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Trademark Use Doctrine in the European Union and Japan

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ARTICLES

TRADEMARK USE DOCTRINE IN THE EUROPEAN UNION AND JAPAN

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There was once a theory that the law of trademarks [. . .] was an attempt to protect the consumer against the ‘passing off’ of inferior goods under misleading labels. Increasingly the courts have departed from any such theory and have come to view this branch of law as a protection of property rights in diverse economically valuable sale devices.¹

— Felix Cohen (1935)

I. INTRODUCTION

The scope of the regulatory power of trademark law in the marketplace is constantly being tested against new developments in technology. Similarly, as waves hit a cliff and wash away its parts over the years, social progress

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1. Felix Cohen, *Transcendental Nonsense and the Functional Approach*, 35 COLUM. L. REV. 809, 814–817 (1935).

constantly questions the old trademark law structure and gradually extends the horizon of its scope. Today, rights arising from trademarks often cover many activities going beyond the mere misrepresentation of goods and services. Market transparency is not the sole goal anymore. In this comparative study, we will contrast European and Japanese approaches to the doctrine of trademark use, a doctrine that decides whether the trademark laws extend rights to regulate a particular use of a sign prior to any considerations of confusion or unfair advantage. As this article will address, the selection of these two countries is not random. The evolution of trademark law in these two countries illustratively shows the gradual departure from the origins of trademark protection that persist in Japan to a more advanced but not necessarily better system of protection in the European Union.

To conceptualize this historical development, it is helpful to contrast the two different roles of today's trademark law: (1) protection against misrepresentation and (2) protection against misappropriation. To be sure, the two are not hermetically sealed in water-tight compartments.² Nor can I expect readers to have a single coherent understanding of what constitutes their content. In fact, the jurisprudence of the United States courts in the first half of nineteenth century is a good illustration of the fact that legal tests of confusion can easily be hijacked to introduce additional protection.³ Still, the two categories help to distinguish two distinct goals of today's trademark policy: (1) guaranteeing market transparency for existing businesses; and (2) guaranteeing the exploitation of other business opportunities embodied in the sign, such as expanding to dissimilar markets, exercising control over references to one's own business, or engaging in cross-border price discrimination.

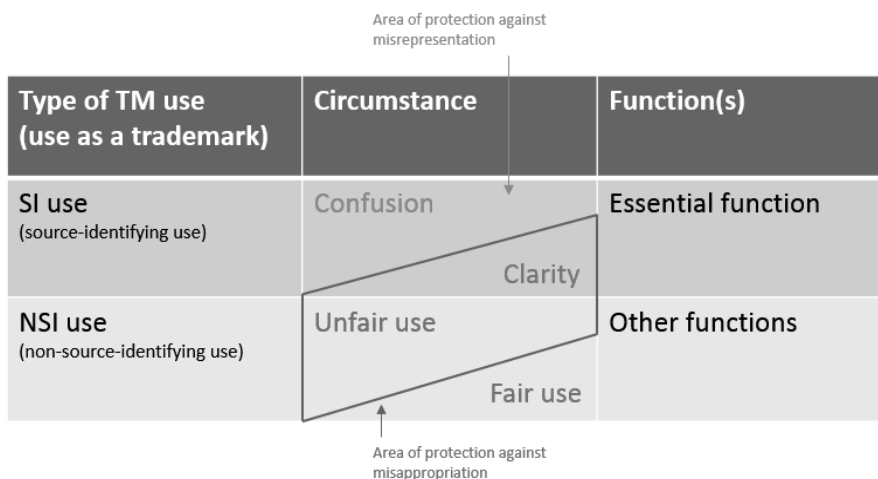
It is virtually undisputed that the essential function of the trademark is to identify the source of products. If consumers can rely on the indicators of origin of the products, they reward and punish the producer by purchasing more—more often—for even higher prices or by recommending them to others. If they dislike the products, consumers may punish producers by purchasing less or none ever again, and by telling others to do the same. The producers react to consumer's signals by adjusting the quality, price or other characteristics of the products. This two-sided exchange of signals, however, requires that the

2. See generally *id* (typically, one can argue that some types of protection against confusion are already protection of economic interests, which go beyond what is necessary to guarantee market transparency, e.g. doctrines of post-sale confusion).

3. See generally Robert G. Bone, *Schechter's Ideas in Historical Context and Dilution's Rocky Road*, 24 SANTA CLARA COMPUTER AND HIGH TECH. L. J. 469 (2008) (Boston Univ. School of Law Working Paper No. 08-01), available at <http://ssrn.com/abstract=1081341> [<https://perma.cc/RTS2-CYPA>].

communication channel between the consumers and producers is clear of any unnecessary and misleading noise. Otherwise, uncertainty about the source of the goods and services will lead to significant economic costs because the returns for good quality will be accrued to an entire group of sellers instead of the individual seller who undertook the effort to improve it.⁴ As shown by George A. Akerlof, this uncertainty will then incentivize sellers to market poor quality goods, which will result in a reduction in the overall quality and market size.⁵ The role of protection against confusion (or misrepresentation) is to prevent this situation from happening. Protection against confusion keeps the communication channel open and working, thus reducing uncertainty in the market.

If the communication channel works and trade flourishes, it is inevitable that a trademark will accumulate a lot of economic value. The mark becomes a value independent of the products it labels. Others, especially the competitors, will then naturally try to take the advantage of this value by either comparing themselves to established players or building upon their products. The law tries to prevent this from happening by allocating exclusive exploitation of this accumulated value with the trademark holders, even when any effective distortion to the communication channel is absent. When the law does this, it protects against misappropriation. To paraphrase the U.S. Supreme Court, it protects against “reaping without sowing.”⁶



4. See George A. Akerlof, *The Market for “Lemons:” Quality Uncertainty and the Market Mechanism*, 84 THE QUARTERLY J. OF ECON. 488–500 (Aug. 1970).

5. *Id.*

6. *Int’l News Serv. v. Associated Press*, 248 U.S. 215 (1918).

Consider the following five examples as a reference for the further debate: (1) a counterfeiter's label of its own products as genuine; (2) an importer's resale of genuine products that were produced for a different market; (3) a competitor's reference to genuine products as comparable or compatible; (4) a newspaper article's claim that a trademark owner's goods are faulty; and (5) Andy Warhol's unauthorized use of Campbell's logos for his thirty-two Campbell's soup cans artwork.⁷

The first case concerns a false designation of goods because the counterfeiter pretends that he is a trademark owner. This is a clear-cut case of protection against consumer confusion. Such use is source identifying because it attempts to mislead the consumers about the origin of goods or services. When there is confusion about the source, the use must be source identifying. The second use of a sign by the importer is also source identifying, but confuses no one because the importer sells what he claims. Hence, if the law wants to prohibit importer's acts, it must do so to protect the producer only, and not the consumers.⁸ The other three cases are less clear. The competitor, newspaper and artist all work with the trademark and its associations. The message they wish to convey is, however, different. They do not claim to be the source, but rather talk about the true trademark owner. The competitor wants to promote his own distinctive goods; the newspaper wants to identify the subject of its critique; and the artist wants to build upon the consumer's associations in the domain of art. Unless these uses are misconceived as a message about the origin of goods, the actors use the trademarks only to refer to the original owner, hence "referential use" of trademarks.⁹ These instances of referential use differ only by the person who makes them and his intentions. Whereas, an artist wants to exploit the association of consumers for his artwork, competitors want the attention of a trademark owner's customers. Both uses can be inherently commercial.

Increasingly, trademark laws also try to regulate referential uses of trademarks, not only source-identifying uses. Providing exclusive rights in

7. Andy Warhol produced his famous artwork without first seeking permission to include Campbell's products. Since the artwork enjoyed great public interest, it became a marketing blessing for Campbell Company. In fact, its product manager even addressed Warhol in a personal letter expressing admiration for his work. See Shaun Usher, *I hear you like Tomato Soup*, LETTERS OF NOTE (July 30, 2010), <http://www.lettersofnote.com/2010/07/i-hear-you-like-tomato-soup.html> [<https://perma.cc/Y478-7RBT>].

8. The argument that a trademark owner wants to protect against the bad quality of its own products marketed in a different country is not very convincing.

9. I use the category of referential use much more broadly as encompassing also decorative use. Cf. Annette Kur, *Confusion Over Use? – Die Benutzung "als Marke" im Lichte der EuGH-Rechtsprechung*, GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT INTERNATIONALER [GRUR] 1–2 (2008) (distinguishing between decorative use, referential use and use as a trade name).

these situations is the motivation of protection against misappropriation, which guards against non-source-identifying use. The rationale of this protection is to allow the trademark owner to exploit other business opportunities provided by his trademark.¹⁰

But the fact that something accumulates economic value does not indicate whether this value should be legally ascribed to its originator. People often benefit from actions of others without compensating them.¹¹ There is no general ethical or legal principle that unsolicited positive externalities should be always compensated.¹² The absence of such principle is what Justice Holmes summarized in his famous dissent in *International News Service v. Associated Press* when he stated “[p]roperty, a creation of law, does not arise from value, although exchangeable—a matter of fact.”¹³ That viewpoint—more than just plain economic value is needed to attract legal recognition as one’s own—seems generally accepted.¹⁴ But finding the convincing justification can be more difficult than it seems. As Robert G. Bone recently aptly noted, ever since Frank Schechter, who proposed anti-dilution protection, “judges have had trouble understanding it and scholars have had difficulty justifying it.”¹⁵ Still, dilution manages to hang on.

The purpose of this article is not to engage in this core debate of the modern trademark law. However, the aim in this article is much more humble. By comparing the two big economies of the European Union and Japan, this article will demonstrate how the doctrine of trademark use (or use as a trademark), which is based upon applicability of the trademark statutes, itself contributes to the extended protection against misappropriation.

Anti-dilution protection—the overarching label used for misappropriation protection in the trademark law—is often presented as a (preventive) extension of protection to dissimilar goods and services for well-known or famous

10. This also applies when protection offered is against dissimilar products. If there is a likelihood of confusion, then the source-identifying use must be in place, otherwise the consumers could not be misled. If the consumers are not misled, but the trademark owner is allowed to control the use nevertheless, what is protected is interest that is distinct from the public interest in market transparency. In such a case, the protection offered is against misappropriation.

11. Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEXAS L. REV. 1031, 1031 (2005).

12. Otherwise, concepts, such as negotiorum gestio or unjust enrichment, would be superfluous.

13. Int’l News Serv., 248 U.S. at 246 (Holmes, J., dissenting).

14. See Annette Kur, *Trademarks Functions, Don’t They?* CJEU JURISPRUDENCE AND UNFAIR COMPETITION PRINCIPLES (2014) (Max Planck Institute for Innovation and Competition Research Paper No. 14-05, at 5-6, n.23); Friedrich-Karl Beier, *Territoriality of Trademark Law and International Trade*, 1 INT’L REV. INTEL. PROP. COMP. L. 48, 63 (1970); Ansgar Ohly, *Anmerkung*, GRUR 1131 (2011).

