September

²⁵⁶ Sakulin, W., *Trademark Protection and Freedom of Expression*, Wolters Kluwer, (2011), Rotterdam, p. 46; Gerhardt, R.D., ‘Consumer investment in trademarks’, *North Carolina Law Review*, (2010), 88, 427-500, p. 460

²⁵⁷ Ramello, G.B. and Silva, F., ‘Appropriating signs and meaning: the elusive economics of trademark’, *Industrial and Corporate Change*, (2006), 937-963, p. 958

²⁵⁸ Lemley, M.A., ‘The Modern Lanham Act and the Death of Common Sense’, *Yale Law Review*, (1999), 108, 1687-1715, p. 1693

²⁵⁹ Aaker, D.A., *Managing Brand Equity: capitalising on the value of a brand name*, The Free Press, (1991), p. 15-16

²⁶⁰ Ghidini, G., *Innovation, Competition and Consumer Welfare in Intellectual Property Law*, Edward Elgar (2010), p. 178

2011 while its estimated enterprise value was \$ 69 billion.²⁶¹ It means that almost 40 % of enterprise value of *Coca-Cola Company* belongs to its brand equity. These numbers illustrate the economic importance of trade marks with a strong brand image in business of this century.

However, of course, not all of the registered trade mark can acquire a significant brand value like *Coca-Cola*. In order for a trade mark to acquire significant brand equity, firm should make an investment on the creation, development and protection of a brand image that consumers will develop emotional, psychological and social attachments. Once the brand image accompanied with the trade mark has gained their loyalty, consumers might be willing to pay more for its product in order to feel emotionally or psychologically secure. The investment made by the firms in the creation of a brand image which will tie consumers to the trade mark will return them as higher selling prices which their loyal consumers are willing to pay.

Nevertheless, the trade mark must handle this important bond with care. If the trade mark steps out of line, consumers may not forgive it and break the bond.²⁶² For instance, the well-known trade mark *Blackberry* owned by Canadian firm “*Research in Motion (RIM)*” faced with a problem about its servers a couple of years ago. Blackberry smart phone users could not connect to the servers in many parts of world for three days. According to the Guardian, *RIM* has lost its market share to its smart phone rivals such as Apple and other smart phones using Android software because of the failure of finding solution the server problem within a reasonable time.²⁶³ A quality, productive and safe smart phone image of *Blackberry* for medium and large business corporations that needs to consistently contact multiple co-

²⁶¹ Available at < http://www.brandfinance.com/knowledge_centre/reports/september-update-of-brandfinance-global-100-brands-2011 > visited at 20 January 2012

²⁶² Haig, M., *Brand Failures*, Kogan Page (2003), p. 5

²⁶³ The Guardian, 13 October 2011, available at <http://www.guardian.co.uk> visited at 17 November 2011

workers with up to the minute information in their up-tempo business environment has been seriously damaged.²⁶⁴ Some of their customers were not willing to forgive the fail of *RIM* and therefore preferred to switch to other smart phones such as *I Phone* or *Android* phones. Thus, the Guardian reported it as the “Chernobyl moment” of *RIM*.²⁶⁵ The word choice of the Guardian to describe the impact of brand image erosion on the financial value of the firm also illustrates the important role of these modern functions that a trade mark performs play in the business of that firm.

This functional development that trade mark has undergone in the last decades led the CJEU to expand the protection given to trade mark owners under Article 5 (1) (a) of the Trade Mark Directive to cover the modern functions that a trade mark performs. We will try to analyse the economic aspect of the modern functions as well as the quality guarantee function that a trade mark performs later. Here, we will look at the development of CJEU’s case law in which the modern functions of trade mark are found to merit protection under Article 5 (1) (a) of the TMD.

As mentioned above, the idea that there might be distinct functions in addition to the origin indicating function of a trade mark was first suggested in *Arsenal Football Club v Reed*.²⁶⁶ In his opinion to the CJEU, AG Colomer raised an argument as to the traditional determination of the scope of trade mark rights by saying that “it seems to me to be simplistic reductionism to limit the function of the trade mark to an indication of trade origin” because a trade mark can indicate at the same time origin of the products, the quality of the products it represents and also the reputation of the firm. AG Colomer came the conclusion that there is “...no

²⁶⁴ Gaeta, A., ‘Brand Image Analysis’, (2010), available at <<http://www.scribd.com/doc/49627720/Blackberry-Brand-Image-Analysis>> visited at 23 August 2012

²⁶⁵ Guardian, 13 October 2011, available at <http://www.guardian.co.uk> visited at 17 November 2011

²⁶⁶ *Arsenal Football Club v Matthew Reed* [2002] E.T.M.R. 82

reason whatever not to protect those other functions of the trade mark and to safeguard only the function of indicating the trade origin of goods and services.”²⁶⁷

Therefore, the CJEU ruled in *Arsenal Football Club v Reed*²⁶⁸ that the scope of exclusive rights provided under the provision of Article 5(1) (a) of Trade Mark Directive covers any use of identical sign that affect or liable affect the ability of trade mark to perform *its functions*, in particular its essential function of guaranteeing to consumers the commercial origin of products. Although the CJEU recognized that there are functions other than origin function which also merit protection under the provision of Article 5(1) (a) of Trade Mark Directive by using the “*functions*” in this case and followed the same pattern in the subsequent cases such as *Anheuser-Busch v. Budejovicky Budvar*, *Adam Opel v. Autec* and *Celine v. Celine*²⁶⁹, an explanation about the identification of those functions had not been given until its *L'Oréal v Bellure*²⁷⁰ decision.

Nevertheless, Advocate Generals had opined in different cases about what those functions might be elaborating the opinion of AG Colomer in *Arsenal Football Club v Reed*. AG Sharpston in his opinion to the CJEU in *Intel Corp Inc v CPM United Kingdom Ltd* explained what a trade mark may present in addition to commercial origin of products bearing it with the following words: “[trade marks] present a powerful image of quality, exclusivity, youth, fun, luxury, adventure, glamour or other reputedly desirable lifestyle attributes, not necessarily associated with specific products but capable of presenting a strong marketing message in itself.”²⁷¹

²⁶⁷ *Ibid.*, at [46]- [47]

²⁶⁸ *Arsenal Football Club v Matthew Reed* [2003] E.T.M.R. 19

²⁶⁹ *Busch v. Budejovicky Budvar* [2005] E.T.M.R. 27, *Adam Opel v. Autec* [2007] E.T.M.R. 33, *Celine v. Celine* [2007] E.T.M.R. 80

²⁷⁰ *L'Oréal v Bellure* [2009] E.T.M.R. 55

²⁷¹ *Intel Corp Inc v CPM United Kingdom Ltd (C-252/07)* [2009] E.T.M.R. 13 at [AG8]

Similarly, AG Jacobs in his opinion to the CJEU in *Parfums Christian Dior v Evora* remarked those functions while referring to the argument about the protection of additional functions that a trade mark performs as well as its origin function under the provision of Article 5(2) of Trade Mark Directive as follows:

“It is also argued that trade marks have other functions, which might be termed “communication”, investment, or advertising functions. Those functions are said to arise from the fact that the investment in the promotion of a product is built around the mark. It is accordingly reasoned that those functions are values which deserve protection as such, even when there is no abuse arising from misrepresentations about either origin or quality [Emphasis Added].”²⁷²

However, the identification of those *functions* by the CJEU came with its judgment in *L'Oréal v Bellure* where quality guarantee, communication, investment or advertising functions of a trade mark in addition to its origin function are found to merit protection under the provision of Article 5(1) (a) of TMD.²⁷³ This revolutionary judgment of the CJEU, which expands the scope of exclusive trade mark rights to protect the communication, investment or advertising functions that a trade mark performs, has been criticized on the basis that neither a clear explanation as to the concepts of them nor a detailed justification for their protection was given.²⁷⁴

The case of *L'Oréal v Bellure* concerned so-called “smell-alike” or imitation perfumes and the use of well-known registered marks in price and smell comparison lists. In this case, *L'Oréal* opposed the use of the mark by *Bellure* on the basis of its registered word, device and packaging trade marks in order to protect its investment in creating its brand image of exclusive quality arguing that the defendants’ perfumes damaged, or were likely to damage,

²⁷² *Parfums Christian Dior v Evora* [1997] E.T.M.R. 323, at [42]

²⁷³ *L'Oréal v Bellure* [2009] E.T.M.R. 55

²⁷⁴ Gangjee, .D. and Burrell R., ‘Because You’re Worth It: *L’Oreal* and the Prohibition on Free Riding’, *The Modern Law Review*, (2010), 73(2), 282-304, p. 282; Horton, A., ‘The implications of *L’Oreal v Bellure*- a retrospective and a looking forward: the essential functions of a trade mark and when is an advantage fair?’ (2011), *E.I.P.R.* 33(9), 550-558, p. 555

its trade mark by creating confusion. Furthermore, the defendants were taking a ‘free ride’ on their trade mark investments. Based on these claims, *L’Oréal* sought to prohibit the use of its word marks in the comparison lists issued by the defendants, the use of allusive packaging and names of the five specific items sold by the defendants.²⁷⁵ However, general resemblance was not sufficient to show that either the trade or public would be deceived; and therefore the consumer confusion and misrepresentation based claims under trade mark infringement failed in this case.²⁷⁶ Nevertheless, the Court of Appeal referred a number of questions concerning the scope and the meaning of TMD Article 5 (and 6) in the context of the presentation by a trader of his products as replicas of a luxury brand and his use of comparison tables to the CJEU.

The first question referred to the CJEU concerned whether the use of registered word marks in the comparison lists fell within Article 5(1) (a) of the TMD. More specifically, the CJEU was asked whether the use of a registered trade mark on a comparison list for the purposes of indicating the characteristics, in particular the smell of the goods, in such a way that it did not cause any likelihood of confusion, did not affect sales under the well-known mark, did not jeopardise the origin function of the trade mark, and did not tarnish or blur the registered trade mark, but played a significant role in the promotion of the product, could constitute infringement under Article 5 (1) (a) of TMD.²⁷⁷

According to the CJEU’s preliminary ruling concerning this question, trade mark rights were granted to protect the specific interest of the trade mark owner; therefore these exclusive rights were restricted situations where the *functions* of a trade mark were destructively affected. This covered not only the origin function of trade mark, “but also its other functions,

²⁷⁵ *Ibid.*, p. 282

²⁷⁶ *L’Oréal v Bellure* [2007] EWCA Civ 968 at [17]

²⁷⁷ Horton, A., ‘The implications of *L’Oreal v Bellure*- a retrospective and a looking forward: the essential functions of a trade mark and when is an advantage fair?’ (2011), E.I.P.R. 33(9), 550-558, p. 550

in particular that of guaranteeing the quality of goods or services in question and those of *communication, investment or advertising* [Emphasis Added].”²⁷⁸ However, the CJEU emphasised that the mark owner cannot oppose the use of a sign identical with the trade mark on the basis of Article 5(1) (a) of TMD if that use is not liable to cause *detriment* to any of those functions that the trade mark performs.²⁷⁹ According to Gangjee and Burrell, the emphasis of the CJEU on the damage requisite for the applicability of Article 5 (1) (a) of TMD in fact backed the Advocate General’s conclusion that none of those functions were harmed in this case.²⁸⁰

The CJEU continued to apply to the extended interpretation of Article 5 (1) (a) of TMD so as to protect the economic functions that a trade mark performs in the subsequent cases. *Google France*²⁸¹ case is one of those cases which was brought by *Louis Vuitton, Viaticum Luteciel and CNRRH* against Google on the basis that their trade marks being used as Ad Words to trigger advertisements for sites offering competing and/or counterfeit products. The French courts had held that Google was liable for trade mark infringement in each case. Following Google’s appeal, a number of questions concerning the liability of search engine operator and advertiser under the provision of Article 5 of TMD were referred to the CJEU for ruling.

In his opinion to the CJEU, Advocate General Poiares Maduro referred to the judgment of the CJEU in *L’Oreal v Bellure*. According to Advocate General Poiares Maduro, the CJEU made an important clarification in *L’Oreal v Bellure* which is that alongside the aim of preventing consumers from being misled, trade marks also serve to promote innovation and commercial

²⁷⁸ *L’Oréal v Bellure* [2009] E.T.M.R. 55 ; Gangjee, .D. and Burrell R., ‘Because You’re Worth It: *L’Oreal* and the Prohibition on Free Riding’, *The Modern Law Review*, (2010), 73(2), 282-304, p. 285

²⁷⁹ *Ibid.*, at [60]

²⁸⁰ *Ibid.*, at AG [62]; Gangjee, .D. and Burrell R., ‘Because You’re Worth It: *L’Oreal* and the Prohibition on Free Riding’, *The Modern Law Review*, (2010), 73(2), 282-304, p. 286

²⁸¹ *Google France, Google Inc. v Louis Vuitton Malletier Google France v Viaticum, Luteciel Google France v CNRRH, Pierre-Alexis Thonet, Bruno Raboin and Tiger, a franchisee of Unicis* Joined Cases C-236/08, C-237/08 and C-238/08 [2010] E.T.M.R. 30

investment. A trade mark protects the investment that the trade mark owner has made in the product associated with it and, in so doing, creates economic incentives for further innovation and investment. Advertising, investment and communication functions that a trade mark performs relate to that promotion of innovation and investment.²⁸²

According to primarily ruling given by the CJEU to the relevant question, not the search engine operator but advertiser itself was making use of the trade marks in question required for there to be infringement. Therefore, the CJEU held that there is no need to consider the liability of *Google* for trade mark infringement. However, the question was whether advertisers were liable to purchase trade marks as keywords for trade mark infringement.²⁸³

Similar to its judgment in *L'Oréal v Bellure*, the CJEU noted in this case that the trade mark owner can only oppose that use of sign, using as keywords, which is identical with his trade mark if the use is liable to cause a detriment to any of *the functions* of trade mark. Therefore, the CJEU came to conclusion that the relevant functions to be examined in this case are the origin function and the advertising function.

As regards the function of advertising, the CJEU held that use of a sign which is identical with another person's trade mark in a referencing service such as Ad Words is not liable to have an adverse effect on the advertising function of the trade mark although it acknowledged that trade mark owners do experience repercussions from that use.²⁸⁴ It is important to note that the CJEU analysed, for the first time, the advertising function of trade mark separately in this case though it was mentioned together with the investment and communication functions of trade mark in *L'Oréal v Bellure*.

²⁸² *Ibid.*, at AG [96]

²⁸³ Blakeney, S., 'Google Ad Words: searching for more answers' C.T.L.R. (2010), 16(6), 152-155, p. 153

²⁸⁴ *Ibid.*, p.153; *Google France*, [2010] E.T.M.R. 30at [95]-[98]; *Case Comment* 'Use of trade mark in internet search keywords examined' EU Focus (2010), 274, 27-30, p.28

Following to this judgment, the CJEU analysed, for the first time, the investment function of trade mark in addition to its advertising function in *Interflora v. Marks & Spencer*²⁸⁵. In *Interflora v. Marks & Spencer*, *Interflora* had brought trade mark infringement proceedings against a competitor company *Marks & Spencer* which used *Interflora* as a keyword in Google Ad Words referencing service to advertise its own flower delivery service, meaning that when internet users entered *Interflora* as a search term in the Google search engine an advertisement for *Marks & Spencer's* flower delivery service would appear. In this case, the CJEU was asked to give a preliminary ruling to the question whether, under Article 5 (1) (a) of TMD, a trade mark owner is entitled to prevent its competitor from displaying, on the basis of a keyword which is identical to the trade mark and used without the consent of the trade mark owner, an advertisement for products identical to those for which the trade mark was registered.

According to the preliminary ruling given by the CJEU, the trade mark owner is entitled to prevent its competitor from displaying, on the basis of a keyword which is identical to the trade mark, an advertisement for products identical to those for which the trade mark was registered only if that use is liable to have an adverse effect on one of the functions of the mark, irrespective of whether the function concerned is the origin function of trade mark or one of the other functions of the mark, such as that of guaranteeing the quality of that product or service or that of communication, investment or advertising.²⁸⁶ However, the CJEU came to the conclusion that the relevant functions to be examined in this case are the origin function, the advertising function and the investment function of trade mark.²⁸⁷

It is important to note that the CJEU, for the first time, gave the definition of the investment function of trade mark in this case in order to explain the difference of it from the advertising

²⁸⁵ *Interflora v. Marks & Spencer* (C 323-09) [2012] E.T.M.R. 1

²⁸⁶ *Ibid.*, at [34] and [38]

²⁸⁷ *Ibid.*, at [43]

function. According to the CJEU, the investment function of trade mark can be defined as “to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty.”²⁸⁸ However, a trade mark can be used to acquire or preserve reputation, not only through advertising, but also through various commercial techniques. Therefore, the investment function of a trade mark differs from its advertising function although it may overlap with the latter.²⁸⁹ The CJEU found in this case that the use by a competitor of a keyword, which is identical to the trade mark in relation to the identical goods and services, has an adverse effect on the investment function of the trade mark but it has no adverse effect on its advertising function.

The most important outcome of this judgment was probably explanation of the difference between the notions of two different modern functions. The difference between the notions of the modern functions, named as communication, advertising and investment functions, had not been clarified by the CJEU since they were identified in *L'Oréal v Bellure*. Having said that, the notion of communication function and its difference from the notions of advertising and investment functions remains unclear; as the CJEU have not found the communication function of a trade mark relevant to be considered under the provision of Article 5 (1) (a) of the TMD in any of the relevant cases that they have given rulings.

To sum up, the idea that there might be further functions of a trade mark, in addition to its origin function, was first suggested in the rulings of the CJEU in *Arsenal Football Club v Reed*. Then, it has been developed with the identification of those functions, named as quality guarantee function and the advertising, investment or communication functions, in *L'Oréal v Bellure*. However, the CJEU did not provide any ruling illustrating the differences between the modern functions that a trade mark performs in the relevant cases until *Interflora v.*

²⁸⁸ *Ibid.*, at [60]

²⁸⁹ *Ibid.*, at [61]

Marks & Spencer. In this case, the CJEU provided a ruling noting the difference between the investment function and the advertising function that a trade mark performs. Therefore, it is possible to say that there has been a consistent improvement in the expansion of the exclusive trade mark rights to protect the modern functions of trade mark in CJEU's case law but noticeably it is not completely settled matter yet.

As mentioned in the previous section, the CJEU used to apply the essential function theory in the interpretation of trade mark protection provided under Article 5 (1) (a) of TMD. However, the CJEU refrained from applying the essential function theory in the interpretation of the scope of the rights given to trade mark owners under Article 5 (1) (a) of the Trade Mark Directive its recent judgments where the scope of the exclusive rights provided under Article 5 (1) (a) of Trade Mark Directive were expanded to protect the modern functions and the quality guarantee function that a trade mark performs in addition to its origin function. As mentioned earlier, the expansion of the scope of the rights given under Article 5 (1) (a) of TMD has given rise to the question as to the rationale behind this expansion.

The search costs theory developed by law and economics scholars provides the most appropriate rationale for the justification of the exclusive trade mark rights to protect the essential function which consists of the origin function and to some extent the quality guarantee function. As mentioned above, a trade mark can be used by its owners to provide an economic guarantee as to the consistency of the material quality features of the products that it identifies. According to the search costs theory, a trade mark as a quality guarantee indicator can be considered economically beneficial both for firms and consumers. In order for a trade mark to perform its quality guarantee function, the products bearing the trade mark must be distinguished from others. In other words, a trade mark performs its economic functions, as long as it performs its origin function. Hence, the search costs theory provides

an economic rationale for the protection of both the origin and the quality guarantee functions of a trade mark.

Having said this, it is arguable whether the search costs theory provides enough economic justification for the protection of the modern functions although the CJEU has found in its recent judgements that the investment, advertising or communication functions of a trade mark merit protection under the provision of Article 5(1) (a) of TMD. Therefore, we will try to analyse the search costs theory in detail so as to understand to what extent it provides an economic rationale to the protection of the economic functions that the CJEU recently identified in its judgements. We will try to find out whether the expansion of the scope of the exclusive rights given to trade mark owners under the provision of Article 5(1) (a) of TMD to protect the economic functions of a trade mark in addition to its origin function can be justified.

3.4 The Economics of a Trade Mark: Search Costs Theory

We have already mentioned that the most appropriate rationale for the justification of exclusive trade mark rights is the “search costs theory”, based on an economic costs/benefit analysis, which views trade marks as valuable aids to efficient markets. This rationale is considered as part of welfare economics, which deals with the theoretical justifications for economic policies that political authorities might adapt. Welfare economics are grounded in utilitarian theory which proposes that social policies, rules, and institutions are to be judged solely in terms of their consequences; and the only relevant consequences are individuals’ pleasures and pains. In addition, “the theorem of invisible hand”, seen as one of guiding principles of the specific economic variety of utilitarian theory, leads free market to achieve congruence between the self interest of individual and interest of others. According to this theorem, the forces of supply and demand will bring about a set of equilibrium prices that

lead individuals to meet the conditions of efficient production, efficient consumption and efficient balance of production and consumption in a free-market economy. In other words, prices will be kept at an optimal level while firms are still granted a reasonable profit. Moreover, the free competition will produce high efficiency and low costs.²⁹⁰

Law and economics scholars apply these economic theories to trade mark law in order to justify the exclusive rights given to trade mark owners to protect the functions that the trade mark performs.²⁹¹ Accordingly, trade mark rights should be granted to their owners only if the benefits of granting a certain type of protection compensate possible costs. The search costs theory is the most appropriate rationale as detailed in a pioneering article of Landes and Posner which provides a justification for granting exclusive rights to trade mark owners in order to protect the functions that their trade mark performs. Thus, we will try to analyse the economic aspect of trade mark in the light of the search costs theory in order view whether there is an enough justification for the exclusive rights that trade mark owners apply to protect the functions that their trade mark performs. According to the search costs theorists, trade mark rights might be seen as important instruments in facilitating market communication by providing information for consumers as to the quality characteristics of products and providing incentives for firms to provide constant quality products.²⁹² Therefore, we will start with explaining what information is conveyed to consumers through trade mark.

²⁹⁰ Hirshleifer, J., *Price Theory and Applications*, Prentice Hall, (1988), London, 460-470; Sakulin, W., *Trademark Protection and Freedom of Expression*, Wolters Kluwer, (2011), Rotterdam, p.52-53

²⁹¹ *Ibid.*, p.53; Dogan, L.C. and Lemley, M.A., 'A search-costs theory of limiting doctrines in trademark law', *The Trademark Reporter*, (2007), 6, p. 1223-1251; Gerhardt, R.D., 'Consumer investment in trademarks', *North Carolina Law Review*, (2010), 88, 427-500

²⁹² Gerhardt, R.D., 'Consumer investment in trademarks', *North Carolina Law Review*, (2010), 88, 427-500; Barnes, D.W., 'A new economics of trademarks', *Northwestern Journal of Technology and Intellectual Property*, (Fall 2006), Volume 5, Number 1

There is variety of identical or similar products that different firms put on the market. Consumers make a choice between them in order to find the best option to fulfil their needs or desires. Thus, consumers seek the most reliable information about the characteristics of products that they want to purchase. However, it might not be easy for a consumer to obtain reliable information as to the characteristics of the marketed products if they are not observable. More specifically, firms cannot convey information as to the unobservable quality characteristics of their products even though they might play a crucial role in consumers' decision making prior to purchasing.

This economic problem, called “information asymmetry” as the cause of a market failure, is described by Akerlof in his well-known article “Market for Lemons”.²⁹³ According to the Akerlof's theory, firms have better information than consumers as to the unobservable characteristics of products. In the presence of information asymmetry, good quality products and bad quality products (or “lemons” as they known in the United States) must still sell at the same price because it is not possible for a buyer to see the difference between the good and bad quality ones. Although the unobservable quality characteristics of a product might be an important factor in the total value of the product to make consumers' decision prior to purchasing, firms will have greater incentive to mislead consumers as to the unobservable quality characteristics of the product by selling lemons at the price of good quality products. As a result, there will be reduction in the average quality standards of some kind of products in the market.²⁹⁴

Nonetheless, trade mark use can reduce the market failure of “asymmetric information” by providing information as to the unobservable quality characteristics of the products bearing it. In other words, firms can use their trade mark to convey information to their customers as to

²⁹³ Akerlof, G. A., ‘ The market for “lemons”: quality uncertainty and the market mechanism’, Quarterly Journal of Economics (1970) Vol. 84, No. 3, p. 488-500

²⁹⁴ *Ibid.*, p. 489

the unobservable quality characteristics of their products. This is one of the reasons why search costs theorists view trade mark as an economically beneficial asset for the welfare of the society. Trade mark is an important marketing tool which might eliminate the market failure due to information asymmetry.

It is important to note that trade mark can be used by firms to provide information as to the quality characteristics of *products that consumers cannot obtain before purchasing*. However, the characteristics of products might be classified differently according to the expectations of consumers. Economides classified characteristics of products into two different groups: quality characteristics and variety characteristics.²⁹⁵ According to Economides, the crucial difference between them is that all of the consumers prefer to gain a larger amount of quality while they might have their own personal preferences on the variety characteristics of products. For instance, all of the consumers prefer to gain larger amount of quality when they want to purchase a shirt regardless of its quality standard, which consumers may prefer according to their budget. However, they can have different choices about the colour of the shirt which can be considered as variety characteristics of the product. Although all of consumers desire larger amount of quality for their own economic benefits, the information as to the quality characteristics of products might not be easy for them prior to purchasing due to the information asymmetry.

However, the degree of difficulty to obtain information as to products' quality features may differ. Therefore, quality characteristics of products can be also divided into three categories. First, Nelson identified two different groups of quality characteristics: namely the search characteristics and the experience characteristics.²⁹⁶ Then, Darby and Karni added another

²⁹⁵ Economides, N.M., 'The economics of trademarks', *Trademark Reporter*, (1988), 78, 523-539, p. 525

²⁹⁶ Nelson, P., 'Information and consumer behaviour' *Journal of Political Economy*, (1970) 78, 311-329, p. 312

category to them: namely the credence characteristics.²⁹⁷ Although economists use the terms search, experience, and credence *products* for the categorization, Katz claims that it is more correct to refer to *attributes*. Since, most products may have different attributes that correspond to this classification. According to these scholars, some products may have different characteristics that correspond to this categorisation.²⁹⁸

According to Nelson's division, products are divided into two in terms of their quality characteristics. First are the search characteristics about which information can be obtained comparatively cheaply. Consumers can obtain information as to the quality of products through physical inspection before purchase. As an example, a consumer who wants to purchase a pair of jeans can view it, touch it and try it in a clothes shop before purchasing.²⁹⁹

Second are the experience characteristics about which the independent information can only be obtained through actual consumption. As an example, a consumer who wants to purchase a tube of toothpaste can obtain little information about the quality of the product through the physical inspection of its tube and even its content. In this case, the only way for obtaining independent information as to the quality of products is to purchase one sample. Although buying a sample of toothpaste to test it is not a costly purchase, it may be costly in the case of a bottle of perfume to purchase a sample in order to obtain information as to the chemical composition of it.³⁰⁰

In addition to the division of Nelson, Darby and Karni identified a third class of characteristics which they termed credence characteristics. In the case of credence

²⁹⁷ Darby, M.R. and Karni, E., 'Free competition and the optimal amount of fraud', *The Journal of Law and Economics*, (1973), 16, 67-88

²⁹⁸ Katz., A., 'Beyond search costs: the linguistic and trust functions of trademarks', *Brigham Young University Law Review*, (2010), 1555-1609, p. 1561

²⁹⁹ Nelson, P., 'Information and consumer behaviour' *Journal of Political Economy*, (1970) 78, 31-329, p. 312; Ullah, W., Martino, T.R., 'The quality guarantee function of trade marks: an economic viewpoint' *European Intellectual Property Review*, (1989),11(8), 267-269, p. 268

³⁰⁰ *Ibid.*, p. 312; *Ibid.*, p. 268

characteristics, quality cannot be determined even after actual consumption, since such determination is prohibitively costly for consumers. In other words, the assessment of credence characteristics requires additional information which cannot be obtained cheaply. The absence or presence of the credence characteristics may not be verifiable until long after purchase, if at all. According to Darby and Karni's theory, the suitability of a particular product for a particular consumer may require diagnosis which forms part of the overall product. This might be particularly hard to verify.

The safety of a car in certain conditions might be given as an example of credence characteristics of products. Even if a consumer can obtain information about it, the information will be available only at high cost. Or a consumer who purchases a laptop cannot verify the quality characteristics of it such as its durability until long after purchase. Thus, Darby and Karni stated that obtaining the quality characteristics of credence products (or credence characteristics), which are normally expensive products, might be more difficult for consumers than those of other kind of products.³⁰¹

Therefore, trade mark use plays an important role in helping firms to provide information about the unobservable quality characteristics of the experience or credence products to their consumers. In the absence of trade mark, consumers would make choices between products whose observable characteristics might be identical to each other but unobservable characteristics might be different from each other. In other words, they face with the lack of information about the unobservable quality characteristics of experience or credence products even though the unobservable quality characteristics of the product might be important factors of the total value of the product.³⁰² Hence, the product chosen by consumer to purchase might not satisfy the expectations of the consumer. This in turn will affect the price

³⁰¹ *Ibid.*, p. 268; Darby, M.R. and Karni, E., 'Free competition and the optimal amount of fraud', *The Journal of Law and Economics*, (1973), 16, 67-88

³⁰² Economides, N.M., 'The economics of trademarks', *Trademark Reporter*, (1988), 78, 523-539, p. 526

that consumers are willing to pay for the product while firms will have no incentive to invest in the quality of the product in order to provide consumers higher quality products where this involves greater costs. Instead, they would reduce the quality of the products by producing the products with the cheapest possible unobservable characteristics. In the absence of trade mark use, producing the products with high standard unobservable characteristics would not add to their ability to sell higher quality products and in turn gain higher profits. In other words, there would not be any benefit for firms to create or maintenance the unobservable quality characteristics of the trade marked products.³⁰³

If we turn back to our laptop computer example given above, a consumer will make a choice between laptop computers in the market which can be differentiated from each other only with their observable variety characteristics such as their colours or their design. However, the one chosen by the consumer to purchase may not satisfy the expectations of the consumer because of the poor quality of the products which cannot be observed before purchasing. Therefore, consumer may not be willing to pay higher price for the product while firms may have greater incentive to mislead the unobservable quality characteristics of the product.

Nevertheless, a trade mark may help consumers to identify the unobservable quality features of products, or at least provide consumers with sufficient reassurance about likely product quality. Therefore, consumers prefer to purchase the product of a particular trade mark which they have a favourable experience with unobservable quality characteristics of the same product from the same trade mark before. Or they prefer to purchase the product of a particular trade mark which has been recommended by a reliable source.

Or, a consumer prefers to purchase the product of a particular trade mark which they have a favourable experience with a different product from the same trade mark before. This occurs

³⁰³ *Ibid.*, p. 526

in the case of 'brand extension' when the associations of brand (trade mark) is transferred to another similar product by the trade mark owner, or of 'brand stretching' when associations of brand (trademark) is transferred from an initial home market to a different product line by the trade mark owner in order to extend the marketing power of it by using a model that assumes that brand identity is a complementary feature that enhances consumer willingness to pay.³⁰⁴ Also, a consumer prefers to purchase the product of a particular trade mark which they have a favourable experience with a different trade mark. Since, a trade mark may indicate that it is somehow linked economically to a trade mark with which the consumer is familiar and the consumer may draw conclusions on this basis that the undertaking in a position to control them has an interest in maintaining the attractive power of both trade marks. In those cases, a trade mark signifying a strong brand image plays a role in helping the consumers' decision making for purchasing. This can be considered as the contribution of trade mark associated with a strong brand image in reducing the search costs of consumers through the expansion of the marketing power of the brand image signified by the trade mark.

As mentioned above, a trade mark help consumers to identify unobservable quality characteristics of the products or at least provide them with sufficient reassurance to influence their decision making. However, the success degree of a trade mark to convey information to the consumer as to unobservable characteristics of the product before purchasing depends on the consumers' ability to remember the trade mark and its associated characteristics. In other words, consumers should have sufficiently good memory to remember the information as to the unobservable characteristics of products conveyed by the trade mark. Economides stated that the consumer is assumed to have sufficiently good

³⁰⁴ Ramello, G.B., 'What's in a sign? Trademark law and economic theory', *Journal of Economic Surveys*, (2006), 4, 547-564, p. 559; Aaker, D. A., Keller K. L., 'Consumer Evaluations of Brand extensions', *Journal of Marketing*, (January 1990), Volume 54, 27-41, p. 28 ; Repall, L. M., Richards, D. J., 'The Simple Economics of Brand Stretching', *The Journal of Business*, (July 2002), Volume 75, No. 3, 535-552, p. 535

memory to remember the message as to unobservable quality characteristics of the trade marked products he/she purchased before.³⁰⁵

The success degree of a trade mark to convey information to consumers as to the unobservable quality characteristics of the product also depends on consumers' ability to identify the product of the trade mark among those of others. The ability of a trade mark to differentiate itself from others depends on the inability of others to use a trade mark which is identical with or similar to it.³⁰⁶ Landes and Posner pointed out this by saying that "to perform its economizing function a trade mark... must not be duplicated".³⁰⁷ In other words, in order for a trade mark to fulfil its quality guarantee function, the origin function of it must perform well. Therefore, it is possible to say that the search costs theory justifies the exclusive rights granted to trade mark owner which protect both the origin function and the quality guarantee function that a trade mark performs.

Trade mark law protects the identification of a trade mark with particular products in two ways. First, it ensures that the owner of a trade mark has an exclusive right to use it for designated kinds of product which he can apply to prevent third parties to use a sign which is identical with or similar to his trade mark. More specifically, Article 5(1)(b) of the TMD³⁰⁸ states that a registered trade mark is infringed if a firm or an individual uses in the course of trade a sign which is identical with the trade mark and is used in relation to products similar to those for which the trade mark is registered or the sign is similar to the trade mark and is used in relation to products identical with or similar to those for which the trade mark is registered if any likelihood of confusion in the mind of consumers, including the likelihood of association with the trade mark exists. Second, it ensures that a trade mark is distinctive

³⁰⁵ Economides, N.M., 'The economics of trademarks', *Trademark Reporter*, (1988), 78, 523-539, p. 528

³⁰⁶ *Ibid.*, p. 557; Beebe, B., 'Search and persuasion in trademark law' *Michigan Law Review*, (2005), 103, 2020-2072, p. 2028

³⁰⁷ Landes, W.M., Posner, R.A., 'Trademark law: an economic perspective', *Journal of Law and Economics*, (1987), 30, 265-269, p.269

³⁰⁸ Corresponding to section 10(2) of 1994 Trade Mark Act

and can be distinguished without confusion.³⁰⁹ According to Article 3(1) of the TMD³¹⁰, a trade mark which is devoid of any distinctive character cannot be registered.

As mentioned above, trade mark helps consumers to identify the unobservable quality characteristics of the products or at least provide them with sufficient reassurance as to likely product quality in order to guide them for their decision making. This means that a trade mark in turn creates a chance for firms to differentiate their products in the unobservable characteristics and efficiently convey these differences to their consumers in order to make them willing to pay a higher price for their products after building up a reputation and gaining their loyalty.

