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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:

Yes. Protection against the taking of unfair advantage of trade marks is provided by the Trade Marks Act 1994 ("TMA"), in respect of UK trade marks, and by the Community Trade Mark Regulation (EC) 207/2009 ("CTMR"), in respect of Community trade marks.

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

yes

Please comment:

Similar protection is also provided by the law of passing off. Passing off is generally understood to provide protection against a misrepresentation in the course of trade by one trader which damages the goodwill of another.

The Consumer Protection from Unfair Trading Regulations 2008 (the "CPRs") also prohibit unfair practices and misleading practices that are likely to cause the average consumer to take a transactional decision he would not have taken otherwise. However, as the CPRs can only be

enforced by Trading Standards and the Office of Fair Trading and do not provide a private right of action for trade mark proprietors, they will not be discussed further below.

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.

In relation to 1(a), this protection is set out in section 10(3) TMA and Article 9(1)(c) CTMR, which provide for the "extended protection" of trade marks including protection against the taking of unfair advantage (also known as free-riding, parasitism or riding on the coat-tails of the mark). No definition is found in the statutory provisions but such has been developed in case law. In *L'Oreal v Bellure*, Case C-487/07 at §50, the CJEU stated:

"where a third party attempts, through the use of a sign similar to a mark with a reputation, to ride on the coat-tails of that mark in order to benefit from its power of attraction, its reputation and its prestige, and to exploit, without paying any financial compensation and without being required to make efforts of his own in that regard, the marketing effort expended by the proprietor of that mark in order to create and maintain the image of that mark, the advantage resulting from such use must be considered to be an advantage that has been unfairly taken of the distinctive character or the repute of that mark."

This protection is not characterised as a form of dilution, which is understood to refer to the separate actionable injury of detriment to the distinctive character of a trade mark.

In relation to 1(b), the law of passing off has been developed through case law (see the summary in answer 1(b) above). It is not specifically characterised as a form of protection against dilution.

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 protection in 1(a) is the law of registered trade marks.

In relation to 1(b), the basis for passing off is common law.

It is common to bring an action based both on s.10(3) TMA/Article 9(1)(c) CTMR and passing off in the same proceedings, as while there is a large degree of overlap, each has its own distinct approach such that it may be possible to win on one and lose on another. For example, in *Enterprise Holdings Inc v Europcar Group UK Limited* [2015] EWHC 17 (Ch), the Claimant succeeded in establishing passing off but failed in its claim under Article 9(1)(c) CTMR.

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 elements of an action under s.10(3) TMA or Article 9(1)(c) CTMR are:

- i. the trade mark must be registered;

- ii. the trade mark must have a reputation in the relevant territory;
- iii. there must be use of a sign by a third party in the relevant territory;
- iv. the use must be in the course of trade;
- v. it must be without the consent of the proprietor;
- vi. it must be of a sign which is identical with or similar to the trade mark;
- vii. it must be in relation to goods or services;
- viii. it must give rise to a link between the sign and the trade mark in the mind of the average consumer;
- ix. unfair advantage must be being taken of the distinctive character or repute of the trade mark, or there must be a serious risk of such occurring in the future; and
- x. it must be without due cause.

(See *Interflora v Marks & Spencer* [2014] EWCA Civ 1403 at §69)

The burden is on the trade mark proprietor to establish elements (i) to (ix). If such are proven, it is for the defendant to establish that his use was with due cause.

The standard of proof is the civil standard of proof in the UK, which is on the balance of probabilities, i.e. "more likely than not".

Reputation is proven by adducing evidence of: the market share held by the trade mark; the intensity, geographical extent and duration of its use (including annual turnover); the size of the investment made in promoting it; advertising and marketing information including in traditional media and social media; and third party recognition of the trade mark.

While surveys can in theory be relied upon, the use of such is subject to strict guidelines as set out in *Interflora v Marks & Spencer* [2012] EWCA Civ 1501.

In terms of proving unfair advantage, evidence of a change in the economic behavior of the consumers of the free-rider's goods/services is not required but some evidence will be needed from which logical deductions about the impact on the free-rider's consumers can be made (*Jack Wills Ltd v House of Fraser (Stores) Ltd* [2014] EWHC 110 (Ch) at §83).