15. Bone, *supra* note 3, at 470.

marks.¹⁶ However, such extension is only effective if non-source identifying uses are also covered. When the trademark law continues to require non-source identifying use for dissimilar goods and services, the law basically must abandon its test of confusion for dissimilar products. It must find illegal conduct in source-identifying use that misleads no one or less people than normally required.¹⁷ But this is still not a full picture of the anti-dilution protection. In fact, I would argue it is the least significant one.¹⁸ The notion of source-identifying use soon becomes too limiting—a kind of straitjacket—for protection of other related economic interests different from market transparency. Anti-dilution protection *de facto* dictates that, in absence of confusion, other functions need to be offered separate legal significance. This leads to a pressure on the doctrine of trademark use to include non-source identifying uses of the trademarks. When the courts allow this enlargement, because the trademark use is often universal for all signs, they not only expand protection for well-known trademarks, but collaterally also for the ordinary trademarks as well. By comparing the trademark law of two countries—the European Union and Japan—I want to show how the doctrine of trademark use facilitates the spillover of the extended protection offered to well-known trademarks to ordinary trademarks, thus leading to overall expansion of the trademark law.

II. TRIPS

The Paris Convention did not¹⁹ prescribe any particular scope of the rights for trademark holders and contains only a general requirement for the signatories to prohibit unfair competition by confusion²⁰ and the obligation to

16. See *Fact Sheets Protecting a Trademark*, INT'L TRADEMARK ASS'N, <http://www.inta.org/TrademarkBasics/FactSheets/Pages/TrademarkDilution.aspx> (noting that a “[d]ilution theory seeks to prevent the coexistence of a mark that is sufficiently similar to a famous mark, regardless of the goods and/or services associated with the allegedly diluting mark”).

17. For the comprehensive analysis of the European test of confusion, see Graeme B. Dinwoodie and Dev S. Gangjee, *The Image of the Consumer in European Trade Mark Law* (Oxford Legal Studies Research Paper No. 83/2014), available at <http://ssrn.com/abstract=2518986>.

18. Compare Kur, *Trademarks Functions, Don't They?*, *supra* note 14, at 14 n.56 (debating the relationship between protection of dissimilar goods and protection of other economic interests), with Martin Senftleben, *Trade Mark Protection: A Black Hole in the Intellectual Property Galaxy?* 42 I.I.C. 383 (2011).

19. DANIEL J. GERVAIS, *THE TRIPS AGREEMENT: DRAFTING HISTORY AND ANALYSIS* 173 (Sweet & Maxwell 2003); See also Panel Report, World Trade Organization, United States - Section 211 Omnibus Appropriations Act of 1998, WT/DS176/R (Aug. 6, 2001), https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009DP.aspx?language=E&CatalogueIdList=44250&CurrentCatalogueIdIndex=0&FullTextHash=&HasEnglishRecord=True&HasFrenchRecord=True&HasSpanishRecord=True [hereinafter World Trade Organization Panel Report] [<https://perma.cc/5K5V-LGHC>].

20. Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, art. 10bis (1979).

treat the foreign nationals like their own.²¹ As a result of the limitations, the Agreement on Trade-Related Aspects of Intellectual Property Rights (hereinafter, TRIPs) was created to bridge the gap.

Article 16(1) of TRIPs provides that

The owner of a registered trademark shall have the exclusive right to prevent all third parties not having the owner's consent from using in the course of trade identical or similar signs for goods or services which are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion. In case of the use of an identical sign for identical goods or services, a likelihood of confusion shall be presumed.²²

This provision, which relates to ordinary trademarks, is a minimal standard of registered trademark protection²³ in the WTO countries. The aim of the first sentence in article 16(1) of TRIPs is to guarantee a certain level of protection against situations of misrepresentation.²⁴ The provision requires that the use of a sign is likely to confuse the consumer as to the source of the goods and services, thus protecting only the essential source-identifying function.

Since TRIPs does not define the confusion, it is up to the Member States to define the term "confusion."²⁵ The situation is less clear with respect to the second sentence in article 16(1) of TRIPs.²⁶ According to this provision, in cases of double identity, "a likelihood of confusion shall be presumed."²⁷ This phrasing was a compromise suggested by the United States in response to EU's proposal, modeled on the EU's trademark law, to extend the scope of protection so that "likelihood of confusion is not required."²⁸ The delegation of the United

21. *Id.* at art. 2.

22. Agreement on Trade-Related Aspects of Intellectual Property Rights, art. 16, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Legal Instruments—Results of the Uruguay Round, 33 I.L.M. 1125, 1197 (1994) [hereinafter TRIPs Agreement].

23. *Id.* at art. 1(1).

24. *Id.* at art. 16(1).

25. See NUNO PIRES DE CARVALHO, THE TRIPS REGIME OF TRADEMARKS AND DESIGNS 349 (Wolters Kluwer 2011).

26. TRIPs Agreement, *supra* note 22, at art. 16(1).

27. *Id.*

28. Conference Report, *Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, Draft Agreement on Trade-related Aspects of Intellectual Property Rights*, art. 12, MTN.GNG/NG11/W/68 (Mar. 29, 1990), available at https://www.ipmall.info/sites/default/files/hosted_resources/lipa/trips/W68.pdf [<https://perma.cc/5X9H-JU3Y>] ("However, in case of the use of an identical sign for identical goods or services, a likelihood of confusion shall not be required.").

States wanted “to bridge the difference,” given that the delegation “had some difficulty in providing rights in the trademark area where confusion did not exist.”²⁹ According to some commentators,³⁰ this compromise nevertheless did not change the nature of the absolute protection that was proposed by the EU. These commentators argue that the presumption should be understood as non-rebuttable. In any case, regardless of whether the presumption is rebuttable, protection was offered only against the kind of uses that are likely to confuse, at least in abstract. Hence, non-source identifying uses are not covered by the said provision.³¹

The aim of article 16(3) of TRIPs, on the other hand, is to guarantee certain level of protection against misappropriation and is therefore available only to a subset of all trademarks—known as well-known trademarks.³² Article 16(3) builds upon the protection guaranteed by article 6b of the Paris Convention. It also further extends protection to use in relation to dissimilar goods and services, provided that “use of that trademark in relation to those goods or services would indicate a connection between those goods or services and the owner of the registered trademark and provided that the interests of the owner of the registered trademark are likely to be damaged by such use.”³³ The

29. Conference Report, *Negotiating Group on Trade-Related Aspects of Intellectual Property Rights Including Trade in Counterfeit Goods, Meeting of Negotiating Group*, at 12, MTN.GNG/NG11/21 22 June 1990/ (May 14-16, 1990), https://www.wto.org/gatt_docs/English/SUL/PDF/92100218.pdf [<https://perma.cc/ZW8N-YSAR>].

30. *Id.* at 352.

31. See CARVALHO, *supra* note 25, at 353–354 (arguing in a discussion with Jeremy Phillips, that the referential use is not use under article 16(1) of TRIPs, although the reference is to “use in the course of trade”); see also Martin Senftleben, *Overprotection and Protection Overlaps in Intellectual Property Law—the Need for Horizontal Fair Use Defences in THE STRUCTURE OF INTELLECTUAL PROPERTY LAW: CAN ONE SIZE FIT ALL?* 25 (Annette Kur and Vytautas Mizaras eds., Elgar 2011) (arguing that EU’s absolute protection in double identity cases goes beyond article 16(1) of TRIPs); see also ANNETTE KUR AND THOMAS DREIER, *EUROPEAN INTELLECTUAL PROPERTY LAW: TEXT, CASES AND MATERIALS* 211 (Elgar 2013) (also of the same opinion). Arguably, compare World Trade Organization Panel Report, *supra* note 19, at 89 (noting “[o]therwise, third parties would be able to take advantage of the reputation of a trademark by using a similar sign so as to confuse consumers in the marketplace and thereby undermine the function of trademarks. In recognition of the important function of trademarks, Article 16.1 of the TRIPs Agreement states.”), with on the other hand, the Court of Justice of the European Union, which held in *Anheuser-Busch, Inc. v. Budějovický Budvar*, that:

A trade name may constitute a sign within the meaning of the first sentence of Article 16(1) of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs Agreement). That provision is intended to confer on the proprietor of a trademark the exclusive right to prevent a third party from using such a sign if the use in question prejudices or is liable to prejudice the functions of the trademark, in particular its essential function of guaranteeing to consumers the origin of the goods.

Case C-245/02, *Anheuser-Busch Inc. v. Budějovický Budvar*, 2004 E.C.R. I-10989 (emphasis added).

32. TRIPs Agreement, *supra* note 22, at art. 16(3).

33. *Id.*

provision is usually interpreted as the basis of anti-dilution protection.

Clearly, the extended protection is offered by providing certain rights to use in relation to dissimilar goods and services. It is, however, less clear³⁴ whether such extension automatically means that the signatory States may not require source identifying use as a precondition to a trademark infringement. By side stepping a consumer's view, the law can surely provide additional relief even if the source-identifying use is required.³⁵ If a competitor produces dissimilar goods with the same or similar name, which is not confusing for the purchasing public, but nevertheless can damage the interests of a trademark owner, the additional protection is definitely offered. Admittedly, however, the range of actionable wrongs will be substantially smaller than in the absence of confusion, as then the same criterion could extend to regulation of a much larger group of referential uses. Since TRIPs is silent on this point, it is reasonable to conclude that no such condition was meant to be stipulated and the issue is thus left to up the signatory States.

III. JAPAN

The Japanese Trademark Act (hereinafter, JTMA) co-defines the scope of the trademark holder's right in several of its provisions. An action of a potential infringer must qualify as "use"³⁶ and must constitute an act of actionable infringement.³⁷ Following the 2014 amendment,³⁸ in order to commit a

34. CARVALHO, *supra* note 25, at 417 (noting that the wording of article 20 of TRIPs is also of no use in this respect because it does not concern the conferred rights, but a possibility to use an asset, or as Carvalho notes, it is about external exceptions).

