

## 14: Trademarks

### Article 15 Protectable Subject Matter

1. Any sign, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings, shall be capable of constituting a trademark. Such signs, in particular words including personal names, letters, numerals, figurative elements and combinations of colours as well as any combination of such signs, shall be eligible for registration as trademarks. Where signs are not inherently capable of distinguishing the relevant goods or services, Members may make registrability depend on distinctiveness acquired through use. Members may require, as a condition of registration, that signs be visually perceptible.
2. Paragraph 1 shall not be understood to prevent a Member from denying registration of a trademark on other grounds, provided that they do not derogate from the provisions of the Paris Convention (1967).
3. Members may make registrability depend on use. However, actual use of a trademark shall not be a condition for filing an application for registration. An application shall not be refused solely on the ground that intended use has not taken place before the expiry of a period of three years from the date of application.
4. The nature of the goods or services to which a trademark is to be applied shall in no case form an obstacle to registration of the trademark.
5. Members shall publish each trademark either before it is registered or promptly after it is registered and shall afford a reasonable opportunity for petitions to cancel the registration. In addition, Members may afford an opportunity for the registration of a trademark to be opposed.

### Article 16 Rights Conferred

1. 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

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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. The rights described above shall not prejudice any existing prior rights, nor shall they affect the possibility of Members making rights available on the basis of use.

2. Article 6bis of the Paris Convention (1967) shall apply, *mutatis mutandis*, to services. In determining whether a trademark is well-known, Members shall take account of the knowledge of the trademark in the relevant sector of the public, including knowledge in the Member concerned which has been obtained as a result of the promotion of the trademark.

3. Article 6bis of the Paris Convention (1967) shall apply, *mutatis mutandis*, to goods or services which are not similar to those in respect of which a trademark is registered, 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.

**Article 17 Exceptions**

Members may provide limited exceptions to the rights conferred by a trademark, such as fair use of descriptive terms, provided that such exceptions take account of the legitimate interests of the owner of the trademark and of third parties.

**Article 18 Term of Protection**

Initial registration, and each renewal of registration, of a trademark shall be for a term of no less than seven years. The registration of a trademark shall be renewable indefinitely.

**Article 19 Requirement of Use**

1. If use is required to maintain a registration, the registration may be cancelled only after an uninterrupted period of at least three years of non-use, unless valid reasons based on the existence of obstacles to such use are shown by the trademark owner. Circumstances arising independently of the will of the owner of the trademark which constitute an obstacle to the use of the trademark, such as import restrictions on or other government requirements for goods or services protected by the trademark, shall be recognized as valid reasons for non-use.

2. When subject to the control of its owner, use of a trademark by another person shall be recognized as use of the trademark for the purpose of maintaining the registration.

#### Article 20 Other Requirements

The use of a trademark in the course of trade shall not be unjustifiably encumbered by special requirements, such as use with another trademark, use in a special form or use in a manner detrimental to its capability to distinguish the goods or services of one undertaking from those of other undertakings. This will not preclude a requirement prescribing the use of the trademark identifying the undertaking producing the goods or services along with, but without linking it to, the trademark distinguishing the specific goods or services in question of that undertaking.

#### Article 21 Licensing and Assignment

Members may determine conditions on the licensing and assignment of trademarks, it being understood that the compulsory licensing of trademarks shall not be permitted and that the owner of a registered trademark shall have the right to assign the trademark with or without the transfer of the business to which the trademark belongs.

### 1. Introduction: terminology, definition and scope

Trademarks (or trade marks)<sup>232</sup> are signs that distinguish the goods or services of one enterprise from those of another. They are identifiers intended to rapidly convey information to consumers. The conventional and largely uncontroversial wisdom regarding trademarks is that they reduce consumer transaction costs by allowing individuals to scan product displays and make purchasing decisions by associating signs with known qualities or characteristics of goods or services, including the reputation of producers. A secondary role of the trademark – more controversial from a legal and economic standpoint – is to facilitate producer investment in advertising and promotion in order to stimulate consumer demand; that is, to generate goodwill by self-promotion.

Part of the impetus for the overall TRIPS negotiating effort was concern over trademark counterfeiting, the straightforward misappropriation of the persona of a producing enterprise.<sup>233</sup> Although trademark counterfeiting may have benefits for consumers in a limited set of circumstances,<sup>234</sup> the practice was not defended by any group of countries during the TRIPS negotiations. In fact, many developing countries that generally opposed substantive negotiation of IPRs in the GATT as an

<sup>232</sup> U.S.-English uses the single word “trademark” and U.K.-Commonwealth English uses the separate words “trade mark” for the same subject matter.