The elements of passing off are:

- i. the claimant's goods or services have acquired goodwill in the market and are known by some distinguishing name, mark or other indication;
- ii. the defendant has used, or threatens to use, a name, mark or other indication which has led, or is likely to lead, the public to believe that the goods or services offered by the defendant are goods or services of the claimant, or connected with it; and
- iii. the claimant has suffered, or is likely to suffer, damage as a result of the erroneous belief engendered by the defendant's misrepresentation.

As passing off is not directed specifically at providing protection against the taking of unfair advantage of trade marks it will not be discussed below, except where it is especially relevant.

5) Further to question 4):

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

Proving the necessary reputation is not particularly onerous and no specific percentage of recognition by the public is required. The trade mark must simply be known by a significant part of the public concerned by the product or services covered by that trade mark (*General Motors Corp v Yplon SA*, Case C-375/97 at §26). For a UK trade mark, this means a reputation in a substantial part

of the UK. For a Community trade mark, this means a reputation in a substantial part of the Community; a reputation in one Member State may suffice (*PAGO International*, Case C-301/07 at §27).

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

See answer 4 above.

c) must the use at issue cause confusion?

no

Please comment:

No. The use at issue must simply create a link between the sign and the trade mark in the mind of the average consumer.

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

yes

Please comment:

Yes.

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

The following factors may be relevant in relation to establishing the existence of a link and showing unfair advantage:

- i. the degree of similarity between the conflicting marks;
- ii. the nature of the goods or services for which the conflicting marks were registered, including the degree of closeness or dissimilarity between those goods or services, and the relevant section of the public;
- iii. the strength of the earlier mark's reputation;
- iv. the degree of the earlier mark's distinctive character, whether inherent or acquired through use; and
- v. the existence of a likelihood of confusion on the part of the public.

In relation to establishing unfair advantage, the intention of the defendant is also relevant: the defendant's conduct is most likely to be regarded as unfair where he intends to take advantage of the reputation of the trade mark (see *L'Oreal v Bellure* at §48 and *Whirlpool Corp v Kenwood Ltd* [2009] EWCA Civ 753 at §112). Nevertheless, the court may still find unfair advantage where there is no such intention, as the court may conclude that the objective effect of the use of the free-rider's sign is to enable it to benefit from the reputation of the trade mark (*Jack Wills v House of Fraser* at §80).

Where intention is shown, it does not appear to matter whether the essential function of the trade mark is impaired or whether the trade mark proprietor suffers any loss, damage or detriment from the defendant's use of the offending sign (*Whirlpool v Kenwood* at §112 and §136). Although such factors may be relevant where no intention on the part of the free-rider is present (*Interflora v Marks & Spencer* (CA) at §105).

Other relevant factors to establishing unfair advantage include:

- i. whether any real commercial benefit or advantage has accrued to the defendant by its use of the offending sign (*Whirlpool v Kenwood* at §99), including for example a boost or increase in sales; and
- ii. whether the trade mark has any intrinsic or acquired positive characteristics or connotations which could be transferred on to the free-rider and would enhance the latter's performance, such as image, prestige, high quality, trustworthiness, reliability, style etc.

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?:

The primary defence to such protection is often to prove that the use was with due cause. This may be, for example, that the free-rider had been genuinely and fairly using its sign prior to the trade mark acquiring a reputation.

In addition, the Misleading and Comparative Advertising Directive (EC) 114/2006 ("CAD") (implemented in the UK by the Business Protection from Misleading Marketing Regulations 2008), provides that if a defendant's use is a permissible comparative advertisement within the CAD, then there is no trade mark infringement. Comparative advertising is permissible if it compares material, relevant, verifiable and representative features and is not liable to mislead, confuse or take unfair advantage.

The following defences are also available:

- i. Use of another registered UK trade mark where that use is upon goods/services in respect of which it is registered (s.11(1) TMA).
- ii. Use of own name in accordance with honest practices in industrial and commercial matters (s.11(2)(a) TMA/Article 12(a) CTMR).
- iii. Descriptive use in accordance with honest practices in industrial and commercial matters (s.11(2)(b) TMA/Article 12(b) CTMR).
- iv. Use necessary to indicate intended purpose in accordance with honest practices in industrial and commercial matters (s.11(2)(c) TMA/Article 12(c) CTMR).
- v. Prior use of a sign in a particular locality (s.11(3) TMA/Article 111 CTMR).
- vi. Acquiescence by the trade mark proprietor for a continuous period of five years or more (s.48 TMA/Article 54 CTMR).
- vii. Exhaustion - where goods have been put on the market in the EEA by a trade mark proprietor or with his consent, there is no infringement of that mark in relation to those goods, unless there are legitimate reasons for him to oppose further commercialisation of the goods. (s.12 TMA/Article 13 CTMR).