Consumers prefer to purchase the products of a particular trade mark; because they experience the unobservable quality characteristics of same, similar or different products from the same trade mark or different trade mark of the same undertaking earlier or they are advised by reliable source. Over time, products of a particular trade mark acquire a “track record” due to these kinds of repeated purchases. As a result of this track record, the trade mark can build up a reputation in the minds of consumers and acquire the loyalty of consumers. In other words, a trade mark provides an opportunity for firms to create reputation through the quality guarantee function of their trade mark and gain higher profits by acquiring loyalty of consumers.³¹¹

A trade mark which acquired a reputation brings greater profits to the firm because of repeated purchases of their existing customers and purchases of their new customers who are willing to pay more for the trade mark which acquired a reputation in exchange for savings in search costs. However, the ability of a firm to create reputation and in turn gain higher profits

³⁰⁹ Economides, N.M., ‘The economics of trademarks’, *Trademark Reporter*, (1988), 78, 523-539, p. 528

³¹⁰ Corresponding to section 3(1) of 1994 Trade Mark Act

³¹¹ Economides, N.M., ‘The economics of trademarks’, *Trademark Reporter*, (1988), 78, 523-539, p. 527

depends on the incentive of the firm to provide consistency in the quality of the products which is supported with its the organizational behaviour associated with the trade mark. Therefore, firms will have incentive to invest resources in developing and maintaining their trade mark. This is called by Landes and Posner as “self-enforcing feature of a trade mark”.³¹²

Firms have a strong incentive to maintain the consistent quality of products over the time and across consumers in order to gain the loyalty of their consumers. The expenditure which this may require returns them in the form of greater profits due to the increase of sales owing to the repeated purchases and in many cases a higher sale price. However, it is crucial to note that reputation acquired by a firm through its trade mark does not only bring higher profits but also extra responsibilities. As Akerlof pointed out, “[trade marks] not only indicate quality but also give the consumer a means of retaliation if the quality [of trade marked products] does not meet expectations”.³¹³ Reduction in the quality characteristics of products is likely to damage the reputation of the trade mark. Damage of the reputation causes a financial loss to the firm due to the decrease in sales owing to the loss of the customer portfolio. Economides pointed out that firms whose horizon is short may choose to profit from their trade marks’ reputation by selling poor quality products which is termed as “milking”. Severe financial constraints following a leveraged buy-out or a dramatic fall in the demand for the products because of innovation in competing products or severe economic crisis may shorten the horizon of the firms and force it to the short run.³¹⁴

As mentioned above, a decline in the quality of trade marked products will damage the reputation of trade mark and in turn cause a financial loss to the trade mark owner. However,

³¹² Landes, W.M., Posner, R.A., *The Economic Structure of Intellectual Property Law*, The Belknap Press of Harvard University Press, (2003), London, p. 168

³¹³ Akerlof, G.A., ‘The market for “lemons”’: quality uncertainty and the market mechanism”, *Quarterly Journal of Economics*, (1970), 84, 488-500, p. 500

³¹⁴ Economides, N.M., ‘The economics of trademarks’, *Trademark Reporter*, (1988), 78, 523-539, p. 529

financial loss that firms will face in the case of any damage to their reputation may be more than what they expected. In other words, the consequences of any damage to the reputation of the firms will be greater than the actual value of damages caused due to the ‘retaliation’ offered to consumers by the trade mark. The empirical research of Jarrell and Peltzman, which is about the impact of defective drug and auto products’ recalls on the wealth of their sellers, illustrates that the costs of product recalls on the wealth of firms are far more than the actual costs of recalling the defective products. According to the results of the research, the large component of the total cost suffered from the recall of the products caused from the loss of reputation.³¹⁵

The financial losses incurred by firms due to the events that effect directly the reputation of the trade mark might be greater than the actual value of the damages caused. Therefore, it is possible to say that reputation obtained through the material quality of the trade marked products extends the liability regime of the trade mark owners. In other words, a trade mark also produces an optimal level of deterrence in markets which is beneficial for consumers. In this sense, it is possible to say that a trade mark signifying a strong brand image will increase the effectiveness of the trade mark as a safeguard.

Griffiths stated that an attractive brand image of a trade mark increases not only the trade mark owner’s return from the trade mark but also the effectiveness of the trade mark as a safeguard if it is vulnerable to damage from consumer dissatisfaction.³¹⁶ Hence, consumers may prefer to use a trade mark associated with a brand image because of the reassurance about the effective response in the case of consumer dissatisfaction. It is important to note that firms can make an investment in generating a brand image in order to create additional purchasing motivations to the products of their trade mark which also provides reassurance as

³¹⁵ Jarrell, G. and Peltzman, S., ‘The impact of product recalls on the wealth of sellers’, *Journal of Political Economy*, (1985), 31, 512-536, p. 536

³¹⁶ Griffiths, A., *An Economic Perspective on Trade Mark Law*, Edward Elgar, (2011), Cheltenham, p.143

to likely product quality. However, the decrease of certain expected quality of the products identified by a trade mark associated with a strong brand image can cause a significant damage to that brand image. The advantage of a firm who has reputation in the minds of consumers because of the strong brand image signified by its trade mark may suddenly turn into a disadvantage due to the failure of the firm to prove the products bearing the trade mark at a certain expected quality.³¹⁷ Therefore firms will invest in developing and maintaining the material quality features of the products bearing their trade mark in order to avoid any damage to the attractive brand image enhancing the marketing power of their trade mark.

In other words, consumers may view the brand image as an extra safeguard for the certain expected quality of products, in particular products with credence characteristics which may not be verifiable until long after purchase, if at all. Therefore, consumers may be willing to pay higher for a trade mark signifying a brand image; since they view the strong brand image of trade mark as an extra assurance for the quality features of the products bearing it. This in turn may create extra incentives for firms to invest resources in developing and maintaining the quality features of their product in order to safeguard the marketing power of the trade mark.

Blackberry crash example which we have used above might be a good example to the risk of financial loss due to damage to reputation that RIM (the owner of Blackberry) as the owner of a trade mark associated with a brand image has faced after the ineffective response to their consumers in the decline of the quality of its servers.³¹⁸ As Ramello points out, the advantage

³¹⁷Ramello, G.B., 'What's in a sign? Trademark law and economic theory', *Journal of Economic Surveys*, (2006), 4, 547-564, p. 552

³¹⁸ The Canadian firm "Research in Motion (RIM)" which owns "Blackberry" recently faced with problems as to its servers. Blackberry smart phone users could not connect to the servers in many parts of world for three days. The Guardian reported it as the "Chernobyl moment" of RIM. RIM has lost market share to its smartphone rivals such as Apple and smart phones using Android software due to the failure of RIM to solve the server problems within a reasonable time. The cost of temporary damage in the reputation of Blackberry through bad publicity was a loss in the shares, revenues and profits of RIM. However, it has been also reported by the Guardian that the reputation of RIM may be permanently damaged. There is no academic research on the crash

of a trade mark associated with a strong brand image in markets may suddenly turn into a disadvantage if damage has occurred to its reputation because of the dissatisfaction of consumers as to the quality of products bearing the trade mark.³¹⁹ In order to avoid any damage to the brand image signified by their trade mark that consumers are willing to pay higher prices, firms may have an extra incentive in developing and maintaining the quality features of their product or an effective response in the case of consumer dissatisfaction. In other words, the owner of a trade mark may make investments in the creation and development of a brand image which consumers wish to be associated with in order to increase the return from his trade mark. In order to prevent any damage to that brand image, the owner will have an extra incentive to satisfy consumers as to the certain expected quality of the products bearing the trade mark associated with the brand image.

To sum up, a trade mark which conveys information as to the unobservable characteristics of products bearing it to the consumers has two essential economic benefits in search costs theory. First, it reduces the consumer search costs by enhancing consumer purchasing decisions. Second, it creates incentives for firms to invest resources in developing and maintaining the marketing power of the trade mark. As mentioned above, the benefit of a trade mark for consumers is to reduce their search costs. In the absence of trade marks, consumers need to investigate the attributes of all the different versions of the product that he/she wants to purchase. In other words, a trade mark conveys information that allows consumers to tell themselves that “I need not investigate the attributes of the brand I am about

of Blackberry to determine whether the large part of the total loss belongs to the loss of reputation. However, the Guardian has reported the crash as the “Chernobyl moment” of RIM. This shows how bad publicity creates damage on the reputation of Blackberry and in turn on the financial loss of RIM. Reported by Arthur, C. and Garside, J., ‘Satisfaction with Blackberry crumbles as server problems keep users in dark’, The Guardian, 13 October 2011, available at <http://www.guardian.co.uk> visited at 17 November 2011

³¹⁹Ramello, G.B., ‘What’s in a sign? Trademark law and economic theory’, Journal of Economic Surveys, (2006), 4, 547-564, p. 552

the purchase because the trade mark is a shorthand way of telling me that the attributes are the same as that of the brand I enjoyed earlier.”³²⁰

The willingness of consumers to pay higher prices to trade marked products for reducing their search costs creates incentives for firms to invest resources in developing and maintaining the marketing power of the trade mark. If firms create an attractive reputation through their trade mark, they will obtain greater profits because of the increase of sales owing to the repeated purchases and in many cases a higher sale price. A firm’s incentive to invest resources in developing and maintaining the marketing power of a trade mark depends on its ability to offer a consistent and desirable quality.³²¹

As detailed above, the search costs theory provides an economic justification for the exclusive rights granted to trade mark owners in order to protect the origin and quality guarantee functions of trade mark. Since, quality guarantee function of a trade mark is economically beneficial both for consumers and firms and its origin function is essential for a trade mark to perform its quality guarantee function. However, it was argued whether it provides an economic rationale for the expansion of the scope of the exclusive rights to cover the protection of the communication, investment or advertising functions of a trade mark.

As explained above, the communication, investment or advertising functions of a trade mark might play two important roles in the search costs theory. First, a trade mark which performs its communication, advertising or investment functions in addition to its origin and quality guarantee functions may contribute to reduce the search costs of consumers. Since, a trade mark associated with a strong brand image may help consumers to have an idea about the unobservable quality features of a product bearing the trade mark which they have had a

³²⁰ Landes, W.M., Posner, R.A., *The Economic Structure of Intellectual Property Law*, The Belknap Press of Harvard University Press, (2003), London, p. 168

³²¹ *Ibid.*, p.168

favourable experience with a different product of that mark before. As mentioned above, this may occur in the case of ‘brand extension’ or of ‘brand stretching’ which firms apply in order to extend the marketing power of their trade mark by using a model that assumes that brand image of the trade mark is a complementary feature that enhances consumer willingness to pay.³²²

Second, consumers may view the strong brand image of a trade mark as an extra assurance for the material quality features of the products bearing it. In other words, a trade mark which performs its communication, advertising or investment functions in addition to its origin and quality guarantee functions may be viewed by consumers as an extra quality assurance for the likely product quality. The willingness of consumers to pay higher prices for the products of a trade mark associated with a strong brand image owing to its extra quality assurance impression on the consumers may in turn create extra incentives for firms to invest resources in developing and maintaining the quality features of the products in order to avoid any damage to the brand image that they have made invested.

In this sense, it is possible to say that the quality guarantee function and the modern functions of a trade mark might be linked to each other. The quality guarantee function may be essential for a trade mark to perform its modern functions while the modern functions may enhance the power of trade mark to perform its quality guarantee function. As the modern functions may enhance the power of trade mark as a quality guarantee, the search costs theory may be used as an economic rationale not only for the protection of quality guarantee function but also the protection of the modern functions. Having said this, the modern functions do not only enhance the power of a trade mark as quality guarantee but also create a

³²² Ramello, G.B., ‘What’s in a sign? Trademark law and economic theory’, *Journal of Economic Surveys*, (2006), 4, 547-564, p. 559; Aaker, D. A., Keller K. L., ‘Consumer Evaluations of Brand extensions’, *Journal of Marketing*, (January 1990), Volume 54, 27-41, p. 28 ; Repall, L. M., Richards, D. J., ‘The Simple Economics of Brand Stretching’, *The Journal of Business*, (July 2002), Volume 75, No. 3, 535-552, p. 535

source of psychological and social satisfaction which consumers may gain by purchasing the products bearing the trade mark. We will explain this in the next section.

3.5 Trade Mark As a source of Emotional and Social Satisfaction

Schechter argued that "the value of the modern trademark lies in its selling power" and that "this selling power depends for its psychological hold upon the public, not merely upon the merit of the goods upon which it is used, but equally upon its own uniqueness and singularity".³²³ This argument of Schechter can be accepted as the early identification of the communication, investment or advertising functions that a modern trade mark performs if the owner of the trade mark prefers to use it to that end.

We have already examined in the previous chapters that a trade mark enables its owner to create a brand image associated with the trade mark in order to attract consumers to their products. In order for a trade mark to perform its modern functions, the "uniqueness and singularity" of the trade mark because if the brand image it identifies must be established in the minds of consumers in response to their cognitive and emotional experiences. When consumers associate a brand image with the trade mark in their minds, the trade mark will gain a selling power in the market. This means that consumers no longer pay only for material quality of the products of a particular trade mark but they also pay for the brand image signified by the trade mark which they attach a certain attitude or a lifestyle. The brand image as an additional purchasing motivation of trade mark in fact acquires the loyalty of consumers and therefore firms will sell their products at a higher price and gain higher profits. Therefore there is no dispute that firms can gain economic benefits from this.

³²³ Schechter, F.I., 'The rational basis of trademark protection', Harvard Law Review, (1926-1927), 40, 833, p.831

However, it was argued that whether consumers can derive economic benefits from purchasing the products of a trade mark signifying a brand image which they are willing to pay higher due to their loyalty to the brand. It was said that advertising and other marketing techniques used by firms to *teach* consumers about the unique brand image associated with their trade mark might be persuasive. In other words, advertising or other marketing techniques used by firms to teach consumer about the brand image signified by their trade mark does not really inform consumers about the material quality features of products and therefore enhance their decision making. Conversely, it induces consumer delusion about the social and psychological needs and desires.³²⁴ It is therefore possible say that persuasive advertising and other marketing techniques used by firms to create additional purchasing motivations have no direct benefits for consumers.

Gerhardt claimed that a trade mark associated with a brand image can be preferred by consumers in order to express their identity, lifestyle or attitude or feel a member of a larger community rather than the quality or price of the products identified by it.³²⁵ As mentioned earlier, consumers attach a certain attitude or a lifestyle to a trade mark associated with a brand image. Thus, the brand image of the trade marked products might be more important than price and quality of the products in the purchasing decisions of consumers. According to a survey, which support the argument of Gerhardt, conducted in the United States in 2007, fifty seven per cent of Toyota Prius owners stated that their primarily motivation to purchase their car was to make a statement about themselves by sending a message that they are living an environmentally responsible life by using a hybrid car.³²⁶ However, only thirty six per cent of the owners stated that their primary motivation to purchase their car is higher fuel

³²⁴ Ramello, G.B., 'What's in a sign? Trademark law and economic theory', *Journal of Economic Surveys*, (2006), 4, 547-564, p. 552; Beebe, B., 'Search and persuasion in trademark law' *Michigan Law Review*, (2005), 103, 2020-2072, p. 2043

³²⁵ Gerhardt, R.D., 'Consumer investment in trademarks', *North Carolina Law Review*, (2010), 88, 427-500

³²⁶ *Ibid.*, p. 460

economy. This survey illustrates that consumers can make purchasing decisions in which economic reasons such as price and quality are not primarily considerable. Furthermore, consumer loyalty to self-affirming trade marks is so strong that consumer will stick with their chosen trade mark even after experiencing alternatives that work better as illustrated in another study.³²⁷

Having said this, the purchasing motivations or behaviours of the modern consumers cannot be rationalised merely with the economic theories. As Griffiths pointed out, a trade mark associated with an attractive brand image satisfies the emotional, psychological and social needs and desires of consumers.³²⁸ As we explained above, experiencing a trade mark signifying a brand image of a certain attitude or lifestyle in today's modern secular society substituted for the rituals of religious myth that anthropologists have documented in every human society.³²⁹ Consumers of the modern society can use the products of a specific trade mark which is associated with a brand image of any other certain lifestyle or attitude in order to express others as to their lifestyle, attitude or preferences or to feel part of a society.

In the Toyota Prius example given above, the majority of the consumer of that product who joined the survey expressed that their primarily motivation to purchase their car was to make a statement about themselves by sending a message that they are living an environmentally responsible life by using a hybrid car. However, the small percentages of them are motivated by economic reasons to purchase their cars. This illustrates that the consumers of the modern society are willing to pay higher prices for the products of a particular trade mark because of the brand image signified by the trade mark which they wish to be associated. Experiencing products of a particular trade mark signifying a strong brand image sometimes might be more

³²⁷ *Ibid.*, p. 461

³²⁸ Griffiths, A., *An Economic Perspective on Trade Mark Law*, Edward Elgar, (2011), Cheltenham, p.152

³²⁹ Holt, D. B., *How Brands Become Icons: the principles of cultural branding*, Harvard Business School Press, (2004), p. 8

important than purchasing the similar products of the other trademarks for satisfying their emotional or social needs and desires in addition to their material needs.

Even though a brand image signified by a trade mark which firms created as an additional purchasing motivation using persuasive advertising and other marketing techniques does not provide direct economic benefits for consumers, it may provide some emotional or social benefit which increase the overall benefit that consumer can derive from products bearing the trade mark. I disagree with the view that brand image signified by a trade mark induces consumer delusion about the social and emotional needs and desires. Einstein says in “*Brands of Faith*” as follows:

“Much as religion created meaning for people’s lives over the centuries, now marketers create meaning out of the products that fill our existence. These products come to be not just clothes to wear or cars to drive, but elements of who we are.”³³⁰

For centuries, religions or social clubs have fulfilled people’s the emotional, physiological or social needs and desires. Members of those religions or clubs have used special clothes, accessories and other items to express others about their religious, beliefs and lifestyles or feel part of the religion or society they belong. They have donated to the institutions of their religions or clubs from which they derive emotional, physiological or social satisfaction. Consumers of the modern era started to view the products of a particular trade mark associated with a brand image as an individual satisfaction source for their emotional or social needs. Therefore they are willing to pay higher prices for the products of a particular trade mark in order to gain this satisfaction. Consumers still view the trade mark as the indicator of the commercial source or material quality features of the products bearing it. Moreover, they may view the brand image of a trade mark as an extra quality assurance for the expected quality of the products. However, As Griffiths pointed out, the investment of

³³⁰ Einstein, M., *Brands of Faith: marketing religion in a commercial age*, Routledge, (2008), 1st edition, p. 71

consumers to a trade mark associated with a brand image has also the ancillary benefit which increase the overall benefit that consumer can derive form the trade marked products.³³¹

Therefore, the protection of the investment made to create a brand image signified by a trade mark benefits not merely the owner of the trade mark but also the consumers who derive from the trade mark some social or emotional satisfaction in addition to their material needs. As mentioned earlier, the expansion of the trade mark protection under Article 5 (1) (a) of the TMD to cover the communication, advertising or investment functions of trade mark was criticised on the basis that the CJEU failed to provide enough justification for this expansion. A trade mark signifying a brand image should be accepted not only as a source of commercial origin or material quality features of the products bearing it but also as a the emotional, physiological or social source of satisfaction which increase the overall benefit that consumers can derive from the products bearing it though it cannot be explained with an economic rationale.

3.6 Conclusion

The aim of this thesis is to analyse the expansion of the scope of the exclusive rights given to trade mark owners under Article 5 (1) (a) of TMD and its impact on the parallel importing within the EEA. We will detail the exclusive rights provided for the protection of trade mark under Article 5 (1) (a) of the TMD under the next chapter in order to analyse its impact on the parallel importing within the EEA. However, the exercise of the exclusive rights conferred on the owner of a trade mark is limited to situations where functions that the trade mark performs are adversely affected. Therefore, identifying the functions that a trade mark

³³¹ Griffiths, A., *An Economic Perspective on Trade Mark Law*, Edward Elgar, (2011), Cheltenham, p.152

performs has a crucial role in the determination of the scope of the exclusive rights given to trade mark owners. We have already examined the origin function of trade mark which merits protection under the given exclusive rights in the first chapter of this thesis.

In this chapter, we analysed the economic functions of trade mark. The economic functions of trade mark are identified by the CJEU in *L'Oréal v Bellure* as being "... that of *guaranteeing the quality* of the goods or services in question and those of *communication, investment or advertising* [Emphasis Added]" and found to merit protection under the provision of Article 5(1) (a) of the TMD in addition to its origin function.³³² In other words, the scope of exclusive rights provided under 5 (1) (a) of TMD has been expanded through the judgments of the CJEU to protect the economic functions that a trade mark performs in addition to its origin function. Hence, the economic functions of trade mark play a crucial role in order to understand the expanded scope of trade mark protection under Article 5(1) (a) of TMD.

We divided the economic functions of trade mark into two as the quality guarantee and the communication, advertising or investment functions in this chapter. We firstly examined the quality guarantee function of trade mark. We explain the emergence of the quality guarantee function of trade mark and its recognition by the CJEU within the essential function theory. The CJEU used to apply the essential function theory in the interpretation of the scope of trade mark rights under the provision of Article 5(1) (a) of the TMD. According to essential function theory, a trade mark signifies that all products bearing it have originated under a single undertaking which is in a position to control their *quality*. Thus, it might be said that quality guarantee used to form part of the essential function theory.

Then we looked at the identification of quality guarantee as a distinct function through the judgements of the CJEU. The idea that there might be distinct economic functions in addition

³³² *L'Oréal v. Bellure* (C-487/07)[2009] E.T.M.R. 987 at [58]

to the origin indicating function of a trade mark was first suggested in *Arsenal Football Club v Reed*.³³³ In *L'Oréal v Bellure*³³⁴, where the CJEU has elaborated on the views it expressed in previous judgments, quality guarantee was recognized as a distinct function without giving a detailed explanation about the notion of this function in its judgments.

It is important to note that the CJEU has continued to use the “essential function” in its traditional sense in the some parts of its recent judgments although the quality guarantee function which used to form part of the essential function doctrine is recognized as a separate function.³³⁵ However, the notion of the essential function doctrine should be revisited if the quality guarantee identified as a distinct function does not bring something which is different from what is meant by the quality guarantee in the essential function theory. In other words, the CJEU limited the essential function doctrine to signify the commercial origin of the products by recognizing the quality guarantee as a distinct function. Therefore, I think, the CJEU should make it clear in its judgments if the essential function is now limited to the origin function and the quality guarantee which was used to form part of the essential function theory is now recognized as a distinct function.

We also examined the communication, investment or advertising functions of a trade mark which the CJEU identified as distinct functions in *L'Oréal v Bellure*³³⁶. In order for a trade mark to perform its modern functions, the owner of that trade mark needs to make investment in the creation, development and protection of a brand image signified by the trade mark. Although brand image that a trade mark signifies is less tangible than its origin and quality guarantee functions, it is as valuable as them and sometimes it is more effective than them to attract consumers to the products bearing the trade mark.

³³³ *Arsenal Football Club v Matthew Reed* [2002] E.T.M.R. 82

³³⁴ *L'Oréal v. Bellure* (C-487/07)[2009] E.T.M.R. 987

³³⁵ *Interflora Inc v Marks & Spencer* (C-323/09) [2012] E.T.M.R. 1 at [38]; *Google France and Google Inc v Louis Vuitton Malletier*, *Google France v Viaticum Luteciel* and *Google France v CNRRH* (C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30 at [82]

³³⁶ *L'Oréal v. Bellure* (C-487/07)[2009] E.T.M.R. 987

Therefore, we tried to analyse the brand image that a trade mark signifies so as to understand why the large part of trade mark's power of attraction belongs to it in many cases. Consumers of this century may purchase a product of a particular trade mark not simply because of the tangible attributes of the product. They also purchase the brand image of certain lifestyles and attitudes accompanying with the trade mark in order to satisfy their social, psychological or emotional needs and desires in addition to their tangible needs. They can use the products of a specific trade mark which is associated with brand image of a certain lifestyle or attitude in order to express others as to their lifestyle, attitude or preferences. In addition to this, the choice of the products of a particular trade mark signifying a brand image may give an individual consumer a means of feeling part of a larger community.

The investment made by the firms in the creation of a brand image which ties consumers to products of the trade mark signifying the brand image will return them as higher selling prices which their loyal consumers are willing to pay. Trade mark with a strong brand image may acquire a specific economic value which is independent of its associated product. Therefore, although the modern functions of trade mark are less tangible than the origin and quality guarantee functions, they are as valuable as them and sometimes it is more effective than them to attract consumers to the products bearing the trade mark. In order to safeguard the investment made by the trade mark owner to develop the brand image associated with the trade mark, the scope of the rights given to trade mark owners under Article 5 (1) (a) of the TMD were expended through the judgments of the CJEU to cover the communication, investment or advertising functions of trade mark.

Therefore, we analysed the case law of the CJEU in relation to the modern functions of trade mark. The idea that there might be distinct functions in addition to the origin indicating function of a trade mark was first suggested in *Arsenal Football Club v Reed*.³³⁷ However,

³³⁷ *Arsenal Football Club v Matthew Reed* [2002] E.T.M.R. 82

the identification of those *functions* by the CJEU came with its judgment in *L'Oréal v Bellure*.³³⁸ The CJEU analysed, for the first time, the advertising function of trade mark separately in *Google France*. Following to this judgment, the CJEU analysed, for the first time, the investment function of trade mark in addition to its advertising function in *Interflora v. Marks & Spencer*.³³⁹

The expansion of the scope of the rights given to trade mark owners under Article 5 (1) (a) of the TMD has given rise to the issue whether there is enough justification for this expansion. Therefore, we tried to analyse the economic aspect of trade mark in the light of search costs theory so as to understand whether there is an economic rationale to expand the scope of the exclusive rights for the protection of the economic functions. Firstly, we examined the information provided by trade mark as to the product quality and the problem of information asymmetry so as to illustrate the economic importance of trade mark according to search costs theory. Then, we looked at the economic benefits which consumers and trade mark owners can derive from trade mark as a means of quality assurance in the light of the search costs theory.

A trade mark which conveys information as to the unobservable characteristics of products bearing it to the consumers has two essential economic benefits in search costs theory. First, it reduces the consumer search costs by enhancing consumer purchasing decisions. Second, it creates incentives for firms to invest resources in developing and maintaining the marketing power of the trade mark. The search costs theory provides an economic justification for the exclusive rights granted to trade mark owners in order to protect the origin and quality guarantee functions of trade mark. Since, quality guarantee function of a trade mark is

³³⁸ *L'Oréal v Bellure* [2009] E.T.M.R. 55

³³⁹ *Interflora v. Marks & Spencer* (C 323-09) [2012] E.T.M.R. 1

economically beneficial both for consumers and firms and its origin function is essential for a trade mark to perform its quality guarantee function.

However, it was argued whether it provides an economic rationale for the expansion of the scope of the exclusive rights to cover the protection of the communication, investment or advertising functions of a trade mark. We analysed that the modern functions may play two important roles in the search costs theory. First, a trade mark which performs its communication, advertising or investment functions in addition to its origin and quality guarantee functions may contribute to reduce the search costs of consumers. A trade mark associated with a strong brand image may help consumers to have an idea about the unobservable quality features of a product bearing the trade mark which they have had a favourable experience with a different product of that mark before. As mentioned above, this may occur in the case of 'brand extension' or of 'brand stretching' which firms apply in order to extend the marketing power of their trade mark by using a model that assumes that brand image of the trade mark is a complementary feature that enhances consumer willingness to pay.³⁴⁰

Second, consumers may view the strong brand image of a trade mark as an extra assurance for the material quality features of the products bearing it. In other words, a trade mark which performs its communication, advertising or investment functions in addition to its origin and quality guarantee functions may be viewed by consumers as an extra quality assurance for the likely product quality. The willingness of consumers to pay higher prices for the products of a trade mark associated with a strong brand image owing to its extra quality assurance impression on the consumers may in turn create extra incentives for firms to invest resources

³⁴⁰ Ramello, G.B., 'What's in a sign? Trademark law and economic theory', *Journal of Economic Surveys*, (2006), 4, 547-564, p. 559; Aaker, D. A., Keller K. L., 'Consumer Evaluations of Brand extensions', *Journal of Marketing*, (January 1990), Volume 54, 27-41, p. 28 ; Repall, L. M., Richards, D. J., 'The Simple Economics of Brand Stretching', *The Journal of Business*, (July 2002), Volume 75, No. 3, 535-552, p. 535

in developing and maintaining the quality features of the products in order to avoid any damage to the brand image that they have made invested. As the modern functions may enhance the power of trade mark as a quality guarantee, the search costs theory may be used as an economic rationale not only for the protection of quality guarantee function but also the protection of the modern functions.

Having said this, the modern functions do not only enhance the power of a trade mark as quality guarantee but also create a source of psychological and social satisfaction which consumers may gain by purchasing the products bearing the trade mark. Therefore we tried to explore the role of trade mark signifying a brand image as a source of emotional or social satisfaction. A trade mark signifying a brand image should be accepted not only as a source of commercial origin or material quality features of the products bearing it but also as a the emotional, physiological or social source of satisfaction which increase the overall benefit that consumers can derive from the products bearing it though it cannot be explained with an economic rationale. We came to conclusion that a trade mark performing its modern functions provide an ancillary benefit, which increases the overall benefit that consumer can derive form products bearing a trade mark, which may support the protection of the communication, investment or advertising functions of a trade mark.

Chapter 4- Protection of Trade Mark

4.1 Introduction

Trade mark is one of the intellectual properties which one may obtain through registration. Once a trade mark has been registered by the authorised institutions, the owner of the registered trade mark is given exclusive property rights on his or her trade mark in relation to specific kinds of products within the territory of registration. Nevertheless, the exercise of these exclusive rights conferred on the owner of a trade mark is limited to situations where functions that the trade mark performs are adversely affected.

Therefore, the functions that a trade mark performs need to be examined in detail so as to determine the exact scope of the exclusive rights which have been given trade mark owners under Article 5 of TMD. We divided the functions that a trade mark performs into two main categories: so-called the “origin function” of a trade mark and the “economic functions” of a trade mark. In the first chapter of this thesis, we explained the origin function of trade mark in the light of the recent developments of case law; since it plays an important role in the understanding of the economic functions which are derived from origin function. In the second chapter of this thesis, we examined the economic functions, the quality guarantee function and the communication, investment or advertising functions, which were recently found to merit broader protection by the CJEU’s case law.

In this chapter, we will try to examine the expansion of trade mark rights to cover the protection of its economic functions beside its origin function through the judgments of the CJEU from its legal point. In other words, Article 5 (1) (a) of the TMD where the exclusive rights given to the trade mark owners have been expanded to cover the protection of the

economic functions that a trade mark performs will be analysed in the light of the CJEU's case law. The aim of this thesis is to revisit the parallel importation within the EEA in order to find out the impact of the expansion of trade mark protection under Article 5 (1) (a) of the TMD on the rights of parallel traders which was regulated under Article 7 of the TMD. Therefore, the rights regulated under Article 5 (1) (a) of the TMD will be the focus of this chapter.

As mentioned above, the exclusive rights given to the trade mark owners are established under Article 5 of the TMD. It defines what will amount to an infringement whereby the scope of the exclusive rights given to trade mark owners is outlined. According to the subsections of Article 5 of the TMD, a registered trade mark will be infringed if a mark which is identical with the registered trade mark is used for products which are identical with those for which the trade mark is registered. However, if either or both of these marks and the products in question are similar rather than identical, there will be infringement if the latter use of the earlier trade mark will be likely to cause confusion to consumers. Moreover, unauthorised use of an identical or a similar mark on totally different products will also be an infringement if the repute of the registered trade mark would be harmed by this use. It is important to note that the application of this provision also expanded to the circumstances where the products were similar or identical following the rulings of the CJEU in *Davidoff v Gofkid* and *Adidas-Salomon v Fitnessworld*.³⁴¹

Article 5 of the Trade Mark Directive is worded as follows:

1. The registered trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:

³⁴¹ *Davidoff v Gofkid* [2003] E.C.R I-389; *Adidas-Salomon v Fitnessworld* [2004] E.T.M.R. 10

(a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered;

(b) any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the sign, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trade mark.

2. Any Member State may also provide that the proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade any sign which is identical with, or similar to, the trade mark in relation to goods or services which are not similar to those for which the trade mark is registered, where the latter has a reputation in the Member State and 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.

It is important to note that the exclusive rights given to the trade mark owners under the first subsection of Article 5 is absolute while there are some criteria attached to the rights given to the trade mark owners under the latter subsections of Article 5. Therefore, according to Griffiths, the first subsection of Article 5 gives trade mark a monopoly-like character as it forms the “core zone” of rights granted to the owners of a registered trade mark.³⁴²

The protection provided to a trade mark owner under the first subsection of Article 5 is limited to cases in which the use of an identical mark in relation to the identical products by third parties is incompatible with the exclusive right which was granted to the trade mark owner through registration. Prior to the expansion of trade mark protection through the recent judgments of the CJEU, this exclusive right was to use the trade mark to guarantee the commercial origin of products of the kind for which it has been registered and thereby to enable them to be differentiated from products that have a different commercial origin. In other words, the first subsection of Article 5 (1) was applicable for trade mark owners to

³⁴² Griffiths, A., ‘The trade mark monopoly: an analysis of the core zone of absolute protection under Art.5.1(a)’, *Intellectual Property Quarterly* (2007) 3 312-349

prevent the use of the identical mark by third parties in cases where trade mark cannot perform its essential function which is the origin function and to some extent the quality guarantee function of trade mark.

However, the CJEU case by case expanded the scope of the exclusive rights given to trade owners under the first subsection of Article 5 to cover not only the essential function of origin indicating but also the economic functions of a trade mark, which are identified by the CJEU as the “quality guarantee” function as a distinct function and “communication, investment or advertising” functions. In other words, trade mark owners are also enabled through the recent judgments of the CJEU to prevent the use of identical marks by third parties if that use adversely affected the economic functions of the trade mark regardless of whether such use adversely affected the origin function of that trade mark.

Trade mark rights given under Article 5 (1) (a) of the TMD enables the owner to prevent the use of identical marks in relation to identical goods by third parties if such use adversely affected either its origin function or one of the economic functions that the trade mark performs. Having said this, Article 7 of the TMD regulates the limitation of the exercise of those rights against third parties because of the free movement of goods principle within the EEA. More specifically, a trade mark owner is not entitled to prohibit the further commercialisation of his products which have been put on the market within the EEA under that trade mark with his consent. However, the second subsection of Article 7 provides an exception to this provision which is that trade mark owners are able to apply their exclusive rights to oppose the parallel importation of their trademarked products if there is a legitimate reason to do so.

In this chapter, we will try to examine the protection of trade mark under Article 5 (1) (a) of the TMD in the context of parallel importation. The exclusive right that a trade mark owner would apply in the case of parallel importation is likely to be the one given them under the

first subsection of Article 5 (1) (a); since parallel imports are the same products of the same registered trade mark imported from a different market. Therefore, we will focus on the trade mark rights provided under the first subsection of Article 5 (1) rather than the ones provided under the other subsections of Article 5.

In the first section of this chapter, we will examine the prerequisite for the ground of infringement under the first subsection of Article 5 (1) of the TMD. The prerequisite within the meaning of Article 5 (1) of the TMD is that the sign, which is identical to the registered trade mark, must be used in the course of trade in order for the use of the third party to be considered as an infringing use. It is important to note the trade mark use prerequisite has been reformulated by the case law owing to the functional evolution that trade mark has undergone in the last decades. Therefore, we will focus on the reformulation of the trade mark prerequisite in the light of the recent significant judgments.

In the second section, we will look at one of the criteria for infringement under Article 5 (1) (a) of TMD. The criterion is that the sign used by third party must be identical to the registered trade mark of the owner. We will try to explore this criterion in the light of the case law where the matter of what amounted to an identical sign has been discussed. In the third section, the last criterion of infringement under Article 5 (1) (a) of TMD, will be discussed. The last criterion is that the goods and services in relation to which third party used its sign must be identical to those for which the trade mark has been registered. We will also try to explain this criterion in the light of the related case law.

4.2 Using in the Course of Trade

All subsections of Article 5 provide that infringement may be found if third party uses *in the course of trade* an infringing sign. This means that non-commercial use of sign such as uses

for an educational purpose cannot be considered as an infringing use. The control of trade mark owners on trade mark use is limited to uses for commercial purposes whereby the scope of the monopoly granted to trade mark owners through registration is defined.

Article 5 (3) of the TMD provides non-exhaustive lists of the commercial uses which can be counted as an infringing use.³⁴³ These are:

“ ... (a) *affixing the sign to the goods or to the packaging thereof;*

(b) offering the goods, or putting them on the market or stocking them for these purposes under that sign, or offering or supplying services thereunder;

(c) importing or exporting the goods under the sign;

(d) using the sign on business papers and in advertising.”

Having said this, the application of the “using in the course of trade” prerequisite has given rise to a number of issues since the adoption of the Trade Mark Directive. In this section we will look at the cases in which the English courts and the CJEU have given some rulings to the issues arisen in relation to the using in the course of trade prerequisite. First, we will explain the interpretation of the using in the course of trade prerequisite by the English High Court and the CJEU in the pre-Arsenal period. Then, we will try to examine the shift of the CJEU’s approach towards the using in the course of trade prerequisite in *Arsenal* case in owing to the acceptance of the idea that the protection given to the trade mark owners under Article 5 (1) (a) of the Trade Mark Directive is not limited to the essential function of indicating origin. Finally, we will explore how the using in the course of trade prerequisite has been shaped by the rulings of the CJEU such as *Google France* ruling in the post-Arsenal period.

The first issue concerning the “using in the course of trade” prerequisite that the High Court was asked to find a solution since the TM Act 1994³⁴⁴ came into force was in *British Sugar v*

³⁴³ *Google France, Google Inc. v Louis Vuitton Malletier; Google France v Viaticum, Luteciel; Google France v CNRRH, Pierre-Alexis Thonet, Bruno Raboin and Tiger, a franchisee of Unicis* [2010] E.T.M.R. 30 at [65]

*James Robertson*³⁴⁵. In this case, British Sugar had registered the word “*Treat*” as a trade mark for dessert sauces and syrups. James Robertson launched a sweet spread labelled “*Robertson’s Toffee Treat*” which it sold along with its range of jams and preserves. British Sugar brought an action for trade mark infringement against James Robertson.

