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Q245

Taking unfair advantage of trademarks: parasitism and free riding

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I. Current law and practice

1) Do the laws of your jurisdiction provide for protection against:

a) the taking of unfair advantage of trademarks as defined in these Working Guidelines (see paragraphs 26) and 27) above); and/or

yes

Please comment:

b) use that you consider similar but outside the scope of the definition in these Working Guidelines?

yes

Please comment:

For the questions below, if b. applies either separately or in addition to a., please make that clear in any relevant answer.

2) What is this protection called, and is this a definition developed in case law or found in a statutory provision? If such protection is characterised as a form of protection against dilution, please state this and provide any explanation as to the basis for such characterisation.

There is no specific body of legislation addressing parasitism/free riding, nor is protection against it characterised as a form of protection against dilution. Protection against parasitism and free riding, as well as protection against use that is similar but outside the scope of the definition in the Working Guidelines, can be found in isolated provisions within separate laws and will therefore in each case take the name of the law that contains it. For instance, it can be characterised as a form of protection against unfair competition, against trademark infringement, against infringement of consumers' rights,

etc.

3) If such protection is available, what is the basis for the protection, e.g. trademark law (distinguishing between unregistered and registered trademarks where relevant), unfair competition, consumer protection law, common law? If multiple causes of action are available, is there an interaction between them, and if so, what?

The basis for such protection is formed mainly by several provisions contained in the laws and regulations listed below. Accordingly, there are various causes of action, with little interaction between them. The laws and regulations in question are:

- Unfair Competition Act (Law No. 20.169 on unfair competition) — Article 1 states that it is the purpose of this Act to protect competitors, consumers and generally any person whose legitimate interests are affected by an act of unfair competition. Article 2 expressly clarifies that the protection under this Act is without prejudice to any remedy under the Industrial Property Act and/or the Consumer Protection Act. Article 4 describes relevant examples of unfair competition, among which the following are listed:

- o Any conduct that takes unfair advantage of someone else's reputation, inducing to confusion of one's own goods, services, activities, distinctive signs or establishments with those of that other person/entity.

- o The use of signs [...] that induce to error regarding the [...] origin [...] of one's own or somebody else's goods or services.

- o Any comparison between one's own and somebody else's goods, services, activities or establishments that is not based on true and verifiable facts or that infringes the Unfair Competition Act in any other way

- Industrial Property Act (Law No. 19.039 on industrial property, which comprises trademarks) — Article 20 establishes various causes for opposition against pending trademark applications, which can also be invoked as grounds for annulment of trademark registrations that have already been granted. None of them regulates parasitism/free riding explicitly, but there are some that can nonetheless be used as protection against it, and also against use that is similar but outside the scope of the definition in the Working Guidelines. In particular, Article 20 mandates that the following cannot be registered as trademarks:

- o Section k): Any signs contrary to public order, morality or decency, including those that are contrary to the principles of fair competition and business ethics.

- o Section f): Any signs that may induce to error or deceit regarding the origin or other aspects of the goods or services involved, including those pertaining to different classes of the Nice Classification when there is some kind of connection between the goods or services in question.
- o Section h), first paragraph: Any signs that are identical or confusingly similar to trademarks pending or registered in Chile from an earlier date, for identical or similar goods or services, in the same or in related classes of the Nice Classification.
- o Section g), third paragraph: Any signs that are identical or confusingly similar to trademarks that are registered in Chile and in addition are famous in Chile, even if they cover different and non-related goods or services, as long as there is some kind of connection between such goods or services, and provided that there is a probability that the sign in question -if it were allowed to be registered- could harm the interests of the owner of the previously registered famous mark.

- o Section h), second paragraph: Any signs that are identical or confusingly similar to trademarks neither pending nor registered in Chile, but which have been and continue to be actually used in Chile from an earlier date, for identical or similar goods or services, in the same or in related classes of the Nice Classification.

- o Section g), first paragraph: Any signs that are identical or confusingly similar to trademarks neither pending or registered in Chile, but registered abroad, provided that the latter cover the same goods or services and that they are famous among consumers that habitually purchase such goods or services in their country of origin.

- o Section c): The name, pseudonym or image of a person, unless such person or his/her heirs consent,

or unless it is a historical figure that passed away more than 50 years ago.— In our opinion, it is easy to think of cases where the name, pseudonym or image of a famous person can or does in practice function as a trademark. This also brings up considerations about the right of publicity. Section c) could be a means of protection against parasitism/free riding in such cases. • Consumer Protection Act (Law No. 19.496 on the protection of the rights of consumers) —

Article 28A asserts that any advertisement that causes consumers to confuse the identity of companies, enterprises, activities, products, names, trademarks or other distinctive signs with those of competitors, will constitute an infringement of this Act.