35. Similarly, as it does in cases where parallel imports are prohibited.

36. Shōhyō-hō [Trademark Act], Law No. 127 of 1959, art. 2(3) (Japan).

37. *Id.* at art. 37. There are some voices in the literature that advocate for the recognition of actionable infringements also for the actions that do not qualify as "use" under article 2(3) of the JTMA, but (1) are nevertheless source-identifying actions under article 37 of the JTMA, *See* Hideaki Togawa, *Trademark Use on the Internet – Trademark Use and Right Infringement*, 37 ANNUAL OF INDUSTRIAL PROP. 135 (2014), and (2) actions that are not actionable infringements under article 37 of the JTMA, but should be seen as independent infringements of article 25 of the JTMA. *See* Ikuko Ohnishi, *Trademark Use and Trademark Infringement—A Review of Trademark Use in Japan in Comparison with that in Europe*, 37 ANNUAL OF INDUSTRIAL PROP. L. 87 (2014). These voices are, however, in a minority and they usually also advocate for general extension of the trademark rights beyond the source-identifying use of the trademarks. The best up-to-date overview of the arguments in the Japanese literature and case-law is offered by Takuto Hirasawa in his upcoming article, *Review of Trademark Use Theory*, which I unfortunately could consider only to a limited extent in this work.

38. The Act for Partial Amendment to Patent Act, Law No. 36 of 2014 (effective Apr. 1, 2015) (Japan). For the discussion of various proposals that were considered as a part of this amendment, *see* Izumi Hayashi, *Shōhyōken no Kōryoku to sono Seigen—Shōhyō Hō 25 Jō, 26 Jō Saikō [Effects of Trademark Rights and the Limitation Thereof—Reconsideration of Articles 25 and 26 of the Trademark Act]*, 64(5) PATENT 139 (2011) (noting that during the preparatory debates, there was a consensus that this amendment aims to codify the pre-existing case-law into the law; *see also* 36 PATENT 10 (2014) (noting the discussions of the preparatory committee regarding the amendment).

trademark infringement, the sign also must be “used in such a mode that consumers may recognize the goods or services as those pertaining to the business of a particular person.”³⁹ This requirement of source-identifying use is a codification of the case law that was developed since 1970s,⁴⁰ which required use “as a mark distinguishing the own [goods] from the others.”⁴¹ According to some, it confirms that the burden of proof with regard to “use as a trademark” lies with the defendant.⁴² The source-identifying use is not only

For the discussion of the amendment, see Takuto Hirasawa, *Review of Trademark Use Theory*, at 1 (draft on file with author).

39. Shōhyō-hō [Trademark Act], Law No. 127 of 1959, art. 26(1)(vi) (Japan). Some courts even considered all the limitations on the effects of trademarks in article 26 of the JTMA, such as using the trademark to indicate own name, quality or intended purpose of the goods, to only describe the situations when no source-identifying use takes place anyway. Under the Sun Case, Toyko Chihō Saibansho, [Tokyo Dist. Ct.], Feb. 22, 1995 (Japan). This reading is, however, rejected these days by the majority of the legal scholarship in Japan. See YOSHIYUKI TAMURA, TRADEMARK LAW 195–206 (Koubundou, 2nd ed., 2000); see also Kumiko Kim, *Use a Trademark – The Interpretation in an Infringement Lawsuit, and its Problems* 19(16) INST. OF INTELLECTUAL PROP. [I.I.P] BULLETIN 7 (2010), https://www.iip.or.jp/e/e_summary/pdf/detail2009/e21_16.pdf; see also Hayashi, *supra* note 38, at 134–135, 139.

40. N. MC Co. v. Schulyro Trading Co. [Parker Pen Case], Osaka Chihō Saibansho [Osaka Dist. Ct.], Feb. 27, 1970, (wa) no. 234, Hanrei Taimuzu 57 (Japan) (holding that parallel imports to Japan do not constitute an act of infringement because they cause no damage to source-identifying function, since the consumers receives genuine goods); La Chemise Lacoste v. Shinshin Boeki K.K. [Lacoste Case], Tokyo Chihō Saibansho [Tokyo Dist. Ct.], Dec. 7, 1984, 1141 Hanrei Jiho 143 (Japan) (parallel imports case); BBS Trademark Case, Nagoya Chihō Saibansho [Nagoya Dist. Ct.], Mar. 25, 1988 (Japan) (parallel imports case); see also K. K. Three M v. Hit Union K. K. [Fred Perry Case], Saikō Saibansho [Sup. Ct.] Feb. 27, 2003 Hei 14 (kyo) no. 2 57 Minshu 125 (Japan) (confirming this case law of the lower courts by holding that “[p]arallel import of genuine goods does not infringe a trade mark right because it does not impair the source identifying function and quality-guaranteeing function of the trademark as well.”). (Text translated courtesy of Prof. Yoshiyuki Tamura.) The precondition of source-identifying use was then used also in other infringement actions, such as Omocha No Kuni Case (Omocha No Kuni Case, Tokyo Kōtō Saibansho [Tokyo High Ct.], July 31, 1973 (Japan)); TV Manga Case (TV Manga Case, Toyko Chihō Saibansho, [Tokyo Dist. Ct.], July 11, 1980 (Japan)); POS Case (POS Case, Toyko Chihō Saibansho, [Tokyo Dist. Ct.], Sept. 16, 1988 (Japan)); For Brother Case (For Brother Case, Toyko Chihō Saibansho, [Tokyo Dist. Ct.], June 23, 2004 (Japan)); Risograph Ink Bottle Case (Risograph Ink Bottle Case, Tokyo Kōtō Saibansho [Tokyo High Ct.], Aug. 31, 2004 (Japan)); BOSS Case (BOSS Case, Osaka Chihō Saibansho, [Osaka Dist. Ct.], Aug. 26, 1987 (Japan)); Junishi Case (Junishi Case, Toyko Chihō Saibansho, [Tokyo Dist. Ct.], July 16, 1998 (Japan)); Under the Sun Case (Under the Sun Case, Toyko Chihō Saibansho, [Tokyo Dist. Ct.], Feb. 22, 1995 (Japan)); Takara Hon Mirin Case (Takara Hon Mirin Case, Toyko Chihō Saibansho, [Tokyo Dist. Ct.], Jan. 22, 2001 (Japan)); Popeye Case (Popeye Case, Osaka Chihō Saibansho, [Osaka Dist. Ct.], Feb. 24, 1976) Case no. 1974 (wa) 393 (Japan); Walkman Case (Walkman Case, Chiba Chihō Saibansho, [Chiba Dist. Ct.], Apr. 17, 1996; Tokyo Kōtō Saibansho [Tokyo High Ct.], May 29, 2001 (Japan)); Takara Hon Mirin Case (Takara Hon Mirin Case, Tokyo Kōtō Saibansho [Tokyo High Ct.], May 29, 2001 (Japan)) and others.

41. TV Manga Case, Toyko Chihō Saibansho, [Tokyo Dist. Ct.], July 11, 1980 (Japan). (Text translated courtesy of Prof. Yoshiyuki Tamura.)

42. Hayashi, *supra* note 38, at 135; see also Kim, *supra* note 39, at 6 (noting a good overview of the burden associated with the doctrine of trademark use prior to the infringement).

a precondition for the trademark infringement,⁴³ but equally applies to related torts of unfair competition under the Japanese Unfair Competition Prevention Act (hereinafter, JUCPA).⁴⁴ Although the anti-dilution protection of “famous indications” in the unfair competition law⁴⁵ does not explicitly require presence of confusion, the literature and case law⁴⁶ generally demand source-identifying use. Only the torts concerning protection against slavish imitation of the configuration of another person’s goods,⁴⁷ use of domain names for illicit gain⁴⁸ and circulation of false allegations against competitors⁴⁹ do not require source-identifying use. Because the Japanese unfair competition law does not contain a general clause of anti-competitive conduct and the list of prohibited practices outlined in article 2(1) of the JUCPA is exhaustive,⁵⁰ the non-envisaged acts can be only actionable based on section 709 of the Japanese Civil Code.⁵¹ In the past, the courts were generally reluctant to extend the scope of wrongful actions beyond the scope of the legislated intellectual property rights.⁵²

Against this backdrop, it comes as no surprise that the notion of source-identifying use plays an important role in the Japanese case law. The doctrine of “use as a trademark,” which is limited to use as a source identifier, is based on the argument that only uses of a sign that indicate the source of goods or services are capable of causing confusion about their commercial origin.⁵³ In

43. Kim, *supra* note 39, at 1.

44. Fusei kyōsō bōshi-hō [Unfair Competition Prevention Act], Law No. 47 of 1993, arts. 2(1)(i), 2(1)(xiii) (Japan).

45. *Id.* at art. 2(1)(ii).

46. YOSHIYUKI TAMURA, UNFAIR COMPETITION LAW 252 (Yuhikaku, 2nd ed., 2003) (explaining that “[e]ven when a famous indication is physically affixed to goods, if it does not function to indicate the source of the goods, such use does not constitute the use as an indication of goods or business.”); see Kim, *supra* note 39 at 9; see also Beretta Case, Toyko Chihō Saibansho, [Tokyo Dist. Ct.], June 29, 2000 (printing an appearance of a product considered to be an explanation of the goods not an indication of source).

47. Fusei kyōsō bōshi-hō [Unfair Competition Prevention Act], Law No. 47 of 1993, art. 2(1)(iii) (Japan).

48. *Id.* at art. 2(1)(xii).

49. *Id.* at art. 2(1)(xiv).

50. *Id.* at art. 2(1)(xiv). “The term ‘unfair competition’ as used in this Act, means any of the following [.]” See also TAMURA, UNFAIR COMPETITION LAW, *supra* note 46 (noting the corresponding commentary).

51. Yoshiyuki Tamura, *Protection of the first mover advantage: Regulation against imitation of the product configuration in Japan*, in INTELLECTUAL PROPERTY, UNFAIR COMPETITION AND PUBLICITY: CONVERGENCES AND DEVELOPMENT 244 (Nari Lee, Guido Westkamp, Annette Kur, Ansgar Ohly, eds., 2014).

52. *Id.* at 219 (noting that the only known exception in this regard is the Mokumekeshoushi decision (Mokumekeshoushi Case, Tokyo Kōtō Saibansho [Tokyo High Ct.], Dec. 17, 1991 (Japan)) holding that imitation of a wood grain pattern by a competitor who then sold it at lower price constituted a tort under the Section 709 of the Japanese Civil Code).

53. Ohnishi, *supra* note 37, at 87 (interpreting two Supreme Court decisions - Shozan Case,

fact, the Court of Justice of the European Union follows the same line of reasoning when, in the ambits of similarity protection only,⁵⁴ it always requires a negative impact on the essential, source-identifying function of a trademark.⁵⁵

The doctrine of trademark use, among other things, does not recognize the right to prohibit import of own goods from abroad. The situation in Japan is therefore similar to countries with international exhaustion of trademark rights. According to the Japanese case law, the right holder cannot oppose importation of his own goods to Japan, because the consumers rightly assume that they purchase genuine goods from the parallel importer.⁵⁶ The same applies even if the goods originate from a different trademark owner who has nevertheless capital ties with the Japanese trademark owners.⁵⁷ The idea is that the consumers will still correctly perceive the goods as originating from the same source.