Under the previous legislation of the UK, the TM Act 1938, the use of a sign to be considered as infringing use, it had to be used as in a trade mark sense, rather than for descriptive purpose. However, it was not clear from the wordings of the TM Act 1994 that such use was actually necessary for infringement. Therefore, one of the questions that the High Court asked for an answer was whether third parties must use the sign as a trade mark to fall within the scope of Article 5 of the TMD. It was held that for the purpose of the infringement provisions of Article 5 of the TMD, the use of a "sign" does not have to involve use as a trade mark.³⁴⁶ In other words, using the sign in a trade mark sense is not a necessary prerequisite to infringement. Although the High Court made it clear that the infringing use does not need be used in trade mark sense, the further issues in relation to using in the course of trade prerequisite which the CJEU gave some rulings in the subsequent judgments has been appeared.

Another issue concerning the “using in the course trade” prerequisite arose in *Trebor Bassett v Football Association*³⁴⁷. In this case, Trebor Bassett manufactured candy sticks whose packaging included collectable insert cards. These cards feature the photographs of famous England footballers, wearing their team shirt. The England “three-lion” logo, which was the subject of the Football Association's registered trade mark, appeared on the shirts worn by the England footballers on the photographs.

³⁴⁴ which corresponds to Trade Mark Directive

³⁴⁵ *British Sugar v James Robertson* [1997] E.T.M.R. 118

³⁴⁶ *Ibid.* at p. 124

³⁴⁷ *Trebor Bassett v The Football Association* [1997] F.S.R. 211

The Football Association alleged that such use of the “three-lion” logo amounted to infringement of its trade mark. However, it is held by the High Court that “Trebor Basset is not even arguably using the logo, as such, in any real sense of word “uses”, and is certainly not... using it as a sign in respect of its cards.” Trebor Bassett was not affixing the registered trade mark of the Football association to its cards, and therefore to its goods, within the meaning of Article 5 (3) of the TMD. In order to affix a sign in the meaning Article 5 (3) of the TMD, the sign must be used directly rather than indirectly on the goods; it is not enough if a mark incidentally appears on the goods of third party.³⁴⁸

This judgment of the High Court regarding to trade mark use *prima facie* gives some comfort to third parties who uses a sign which is identical to the registered trade mark of some other traders as an incidental part own their own marketing strategy. However, it is important to bear in mind that the case law of the CJEU in this field has been developed to tie using in the course of trade prerequisite to the functions of trade mark. As will be detailed below, the relevant question needs to be asked presently while determining “use of trade mark” prerequisite is that whether the functions of a trade mark, in particular its essential function of origin indicating, are likely to be jeopardised through the unauthorised use of the trade mark by third party.

Thus, it is possible to say that the functions of the trade mark, in particular its economic functions, could be jeopardized by the unauthorised use of the registered “three-lion” logo trade mark in situations where Trebor Bassett used the photographs of England footballers wearing team shirts born the “three-lion” logo on the cards inside of the packaging of the products in order to take economic advantage from the fame of that logo. In other words, the use of the registered trade mark for the purposes other than identifying the commercial origin could be still fulfil the using in the course of trade prerequisite in the light of the recent

³⁴⁸ Bently L. and Sherman B., *Intellectual Property Law*, Oxford University Express, (2009), p. 920

developments of the CJEU's case law; since such use may adversely affect the advertising, investment or communication functions of trade mark.

Having said this, it is important to note that the CJEU at first had taken an approach to the using in the course of trade prerequisite which is different from its contemporary one. More specifically, the concept of using in the course of trade prerequisite was at first limited to uses for identifying the commercial origin of products bearing the trade mark. In other words, use by third party of a trade mark fulfils the using in the course of trade prerequisite within the meaning of Article 5 (1) (a) of the TMD if such use is made to identify the commercial origin of the products. Therefore, using in the course of trade prerequisite linked by the CJEU in *BMW v Deenik*³⁴⁹ merely to the origin function of trade mark.

In this case, the CJEU was asked to give a preliminary ruling as to whether a mechanic and trader in second-hand BMW cars, not belonging to BMW's dealer circle, was entitled to promote or advertise his activities under the name "BMW specialist".³⁵⁰ Regarding to this question, the CJEU ruled that the scope of application of Article 5(1) and (2) of the Trade Mark Directive depends on whether the trade mark is used for *the purpose of distinguishing the goods or services in question as originating from a particular undertaking*, that is to say, as a trade mark as such, or whether it is used for other purposes. If the use of the trade mark in advertisements for the service which consists of selling second-hand BMW cars is undoubtedly intended to distinguish the subject of the services provided, it is not necessary to treat any differently the advertisements for the service consisting of repair and maintenance of BMW cars. In that case, too, the trade mark is used by third party to identify the source of the products which are the subject of the service.³⁵¹ Therefore, the CJEU came to the conclusion as to this question that unauthorised use of a trade mark by third party for the

³⁴⁹ *BMW v Deenik* [1999] 1 C.M.L.R. 1099

³⁵⁰ Geelhoed, W., 'Netherlands: trade marks - use of a trade mark by a third party to indicate the product's purpose', *European Intellectual Property Review*, (2001), 23(6), N89

³⁵¹ *BMW v Deenik* [1999] 1 C.M.L.R. 1099 at [38] and [39]

purpose of informing the public that another undertaking carries out the repair and maintenance of products covered by that mark or that it has specialised or is a specialist in such products constitutes trade mark use within the meaning of Article 5(1) (a) of the TMD.³⁵²

Prior to looking at *Arsenal v Reed* where the shift in the CJEU's approach towards the trade mark use prerequisite appeared, it is important to mention *Holterhoff v Freiesleben*³⁵³ where the Court anticipated this shift. In *Holterhoff v Freiesleben*, Freiesleben owned two German trade marks, "Spirit Sun" and "Context Cut", used for diamonds and precious stones cut for further processing as jewellery. Holterhoff used the names "Spirit Sun" and "Context Cut" in the course of negotiations leading to the sale of two stones. Freiesleben brought proceedings against Holterhoff for infringement of its trademarks.

The national court found that Holterhoff did not present the stones sold as originating from Freiesleben or his licensee but as being produced by his own cutter in the 'Spirit Sun' cut. Moreover, there was no use of the words 'Spirit Sun' on any packaging, invoice or other document relating to the stones sold that could have misled any third party and it appeared that the only instance of the term's use in writing in connection with the negotiations or the sale was by the purchaser in her faxed order for two stones "in the Spirit Sun cut". Thus, the national court decided that Holterhoff had used those terms not to indicate the origin of the stones but to describe the shapes in which they were cut. However, a preliminary ruling was sought from the CJEU as to whether a trade mark was infringed for the purposes of Article 5(1) (a) of the TMD when it was used to describe the characteristics of goods offered for sale and not as an indication of their origin.³⁵⁴

The CJEU held that the unauthorised use of the registered trademarks by Holterhoff did not infringe any of the trade mark owner's interests which Article 5 (1) (a) of the TMD is

³⁵² *Ibid.*, at [42]

³⁵³ *Holterhoff v Freiesleben* [2002] E.T.M.R. 79

³⁵⁴ *Ibid.* at [H6]

intended to protect. The trade mark owner cannot rely on his exclusive right where a third party, in the course of commercial negotiations, reveals the commercial origin of products which he has produced himself and uses the registered trademarks in question solely to denote the particular characteristics of the products he is offering for sale so that there can be no question of the trade mark used being perceived as a sign indicative of the commercial origin.³⁵⁵

Although the judgment of the CJEU in *Holterhoff v Freiesleben* does not say that much different from its previous judgments as to the concept of using in the course of trade prerequisite, it emphasised that *the interests of trade mark owners*, instead of repeating the ability of trade mark to distinguish the source of products, are intended to be protected under Article 5 (1) (a) of the TMD. As Griffiths points out, this emphasis of the CJEU implied that the trade mark use prerequisite should restrict the scope of the exclusive rights given to trade mark owners under Article 5 (1) (a) of the TMD to cases in which the unauthorised use of trade mark by third party affects or is liable to affect *the functions of trade mark*, in particular its essential function of origin indicating.³⁵⁶

Having said this, the shift in the CJEU's approach towards to using in the course of trade prerequisite clearly appeared in *Arsenal v Reed*³⁵⁷. In this case, Arsenal F.C. had registered the words "Arsenal" and "Gunners" as well as the club emblem as trade marks in relation to sports clothing and footwear. Reed was a stallholder who sold Arsenal souvenirs and memorabilia bearing these or similar marks without having obtained a licence from Arsenal F.C. There was unauthorised use of signs identical to the registered trademarks, on products identical to those for which the trade marks were registered. Therefore, Arsenal argued that the unauthorised use of the marks by Reed infringed their trademarks rights.

³⁵⁵ *Ibid.*, at [16] and [17]

³⁵⁶ Griffiths, A., 'The trade mark monopoly: an analysis of the core zone of absolute protection under Art.5.1(a)', *Intellectual Property Quarterly* (2007) 3 312-349, p. 337

³⁵⁷ *Arsenal v Reed* [2001] 2 C.M.L.R. 23

Nevertheless, Reed contested the infringement argument of Arsenal, claiming that there was no use in the course of trade, because the signs were only used as badges of support, loyalty or affiliation to the Arsenal football club. More specifically, the signs identical to the registered trademarks of Arsenal were used in order to express loyalty towards to the Arsenal football club not to indicate the trade origin of the products bearing them.³⁵⁸

The High Court ruled, which was in favour of Reed's defence, that such use to express support, loyalty or affiliation cannot be considered as use in the course of trade and therefore the use of the marks by the defendant does not constitute to infringement. However, due to the sufficient uncertainty surrounding the issue, two questions were referred to the CJEU for a preliminary ruling.³⁵⁹ The first question was whether the third party have a defence to infringement on the ground that the use complained of does not indicate trade origin in a situation where the sign used in the course of trade by the third party is identical with the trade mark in relation to products which are identical with those for which the trade mark registered. The second question was whether the use of the trade mark as a badge of support, loyalty and affiliation was a sufficient connection in the course of trade.³⁶⁰

Prior to looking at the ruling of the CJEU in response to the High Court's query, it is crucial to explain the opinion of A.G. Colomer, as it suggested that the economic aspect of trade mark as well as its origin indicating function to distinguish the products of various undertakings should be taken into consideration to determine whether the unauthorised use of marks are infringing use. A.G. Colomer's broad interpretation of trade mark function to include further messages conveyed to consumers played a decisive role in the recognition of the economic functions by the CJEU to be protected independently within the scope of exclusive rights granted to trade mark owners under Article 5 (1) (a) of the TMD.

³⁵⁸ Torremans P., *Holyoak&Torremans Intellectual Property Law*, Oxford University Express, (2010), 6th Edition, p.429

³⁵⁹ *Arsenal v Reed* [2001] 2 C.M.L.R. 23 at [69]

³⁶⁰ *Arsenal v Reed* [2003] 1 C.M.L.R. 12 at [27]; Morcom C., Roughton A. and St Quintin T., *The Modern Law of Trade Marks*, LexisNexis, (2012), 4th edition , p. 340

In his opinion to the CJEU, A.G. Colomer considered the nature of “using of a trade mark” prerequisite.³⁶¹ According to A.G. Colomer, “to state that a registered proprietor may prevent a third party from using the trade mark as a trade mark is as good as saying nothing at all”. The only way to give substance to the legal concept of “using of a trade mark” prerequisite is to bear in mind the functions of a trade mark.³⁶²

Having said this, guaranteeing the commercial origin of products is not the only function performed by a trade mark to distinguish the products of various undertakings. In the process of distinguishing the products, trademarks could indicate the source as well as the quality, the reputation, or the renown of the producer or the provider, and could also be used for advertising purposes in order to inform and persuade the consumer.³⁶³ As Davis points out, it was because distinctive signs of trademarks might carry a wide variety of meanings for consumers that they helped to support the competitive market.³⁶⁴ All of these are uses of the trade mark in the course of trade. The trade mark owner was given a variety of exclusive rights against those who sought to profit from the reputation of the registered trade mark.³⁶⁵

Therefore, it is “simplistic reductionism” to limit the function of the trade mark to an indication of trade origin, as “the trade mark acquires a life of its own, making a statement ... about quality, reputation and even, in certain cases, a way of seeing life”. In the light of the behaviour of the average consumer, there is no reason not to protect those other functions and to safeguard only the function of indicating the commercial origin of products.³⁶⁶

In replying to the questions referred by the High Court, the CJEU stated that the use of the sign identical to the mark is indeed use in the course of trade, since it takes place in the context of commercial activity with a view to economic advantage and not as a private matter.

³⁶¹ *Arsenal v Reed* [2002] E.T.M.R. 82

³⁶² *Ibid.*, at [41]

³⁶³ *Ibid.*, at [43]

³⁶⁴ Davis J., ‘To protect or serve? European trade mark law and the decline of the public interest’, *European Intellectual Property Review* (2003), 25(4), 180-187, p. 185

³⁶⁵ *Arsenal v Reed* [2002] E.T.M.R. 82 at [44]

³⁶⁶ *Ibid.*, at [46]

It also falls within Article 5 (1) (a) of the TMD, because a sign which is identical to the registered trade mark used by third party in the course of trade for products which are identical to those for which the mark is registered.³⁶⁷

Therefore, the question to be determined was revised by the CJEU as being whether Article 5 (1) (a) of the TMD entitles the owner of the trade mark to prohibit any use by a third party in the course of trade of a sign identical to the trade mark for products identical to those for which the mark is registered, or whether that right of prohibition presupposes the existence of a specific interest of the trade mark owner, in that use of the sign in question by a third party must affect or be liable to affect one of the functions of the mark.³⁶⁸

The essential function of trade mark, which was first defined in *Hoffmann La Roche v Centrafarm* in order to limit the scope of rights given to trade mark owners in case of parallel importing, also repeated by the CJEU as being to guarantee the identity of origin of the trade marked products to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the products from others which have another origin. Furthermore, for the trade mark to be able to fulfil its essential role, it must offer a guarantee that all the products bearing it have been manufactured or supplied under the control of a single undertaking which is responsible for their quality.³⁶⁹

For these reasons, the exclusive right given to trade mark owner under Article 5 (1) (a) of the TMD protects the specific interests of the trade mark owner, that is to ensure that the trade mark could perform its functions.³⁷⁰ This means that the trade mark owner could prohibit the use of an identical sign where such use adversely affects or is liable to affect the specific interests of him. In this case, the use of word “Arsenal” created the impression that there is a material link in the course of trade between the products concerned and the owner of the trade

³⁶⁷ *Arsenal v Reed* [2003] 1 C.M.L.R. 12 at [40]

³⁶⁸ *Ibid.*, at [42]

³⁶⁹ *Ibid.*, at [48]

³⁷⁰ *Ibid.*, at [51]

mark which was not affected by the presence on Mr Reed's stall of the notice stating that the products at issue in the main proceedings are not official Arsenal FC products. Thus, the CJEU disagreed with the view of the High Court and ruled that, in cases such as *Arsenal v Reed*, there would be infringement and that it is irrelevant that, in the context of the use of the trade mark, the sign is perceived as a badge of support for, or loyalty or affiliation to, the owner of trade mark.³⁷¹

However, on the return of the case from the CJEU, the High Court took the view that the CJEU had exceeded its jurisdiction, by making findings of fact which were contrary to those which the Court had made previously.³⁷² According to the High Court, it was not permissible for the CJEU to interpret the factual background of the case any differently from the High Court. The High court had established that the use of the sign was not perceived as an indication of origin, but as a badge of loyalty, support or affiliation. The CJEU therefore could not establish harm to the origin function, which had been proven to be the essential function of trade mark by the remarks of the CJEU.³⁷³

Arsenal appealed to the Court of Appeal against the judgement of the High Court. According to the judgement of Court of Appeal³⁷⁴, the High Court held that the CJEU had indicated that Arsenal should win because the use of the defendant was such as would be perceived by some customers or users as a designation of origin. However, it was not the basis of the CJEU's judgment. The judgment of the CJEU made it clear that the important consideration is whether the exclusive right given by registration is likely to be affected by the use of the third party. That occurs when the use complained about is likely to jeopardise the guarantee of origin which constitutes the essential function of the trade mark. However, the High Court

³⁷¹ Norman H., 'Time to blow the whistle on trade mark use?' , *Intellectual Property Quarterly*, (2004), 1, 1-34, p. 20

³⁷² *Arsenal v Reed* [2003] 1 C.M.L.R. 13

³⁷³ Rutz C., 'After Arsenal and Electrocoin: Can the opinions on trade mark use be reconciled?', *International Review of Intellectual Property and Competition Law*, (2005), 36(6), 682-705, p. 693

³⁷⁴ *Arsenal v Reed* [2003] 2 C.M.L.R. 25

was only concerned with the issue of trade mark use and neglected the question of whether the origin function of the original mark was affected or endangered.³⁷⁵

The Court of Appeal pointed out that the CJEU had not disregarded the findings of fact made by the High Court. What the CJEU had done was to reason that the use of sign by the defendant did jeopardise the essential function of trade mark. As found by the High Court, the trade marks, when applied to the products, were purchased and worn as badges of support, loyalty and affiliation to Arsenal, but that did not mean that the use by the defendant would not be liable to jeopardise the functions of the trade marks, in particular their origin indicating function. In fact, the wider and more extensive the use, the less likely the trade marks would be able to perform their function. The actions of the defendant meant that products, not coming from Arsenal but bearing the trade marks, were in circulation. Thus, the use of the registered trademarks affected the ability of the trade marks to guarantee the origin of the products. It was concluded that the result reached by the CJEU was inevitable once their judgment had made it clear that the material consideration was whether the use complained of was liable to jeopardise the origin function of trade mark, not whether the use was trade mark use. The High Court therefore should have followed the ruling and decided the case in Arsenal's favour.³⁷⁶

It is important to note that the commentators have interpreted differently the convoluted judgments of the courts as to trade mark use prerequisite in *Arsenal v Reed*. According to Norman, the question is no longer whether trade mark use is a prerequisite for liability, but whether the use of third party undermines any of the functions that trade mark performs. Therefore, the trade mark use in the traditional sense is irrelevant.³⁷⁷ To some extent, I agree. Today's trademarks may convey messages further than signifying the commercial origin of

³⁷⁵ *Ibid.*, at [47]

³⁷⁶ *Ibid.*, at [48]

³⁷⁷ Norman H., 'Time to blow the whistle on trade mark use?' , *Intellectual Property Quarterly*, (2004), 1, 1-34, p. 27

products bearing them and these messages may be as important as identifying the commercial origin of products for trade mark owners. The unauthorised use of a trade mark by a third party in order to convey a message rather than the identity of the commercial origin of the products may still harm the interests of trade mark owners as such use may adversely affect the economic functions of trade mark. Therefore, the unauthorised use of a trade mark by third party for other than indicating the commercial origin of products was considered by the CJEU as “using trade mark in the course of trade” within the meaning of Article 5 of Trade Mark Directive Article.

What the CJEU actually did in *Arsenal v Reed* was reformulate the trade mark use prerequisite owing to the functional evolution that trade mark has undergone in the last decades. In other words, trade mark use prerequisite was not limited to uses to indicate the commercial origin of products because of the recent developments of the trade mark function. Therefore, Griffiths interpreted the CJEU’s view as to trade mark use prerequisite in *Arsenal v Reed* as follows:

“ [this finding appears to give undertakings which] registered signs as trade marks that have a strong appeal to consumers for reasons that are not due to their signification of the fact that goods of the designated kind have a specific origin, a valuable monopoly over the commercial exploitation of this appeal.”³⁷⁸

For these reasons, it can be said that the trade mark use in the traditional sense is irrelevant. However, trade mark use has been still a prerequisite for liability since *Arsenal v Reed*, unlike what Norman said. As Dyrberg points out, the CJEU took the view that that infringing use must be trade mark use.³⁷⁹ What the CJEU ruled differently in *Arsenal v Reed* was the concept of trade mark use prerequisite. According to Davis, the CJEU, in interpreting the meaning of trade mark use, ceded the trade mark owner ownership of the entire range of

³⁷⁸ Griffiths, A., ‘The trade mark monopoly: an analysis of the core zone of absolute protection under Art.5.1 (a)’, *Intellectual Property Quarterly* (2007) 3 312-349, p. 338

³⁷⁹ Dyrberg, P. and Skylv, M., ‘Does trade mark infringement require that the infringing use be trade mark use and if so what is trade mark use?’ *European Intellectual Property Review*, (2003), 25(5), 229-233, p. 231

functions which a trade mark might fulfil and of meanings which it might embody, whether or not these bear any relation to the trade mark role as an indication of origin.³⁸⁰ Therefore, the relevant question needs to be asked while determining “use of trade mark” prerequisite is that whether the functions of a trade mark, but in particular its essential function of origin indicating, are likely to be jeopardised through the unauthorised use of the trade mark by third party. The CJEU in fact emphasised on the importance of using in the course of trade prerequisite for the liability and elaborated on the notion of it in the subsequent cases.

The CJEU talked about the function of trade mark in the plural as *the functions which could be jeopardized by the unauthorised use of third party* but then mentioned merely the essential function of origin indicating, as the one at stake.³⁸¹ This is because; it was concluded that where the use of registered trade mark would give an impression that there was a material link in the course of trade between the products concerned, it would be irrelevant whether the consumers at the same time also perceive the trade mark to be a badge of support for the owner of the registered trade mark.³⁸² In other words, CJEU came to conclusion that origin function was the only function of trade mark which was jeopardised by the unauthorised use of third party in this particular case. However, the notion of the trade mark use prerequisite was revisited to include trade mark uses for conveying messages other than the identity of the source of the products.

Despite to the broader interpretation adapted by the CJEU in *Arsenal v Reed*, the House of Lords decided to restrict the trade mark use prerequisite to the uses as a badge of origin in its judgment in *R v Johnstone*³⁸³, a criminal case arising from a prosecution under section 92 of the TM Act 1994. In this case, the prosecution was related to the use of registered trade mark

³⁸⁰ Davis, J., ‘To protect or serve? European trade mark law and the decline of the public Interest’, *European Intellectual Property Review* (2003), 25(4), 180-187, p. 187

³⁸¹ Dyrberg, P. and Skylv, M., ‘Does trade mark infringement require that the infringing use be trade mark use and if so what is trade mark use?’ *European Intellectual Property Review*, (2003), 25(5), 229-233, p. 231

³⁸² Jen Yap P., ‘Essential function of a trade mark: from BMW to O2’, *European Intellectual Property Review*, (2009), 31(2), 81-87, p.83

³⁸³ *R. v Johnstone* [2004] E.T.M.R. 2

on bootleg CDs. The defendant's principal line of defence was that the name of artists, also registered as a trade mark, was used on CDs to indicate who the performer was, not to indicate the commercial origin of products.

The argument was that there could be no breach of section 92 of the TM Act 1994 unless the defendant's acts constituted infringement under section 10(1)-(3) of the TM Act 1994. Therefore, the question was whether the fixation of the name of artists by the defendant to indicate who the performer was amounted to trade mark use for liability under section 10(1)-(3) of the TM Act 1994, which corresponds to Article 5(1)-(2) of the TMD.³⁸⁴

Although the House of Lords sought to apply the ruling of the CJEU in *Arsenal v Reed*, it came to view that the exclusive rights given to the owner of a registered trade mark are limited to the uses of trade mark likely to be taken as an indication of commercial origin. Use of this character is an essential prerequisite to infringement. Therefore, the unauthorised use of a registered trade mark by third party in a manner not indicative of commercial origin of products does not infringe the exclusive rights of the trade mark owner.³⁸⁵ This narrow interpretation by the House of Lords of the trade mark prerequisite was completely different from what the CJEU ruled in *Arsenal v Reed*. In fact, the view of the House of Lords was more parallel to the *pre-Arsenal* rulings of the CJEU as to trade mark use prerequisite. It is also important to note that the CJEU in effect outranks the House of Lords. Therefore, the subsequent judgments of the CJEU are much more important than the judgment of the House of Lords in this context.

It is necessary to look at the more recent judgment of the CJEU in *Anheuser-Busch*³⁸⁶ case in which it was considered whether unauthorised use of a registered trade mark by third party as a trade name amounts to an infringing use. In this case, Anheuser-Bush, the owner of the

³⁸⁴ Morcom C., Roughton A. and St Quintin T., *The Modern Law of Trade Marks*, LexisNexis, (2012), 4th edition, p. 343

³⁸⁵ *R. v Johnstone* [2004] E.T.M.R. 2 at [13]

³⁸⁶ *Anheuser-Busch v Budejovický Budvar, Národní Podnik (Case C-245/02)* [2005] E.T.M.R. 27

Finnish trade mark *Budweiser*, brought proceedings to prevent Budvar, a brewer registered the trade names *Budejovicky Budvar* (in Czech) and *Budweiser Budvar* (in English and German) from using its trade name and trade marks in Finland.

In considering the question of whether unauthorised use of a registered trade mark by third party as a trade name amounts to an infringing use, the CJEU principally repeated its judgment in *Arsenal v Reed*. The exclusive right given under Article 5 (1) (a) of the TMD was intended to enable the owner of a trade mark to safeguard his specific interests as proprietor, that is, to ensure that the trade mark can fulfil its functions, in particular its essential function of origin indicating. That is the case where such use creates the impression that there is a material link in trade between the products of third party and the trade mark owner.³⁸⁷

Moreover, the CJEU said that if the sign was not being used to distinguish the products of one undertaking from those of another, then liability of third party will be assessed by the national courts on the basis of the protection afforded to the trade mark owner, by the member state, who claims to be suffering damage as a result of use of the trade mark by third party as a trade name or company name.³⁸⁸ Although the CJEU made it clear that the use of a registered trade mark by third party as a trade name other than distinguishing his products can be opposed by owner of the trade mark so long as one of the functions of trade mark might be damaged by that use, it was suggested that the remedy should be sought under the provisions of the national legislation corresponding to Article 5 (2) of the TMD rather than Article 5(1). The question of whether the unauthorised use of a registered trade mark by third party as a trade name can be considered as an infringing use within the meaning of Article 5(1) (a) of the TMD was referred to the CJEU again in *Celine v Celine*.³⁸⁹ In this case, a French company which registered the word '*Celine*' as a trade mark in France for clothes and shoes

³⁸⁷ *Ibid.*, at [59] and [60]

³⁸⁸ *Ibid.*, at [64]

³⁸⁹ *Celine v Celine* [2007] E.T.M.R. 80

commenced infringement proceedings against a company called ‘*Celine Sarl*’ which sells clothes and accessories in France.

In its brief ruling, the CJEU stated that the use of a registered trade mark by third party as a trade or company name constitutes an infringing use within the meaning of Article 5(1) (a) of the TMD where such use affects or is liable to affect the functions of trade mark.³⁹⁰ The ruling *prima facie* seems to add nothing to the earlier judgments of the CJEU. However, it is important to note that the CJEU tied trade mark use prerequisite for infringement under Article 5 (1) (a) of the Trade Mark Directive to the functions of trade mark but, this time, not in particular to its origin function. This means the CJEU emphasised again that trade mark use prerequisite under Article 5 (1) (a) of the TMD is not limited to uses to indicate commercial origin of products. The use of a trade mark by third party, other than identifying the source of products, fulfils trade mark use prerequisite within the meaning of Article 5 (1) (a) of the TMD so long as such use damages one of the functions that trade mark performs. In other words, unlike the suggestion of the CJEU in its *Anheuser-Bush* decision, trade mark owners might seek remedy under Article 5 (1) (a) of the TMD if one of the functions that their trade mark performs, not necessarily its essential function of origin indicating, has been damaged by the unauthorised use of third party.

The matter of trade mark use prerequisite returned to the CJEU again in *Adam Opel v Autec*³⁹¹. In this case, Opel had a registration of its trade mark not only for full scale motor vehicles but also for toys. Autec, manufacturer of toy cars, affixed Opel’s registered trade mark to its own toy cars. Opel claimed that Autec had infringed its figurative trade mark by affixing it to toy cars. The question referred to the CJEU as to trade mark use prerequisite was whether the use of a trade mark registered also for toys constitute a trade mark use in the meaning of Article 5 (1) (a) of the TMD if the manufacturer of the toy model car copies a real

³⁹⁰ *Ibid.*, at [H10]

³⁹¹ *Adam Opel v Autec* [2007] E.T.M.R. 33

car in a reduced scale, including the registered logo of the car as applied to the real car, and markets it.

The CJEU repeated its judgment in *Arsenal v Reed* stating that the exclusive right under Article 5 (1) (a) of the TMD was conferred in order to enable the trade mark owner to protect his specific interest as owner, that is, to ensure that trade mark can fulfil its functions and that, therefore, the exercise of that right must be reserved to cases in which third party's use of the sign affects or is liable to affect the functions of the trade mark so long as the use takes place in the course of trade in the context of commercial activity with a view to economic advantage.³⁹² Therefore, the answer of the CJEU to the referred question was that, where a trade mark is registered both for motor vehicles and for toys, the unauthorised use of the trade mark by a third party on scale models of vehicles in order faithfully to reproduce those vehicles and the marketing of those scale models constitutes, for the purposes of Article 5 (1) (a) of the TMD, a trade mark use which the owner of trade mark is entitled to prevent if that use affects or is liable to affect the functions of the trade mark.³⁹³

As detailed above, the concept of trade mark use prerequisite has been developed by the case law of the CJEU. It started with the *Arsenal v Reed* judgment where the CJEU linked the trade mark use requirement to the ability of trade mark to perform its functions, instead of the ability of trade mark to distinguish goods and services bearing it. Although the subsequent judgments of the CJEU regarding to trade mark use issue principally reiterated its *Arsenal v Reed* judgment, by stating that the unauthorized use of a trade mark by a third party which adversely affects or is liable to affect the functions of trade mark amounts to trade mark use within the meaning of Article 5 (1) (a) of the TMD, none of those functions other than the origin function were addressed as an issue in those judgments. Moreover, what the CJEU

³⁹² *Ibid.*, at [18]-[21]

³⁹³ *Ibid.*, at [37]

meant by “*functions of trade mark*” was a mystery until its *L’Oréal v Bellure*³⁹⁴ judgment where some of the functions other than the origin function meriting protection under Article 5 (1) (a) of the TMD were identified as, in particular, “the quality guarantee function” and “the functions of communication, investment or advertising.”

In *L’Oréal v Bellure*, the first question asked to the CJEU for preliminary ruling was whether the owner of a registered trade mark is entitled to prevent the unauthorised use by a third party, in comparative advertising, of the registered trade mark in relation to identical products, where such use is not capable of jeopardising the essential function of the mark, which is to indicate the commercial origin of the products.³⁹⁵ The CJEU took the view that the trade mark owner is entitled to prevent the unauthorised use by a third party, in a comparative advertisement which does not satisfy all the conditions of the related provision under which comparative advertising is permitted, of the trade mark in relation to identical products, even where such use is not capable of jeopardising the origin function of the trade mark, provided that such use affects or is liable to affect one of the other functions of the trade mark.³⁹⁶

With this view of the CJEU in *L’Oréal v Bellure*, it was once again confirmed that trade mark use prerequisite is not limited to uses for distinguishing products bearing it from those of other trade marks. The unauthorised use of a trade mark by third party to convey a message other than the identity of the commercial source of products bearing it satisfies the trade mark use prerequisite in the meaning of Article 5 (1) (a) of the TMD so long as such use affects or is liable to affect the quality guarantee function or the functions of communication, investment or advertising, not necessarily only the origin function.

³⁹⁴ *L’Oréal v Bellure* [2009] E.T.M.R. 55 at [58]

³⁹⁵ *Ibid.*, 51

³⁹⁶ *Ibid.*, 65

This view of the CJEU was reiterated later in *Google France*³⁹⁷ which is the case where the issue of whether the unauthorised use of a registered trade mark on the internet by third party satisfies the trade mark prerequisite within the meaning of Article 5 (1) (a) of the TMD was discussed. It is important to note that there might be a variety of online trade mark use but this case is in particular about the trade mark use in an internet referencing service, where the registered trade mark is used as an AdWord or sponsored link to boost its position in internet search.

More specifically, search engine operators such as Google allow internet surfers to type a key word into search engine. These keywords can be purchased by advertisers as AdWords, which mean that when this word is typed into search engine it simultaneously triggers a listing for the AdWord purchaser's website in the sponsored link section of the search results. Although, many trade mark owners have purchased their own trademarks as AdWords, their rivals have also been free to do this and if they are prepared to pay more, may have their web listing appear in a more prominent place within the search results than that of trade mark owner.³⁹⁸

As can be understood from the picture drawn above, there are two different parties whose liability for trade mark infringement due to the online use of a registered trade mark was questioned by the CJEU. The first one is the search engine operator who stores the keywords and information and receives payment for the sale of such information as AdWords. The second one is the advertiser who purchases the registered trade mark as an AdWord from the search engine operator.³⁹⁹

In *Google France* case, the CJEU reiterated its *Arsenal v Reed* judgment in relation to trade mark use by stating that the unauthorised use of a trade mark by third party constitutes use in

³⁹⁷ *Google France, Google Inc. v Louis Vuitton Malletier; Google France v Viaticum, Luteciel; Google France v CNRRH, Pierre-Alexis Thonet, Bruno Raboin and Tiger, a franchisee of Unicis* [2010] E.T.M.R. 30

³⁹⁸ Blythe A., 'Searching questions: issues surrounding trade mark use on the internet', *European Intellectual Property Law* (2013) 35(9), 507-515, p. 507

³⁹⁹ *Ibid.*, p. 507

the course of trade where it occurs in the context of commercial activity with a view to economic advantage and not as a private matter.⁴⁰⁰ Then, it repeated its *L'Oréal v Bellure* judgment by going on to say that the trade mark owner cannot oppose the unauthorized use of the trade mark by third party if that use is not liable to cause detriment to any of the functions of that mark and that those functions include not only the essential function of origin indicating, but also its other functions, in particular that of guaranteeing the quality of the products in question and those of communication, investment or advertising.⁴⁰¹

When it comes to determine whether the trade mark use of third party constitutes an infringing use within the meaning of Article 5 (1) (a) of the TMD, the CJEU made a distinction between the use of trade mark by the search engine operator and the use trade mark by the AdWord purchaser. According to the CJEU, a referencing service provider allows its clients to use signs which might be identical with a registered trade mark. The fact of creating the technical conditions necessary for the use of a sign which is identical with a registered trade mark and being paid for that service does not mean that the party offering the service itself uses the registered trade mark. Although it is clear that the referencing service provider operates “in the course of trade” when it permits advertisers to select, as keywords, signs identical with a registered trade mark, it does not, however, uses the sign in its own commercial communication.⁴⁰² Hence, the CJEU came to the conclusion that the use of a trade mark by search engine operator is not an infringing use within the meaning of Article 5 (1) (a) of the TMD.

It is the advertiser who chooses a keyword which is identical with a registered trade mark of another and who uses the trade mark in relation to his own products or to those of the trade mark owner. This use of advertiser is liable to affect the origin function of trade mark if the

⁴⁰⁰ *Google France, Google Inc. v Louis Vuitton Malletier; Google France v Viaticum, Luteciel; Google France v CNRRH, Pierre-Alexis Thonet, Bruno Raboin and Tiger, a franchisee of Unicis* [2010] E.T.M.R. 30

⁴⁰¹ *Ibid.*, [75]-[77]

⁴⁰² *Ibid.*, [55]-[56]

AdWord displayed in the sponsored link does not enable an average internet user, or enables said user only with difficulty, to ascertain whether the products referred to originate from the trade mark owner or from an undertaking economically connected to it or, on the contrary, originate from a third party. Therefore, the CJEU came to conclusion that the unauthorised use of a trade mark by advertiser constitutes to an infringing use within the meaning of Article 5 (1) (a) of the TMD; since such use is liable to affect one of the functions of trade mark, which, in this case, is the origin function of trade mark.⁴⁰³

The CJEU also held that the advertising function of a trade mark besides its origin function is relevant to be examined in this case. With regard to the use by internet advertisers of a registered trade mark as a keyword for the purposes of displaying advertising messages, it is clear that that use is liable to have certain repercussions on the advertising use of that trade mark by its owner and on the latter's commercial strategy. However, those repercussions of use by third parties of the registered trade mark do not of themselves constitute an adverse effect on the advertising function of the trade mark.⁴⁰⁴

It is important to note that the judgment of the CJEU as to the trade mark use does not add that much to the ruling previously given in *L'Oréal v Bellure*. As mentioned above, it once again emphasised the importance of the functions of trade mark in determining whether trade mark use requirement is satisfied within the meaning of Article 5(1) (a) of the TMD. Having said this, *Google France* case played an important role in providing a guideline to the issue of online trade mark use, in particular the use of trade mark as AdWord. In this case, the CJEU explained why the use by the search engine provider of a registered trade mark technically cannot be considered as trade mark use. The method applied by the CJEU to determine it was whether the use of a trade mark by third party takes place in third party's own commercial communication. As the use of the search engine provider did not take place in its own

⁴⁰³ *Ibid.*, [99]

⁴⁰⁴ *Ibid.*, [93] –[95]

commercial communication, the CJEU did not need to consider such use in relation to the functions of trade mark. Hence, it can be said that the CJEU elaborated on using in the course of trade prerequisite in a way that largely protected Google's business model.