While, there is no official defence of parody in the UK (see *Ate My Heart Inc v Mine Candy Limited* [2011] EWHC 2741 (Ch)), it is possible that such use may be considered 'with due cause' or not to be in the course of trade.

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 burden of proof is on the free-rider in relation to the defences and limitations listed in answer 6.

Technically, it is for the trade mark proprietor to establish that the advantage taken is unfair. However, in reality if the proprietor shows that an advantage has been taken it is likely that the burden will be held to shift on to the free-rider to establish that such advantage was with due cause. It is hard to

envisage circumstances which amount to due cause to use a mark but which take unfair advantage of an earlier trade mark – fairness and due cause should go together.

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?

If a defence exists, the free rider is able to continue his use of his sign. However, he would not be able to obtain a separate trade mark registration, as the defences listed in answer 7 above are defences to infringement only. The trade mark proprietor would be able to use its trade mark to oppose the free-rider's trade mark application under s.5(3) TMA/Article 8(5) CTMR.

9) Can the protection be invoked in:

a) court in civil proceedings;

yes

Please comment:

Yes. A trade mark proprietor can bring civil proceedings for infringement of its trade mark under s.10(3) TMA or s.9(1)(c) CTMR.

b) court in other proceedings;

no

Please comment:

No. The protection cannot be invoked in other court proceedings.

c) opposition proceedings;

yes

Please comment:

Yes. A trade mark proprietor can oppose a UK trade mark application under s.5(3) TMA and a Community trade mark application under Article 8(5) CTMR. The outcome of such an opposition does not preclude a subsequent infringement action on the same grounds.

d) any other?

yes

if so what, proceedings?:

The protection can be invoked to bring proceedings for revocation of a trade mark at the UK IPO or at OHIM.

The protection can be invoked in Nominet's dispute resolution procedure (Nominet is the domain registrar for <.co.uk> domains). If the trade mark proprietor can show that the registration, or subsequent use of, a domain name takes advantage of their trade mark, it will be considered an abusive registration and as such the trade mark proprietor can have the domain name transferred to it or cancelled.

The protection can also be used:

- as the basis of a complaint to the Advertising Standards Authority regarding an advertisement; and
- as the basis of a complaint to Trading Standards in relation to a breach of the CPRs.

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

The same requirements apply in relation to civil court proceedings, opposition and revocation proceedings.

However, in opposition proceedings, as the opposed mark might not be in use, the opponent is not required to demonstrate actual present injury to its mark, but instead is required to demonstrate a serious risk that such injury will occur in the future. The risk should be certain and not hypothetical.

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?:

Yes. There should be protection against the taking of unfair advantage of trade marks and similar uses. The availability of such protection protects the investment made by businesses in their brands by providing them with protection against unfair competition.

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

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

yes
Why?:

The basis for protection is relevant. A trade mark proprietor should have the ability to protect its trade mark from others taking unfair advantage of it. However, the proprietor should not be able to prevent fair competition. Further, this is not in reality a consumer protection issue and should not become one. There is no requirement that the consumer is confused or misled in any way, as the link formed in the consumer's mind may be subliminal. The harm at issue is unfair benefit accruing to the defendant from a link created with the trade mark proprietor's brand without paying a financial compensation for it.

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

yes
Why?:

It should be possible to invoke the protection in civil court proceedings to enable trade mark proprietors to bring infringement proceedings against free-riders and to seek an injunction and/or damages.

However, it should not be possible to invoke the protection in criminal court proceedings. The harm at issue is commercial harm resulting from unfair benefit accruing to the defendant as a result of a link created with the trade mark proprietor's brand without paying any financial compensation for it. It is not a harm to the consumer or society in general. Moreover, there is no requirement of intention (or any other mens rea) on the part of the free rider, and some sort of mens rea must be required for criminal penalties.