However, in *Itôchû v. Royal [Converse case]*,⁵⁸ the Intellectual Property High Court of Japan held that if the owners of a trademark in Japan and in a country of origin of the goods are two independent entities, the Japanese owner may have a right to prohibit the import of goods, despite the fact that the two were arguably still loosely economically linked.⁵⁹ This rule, of course, could provide an option to partition the markets,⁶⁰ since the trademark holders need

Saikō Saibansho [Sup.Ct.], Feb. 27, 1968 (Japan); Kozosushi Case, Saikō Saibansho [Sup.Ct.], Mar. 11, 1997 (Japan).

54. Council Directive 2008/95, art. 5(1)(b), 2008 O.J. (L 299) 29 (EC).

55. C-292/00, *Davidoff v. Gofkid Ltd.*, 2003 E.C.R. I-00389 ¶ 28; Case C-487/07, *L'Oréal SA v. Bellure NV*, 2009 E.C.R. I-05185, at ¶ 59; Joined Cases C-236/08 to C-238/08, *Google France v. Louis Vuitton Malletier* (C-236/08) ¶ 78, *Google France SARL v. Viaticum SA* (C-237/08) and *Google France SARL v. Centre national de recherche en relations humaines (CNRRH)* (C-238/08), 2010 E.C.R. I-02417.

56. *N. MC. Co. v. Schulyro Trading Co. [Parker Pen Case]*, 234 Hanrei Taimuzu (Osaka Dist. Ct., Feb. 27, 1970) (Japan) (finding that parallel imports to Japan do not constitute an act of infringement because they cause no damage to source identifying function since the consumers receives genuine goods); *La Chemise Lacoste v. Shinshin Boeki K.K. [Lacoste Case]*, Tokyo Chihō Saibansho [Tokyo Dist. Ct.], Dec. 7, 1984, 1141 Hanrei Jiho 143 (Japan) (parallel imports case); *BBS Trademark Case*, Nagoya Chihō Saibansho, [Nagoya Dist. Ct.], Mar. 25, 1988 (parallel imports case); In 2003, the Supreme Court of Japan confirmed this case-law of the lower courts in the *Fred Perry Case*. *K. K. Three M v. Hit Union K. K.*, [Fred Perry Case], Saikō Saibansho [Sup. Ct.] Feb. 27, 2003 Hei 14 (kyo) no. 2, 57 Minshu 125 (Japan).

57. *La Chemise Lacoste v. Shinshin Boeki K.K. [Lacoste Case]*, Tokyo Chihō Saibansho [Tokyo Dist. Ct.], Dec. 7, 1984, 1141 Hanrei Jiho 143 (Japan); *BBS Trademark Case*, Nagoya Chihō Saibansho, [Nagoya Dist. Ct.], Mar. 25, 1988 (Japan).

58. *Itôchû v. Royal [Converse Case]*, Chiteki Zaisan Koto Saibansho, [Intellectual Prop. High Ct.], Apr. 27, 2010 (Japan).

59. *Itôchu*, the Japanese trademark owner of “Converse,” was sometimes using the trademark, Converse, also on the goods produced by its US owner.

60. See TAMURA, TRADEMARK LAW, *supra* note 39, at 89–91 (in which Prof. Tamura criticized this decision arguing that the action should have been dismissed as an abuse of rights).

to partition ownership of a trademark along the territories to stop parallel imports to Japan.⁶¹ The fact that they would also need to remove capital ties, however, makes the option more costly and less attractive as a strategy for many owners. It should be also noted that when the packaging of goods has been changed during the distribution process to the extent that consumers can no longer recognize the original source, this can also amount to a trademark infringement.⁶²

After the Supreme Court's *K. K. Three M v. Hit Union K. K.* [*Fred Perry case*], which confirmed the earlier case law of the lower courts on parallel imports, there was a debate in the literature on whether the court would be ready to deny infringement in cases where the quality of the imported goods was dissimilar. The reason for this is the following passage from the Court's ruling: "Parallel import of genuine goods does not infringe a trademark right because it does not impair the source identifying function and quality-guaranteeing function of the trademark as well."⁶³ It is not clear whether the Court intended to indicate that the quality-guaranteeing function of a trademark has any separate meaning for the infringement analysis. Professor Tamura argues that the quality function has no independent legal significance and is only "integrated" in the source-identifying function of the trademark.⁶⁴ Furthermore, he explains⁶⁵ that the quality function in this case could have played a role in the Court's finding of infringement because the goods were produced in breach of the license agreement and the trademark owner was unable to control their quality.⁶⁶ The contractual breach in this case consisted of the subcontract of the manufacturing to a third party, who resided in a

61. See Beier, *supra* note 14, at 58–72 (in which Friedrich-Karl Beier pointed out this already then existing problem of economically linked undertakings that need to be assessed as one source of the goods already in the 60s).

62. *STP Corp v National Shoji KK et al* [STP Case], Osaka Chihō Saibansho [Osaka Dist. Ct.], Aug. 4, 1976 (Japan); *Hershey's Case*, Fukuoka Kōtō Saibansho [Fukuoka High Ct.], Mar. 4, 1966 (Japan) (commenting on re-packaging into smaller sizes).

63. *K. K. Three M v. Hit Union K. K.* [Fred Perry Case], Saikō Saibansho [Sup.Ct.] Feb. 27, 2003 Hei 14 (kyo) no. 2 57 Minshu 125 (Japan).

64. Yoshiyuki Tamura, "*Trademark Function Theory*" in *Japan* [Slides], No. 17 (on file with author).

65. *Id.*

66. *C.f.* similar debate took place in Germany in the 60s in the aftermath of Maja Case (Maja, Bundesgerichtshof [BGH] [Federal Court of Justice], NJW 972, 1964, Jan. 22, 1964, (Ib ZR 92/62) (Ger.)); see also Beier, *supra* note 14, at 64 (noting that Beier put forward the same argument as Tamura does in the Japanese context today. He argued: "the 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 the public, from its knowledge that trademarked articles 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.").

different country and sold of the goods outside of the agreed countries.⁶⁷

The second group of cases, where the doctrine of trademark use plays an important role, concerns referential use of third-party trademarks, or the use of trademark by a third party to identify the trademark's owner. Unlike the EU trademark law,⁶⁸ Japanese courts deny any trademark infringement in these cases as long as the referential use is not likely to be misinterpreted by consumers as an indication of one's own source. Hence in the perfume cases, the Court denied infringement and allowed the advertisement of goods as "Fragrance type Chanel No. 5" because the consumer correctly recognized it as an indication of a similar type of product,⁶⁹ while in the *Chanel No. 5* case,⁷⁰ the Court found infringement because the sign was so dominant that consumers understood it as an indication of the source. Similarly, in the *Brother* case, the Court found no infringement due a lack of source-identifying use when a company filling typewriter ribbons was allowed to advertise that its products can be used for "Brother" machines,⁷¹ while in the *Risograph Ink Bottle* case, the Court found infringement due to possible confusion when a company (other than the trademark holder) was selling recycled ink bottles containing the original trademark "Risograph."⁷² In cases where trademark infringement is denied, article 2(1)(xv) of the JUCPA could still limit the referential use among the competitors in situations where the comparative advertising circulates "a false allegation that is injurious to the business reputation of another person in a competitive relationship."⁷³ Japanese courts also use the trademark use doctrine to deny trademark infringement in cases of illustrative referential use. In the *Beretta* case,⁷⁴ the district court found that the use of a gun producer's

67. This is in effect similar to discussions within the exhaustion doctrines, such as the European one, where the scope of consent and its associated conditions, as well as quality considerations play a role even for otherwise permitted re-distribution of goods in the territory of the European Union. See Case C-59/08, *Copad SA v Christian Dior couture SA*, 2009 E.C.R. I-03421 ¶ 52.

68. See *supra* note 54.

69. Type of Fragrance Case, Tokyo Kōtō Saibansho [Tokyo High Ct.], Feb. 25, 1981 (Japan).

70. Chanel No. 5 Case, Toyko Chihō Saibansho, [Tokyo Dist. Ct.], Mar. 24, 1993 (Japan).

71. For Brother Case, Toyko Chihō Saibansho, [Tokyo Dist. Ct.], June 23, 2004 (Japan).

72. The first instance court in this case also found for the defendant reasoning that there is no source-identifying use (Tokyo District Court, but the appellate court has changed this, reasoning that although the consumers who provided their own original bottles would not be misled at the point of sale, other group of consumers who did not provide their own bottles and even that those who see the goods after the sale might perceive it as an indication of the source and be eventually misled. *Risograph Ink Bottle* Case (Risograph Ink Bottle Case, Tokyo Kōtō Saibansho [Tokyo High Ct.], Aug. 31, 2004 (Japan). For extension of the concept of confusion by post-sale and initial interest confusion doctrines, see Takahiro Kojima, *Extension of the Concept of Confusion under US Trademark Law*, 21(23) INST. OF INTELL. PROP. [I.I.P] BULLETIN 1–12 (2012).

73. Fusei kyōsō bōshi-hō [Unfair Competition Prevention Act], Law No. 47 of 1993, art. 2(1)(xv) (Japan).

74. Beretta Case, Toyko Chihō Saibansho, [Tokyo Dist. Ct.], June 29, 2000 (Japan).

name on a toy model did not amount to source-identifying use, and neither to trademark infringement.

The third group of interesting cases concerns new technological uses that need to be reviewed under the trademark use doctrine. The Japanese courts accepted that use of a domain name has characteristics of the required source-identifying use of a trademark.⁷⁵ The Osaka district court held the same with respect to use of metatags in the HTML code of a website⁷⁶ explaining that “[e]ven if a mark existing in an explanation of the webpage is not displayed on the linked page, it does not mean that the function of distinguishing an origin is not impaired on these grounds alone.”⁷⁷ However, in respect to keywords, the district court, only few years later, held⁷⁸ that they do not constitute “use,” although for admittedly different reasons than the lack of source-identifying use. The court reasoned that “it is difficult to admit the use corresponds to any cases of ‘use’ of a mark indicated in the items of Article 2(3) of the Trademark Act.”⁷⁹ This is the consequence of the fact that, in addition to the doctrine of trademark use, the Japanese Trademark Act defines what constitutes a “use” in its article 2(3) in an exhaustive manner. It is also why some of the authors, like Togawa,⁸⁰ argue that any use that is source-identifying, regardless of whether it is anticipated under article 2(3) of the JTMA, should constitute an actionable infringement as long as it satisfies article 37 of the JTMA.