The issue of whether the use of a registered trade mark as AdWord by third party constitutes to an infringing use under Article 5 (1) (a) of the TMD was asked again to the CJEU in *Interflora v. Mark&Spencer*⁴⁰⁵. In this case, Marks & Spencer sold a wide range of products and supplies services through its network of shops and via its website. One of those services was the sale and delivery of flowers in competition with members of the Interflora network, to which it did not belong. Through the AdWords referencing service Marks & Spencer purchased as keywords the word "interflora". It means that internet surfers who googled "interflora" would receive, among their sponsored links, a Mark & Spencer advertisement. Hence, Interflora brought proceedings for trade mark infringement.⁴⁰⁶

It is important to note that the CJEU mainly reiterated its previous judgments in relation to the trade mark use but this time made some further references to the different functions of a trade mark. With regard to the use, in the context of an internet referencing service, of a registered trade mark by third party, the CJEU already held in *Google France* case that, in addition to its origin function, advertising function of a trade mark is relevant to be considered. As Interflora claimed that its trade mark's investment function has been adversely affected, the CJEU held that the consideration of the investment function is also equally valid in this case. Therefore, the CJEU provided guidance on interpretation in relation to the trade mark's origin function, advertising function and investment function.⁴⁰⁷

The CJEU came to the conclusion that the use of word "Interflora", the registered trade mark of the claimant, as AdWord by the defendant adversely affects the trade mark's origin function where the advertising displayed on the basis of that keyword does not enable

⁴⁰⁵ *Interflora v. Mark&Spencer* [2012] E.T.M.R. 1

⁴⁰⁶ *Ibid.*, [H6]

⁴⁰⁷ *Ibid.*, [42]-[43]

reasonably well-informed and reasonably observant internet users, or enables them only with difficulty, to ascertain whether the products concerned by the advertisement originate from the owner of the trade mark or, on the contrary, originate from a third party. Such use also adversely affects the trade mark's investment function if it substantially interferes with the owner's use of its trade mark to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty. However such use does not adversely affect, in the context of an internet referencing service having the characteristics of the service at issue in the main proceedings, the trade mark's advertising function.⁴⁰⁸

Prior to drawing a conclusion, it is important to note the Max Planck Institute's "Study on the Overall Functioning of the European Trade Mark System" in which the present situation of trade mark use prerequisite for infringement was analysed as follows:

"It appears appropriate to maintain the requirement established by case law that use must be made for the purpose of (identifying and) distinguishing the commercial origin of goods and services...Use for the purposes of distinguishing should not be interpreted in the sense that marks and goods/services must always appear together. For example, advertising by use of a mark, without showing the good/services, would still be use for the purposes of distinguishing."⁴⁰⁹

As mentioned above, I think that, trade mark use is still a prerequisite for infringement under Article 5 (1) (a) of the TMD, unlike what some commentators claimed after *Arsenal v Reed*. However, the judgments of the CJEU after *Arsenal v Reed* should be viewed as the applications of trade mark use prerequisite to new facts. There has been a rapid functional change in the notion of trade mark for last three decades. Although the origin function of trade mark remains as the essential one, the other functions of trade mark have started to play a role which is as crucial as its essential function of origin indicating. The broader interpretation of trade mark use prerequisite in the recent judgments of the CJEU reflects this

⁴⁰⁸ *Ibid.*, [66]

⁴⁰⁹ 'Study on the Overall Functioning of the European Trade Mark System', Max Planck Institute for Intellectual Property and Competition Law (2011) at p. 109-110

change in the notion of trade mark. In order to expand the scope of the protection given trade mark owners under Article 5 (1) (a) of the TMD, the CJEU had to adapt the trade mark use prerequisite to the new facts and therefore linked it to the functions of trade mark.

Unlike what Max Planck Institute says, I think, trade mark use requirement for infringement should not be limited to use made for the purpose of distinguishing the commercial origin of products. Use of a trade mark by third party which affects or liable to affect any functions of trade mark, regardless of whether such use made for distinguishing the commercial origin of products or not, should be enough to be considered as trade mark use within the meaning of Article 5 (1) (a) of the TMD.

Max Planck Institute states that trade mark use for the purposes of distinguishing should not be interpreted in the sense that marks and products must always appear together. However, I think if marks and products do not appear together, such use is very likely to have an adverse effect on one of the economic functions of trade mark as well as its origin function. In other words, the unauthorised use of a trade mark by third parties in a situation where marks and products does not appear together such as use of trade mark as an advertising or promotional device on the internet is made not only for the purposes of distinguishing their goods and services but also for the purposes of taking advantage from the reputation of trade mark. If we look at the recent cases where trade mark was used by third parties as advertising or promotional device such as *Google France* and *Portakabin v Primakabin* cases, the economic functions of trade mark was at issue.

Therefore, in my opinion, the broader interpretation of trade mark use for the purposes of distinguishing as Max Planck Institute suggests is peculiar. It is important to note that some commentators are wary of interpreting the new concept of trade mark use prerequisite doctrine adapted by the CJEU; since there has been no judgment of the CJEU in relation to

trade mark use and infringement under Article 5 (1) (a) of the TMD which found merely one of the economic functions has been adversely affected but not the essential function of origin indicating.⁴¹⁰

To sum up, if we draw a conclusion from the recent judgement of the CJEU in relation to the trade mark use issue, there are three important criteria which have been adapted by the CJEU in order to determine whether the unauthorised use of a trade mark by third party fulfils trade mark use prerequisite within the meaning of Article 5 (1) (a) of the TMD. The first criterion is that the use of trade mark by third party must occur in the context of commercial activity with a view to economic advantage and not as a private matter. The second criterion is that the use of trade mark by third party must take place in the third party's own commercial communication. The last criterion is that the use of trade mark by third party must affect or be liable to affect one of the functions of trade mark.

The unauthorised use of a trade mark by third party will be considered as a trade mark use within the meaning of Article 5 (1) (a) of the Trade Mark Directive if it satisfies all of these criteria. The next requirement for infringement under Article 5 (1) (a) of the TMD is that the sign used by third party must be identical with the registered trade mark. Therefore, we will explore the concept of identical sign requirement in the next section.

4.3 Using an Identical Sign

In order to satisfy one of the criteria for infringement under Article 5 (1) (a) of TMD, the test needs to be applied is whether the registered trade mark of the owner and the sign used by third party can be considered as identical when they are compared. Although it seems *prima facie* a simple test to apply, what can or cannot be treated as a sign for the purposes of making a comparison with a registered trade mark has led to some legal issues since the

⁴¹⁰ Norman H., 'Time to blow the whistle on trade mark use?' , Intellectual Property Quarterly, (2004), 1, 1-34

adoption of the Trade Mark Directive. Therefore, we will look at the early significant High Court judgments which provide solutions to resolve the issue prior to the rulings of the CJEU and the CJEU's case law where the matter of what amounted to an identical sign has been discussed in order to provide a solution.

After the TM Act 1994 came into force, an issue in relation to identical sign requirement was discussed by the Court of Session (Outer House) in *Bravado v Mainstream*.⁴¹¹ In this case, Bravado Merchandising Services was the owner of the registered trade mark 'Wet Wet Wet', which was the name of a popular group of musicians with a worldwide following, in respect of *inter alia* printed matter, books and book covers. Mainstream Publishing published a book about the pop group and include the name "A Sweet Little Mystery - Wet Wet Wet - The Inside Story" on the cover of the book albeit in a different script to the registered trade mark. Bravado Merchandising Services commenced an infringement proceeding against Mainstream Publishing under section 10(1) of the TM Act 1994, which corresponds to Article 5 (1) (a) of the TMD.

It was held that the use of a sign by defendant in a different script to the registered trade mark did not mean that the sign is not identical to the registered trade mark for the purposes of section 10(1) of the TM Act 1994, which corresponds to Article 5 (1) (a) of the TMD.⁴¹² According to the Court, what was registered by the owner was simply and necessarily a graphic representation of the words combining the trade mark and the trade mark consisted of the words independently of their typeface or representation in the certificate. If absolute identity of words was required, the smallest change to a trade mark would move the assessment of the facts from the section 10(1) of the TM Act 1994 [Article 5 (1) (a) of the TMD], where consumer confusion is not as requirement, into the section 10(2) of the TM Act 1994 [Article 5 (1) (b) of the TMD], where consumer confusion is a prerequisite of

⁴¹¹ *Bravado Merchandising Services Ltd v Mainstream Publishing (Edinburgh) Ltd* [1996] F.S.R. 205

⁴¹² *Ibid.* at 211

liability.⁴¹³ However, this case rested entirely upon the section 10(1) of the TM Act 1994 [Article 5 (1) (a) of the TMD].⁴¹⁴

Following the judgment of the Court of Session, a number of High Court judgments, where identical sign requirement were discussed, appeared to exclude extraneous matter from the product identifier in order to identify the sign used by third party for comparison with the registered trade mark. In *British Sugar v James Robertson*⁴¹⁵, the judgment of the High Court appeared to suggest that any discrete feature within a product identifier could be treated as the sign for comparison with the registered trade mark. It is important to note that this flexible approach of the High Court as to identifying the sign for comparison with the registered trade mark was drawn from the pre-1994 Act trade mark law, which held that third party should not be able to escape liability for making unauthorised use of a trade mark by surrounding it with other matter.⁴¹⁶ Hence, the High Court supported its judgment with the statement given by Sir Wilfred Greene MR in *Saville Perfumery v June Perfect*⁴¹⁷ which says:

“the statutory protection is absolute in the sense that once a mark is shown to offend, the user of it cannot escape by showing that by something outside the actual mark itself he has distinguished his goods from those of the registered proprietor.”⁴¹⁸

In *Aktiebolaget Volvo v Heritage*, the High Court appeared to take a similar approach as to identifying the sign for comparison with the registered trade mark as they agreed with a similar conclusion reached by the High Court in *British Sugar v James Robertson*. It was held that in the case of a word trade mark, all that is necessary to constitute *prima facie* infringement under section 10(1) of TM Act 1994 [Article 5 (1) (a) of TMD] is use of the

⁴¹³ MacQueen H., Waelde C., Laurie G. and Brown A., *Contemporary Intellectual Property*, Oxford University Express, (2010), 2nd Edition, p. 660

⁴¹⁴ *Bravado Merchandising Services Ltd v Mainstream Publishing (Edinburgh) Ltd* [1996] F.S.R. 205, at 212

⁴¹⁵ *British Sugar v James Robertson* [1997] E.T.M.R. 118

⁴¹⁶ Griffiths, A., ‘The trade mark monopoly: an analysis of the core zone of absolute protection under Art.5.1 (a)’, *Intellectual Property Quarterly* (2007) 3 312-349, p. 327

⁴¹⁷ *Saville Perfumery v June Perfect* [1941] 58 R.P.C. 147

⁴¹⁸ *British Sugar v James Robertson* [1997] E.T.M.R. 118 at p. 293

identical word in the course of trade as a distinct word, whether with or without other words or material added to it.⁴¹⁹

In *Decon v Fred Baker*, the High Court held that “[m]atter added to the sign used by the defendant is to be discounted. This widely stated principle is not absolute, but must be judged on the facts of the case. If for example a word mark is buried in the defendant's sign so that in Jacob J.'s phrase only a crossword fanatic could find it then the sign used by the defendant does not comprise the mark at all.”⁴²⁰ In *Asprey and Garrard v WRA*, the High Court referred to this statement and came to the conclusion that the word “Asprey” is identical with “William R. Asprey, Esquire”, the sign used by the defendant, for the purposes of section 10(1) of TM Act 1994 [Article 5 (1) (a) of TMD].⁴²¹

Despite these judgments of the Court of Session and the High Court that the flexible approach to the criterion of identical sign was adapted, there were a number of judgments which the High Court preferred to apply to a strict approach. In *Origins v Origin*, the High Court held that sign used by the defendant were slightly different than the registered trade mark of plaintiff because the registered trade mark was in the plural whereas the defendant use the word “Origin” alone.⁴²²

Similarly, the High Court decided in *H Young v Medici* that infringement under section 10 (1) of the TM Act 1994 [Article 5 (1) (a) of the TMD] cannot be relied upon in this case; since the defendant’s use of word “Animale” is self-evidently not identical with the registered trade mark “Animal”, having different pronunciation however pronounced. Moreover, the sign “Animale” is a foreign word in some languages and therefore it has a slight foreign “feel”. In other words, the Court made it clear that this is not a case which can be regarded as

⁴¹⁹ *Aktiebolaget Volvo v Heritage* [2000] F.S.R. 253 at p. 259

⁴²⁰ *Decon v Fred Baker* [2001] R.P.C. 17 at p. 299

⁴²¹ *Asprey and Garrard v WRA* [2002] F.S.R. 30 at p. 484

⁴²² *Origins v Origin* [1995] F.S.R. 280 at 284

taking the mark and merely making an addition because the addition makes a difference to the mark itself.⁴²³

Important guidance on the criterion of identical sign came from the CJEU in *LTJ Diffusion v Sadas*.⁴²⁴ In this case, LTJ was a French company which produced and sold clothing under the trade mark “Arthur” which was registered in France as a figurative mark in a distinctive handwritten form for various kinds of goods including clothing. Sadas had registered the words “Arthur et Félicie” as a trade mark for various kinds of goods and used it for children’s clothing. LTJ objected to Sadas’ use of the mark and opposed its trade mark application.

The CJEU was asked how the notion of “sign which is identical with the trade mark” within the meaning of Article 5(1) (a) of the TMD is to be interpreted.⁴²⁵ The CJEU ruled that the criterion of identity of the sign and the trade mark must be interpreted strictly. According to the CJEU, the very definition of identity implies that the two elements compared should be the same in all respects. There is therefore identity between the sign and the trade mark where the former reproduces, without any modification or addition, all the elements constituting the latter.⁴²⁶

However, the CJEU went on to say that the perception of identity between the sign and the trade mark must be assessed globally with respect to an average consumer who is deemed to be reasonably well informed, reasonably observant and circumspect. Since the perception of identity between the sign and the trade mark is not the result of a direct comparison of all the characteristics of the elements compared, insignificant differences between the sign and the trade mark may go unnoticed by an average consumer.⁴²⁷ Hence, the answer of the CJEU to the question referred was that Article 5(1) (a) of the TMD must be interpreted as meaning

⁴²³ *H Young v Medici* [2004] F.S.R. 19 at 387

⁴²⁴ *LTJ Diffusion v Sadas* [2003] F.S.R. 34

⁴²⁵ *Ibid.*, at [23]

⁴²⁶ *Ibid.*, at [50]-[51]

⁴²⁷ *Ibid.*, at [52]-[53]

that a sign is identical with the trade mark where it reproduces, without any modification or addition, all the elements constituting the trade mark or where, viewed as a whole, it contains differences so insignificant that they may go unnoticed by an average consumer.⁴²⁸

With this judgment, the CJEU ruled that the assessment of identical sign requirement has a two stage inquiry. First of all, the question of whether the used sign and the registered trade mark are actually identical needs to be asked by court. If the answer is yes then no resort to the average consumer needs to be made and there is *prima facie* infringement provided that the products are also identical. If the used sign and the registered trade mark are not absolutely identical, the assessment moves to the second stage of inquiry. In the second stage, the question of whether the difference between the used sign used and the registered trade mark is of any significance is a question to be determined by the court. An average consumer provides the perspective for determining identity here. More specifically, insignificant differences that may go unnoticed by an average consumer will be missed at the second stage.

This guidance of the CJEU as to the identical sign requirement was applied by the Court of Appeal in *Reed v Reed*⁴²⁹. In this case, Reed Solutions, who had registered the trade mark “Reed” for employment agencies, had contended that Reed Business Information, who set up the specialist job-related website, <http://www.totaljobs.com>, used the word “Reed” as a sign through using the composite name “Reed Business Information”. The question arose in this case was whether Reed Business Information’s use of the “Reed Business Information” was an infringement of the registered trade mark “Reed”.

In his judgment, Jacob L.J. said that the guidance of the CJEU in relation to the criterion of identical sign is “opaque”. This is because; the CJEU ruled on the one hand that the criterion of identity must be interpreted strictly. On the other the court is to allow for the “imperfect

⁴²⁸ *Ibid.*, at [54]

⁴²⁹ *Reed v Reed* [2004] E.T.M.R. 56

picture” of that notional construct “the average consumer”. Jacob L.J. went on to say that the second step of the assessment is a concept more aptly related to the question of whether there is a likelihood of confusion between the sign and the registered trade mark, the requirement of Article 5 (1) (b) of the TMD. Hence, there is no reason to suppose that the CJEU meant to soften the edges of “strict identity” requirement very far.⁴³⁰

For that reason, the Court of Appeal came to conclusion that “Reed Business Information” is not identical to “Reed”. First of all, there is not a strict identity between the sign and the registered trade mark because the actual sign used by the defendant is “Reed Business Information.” Secondly, the additional words of the sign, which are “Business Information”, would not “go unnoticed by the average consumer.”⁴³¹

It is important to note that the Court of Appeal made some further observations as to the concept of identity within the meaning of Article 5 (1) (a) of the TMD in cases where trade mark has some visual impact. According to Jacob L.J.:

“...In the case of a device mark consisting of a word written out in some special way that will include its visual impact. It would make no sense if, once such a mark were registered, a visually different but identical word device mark were treated as identical...You can only have “identity” if there is both aural and visual identity.”⁴³²

There have also have been some High Court judgments applying the CJEU’s ruling as to the criterion of identity. It was held in *Compass v Compass* that “Compass Logistics” is not identical to registered trade mark “Compass.” In his judgment, Laddie J. also noted that differences that ordinary members of the public will not notice can be ignored. However, there is nothing in the judgments of *LTJ Diffusion v Sadas* or *Reed v Reed* to suggest that noticeable differences should be ignored because they have only limited trade

⁴³⁰ *Ibid.*, at [25]-[27]

⁴³¹ *Ibid.*, at [38]-[39]

⁴³² *Ibid.*, at [30]-[32]

mark significance. To avoid infringement, the addition must not only be more than insignificant but it must have trade mark impact.⁴³³

Hence, it was held in *Antoni Fields v Klaus Kobec* that additional words can be dismissed in the assessment of identity if they have no trade mark impact. In its judgment, the High Court came to the conclusion that the addition of the word “Limited” to a distinctive name “Klaus Kobec” has no trade mark significance and therefore can be ignored. Similarly, “klauskobec.com” is identical use of the registered trade mark “Klaus Kobec”, the addition of “.com” having no trade mark significance. Having said this, it was held that the addition of “rugby” and “football” to “Klaus Kobec” falls on the other side of the line. These additional words would not go “unnoticed by the average consumer.”⁴³⁴

Similarly, the High Court in *Ellerman v C-Vanci* rejected the claimants’ argument under Article 5 (1) (a) of the TMD on the basis that the sign of defendant “ritzpoker” is not identical to the registered trade mark of claimants “Ritz”. According to the judgment of the High Court, the word “poker” is not wholly or specifically descriptive in such a way as to add nothing at all to the word “Ritz” and therefore it is not so insignificant that it might go unnoticed by the average consumer.⁴³⁵

Having said this, there is an important case in which the High Court held that the difference between the sign used by defendant and the registered trade mark can be still significant by the average consumer even though the actual mark is distinctive and the additional word to the actual mark used by the defendant is descriptive. In *Och-Ziff v OCH Capital*, the claimant, who is the owner of the registered trademarks “OCH” and “OCH-ZIFF”, alleged that the defendant’s use of the sign “OCH Capital” infringed its trade mark. The claimants argued that there is an identity between the sign used and the registered

⁴³³ *Compass v Compass* [2004] R.P.C. 41 at [20]-[21]

⁴³⁴ *Antoni Fields v Klaus Kobec* 2006 WL 901118 at [68]-[72]

⁴³⁵ *Ellerman v C-Vanci* 2006 WL 1887018 at [10]

trade mark within the meaning of Article 5 (1) (a) of the TMD. According to the claimant, the judgment of the CJEU in *LTJ Diffusion v Sadas* and the High Court decisions in *Reed v Reed* and *Compass v Compass* were distinguishable on the facts, in particular because OHC was highly distinctive for financial services whereas CAPITAL was descriptive of such services, and in particular investment services. The argument of the claimant is accepted to the extent that OCH is highly distinctive and that CAPITAL is descriptive, or at least non-distinctive. However, Arnold J. came to the conclusion that the addition of word CAPITAL to the mark OCH is not so insignificant that it would go unnoticed by the relevant average consumer. Therefore, the sign is not identical to the registered trade mark.⁴³⁶

It is important to note that it might be sometimes difficult to assess the identity of the sign used by the defendant although there is a guidance given by the CJEU in *LTJ Diffusion v Sadas*. In *Miss World v Channel 4*, Pumfrey J. held that whether the used sign “Mr Miss World” is identical to the registered trade mark “Miss World” is a difficult question to be answered. “Mr Miss World” is properly to be viewed as the mark “Miss World” with what might be called an intra-brand feature consisting of the word “Mr”. This means that it would have to be demonstrated that the ordinarily interested notional member of the public or notional consumer would consider this to be a Miss World product, differentiated by the use of the word “Mr”. In that case the word Miss World would still be a distinct mark. Then there would be identity between the sign and the registered trade mark.⁴³⁷ However, there is an alternative view which is that it is an ordinary composite mark in which the word “Mr” does nothing but qualify the Miss World part of the mark purely semantically

⁴³⁶ *Och-Ziff v OCH Capital* [2011] E.T.M.R. 1 at [71]

⁴³⁷ *Miss World v Channel 4* [2007] E.T.M.R. 66 at [10]-[11]

with the result that there is some indication that this is a different mark. In that case there would be no identity between the sign and registered trade mark.⁴³⁸

In conclusion, the guidance given by the CJEU in *LTJ Diffusion v Sadas* still plays a crucial role in the assessment of identical sign requirement. As mentioned above, the guidance of the CJEU has a two stage inquiry. At first stage, the identity of the sign used by defendant and the registered trade mark needs to be interpreted strictly as there must be absolute identity. For that reason, the guidance of the CJEU can be viewed as a sticker test compared to the related some judgments of the High Court in pre-*LTJ Diffusion v Sadas* period. Having said this, the second stage of inquiry, where the perception of identity must be assessed globally with respect to an average consumer, balances the strict test at the first inquiry. At the second stage, insignificant differences that may go unnoticed by an average consumer will be missed. In the subsequent Court of Appeal judgment, Jacob L. J. drew attention to the “imperfect picture” of the notional construct “the average consumer” in the guidance of the CJEU and interpreted the second stage of inquiry as an assessment not to soften the edges of “strict identity” requirement very far. It is important to note that Laddie J. elaborated on the ruling of the CJEU by stating that, at the second stage of inquiry, the addition to the actual mark must not only be more than insignificant but it must have trade mark impact. Therefore, it is possible to say that the sign used by defendant will considered as identical to the registered trade mark if additions to the actual mark are insignificant or has no trade mark impact. In those cases, the identical sign requirement will be satisfied within the meaning of Article 5 (1) (a) of the TMD. The last requirement for infringement under Article 5 (1) (a) of the TMD that we will explore in the following section is identical products requirement.

⁴³⁸ *Ibid.*, at [12]

4.4 Using Identical Products

In order to satisfy the last criterion of infringement under Article 5 (1) (a) of TMD, the test needs to be applied is whether the sign used is in relation to the goods and services, identical to those for which the trade mark is registered. The trade mark system is based on the registration of a sign as a trade mark for designated categories of goods and services. More specifically, a trade mark must be registered by reference to a specific class of goods and services.⁴³⁹

The World Intellectual Property Organisation (WIPO) specified an internationally recognized system, established by the Nice Agreement in 1957 and is continuously revised by the Committee of Experts of the Nice Union, which classifies goods and services for the purpose of registration. The “Nice Classification” consists of a list of classes, 34 classes for goods and 11 classes for services.⁴⁴⁰ The designated category of goods or services identifies the specification of those goods and services for which a trade mark has been registered. The specification of goods and services for which a trade mark has been registered plays a crucial role in identifying the scope of the exclusive rights given to the trade mark owners under Article 5 (1) (a) of the TMD. Having said this, the terminology used to describe the specification of goods and services for which trade mark has been registered can be broad and ambiguous. In fact, it has created some difficulties for courts to determine whether defendant used the sign in relation to the identical products.

In *British Sugar v James Robertson*, it was argued that the word “treat” used by the defendant in relation to a toffee flavoured spread “Robertson’s toffee treat”, infringed the trade mark “treat” registered by the claimant in relation to dessert sauces and syrups, under Article 5 (1)

⁴³⁹ Griffiths, A., ‘The trade mark monopoly: an analysis of the core zone of absolute protection under Art.5.1 (a)’, *Intellectual Property Quarterly* (2007) 3 312-349, p. 324

⁴⁴⁰ http://www.wipo.int/treaties/en/classification/nice/summary_nice.html available at 27/01/2014

(a) of the TMD.⁴⁴¹ In this argument, the claimant said that the product for which the defendant used the sign has got other uses such as spread; but it was positively suggested by the defendant on the label of the product that it can also be used as desserts sauce for which the trade mark had been registered.⁴⁴²

The High Court rejected this argument on the basis that products are not identical within the meaning of Article 5 (1) (a) of the TMD. According to the judgment of the High Court, a word used in a trade mark specification must be construed with the question of how the product is, as a practical matter, regarded for the purposes of trade. All potential uses of the defendant's product, otherwise than as a spread, amounted to less than five percent of volume. In other words, the product of defendant is not for the purpose of trade, a dessert sauce. Therefore, it cannot be said that the defendant uses the sign in relation to the dessert sauces and syrups for which the claimant's trade mark had been registered.⁴⁴³

Another issue concerning the identical product requirement was referred to the High Court in *Avnet v Isoact*. In this case, the claimant who is the owner of the registered trade mark "Avnet" for advertising and promotional services brought infringement proceedings against Isoact, who is an internet service provider which offers customers the opportunity to create their own web pages, used the name Avnet and had a website with the address: www.avnet.co.uk. The claimant argued that the sign used by the defendant was identical to its registered trade mark and used in connection with identical goods and services. Therefore, Article 5 (1) (a) of the TMD was relied upon as the ground of infringement.⁴⁴⁴

The High Court disagreed with the argument of the claimant. Jacob J. ruled that specifications for services should be scrutinised carefully and they should not be given a wide

⁴⁴¹ *British Sugar v James Robertson* [1997] R. P. C. 281

⁴⁴² *Ibid.*, at 288

⁴⁴³ *Ibid.*, at 289

⁴⁴⁴ *Avnet v Isoact* [1998] F.S.R. 16

construction covering a vast range of activities. In this case, the essence of what defendants are doing is not providing advertising and promotional services in the way that, the claimant does. The advertising and promotional services for which the claimant's trade mark had been registered fall within class 35. However, the defendant rather provided the services of an Internet Service Provider, which would probably fall within class 42.⁴⁴⁵

The principle of "construing the specification of goods and services narrowly" was applied again by Jacob L.J. in *Reed v Reed*.⁴⁴⁶ In this case, Reed Solutions, who had registered the trade mark "Reed" for employment agency services and provided those services both on business premises and through their own website, had brought infringement proceedings against Reed Business Information, who set up the specialist recruitment website, <http://www.totaljobs.com>, used the word "Reed" as a sign through using the composite name "Reed Business Information". One of the question arose in this case was whether the defendant used the sign in relation to the identical services within the meaning of Article 5 (1) (a) of the TMD.

Jacob L. J. ruled that the question to be asked is whether the services provided by defendant are within the meaning of the specification of the services for which the claimant's trade mark had been registered. The principle for the test of identical products requirement that Jacob L. J. had set in *Avnet v Isoact* was applied again to the facts of this case. The principle was to scrutinise the specifications of services carefully and not to give them a wide construction covering a vast range of activities. Therefore, Jacob L. J. said that the core features of the specification of the employment agency services need to be identified.⁴⁴⁷

⁴⁴⁵ *Ibid.*, at 19

⁴⁴⁶ *Reed v Reed* [2004] E.T.M.R. 56

⁴⁴⁷ *Ibid.*, at [45] and [52]

Jacob L. J. also noted that a specification of goods or services cannot change its meaning with time even if the terminology used in the specification were to change or evolve in meaning or the range of the goods or services in a class were to be subsequently revised or expanded. In other words, the meaning of a specification was the meaning at the time of registration. After considering all those principles, the Court of Appeal came to the conclusion that the core features of an employment agency service does not include the activities of defendant. Therefore, the services are not identical within the meaning of Article 5 (1) (a) of the TMD.⁴⁴⁸

Another issue in relation to the identical products requirement within the meaning of Article 5 (1) (a) of the TMD arose in *BMW v Deenik*⁴⁴⁹. It is important to note that the issue in this case is slightly different than identical products requirement related issues that we tried to analyse above. In the previous cases, the question needs to be answered was whether products for which defendant used its sign is identical to those for which claimant's trade mark had been registered. In this case, the question needs to be answered was whether defendant used its sign in relation to goods and services for which claimant's trade mark had been registered.

In *BMW v Deenik*, BMW commenced infringement proceedings against Deenik, which specialised in the sale and repair of second hand BMW cars. BMW objected to Deenik's advertisements which stated in particular that it dealt with "repairs and maintenance of BMWs", and that Deenik was either a "BMW Specialist" or "specialised in BMWs". Therefore, the advertisements of Deenik infringed BMW's trade marks for the name BMW in respect of engines and motor vehicles, as well as for spare parts and accessories.⁴⁵⁰

It was argued that in the advertisement for "repair and maintenance of BMWs", the BMW mark is not used in respect of goods but to describe a service in respect of which the mark has

⁴⁴⁸ *Ibid.*, at [46] and [65]

⁴⁴⁹ *BMW v Deenik* [1999] E.T.M.R. 339

⁴⁵⁰ *Ibid.*, at p. 340

not been registered. For that reason, Article 5(1) (a) of the TMD is not applicable. However, the CJEU held that the use of a trade mark for the purpose of informing the public that *another undertaking carries out the repair and maintenance of goods covered by that mark or that it has specialised or is a specialist in such goods* constitutes use of the mark within the meaning of Article 5(1) (a) of the TMD.⁴⁵¹

It is important to note that the CJEU elaborated on the judgment in *Adam Opel v Autec*.⁴⁵² The CJEU said that, in *BMW v Deenik*, BMW concerned the use of a sign identical to the trade mark for services which were not identical to those for which that trade mark was registered, since the BMW trade mark was registered for vehicles but not for vehicle repair services. However, the vehicles marketed under the BMW trade mark by the owner of that mark constituted the subject matter of the services—the repairing of vehicles—supplied by the third party, so that it was essential to identify the origin of the BMW cars, the subject matter of those services. It was having regard to that specific and indissociable link between the products bearing the trade mark and the services provided by the third party that the CJEU held that, in the specific circumstances of the BMW case, use by the third party of the sign identical to the trade mark in respect of goods marketed not by the third party but by the holder of the trade mark fell within Article 5 (1) (a) of the TMD.⁴⁵³

The question of whether defendant used its sign in relation to goods and services for which claimant's trade mark had been registered arose again in *Celine v Celine*.⁴⁵⁴ In this case, a French company which registered the word 'Celine' as a trade mark in France for clothes and shoes commenced infringement proceedings against a company called 'Celine Sarl' which sells clothes and accessories in France. The question over the identical products requirement was whether the claimant, who has registered a name as a word trade mark in respect of

⁴⁵¹ *Ibid.*, at p. 351 and 352

⁴⁵² *Adam Opel v Autec* [2007] E.T.M.R. 33

⁴⁵³ *Ibid.*, at [27]

⁴⁵⁴ *Celine v Celine* [2007] E.T.M.R. 80

certain goods, can exercise its exclusive rights given under Article 5 (1) (a) of the TMD against the defendant who has adopted the same name as a company name and shop sign in the context of a business marketing goods of the same kind.⁴⁵⁵

The CJEU held that there is use “in relation to products ” within the meaning of Article 5 (1) (a) of the TMD where a third party affixes the sign constituting his company name, trade name or shop name to the products which he markets. In addition, even where the sign is not affixed, there is use “in relation to products” within the meaning of that provision where the third party uses that sign in such a way that a link is established between the sign which constitutes the company, trade or shop name of the third party and the products marketed or the services provided by the third party.⁴⁵⁶

In conclusion, the most important guidance as to the identical products requirement test came with the judgment of the High Court in *Avnet v Isoact*. According to so-called *the Avnet principle*, specifications for goods and services should be scrutinised carefully and they should not be given a wide construction covering a vast range of activities. There are two significant rulings in the case law which supports the strict Avnet principle for the identical products requirement test.

First, in the judgment of the High Court in *British Sugar v James Robertson*, it was ruled a word used in a trade mark specification must be construed with the question of how the product is, as a practical matter, regarded for the purposes of trade. Second, in the judgment of Court of Appeal in *Reed v Reed*, a specification of goods or services cannot change its meaning with time even if the terminology used in the specification were to change or evolve in meaning or the range of the goods or services in a class were to be subsequently revised or expanded. In those rulings, the specification of products was limited to the terminology used at the time of registration and the purposes of trade as a practical matter. The more strict

⁴⁵⁵ *Ibid.*, [AG2]

⁴⁵⁶ *Ibid.*, [22]-[23]

interpretation of the specification of products means that the more strict interpretation of the identical products requirement test.

Having said this, the rulings given by CJEU to the question of whether third party used its sign *in relation to goods and services* for which the trade mark has been registered can be interpreted a broader approach to the notion of “*in relation to*” part of the identical products requirement compared to the “*identical*” part of this requirement.

4.5 Conclusion

The aim of this thesis is to revisit the parallel importation within the EEA in order to find out the impact of the expansion of trade mark protection under Article 5 (1) (a) of the TMD on the rights of parallel traders which was regulated under Article 7 of the TMD. Therefore, the rights regulated under Article 5 (1) (a) of the TMD was the focus of the first three chapters. The exercise of these exclusive rights conferred on the owner of a trade mark under Article 5 (1) (a) of the TMD is limited to situations where functions that the trade mark performs are adversely affected. Therefore, the functions that a trade mark performs were examined under the first two chapters in order to determine the exact scope of the exclusive rights which have been given trade mark owners under Article 5 of TMD.

In the first chapter of this thesis, we explained the origin function of trade mark in the light of the recent developments of case law; since it plays an important role in the understanding of the economic functions which are derived from the origin function. In the second chapter of this thesis, we examined the economic functions, the quality guarantee function and the communication, investment or advertising functions, which were recently found to merit broader protection by the European Court of Justice the CJEU’s case law.

In this chapter, we examined the trade mark rights given the owners under Article 5 (1) (a) of the TMD which was expanded to cover the economic functions through the judgments of the CJEU. In other words, we tried to examine the legal aspect of trade mark protection under Article 5 (1) (a) of the TMD. We subdivided this chapter into three sections where each of the criteria for the ground of infringement has been covered separately.

In the first section, we explored the prerequisite for the ground of infringement under Article 5 (1) (a) of the TMD. It is important to note that *Arsenal v Reed*, where the shift in the CJEU's approach towards the trade mark use prerequisite appeared, was a milestone in the criterion of trade mark use. The judgments of the CJEU after *Arsenal v Reed* should be viewed as the applications of trade mark use prerequisite to new facts. Trade mark use requirement for the ground of infringement under Article 5 (1) (a) of the TMD should not be limited to uses made for the purpose of distinguishing the commercial origin of products. Use of a trade mark by third party which affects or liable to affect any functions of trade mark, regardless of whether such use made for distinguishing the commercial origin of products or not, should be enough to be considered as trade mark use within the meaning of Article 5 (1) (a) of the TMD due to the expansion of the scope of the trade mark protection by the recent case law under Article 5 (1) (a) of the TMD. In other words, affecting or being liable to affect one of the functions of trade mark, instead of affecting the origin function of trade mark, must be the criterion for trade mark use prerequisite.

Apart from that, there are two important criteria which have been adapted by the CJEU in order to determine whether the unauthorised use of a trade mark by third party fulfils trade mark use prerequisite within the meaning of Article 5 (1) (a) of the TMD. The first criterion is that the use of trade mark by third party must occur in the context of commercial activity with a view to economic advantage and not as a private matter. The second criterion is that

the use of trade mark by third party must take place in the third party's own commercial communication.