• Code of Ethics for Advertising — This Code was adopted by the Chilean Council for Self- Regulation and Ethics in Advertising (Consejo de Autorregulación y Ética Publicitaria or “CONAR”) as a set of rules of conduct in the advertising field. In contrast to the preceding Acts, this Code cannot be enforced through courts of law. However, the Code itself as well as the decisions of CONAR based on the Code are often obeyed voluntarily, and are therefore a means of protection that should not be overlooked.

o Article 5 of the Code states that advertisements should not take advantage of the goodwill or acquired reputation of someone else’s trade name, symbol (sign), trademark, or advertising campaign.

o Article 8, section C mandates that advertisements shall not contain any express or implied declarations or other aspects that may lead consumers to erroneous conclusions in respect of intellectual property and industrial property rights, including trademarks. Article 14 regulates comparative advertising and requires that it be fair, in compliance with the Code, and based on objective and verifiable statements.

4) What are the elements of any available cause of action, e.g. the requirement for the trademark to be registered, reputation in the trademark, establishment of a link or association with the trademark, bad faith, change in the economic behaviour of consumers, actual advantage, potential future advantage? How are they proven?

The requirements vary depending on the chosen/applicable cause of action. Please see our response to question 3) above for details. The aspects that most frequently need to be proven are the fame of a trademark, the fact that it is registered abroad, the fact that the marks and goods or services involved may induce to confusion, the prior use of a trademark in the Chilean market, etc. The main forms of evidence are documents (certificates of registration, magazine and newspaper articles, letters, website print-outs, advertisements, invoices, etc.) and audio-visual material, including images that show the goods in question, TV and radio ads, etc.

5) Further to question 4):

a) what degree of reputation, if any, in the trademark is required?

Generally the laws and regulations listed above do not call for any degree of reputation (although a sizable reputation may help in practice), but there are exceptions:

o One of the requirements of Article 20, section g), third paragraph, of the Industrial Property Act, is that the trademark to be protected is famous in Chile among consumers that habitually purchase such goods or services locally.

o One of the requirements of Article 20, section g), first paragraph, of the Industrial Property Act, is that the trademark to be protected is famous abroad among consumers that habitually purchase such goods or services in the trademark’s country of origin.

o One of the requirements of Article 5 of the Code of Ethics for Advertising is that the goodwill that this rule protects must be the consequence of investing time

b) who bears the burden of proof regarding the requirements?

The claimant.

c) must the use at issue cause confusion?

yes

If so, what degree of confusion is required, e.g. actual confusion, a likelihood of confusion and/or initial interest confusion (i.e. initial confusion which has been resolved at the time of purchase)?:

Almost all provisions listed above do indicate or imply either confusion, error or deceit as a requirement. There is not always a precise indication of what kind or degree of confusion is meant: some of the rules in question speak of "inducing to confusion" whereas others simply mention "confusion". A notable exception among the cited rules, which does not mention confusion, error nor deceit as a requirement, is Article 20, section k) of the Industrial Property Act, which prohibits the registration of signs contrary to public order, morality or decency, including those contrary to the principles of fair competition and business ethics.

d) can the protection be invoked in case of both similar and dissimilar goods/services?

yes

Please comment:

Yes, depending on the circumstances and the corresponding causes of action. Please refer to our response to question 3) above for details.

e) are there any other factors, even if not a separate requirement, that may be relevant, and if so, what are they?

Yes, depending on the circumstances and the corresponding causes of action. Please refer to our response to question 3) above for details.

6) Are there any defences against and/or limitations to the protection?

yes

If so, what are they, and what are the elements of such defences/limitations?:

Relevant defences against and limitations to the protection are:

o Not enough degree of confusion, whenever confusion is required. Please see, mutatis mutandis, our response to question 5.c above for details.

o Not enough degree of fame, whenever fame is required. Please see, mutatis mutandis our response to question 5.a above for details.

o Use with "due cause". For example, having registered a trademark in good faith prior to, or using a trademark in good faith from an earlier date than, the person or entity that invokes the protection.

o Fair use. For example, using a trademark in a reasonable manner for the purpose of selling the goods that bear such trademark.

o Comparative advertising. Both the Unfair Competition Act and the Code of Ethics for Advertising expressly allow comparative advertising, provided that the comparison is fair, based on verifiable facts, does not cause confusion, and does not tarnish the goods or services of the competitor nor the

competitor himself.