In the domain name cases, where the source-identifying use is absent (e.g. registration for sale), the plaintiffs could rely on article 2(1)(xii) of the JUCPA to oppose “the acts of using any such domain name(s), for the purpose of acquiring an illicit gain or causing damage to another person.”⁸¹ As Azusa Ichimasa explains, this section was enacted to cope with the typical cases of cybersquatting, because the mere registration of a domain name for a subsequent sale could be considered “illicit gain.”⁸² The provision applies, as the wording suggests, to other cases where the domain name is actually put in use by its holder.

As a logical consequence of excluding referential uses in the scope of

75. Mon Chou Chou Case, Osaka Kōtō Saibansho [Osaka High Ct.], Mar. 7, 2013 (Japan).

76. Kuruma no Hyakutouban (110) Case, Toyko Chihō Saibansho, [Tokyo Dist. Ct.], Dec. 8, 2005 (Japan).

77. See Togawa, *supra* note 37, at 122.

78. Papay Fermented Food Case, Osaka Chihō Saibansho, [Osaka Dist. Ct.], Sept. 13, 2007 (Japan).

79. See Togawa, *supra* note 37, at 134.

80. *Id.* at 135.

81. Fusei kyōsō bōshi-hō [Unfair Competition Prevention Act], Law No. 47 of 1993, art. 2(1)(xii) (Japan).

82. Azusa Ichimasa, *Trademark-related Issues Raised by the Internet—with a Focus on Injunctions against Domain Name Use*, 17(19) INST. INTELL. PROP. [I.I.P] BULLETIN 1–11 (2008).

rights, the Japanese trademark law, similarly as the EU law, also does not consider infringer's intermediaries, such as online trading platforms, to be co-users of the trademarks. The leading case in this respect is *Chupa Chups* case,⁸³ where the Tokyo district court as well as the Intellectual Property High Court, held that a trading platform by facilitating the trade under the signs used by its users, does not itself engage in source-identifying use.⁸⁴ The Intellectual Property High Court, however, stressed that this outcome does not prevent potential liability for contributory infringement, if certain criteria were met.⁸⁵

In general, the situations of advantage-taking of trademark holders' signs that do not cause confusion are left unprotected under the Japanese law. This also applies to famous trademarks, whose anti-dilution protection is left to article 2(1)(iii) of the JUCPA and is also limited by the notion of source-identifying use, although the similarity of goods and services is not required. Therefore, apart from the already mentioned case of domain names, the only general and explicit exception to protection of only source-identifying function of the sign is the protection against imitation set forth in article (2)(1)(iii) of the JUCPA. This cause of action, unlike others, does not require confusion or source-identifying use as a precondition, because its aim is to protect against the kind of slavish imitations that can be clearly recognized as such by consumers. The goal is not to protect the consumers, but to protect competitors by allowing them to prolong their first-mover advantage with respect to the goods they produced, thus giving them a chance to take a "second breath" to recoup their investments. The provision protects against "goods [that] imitate the configuration of another person's goods,"⁸⁶ with the exception of "configuration that is indispensable for ensuring the function of said goods."⁸⁷ Under the Japanese Unfair Competition Prevention Act, the "configuration of goods" refers to "the external and internal shape of goods and the pattern, color, gloss, and texture combined with such shape, which may be perceived by consumers or other purchasers when making ordinary use of the goods"⁸⁸ and "imitation" to "any act of creating goods of substantially identical configuration as that of another person's goods, based on the configuration of the goods of

83. *Chupa Chups Case*, Toyko Chihō Saibansho, [Tokyo Dist. Ct.], Aug. 31, 2010, Heisei 21 (wa) No. 33872), 2127 Hanrei jihō 87 (Japan); *Chupa Chups Case*, Chiteki Zaisan Koto Saibansho, [Intellectual Prop. High Ct.], Feb. 14, 2012, Hei 22 (Ne) No. 10076, 2161 Hanrei Jihō 86 (Japan).

84. See Togawa, *supra* note 37, at 123, 127, 137–38.

85. *Id.*; *Chupa Chups Case*, Chiteki Zaisan Koto Saibansho, [Intellectual Prop. High Ct.], Feb. 14, 2012, Hei 22 (Ne) No. 10076, 2161 Hanrei Jihō 86 (Japan).

86. Fusei kyōsō bōshi-hō [Unfair Competition Prevention Act], Law No. 47 of 1993, art. 2(1)(iii) (Japan)

87. *Id.*

88. *Id.* at art. (2)(4).

said person.”⁸⁹ The requirement of “substantially identical configuration” is to prevent protection of mere ideas.⁹⁰

IV. EUROPEAN UNION

In Europe, harmonization of the trademark laws took place in the 1990s, when the European Community enacted the Directive 89/104/EEC,⁹¹ which harmonized the national trademark law, and the Council Regulation (EC) No 40/94,⁹² which created a supranational trademark system. Prior to the harmonization, some countries such as Germany⁹³ protected only source-identifying function in their trademark laws. Other source-identifying uses of signs were addressed under the auspices of more flexible unfair competition laws. Among other things, this meant that pre-harmonization status quo in countries like Germany, the Netherlands,⁹⁴ and Switzerland⁹⁵ did not generally

89. *Id.* at art. 2(5).

90. Tamura, *supra* note 51, at 225.

91. First Council Directive 89/104/EEC, (1989) OJ L 40 (replaced then by Directive 2008/95/EC).

92. Council Regulation (EC) No 40/94, (1993) OJ (C 146) (replaced then by Council Regulation (EC) No 207/2009).

93. In the German literature and case law, this doctrine was known as “*warenzeichenmäßiger Gebrauch*”; See for instance, Roland Beckmann, *Die Reichweite des Erschöpfungsgrundsatzes nach neuem Markenrecht*, 16 ZUGLEICH ANM. ZUM URTEIL DES EUGH 7 (1998); see also Case C-355/96, *Silhouette Int’l Schmied GmbH & Co. v. Hartlauer Handelsgesellschaft mbH.*, 1998 E.C.R. I-04799; KARL-HEINZ FEZER, *MARKENRECHT* (4th ed, C.H. Beck 2009), ; MARKENG § 14 AUSSCHLIEBLICHES RECHT DES INHABERS EINER MARKE, Unterlassungsanspruch; Schadensersatzanspruch, ¶¶ 156-158, 162-164; Beier, *supra* note 14, at 58–72 (systematizing the holdings of the practice of the German courts and reflecting it against the practice of other European courts); from case law, see e.g. *Kabel-Kennzeichnung*, Bundesgerichtshof [BGH] [Federal Court of Justice], 8 BGHZ 202 (Dec. 12, 1952) (I ZR 39/52) (Ger.), *Luxor/Luxus*, Bundesgerichtshof [BGH] [Federal Court of Justice], May 10, 1955 GRUR. 484, 1955 (Ger.); *Ettaler-Klosterliqueur*, Bundesgerichtshof [BGH] [Federal Court of Justice], Nov. 18, 1955, GRUR 179, 1956 (Ger.); *Sternbild*, Bundesgerichtshof [BGH] [Federal Court of Justice], Oct. 13, 1959, GRUR 126, 1960 (Ger.); *Tosca*, Bundesgerichtshof [BGH] [Federal Court of Justice], Dec. 19, 1960, GRUR 280–81, 1961 (Ger.); *Strumpf-Zentrale*, Bundesgerichtshof [BGH] [Federal Court of Justice], June 22, 1962, GRUR 647, 1962 (Ger.); *praliné*, Bundesgerichtshof [BGH] [Federal Court of Justice], Oct. 4, 1967 GRUR 365, 1968 (Ger.); *Corrida*, Bundesgerichtshof [BGH] [Federal Court of Justice], Jan. 10, 1968, GRUR 367, 369, 1968 (Ger.); *Oldtimer*, Bundesgerichtshof [BGH] [Federal Court of Justice], Feb. 26, 1971, GRUR 251, 252, 1971 (Ger.); *Isolierte Hand*, Bundesgerichtshof [BGH] [Federal Court of Justice], Apr. 30, 1969, GRUR 683, 1969 (Ger.); *Trumpf*, Bundesgerichtshof [BGH] [Federal Court of Justice], Jun. 8, 1973, GRUR 84, 86, 1974 (Ger.); *Aus der Kurfürst-Quelle*, Bundesgerichtshof [BGH] [Federal Court of Justice], Jan. 16, 1981, GRUR 362, 364, 1981 (Ger.); *Klix/Click*, Bundesgerichtshof [BGH] [Federal Court of Justice], GRUR 229, 230, 1982 (Ger.); *Maja*, Bundesgerichtshof [BGH] [Federal Court of Justice], NJW 972, 1964, Jan. 22, 1964, (Ib ZR 92/62) (Ger.) (on international exhaustion).

94. *Grundig Case*, Hoge Raad der Nederlanden (HR) (Supreme Court of Netherland), Dec. 14, 1956, GRUR (Ausl.) 259, 1957.

95. *Saba Case*, Tribunal federale [TF], Oct. 17, 1958, ATF 84 IV 119 (Switz.)

prohibit international parallel imports.⁹⁶ In other Member States, however, the trademark law would protect against unauthorized uses in general unless some justifications could have been offered.⁹⁷

When the Directive 89/104/EEC was adopted, no explicit agreement existed⁹⁸ on how to bridge the two worlds. However, in its article 5(5), the Directive stipulated that the above-mentioned scope of rights “shall not affect provisions in any Member State relating to the protection against the use of a sign other than for the purposes of distinguishing goods or services, where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.”⁹⁹ The protection of trademarks was then divided into (a) double identity cases, which referred to the use of same sign for same services and (b)¹⁰⁰ and similarity cases.¹⁰¹ Moreover, the Directive envisaged optional anti-dilution protection for reputed trademarks.¹⁰² Thus, for ordinary non-reputed trademarks, as a general rule, likelihood of confusion was intended as a requirement.¹⁰³ In the double identity cases,¹⁰⁴ however, no such condition was stipulated, which was explained by the preamble of the Directive as follows: “[w]hereas 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.”¹⁰⁵

This absolute protection soon conflicted with the limiting nature of article 5(5) of the Trademark Directive. Although one might argue about the scope of the provision, it is undeniable that article 5(5) must have some purpose. Arguably, while source-identifying uses are being harmonized under articles 5(1-2), non-source-identifying uses were left intact and unregulated in the hands of the Member States. The Member States could then either regulate such uses in their trademark laws, unfair competition or other laws, or not

96. Kur, *Trademarks Functions, Don't They?*, *supra* note 14, at 3.

97. *Id.* at 3.

98. *Id.* at 2–3.

99. Council Directive 2008/95, art. 5(5), 2008 O.J. (L 299) 29 (EC). Emphasis added.

100. *Id.* at art. 5(1)(a)–(b).

101. *Id.* at art. 5(1)(b).

102. *Id.* at art. 5(2).