In the second section, we looked at one of the criteria for the ground of infringement under Article 5 (1) (a) of TMD which is that the sign used by third party must be identical to the registered trade mark. We tried to explore this criterion in the light of the case law where the matter of what amounted to an identical sign has been discussed. The guidance given by the CJEU in *LTJ Diffusion v Sadas* still plays a crucial role in the assessment of identical sign requirement. As mentioned above, the guidance of the CJEU has a two stage inquiry. At first stage, the identity of the sign used by defendant and the registered trade mark needs to be interpreted strictly as there must be absolute identity. At the second stage, insignificant differences that may go unnoticed by an average consumer will be missed. It is important to note that Laddie J. elaborated on the ruling of the CJEU by stating that, at the second stage of inquiry, the addition to the actual mark must not only be more than insignificant but it must have trade mark impact. Therefore, it is possible to say that the sign used by defendant will be considered as identical to the registered trade mark if additions to the actual mark are insignificant or has no trade mark impact.

In the second section, we looked at the last criterion for the ground of infringement under Article 5 (1) (a) of TMD which is that the goods and services in relation to which third party used its sign must be identical to those for which the trade mark has been registered. We also tried to explore this criterion in the light of the case law where the matter of *using in relation to the identical products* has been discussed. The most important guidance as to the identical products requirement test came with the judgment of the High Court in *Avnet v Isoact*. According to so-called *the Avnet principle*, specifications for goods and services should be scrutinised carefully and they should not be given a wide construction covering a vast range of activities. There are two significant rulings in the case law which can be considered

additional rules to the strict Avnet principle for the identical products requirement test. In those rulings, the specification of products was limited to the terminology used at the time of registration and the purposes of trade as a practical matter. Having said this, the rulings given by CJEU to the question of whether third party used its sign *in relation to goods and services* for which the trade mark has been registered can be interpreted a broader approach to the notion of “*in relation to*” part of the identical products requirement compared to the “*identical*” part of this requirement.

Chapter 5- Parallel Importation

5.1 Introduction

We already examined the concept of the origin function and economic functions that a trade mark performs under the previous chapters of this thesis. We also analysed the expansion of trade mark rights given to the trade mark owner under Article 5 (1) (a) of the TMD to include the economic functions that a trade mark performs as well as its origin function. As we mentioned above, the aim of this thesis is to revisit the parallel importation within the European Economic Area (the EEA) in order to view the impact of the expansion of trade mark rights regulated under Article 5 (1) (a) of the TMD on the exhaustion of the rights because of the free movements of goods principle which is regulated under Article 7 of the TMD.

In order to analyse the impact of the expansion of trade mark protection on the parallel importation within the EEA, we firstly need to look at the general concept of parallel importation. Therefore, we will broadly examine under the first section the general concept of parallel importation with the ongoing economic arguments made for and against it because of its conflict with the intellectual property rights, in particular trade mark rights. We will also explain the exhaustion regimes, identifying the territories where the rights of trade mark holders are exhausted, which are key components of countries' regulations as to parallel importation.

In the second section, we will focus on the exhaustion regime which the European Union adapted in order to regulate the parallel importation within the EEA. We will divide the analysis of the European exhaustion regime into two sub-sections. In the first sub-section, we will explain the adoption of the "free movement of goods" principle and the emergence of case law about the European exhaustion regime under the Rome Treaty. We will explore the

doctrines that the CJEU developed, starting from the “existence and the exercise of the rights” to the “specific subject-matter of trade mark” in order to resolve the conflict between the trade mark holders and parallel traders within the meaning of Article 36 of the Rome Treaty. We will also argue the interpretation of the specific subject-matter doctrine by the judgment of the CJEU limiting it to the essential function of origin indicating.

In the second sub-section, we will examine the development of the CJEU’s case law after the adoption of the Trade Mark Directive which regulated the European exhaustion regime in the light of the jurisprudence that the CJEU formerly developed. Article 7 of the TMD enables the trade mark owner to oppose the further commercialisation of their trademarked products if there is a legitimate reason to do so. Therefore, legitimacy has become the new guide that the CJEU use in order to resolve the conflict between the trade mark holders and parallel traders under Article 7 of the TMD. We will explain the general concept of legitimacy in the light of the arguments.

Then, we will analyse the jurisprudence that the CJEU has developed in relation to the legitimacy before and after the adoption of the functions theory. The CJEU established a detailed guideline for the repackaging of products by parallel trader before resale, to determine whether there is legitimate reason for trade mark owner to oppose it, in its judgment in *Bristol-Myers v. Paranova*. Therefore, we will examine the repackaging issue and legitimacy in the light of the CJEU’s judgment in relation to this issue given in *Bristol-Myers v. Paranova*.

We will also analyse the expansion of the criteria set up for the repackaging in *Bristol-Myers v. Paranova* to some of other processes carried out by the trader before resale separately under the topics of “rebranding issue and legitimacy”, “relabeling issue and legitimacy” and “use of the trade mark as an advertising or promotional device and legitimacy.” We will

examine each of those scenarios in the light of the recent case law of the CJEU which elaborated on the criteria set in *Bristol-Myers v. Paranova*.

We will finally analyse each criterion distinctly which was set up in *Bristol-Myers v. Paranova* in the light of recent developments in the case law of the CJEU. In this part, we will particularly focus on the impact of the expansion of trade mark rights by the CJEU to cover the protection of the economic functions on the justification of legitimate interests of trade mark owner to oppose the further commercialisation of trademarked products in each criterion. In other words, we will try to illustrate the gradual switch of the CJEU's case law from the traditional approach viewing trade mark as an identity of the commercial origin to the contemporary approach recognizing the economic significance of trade mark as a badge of brand image.

There is a crucial importance of the judgments such as *Christian Dior v Evora*, which was given by the CJEU before the adoption of the functions theory in the interpretation of the scope of the right given under Article 5 (1) (a) of the TMD, where the interpretation of legitimacy to involve the safeguard of the brand image of trade mark anticipated the expansion of trade mark protection. There is also a crucial importance of the judgments given by the CJEU after the adoption of the functions theory such as *Portakabin v Primakabin* in order to view the trend of the CJEU in the interpretation of the scope of the legitimate interests of trade mark owner.

5.2 Parallel Importation

A basic definition of parallel importing was given by Horner in the late 1980s as follows: “parallel importing occurs when goods which were intended for sale in one national market are exported from their original destination to another country.”⁴⁵⁷ In the early 2000s, Maskus defined parallel imports as being “...goods produced genuinely under protection of a trade mark, patent, or copyright, placed into circulation in one market, and then imported into a second market without the authorisation of the local owner of the intellectual property...”⁴⁵⁸

However, much clear and detailed version of the parallel importation was defined later by Hays. According to Hays’ definition, “parallel importation occurs when an intellectual property owner or his licensee sells protected products in one national market under such circumstances that those products can be purchased there for export and imported into another country for sale against the wishes of the intellectual property owner and in competition with identical products enjoying equivalent protection in the second country.”⁴⁵⁹

Based on these definitions, parallel importation can be described with two significant features. First, it must be legally possible for traders to purchase the trade marked products in one country and import them into another country for resale. We will examine in detail how it can be legally possible to import and resale the products in another country. Second, the country

⁴⁵⁷ Horner, S., *Parallel Imports*, Collins Professional Books, (1987), London, p.1

⁴⁵⁸ Maskus, Keith E., ‘Parallel imports’ *World Economy*, (2000) 23(9), 1269

⁴⁵⁹ Hays, T., *Parallel Importation under European Union Law*, Sweet & Maxwell, (2004), London, p. 1

where the trade marked products are imported must already have the authorised distribution network of same products. In other words, the products must be imported by traders in 'parallel' to the authorised distribution system.⁴⁶⁰

However, traders engage in parallel trading if there is a difference between the prices of identical products on the market of two different countries and the price difference between the countries is sufficient for the parallel importer to make a profit. In other words, parallel importing occurs in practice only if it is an economically logical activity for firms to engage in. For example, a bottle of shampoo X is priced at 2 Euro on the Spanish market. The same size bottle of shampoo X might be priced 2.5 Euro in the Netherlands and 2 Sterling in the United Kingdom. Some traders can purchase stocks in Spain and import them into the Netherlands or the United Kingdom where the shampoo X is already put on the market. The parallel traders have an incentive to do this only if they can import and sell trade marked products at a lower price in the country of import such as the Netherlands or the United Kingdom and still make a profit after paying all the costs, tariffs and other charges. However, the trade mark owners in the Netherlands or the United Kingdom would not like the idea of the parallel importation; because parallel importation will create intra-brand competition, competitive situation between identical products, in the country of import.

There might be several reasons why same products of a particular trade mark may be sold at different prices in different countries. As Cornish points out, the most obvious reason for price difference is currency fluctuations between countries.⁴⁶¹ This might be a reason for parallel importing between the United Kingdom and Spain. However, monetary unions such as Euro-zone sometimes might not be enough to eliminate the price differences of the same

⁴⁶⁰ Rothnie, W.A., *Parallel Imports*, Sweet & Maxwell, (1993), London, p. 1; Horner, S., *Parallel Imports*, Collins Professional Books, (1987), London, p.1

⁴⁶¹ Cornish, W. R., 'Trade marks: portcullis for the EEA?', *European Intellectual Property Law*, (1998) 20(5), 172-177, p. 173

trade marked products between the countries. In other words, the price difference and parallel importation between the Netherlands and Spain cannot be explained by currency fluctuations.

Having said this, price discrimination might be the reason for different prices of the same trade mark products on different markets. Firms may charge different prices for the identical products that have same costs of production, based solely on different consumers' willingness to pay in different markets. In other words, the difference between consumers' willingness to pay for the same product might let firms to divide their customers into two or more separate groups and charge whatever the market bears. This is known in economic literature as price discrimination.⁴⁶² Therefore, the reason of the price difference between the Netherlands and Spain, despite using the same currency, might be the result of this marketing policy of firms.

Moreover, some national markets may have strict government price controls on specific products such as drugs. For instance, Greece and Spain have lower prices in the pharmaceutical products due to the legislative power of health authorities while the wealthier countries of the European Union such as the United Kingdom or Germany may have higher prices in the pharmaceutical products of the same brand. Therefore, the price controls of national authorities on pharmaceutical products might be considered as another reason for price differences of the same pharmaceutical products in different national markets and existence of parallel importing.⁴⁶³

Firms may also charge different prices for products of the same brand in different national markets due to different costs of production or the different service characteristics of products.

⁴⁶² Pigou, A.C., *The Economics of Welfare*, Macmillan & Co (1952), London, 4th edition, p. 279; Hirshleifer, J., *Price Theory and Applications*, Prentice-Hall (1998), New Jersey, 4th edition, p. 240; Schmalensee, R., 'Output and welfare implications of monopolistic third-degree price discrimination', *The American Economic Review*, (1988), 71(1), 242-24, p. 242; Chard J.S. and Mellor C.J., 'Intellectual property rights and parallel imports', *The World Economy*, (2007), 19890 12 (1), 69-82, p. 76

⁴⁶³ Feros, A., 'Free movement of pharmaceuticals within the EU-should rights be exhausted regionally?', *European Intellectual Property Law*, (2010), 32(10), 486-487, p. 489; Cornish, W. R., 'Trade marks: portcullis for the EEA?', *European Intellectual Property Law*, (1998) 20(5), 172-177, p. 173

There might be need for firms to vary the qualities of the product or differentiate the service characteristics of products to fit the local needs. For instance, the chemical composition of a bottle of shampoo might require extras in hard-water countries while it does not in soft-water countries. Therefore, the costs of chemical extras that the enterprise suffers will response to the retailer price of the product as a higher number in hard-water countries. Similarly, the costs of promoting a product may be greater where it is not well-known, or where fashion dictates stronger competition from similar products. For instance, strong Greek alcoholic drink ouzo might require more promotion and advertising campaigns in Russian market where similar product vodka dictates the alcoholic drink market. The cost of promotion and advertising that the enterprise suffers will be added the retailer price of ouzo. Hence, it is possible to have different retailer price between Russian and Greece for a bottle of ouzo sold under the label of a particular trade mark. It is important to note that this policy that firms apply might be the result of well-known marketing strategy of product differentiation.⁴⁶⁴

It is important to note that price differences for the same trademarked product on different national markets have always existed due to those reasons. Nevertheless, the emergence of parallel importing came with the globalisation of markets. According to a Trade and Industry Select Committee Report, “[I]n the past, people were largely unaware of price difference between countries and, as a result, brand owners were not faced with the problem of their goods being traded outside their own distribution channels.” However, people are now far more aware via the media or via their own travel and investigations how market conditions can differ around the world. Therefore, traders engage more in importing the globalised branded products from national markets where it is cheaper into the national markets where it

⁴⁶⁴ Cornish, W. R., ‘Trade marks: portcullis for the EEA?’, *European Intellectual Property Law*, (1998) 20(5), 172-177, p. 173; ‘Glossary of Industrial Organisation Economics and Competition Law’, <http://www.oecd.org/regreform/sectors/2376087.pdf>, available at 08/04/2014

is more expensive for resale.⁴⁶⁵ It is important to note that the significant growth in the volume of parallel trading due to the globalisation of markets also emerged the resulting debate surrounding it. There are arguments which are for and against parallel importation. We will briefly look at these arguments considering parallel importation from its economic perspective prior to examining issues related to legal aspect of it.

Resale of parallel imports on a national market, where they have already been marketed by the normal distribution channels at a higher price, can create some pressure on the retail price of the product. More specifically, the existence of parallel imports stimulates the competition between the same trademarked products supplied by different distribution channels. This is known as “intra-brand competition” in economics.⁴⁶⁶ Intra-brand price competition between the suppliers might play a role in preventing the normal distributors from charging unnecessary high prices. In other words, parallel importers benefit consumers by providing them the same trademarked products at prices which are lower than the retail price set by the normal distribution system. Hence, it can be said that parallel importing encourages economic efficiency by stimulating the “intra-brand competition” between normal distributors and parallel traders.⁴⁶⁷

However, it was argued that intra-brand competition in a national market due to parallel importing may not cohere with the realities in global trade. A firm engaging global trade may need to raise prices in national markets where products are sold at cheaper prices in order to balance its income losses in the high priced national markets. With countries at varying stages of economic development, it is not realistic to think that firms can standardise the price of same product all over the countries. Therefore, the economic pressure of parallel importing

⁴⁶⁵ <http://www.publications.parliament.uk/pa/cm199899/cmselect/cmtrdind/380/38008.htm#a6> available on the 20th of December 2012 cited on Gross, N., ‘Trade mark exhaustion: the U.K. perspective’, *European Intellectual Property Law*, (2001), 23(5), 224-237, p. 225

⁴⁶⁶ ‘Glossary of Industrial Organisation Economics and Competition Law’, <http://www.oecd.org/regreform/sectors/2376087.pdf>, available on 08/04/2014

⁴⁶⁷ Horner, S., *Parallel Imports*, Collins Professional Books, (1987), London, p.4

in national markets where products are sold at higher prices may cause firms to withdraw their products altogether from them.⁴⁶⁸

Moreover, the economic pressure of parallel importing in knowledge-intensive sectors such as in pharmaceutical, chemical and biotechnological industries, which normally invest huge financial and human resources in research and development, may reduce profits and consequently prevent scientific progress and delay innovation. According to Final Report to World Intellectual Property Organization, countries with high average income are likely to put more weight on new and improved drugs relative to countries with medium or low average income. Governments in industrialised countries are more willing to accept high profits in the pharmaceutical industry to promote future innovations and improved drugs, while governments in developing countries prefer to give patients access to existing drugs at low costs. Therefore, segregating national markets allows trade mark owners to recoup research and development related investments and reinvest in further innovation for such sectors.⁴⁶⁹

It was also argued that the full benefits of price differential may not be passed on to the consumers if there is no intra-brand competition among parallel importers to erode this difference. In other words, parallel importer may take in most of price difference for themselves and leave only a sufficient margin to ensure that their products are noticeably cheaper if there is not another parallel trader to compete with.⁴⁷⁰ The intra-brand competition between the legal disruption channels and the trader who has a monopoly on the resale of the parallel imports may not benefit consumers as expected while the existence of parallel trading

⁴⁶⁸ *Ibid.*, p.5

⁴⁶⁹ Avgoustis, I., 'Parallel imports and exhaustion of trade mark rights: should steps be taken towards an international exhaustion regime?' *European Intellectual Property Law*, (2012), 34(2), 108-121, p. 111; Bonadio, E., 'Parallel imports in a global market: should a generalised international exhaustion be the next step?' *European Intellectual Property Law*, (2011), 33(3), 153-161, p. 156; Maskus, K. E., 'Parallel imports in pharmaceuticals: implications for competition and prices in developing countries', http://www.wipo.int/export/sites/www/about-ip/en/studies/pdf/ssa_maskus_pi.pdf available on 16/04/2014

⁴⁷⁰ Horner, S., *Parallel Imports*, Collins Professional Books, (1987), London, p.6

already limits the scope of legal distribution channels for their research and development investments.

Another serious criticism made of parallel imports is in relation to the warranty and after-sale service issues. Although normal distribution system provides consumers extras such as warranty and after-sale services, they are less likely to be attached to parallel imports. The absence of warranty or after-sale services means less protection for consumers. However, consumers who opt to purchase parallel imports at a cheaper price might be unaware of the fact that usual warranty and after sale services are not attached to them.⁴⁷¹

Despite the ongoing arguments as to the economic concept of it, parallel importing has attracted increasing interest in the international practise for decades. In the late 1980s, the market value of international parallel importing was estimated between 7 billion and 10 billion U.S. dollars. There is no recent official statistics on the volume and nature of parallel imports. However, there are some surveys that have been conducted on an international and regional level.⁴⁷² According to one of these surveys, which the National Economics Research Associates prepared for the European Commission in 1991, it was estimated that the volume of parallel importing with the European Union reached 5 per cent for footwear and leather products, from 5 to 10 per cent, and in certain releases 20 per cent, for musical recordings, around 5 per cent for motorcars and consumer electronics, between 5 and 10 per cent for clothing and around 13 per cent for cosmetics and perfumes.⁴⁷³

⁴⁷¹ *Ibid.*, p.6; Chard J.S. and Mellor C.J., 'Intellectual property rights and parallel imports', *The World Economy*, (2007), 19890 12 (1), 69-82, p. 73

⁴⁷² Mathur, L. K., 'The impact of international gray marketing on consumers and forms', *Journal of European Marketing*, (1995), 4(2), 39-59, p. 42; Chen, H., 'Gray Marketing: Does It Hurt the Manufacturers?', *Atlantic Economic Journal*, (2009), 37(1), 23-35, p. 24

⁴⁷³ Final report of DG XV of the European Commission prepared by NERA, "The economic consequences of the choice of regime of exhaustion in the area of trademarks" (1999), p. 12 at http://ec.europa.eu/internal_market/indprop/docs/tm/summary_en.pdf at 8th of January 20013

In addition to these products, REMIT Consultants prepared for the European Commission in 1991 as to the volume of parallel importing in the pharmaceutical market. According to this survey, the volume of parallel imports amounted to 2 per cent of prescription drugs in the European Union overall, with imports rates reaching 5-10 per cent in the Netherlands and 8 per cent in the United Kingdom.⁴⁷⁴ It is important to note that the enlargement of the EU, Cyprus, Malta, the Czech Republic, Hungary, Latvia, Lithuania, Estonia, Poland, Slovakia, and Slovenia joined the EU in 2004, increased the price difference between the EU countries. The prices of pharmaceutical products, especially in the Central and Eastern European Countries, were much lower than in the rest of the EU. The result of an empirical analysis, which is about whether the EU enlargement increased competition from parallel imports in pharmaceutical industry, indicates that the gradual effect of the competition from parallel imports was strengthened by the enlargement of the EU.⁴⁷⁵

As can be understood from the estimated market values of parallel imports, parallel importing has been an attractive economic activity for traders to engage in. Having said this, the economic importance of parallel importing does not eliminate the arguments made against it. Therefore, it is still a controversial issue whether or to what extent parallel importing encourages economic efficiency and benefits consumers. Undoubtedly, parallel importers support the argument that parallel importation creates an economic efficiency by contributing to the competition and benefits consumers by providing them the trade marked products at cheaper prices. However, trade mark right holders struggle with parallel importing to prevent traders to jeopardise their profits and set obstacles on their effort to control their distribution

⁴⁷⁴ Avgoustis, I., 'Parallel imports and exhaustion of trade mark rights: should steps be taken towards an international exhaustion regime?', *European Intellectual Property Law*, (2012), 34(2), 108-121, p. 110 cited from Final report of DG IV of the European Commission prepared by REMIT Consultants, "Impediments to Parallel Trade in Pharmaceuticals within the European Community", (1991)

⁴⁷⁵ Granlund, D. and Köksal, M. Y., 'EU Enlargement, Parallel Trade and Price Competition in Pharmaceuticals What's to Blame? Derogation or Perception?', https://gupea.ub.gu.se/bitstream/2077/25500/1/gupea_2077_25500_1.pdf available on 22/04/2014

channels. They argued that parallel traders often maintain significantly higher gross profit margins because they not only take away market share of the authorised retail channels, but also free-ride on the marketing communication performed and customer services provided by them.⁴⁷⁶

From legal point of view, trade mark right holders argue that same products bearing their trade mark can be on the market in other countries but this does not allow parallel traders to import and put them on the market in their country without their consent. Theoretically, trade mark right holders would sue parallel traders for infringement if they put parallel imports on the market without the consent of the trade mark right holders. However, parallel traders argue that any rights the owners had to control the further commercialisation of the products based on trade mark law ended when they sold the products, that where trade mark rights have ended there can be no infringement. Laddie J. clarified it in *Zino Davidoff* as follows:

” [t]he property rights [of the trade mark holder] have been used up. The owner of them has nothing left to deploy against further exploitation of the goods... this effect is in defeasible. The right owner cannot override it by the contract”.⁴⁷⁷

It is a matter of policy for a country to determine whether, or to what extent, traders should be allowed to engage in parallel importing and to what extent trade mark owners should be permitted to exercise their exclusive rights to prevent parallel importing. A country’s regime stating the territory where the rights of trade mark holders are exhausted is a key component of its regulation as to parallel importing. There is a general rule that trade mark rights are exhausted once the product bearing the trade mark has been put on the market by owner or

⁴⁷⁶ Avgoustis, I., ‘Parallel imports and exhaustion of trade mark rights: should steps be taken towards an international exhaustion regime?’, *European Intellectual Property Law*, (2012), 34(2), 108-121, p. 110; Chen, H., ‘Gray Marketing: Does It Hurt the Manufacturers?’, *Atlantic Economic Journal*, (2009), 37(1), 23-35, p. 24

⁴⁷⁷ *Zino Davidoff v A & G Imports*, 1999 E.T.M.R. 700, at 10

with his consent. However, the geographical definition of the term “market” varies from country to country. There are three different exhaustion regimes that countries may opt to adapt.⁴⁷⁸

The first one is national exhaustion, under which trade mark rights end upon first sale within a country but trade mark right holders may exclude parallel imports from other countries. Trade mark holders seek to extend their control over products bearing their trade mark in order to protect their interests. According to trade mark holders, a first sale of the protected products in a particular national market should exhaust their trade mark rights in that market only; that the exhaustion of the exclusive rights is confined to the territory where the sale takes place. Therefore, the national exhaustion is a form of exhaustion that strengthens the trade mark holders’ hand against parallel importing. Having said this, the national exhaustion regime is found outdated and incompatible with today’s capacity of international transactions although some major national economies of the world such as India and Russia have adapted such a regime up to today.⁴⁷⁹

The second one is international exhaustion, under which trade mark rights are exhausted upon first sale anywhere and parallel imports cannot be excluded from other countries. Parallel traders seek to strengthen their hands against trade mark holders. Therefore, they support international exhaustion regime in which first sale of the protected products anywhere in the world is effective in exhausting a trade mark owner’s control. Some major economies of the world such as Japan has adapted to the regime of international exhaustion.⁴⁸⁰

The third one is regional exhaustion, under which trade mark rights end upon original sale within a group of countries, thereby allowing parallel trading among them, but not exhausted

⁴⁷⁸ Avgoustis, I., ‘Parallel imports and exhaustion of trade mark rights: should steps be taken towards an international exhaustion regime?’, *European Intellectual Property Law*, (2012), 34(2), 108-121, p. 111

⁴⁷⁹ *Ibid.*, p. 112; Maskus, Keith E., ‘Parallel imports’ *World Economy*, (2000) 23(9), 1269, p.1270

⁴⁸⁰ *Ibid.*, p. 112; Maskus, Keith E., ‘Parallel imports’ *World Economy*, (2000) 23(9), 1269, p.1270

by first sale outside the region. This exhaustion regime is usually adapted by groups of nations which constitute members of customs unions. The most important model to this regime is probably the exhaustion doctrine adapted by the European Union. The European Union has developed and maintains a regional exhaustion regime, which is effective across to the European Economic Area (the EEA), comprising the members of the European Union and Iceland, Liechtenstein and Norway.⁴⁸¹

As mentioned above, an exhaustion regime that a country opts to adopt has remarkable influence on the exercise of the trade mark rights against parallel trading. Trade mark owners have wider scope to exercise their exclusive rights in the countries where the national exhaustion regime has been adopted while parallel traders have been given wider rights in the countries where international exhaustion regime has been adopted. Hence, regional exhaustion regimes aiming to balance the rights of parallel traders and the exercise of the trade mark holders' rights has been characterized as an "intermediate solution".⁴⁸²

In this chapter, we will focus on the European exhaustion regime which aims to balance the exercise of European trade mark holders' rights and the rights of traders who engage in parallel importing within the EEA. Under the previous chapter, we already mentioned the exclusive rights enabling trade mark holders to commence an action against third parties who use their trade mark in trade without their consent. In the process, it is necessary to compare the registered trade mark with alleged infringing sign used by third parties in order to determine whether the trade mark is infringed by the third parties unauthorised use. The

⁴⁸¹ Maskus, K. E., 'Parallel Imports', *World Economy*, (2000), 23(9), 1269-1284, p. 1270

⁴⁸² Bonadio, E., 'Parallel imports in a global market: should a generalised international exhaustion be the next step?' *European Intellectual Property Law*, (2011), 33(3), 153-161, p. 154; Calboli, I., "Trade mark exhaustion in the European Union: Community-wide or international? The saga continues", *Marquette Intellectual Property Law Review*, (2002), 6, 47-86, p. 49

circumstances in which the trade mark may be infringed are set out under Article 5 (1) and 5 (2) of the TMD.

The collection of rights that accrues to a trade mark owner includes the right to object to the use by a third party in the course of trade of an identical trade mark on identical products. Furthermore, the concept of use, which potentially infringes the exclusive rights given to the trade mark owners under the provision of Article 5 (1)-(2), is provided under Article 5 (3) of the TMD. According to this provision, the concept of use encompasses offering or supplying the products, or putting them on the market or stocking them for these purposes and also importing or exporting the products. Hence, the parallel trader who imports identical products bearing identical trade mark from another country to another, where trademarked products have been already put on the market by the normal distribution channels, and/or put them on the market for sale or stocks them for these purposes there *prime facie* infringes the exclusive rights of the trade mark holder given under the provision of Article 5 (1) (a) of the TMD.

We already examined in the previous chapters that the scope of the exclusive rights conferred on the trade mark owner under Article 5 (1) (a) of TMD has expanded by the recent case law to protect the economic functions that the trade mark performs as well as its essential function of origin indicating. The expansion of trade mark protection given under Article 5 (1) (a) of the TMD to cover its economic functions as well as its origin function is likely to strengthen trade mark owners' hands against parallel importers because the exclusive rights that trade mark owners apply to prevent parallel importing are likely to be ones which are given under this provision. As we mentioned above, the aim of this thesis is to revisit the parallel importation within the EEA so as to view the possible impact of the expansion of trade mark protection on the parallel importation. Hence, we will try to explain the concept of the European exhaustion regime in the following section.

5.3 European Exhaustion Doctrine

5.3.1 Development of the Doctrine before the Trade Mark Directive

Six European countries came together and signed the Treaty of Rome, establishing the European Economic Community (the EEC), in 1957. The Treaty aimed at creating a “common market”, later “internal market”, covering the whole territory of the six member states of the EEC. In order to do so, the EEC adapted nearly 280 pieces of legislation between 1986 and 1992 to allow 12 sets of national regulations to be replaced by one common European law which would be agreed to in 12 member states. In 1993, the common market became a reality for 12 members under the name of the “European Union”. That common market involved the principle of free movement of goods, a single external customs tariff plus the abolition of all duties and similar mechanisms between the members, as well as provisions on the free movement of workers, of services, and capital, known as the Four Freedoms. All these mechanisms continue to form the core of the Single Market (the more usual term nowadays for the common or internal market) which currently consists of the 28 member states of the European Union plus Iceland, Liechtenstein and Norway.⁴⁸³

According to the principle of the “free movement of goods”, trademarked products which has been put on a national market by the trade mark right owner or with his consent within the European Economic Area (the European Union member states and Iceland, Liechtenstein and Norway) can be imported and resold by traders without the authorisation of the right holder on another national market within the EEA. Article 34 and 35 of the Rome Treaty prohibit both quantitative restrictions on imports and exports and measures having equivalent effect to

⁴⁸³ Barnard, C., *The Substantive Law of the EU: the four freedoms*, Oxford, (2010), New York, p. 33; History of the Single Market < http://ec.europa.eu/internal_market/20years/singlemarket20/facts-figures/history_en.htm> available at 06/05/2014; Review of the Balance of Competences between the United Kingdom and the European Union, The Single Market, (July 2013) < https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/227069/2901084_SingleMarket_acc.pdf> available at 06/05/2014

quantitative restrictions. In other words, parallel trade became an entirely lawful channel of trade within the EEA with these provisions of the Rome Treaty.

Having said this, another provision of the Rome Treaty constitutes an exception to the general “free movements of goods” principle. Article 36 of the Rome Treaty states that the provisions of Article 34-35 shall not preclude prohibitions or restrictions on imports, exports or goods in transit where they may be justified on the grounds of the protection of industrial and commercial property. This is on the proviso that such prohibitions or restrictions do not constitute a means of arbitrary discrimination or disguised restriction on trade between the member states of the EEA. In other words, a trade mark owner can apply to his exclusive rights for prohibiting parallel importation of his protected products if the enforcement of those rights is justifiable within the meaning of Article 36.

In order to prevent trade mark rights from being barriers to the creation of the single market, the enforcement of these rights was limited to the situations where it can be justified within the meaning of Article 36 of the Rome Treaty. However, it was not very clear from the wordings of the provision to what extent trade mark holders are allowed to exercise their exclusive rights for preventing parallel importation of their protected products. In other words, the boundaries of the derogation from the principle of free movements of goods are not detailed under Article 36 of the Rome Treaty. Therefore, the conflict between the enforcement of exclusive rights granted to the trade mark holders and the principle of the free movement of goods became the main dispute in many cases. However, the CJEU had, in its role as interpreter of the Rome Treaty, developed a jurisprudence relating to this issue prior to

the adaptation of the Trade Mark Directive where the concept of legitimacy was introduced.⁴⁸⁴

This jurisprudence that the ECJ developed before Trade Mark Directive came into force played an important role in shaping the European exhaustion regime as it was carried over into the related provision of the Trade Mark Directive. As mentioned above, the EU aimed at creating a single market within the EEA and therefore adapted the principle of free movement of goods. Article 30 of the Rome Treaty prohibits quantitative restrictions on imports and exports between the member states of the EEC and measures having equivalent effect to quantitative restrictions in order to achieve this target. However, despite their inherent potential to undermine the principle of free movement of goods, the social value and importance of trade mark rights in free enterprise markets is safeguarded under Article 36 of the Rome Treaty which provides that prohibitions and restrictions on imports can be justified on the grounds of the protection of trade mark rights unless such prohibitions or restrictions constitute a means of arbitrary discrimination or disguised restriction on trade between the member states of the EEA.⁴⁸⁵ Having said this, it is important to note that the wordings of this provision begs the question of what prohibitions and restrictions on the ground of trade mark protection may constitute a means of arbitrary discrimination or disguised restriction on trade. For instance, seeking the prohibition and restriction of parallel trade for protecting the modern functions of trade mark can be considered as arbitrary discrimination or disguised restriction on trade within the meaning of Article 36. Or, owing to the social value and importance of trade mark rights in free enterprise markets, the prohibition and restriction of parallel trade can be justified on the ground of trade mark protection. However, in any event,

⁴⁸⁴ Gross, N., 'Trade mark exhaustion: the U.K. perspective', *European Intellectual Property Law*, (2001), 23(5), 224-237, p. 227

⁴⁸⁵ *Ibid.*, p. 226;

it is difficult to reconcile the exclusive rights given to trade mark holders with the principle of free movements of goods.

The first doctrine that the CJEU created in an attempt to resolve the conflict between the principle of free movement of goods and the protection of trade mark rights was that of there being a distinction between the existence and the exercise of the rights.⁴⁸⁶ The origin of this doctrine arises out of the CJEU's judgment in *Consten and Grundig v. EEC Commission*.⁴⁸⁷ In this case, the two companies entered into an agreement under which Consten was authorized to register and use Grundig's trade mark *GINT* in France. Another French company, UNEF, purchased Grundig products from retailers in Germany and imported them into France at prices which are lower than those set by Consten. Hence, Consten initiated proceedings in order to block the parallel importation of Grundig products.

In the CJEU's judgement, Consten argued that the Commission was not entitled to apply Article 85 of the Rome Treaty (prevention, restriction or distortion of competition within the single market shall be prohibited if they are incompatible with the single market) to the exercise of trade mark as such would violate Article 222 of the Rome Treaty (the Treaty shall in no way prejudice the rules in member states governing the system of property ownership).

The CJEU responded by saying that the Commission's decision did not affect the grant of the right but only limited its exercise to the extent necessary to give effect to the prohibition under Article 85. The statement of the CJEU was as follows:

"The injunction [contained in the Commission's decision] not to use national law relating to trade marks to obstruct parallel imports, without touching the grant of those

⁴⁸⁶ Hays, T., *Parallel Importation under European Union Law*, Sweet & Maxwell, (2004), London, p. 19

⁴⁸⁷ *Etablissements Consten S.A. and Grundigverkaufs –GmbH. v. E.E.C. Commission* (Cases 56/64 & 58/64) [1966] C.M.L.R. 418

rights, limits their exercise to the extent necessary for the attainment of the prohibition deriving from the [related] Article .. [of the Treaty]”.⁴⁸⁸

In doing so, the CJEU appeared to recognise that Article 222 merely prevented the existence but not the exercise of intellectual property rights from being challenged. However, it was said that Article 222 of the Rome Treaty was derived from Article 83 of the European Coal and Steel Community (ECSC) Treaty which was intended only to ensure that member states would be free to determine whether enterprises subject to the ECSC Treaty were publicly or privately owned. Therefore, one of criticisms made about the judgment of the CJEU was that Article 222 of the Rome Treaty does not appear to provide much support for the existence and exercise of the intellectual property rights doctrine to Article 85 and much less to Articles 30 to 36 of the Rome Treaty.⁴⁸⁹

This doctrine was also criticised on the ground that it is impossible in legal theory to draw the line between existence and exercise of rights, except to extremes. The existence of a right consists of all the ways in which it may be exercised. With the adaptation of the principle of the existence and exercise rights, the CJEU created a very flexible instrument enabling it to develop the law and reduce the possibilities of dividing the single market through the use of trade mark rights. Since, the differentiation between the existence and exercise of rights is ambiguous and contributes little to resolving the conflict between the principle of free movement of goods and the protection of intellectual property.⁴⁹⁰

⁴⁸⁸ *Ibid.*, at p. 476

⁴⁸⁹ Tritton, G., ‘Articles 30 and 36 and intellectual property: is the jurisprudence of the ECJ now of an ideal standard?’, *European Intellectual Property Review*, (1994), 16 (10), 422-428, p. 423

⁴⁹⁰ Korah, V., *An Introductory Guide to EC Competition Law and Practice*, Hart Publishing, (2007), 9th edition, Oxford, p. 337; Beiber, F., ‘Industrial Property and the free movements of goods in the internal European market’, *International Review of Industrial Property and Copyright Law*, (1990), 2, 131, p 147

The CJEU elaborated on the general concept of European exhaustion doctrine in *Deutsche Grammophon v Metro* in the early 1970s.⁴⁹¹ In this case, the CJEU held that the Rome Treaty does not affect the existence of industrial property rights but the exercise of them can be prohibited under Article 30, to the extent that such prohibitions are justified for the protection of intellectual property rights that form the specific object of the property. This judgment of the CJEU differs from its earlier judgment in *Consten and Grundig v. EEC Commission*; since the CJEU introduced the concept of the “specific object property” as justification for limiting the exercise of intellectual property rights.