It should be possible to invoke the protection in opposition proceedings to ensure that the trade mark proprietor can prevent the registration of trade marks which take unfair advantage of its trade marks.

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?

One of the areas which remains unclear in UK law is what makes an advantage "unfair". The case law suggests that "unfair" must have a meaning and therefore some other factor needs to be present in addition to an advantage received by the free-rider in order for the free-rider's behaviour to be objectionable. It is clear that an intention to ride on the coat-tails of the proprietor's mark suffices, but beyond that it is unclear. Would some sort of detriment suffered by the proprietor suffice? Would damage to one of the other functions of a trade mark suffice, for example damage to the communication, advertising or investment functions of the mark, by transfer of the image of the mark.

Clarity is also needed regarding the relationship between "fairness" and "due cause". In particular, it is unclear whether it is possible for an advantage to be unfair but use to be with due cause. Further, it is not clear on whom the burden lies for proving unfairness and/or lack of due cause.

Moreover, trade mark infringement and passing off are becoming increasingly similar. It would be a significant improvement if the boundary between them was more clearly defined so as to avoid unnecessary duplication and a consequent increase in costs.

III Proposals for harmonisation

15) Is harmonisation in this area desirable?

yes

Please comment:

Yes. While there is already a high degree of harmonisation across Europe, it would be desirable for the law to be harmonised worldwide. In the digital age, brands and companies commonly operate internationally (particularly well known brands with a reputation) and as such would benefit from consistent protection worldwide, rather than having to rely on each jurisdiction's distinct laws.

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?

N/A

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.:

Yes. The definition as set out in answer 2 is appropriate. In other words, it would cover riding on the coat-tails of a mark in order to derive a benefit from it without paying any financial compensation and without being required to make efforts of his own in that regard. There should be no requirement of confusion on the part of the public, but the idea of a link is essential.

However, as discussed above in answer 14, it would be beneficial if further clarity was provided with regard to what is required for an advantage to be “unfair” and how this requirement relates to without due cause.

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, it would be beneficial if there were definition of similar use. The definition of passing off set out in answer 4 above may be suitable to cover situations where unfair advantage is taken of an unregistered trade mark or trade dress more generally.

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

The basis for such protection should be trade mark law (in addition to a common law cause of action in respect of unregistered trade marks, such as passing off). Trade mark law would enable the trade mark proprietor’s interest to be served by providing of his investment in his trade marks, while weighing against that the consumer’s interest not only in having accurate information supplied to it through the use of trade marks but also by having choice on the marketplace.

While such protection could be based on unfair competition, the views of the UK Group are that “unfair competition” is a very broad concept meaning different things in different jurisdictions, such that harmonisation could be very difficult. Moreover, in the UK the concept of “unfair competition” is a relative unknown.

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?

The requirements as set out in answer 4 above are considered appropriate. Furthermore, as is the case in the UK, the trade mark proprietor should be required to prove all of the requirements, except that the burden to show due cause should be on the free-rider.

The level of reputation required ought to be simply that the trade mark must be known by a significant part of the public concerned by the product or services covered by that trade mark. There should be no specific percentage requirement, as it is felt that a fixed percentage would not offer enough flexibility to cover the wide variety of markets of differing sizes. Each case should be viewed on its own facts and own merits. The scale of the reputation affects the ease with which the trade mark proprietor can establish that a link is made in the mind of the consumer. The protection should therefore be rather elastic with famous brands getting significant protection and brands with ordinary reputation hardly getting any.

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.

The Defences set out in answer 6 above are considered appropriate. In particular, it is considered that the defence of 'due cause' is considered vital.

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

The Defendant should bear the burden in respect of any defences and/or limitations, as is currently the case in the UK (see answer 7 above).

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

It should be possible to invoke the protection in civil court proceedings in order to be able to bring an action for infringement against free-riders and to obtain an injunction and/or damages. It should also be possible to invoke such protection in opposition and revocation proceedings, to ensure that conflicting trade marks are not on the register.

However, it should not be possible to invoke the protection in criminal court proceedings. See answer 13 above.

Summary

The UK group thinks that harmonising the principles along the lines of the European directive is an admirable objective. At present the current harmonisation directive allows Member States to provide this protection whereas the new proposal would make it obligatory.

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.