103. *Id.* at art. 5(1)(b) (stating that “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.”).

104. *Id.* (stating that “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”).

105. *Id.* at preamble ¶ 11.

regulate them at all.¹⁰⁶

The journey of the Court to change this started in the *Silhouette International v. Hartlayer Handelsgesellschaft*¹⁰⁷ ruling, where the Court held that the Trademark Directive prevents the Member States from instituting international exhaustion. The Court did not explain how the prohibition of imports of genuine products from outside markets can be supported by exclusive rights in article 5(1). At the same time, the outcome meant a departure from the earlier case law of many countries, which previously allowed international parallel imports as compatible with the essential function of the trademark. Parallel imports, as a form of source-identifying use, were suddenly prohibited to protect other functions of the trademark.

In *BMW v. Deenik*,¹⁰⁸ the Court heard a dispute about use of the “BMW” trademark by an unauthorized garage owner specialized in the sale and repair of BMW cars, who was advertising himself as a “BMW specialist.” In addressing whether such use, even if clearly referring only to the genuine products without causing confusion,¹⁰⁹ is covered under articles 5(1-2) or article

106. See Case C-23/01, *Robelco NV v Robeco Groep NV.*, 2002 E.C.R. I-10913, ¶¶ 31-35 (noting, in a sense, that this was what the CJEU eventually held when the Court said following:

It follows that reinforced protection of a trade mark’s distinctive character or reputation against certain uses of a sign other than for the purpose of distinguishing goods or services is *not covered by Community harmonisation*. That conclusion is confirmed first of all by the third recital in the preamble to the Directive which states that *it does not appear to be necessary at present to undertake full-scale approximation of the trade mark laws of the Member States and it will be sufficient if approximation is limited to those national provisions of law which most directly affect the functioning of the internal market* and, secondly, by the sixth recital in the preamble which states that this Directive does not exclude the application to trade marks of provisions of law of the Member States other than trade mark law, such as the provisions relating to unfair competition, civil liability or consumer protection. It must be recalled that the purpose of the Directive . . . is, according to the first recital in the preamble thereto, to approximate the laws of Member States on trade marks *in order to abolish existing disparities which may impede the free movement of goods and freedom to provide services* . . . [.] Accordingly, where, as in the main proceedings, the sign is not used for the purposes of distinguishing goods or services, it is necessary to refer to the legal orders of the Member States to determine the extent and nature, if any, of the protection afforded to owners of trade marks who claim to be suffering damage as a result of use of that sign as a trade name or company name. The Member States may adopt no legislation in this area or they may, subject to such conditions as they may determine, require that the sign and the trade mark be either identical or similar, or that there be some other connection between them.

Id. (emphasis added). Of course, the later case-law undermined the importance of this holding, since “not full-scale harmonization” turned out to be very close to one.

107. Case C-355/96, *Silhouette Int’l Schmied GmbH v. Hartlayer Handelsgesellschaft mbH*, 1998 E.C.R. I-04799.

108. Case C-63/97, *Bayerische Motorenwerke AG (BMW) v. Deenik.*, 1999 E.C.R. I-0905.

109. *Id.* ¶ 10.

5(5), the CJEU answered,¹¹⁰

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 mark is used to identify the source of the goods which are the subject of the service.¹¹¹

Thus, the Court accepted that the indication of the trademark owner for the purposes of pointing to one's complementary services should qualify as use under article 5(1).¹¹² This case was followed by the *Hölterhoff v. Freiesleben* ruling,¹¹³ in which the Court, without any thorough analysis, held that a "purely descriptive use" of a mark in the course of commercial negotiations cannot be interpreted as indication of source, and the trademark holder "cannot rely on his exclusive right"¹¹⁴ set in article 5(1). Just few months later, the Court explained this holding in *Arsenal Football Club v. Reed*.¹¹⁵

The proprietor may not prohibit the use of a sign identical to the trade mark for goods identical to those for which the mark is registered if that use cannot affect his own interests as proprietor of the mark, having regard to its functions. Thus certain uses for purely descriptive purposes are excluded from the scope of Article 5(1) of the Directive because they do not affect any of the interests which that provision aims to protect, and do not therefore fall within the concept of use within the meaning of that provision.¹¹⁶

As the reasoning shows, the Court's reference to lack of use may be misleading. In fact, I would argue the Court is trying to say that there should be no infringement because none of the functions are negatively influenced. If

110. *Id.* ¶ 39.

111. *Id.*

112. *Similar* argument is put forward in the Study on the Overall Functioning of the European Trade Mark System authored by team of scholars from the Max Planck Institute for Intellectual Property and Competition Law in Munich. MAX PLANCK INST. FOR INTELLECTUAL PROP. AND COMPETITION LAW, *Study on the Overall Functioning of the European Trade Mark System* (Feb. 15, 2011), http://ec.europa.eu/internal_market/indprop/docs/tm/20110308_allensbach-study_en.pdf [<https://perma.cc/EQ5X-CK6X>].

113. Case C-2/00, *Hölterhoff v. Freiesleben*, 2002 E.C.R. I-04187.

114. *Id.* ¶ 17.

115. Case C-206/01, *Arsenal Football Club v. Reed*, 2002 E.C.R. I-10273 ¶ 54.

116. *Id.* ¶ 54.

the Court wishes to dismiss the use as such, it should have done so without examining the functions of the trademark. It is the existence of use that opens the doors for the function's inquiry. As a consequence, *Hölterhoff* is not necessarily contradicting the *Silhouette* and *BMW* rulings, but foreshadows a later "functions theory" of the Court. In its holding, the Court merely equates absence of negative effects on trademark functions (the outcome of an inquiry) with the lack of trademark use (the initial question). Consistent with *Silhouette* and *BMW*, the Court implied existence and legal significance of several functions; it positioned also referential use under auspices of articles 5(1-2).

In the following *Arsenal* case,¹¹⁷ the Court found that use of a trademark as a badge of support for a sports club constituted a trademark use under the meaning of article 5(1), because it created "the impression that there is a material link in the course of trade between the goods concerned and the trademark proprietor."¹¹⁸ The Court's holding does not overstep boundaries of the source-identifying use. Although the Court also mentions other functions, such as quality function,¹¹⁹ the Court is transparent in its finding that the infringement occurs primarily because the message of support "is liable to jeopardize the guarantee of origin which constitutes the essential function of the mark."¹²⁰ This only confirms that indirect confusion is recognized as confusion as to the source under the EU trademark law, when the consumers perceive two producers are economically linked.¹²¹

In *The Gillette Company v. LA-Laboratories Limited*,¹²² the Court confirmed that use of a phrase "All . . . Gillette Sensor handles are compatible with this blade" by a producer of razors also falls under article 5(1). This was despite the fact that the national court stressed, by pointing out a relatively modest size and affixation to the exterior of the packaging, that the message "could not in any way have given the impression that there was a commercial connection."¹²³ The CJEU again accepted that even pure referential use is covered by articles 5(1-2). This reasoning reappears in the context of the 2007 *Adam Opel v. Autec AG* case,¹²⁴ where the Court decided that, even if the use of Opel insignia on toy models is not likely to be interpreted as an indication of

117. *Id.* ¶ 60.

118. *Id.* ¶ 56.

119. *Id.* ¶ 58.

120. *Id.* ¶ 60.

121. Case C-251/95, *SABEL BV v. Puma AG*, 1997 E.C.R. I-06191 ¶ 16 (finding that "where the public makes a connection between the proprietors of the sign and those of the mark and confuses them.").

122. Case C-228/03, *The Gillette Co. v. LA-Labs Ltd.*, 2005 E.C.R. I-02337.

123. *Id.* ¶ 16.

124. Case C-48/05, *Adam Opel AG v. Autec AG.*, 2007 E.C.R. I-01017.

the source under articles 5(1-2), it continues to play its role because other functions of the trademark could be still affected.¹²⁵ In the 2008 2 *Holdings v. Hutchison 3G UK* case,¹²⁶ the Court further reaffirmed this by holding that referential use of a trademark in comparative advertising also constitutes use in the meaning of articles 5(1-2).¹²⁷

In 2009, all of the above principles were reinforced in *L'Oréal v. Bellure*,¹²⁸ where the Court held that comparative advertising is a use under articles 5(1-2). Apart from this, the Court connected the pieces from previous case law to create the following test:¹²⁹

[T]he exclusive right under Article 5(1)(a) of Directive 89/104 was conferred in order to enable the trade mark proprietor to protect his specific interests as proprietor, that is, to ensure that the trade mark can fulfil its functions and that, therefore, the exercise of that right must 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 These functions include not only the essential function of the trade mark, which is to guarantee to consumers the origin of the goods or services, but also its other functions, in particular that of guaranteeing the quality of the goods or services in question and those of communication, investment or advertising.¹³⁰

For the first time, the Court, explicitly stated what it was arguably indicating in earlier case law.¹³¹ Namely, that article 5(1)(a) also protects other functions, which is why the notion of use must be broader than mere indication of origin that protects only the essential function.

Given this background, it might come as a surprise that the same Court,

125. *Id.* ¶¶ 25, 31.

126. Case C-533/06, *O2 Holdings Ltd. v. Hutchison 3G UK Ltd.*, 2008 E.C.R. I-04231.

127. *Id.* ¶ 36.

128. Case C-487/07, *L'Oréal SA v. Bellure NV*, 2009 E.C.R. I-05185.

129. *Id.* ¶ 58.

130. *Id.*

131. The "other functions" were implicitly playing a role in *BMW, Hölderhoff, Gillete, Opel Adam* and *O2* cases. See Case C-206/01, *Arsenal Football Club v. Matthew Reed*, 2002 E.C.R. I-10273 ¶ 47, in which the Advocate General Ruiz-Jarabo Colomer argued following:

A distinctive sign can indicate at the same time trade origin, the reputation of its proprietor and the quality of the goods it represents, but there is nothing to prevent the consumer, unaware of who manufactures the goods or provides the services which bear the trademark, from acquiring them because he perceives the mark as an emblem of prestige or a guarantee of quality. When I regard the current functioning of the market and the behavior of the average consumer, I see no reason whatever not to protect those other functions of the trademark and to safeguard only the function of indicating the trade origin of the goods and services.

only few months later in *Google France*,¹³² held that Google itself does not engage in trademark use, by providing a keywords advertising infrastructure for advertisers.