In *Deutsche Grammophon v Metro*, Deutsche Grammophon sold its records in Germany as well as in France through its French subsidiary, Polydor. The prices for the same records were lower in France. Therefore, Metro seized the opportunity and bought a number of these records from France in order to resell them in Germany at prices which are lower than those put on the market by Deutsche Grammophon. The latter applied to its exclusive distribution right as a phonograms producer in order to block the parallel importation of the products from France. The statement of the CJEU in relation to the application of Article 30 of the Rome Treaty was as follows:

“Although Article [30] permits prohibitions or restrictions on the free movements of goods that are justified for the protection of industrial and commercial property, it only allows such restrictions on the freedom of trade to the extent that they are justified for the protection of the rights that form the specific object of property.”⁴⁹²

The exercise of intellectual property rights in a way that limits parallel trade within the EEA is allowed only if this is necessary to protect the specific object of the rights themselves, as opposed to achieving some other commercial aim. However, this formulation of the CJEU

⁴⁹¹ *Deutsche Grammophon v Metro* (78/70) [1971] C.M. L. R. 631

⁴⁹² *Ibid.*, at [11]

begged the question as to what the specific object of a particular intellectual property is. The CJEU did not explain how the specific object of a particular intellectual property was to be determined in this case. Nor it defined the specific object of the right under consideration.⁴⁹³

Although the judgment of the CJEU in *Deutsche Grammophon v Metro* does not fully establish where the line between the existence and exercise of the intellectual property rights should be drawn, the step towards the adaptation of first sale rule of the European exhaustion regime was taken with the following words:

“If a protection right analogous to copyright is used in order to prohibit in one Member State the marketing of goods that have been brought onto the market by the holder of that right or with his consent in the territory of another Member State solely because this marketing has not occurred in the domestic market, such a prohibition maintaining the isolation of the national market conflicts with the essential aim of the Treaty, the integration of national markets into one uniform market.”⁴⁹⁴

It was clear in this judgment that where goods have been lawfully marketed in another member state, with the consent of the intellectual property owner in the state of import, it is no longer possible for the owner to invoke his rights to prohibit the importing. Hence, the judgment of the CJEU in *Deutsche Grammophon v Metro* was interpreted as a quasi-doctrine centred upon the specific object of intellectual property.⁴⁹⁵

As can be understood from the wording of the CJEU, the “specific object of property” doctrine was also applicable to the other fields of the intellectual property such as trade mark although the judgment is solely based on copyright. In *Deutsche Grammophon v. Metro*, the CJEU generated the “specific object of property” as justification for the exercise of trade

⁴⁹³ Hays, T., *Parallel Importation under European Union Law*, Sweet & Maxwell, (2004), London, p. 22; Rothnie, W.A., *Parallel Imports*, Sweet & Maxwell, (1993), London, p. 333

⁴⁹⁴ *Deutsche Grammophon v Metro* (78/70) [1971] C.M. L. R. 631, at [12]

⁴⁹⁵ Hays, T., *Parallel Importation under European Union Law*, Sweet & Maxwell, (2004), London, p. 22

mark rights against parallel importing. However, it did not provide guidance as to how the specific object of a particular intellectual property should be determined.

In relation to trade marks, the CJEU specified the meaning of the “specific object of intellectual property” in *Centrafarm v. Winthrop*.⁴⁹⁶ It was said that:

“the specific object of commercial property is *inter alia* to ensure to the holder the exclusive right to utilise the mark for the first putting into circulation of a product, and to protect him thus against competitors who would take advantage of the position and reputation of the mark by selling goods improperly bearing the mark.”⁴⁹⁷

The exercise of trade mark rights to prohibit the parallel importation of the protected products between member states is allowed only if the exercise is part of the specific object of trade mark itself. According to the definition of the CJEU, the specific object of a trade mark has got two elements. First, the specific object of trade mark gives the holder an exclusive right to put his protected products into circulation for the first time. However, the right of trade mark holder on the products are exhausted within the all member states after putting them into circulation in one of the member states. Second, the specific object of trade mark involves the exclusive right that provides the holder a defence against traders who would take advantage of the position and reputation of the trade mark by selling products improperly bearing that trade mark.

It is important to note that the CJEU amended the terminology that it used. The “specific subject-matter of trade mark” took the place of the “specific object of trade mark” in the subsequent cases.⁴⁹⁸ Having said this, the specific subject-matter of trade mark was similarly defined as being in particular to guarantee to the trade mark owner that he has the exclusive

⁴⁹⁶ *Centrafarm, BV and Adriaan de Peijper v. Winthrop, BV* (C-16/74) [1974] 2 C.M.L.R. 480

⁴⁹⁷ *Ibid.*, at [8]

⁴⁹⁸ *Hoffmann-La Roche & Co, AG and Hoffmann-La Roche, AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse* (Case-102/77) [1978] 3 C.M.L.R. 217; *Centafarm, BV v. American Home Products* (C-3/78) [1979] 1 C.M.L.R. 326

right to use that trade mark for the purpose of putting a product into circulation for the first time and therefore his protection against traders wishing to take advantage of the status and reputation of the mark by selling products illegally bearing that trade mark.⁴⁹⁹

Therefore, the meaning of specific subject-matter of trade mark does not differ from the specific object of trade mark. The change in the wording was technical rather than functional. Both of the specific object and specific subject-matter have been held to include the right of a trade mark owner to put the products bearing the trade mark on the market for the first time and to have a defence against traders who would take advantage of the position and reputation of the trade mark by selling products improperly bearing that trade mark.⁵⁰⁰

However, the CJEU generated another doctrine, which is the “essential function of a trade mark”, to illustrate the scope of the specific subject-matter of trade mark in *Hoffmann-La Roche v Centrafarm*. It was stated by the CJEU in *Hoffmann-la Roche v. Centrafarm* as follows:

“In order to establish in exceptional circumstances the precise scope of that exclusive right granted to the proprietor of the mark regard must be had to the essential function of the trade mark, which is to guarantee the identity of the origin of the trade marked product to the consumer or ultimate user.”⁵⁰¹

It is said that the specific subject-matter of trade mark delineates the exclusive rights given to trade mark owners while the essential function of a trade mark covers the role that those rights play from the consumers’ point of view. Although the CJEU seems to regard the proprietor-focused specific subject-matter and the consumer-orientated essential function

⁴⁹⁹ *Ibid.*, at [11]

⁵⁰⁰ Hays, T., *Parallel Importation under European Union Law*, Sweet & Maxwell, (2004), London, p. 26

⁵⁰¹ *Centafarm, BV v. American Home Products (C-3/78)* [1979] 1 C.M.L.R. 326 at [12]

doctrines as two different concepts, Advocate General Jacobs in his opinion to the CJEU in *Bristol-Myers v. Paranova* views them as two sides of the same coin.⁵⁰²

However, it is important to note that the CJEU elaborated on the concept of the essential function doctrine in *Bristol-Myers v Paranova*.⁵⁰³ In this judgment, the essential function of a trade mark started to be considered to function as assurance of quality as well as an indicator of commercial origin while it had previously been considered to function merely as the badge of origin. We already examined the evolution of the origin function as the essential of function of trade mark under the first chapter. Therefore, we will not enter into details in this chapter.

Although the essential function of trade mark was revisited by the CJEU to cover its role as assurance of quality, Fhima argued that, the approach is a traditional one, with both the specific subject-matter and the essential function focusing on the trade mark as an indicator of origin, and as such, preventing consumers from being confused and allowing the trade mark owner to maintain control over the physical properties of the products.⁵⁰⁴ In the definition of the CJEU, the specific subject-matter of trade mark encompasses the exclusive right to safeguard the reputation of trade mark as well.

Hence, the specific subject-matter of trade mark cannot be limited to the essential function of trade mark which encompasses the origin and to some extent the quality guarantee functions. In *L'Oréal v Bellure*, the CJEU identified the economic functions of trade mark in addition to its essential function in order to apply them in the interpretation of the scope of the trade

⁵⁰² *Bristol-Myers v Paranova* [1996] F.S.R. 225 at [72]; Simon, I., 'How does "essential function" doctrine drive European trade mark law?', *International Review of Intellectual Property and Competition Law*, (2005), 36(4), 401-420, p. 404; Keeling, D.T., *Intellectual Property Rights in EU Law-Volume 1*, Oxford University Press, (2003), p. 156

⁵⁰³ *Bristol-Myers v Paranova* [1997] 1 C.M.L.R. 1151

⁵⁰⁴ Fhima, I.S., 'The role of legitimacy in trade mark law', *Current Legal Problems*, (2012), 65, 489-527, p. 494

mark rights.⁵⁰⁵ More specifically, the scope of exclusive rights provided under 5 (1) (a) of TMD has been expanded by the CJEU to protect the economic functions that a trade mark performs in addition to its essential function. There are two important outcomes of this judgment which can be linked to the specific subject-matter of trade mark and thereby strengthen the hands of trade mark owners against parallel importing.

First, quality guarantee function of a trade mark is recognized as a distinct function although the ECJ did not clarify the notion of the quality guarantee function or the difference of it from the quality assurance provided under the essential function. Second, the communication, investment or advertising functions, the so-called the modern functions, of a trade mark are found to merit protection under 5 (1) (a) of the TMD in addition to origin and quality guarantee functions. We already examined the economic functions of trade mark under the second chapter. Therefore, we will not enter into details here.

The wider approach of the CJEU in the interpretation of the scope of the exclusive rights given to trade mark owners can be related back to the specific subject-matter doctrine which the CJEU generated in order to resolve the conflict between the free movements of goods principle and the exercise of the exclusive rights given to the trade mark owners. In other words, the specific subject-matter of trade mark can be expanded to reflect the economic functions which the CJEU has now recognised. In fact, the interest of trade mark owner in protecting the reputation of trade mark was related back to the specific subject-matter of trade mark by the CJEU before the economic functions of trade mark, in particular the modern functions, has been recognized. This will be analysed in relation to the legitimacy policy which the CJEU has been mainly developed after the adoption of Trade Mark Directive. The development of the European exhaustion regime after the adoption of Trade Mark Directive,

⁵⁰⁵ *L'Oreal v. Bellure* (C-487/07)[2009] E.T.M.R. 987

where the exhaustion of trade mark rights due to the free movements of goods principle were regulated as a defence for infringement, will be analysed under the following section.

However, it is important to note that the CJEU stated that Article 7 of the TMD, which regulates the exhaustion of trade mark rights, had to be interpreted in the light of case law under Articles 30 and 36 of the Rome Treaty.⁵⁰⁶ According to the European exhaustion doctrine which the CJEU developed prior to the adaptation of Trade Mark Directive, once a product has been put on the market in one of the member states, by the trade mark owner or his consent, the trade mark owner can no longer rely on his exclusive trade mark rights to block the importation of the product between the member states. In other words, it was ruled that a first sale of protected products anywhere within the member states on the market by the trade mark owner or with his consent exhausts the exclusive right given to the owner to claim that further commercialisation of the products is an infringement.

5.3.2 Development of the Doctrine after the Trade Mark Directive

The Trade Mark Directive, to approximate the trade mark legislation of member states, came into the force in the European Economic Community (presently the European Union) in 1988. The provisions of the Trade Mark Directive were required to be introduced into national law by 1991. The aim of the EEC to introduce Trade Mark Directive to the member states was to harmonize disparities regarding to trade mark laws that had the potential to disrupt the policy

⁵⁰⁶ *Bristol-Myers Squibb v. Paranova A/S, C.H. Boehringer Sohn, Boehringer Ingelheim KG, Boehringer Ingelheim A/S v. Paranova A/S, Bayer Aktiengesellschaft, Bayer Danmark A/S v. Paranova A/S* [1996] E.T.M.R. 1 at [31]

of the free movement of goods and distort competition within the Community. However, the adaptation of agreement for the EEA in 1992 extended the principle of the European exhaustion regime to the Free Trade Agreement countries consisting of 27 European Union countries plus Iceland, Liechtenstein and Norway. Trade Mark Act, implementing the Trade Mark Directive in the United Kingdom, came into the force in 1994.

As mentioned above, the European exhaustion doctrine that the CJEU developed before the adoption of the Trade Mark Directive was carried forward to Article 7 of the TMD. Article 7(1) of the TMD, which corresponds to section 12 (1) of the TM Act 1994, provides that a trade mark shall not entitle the owner to prohibit its use in relation to goods which have been put on the market in the Community by the owner of that trade mark or with his consent.⁵⁰⁷

Although Article 7 (1) of the TMD made it clear that the rights of trade mark owners are exhausted if the trademarked products have been put into circulation within the single market, there was an extensive debate about whether the Trade Mark Directive allows for international exhaustion. It is said that the Trade Mark Directive is not sufficiently well developed as pieces of legislation to address the issues posed for the circulation of the protected products within the single market by parallel trade originating outside of the single market.⁵⁰⁸

Hence, the CJEU were asked in *Silhouette* case to answer whether national rules providing for international exhaustion of trade mark rights are contrary to Article 7(1) of the TMD. The CJEU held that a situation in which some member states could provide for international exhaustion while others provided for the European exhaustion only, would inevitably give

⁵⁰⁷ First Directive 89/104/EEC of the Council, of 21 December 1988

⁵⁰⁸ Avgoustis, I., 'Parallel imports and exhaustion of trade mark rights: should steps be taken towards an international exhaustion regime?', *European Intellectual Property Law*, (2012), 34(2), 108-121, p. 114; Hays, T., *Parallel Importation under European Union Law*, Sweet & Maxwell, (2004), London, p. 288; Jain, S., 'Parallel Imports and Trademark Law' *Journal of Intellectual Property Laws* (2009), 14, 14-27, p. 19

rise to barriers to the free movement of goods. Hence, national rules providing for international exhaustion of trade mark rights are contrary to Article 7(1) of the TMD.⁵⁰⁹

Another judgment in relation to compatibility of the international exhaustion with the Trade Mark Directive was given by the CJEU in *Sebago v GB-Unic*.⁵¹⁰ In this case, Sebago, which had consented to the marketing of a specific batch of products in El Salvador, opposed to the importation of these products in Belgium contending that this constituted a trade mark infringement. GB-Unic based its defence on the argument that Sebago had already marketed within the EEA other consignments of the same model products. The CJEU held that when consent is given regarding to circulation of a specific batch of products within the EEA, this consent does not cover other batches of identical products marketed outside of the single market.⁵¹¹

In *Davidoff* case⁵¹², Davidoff, which had consented to the marketing of its protected products in Singapore, opposed the importation of those products in the United Kingdom contending that this constituted a trade mark infringement. Under the terms of the agreement the Singapore trader was obliged to sell the products only within the market specified in the contract as well as imposing the same restrictions to any sub-purchasers. However, A&G argued that consent in this case could be implied from the fact that those who purchase any of the products from these sub-purchasers were not bound by the restrictions of the agreement. The CJEU held, rejecting the argument of the defendant, that consent must be expressed in such a way that the owner's intention to renounce its rights is unequivocally demonstrated.⁵¹³

⁵⁰⁹ *Silhouette v Hartlauer* [1998] 2 C.M.L.R. 953 at [27]-[31]

⁵¹⁰ *Sebago v GB-Unic* [1999] 2 C.M.L.R. 1317

⁵¹¹ Avgoustis, I., 'Parallel imports and exhaustion of trade mark rights: should steps be taken towards an international exhaustion regime?', *European Intellectual Property Law*, (2012), 34(2), 108-121, p. 114

⁵¹² *Zino Davidoff v A&G Imports* [2002] 1 C.M.L.R. 1

⁵¹³ Avgoustis, I., 'Parallel imports and exhaustion of trade mark rights: should steps be taken towards an international exhaustion regime?', *European Intellectual Property Law*, (2012), 34(2), 108-121, p. 114

The incompatibility of the international exhaustion with the Trade Mark Directive was expressed clearly by the judgments of the CJEU in those three cases. This means that Article 7 (1) of TMD does not limit the exercise of the exclusive rights given to the trade mark owners if their protected products have been put into circulation with his consent somewhere outside of the EEA. Moreover, if the protected products imported from outside of the EEA, where those products have been put on the market with the consent of the owner, into somewhere within the EEA, the owner can exercise his trade mark rights against the parallel trader as that consent is not considered for the circulation of those products within the EEA.

Article 7 (1) of TMD limits the exercise of the exclusive rights given to the trade mark owners if their protected products put in the circulation within the EEA with their consent due to the free movements of goods principle. However, the trade mark owner does not completely lose the right to control further commercialisation of his protected products. In the following paragraph of Article 7 (and following subsection of TMD), it is stated that “paragraph 1 shall not apply where there exist legitimate reasons for the proprietor oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.” Article 7(2) of TMD is an exception to the general principles of the European exhaustion doctrine as the trade mark owner can oppose the further commercialisation of his protected products when there are legitimate reasons to do so.

There might be a legitimate reason for trade mark owners to oppose the further commercialisation of their protected products if the condition of the products have been changed or impaired. However, the use of word “especially” in Article 7(2) of TMD indicates that legitimate reasons to oppose the further commercialisation of protected products are not limited to situations “where the condition of the goods has been changed or impaired after they have been put on the market.” Therefore, Article 7(2) of TMD led the CJEU to develop

some jurisprudence as to the legitimacy proviso in order to balance free movement of goods principle and the trade mark owner's interest in the protection of the position and reputation of his trade mark.⁵¹⁴

Prior to detailing the jurisprudence that the CJEU has developed in relation to the legitimacy proviso, we will analyse the general concept of legitimacy in the light of the recent arguments. Beier argued in the early 1990s that the approach of the CJEU in the interpretation of Article 36 of the Rome Treaty, which regulates the essentials of the exception to the European exhaustion, has moved from the difficult and sometimes impossible examination of the essential essence of intellectual property rights to a simple demarcation between legitimate and improper exercise of industrial property rights. Such an interpretation of Article 36 of the Rome Treaty is, in Beier's opinion, more appropriate solution because it recognizes the legitimate exercise of the intellectual property rights, which corresponds to their function and purpose, and sets limits thereon only in cases of misuse such as taking action against parallel imports of genuine products which have already been put into circulation within the single market by the owner or with his consent. According to Beier, the legitimacy allows a clear demarcation line to be drawn and a balanced judgment of the conflict between the exercise of the intellectual property rights and free movement of goods principle.⁵¹⁵

However, Joliet argued that the legitimacy does not itself provide any objective criterion for determining what is legitimate or abusive. Classification of some use of trade mark as legitimate or abusive may be result of an analysis but it cannot be the instrument of the analysis. It is important to note that Juliet's view as to the legitimacy was based on the CJEU's judgment in *Keurkoop v Nancy Kean* which is a design case where the legitimacy

⁵¹⁴ Ohly, A., 'Trade marks and parallel importation-recent developments in European law', *International Review of Intellectual Property and Competition Law*, 1999, 30 (5), 512-530 , p. 515

⁵¹⁵ Beiber, F., ' Industrial Property and the free movements of goods in the internal European market' , *International Review of Industrial Property and Copyright Law*, (1990), 2 , 131 , p 150

was linked with justification of the exercise of trade mark rights within the meaning of Article 36 of the Rome Treaty.⁵¹⁶

Fhima argued that the term “legitimate” does not provide the acceptable extent of the trade mark rights that the owner can exercise against parallel importing. However, it is also the fact for the concepts of the “specific-subject matter” and the “essential function of trade mark.” In other words, the CJEU has guided us as through the more complicated concepts of the “specific-subject matter” and the “essential function of trade mark.” Fhima also noted the increasing willingness of the CJEU to talk in terms of the legitimate interests of trade mark owners and the decline in the use of “specific-subject matter” terminology. More importantly, the process of determining the scope of the legitimacy has been used to expand trade mark rights.⁵¹⁷

For instance, the CJEU held that damage done to the reputation of a trade mark may, in principle, be a legitimate reason within the meaning of Article 7(2) of the TMD.⁵¹⁸ Similarly, Advocate General JÄÄSKINEN in his opinion to the CJEU said that the assessment of whether the original condition of the product is adversely affected normally focuses on the condition of the product inside the packaging. However, it cannot be excluded that in the case of products such as luxury cosmetics the outer package of the product may sometimes be considered as a part of the condition of the product due to its specific design which includes the use of the trade mark. In such cases the trade mark proprietor is entitled to oppose further commercialisation of the products.⁵¹⁹

⁵¹⁶ Juliet, R., ‘ Trade mark law and the free movements of goods: the overruling of the judgment in Hag ’ , *International Review of Industrial Property and Copyright Law*, (1991), 22 , 303 , p 315

⁵¹⁷ Fhima, I.S., ‘The role of legitimacy in trade mark law’, *Current Legal Problems*, (2012), 65, 489-527, p. 495

⁵¹⁸ *Copad v Christian Dior* [2009] E.T.M.R. 40 at [54]; *Portakabin v Primakabin* [2010] E.T.M.R. 52 at [79]

⁵¹⁹ *L’Oréal v eBay* [2011] E.T.M.R. 52 at [AG71]

It is important to note that the legitimate interests of trade mark owner in protecting the reputation of trade mark can be related to the specific subject-matter of trade mark. The definition of the specific-subject matter that the CJEU generated with regard to trade mark rights embodies the protection of the reputation of trade mark. However, the essential function doctrine has limited the applicable extent of the trade mark rights to the protection of origin and to some extent the quality guarantee functions. We will examine how the legitimate interests of trade mark owner have gone beyond the essential function of trade mark and been expanded to include the modern functions of trade mark in the light of the jurisprudence that the CJEU has developed in relation to the legitimacy within the meaning of Article (7) (2) of the TMD.

Article 7 (2) of the TMD enables trade mark owners to oppose the further commercialisation of their trademarked products especially where the condition of the products is changed or impaired after they have been put on the market. After the adoption of the TMD, the CJEU established a detailed guideline for the repackaging of products before resale in its judgment in *Bristol-Myers v. Paranova*. According to the settled case law of the CJEU, use of the adverb “especially” in Article 7 (2) of the TMD indicates that alteration or impairment of the condition of marked goods is given only as an example of what may constitute legitimate reasons.⁵²⁰ Therefore, the criteria set up for the process of repackaging, were expanded by the judgments of CJEU to the other kind of processes carried out by the trader before resale. We will firstly analyse the repackaging issue and legitimacy doctrine that the CJEU has developed in relation to this issue. Then, we will look at the expansion of the criteria set up for the repackaging to some of other processes carried out by the trader before resale. Finally, we will examine each criterion distinctly that the CJEU set up in *Bristol-Myers v. Paranova*.

⁵²⁰ *Ibid.*, at [52]

5.4 Repackaging Issue and Legitimacy

Repackaging occurs where the parallel trader replaces the container, in which the trade marked products were sold, before putting them on the market in the country of import. It is important to note that repackaging is a common procedure to apply in parallel imports, especially in pharmaceutical products. There might be some reasons for parallel traders to repackage the trade marked products before putting them on the market. Language difference is one of those reasons that parallel importers may need to repackage the trade mark products. Repackaging might be done for parallel traders to meet national governmental expectations in the country of import. Repackaging might be also found necessary for the parallel traders because of the different expectations and habits of consumers in the country of import. In other words, parallel traders might need to repackage the products in some way for them to be as attractive to consumers in the country of import as they were in the country of export. This will maximize the value of the product and in turn strengthen parallel traders' hand to compete with other suppliers of the product.⁵²¹ For instance, in *Hoffmann-la Roche v. Centrafarm*, Roche sold its pharmaceutical products in packets of 20 or 50 tablets, which in this form are intended for the use of individuals and which are further packaged, five small packets at a time, in quantities of 100 or 250 tablets for the use of hospitals. However, its British subsidiary markets the same product in United Kingdom in packages containing 100 and 500 tablets.⁵²²

Nevertheless, repackaging may defeat some functions of original packaging. Therefore, repackaging without the trade mark owner's consent presents a risk to his trade mark rights because it may undermine the trade mark's signification of exclusive control over the quality

⁵²¹ Hays, T., *Parallel Importation under European Union Law*, Sweet & Maxwell, (2004), London, p. 93

⁵²² *Hoffmann-La Roche & Co, AG and Hoffmann-La Roche, AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse* (Case-102/77) [1978] 3 C.M.L.R. 217, p. 220

of products and affect the reputation of trade mark. Therefore, the CJEU has been asked in several cases to rule whether it is a legitimate reason for trade mark owners to oppose parallel importers who import the trade marked products from one member state and repackage them before putting on the market in another member state to comply with national legislation or for other reasons.

Hoffmann-la Roche v. Centrafarm,⁵²³ in which preliminary ruling was given by the CJEU in relation to the repackaging issue, was the leading case in the field of European exhaustion doctrine before the adaptation of the Trade Mark Directive. In this case, *Centrafarm* imported pharmaceutical products from the United Kingdom into Germany via Holland. Prior to putting the products on the market in Germany, *Centrafarm* changed the containers of the products but affixed the same British version of the trade mark to the new containers with a note saying that they are marketed by *Centrafarm*. However, German *Roche* claimed that the repackaging of products by *Centrafarm* is an infringement of the trade mark rights of the undertaking from which it has obtained a licence. Upon the appealing of *Centrafarm*, the German High Court (Oberlandesgericht Karlsruhe) referred questions to the CJEU for preliminary rulings regarding to the repackaging issue.

The CJEU held that the right attributed to the trade mark owner of preventing any use of the trade mark which is likely to impair the guarantee of origin is part of the specific subject-matter of the trade mark right. It is accordingly justified under the first sentence of Article 36 to recognise that the trade mark owner is entitled to prevent an importer of a trade-marked product, following repackaging of that product, from affixing the trade mark to the new packaging without the authorisation of the owner. However, it is necessary to consider

⁵²³ *Hoffmann-La Roche & Co, AG and Hoffmann-La Roche, AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse* (Case-102/77) [1978] 3 C.M.L.R. 217

whether the exercise of such a right may *constitute a disguised restriction on trade between member states* within the meaning of the second sentence of Article 36.⁵²⁴

The CJEU emphasised the role of the essential function of origin indicating, which was related back to the specific subject-matter of trade mark, in justifying the exercise of trade mark rights against the parallel traders who has repackaged the protected products before marketing them in the country of import. The importance of the essential function of origin indicating in the case of repackaging was reiterated by the CJEU later in *Pfizer v Eurim-Pharm*.⁵²⁵ In this case, a parallel importer repackaged a pharmaceutical product in such a way that he merely replaced the outer packaging, without touching the inner packaging, and made the trade mark affixed by the trade mark owner to the inner packaging visible through the new outer packaging. It was held that this procedure does not infringe the exclusive rights of trade mark owner; since the change did not affect the origin function of the trade mark as the inner packaging remained untouched.

In *Hoffmann-la Roche v. Centrafarm*, the CJEU also identified the certain situations where prevention constituted a disguised restriction on trade between member states:

“...prevention of marketing constitutes a disguised restriction on trade between member-States within the meaning of the second sentence of Article 36 where:

- (a) it is established that the use of the trade mark right by the proprietor, having regard to the marketing system which he has adopted, will contribute to the artificial partitioning of the markets between member-States;
- (b) it is shown that the repackaging cannot adversely affect the original condition of the product;

⁵²⁴ *Ibid.*, at [7]-[9]

⁵²⁵ *Pfizer v Eurim-Pharm* [1982] 1 C.M.L.R. 406 at [13]

- (c) the proprietor of the mark receives prior notice of the marketing of the repackaged product; and
- (d) it is stated on the new packaging by whom the product has been repackaged.”⁵²⁶

After the adoption of the Trade Mark Directive, the CJEU took its ruling in *Hoffmann-la Roche v. Centrafarm*, which is more the essential function-orientated approach, a step further and established detailed guidelines for repackaging issue in its judgment in *Bristol-Myers v. Paranova*⁵²⁷, which considers the reputation of trade mark as well as its essential function. In this case, trade mark owners opposed the importation and sales of their protected products by the parallel trader; since the container of products had been changed without their consent before putting on the market. The CJEU was asked for preliminary rulings to ascertain the limits on the exercise of the exclusive rights given to trade mark owners in case of repackaging.

The CJEU held that Article 7 of the TMD must be interpreted in the light of the case law developed under Articles 30 and 36 of the Rome Treaty.⁵²⁸ However, the CJEU elaborated on the conditions, which were set in *Hoffmann-la Roche v. Centrafarm*, by stating that if a parallel importer repackaged the protected products prior to putting on the market, the trade mark owner may exercise his rights against the parallel trader unless the following conditions are met:

“(a) it is established that reliance on trade mark rights by the owner in order to oppose the marketing of repackaged products under that trade mark would contribute to the artificial partitioning of the markets between Member States...

⁵²⁶ *Hoffmann-La Roche & Co, AG and Hoffmann-La Roche, AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse* (Case-102/77) [1978] 3 C.M.L.R. 217 at [14]

⁵²⁷ *Bristol-Myers Squibb v. Paranova* [1996] E.T.M.R. 1

⁵²⁸ *Ibid.*, at [31]

(b) it is shown that the repackaging cannot affect the original condition of the product inside the packaging...

(c) the new packaging clearly states who repackaged the product and the name of the manufacturer...

(d) the presentation of the repackaged product is not such as to be liable to damage the reputation of the trade mark and of its owner; thus, the packaging must not be defective, of poor quality, or untidy; and

(e) the importer gives notice to the trade mark owner before the repackaged product is put on sale, and, on demand, supplies him with a specimen of the repackaged product.”⁵²⁹

The CJEU expressly stated that these conditions applied to pharmaceutical products. However, the national courts applied them to other kind of products without the need to refer the matter to the CJEU although they were not quite so ready to establish what circumstances apart from repackaging or some other form of adulteration of the products amount to legitimate reasons to oppose the parallel imports.⁵³⁰ These conditions in fact were extended by the CJEU as applicable to all kind of products with some modification in *Loendersloot v Ballantine*.⁵³¹

Hence, the trade mark owner can exercise their exclusive rights to oppose the further marketing of any kind of product within the EEA where the product has already put on the market in one of the member states of the EEA by him or with his consent and where the parallel importer has change the packaging unless the conditions that the ECJ ruled in *Bristol-Myers v Paranova* are met. The facts of each *Bristol-Myers Squibb* criteria will be analysed

⁵²⁹ *Ibid.*, at [79]

⁵³⁰ Carboni, A., ‘Cases past to post on trade mark exhaustion: an English perspective’, *European Intellectual Property Law*, (1997), 19(4), 198-204, p. 199

⁵³¹ *Loendersloot v George Ballantine & Sons* [1998] 1 C.M.L.R. 1015

separately in the light of the recent developments of the CJEU's case law which elaborated on these conditions.

It is important to note that *Bristol-Myers Squibb* criteria, which set up for the process of repackaging trademarked products before resale, were expanded by the CJEU to the other kind of processes carried out by the trader before resale. We will consider some of those process, such as not affixing the trade mark to the new exterior carton, so-called "debranding", applying either own logo or a house-style or get-up or a get-up used for a number of different products by trader himself to the new exterior carton, so-called "co-branding", or simply removal of packaging before resale, within the repackaging process and analyse them under each criterion. However, we will briefly explain some of processes that traders carried out before putting the trade mark products on the market such as the process of rebranding, relabeling or use of trade mark as an advertising or promotional device before analysing each criterion.

5.5 Rebranding Issue and Legitimacy

Another situation where there might be a legitimate reason for trade mark owners to oppose the further commercialisation of their trade marked products is where the trade marked products are rebranded by parallel traders. Rebranding, similar to repackaging, is a process carried out by parallel traders especially in pharmaceutical sector before putting into resale in the member state of importation. Where the identical trade mark was used by the owner in different member states, the only necessary requirement for the effective access to the markets of the member state of importation is likely to be the repackaging. However, when different marks are used by the owner in different member states, it can be necessary for parallel traders to rebrand the products with the mark of the member state of importation for the effective market access. Similar to the use of different packaging, the use of different

trade marks in different national markets may be the result of national legal or professional requirements.⁵³²

It is important to note that it is an infringement if a parallel trader affixes a new trade mark on a product which does not originate from the trade mark owner simply because the essential function of origin indicating that the trade mark performs would be adversely affected. Although rebranding involves substituting one trade mark for other, it is a different situation when a parallel trader substitutes one trade mark for other both of which are being used on identical products by the same trade mark owner in different member states.⁵³³

This issue was discussed by the ECJ in *Pharmacia & Upjohn v. Paranova*.⁵³⁴ In this case, *Pharmacia & Upjohn* marketed in the EEA a pharmaceutical product under different trade marks such as "Dalacin" in Denmark, Germany and Spain, "Dalacine" in France. *Paranova* purchased the products from France and Greece and, after the process of repackaging, put them on the market in Denmark under the trade mark "Dalacin". A Danish member of *Pharmacia & Upjohn* brought an infringement action in order to stop *Paranova* from marketing those products under that trade mark. The CJEU was asked to give a preliminary ruling on whether Article 7 (2) of the TMD prevents the trade mark owners from relying on their exclusive rights as the basis for opposing the further commercialisation of products in a situation where parallel trade has affixed the trade mark used by the owner in that member state on the product rather than the trade mark used in exporting state.

The CJEU was between two lines of reasoning: one is based on repackaging alone, represented by the judgment of the CJEU in *Bristol-Myers v Paranova* and one is concerned

⁵³²Jain, S., 'Parallel Imports and Trademark Law' *Journal of Intellectual Property Laws* (2009), 14, 14-27, p. 21; Ohly, A., 'Trade marks and parallel importation-recent developments in European law', *International Review of Intellectual Property and Competition Law*, 1999, 30 (5), 512-530, p. 516

⁵³³Urlesberger F.C., "'Legitimate reasons" for the proprietor of a trade mark registered in the EU to oppose further dealings in the goods after they have been put on the market for the first time', *Common Market Law Review* (1999) 36, 1195-1228, p.1210

⁵³⁴*Pharmacia & Upjohn v Paranova* (C-379/97) [2000] 1 C.M.L.R. 51

with unauthorised rebranding, dating back to the judgment of the CJEU in *Centrafarm v American Home Products*. In *Centrafarm v American Home Products*, the CJEU drew a distinction between repackaging and rebranding. Whereas repackaging was held to be permissible of the trade mark owner's use of the trade mark contributed to the artificial partitioning of markets, the rebranding was only allowed if the trade mark owner intended to partition the market artificially.⁵³⁵

Advocate-General Jacobs, in his opinion to the CJEU, suggested that the criteria established by the CJEU in *Bristol-Myers v Paranova* for determining the scope of a parallel importer's right to repackage should be extended in order to determine the scope of a parallel importer's right to rebrand. Some of those conditions can in their nature apply only to repackaging; however others can appropriately be applied *mutatis mutandis* to cases involving the affixing of a different trade mark.⁵³⁶

The Advocate-General observed that the scope of a parallel importer's right to repackage where the trade mark owner markets products in different forms of packaging in different member states is now governed by *Bristol-Myers v Paranova* conditions, a body of coherent and clearly articulated principles hinging on objective factors. Hence, it would be anomalous and illogical for the scope of the importer's rights to affix a different trade mark where the trade mark owner markets products under different trade marks in different member states to continue to be governed by a separate set of principles dependent upon the subjective element of intention, the principles set in *Centrafarm v American Home Products*. The new criteria laid down by the CJEU in *Bristol-Myers v Paranova* for repackaging by the parallel importer should be applied equally to such cases.⁵³⁷

The Advocate-General observed that the criterion of necessity should apply to rebranding as

⁵³⁵ *Centrafarm v American Home Products* (C-3/78) [1979] 1 C.M.R.L. 326; Hays, T., *Parallel Importation under European Union Law*, Sweet & Maxwell, (2004), London, p. 110

⁵³⁶ *Pharmacia & Upjohn v Paranova* (C-379/97) [1999] E.T.M.R. 97 at [59]

⁵³⁷ *Ibid.* at [35]

well as to the repackaging. However, it may fall to be applied differently in the two situations. Repackaging, as the CJEU suggested in *Bristol-Myers v Paranova*, will frequently be needed in order to comply with rules and practices in the importing state. In contrast, rebranding will more often be needed in order to avoid confusion in the importing state where an identical product has previously been sold under a different mark. That purpose is of course entirely consistent with the essential function of a trade mark as a guarantee of origin.⁵³⁸

The CJEU held that, the condition of artificial partitioning of the markets between member states, as defined by the CJEU in *Bristol-Myers v Paranova*, applies where a parallel importer replaces the original trade mark by that used by the owner in the member state of importation. Furthermore, as the Advocate General notes in his opinion, this solution also has the practical advantage that it does not require national courts to assess evidence of intention, which is notoriously difficult to prove.⁵³⁹ The judgment of the CJEU indicated that the suggestion that had been made by the judgment in *Centrafarm v American Home Products*, that to justify reaffixing the trade mark the importer had to prove that the owner had a subjective intention to divide up the market, was not correct.⁵⁴⁰

In short, the owner of the mark may rely on his trade mark rights to oppose the parallel importation of rebranded products unless:

- a) such use of trade mark rights by the owner would contribute to the artificial partitioning of the markets between the member states, that condition does not, however, imply that it must be established that the trade mark owner deliberately sought to partition the markets between member states;
- b) changing the mark is necessary in order to market the product in the member state of import, in the sense that prohibiting the importer from rebranding would constitute an obstacle to effective access by him to the markets of the member state of import;

⁵³⁸ *Ibid.*, at [50]

⁵³⁹ *Ibid.*, at [39-[40]

⁵⁴⁰ Bently L. and Sherman, B., *Intellectual Property Law*, Oxford University Express, (2009), 3rd edition, Oxford, p.951

- c) presentation of the product is not liable to damage the reputation of the trade mark and of its owner;
- d) the importer gives notice of the rebranding to the trade mark owner before the rebranded product is put on sale and, on demand, supplies him with a specimen of the repackaged product; and
- e) the conditions as to repackaging laid down by the CJEU in *Bristol-Myers Squibb v. Paranova* are satisfied.⁵⁴¹

The Advocate General, in his opinion to the CJEU, noted that the concept of artificial partitioning of the markets, introduced at an early stage in its case-law, meant that the trade owner could always rely on his rights to oppose marketing by a parallel importer when such action was justified by the need to safeguard the essential function of the trade mark, in which case the resultant partitioning could not be regarded as artificial. Moreover, the trade mark owner may also oppose the marketing of repackaged products where their presentation is liable to damage the reputation of the mark or of its owner. Therefore, I can see no reason why the need to safeguard the essential function of the mark and prevent damage to reputation should not be the critical test in other areas where the trade mark owner is seeking to rely on his rights to oppose marketing.⁵⁴²

It is possible to say, if we consider that the CJEU substantially followed the recommendations of the Advocate General, that there is a legitimate interest of the trade mark owner in being protected against the rebranding of products by trader in a manner which could adversely affect the origin and quality guarantee functions of trade mark. However, there is also a legitimate interest of the trade mark owner in being protected against the removal of the packaging by trader if it is established that the removal of the packaging has damaged the communication, investment or advertising functions of trade mark.