7) Who bears the burden of proof in relation to any defences and/or limitations? In this context, please also consider the relationship with the element of "unfairness". For example, is it a defence that the use is with "due cause" (see paragraph 31 of the introduction) above and footnote 2) of the introduction? If so, can such use ever be "unfair"? Or is this just a matter of a shifted burden of proof?

The defendant bears the burden of proof in relation to any defences and/or limitations. The use with "due cause" could indeed be a defence. In our opinion, such use could never be unfair if it continues in good faith and more or less unchanged; but if use started with "due cause" and turns into parasitism/free riding later on, this defence will no longer be acceptable.

8) If a defence exists or only limited protection is available, what rights does that give the free rider? For example, may the free rider simply use the trademark or may the third party obtain a separate trademark registration in respect of the goods and/or services in respect of which the free rider is using the trademark?

In case the defence consists in arguments such as lack of confusion or lack of fame, and succeeds, the free rider may indeed both use and register the trademark in question.

9) Can the protection be invoked in:

a) court in civil proceedings;

yes

Please comment:

Yes, for certain proceedings under the Unfair Competition Act and under the Industrial Property Act, such as claiming damages.

b) court in other proceedings;

yes

if so what other proceedings (e.g. criminal proceedings):

Yes, for instance:

- o Trademark infringement actions are often prosecuted in criminal courts, as they are usually quicker and more effective than any civil remedies.
- o Any unfair competition proceeding has to be transferred from the civil court -where it must start- to the Antitrust Prosecutor (Fiscal Nacional Económico) if the civil court determines that an act of unfair competition did in fact take place. The Antitrust Prosecutor will then assess whether the case is significant enough to take it to the Antitrust Court (Tribunal de Defensa de la Libre Competencia) and seek that a fine be imposed on the free rider.
- o Consumer protection matters that involve full-blown litigation are heard by municipal courts (juzgados de policía local).

c) opposition proceedings;

yes

Please comment:

Trademark opposition proceedings –as well as trademark registration annulment proceedings, which share the same array of possible causes of action, but at a different time: oppositions are lodged against pending applications, whereas annulment actions are brought against registrations that have already been granted- are heard by the Chilean Patent & Trademark Office (Instituto Nacional de Propiedad Industrial or INAPI) and, in case of appeal, by the specialized Industrial Property Court of Appeals (Tribunal de Propiedad Industrial) as a second instance.

d) any other?

yes

if so what, proceedings?:

Yes, for instance: consumer protection complaints, filed with the National Consumer Office (Servicio Nacional del Consumidor or SERNAC); unethical advertisement complaints, filed with the Chilean Council for Self-Regulation and Ethics in Advertising (Consejo de Autorregulación y Ética Publicitaria or CONAR).

10) If the protection can be invoked in multiple proceedings, are there different requirements for different proceedings? If so, please state the requirements.

Yes. Please refer to previous answers, particularly our response to question 3) above.

II Policy considerations and proposals for improvements of the current law

11) Should there be protection against:

a) the taking of unfair advantage of trademarks as defined in these Working Guidelines; and/or

yes

Why?:

b) use that is similar but outside the scope of the definition in these Working Guidelines?

yes

Why?:

To protect trademark owners from other people taking such unfair advantage or from people making such similar use without proper justification.

12) Is the basis for protection or the cause of action relevant?

yes

Why?:

In Chile, it can be quite relevant. It enables different forms of protection; widens or restricts the scope of what can be considered parasitism/free riding; establishes what court or other entity will be competent and, accordingly, establishes the appropriate proceedings and remedies, some of which are more effective than others; determines the severity of applicable penalties; etc.

13) Should it be possible to invoke the protection in all types of proceedings mentioned above under 9) above?

yes

Why?:

There is no simple answer for this question. On the one hand, a multiplicity of available types of proceedings can be advantageous, as it allows to choose among them according to the circumstances of the case, costs of the proceeding in question, effectiveness of the same, urgency of the matter, etc. On the other hand, however, it can lead to contradictions, scattering of applicable criteria, courts/authorities trying to avoid these cases with the excuse that other courts/authorities are actually competent, and so on. All in all, however, it seems better to have a specific proceeding that addresses the many possible kinds of parasitism/free riding, provided that such proceeding and the courts/authorities in charge are serious and effective.