[T]he use, by a third party, of a sign identical with, or similar to, the proprietor's trade mark implies, at the very least, that that third party uses the sign in its own commercial communication. A referencing service provider allows its clients to use signs which are identical with, or similar to, trade marks, without itself using those signs.¹³³

This finding also extended to a service provider who receives and fills packaging, which contains an affixed sign protected as a trademark.¹³⁴ The Court held that such a person does not itself make use of the sign.¹³⁵

To summarize, the CJEU extended articles 5(1-2) to cover non-source-identifying uses, such as pure references to a competitor,¹³⁶ a competitor's products,¹³⁷ or indications for the purposes of illustration.¹³⁸ By doing this, the Court basically gradually "hovered up" any economically sensible meaning from article 5(5) and "dumped it" in the area of articles 5(1-2). Although the case law of the CJEU seemed to oscillate between the traditional and extensive approach, the Court's framework became clear in the 2011 case, *L'Oréal v. eBay*.¹³⁹

It may be argued that the Directive was ambivalent on this point, by referring to absolute protection "in double identity cases and to the function [of the trademark] which is in particular to guarantee the trademark as an indication of origin."¹⁴⁰ However, this ambiguity is not convincing as a basis for the Court's doctrine. First of all, the reference to absolute protection should have been read under article five, which limited the role of articles 5(1-2) to only source-identifying uses. This means, that at most, the remark could have meant

132. Joined Cases C-236/08 to C-238/08, *Google France SARL v. Louis Vuitton Malletier SA* (C-236/08), *Google France SARL v. Viaticum SA* (C-237/08) and *Google France SARL v. Centre national de recherche en relations humaines (CNRRH) SARL* (C-238/08), 2010 E.C.R. I-02417.

133. *Id.* ¶ 56.

134. Case C-119/10, *Frisdranken Industrie Winters BV v Red Bull GmbH*, 2011 E.C.R. I-13179 ¶ 37.

135. *Id.*

136. Case C-533/06, *O2 Holdings Ltd. v. Hutchison 3G UK Ltd.*, 2008 E.C.R. I-04231; Case C-2/00, *Hölterhoff v Freiesleben*, 2002 E.C.R. I-04187.

137. Case C-228/03, *The Gillette Co. v. LA-Labs Ltd.*, 2005 E.C.R. I-02337; Case C-63/97, *Bayerische Motorenwerke AG (BMW) v. Deenik*, 1999 E.C.R. I-0905.

138. Case C-48/05, *Adam Opel AG v Autec AG*, 2007 E.C.R. I-01017.

139. Case C-324/09, *L'Oréal SA v. eBay Int'l*, 2011 E.C.R. I-06011.

140. Kur, *Trademarks Functions, Don't They?*, *supra* note 14, at 1.

“absolute as to the protection of origin.” Second, the reference to the existence of other functions does not automatically mean that their mere existence has any independent legal significance for article 5(1). The origin function often co-protects other functions, such as the quality function, which means that the reference to other functions could easily have been read as long as the origin function is affected. This is clear today when article 5(1)(b) embodies exactly this situation given that the statutory requirement of confusion prevents the Court from offering separate protection to the other functions.¹⁴¹ So if a product marketed under a similar sign also damages the quality function, this function is offered protection as long as the use leads to confusion. Moreover, it is far from clear why these other functions would be guaranteed only by the harmonized part of protection and not together with the non-harmonized one.

This debate is not meant to simply chime into the academic cry over spilled milk, but it is necessary for deeper understanding of the doctrine’s offspring we will face. The picture of exclusive rights, as painted by the CJEU today, is very asymmetric. Although the common notion of the trademark use now covers probably most of the non-source-identifying uses,¹⁴² the impact on non-identity (or similarity) situations¹⁴³ appears to be zero because the negative effect on the essential function is always required.¹⁴⁴ In other words, for all the similarity scenarios, the extension of use seems of no avail.

However, this is not completely true for two reasons. First, the trademark holder can avoid its application by expanding his list of registered goods and services. Second, when the trademark becomes reputed, the trademark holder obtains protection for these other functions as well, because the CJEU extended applicability of article 5(2) to similarity scenarios.¹⁴⁵ The impact of these two circumstances should not be underestimated. Very easily, the Court could start *de facto* protecting other functions in a large number of cases, which would mean an important switch to a very generally offered protection against

141. Case C-292/00, *Davidoff v. Gofkid Ltd.*, 2003 E.C.R. I-00389 ¶¶ 28–29.

142. I can hardly think of economically significant uses of third party trademark that are not yet covered by the notion of trademark use. The trade-names are the only obvious candidate from the case-law, but even there, one can question whether the CJEU would still uphold its essential-function centered *Céline* C-17/06 decision (see below). Perhaps it is a limitation of my imagination, but I believe that referential use as understood by the CJEU encompasses most of the economically important situations. Even the tradenames when actually used in commerce will often fall under the trademark use of articles 5(1–2). The only non-covered examples that I can think of are those that convey absolutely no meaning about the source, e.g. because they are used as a symbol to indicate its customary meaning (e.g. a picture of garlic used to indicate some goods containing garlic, which is understood by average consumer as such).

143. Council Directive 2008/95, art. 5(1)(b), 2008 O.J. (L 299) 29 (EC).

144. Case C-292/00, *Davidoff v. Gofkid Ltd.*, 2003 E.C.R. I-00389.

145. *Id.*

misappropriation in the trademark law.

But what is the reason behind this development? The historical origin of this expanding misappropriation rationale for trademarks lies in the CJEU's interpretation of the trademark use. *L'Oréal v. Bellure*¹⁴⁶ was just a logical consequence of the uncontrolled trademark use expansion. Sweeping broad trademark use per se is of no use for ordinary trademarks.¹⁴⁷ If the use is not source-identifying, there can be no confusion about the origin of goods and services. Therefore, unless the trademark use of at least ordinary trademarks is limited again to source-identification of one's own products, it will be much more difficult to resist further extension of exclusive rights.

Moreover, including referential use in the source-identifying use makes zero difference to the outcome. If the use is purely referential—meaning it does not convey the message about the origin of the products—it may never cause confusion as to the source of the products. However, if the confusion is the only way to infringe upon the essential function of the trademark, which CJEU also recognizes,¹⁴⁸ then referential use can never reach it.¹⁴⁹ Put differently, referential use may be unfair but never misleading as to the commercial origin. Because as soon as this occurs, the use oversteps the boundaries of the pure referential use and is within the scope of source-identifying use. As a consequence, the inclusion of referential use under the notion of the trademark use must, by the very definition, anticipate protection of other functions. Otherwise, it provides no additional protection to the trademark holder. The CJEU, probably driven by the desire to harmonize, completely side-stepped article 5(5) in the above cases. The Court, surprisingly, left some meaning¹⁵⁰

146. Case C-487/07, *L'Oréal SA v. Bellure NV*, 2009 E.C.R. I-05185.

147. See Council Directive 2008/95, art. 5(1), 2008 O.J. (L 299) 29 (EC).

148. See Case C-292/00, *Davidoff v. Gofkid Ltd.*, 2003 E.C.R. I-00389 ¶¶ 28–29 (noting the case-law of the Court with respect to article 5(1)(b)).

149. MAX PLANCK INST. FOR INTELLECTUAL PROP. AND COMPETITION LAW, *supra* note 112, at 103 ¶ 2.180 (describing a similar opinion expressed by the authors of the European Trademark Study who write: “use made for the purpose of identifying or designating the goods or services of the proprietor (nominal or referential use) does not clash with the origin function”).

150. See C-17/06, at ¶¶ 21–22, *Céline SARL v Céline SA.*, 2007 E.C.R. I-07041 where the CJEU held that:

The purpose of a company, trade or shop name is not, of itself, to distinguish goods or services The purpose of a company name is to identify a company, whereas the purpose of a trade name or a shop name is to designate a business which is being carried on. Accordingly, where the use of a company name, trade name or shop name is limited to identifying a company or designating a business which is being carried on, such use cannot be considered as being ‘in relation to goods or services’ within the meaning of Article 5(1) of the directive. Conversely, there is use ‘in relation to goods’ within the meaning of Article 5(1) of the directive where a third party affixes the sign constituting his company name, trade name or shop name to the goods which he markets.

The *Celine* decision suggests that unless the trade name leads to indirect confusion about the source,

for the provision in cases involving trade names,¹⁵¹ given that the typical instances of referential use, such as parody,¹⁵² illustration or comparative advertising are now included in articles 5(1-2) and article 5(5). Now, the TMD appears largely as a dead and empty provision. This is especially true after the recent approval of the new trademark package, which explicitly includes use of a trademark in the comparative advertising, and also includes the use of a trademark as a trade or company name, or its constituent parts, although it preserves article 5(5).¹⁵³

The European Commission has recently attempted to limit protection available in the context of non-source-identifying uses with its recast of the Trademark Directive. The Commission's proposal¹⁵⁴ aims to curb only double identity situations. It was proposed to limit protection offered in double identity

it does not amount to use in sense of Articles 5(1-2). However, the case predates *L'Oréal v. Bellure*, so one can question whether the basis of the argument, namely that merely essential function has to be affected is still valid. Case C-487/07, *L'Oréal SA v. Bellure NV*, 2009 E.C.R. I-05185 ¶¶ 26-27. Interestingly enough, the *ration decidendi* of the case refers to "use is in relation to goods in such a way as to affect or to be liable to affect the *functions* of the mark." Hence there are two possibilities, either the decision still stands, but is in contradiction to others, or it does not, as is therefore probably obsolete.

151. See Case C-245/02, *Anheuser-Busch Inc. v. Budějovický Budvar*, 2004 E.C.R. I-10989 ¶ 64 (holding (without much explanation) the following:

where the examinations to be carried out by the national court, . . . [it] show[s] that the sign in question in the main case is *used for purposes other than to distinguish the goods concerned—for example, as a trade or company name*—reference must, pursuant to Article 5(5) of Directive 89/104, be made to the legal order of the Member State concerned to determine the extent and nature, if any, of the protection afforded to the trade-mark proprietor who claims to be suffering damage as a result of use of that sign as a trade name or company name.).

152. See *Lila-Postkarte*, BGH (German Court of Federal Justice), I ZR 159/02 (Feb. 3, 2005) (Ger.) (demonstrating an exemplary case regarding parody); see also BGH: *Humorvoller markenmäßiger Gebrauch einer bekannten Marke, Lila-Postkarte*, NJW 2856 (2005) (discussing a scholarly commentary on *Lila-Postkarte*); see also Christian Born, *Zur Zulässigkeit einer humorvollen Markenparodie - Anmerkung zum Urteil des BGH "Lila-Postkarte"*, GRUR 192 (2006); see also Lucie Guibault, *The Netherlands: Darfurnica, Miffy and the right to parody!*, 3 JIPITEC 236, ¶ 1 (2006) (discussing a potential application in the Netherlands in which the case was eventually argued only on the design protection).