⁵⁴¹ *Pharmacia & Upjohn v Paranova* (C-379/97) [1999] E.T.M.R. 97 at [69]

⁵⁴² *Ibid.*, at 37

5.6 Relabeling Issue and Legitimacy

Another situation where there may exist a legitimate reason for the owner of the trade mark to oppose further commercialisation of the products bearing the mark is where the products are relabelled. Relabeling occurs where a label is removed from and afterwards reattached to a product or product packaging. Repackaging and relabeling are comparable in so far as the product itself is normally not subject to any interference.⁵⁴³ Therefore, the criteria set for the repackaging of products in *Bristol-Myers v Paranova* were extended by the CJEU for the relabeling of products in *Loendersloot v Ballantine*. As mentioned above, the criteria set by the CJEU in *Loendersloot v Ballantine* is considered as the extension of *Bristol-Myers v Paranova* conditions, which was the case of pharmaceutical products, to all kind of products.⁵⁴⁴

In *Loendersloot v. Ballantine*, *Ballantine* was a producer of alcoholic drinks. *Loendersloot* was a transport and warehousing firm whose customers were engaged in the parallel importation of *Ballantine's* products. *Loendersloot* had imported *Ballantine's* whisky from low-price countries and had replaced the original labels, before putting it on the market in the country of importation, thereby removing the name of the authorised importer and the identification numbers. *Ballantine* brought infringement proceedings seeking to restrain *Loendersloot* from relabeling, removing the identification numbers on the original labels, removing the word "pure" from the labels, removing the name of *Ballantine's* approved importer and replaced that name with another name, and exported the products to traders within EEA. The CJEU was asked several questions as to relabeling of products for a preliminary ruling.

⁵⁴³ Urlesberger F.C., "Legitimate reasons" for the proprietor of a trade mark registered in the EU to oppose further dealings in the goods after they have been put on the market for the first time', *Common Market Law Review* (1999) 36, 1195-1228, p.1207

⁵⁴⁴ *Loendersloot v Ballantine* (C 349-95) [1998] 1 C.M.L.R. 1015

In its judgment, the CJEU held that the trade mark owner may rely on his exclusive right to prevent a third party from removing and then reaffixing or replacing labels bearing the trade mark which the owner has affixed to products that he put on the market within the EEA, unless:

- a) it is established that the use of the trade mark rights by the owner to oppose the marketing of the relabelled products under that trade mark would contribute to artificial partitioning of the markets between Member States;
- b) it is shown that the relabeling cannot affect the original condition of the product;
- c) the presentation of the relabelled product is not such as to be liable to damage the reputation of the trade mark and its owner; and
- d) the person who relabels the products informs the trade mark owner of the relabeling before the relabelled products are put on sale.⁵⁴⁵

In relation to the removal of identification codes, the CJEU held that where identification numbers have been applied for purposes such as tracking the products for health and safety reasons or complying with a legal obligation, the fact that an owner of trade mark rights makes use of those rights to prevent parallel traders from relabeling the products in order to eliminate those numbers does not contribute to artificial partitioning of the markets between member states. Having said this, where it is established that the identification numbers have been applied for purposes which are legitimate from the point of view of Community law, but are also used by the trade mark owner to enable him to detect weaknesses in his sales organisation and thus combat parallel trade in his products, it is under the Treaty provisions on competition that those engaged in parallel trade should seek protection against action of the latter type. In other words, if parallel traders are concerned that trade mark owners are

⁵⁴⁵ *Ibid.*, at [50]

using identification codes to discourage or prevent parallel importation of trade marked products, they must seek solution under competition law.⁵⁴⁶

In relation to duty of inform criterion, the CJEU held that in the circumstances of the present case the interests of the trade mark owner would be given sufficient weight if the person carrying out the relabeling gave him prior notice that the relabelled products were to be put on sale. However, the CJEU did not require a specimen to be supplied to the trade mark owner on his demand before the parallel trader put the relabelled products on the market. The CJEU also dropped the condition of the indication of who relabelled the product and who manufactured it. It is unfortunate that the CJEU did not repeat these two criteria which are specially designed to protect the legitimate interests of trade mark owner in safeguarding the economic functions that his trade mark performs. However, the criteria repeated by the CJEU in *Loendersloot v. Ballantine*, including the reputation of trade mark, fairly enough to protect the legitimate interests of trade mark owner in safeguarding the economic functions of trade mark as well as its origin function.

When a similar issue arose in *L'Oréal v eBay*, where the parallel trader removed the packaging of products which indicates the essential information such as information relating to the identity of manufacturer or the person responsible for marketing the products, the CJEU gave a preliminary ruling which can be viewed as much more generous in terms of trade mark owners' legitimate interests, in particular legitimate interest in safeguarding the economic functions that their trade mark performs.

In *L'Oréal v eBay*, the CJEU held that the trade mark owner may oppose the resale of products on the ground that the person reselling the products has removed their packaging, where the consequence of that removal is that essential information, such as information

⁵⁴⁶ *Ibid.*, at [42]-[43]

relating to the identity of the manufacturer or the person responsible for marketing the cosmetic product, is missing in *L'Oréal v eBay*. Moreover, where the removal of the packaging has not resulted in the absence of that information, the trade mark owner may oppose the resale of an unboxed perfume or cosmetic product bearing his trade mark, if the owner establishes that the removal of the packaging has damaged the image of the product and, hence, the reputation of the trade mark.⁵⁴⁷ With the latter judgment, it was indicated that there is a legitimate interest of the trade mark owner in being protected against the removal of the packaging by trader if it is established that the removal of the packaging has damaged the quality guarantee and communication, investment or advertising functions of trade mark, regardless of whether the origin function of trade mark has been adversely affected.

5.7 Use of the Trade Mark as an Advertising or Promotional Device and Legitimacy

Using the trade mark as advertising or promotional device is another situation where there may exist a legitimate reason for the owner of the trade mark to oppose further commercialisation of the goods bearing the mark. The situations where the trade mark owner may have legitimate reasons to restrict such use were firstly discussed by the CJEU in *Christian Dior v Evora*.⁵⁴⁸ *Christian Dior v Evora* is the case where the CJEU went one step further and extended the principles of European exhaustion to the use of a trade mark in advertising.⁵⁴⁹

In this case, *Christian Dior SA* is the producer of the perfumes and other cosmetics which has a selective distribution system in the Netherlands. *Evora* acquired *Christian Dior's* products by means of parallel imports and sought to sell them in the Netherlands. When *Evora* advertised that they were selling *Christian Dior's* products, *Christian Dior* claimed that

⁵⁴⁷ *L'Oréal v eBay* [2011] E.T.M.R. 52 at [83]

⁵⁴⁸ *Christian Dior SA v Evora* (C- 337/95) [1998] E.T.M.R. 26

⁵⁴⁹ Ohly, A., 'Trade marks and parallel importation-recent developments in European law', *International Review of Intellectual Property and Competition Law*, 1999, 30 (5), 512-530 , p. 518

Evora had thereby infringed *Christian Dior's* trade marks. In relation to this issue, the CJEU was asked to answer the question whether trade mark owners could rely on their trade mark rights to prevent the advertising of products placed on the market by them or with their consent, where that advertising damaged the brand image of their trade mark, where that trader claimed to advertising in accordance with the usual methods of its trade.⁵⁵⁰

The CJEU held that where a parallel trader makes use of a trade mark in order to bring the public's attention to further commercialisation of products, a balance must be struck between the legitimate interest of the trade mark owner in being protected against traders using his trade mark for advertising in a manner which could damage the reputation of the trade mark and the traders' legitimate interest in being able to resell the products in question by using advertising methods which are customary in his sector of trade. In the case of the prestigious, luxury products, the parallel trader must not act unfairly in relation to the legitimate interests of the trade mark owner. Hence, the parallel trader must endeavour to prevent his advertising from affecting the value of the trade mark by detracting from the allure and prestigious image of the products and from their aura of luxury.⁵⁵¹

However, the CJEU carried on to say that if the parallel trader, who habitually markets articles of the same kind but not necessarily of the same quality, uses for trademarked products the modes of advertising which are customary in his trade sector, even if they are not the same as those used by the trade mark owner himself or by his approved retailers, does not constitute a legitimate reason within the meaning of Article 7(2) of the TMD unless it seriously damages the reputation of the trade mark. The CJEU gave an example to this that this would occur if, in an advertising leaflet, the trade mark was placed in a context which

⁵⁵⁰ *Christian Dior SA v Evora* (C- 337/95) [1998] E.T.M.R. 26

⁵⁵¹ *Ibid.*, at [44]

seriously detracted from the image which the trade mark owner has succeeded in creating around his trade mark.⁵⁵²

The use of a trade mark signifying a brand image that consumers may link with the products bearing it in advertising without the authorisation of the trade mark owner might create real risks for allure and prestigious image of the products. In *O2 v Hutchinson*, the High Court viewed this judgment of the CJEU as follows:

“ It seems to me that the CJEU is recognizing that a trade mark may have functions beyond simply guaranteeing a trade origin ... As the CJEU recognized ... the ‘ image’ of a trade mark is something that the proprietor is entitled to protect.”⁵⁵³

In *Copad v Christian Dior*⁵⁵⁴, the CJEU was asked whether, where a licensee who puts luxury goods on the market in contravention of a clause in a licence agreement is deemed to have done so with the consent of the trade mark owner, that owner can nevertheless rely on his exclusive rights to oppose further commercialisation of the products, on the basis of Article 7(2) of the TMD. In its judgment, the CJEU firstly noted that, according to the settled case law of the CJEU, use of the adverb “especially” in Article 7 (2) of the TMD indicates that alteration or impairment of the condition of marked goods is given only as an example of what may constitute legitimate reasons. Furthermore, the CJEU has already held in *Christian Dior v Evora* that damage done to the reputation of a trade mark may, in principle, be a legitimate reason, within the meaning of Article 7 (2) of the TMD, allowing the trade mark owner to oppose further commercialisation of luxury goods which have been put on the market in the EEA by him or with his consent.⁵⁵⁵

⁵⁵² *Ibid.*, at [45]–[47]

⁵⁵³ *O2 v Hutchinson* [2006] EWCA Civ 1656 at [101]

⁵⁵⁴ *Copad v Christian Dior* [2009] E.T.M.R. 40

⁵⁵⁵ *Ibid.*, at [52]–[55]

The CJEU held that it is for the national courts to assess, taking into account the particular circumstances of each case, whether further commercialisation of the luxury products bearing the trade mark by the third party, using methods which are customary in its sector of trade, damages the reputation of that trade mark. Having said this, it is necessary to take into consideration, in particular, the parties to whom the goods are resold and the specific circumstances in which the luxury goods are put on the market. In this case, the trade mark owner can oppose a resale of those products on the basis of Article 7 (2) of the TMD only if it can be established that, taking into account the particular circumstances of the case, such resale damages the reputation of the trade mark. With this judgment, the CJEU indicated that there is a legitimate interest of the trade mark owner in being protected against the resale of their trademarked products by parallel trader using methods which are customary in its sector of trade in a manner which could adversely affect the reputation of trade mark.⁵⁵⁶

It is important to note that the CJEU identified the other functions of trade mark in addition to its origin function so as to apply them in the interpretation of the scope of the exclusive rights given to trade mark owners in *L'Oréal v Bellure*. This means that a trade mark owner can oppose the use of a sign identical to his trade mark, on the basis of Article 5 (1) (a) of the TMD, if that use is liable to adversely affect *any of the functions of trade mark*. Those functions include not only the origin function of trade mark, which is guarantee to consumers the commercial origin of the products, but also its other functions, in particular that of *guaranteeing the quality* of the products in question and those of *communication, investment or advertising*.⁵⁵⁷

Therefore, it is possible to say that the CJEU, in its judgments in *Christian Dior v Evora* and *Christian Dior v Evora*, indicated that the trade mark owners may exercise their exclusive

⁵⁵⁶ *Ibid.*, at [57]-[58]

⁵⁵⁷ *L'Orela v Bellure* (C-487/07) [2009] E.T.M.R. 987

rights to oppose the use of their trade mark by parallel traders in advertising when such action is justified by the need to safeguard the modern functions that their trade mark performs. In other words, there is a legitimate interest of the trade mark owner in being protected against the use of their trade mark by parallel trader in advertising in a manner which could adversely affect the communication, investment or advertising functions of trade mark.

It is important to note that the CJEU, after the expansion of the protection given to trade mark owners under Article 5 (1) (a) of the TMD so as to safeguard the communication, investment or advertising functions of trade mark, elaborated on the legitimate interests of trade mark owners to oppose the use of the trade mark by parallel trader as an advertising or promotional device under Article 7 (2) of the TMD in *Portakabin v Primakabin*.⁵⁵⁸

In this case, the trade mark owner opposed an advertiser from advertising of his protected trade mark, which that advertiser chose as a keyword for an internet referencing service without the consent of the owner. The CJEU was asked whether the advertiser can, in circumstances such as those, rely on the exception provided for in Article 7 (1) of TMD in order to use a sign identical with a trade mark as a keyword for an internet referencing service, even though this may amount to use coming under Article 5 of that Directive.⁵⁵⁹

The CJEU held that Article 7 of the TMD must be interpreted as meaning that a trade mark owner is not entitled to prohibit an advertiser from advertising the resale of products manufactured and placed on the market in the EEA by that the owner or with his consent, unless there is a legitimate reason, within the meaning of Article 7(2) of the TMD. Article 7(2) of the TMD justifies the owner opposing that advertising, such as use of that sign which gives the impression that the reseller and the trade mark owner are economically linked or

⁵⁵⁸ *Portakabin v Primakabin* [2010] E.T.M.R. 52

⁵⁵⁹ *Ibid.*, at [73]

use which is seriously detrimental to the reputation of the trade mark. The CJEU also held that there might be legitimate interests of trade mark owner to oppose the further commercialisation of their trademarked products if the resale of those products, in the light of their volume, their presentation or their poor quality, risks seriously damaging the image which the owner has succeeded in creating for its trade mark.⁵⁶⁰

There are two distinct scenarios where there might be a legitimate interest of the trade mark owner in being protected against traders using his trade mark as a keyword for an internet referencing service. Firstly, the use of trade mark as a keyword for an internet referencing service in a manner which gives the impression that the reseller and the trade mark owner are economically linked might be a legitimate reason for the owner to oppose the further commercialisation of trademarked products because such use may adversely affect the origin and quality guarantee functions of a trade mark.

Second, the use of trade mark as a keyword for an internet referencing service in a manner which is seriously detrimental to the reputation of the mark might be a legitimate reason for the owner to oppose the further commercialisation of trademarked products because such use may adversely affect the image which the owner has succeeded in creating for its trade mark. Although the CJEU made it clear that the investment that the trade mark owner has made in creating the brand image associated with his mark are considered within the legitimate interests of the trade mark owner which enables trade mark owner to oppose further commercialisations of the trade marked within the meaning of Article 7 (2) of the TMD, it was not explicitly linked in the wordings of the CJEU to the communication, investment or advertising functions of trade mark which are already identified.

⁵⁶⁰ *Ibid.*, at [92]

5.8 The Existence of Market Partitioning

The first condition for repackaging set in *Bristol-Myers v Paranova* is that the parallel importer, who changed the package of the product, must be able to establish that the exercise of the trade mark rights by the owner will contribute to the artificial partitioning of the markets between the member states of the EEA. The CJEU held that the exercise of the trade mark by the owner would contribute to the partitioning of markets between member states in particular where the owner has placed an identical pharmaceutical product on the market in several member states in various forms of packaging, and the product may not, in the condition in which it has been marketed by the trade mark owner in one member state, be imported and put on the market in another member state by a parallel importer.⁵⁶¹

The power of the owner of trade mark rights protected in a member state to oppose the marketing of repackaged products under the trade mark should be limited only in so far as the repackaging undertaken by the importer is necessary in order to market the product in the member state of importation.⁵⁶² Prior to the judgment of the CJEU in *Bristol-Myers v Paranova*, there was considerable doubt whether it needed to be shown that the trade mark owner had purposively chosen artificially to partition the markets, or whether it was merely sufficient to establish that, as a result of the exercise of his exclusive rights, an artificial partition of the market would take place in order for the second sentence of Article 36 of the Rome Treaty to apply.⁵⁶³ In the judgment of the ECJ in *Bristol-Myers v Paranova*, it is clarified that the test for whether there has been an artificial partitioning of the markets between member states is decided by objective standards. In other words, it does not need to

⁵⁶¹ *Bristol-Myers Squibb v. Paranova* [1996] E.T.M.R. 1 at [52]

⁵⁶² *Ibid.*, at [56]

⁵⁶³ Tritton, G., 'Parallel Imports in the European Community', *Intellectual Property Quarterly*, (1997), 2, 196-209, p. 201

be shown that the trade mark owner had purposively chosen artificially to partition the markets between the member states.⁵⁶⁴

The CJEU in *Bristol-Myers v Paranova* gave an example of the situation where repackaging can be considered as necessary which is where the size of the original packet cannot be marketed in the member state of importation. This may occur by reason, in particular, of a rule authorising packaging only of a certain size or a national practice to the same effect, sickness insurance rules making the reimbursement of medical expenses depend on the size of the packaging, or well-established medical prescription practices based, inter alia, on standard sizes recommended by professional groups and sickness insurance institutions.⁵⁶⁵ In *Loendersloot v Ballantine*, it was held by the CJEU that if a whisky was marketed as 'pure whisky' in one member state, but regulations in another member state meant that the whisky cannot be described as pure, it could be considered necessary to remove the word pure from the packaging before the product could be imported into the member state of importation.⁵⁶⁶

The CJEU elaborated on the concept of necessity for repackaging in *Upjohn v Paranova*. In this case, it was held that the condition of necessity is satisfied if the prohibition imposed on the parallel importer against replacing the trade mark hinders effective access to the markets of the member state of importation. Having said this, the condition of necessity will not be satisfied if repackaging is explicable solely by the parallel importer's attempt to secure a commercial advantage.⁵⁶⁷

Further guidance on the necessity requirement was provided by the CJEU in *Boehringer Ingelheim v. Swingward*. It was stated that resistance of consumers to the repackaged products does not always constitute an impediment to effective market access such as to

⁵⁶⁴ *Bristol-Myers Squibb v. Paranova* [1996] E.T.M.R. 1 at [57]

⁵⁶⁵ *Ibid.*, at [53]

⁵⁶⁶ *Frits Loendersloot v. George Ballantine (C-349/95)* [1998] 1 C.M.L.R. 1005 at [45]

⁵⁶⁷ *Upjohn v Paranova* [2000] 1 C.M.L.R. 51 at [43]-[44]

make replacement packaging necessary, within the meaning of the CJEU's case law. However, there might exist on a market, or on a substantial part of it, such strong resistance from a significant proportion of consumers to repacked products that there must be held to be a hindrance to effective market access.⁵⁶⁸

It is important to note that the CJEU ruled in *Bristol-Myers v Paranova* that the owner of a trade mark may always rely on his exclusive rights as owner to oppose the marketing of repackaged products when such action is justified by the need to safeguard the essential function. In other words, partitioning can be regarded as artificial if it cannot be justified by the need to safeguard the rights which form the essential function of the trade mark.⁵⁶⁹ It might be understood from these wordings of the CJEU that the first of *Bristol-Myers v Paranova* conditions safeguards merely the origin and to some extent the quality guarantee functions of trade mark.

However, it was held by the CJEU in *Boehringer Ingelheim v. Swingward* that the change brought about by any repackaging of a trade-marked product may be prohibited by the trade mark owner unless the repackaging is necessary in order to enable the marketing of the products imported in parallel and the legitimate interests of the proprietor are also safeguarded.⁵⁷⁰ It is important to note that the CJEU emphasised on the protection of trade mark owners' legitimate interests in the case of repackaging necessity but not, in particular, the protection of the essential function of trade mark. As mentioned earlier, the legitimacy criterion for the exercise of trade mark rights against parallel traders who have repackaged the trademarked products before marketing has potentially expanded the scope of the trade

⁵⁶⁸ *Boehringer Ingelheim v. Swingward* [2002] E.T.M.R. 80 at [51]-[52]

⁵⁶⁹ *Bristol-Myers Squibb v. Paranova* [1996] E.T.M.R. 1 at [57]

⁵⁷⁰ *Boehringer Ingelheim v. Swingward* [2007] 2 C.M.L.R. 52 at [35]

mark rights to include the protection of the economic functions, unlike the essential function doctrine.

In the same judgment, however, it was held that the necessity requirement is directed solely at the fact of repackaging not at the manner and style of repacking. The manner and style of packaging, which are more relevant to the quality and brand image of the trade mark product, need to be examined when assessing whether there has been compliance with other *Bristol-Myers v Paranova* conditions. Therefore, it is possible to say that the economic functions of trade mark, which are namely the quality guarantee and modern functions, are likely to be safeguarded under the other *Bristol-Myers v Paranova* conditions while the necessity condition focuses solely on the protection of the essential function which is the origin function and functional and material quality of the trademarked product

5.9 Repacking Not Affecting the Original Condition of the Product

The second condition for repackaging set in *Bristol-Myers v Paranova* is that the repackaging of the product cannot adversely affect the original condition of the product. More specifically, a trade mark owners may oppose any repackaging of their products which involves either a risk that the product inside the package might be tampered with, or that the original condition of their products is adversely affected. Thus, it is sometimes referred to as the doctrine of “adverse effects”.⁵⁷¹

According to the judgment of the CJEU, both the nature of the product and the method of repackaging must be taken into account to determine whether the repackaging adversely affects the original condition of the product.⁵⁷² In terms of pharmaceutical products, the

⁵⁷¹ Bently L. and Sherman, B., *Intellectual Property Law*, Oxford University Express, (2009), 3rd edition, Oxford, p.948

⁵⁷² *Hoffmann-La Roche & Co, AG and Hoffmann-La Roche, AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse* (Case-102/77) [1978] 3 C.M.L.R. 217 at [10]

CJEU found that the mere removal of blister packs, flasks, phials, ampoules or inhalers from their original packaging and their replacement in new external packaging cannot affect the original condition of the product inside of packaging.⁵⁷³

However, as for operations consisting in the fixing of self-stick labels to flasks, phials, ampoules or inhalers, the addition to the packaging of new user instructions or information in the language of the member state of importation, or the insertion of an extra article, such as a spray, from a source other than the trade mark owner, the original condition of the product inside the packaging can be affected. Moreover, the original condition of the product inside the packaging might be indirectly affected where the external or inner packaging of the repackaged product or an extra article inserted into the packaging by the importer and the doses envisaged by the manufacturer.⁵⁷⁴

Having said this, it is important to note that in order to constitute a legitimate reason for a trade mark owner to oppose further commercialisation of products that have been repackaged; the risk of adverse effect must be real. As an example to this, it is argued in *Bristol-Myers v Paranova* that blister packs coming originally from different packets and grouped together in a single external packaging might have come from different production batches with different use of –by-dates, products might have been stored for too long, and light-sensitive products might have been damaged by light during packaging. However, the CJEU found those arguments not acceptable; since it is not possible for each hypothetical risk of isolated error to be considered as a legitimate reason for trade mark owner to oppose repackaging of trade marked products.⁵⁷⁵

⁵⁷³ *Bristol-Myers Squibb v. Paranova* [1996] E.T.M.R. 1 at [61]

⁵⁷⁴ *Ibid.*, at [64]

⁵⁷⁵ *Ibid.*, at [62]-[63]

If the repackaging is carried out in such a way that it does not affect the original condition of the product inside of packaging, the ability of the trade mark to function as an indication of origin is safeguarded. In other words, a trade mark owner can exercise his exclusive rights to oppose the marketing of repackaged products if the original condition of the product inside of packaging is adversely affected; since such action can be justified by the need to safeguard the essential function of origin indicating.

If the original condition of product inside of packaging is not affected, consumers are not misled as to the commercial origin of the repackaged products and do in fact receive products originated under the unitary control of the trade mark owner who is responsible for their quality.⁵⁷⁶ This *Bristol-Myers v Paranova* condition is specially designed to safeguard the origin function of trade mark and the quality guarantee function of trade mark, protecting the legitimate interests of trade mark owner concerning the functional and material quality of the trade mark products.

5.10 Indications of Who Repackaged

The third condition for repackaging set in *Bristol-Myers v Paranova* is that indications must be given on the packaging of who manufactured the product and who repackaged it. The indications of who manufactured the product and who repackaged it should be clearly shown on the new packing. It must be printed in such a way as to be understood by a person with normal eyesight, exercising a normal degree of attentiveness. In other words, consumer would be able to tell from reading it who repackaged the product and who manufactured it.⁵⁷⁷

The CJEU held in *Bristol-Myers v Paranova* that it is in the trade mark owner's interest that the consumer or end user should not be led to believe that the owner is responsible for the

⁵⁷⁶ *Ibid.*, at [67]; *Orifarm v Merck* [2011] E.T.M.R. 59 at [25]

⁵⁷⁷ *Bristol-Myers Squibb v. Paranova* [1996] E.T.M.R. 1 at [71]

repackaging. However, the indication does not have to say that the repackaging was done without the consent of the trade mark owner. Similarly, it may be in the manufacturer's interest that the consumer or end-user should not be led to believe that the importer is the owner of the trade mark, and that the product was manufactured under his supervision.⁵⁷⁸

Even though the person who carried out the repackaging is indicated on the packaging of the product, there remains the possibility that the reputation of the trade mark may suffer from an inappropriate presentation of the repackaged product. In such a case, the trade mark owner has a legitimate interest, which can be related back to the specific subject-matter of the trade mark right, in being able to oppose the marketing of the product. Having said this, the CJEU noted that the nature of the product and the market for which it is intended must be taken into account while assessing whether the presentation of the repackaged product is liable to damage the reputation of the trade mark.⁵⁷⁹

It was argued that this requirement of the ECJ is somehow peculiar because it is not necessary for the purpose of ensuring the guarantee of origin. If the indication of who manufactured the product is not indicated, the product can still be distinguished without any possibility of confusion from products which have another origin, because the trade mark itself is the distinctive part, not the manufacturer's name. Moreover, the quality guarantee function of trade mark is also not endangered if the name of the manufacturer is not reaffixed on the new packaging. All products bearing a particular trade mark are produced under the control of a single undertaking which is responsible for their quality and they cannot be deemed to be linked to a certain manufacturer.⁵⁸⁰

⁵⁷⁸ *Ibid.*, at [70]-[74]

⁵⁷⁹ *Ibid.*, at [75]

⁵⁸⁰ Urlesberger F.C., “‘Legitimate reasons’ for the proprietor of a trade mark registered in the EU to oppose further dealings in the goods after they have been put on the market for the first time’, *Common Market Law Review* (1999) 36, 1195-1228, p. 1207

The issue with “the name of the manufacturer” requirement, as defined in *Bristol-Myers v Paranova*, can be explained with the historical change in the concept of origin function. The origin function of a trade mark used to guarantee the actual manufacturer of the products bearing that trade mark. With the development of business organizations and practices, the role of the origin function evolved to guarantee consumers that all products bearing a particular trade mark produced under the unitary control of an undertaking which is responsible for their quality. I think, therefore, “the name of manufacturer” as defined in *Bristol-Myers v Paranova*, means that the name of the commercial origin which has unitary control over the quality of all the trade marked products.

For similar reasons, the Advocate General Bot, in his opinion to the CJEU in *Orifarm v. Merck*, suggest that the “person who carried out the repackaging”, as defined in *Bristol-Myers v Paranova*, should be interpreted as the company which controls the repackaging operation and takes responsibility for it.⁵⁸¹ The CJEU, in fact, agreed with the opinion of the Advocate General Bot and stated that the legitimate interest of the trade mark owner is fully safeguarded where the name of the undertaking at whose order and on whose instructions the repackaging has been carried out, and which assumes responsibility for the repackaging, appears clearly on the packaging of the repackaged product. In other words, the CJEU revised the “indication of who repackaged” requirement and named it as the “indication of who makes the arrangements for the repackaging and accepts responsibility for them”.⁵⁸²

The CJEU also held in *Bristol-Myers v Paranova* that where the parallel importer has added to packaging an extra article from a source other than the trade mark owner, he must ensure that the origin of the extra article is indicated in such a way as to dispel any impression that

⁵⁸¹ *Orifarm v Merck* [2011] E.T.M.R. 59 at [AG36]

⁵⁸² *Ibid.*, at [29]

the trade mark owner is responsible for it.⁵⁸³ Although the CJEU made this rule considering the issues in the pharmaceutical sector, similar issues have arisen in different sectors such as *Sony v Tesco*.⁵⁸⁴

In this case, *Tesco* imported the Sony play station packages from France in order to put them on the market in the UK and added adaptors for use in the UK power sockets and fitted radio frequency modulator (RFM) units to each play station. RFM units were marked Sony with the notice, “this product has been opened to fit an adaptor to enable it to be used in the UK 3-pin power sockets and to include an optional RFU adapter repackaged for Tesco Stores UK.” However, it was not clear from the notice that the RFM units are not manufactured by Sony. Sony had neither manufactured the RFM units nor let Tesco to label them as Sony’s products. Therefore, Sony asked Tesco to stop selling the products in those packages. As Tesco rejected Sony’s demand, Sony sought an interim injunction.

The High Court granted Sony the injunction to stop the sale of the products in the packages labelled Sony, holding that Tesco had failed to meet its obligations as a repackaging company. It was held that if a parallel importer added an extra article to a package, it must ensure that its origin was indicated in such a way as to dispel any impression that the trade mark owner was responsible for it although it need not state that the repackaging was carried out without the authorisation of the trade mark owner. Second, the parallel trader would be required to make it quite clear that the extra article added to the package was not the product of trade mark owner or approved as such by the trade mark owner.⁵⁸⁵

⁵⁸³ *Bristol-Myers Squibb v. Paranova A/S, C.H. Boehringer Sohn, Boehringer Ingelheim KG, Boehringer Ingelheim A/S v. Paranova A/S, Bayer Aktiengesellschaft, Bayer Danmark A/S v. Paranova A/S* [1996] E.T.M.R. 1 at [73]

⁵⁸⁴ *Sony v Tesco* [2000] E.T.M.R. 102

⁵⁸⁵ *Ibid.*, 109-110

The exercise of trade mark rights to oppose the repackaging of the trade marked products is limited to the protection of the legitimate interests of the trade mark owner. The original condition requirement, which focuses on the product itself, is specially designed to safeguard the origin and quality guarantee functions that a trade mark performs. However, indications of who repackaged and manufactured requirement concerns more about the packaging of the product. Therefore, this requirement does not merely safeguard the legitimate interests of trade mark owner in relation to the commercial origin of the trade marked products and the functional and material quality of them. It safeguards the legitimate interests of trade mark owner in relation to the reputation of trade mark. This means that the “indication of who repackaged” requirement is also necessary to protect the modern functions of trade mark.

5.11 Protection of the trade mark reputation

The third condition for repackaging set in *Bristol-Myers v Paranova* is that the repackaging must not be defective, of poor quality or untidy, and the representation of the repackaged product must not be liable to damage the reputation of the mark and, by extension, its owner. The CJEU held that it is necessary to take account of the nature of the product and the market for which it is intended when assessing whether the presentation of the repackaged product is liable to damage the reputation of trade mark.⁵⁸⁶

The CJEU related the legitimate interests of trade mark owner to protect the reputation of the trade mark to the specific subject-matter of trade mark. The specific subject-matter of trade mark is defined in *Centrafarm v American Home Products* as being to in particular to guarantee to the trade mark owner that he has the exclusive right to use that trade mark for the purpose of putting a product into circulation for the first time and therefore his protection

⁵⁸⁶ *Bristol-Myers Squibb v. Paranova* [1996] E.T.M.R. 1 at [75]-[76]

against traders wishing to take advantage of the status and reputation of the mark by selling products illegally bearing that trade mark.⁵⁸⁷

It is important to note that the CJEU avoided relating this criterion with the essential function of a trade mark although some of the criteria in this judgment are justified with the essential function doctrine. Instead, the CJEU justified this criterion with the specific subject-matter doctrine which is broader than the essential function theory. Since, the protection of trade mark reputation has no relation with the essential function of trade mark which is the combination of the origin function and, to some extent, the quality guarantee functions of a trade mark. The importance of the presentation of repackaging because of trade mark reputation is more related to the communication, advertising or investment functions of trade mark. In other words, it is possible to say that this criterion is specially designed to protect the communication, advertising or investment functions of trade mark. The CJEU in fact elaborated in the subsequent cases on trade mark reputation criterion which justifies trade mark owners right to oppose the further commercialisation of trade mark products within the meaning of Article 7 (2) of the TMD.

In *Christian Dior v Evora*⁵⁸⁸, the CJEU went one step further and held that the legitimate interests of trade mark owner justify opposing the use of a trade mark by parallel trader as an advertising or promotional device. More specifically, the use of a trade mark by the parallel trader as an advertising or promotional device may in principle be a legitimate reason within the meaning of Article 7 (2) of the TMD to allow the trade mark owner to oppose parallel importation of trademarked products if that use damages the reputation of trade mark.

⁵⁸⁷ *Centafarm, BV v. American Home Products* (C-3/78) [1979] 1 C.M.L.R. 326 at [11]

⁵⁸⁸ *Christian Dior SA v Evora* (C- 337/95) [1998] E.T.M.R. 26

It was held that where a parallel trader makes use of a trade mark in order to bring the public's attention to further commercialisation of products, a balance must be struck between the legitimate interest of the trade mark owner in being protected against traders using his trade mark for advertising in a manner which could damage the reputation of the trade mark and the traders' legitimate interest in being able to resell the products in question by using advertising methods which are customary in his sector of trade. In the case of the prestigious, luxury products, the parallel trader must not act unfairly in relation to the legitimate interests of the trade mark owner. Hence, the parallel trader must endeavour to prevent his advertising from affecting the value of the trade mark by detracting from the allure and prestigious image of the products and from their aura of luxury.⁵⁸⁹

However, the CJEU carried on to say that if the parallel trader, who habitually markets articles of the same kind but not necessarily of the same quality, uses for trademarked products the modes of advertising which are customary in his trade sector, even if they are not the same as those used by the trade mark owner himself or by his approved retailers, does not constitute a legitimate reason within the meaning of Article 7(2) of the TMD unless it seriously damages the reputation of the trade mark. The CJEU gave an example to this that this would occur if, in an advertising leaflet distributed by him, the trade mark was placed in a context which seriously detracted from the image which the trade mark owner has succeeded in creating around his trade mark.⁵⁹⁰

In *Boehringer Ingelheim v Swingward*, the CJEU elaborated on the trade mark reputation criterion by indicating that this condition is not limited to cases where the packaging is defective, of poor quality, or untidy. In this case, the CJEU was asked to give a preliminary ruling for the question of whether it is necessarily damaging to the reputation of a trade mark

⁵⁸⁹ *Ibid.*, at [44]

⁵⁹⁰ *Ibid.*, at [45]–[47]

if the trade mark is not affixed to the new exterior carton or the parallel importer applies either his own logo or a house-style or a get-up used for a number of different products to the new exterior carton. The CJEU held that both inappropriate presentation of the trade mark and incorrect suggestion of a commercial link are capable in principle of damaging the reputation of the trade mark.⁵⁹¹

However, whether particular forms of repackaging cause such damage and whether the damage is sufficiently serious to amount to a 'legitimate reason' within the meaning of Article 7 (2) of the TMD is a question of fact for the national courts to decide in the light of the circumstances of each case. In other words, the determination of whether a particular case of repackaging meets this partially subjective criterion is a factual question to assess for national courts.⁵⁹² On its return from the ECJ, the Court of Appeal held about this issue that the question of whether there is damage to the reputation of trade mark depends on how the trade mark is affixed to the new exterior carton or how the parallel importer applied his own logo or a house-style or a get-up used for a number of different products to the new exterior carton.⁵⁹³

Similarly, in *Copad v Christian Dior*⁵⁹⁴, where a licensee sold the luxury trademarked products to a discount store in contravention of a provision in the licence agreement, the owner of the trade mark opposed the further sale of the products on the basis that the contravention damaged the allure and prestigious image which conferred on the products an aura of luxury. The CJEU was asked to determine whether the trade mark owner could invoke such a provision to oppose further commercialisation of the products on the basis of Article 7(2) of the TMD.