14) How can your current law as it applies to the taking of unfair advantage of trademarks and/or the interpretation thereof (in particular, in case law) be improved?

Mainly by improving and harmonizing the definitions and descriptions of such conducts in the relevant laws and regulations. There is still much room for analysis of applicable criteria and for thought about possible scenarios of parasitism/free riding and the corresponding proceedings and remedies. Regrettably we have seen case law where other legal criteria were applied too literally and thus prevailed, which resulted in obvious acts of parasitism/free riding –according to common sense– not being remedied nor punished.

III Proposals for harmonisation

15) Is harmonisation in this area desirable?

yes

Please comment:

If yes, please respond to the following questions without regard to your national or regional laws. Even if no, please address the following questions to the extent you consider your national or regional laws could be improved.

16) If your answer to question 11) is no in respect of a. and/or b., is it your view that no such protection should be available anywhere?

N7A

17) Should there be harmonisation of the definition of:

a) the taking of unfair advantage of trademarks as defined in these Working Guidelines; and/or

yes

If so, please provide any definition you consider to be appropriate.:

b) use that you consider similar but outside the scope of the definition in these Working Guidelines?

yes

If so, please provide any definition you consider to be appropriate.:

Yes, albeit taking into account that national laws may vary regarding what is outside the scope of the definition in these Working Guidelines. A definition of parasitism/free riding along the lines of paragraph 26 of the Working Guidelines seems quite adequate. Perhaps it should be combined with

the clarification cited in paragraph 23 of the Working Guidelines, i.e., that the taking of unfair advantage does not require a likelihood of confusion or a likelihood of detriment to the distinctive character or the repute of the mark.

18) What should the basis for protection/cause(s) of action be?

A broad protection against any conduct that fits the description above. Parasitism/free riding can take many forms, so it is better to have an ample basis for protection/cause(s) of action.

19) What should the requirements for protection be? In your answer, please address at least the following, in addition to any other relevant factors: what level of reputation, if any, in the trademark should be required, and who should bear the burden of proof?

Reputation should not be a requirement for basic protection, i.e., even if a trademark has no verifiable level of reputation it should still enjoy such basic protection. However, trademarks with a high level of reputation should also be protected to a greater extent. This could be achieved by means of higher penalties, broader criteria and less strict conditions for remedies to be applied and penalties to be imposed, etc.

The claimant bears the proof.

20) What defences against and/or limitations to the protection should be available? Please state the proposed requirements for any defence/limitation, and the effect of any defence/limitation.

Use with "due cause" should be the main defence or limitation.

21) Who should bear the burden of proof in respect of any defences and/or limitations?

The defendant.

22) In what type(s) of proceedings should it be possible to invoke the protection?

A specific proceeding that addresses the many possible kinds of parasitism/free riding could be a good idea, provided that such proceeding and the courts/authorities in charge are serious and effective. If this is not the case, it seems better to leave multiple options available, such as unfair competition proceedings, trademark infringement proceedings and others.

Summary

Please comment on any additional issues concerning the taking advantage of trademarks in the sense of parasitism and free riding you consider relevant to this Working Question.

Additional issues: In our opinion, other matters worth considering in connection with the taking advantage of trademarks in the sense of parasitism/free riding are:

- Whether the standards or requirements concerning parasitism/free riding should be different for word marks, word & design marks, and purely figurative marks (logos).— For example, if an independent company sells spare parts for cars and advertises its business mentioning the car brands for which it offers such spare parts, what is worse in the sense of parasitism/free riding: simply naming the car brands in question or somehow using their logos in its advertisement? Is there a difference at all? In fact, can it be considered parasitism/free riding at all?

Is it parasitism/free riding? Is there a difference between these forms of use?

- Whether the standards or requirements concerning parasitism/free riding should be different for trademarks in respect of goods or services.— In the same example above, if the company offers genuine spare parts (i.e., goods) for those car brands, it could be argued that the use of the marks and/or logos in the advertisements is simply an indication of the true source and manufacturer of those goods. In contrast, if John Smith & Co. offered car maintenance services, that argument would not work: the services are provided by John Smith & Co., not by Nissan, BMW, Toyota or Mercedes-Benz. Again: would this (i.e., use of other people's brands for one's own services instead of such other people's goods) be worse in the sense of parasitism/free riding? Is there a difference at all? In fact, can it be considered parasitism/free riding at all?