153. See Recitals 18-20, Art. 10(3)(d), Art. 10(3)(f), Art. 10(6) Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States relating to trade marks (Recast) OJ L 336/1 and Recitals 13-14, Art. 9(3)(d) and Art. 9(3)(f) Regulation (EU) 2015/2424 of the European Parliament and of the Council of 16 December 2015 amending Council Regulation (EC) No 207/2009 on the Community trade mark and Commission Regulation (EC) No 2868/95 implementing Council Regulation (EC) No 40/94 on the Community trade mark, and repealing Commission Regulation (EC) No 2869/95 on the fees payable to the Office for Harmonization in the Internal Market (Trade Marks and Designs) OJ L 341/21.

154. Proposal for a Directive of the European Parliament and of the Council to approximate the laws of the Member States relating to trade marks, COM (2013) 162 final (Mar. 27, 2013); Proposal for a Regulation of the European Parliament and of the Council amending Council Regulation (EC) No. 207/2009 on the Community Trade marks, COM (2013) 161 final (Mar. 27, 2013).

cases by requiring that the actions “affect or is liable affect the function of the trade mark to guarantee to consumers the origin of the goods and services.”¹⁵⁵ It should be noted that this proposal would not attempt to limit trademark use in general, but only curb its legal consequences for the ordinary non-reputed trademarks. Hence, if trademarks were reputed, they would still enjoy the same level of protection even in similarity and identity situations.¹⁵⁶

The proposal, however, attracted a lot of criticism for its potential consequences. Out of all the arguments on this debate, the most crucial one concerned the question whether the new provision would still guarantee regional exhaustion.¹⁵⁷ It is not my aim to reopen this debate in this brief space. Rather, I would like to generally remark that even if the amended double identity provision were to collaterally legalize international parallel imports, nothing prevents the legislature from seeking out-of-box solutions, such as simply presuming confusion when the genuine goods are imported from non-EU/EEA countries. In addition, there generally seems to be fear that the non-inclusion of referential use would somehow under-protect trademarks. But it is hard to see evidence on why, even in theory, anti-confusion protection could not effectively take care of dishonest uses that are only pretending to be purely referential.¹⁵⁸ The example of Japan indicates the exact opposite.

Recently, Annette Kur aptly noted that the EU trademark law under the functions theory “absorbs ways of reasoning typically found in unfair competition law.”¹⁵⁹ This is because EU trademark law gradually extends its platform to more situations, and also relies on open concepts, such as trademark functions, which makes the testing very flexible. Whether this is a positive development will depend largely on the ‘operational’ details. If the Court put the entire burden of disproving harm on the defendants, then it would engage in unfair competition adjudication “in reverse.” That is, a defendant who makes referential use of trademarks would generally be accused of unfair competition, unless the defendant can convincingly argue fairness of his conduct and the lack of effect on any of the functions. On the other hand, if the Court allocates

155. See *id.* at art. 10(2)(a), COM (2013) 162 final (Mar. 27, 2013); Proposal for a Regulation of the European Parliament and of the Council amending Council Regulation (EC) No. 207/2009 on the Community Trade marks, art. 9(2)(a), COM (2013) 161 final (Mar. 27, 2013).

156. Some media outlets wrongly assumed otherwise. See *The EU trademark reform: A galvanizing storm or a fresh wind?* DENNEMEYER, <http://www.dennemeyer.com/news-en/news/178-the-eu-trademark-reform-a-galvanizing-storm-or-a-fresh-wind/> [<https://perma.cc/6WBQ-S8GL>] (last visited Sept. 30, 2016). In fact, the new proposal even highlighted this by updating the wording of the Directive in accordance with *Davidoff*. C-292/00, *Davidoff v. Gofkid Ltd.*, 2003 E.C.R. I-00389 ¶¶ 28–29.

157. See Kur, *Trademarks Functions, Don't They?*, *supra* note 14, at 6 (noting the debate).

158. The decision of the CJEU in the *Arsenal* case is an example of this.

159. See Kur, *Trademarks Functions, Don't They?*, *supra* note 14 at 1.

the entire burden to the plaintiff, then the plaintiff must always prove harmfulness of the conduct and its relevance. The argumentation would basically absorb usual operation of general clauses under many domestic unfair competition laws, although naturally circumscribed by the doctrine of trademark use. Perhaps the solution is to allocate burden of proof origin-function cases to the defendant and then allocate the burden in other-functions cases to the plaintiff.¹⁶⁰ This could preserve the traditional trademark scope and enable the unfair competition adjudication to develop in healthy ways.

The test of “being liable to adversely affect one of the functions” seems to be a combination of legal and factual considerations; neither of the two models is likely to emerge in their pure forms. There will always be legal considerations, clothed as assumptions of the Court, which the defendants and the plaintiffs cannot revoke. Additionally, there will always be factual considerations, which the plaintiffs still must prove. The test is not likely to be purely factual, because this would weaken the Court’s own position. It would force the Court to completely relinquish its ability to convey to the national courts that some or even all the trademark functions, at least in certain situations, are never affected. The legal component of the test allows the Court to make policy determinations without scrutinizing the facts. The factual component then represents the space where the Court is either willing to confer some margin of appreciation on the domestic courts or is generally hesitant, thus opening to more evidence-based adjudication.¹⁶¹ At the moment, the Court engages in a determination of relevant protected interests, such as investments and deploys relevant tests.¹⁶² Only after providing this focus, the Court further

160. This was recently suggested also by Justice Arnold from the High Court of Justice in his article: Richard Arnold, *Infringement under Art 10(2)(a) Trade Marks Directive (Recast) / Art 9(2)(a) European Union Trade Mark Regulation and effect on the functions of the trademark*, GRUR 884, 887 (2016).

161. See *Interflora Inc. v. Marks and Spencer Plc*, EMHC [2013] EWCH (Ch) 1291 (Eng.) (noting court discretion versus evidence based adjudication, in the keyword advertising saga; the Court ruled out all but investment functions that can be adversely affected in absence of confusion. It has, in particular, explicitly denied the negative effect on advertisement function (confined to *Interflora*-circumstances, of course) and concentrated any further enquiry, both factual and legal, on the investment function while devising a specific test).

162. See, e.g., *id.* at ¶¶ 272–273, in which Justice Arnold aptly summarized this focus of the enquiry as follows:

If one considers what the Court of Justice said about effect on *the advertising function* in *Google France*, the focus of the enquiry was upon the fact that the trade mark proprietor is likely to have to pay a higher price per click for its own keyword advertising if third parties select the trade mark as a keyword and even then the proprietor cannot guarantee that its advertisement will appear first. Thus the Court was considering whether an increase in the cost, and a decrease in the prominence, of the proprietor’s keyword advertising amounted to an adverse effect on the advertising function of the trade mark. It held that they did not. By contrast, if one considers what the Court of Justice said about effect on *the investment*

delegates the factual enquiry before the domestic courts where the burden of proof of harm lies with the plaintiff, or the person making the allegation.¹⁶³ This part-normative and part-empirical exercise is already known from the trademark case law of the Court regarding the expectations of the average consumer.¹⁶⁴ Therefore, to conclude, it is the mix of these components and their exact dosage in the so-called hard cases that will determine the future of marriage between EU trademark and EU unfair competition law.

V. CONCLUSION

The above discussion provides several lessons for both the EU and Japan. In Japan, the marked difference in legal situations with western countries led several scholars to propose more extensive protection, usually modeled after the EU's system. In particular, Onishi¹⁶⁵ and Kim¹⁶⁶ are arguing that the Japanese trademark system should also protect other functions in addition to the essential function of indicating the source of goods and services. In fact, I believe that is the last thing that Japan should do—at least as far as trademark law is concerned. If the European situation teaches us any lessons, it should be that non-existence of common unfair competition law, in which the case law could “ventilate” its ad hoc appeals to justice or inefficiency, only leads to pressure on the formalized types of intellectual property protection. Apart from the trademark law, *sui generis* database law and also the copyright law in the European Union provide rich examples of this.¹⁶⁷ To prevent this inflation of

function in *Interflora* (CJEU), the focus of the enquiry was upon the use of the trade mark to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty. Where the trade mark enjoys such a reputation, the Court states that the investment function is adversely affected where the third party's use affects that reputation and thus jeopardizes its maintenance. On the other hand, the Court says that it is not enough that the proprietor must adapt its own efforts to preserve the reputation of the trade mark (such as, presumably, paying more for its advertising) or that consumers decide to change to another brand of good or services.

163. See *Interflora*, (Rev 1) [2014] EWCA (Civ) 1403 ¶ 131 (discussing the allocation of burden of proof was one of the reasons why the Court of Appeals struck down the decision of Justice Arnold in *Interflora*. The appellate court's reading of the EU law is that evidentiary burden in the infringement cases always lies with the trademark owner.).

164. See Graeme Dinwoodie and Dev S. Gangee, *The Image of the Consumer in European Trade Mark Law* in *THE IMAGE OF THE CONSUMER IN EU LAW: LEGISLATION, FREE MOVEMENT AND COMPETITION LAW* (Dorota Leczykiewicz and Stephen Weatherill eds., Hart Publishing 2016).

165. Ohnishi, *supra* note 37, at 89.

166. See Kim, *supra* note 39, at 10.

167. See Martin Husovec, *The End of (Meta) Search Engines in Europe?*, 14 CHI.-KENT J. INTEL. PROP. 145 (2015) (Max Planck Institute for Innovation & Competition Research Paper No. 14-15) (commenting on the *Innoweb* decision). See also from the copyright field, the perfect example would be *Svensson* decision (Case C-466/12, Nils Svensson v. Retriever Sverige AB); see also Annette Kur, *What to Protect, and How? Unfair Competition, Intellectual Property, or Protection Sui Generis*

IP rights, provided that such pressure occurs in the case law, Japan could consider making its unfair competition law more flexible.

For the European Union, the Japanese situation illustrates that even when the source-identifying use is required, trademark law is generally able to care for the needs of the market and the trade can still flourish under these conditions. Although the European Commission should be credited for its attempts to clarify the law, it would be more useful to provide a general pattern that goes beyond the trademark law—the lack of a flexible instrument such as unfair competition law on the EU level. To remove the pressure from the formalized forms of IP protection that are harmonized, the EU legislature could, as a first step, consider harmonizing pure B2B unfair competition law. Unless this happens, the EU unfair competition law is likely to develop under the cover of other intellectual property rights, such as trademark law.

in INTELLECTUAL PROPERTY, UNFAIR COMPETITION AND PUBLICITY: CONVERGENCES AND DEVELOPMENT 11–32 (Nari Lee et al., ed., Elgar, 2014) (Max Planck Institute for Intellectual Property & Competition Law Research Paper No. 13-12) (arguing that unfair competition protection should assume the role of an incubator for new types of rights to emerge, which are later-on integrated into the corpus of traditional intellectual property laws or are transformed into rights *sui generis*).