⁵⁹¹ *Boehringer Ingelheim v. Swingward* [2007] 2 C.M.L.R. 52 at [44]

⁵⁹² *Ibid.* at [46]

⁵⁹³ *Boehringer Ingelheim v. Swingward* [2008] 2 C.M.L.R. 22 at [H 6]

⁵⁹⁴ *Copad v Christian Dior* [2009] E.T.M.R. 40

The CJEU held once more that it is for the national courts to assess, taking into account the particular circumstances of each case, whether further commercialisation of the luxury goods bearing the trade mark by the third party, using methods which are customary in its sector of trade, damages the reputation of that trade mark. It is necessary to take into consideration, in particular, the parties to whom the goods are resold and the specific circumstances in which the luxury goods are put on the market.⁵⁹⁵

In *Portakabin v Primakabin*, the CJEU held that Article 7 of the TMD must be interpreted as meaning that a trade mark owner is not entitled to prohibit an advertiser from advertising the resale of products manufactured and placed on the market in the EEA by that the owner or with his consent, unless there is a legitimate reason, within the meaning of Article 7(2) of the TMD, which justifies him opposing that advertising, such as use of that sign which gives the impression that the reseller and the trade mark owner are economically linked or use which is seriously detrimental to the reputation of the mark.⁵⁹⁶ This judgment of the CJEU made it clear that there is a legitimate interest of the trade mark owner in being protected against traders using his trade mark for advertising in a manner which could adversely affect the origin and quality guarantee functions of a trade mark or the communication, investment or advertising functions of trade mark.

In *L'Oréal v eBay*, the CJEU held that the trade mark owner may, by virtue of the exclusive right conferred by the mark, oppose the resale of products on the ground that the person reselling the products has removed their packaging, where the consequence of that removal is that essential information, such as information relating to the identity of the manufacturer or the person responsible for marketing the cosmetic product, is missing. However, where the removal of the packaging has not resulted in the absence of that information, the trade mark

⁵⁹⁵ *Ibid.*, at [57]-[58]

⁵⁹⁶ *Portakabin v Primakabin* [2010] E.T.M.R. 52 at [92]

owner may oppose the resale of an unboxed perfume or cosmetic product bearing his trade mark, if the owner establishes that the removal of the packaging has damaged the image of the product and, hence, the reputation of the trade mark.⁵⁹⁷

With *L'Oréal v eBay*, the CJEU indicated that there is a legitimate interest of the trade mark owner in being protected against the removal of packaging by trader in a manner which could adversely affect the origin and quality guarantee functions of trade mark. However, there is a legitimate interest of the trade mark owner in being protected against the removal of the packaging by trader if it is established that the removal of the packaging has damaged the quality guarantee and communication, investment or advertising functions of trade mark, regardless of whether the origin function has been adversely affected.

In *Viking Gas v Kosan Gas*, the CJEU referred to its previous judgment given in *Portakabin v Primakabin* where it was held that there is a legitimate reason for trade mark owner to oppose the further commercialisation of trademarked products when the use by trader of the trade mark seriously damages the reputation of that mark or when that use is carried out in such a way as to give the impression that there is a commercial connection between the trade mark proprietor and that trader. Although the judgment of the CJEU in this case elaborated on the former reason, which is more related to the origin and to some extent the quality guarantee functions of trade mark, it did not say that much as to the latter one which is more related to the communication, investment or advertising functions of trade mark.⁵⁹⁸

5.12 Notice to the trade mark owner

The third condition for repackaging set in *Bristol-Myers v Paranova* is that the parallel importer must give notice to the trade mark owner prior to putting the repackaged products

⁵⁹⁷ *L'Oréal v eBay* [2011] E.T.M.R. 52 at [83]

⁵⁹⁸ *Viking Gas v Kosan Gas*(C-46/10) [2011] E.T.M.R. 58 at [37]

on sale. This condition also enables the trade mark owner to require from the parallel importer to supply with a specimen of the repackaged products. Therefore, the parallel importer must not only provide an advance notice to the trade mark owner but, on the demand of the trade mark owner, also supply him with a specimen of the repackaged product prior to putting the repackaged products on sale.⁵⁹⁹

A specimen of the repackaged product enables the trade mark owner to check that the repackaging is not carried out in such a way that which directly or indirectly affects the original condition of the product and that the presentation after repackaging is not likely to damage the reputation of the trade mark. With this criterion, the CJEU indicated that there is a legitimate interest of the trade mark owner in being protected against the repackaging of trademarked products by trader not only in a manner which could adversely affect the origin and quality guarantee functions of trade mark but also in a manner which could adversely affect the communication, investment or advertising functions of trade mark.

In *Glaxo Group v Dowelhurst*, Laddie J. argued that with the requirement of giving notice to a trade mark owner, as defined in *Bristol-Myers v Paranova*, the trade mark owner appeared to be entitled to prevent the importation of repackaged products whenever prior notice of an intention to import those products had not been given. This right given to trade mark owner was unqualified and did not depend upon his ability to demonstrate harm to the specific subject-matter of the trade mark. Therefore, the issue needs to be referred for consideration by the CJEU as soon as possible.⁶⁰⁰

The CJEU responded in *Boehringer Ingelheim v. Swingward*. It was held the purpose of the requirement is to safeguard the legitimate interests of trade mark owners. Satisfying this

⁵⁹⁹ *Bristol-Myers Squibb v. Paranova* [1996] E.T.M.R. 1 at [78]

⁶⁰⁰ *Glaxo Group v Dowelhurst* [2000] 2 C.M.L.R. 571 at 573; Grassie, G. 'Parallel imports and trade marks: Part 2: the repackaging cases', *European Intellectual Property Review*, (2006), 28(10), 513-516, p. 513

requirement scarcely poses any real practical problems for parallel importers provided that the owner reacts within a reasonable time to the notice. Adequate functioning of the notice system presupposes that the interested parties make sincere efforts to respect each other's legitimate interests.⁶⁰¹

The repackaging of trademarked products is prejudicial to the specific subject-matter of the trade marks concerned, and it is not necessary in this context to assess the actual effects of the repackaging. Hence, a parallel importer must, in any event, in order to be entitled to repackaged trademarked products, fulfil the requirement of prior notice. If the parallel importer does not satisfy this requirement, the trade mark proprietor may oppose the marketing of the repackaged pharmaceutical product.⁶⁰²

The ECJ also gave a preliminary ruling as to the duration of advance notice in *Boehringer Ingelheim v. Swingward*. It was held that it is for the national courts to assess, in the light of all the relevant circumstances, whether the trade mark proprietor had a reasonable time to react to the intended repackaging. A period of 15 working days seems likely to constitute such a reasonable time where the parallel importer has chosen to give notice to the trade mark owner by supplying it simultaneously with a sample of the repackaged pharmaceutical product. That period being purely indicative, it remains open to the parallel importer to allow a shorter time and to the owner to ask for a longer time to react than that allowed by the parallel importer.⁶⁰³

It is important to note that this requirement was related to the specific subject-matter of trade mark and not limited to essential function of trade mark. Since; there is a legitimate interest of the trade mark owner in being provided an advance notice and demanding to be supplied

⁶⁰¹ *Boehringer Ingelheim v Swingward Ltd* [2002] E.T.M.R. 78 at [62]

⁶⁰² *Ibid.*, at [55]-[63]

⁶⁰³ *Ibid.*, at [67]

with a specimen of the repackaged product prior to putting the repackaged products on sale in case the repackaging can adversely affect the origin and quality guarantee functions of a trade mark or the communication, investment or advertising functions of trade mark.

5.13 Conclusion

The scope of exclusive rights provided under 5 (1) (a) of TMD has been expanded by the CJEU in *L'Oréal v Bellure*⁶⁰⁴ to cover the protection of the economic functions that a trade mark performs in addition to its function of indicating origin. We tried to analyse the impact of this expansion on the conditions that the CJEU set in *Bristol-Myers v Paranova* which draw the boundaries of the legitimate interests of a trade mark owner to oppose the further commercialisation of his trademarked products in scenarios where the products have been repackaged, relabelled, rebranded before marketing or used as a advertising or promotional device. The traditional approach was to justify the exercise of trade mark rights to oppose the further commercialisation by the need of safeguarding the essential function of trade mark which is the origin and, to some extent, the quality guarantee functions that trade mark performs. We revisited each criterion so as to illustrate the justification of the trade mark rights for opposing the parallel importation under the contemporary approach which considers the economic functions, in particular the communication, investment or advertising functions, as part of the legitimate interests of trade mark owner.

It is important to note that the specific subject-matter of trade mark doctrine which the CJEU adapted before the adoption of the Trade Mark Directive includes the reputation of trade mark. However, the essential function theory, which is developed by the CJEU as the sub-classification of the specific subject-matter of trade mark, limited the specific subject-matter

⁶⁰⁴ *L'Oréal v. Bellure* (C-487/07)[2009] E.T.M.R. 987

of trade mark doctrine to the protection of the origin and, to some extent, quality guarantee functions that a trade mark performs.

After the adoption of the Trade Mark Directive, where the legitimacy was introduced as a justification for the exercise of trade mark rights against parallel importation, the gradual switch of the CJEU's case law from the traditional approach viewing trade mark as an identity of the commercial origin to the contemporary approach recognizing the economic significance of trade mark as a badge of brand image has come case by case. *Bristol-Myers v Paranova* was the first important case after the adoption of Trade Mark Directive where the criteria for repackaging issue set in *Hoffmann-la Roche v. Centrafarm* was revisited by the CJEU to include the damage to the reputation of trade mark as a legitimate interest of trade mark owner to oppose parallel importation.

*Christian Dior v Evora*⁶⁰⁵ was a milestone in this switch where the use of a trade mark by the parallel trader as an advertising device was considered as a legitimate reason within the meaning of Article 7 (2) of the TMD to allow the trade mark owner to oppose parallel importation; since such use was affecting the value of the trade mark by detracting from the allure and prestigious image of the products and from their aura of luxury and therefore damaging the reputation of trade mark.

Portakabin v Primakabin,⁶⁰⁶ which came after the expansion of the protection given to trade mark owners under Article 5 (1) (a) of the TMD by the CJEU in *L'Oréal v Bellure* to safeguard the communication, investment or advertising functions of trade mark, was the case where, I think, the contemporary approach of the CJEU was settled. It was held that where the resale of the parallel imports that risks a serious damage to the image which the owner

⁶⁰⁵ *Christian Dior SA v Evora* (C- 337/95) [1998] E.T.M.R. 26

⁶⁰⁶ *Portakabin v Primakabin* [2010] E.T.M.R. 52

has succeeded in creating for its trade mark was considered as a legitimate reason for trade mark owner to oppose the further commercialisation of trademarked products. It clearly indicates that there is a legitimate interest of the trade mark owner in being protected against traders using his trade mark as an advertising or promotional device, but this can be expanded to the other scenarios such as repackaging, in a manner which could seriously damage the communication, investment or advertising functions of trade mark.

Chapter 6- Conclusion

The aim of this thesis has been to examine the expansion of the scope of the exclusive right given to trade mark under Article 5 (1) (a) of TMD and its impact on the practice of parallel importation within the EEA. However, it is important to note that this thesis merely focused on the phenomenon and the problem raised by the functions theory rather than offering solutions, which would have to take into account competition principles. Therefore, the first three main chapters of this thesis have attempted to determine the expanded scope of the exclusive rights provided for the protection of trade mark under Article 5 (1) (a) of the TMD while the last main chapter has aimed to analyse the impact of that expansion on the parallel importing within the EEA.

Chapter Two focused on the origin function, or the essential function as it has been repeatedly called by the CJEU, which is one of the functions protected under Article 5 (1) (a) of the TMD. This chapter pinpointed the significant changes that surrounded the development of the origin function through a look at the history of trade marks and their evolution into respected indicators of trade origin which was in itself a response to the changing nature of business activities and organisations post the industrial revolution. The evolution of trade mark as an origin indicator as discussed in chapter two plays an important role in explaining the “associated” economic functions of a trade marks which are derived from the trade mark’s ability to guarantee the origin of the products bearing it

Chapter Three, and building on chapter two, analysed the economic functions of trade mark which were laid down by a number of important judgments by CJEU when asked to assess the merit of trade marks protection under Article 5 (1) (a) of the TMD. In this chapter the

author tried to give a detailed account of the case law surrounding this area of the law since, understanding the notion of the economic functions was crucial in determining the proper scope of the protection that should be given to trade mark in Article 5 (1) (a) of the TMD. More importantly, rationalising the expansion of the scope of the protection given to trade marks as a direct result of the function theory expansion as advocated by the CJEU was crucial for enhancing our understanding of this expansion, the reasons behind it and its impact on a number of areas within trade mark law such as the European exhaustion regime, which is the main concern of this thesis.

Chapter Four examined the legal aspect of the protection provided under Article 5 (1) (a) of the TMD. This chapter has explored the fact that aside from the conditions that have been explicitly mentioned under the infringement criteria of Article 5(1)(a), the CJEU has added an additional condition that is concerned with the potential harm to the trade mark ability to perform its functions. The additional condition introduced by the CJEU was examined by looking the decisions of the court in recent years. Moreover, the three, explicitly mentioned, criteria for the ground of infringement under Article 5 (1) (a) of the TMD were discussed.

Accordingly, the use in the course of trade prerequisite, the identical sign requirement and the identical products requirement have been examined separately in this chapter in light of the recent significant judgments by the CJEU. Noting that the use in the course of trade prerequisite within the meaning of Article 5 (1) (a) of the TMD was the main focus of chapter four. The reason for this was that the reformulation of this condition as suggested by recent case law will have a direct impact on the functions theory and could eventually lead to an increase in the protection afforded to trade marks and their owners. This increased protection in turn could have a negative impact on the practice of parallel importation within the EEA if it was used as part of the legitimate interest argument under Article 7(2) of the TMD.

Chapter Five revisited the case law on the parallel importation within the EEA in order to assess the impact of the expansion of trade mark protection under Article 5 (1) (a) of the TMD on the European exhaustion regime. This chapter explored doctrines which the CJEU developed in relation to the European exhaustion before the adoption of the TMD. It also explained the early case law of the CJEU and its introduction of the specific subject-matter of trade mark doctrine which includes the right of trade mark owners to have a defence against traders who would take advantage of the position and reputation of the trade mark by selling products improperly bearing that trade mark.⁶⁰⁷ Then, the chapter looked into the essential function theory which was introduced to illustrate the scope of the specific subject-matter of trade mark prior to the adoption of the directive. The chapter then discussed the adoption of the TMD and the introduction of the legitimacy argument in order to resolve the conflict between the trade mark right holders and parallel traders under Article 7(2) of the TMD.

The introduction of the legitimacy concept, as explained in chapter five, was the starting point for the gradual shift in the CJEU's attitude, as demonstrated by its case law, from its traditional approach to the functions theory which focuses its protection for trade marks on their ability to guarantee origin and prevent consumer deception to the contemporary approach which recognises the wider economic applications of trade mark's guarantee of origin role, namely the quality guarantee function and more recently the communication and advertisement or investment functions.

However, the adoption of the functions theory in determining the scope of the rights given to trade mark under Article 5(1) (a) of the TMD has had a significant and direct impact on determining what constitutes "legitimate reasons" within the meaning of Article 7(2) of the

⁶⁰⁷ *Deutsche Grammophon v Metro* (78/70) [1971] C.M. L. R. 631; *Centrafarm v. Winthrop* [1974] 2 C.M.L.R. 480; *Hoffmann-La Roche v Centrafarm* [1978] 3 C.M.L.R. 217; *Centafarm, BV v. American Home Products* [1979] 1 C.M.L.R. 326

TMD as can be observed in the CJEU's most recent judgments. Accordingly, the court's recent interpretation of the function theory to include the additional modern function could have a notable effect on the legitimate interests of the trade marks owners and their ability to control the parallel importation of their trademarked products within the EEA. This effect will be discussed in the following section.

6.1 Research findings in relation to the expansion of the trade mark protection under Article 5(1) (a) of the TMD

The exercise of the exclusive right conferred on the owner of a trade mark under Article 5 (1) (a) of TMD is limited to situations where functions that the trade mark performs are adversely affected. Therefore, identifying the functions that a trade mark performs had a crucial role in the determination of the expanded scope of the trade mark protection under Article 5 (1) (a) of TMD. A modern trade mark performs its origin function which is to guarantee to consumers the commercial origin of the goods or services, and may perform its economic functions which are derived from the trade mark's guarantee of origin. Having said this, there has been long development of the origin theory from which the economic functions are derived. In order to understand the origin function which is protected under Article 5 (1) (a) of the TMD and the various economic applications of the trade mark's guarantee of origin, the historical development of origin theory was analyzed in this thesis.

The origin function of a trade mark was examined under three periods: "pre-industrial period", "industrial period" and "post-industrial period". Trade mark of pre-industrial period was divided into two: ancient times and medieval times. Since, the difference of market system and business activities between these two pre-industrial times created different reasons for trade mark use. Trade mark of ancient times shows some similarities with the modern trade mark in terms of indicating quality and gaining reputation in free market

economy. On the other hand, the individual liability of medieval craftsmen for the quality standards of their marked products corresponds to the commercial responsibility of modern trade mark owners as to the quality of marked products.

The essential function of both ancient and medieval periods' trade mark was to identify the origin of products. However, both identify the physical origin of products while modern trade mark identifies the commercial origin of products. More specifically, a trade mark in the pre-industrial period indicates who produced the goods bearing the mark while a modern trade mark signifies the undertaking which is in the unitary control over the quality of the marked products not the actual producer. There is a notional difference between the origin function of pre-industrial trade mark and modern trade mark. The switch from the identifying the physical origin to the commercial origin occurred during the industrial period.

The industrial period of trade mark started with the increase of trade mark use as a consequence of mass production which commenced with the industrial revolution. The attempt to use popular trade marks by third parties for similar products without the authorisation of the trade mark owner led the owners to seek protection for unique use of their trade mark. The 1875 Trade Marks Registration Act in which the exclusive trade mark rights started to be given trade mark owners can be accepted as the crystallisation of trade mark law. We examined the evolution of the origin theory from indicating physical source of products to identifying commercial origin of products. *Major Brothers v. Franklin*⁶⁰⁸ was the case where the new role of trade mark was confirmed by English Courts as guaranteeing consumers that two products bearing the same trade mark came from a particular origin and that a certain entity or firm is commercially responsible for the quality of these products. Nevertheless, the physical source of those products can be anonymous to them. Although

⁶⁰⁸ *Major Brothers v. Franklin & Son* [1908] 1 K.B.

*Primark Stores v Lollypop Clothing*⁶⁰⁹ is a much more recent case, the judgment highlighted this change in the origin theory where it was decided that two identical products may be produced by the same physical source; but they may not have the same commercial origin unless and until the owner of trade mark accepts the economic and commercial responsibility of the quality of those products in the market.

In post-industrial period, the concept of origin that a trade mark identifies has changed owing to the developments arising from the exploitation of trade marks. Therefore, the 1994 Act⁶¹⁰ has responded to these developments in business activities and structure of organizations and brought substantial changes as to trade mark assignment and licensing agreements. We tried to examine the approaches of the CJEU in the interpretation of the origin function due to the division of trade mark use between different enterprises with licensing and assignment agreements or other reasons. *Hag I* and *Hag II* cases, *IHT v Ideal-Standard*, *Scandecor v Scandecor*, *Doncaster Pharmaceuticals v Bolton Pharmaceutical* and *Copad v Christian Dior* are important cases which the thesis analysed in order to illustrate that the exploitation of trade mark in post-industrial period does not create an effect on the origin function of trade mark unless the trade mark owner who has assigned or licensed his trade mark to other enterprises loses *the unitary control over the quality of the marked products*.

Therefore, the CJEU applied to “the essential function” theory in determining whether a trade mark owner can exercise his/her exclusive right as granted by Article 5(1) (a) of TMD against unauthorised use of the trade mark by third parties. According to this theory, which was first described in *Hoffmann La Roche v Centrafarm*⁶¹¹, the essential function of a trade mark is “to guarantee to the consumer or end user the identity of the trade-marked product’s

⁶⁰⁹ *Primark Stores v Lollypop Clothing* [2001] E.T.M.R. 30, at [334-343]

⁶¹⁰ It is necessary here to note that we refer to the 1994 Act rather than TMD; since we refer to certain UK-specific aspects.

⁶¹¹ *Hoffmann La Roche v Centrafarm* (C-102/77) [1978] E.C.R. 1139

origin by enabling him to distinguish it without any risk of confusion from products of different origin.” In order for a trade mark to fulfil its essential function, “it must offer a guarantee that all the goods or services bearing it have originated under *the control of a single undertaking which is responsible for their quality* [Emphasis added]”.⁶¹²

However, the essential function theory gave rise to a number of arguments. One school of thought was happy with the interpretation of the origin theory by the CJEU as relatively capacious.⁶¹³ The other school of thought argued that origin function of a trade mark should signify merely the commercial source of the products bearing it; since a trade mark may perform further functions than its origin function and therefore its owner may seek further rights for the protection of those functions.⁶¹⁴

The change in the approach of the CJEU started with the acceptance of the idea that a trade mark maybe capable of performing a wider set of functions in addition to its essential function. The first significant signal of this change was given in *Arsenal Football Club v Reed*.⁶¹⁵ The CJEU held that the unauthorized use of third parties must affect or liable affect the ability of trade mark to perform its functions, in particular its essential function. Although, the CJEU indicated that essential function of origin indicating is not the only function protected under 5 (1) (a) of TMD, the other functions that merit protection were not identified in that case. The identification of additional functions came later in *L'Oréal v Bellure*⁶¹⁶ where the quality guarantee as a distinct function and the communication,

⁶¹² *Arsenal FC v Matthew Reed* (C-206/01) [2003] E.T.M.R. 19

⁶¹³ The arguments are reviewed in Cornish, W., *Intellectual Property Omnipresent, Distracting, Irrelevant?*, Oxford University Press, (2004), p. 90

⁶¹⁴ *Ibid.*, p. 90

⁶¹⁵ It is necessary here to note that it is arguable that it was first signalled in *Hölterhoff v Freiesleben*. “It anticipated this shift in its judgment in *Hölterhoff v Freiesleben*”, Griffiths A., ‘The trade mark monopoly: an analysis of the core zone of absolute protection under Art. 5(1)(a)’, *Intellectual Property Quarterly*, (2007), 3, 312-349, at p. 337; *Arsenal Football Club v Reed* [2003] E.T.M.R. 19

⁶¹⁶ *L'Oréal v Bellure* [2009] E.T.M.R. 55

investment or advertising functions in addition to the origin function were found to merit protection under the provision of Article 5(1) (a) of TMD.⁶¹⁷

In *L'Oreal v Bellure*⁶¹⁸, where the CJEU has elaborated on the views it expressed in previous judgments, quality guarantee was recognized as a distinct function without giving a detailed explanation about the notion of this function in its judgments. However, the CJEU continued to use the “essential function” in the some parts of its recent judgments although the quality guarantee function which used to form part of the essential function theory is recognized as a separate function.⁶¹⁹ This thesis suggested that the notion of the essential function should be revisited if the quality guarantee is identified as a distinct function and it does not bring something which is different from the quality guarantee provided in the essential function theory. In other words, the essential function should be understood merely as signifying the commercial origin of the products and the quality guarantee should be understood as the economic application of trade mark’s guarantee of origin.

The communication, investment or advertising functions, so-called the modern functions, are also the economic applications of trade mark’s guarantee of origin. In order for a trade mark to perform its modern functions, the owner of that trade mark needs to make an investment in the creation, development and protection of a brand image signified by the trade mark. The brand image that a trade mark signifies was analysed so as to understand its significance and role in the trade mark’s power of attraction. Consumers may purchase a product of a particular trade mark not simply because of the tangible attributes of the product. They also purchase the brand image of certain lifestyles and attitudes associated with the trade mark in order to satisfy their social, psychological or emotional needs and desires in addition to their

⁶¹⁷ As mentioned earlier, the CJEU picked up the categorisation that AG Jacobs had used in *Christian Dior v Evora*.

⁶¹⁸ *L'Oreal v. Bellure* (C-487/07)[2009] E.T.M.R. 987

⁶¹⁹ *Interflora Inc v Marks & Spencer* (C-323/09) [2012] E.T.M.R. 1 at [38]; *Google France and Google Inc v Louis Vuitton Malletier*, *Google France v Viaticum Luteciel* and *Google France v CNRRH* (C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30 at [82]

tangible needs.⁶²⁰ Consumer nowadays have the option of using the products of a specific trade mark which is associated with a certain brand image in order to express to others their lifestyle, attitude or preferences.⁶²¹ In addition to this, the choice of the products of a particular trade mark which signifying a unique brand image may be used by an individual consumer the means of feeling as a part of a larger community.⁶²²

Therefore, a trade mark with a strong brand image may acquire a specific economic value which is independent of its associated product. In order to safeguard the investment made by the trade mark owner to develop the brand image associated with the trade mark, the scope of the rights given to trade mark owners under Article 5 (1) (a) of the TMD were expended through the judgments of the CJEU to cover the communication, investment or advertising functions of trade mark.

The CJEU analysed, for the first time, the advertising function of trade mark separately in *Google France*.⁶²³ Following that, the CJEU discussed, for the first time, the investment function of trade mark in addition to its advertising function in *Interflora v. Marks & Spencer*.⁶²⁴ In this case, the CJEU provided a ruling noting the difference between the investment function and the advertising function that a trade mark performs though it left the notion of the communication function without further clarification. In this regard, the exact meaning and boundaries of each of the newly introduced modern functions is not a completely settled matter in the CJEU's case law yet.

⁶²⁰ Griffiths, A., *An Economic Perspective on Trade Mark Law*, Edward Elgar, (2011), Cheltenham, p.152;

⁶²¹ Holt, D. B., *How Brands Become Icons: the principles of cultural branding*, Harvard Business School Press, (2004), p. 8; Einstein, M., *Brands of Faith: marketing religion in a commercial age*, Routledge, (2008), 1st edition, p. 71;

⁶²² Gerhardt, R.D., 'Consumer investment in trademarks', *North Carolina Law Review*, (2010), 88, 427-500

⁶²³ *Google France and Google Inc v Louis Vuitton Malletier, Google France v Viaticum Luteciel and Google France v CNRRH* (C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30

⁶²⁴ *Interflora v. Marks & Spencer* (C 323-09) [2012] E.T.M.R. 1

The expansion of the scope of the exclusive rights given to trade mark under Article 5 (1) (a) of the TMD to cover the protection of the economic functions tried to be justified by using the search costs theory. A trade mark, which conveys information as to the unobservable quality characteristics of products to the consumers, has two essential economic benefits in the search costs theory. First, it reduces the consumer search costs by enhancing consumer purchasing decisions. Second, it creates incentives for firms to invest resources in developing and maintaining the marketing power of the trade mark. The search costs theory provides a sound economic justification for the exclusive rights granted to trade mark owners in order to protect the origin and quality guarantee functions of their trade mark. Since, the quality guarantee function of a trade mark is economically beneficial both for consumers and firms and its origin function is essential for a trade mark to perform its quality guarantee function.

The thesis also analysed the role that modern functions may play within search costs theory. First, a trade mark which performs its communication, advertising or investment functions in addition to its origin and quality guarantee functions may contribute to reduce the search costs of consumers. A trade mark associated with a strong brand image may help consumers to have an idea about the unobservable quality features of a product bearing the trade mark which they have had a favourable experience with a different product of that mark before. As mentioned above, this may occur in the case of ‘brand extension’ or of ‘brand stretching’ which firms apply in order to extend the marketing power of their trade mark by using a model that assumes that brand image of the trade mark is a complementary feature that enhances consumer willingness to pay.⁶²⁵

⁶²⁵ Ramello, G.B., ‘What’s in a sign? Trademark law and economic theory’, *Journal of Economic Surveys*, (2006), 4, 547-564, p. 559; Aaker, D. A., Keller K. L., ‘Consumer Evaluations of Brand extensions’, *Journal of Marketing*, (January 1990), Volume 54, 27-41, p. 28 ; Repall, L. M., Richards, D. J., ‘The Simple Economics of Brand Stretching’, *The Journal of Business*, (July 2002), Volume 75, No. 3, 535-552, p. 535

Second, consumers may view the strong brand image of a trade mark as an extra assurance for the material quality features of the products bearing it. In other words, a trade mark which performs its communication, advertising or investment functions in addition to its origin and quality guarantee functions may be viewed by consumers as an extra quality assurance for the likely product quality. The willingness of consumers to pay higher prices for the products of a trade mark associated with a strong brand image because of its strong quality assurance credentials may in turn create extra incentives for firms to invest more resources in developing and maintaining the quality of their products in order to avoid any damage to the brand image which was created through their investment. . As the modern functions may enhance the power of trade mark as a quality guarantee, the search costs theory may be used as an economic rationale not only for the protection of quality guarantee function but also the protection of the modern functions.

Having said this, the modern functions do not only enhance the power of a trade mark as quality guarantee but also create a source of psychological and social satisfaction which consumers may gain by purchasing the products bearing the trade mark. Therefore we tried to explore the role of trade mark as a source of emotional or social satisfaction. A trade mark signifying a favourable brand image may increase the overall benefit that consumers can derive from the products bearing it if we consider the emotional benefit as part of the overall benefit that consumers are willing to pay for. These emotional benefits could justify the recent expansion of the function theory and the protection afforded to the communication, investment or advertising functions of a trade mark.

Still, it must be noted that finding arguments and theories such as the search cost theory to support the expansion of the recognised functions of a trade mark does not necessarily mean that the wider protection that resulted from such expansion is without its drawbacks. These disadvantages will be discussed when assessing the impact of this expansion on parallel

importing within the EEA later in the conclusion. However, in order to fully understand this impact and these disadvantages we needed to evaluate one area of trade mark law that was considerably affected by the expansion in the functions theory, namely the use in the course of trade prerequisite within the infringement criteria laid down under Article 5 (1) (a) of the TMD.

Arsenal v Reed, where the shift in the CJEU's approach towards the trade mark use prerequisite appeared, was a milestone in the criterion of trade mark use. The judgments of the CJEU after *Arsenal v Reed* should be viewed as the applications of trade mark use prerequisite to new facts. Accordingly, trade mark use requirement for the ground of infringement under Article 5 (1) (a) of the Trade Mark Directive should not be limited to uses made for the purpose of distinguishing the commercial origin of products. Use of a trade mark by third party which affects or liable to affect any functions of a trade mark, regardless of whether such use made for distinguishing the commercial origin of products or not, should be enough to be considered as trade mark use within the meaning of Article 5 (1) (a) of the TMD. This change in the interpretation of the trade mark use requirement was due to the expansion of the scope of the trade mark protection that was instigated by the recent CJEU case law under Article 5 (1) (a) of the TMD in the context of the functions theory. In other words, affecting or being liable to affect one of the functions of trade mark, instead of affecting the origin function of trade mark, must be considered the recognised criterion for trade mark use prerequisite.

In addition, there are two important criteria which have been developed by the CJEU in determining whether the unauthorised use of a trade mark by third party fulfils trade mark use prerequisite within the meaning of Article 5 (1) (a) of the TMD. The first criterion is that the use of trade mark by third party must occur in the context of commercial activity with a view to economic advantage and not as a private matter. The second criterion is that the use of

trade mark by third party must take place in the third party's own commercial communication. Still, these two additional criteria do not negate the fact that any use of a trade mark that could potentially harm the recognised functions of that mark would be considered a trade mark use. This development is of great importance since the exact nature of the additional modern functions is not clear yet and as a result the impact of these new functions on legitimate practices where third party use of a trade mark without the owner's consent is essential to their survival. One of these practises is parallel importing within the EEA. Therefore, the impact of this new development will be assessed in the next and final section of this conclusion.

6.2 Research findings in relation to the impact of the expansion on the parallel importation

The CJEU developed doctrines in relation to the European exhaustion before the adoption of the TMD. In order to resolve the conflict between the rights of trade mark owners and the free movements of the goods principle, the early case law of the CJEU introduced the specific subject-matter of trade mark doctrine which include the right of trade mark owner to have a defence against traders who would take advantage of the position and reputation of the trade mark by selling products improperly bearing that trade mark.⁶²⁶ The CJEU introduced another doctrine, which is the essential function theory, to define the scope of the specific subject-matter of trade mark. However, the essential function theory was focusing on the trade mark merely as an indicator of origin and disregarding the right of trade mark owner to safeguard the reputation of trade mark which the specific subject-matter of trade mark encompasses.

⁶²⁶ *Deutsche Grammophon v Metro* (78/70) [1971] C.M. L. R. 631; *Centrafarm v. Winthrop* [1974] 2 C.M.L.R. 480; *Hoffmann-La Roche v Centrafarm* [1978] 3 C.M.L.R. 217; *Centafarm, BV v. American Home Products* [1979] 1 C.M.L.R. 326

The adoption of the TMD, where the concept of legitimacy has been introduced in order to resolve the conflict between the trade mark right holders and parallel traders under Article 7(2) of the TMD, was the starting point for the gradual switch of the CJEU's case law from its traditional approach focusing on a trade mark's guarantee of origin ability to the contemporary approach recognising the various economic applications of trade mark's guarantee of origin, in other words its economic functions. The CJEU elaborated on the detailed guideline given in *Hoffmann-La Roche v Centrafarm* for the repackaging of products by parallel trader before resale, and added the reputation of trade mark to the legitimate interests of trade mark owners in *Bristol-Myers v. Paranova*.

This guideline was later expanded by the CJEU to some of the other processes carried out by the parallel traders before the resale of the product. *Christian Dior v Evora*⁶²⁷ was a milestone in this gradual switch where the use of a trade mark by the parallel trader as an advertising or promotional device was considered as a legitimate reason within the meaning of Article 7 (2) of the TMD for the trade mark owner to oppose parallel importation; since such use was affecting the value of the trade mark by detracting from the allure and prestigious image of the products and from their aura of luxury and therefore damaging the reputation of the trade mark.

However, a closer attention should be paid to the CJEU's judgments given in relation to the European exhaustion regime after the expansion of the trade mark protection to cover the economic functions, including the additional modern functions, under Article 5 (1) (a) of the TMD. In *Portakabin v Primakabin*, *L'Oréal v eBay* and *Viking Gas v Kosan Gas* cases, the CJEU interpreted the trade mark owner's legitimate interests to include the protection of the trade mark's guarantee of the origin which prevents consumers from being confused as well

⁶²⁷ *Christian Dior SA v Evora* (C- 337/95) [1998] E.T.M.R. 26

as the trade mark owner's ability to control the quality of the products associated with his/her trade mark. Moreover, and according to the CJEU recent cases, these legitimate interests also include the owner's ability to protect the trade mark's reputation which is usually acquired through the economic functions, in particular the advertising, investment or communication functions of the trade mark.

More importantly, it could be said that any detrimental damage to the reputation of a trade mark, regardless of whether the trade mark's guarantee of origin has been damaged, is considered a legitimate reason for a trade mark owner to oppose the further commercialisation of the marked products.⁶²⁸ As explained in the previous section this development will have a great effect on the practice of parallel importation within the EEA especially because the CJEU is yet to define the exact nature of these new economic functions. Therefore, the author believes that until the CJEU gives us a clear guideline on the functions of a trade mark, a task that looks increasingly difficult because of the rapid change in the nature of trade marks in recent years, the European exhaustion regime will face an uncertain future. These uncertainties might eventually undermine the obvious economic benefits brought by the practice of parallel importation and could reduce the overall benefits to consumers. Such an outcome will be counterproductive given the fact that the increase in trade mark protection which was driven by the expansion of their recognised functions was partially justified on the basis that it will increase the emotional and social benefits to consumers.

⁶²⁸ *Portakabin v Primakabin* [2010] E.T.M.R. 52 at [92]

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