<sup>233</sup> According to footnote 14 to Article 51 of TRIPS, counterfeit trademarked goods “shall mean any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation”.

<sup>234</sup> That is, for example, when the counterfeiter offers high quality substitute goods at lower prices.

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alternative pressed to limit the scope of negotiations to trademark “counterfeiting” and copyright “piracy”.

While the basic role of trademarks is generally accepted, important questions regarding the scope of protection remain. One set of issues concerns whether trademarks can and should be used to inhibit parallel trade in goods or services. Recognizing that a very high percentage of goods in international trade are identified by a trademark, rules preventing parallel importation based on trademark rights may significantly affect trade flows. Another set of issues concerns the fair use of trademarks. In what circumstances may journalists or competitors use a trademark to refer to goods or services? Does the colouring of a medicine give its producer the right to prevent others from using the same colour for another version of that medicine?

TRIPS represented a significant step in the evolution of trademark law. Just as for patents, the Paris Convention for the Protection of Industrial Property includes rules regulating the grant and use of trademarks, but it does not define the subject matter of protection. Although the European Community, in particular, had taken significant steps in the approximation of trademark law at the regional level, TRIPS for the first time defined the subject matter of trademark protection at the multilateral level.

## 2. History of the provision

### 2.1 Situation pre-TRIPS

Prior to negotiation of TRIPS, most countries granted and enforced rights in trademarks, although there were significant differences in the subject matter scope of protection, the application of conditions of use, and in procedural aspects such as renewal periods.

#### 2.1.1 The Paris Convention

The Paris Convention (1883, as revised) establishes a rule of national treatment for trademark applicants and owners (Article 2). It provides a right of priority for trademark applicants, although the period of six months is shorter than that for patent applicants (Article 4). The Convention establishes a “reasonable” period before cancellation of a mark for non-use (Article 5.C(1)). It recognizes that conditions for application will be established by national legislation (Article 6(1)) and confirms the independence of marks (Article 6(3)). The Convention addresses in a rather general way the subject of “well-known marks” (Article *6bis*). It includes rules on assignment, allowing assignment of a mark along with transfer of the portion of the business within the country that manufactures or sells the subject goods (Article *6quater*). The Convention establishes the “*telle quelle*” or “as is” rule, providing that marks must be accepted for registration in the same form as registered in the country of origin (Article *6quinquies*). It provides that countries must protect “service marks”, but does not require that they be subject to registration (Article *6sexies*). The Convention includes an undertaking to protect “collective marks” (Article *7bis*) and “trade names” (Article 8). It includes an obligation on countries to seize infringing goods, either on importation or approximate thereto (Article 9), and a provision requiring similar remedies with respect

to goods bearing false indication of source (Article 10). The Convention requires countries to protect against “unfair competition “ (Article 10*bis*), which includes acts of a nature to create confusion concerning the goods of a competitor; and to provide appropriate legal remedies to nationals of other countries (as well as associations) to effectively repress the acts referred to in Articles 9, 10 and 10*bis* (Article 10*ter*).

### 2.1.2 The GATT 1947

The GATT 1947 included several provisions addressing trademarks. Article XII:3 (c)(iii) required that in the application of balance of payment measures, Contracting Parties would not “prevent compliance with patent, trade mark, copyright, or similar procedures”. Article XVIII, Section B(10), providing safeguard flexibility for low income countries, similarly precluded interference with trademark procedures. Article XX, General Exceptions, permits measures:

“(d) necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including those relating to . . . the protection of . . . trade marks, and the prevention of deceptive practices.”

As discussed in Chapter 15, Article IX addresses “marks of origin” that, however, are different than trademarks.<sup>235</sup>

### 2.1.3 The Nice Agreement

The Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of Registration of Marks (1957), provides a framework for designating classes of goods and services, and is in wide use.<sup>236</sup>

### 2.1.4 Regional laws

Effort at the regional level to approximate trademark law had begun in the Andean Group in the early 1970s, and the European Community adopted the First Trade Marks Directive in 1988, shortly after commencement of the Uruguay Round.

## 2.2 Negotiating history

Concerns among U.S. and European industry groups with trademark counterfeiting were a significant factor in the launch of the TRIPS negotiations in the Uruguay Round.<sup>237</sup> Although there was a dearth of hard data concerning the phenomenon, there was a wide perception within developed country industry circles that sales

<sup>235</sup> As opposed to trademarks that indicate the *producer*, marks of origin under the GATT 1947 indicate the *territorial origin* of products. Thus, they share basic features with the more refined concept of geographical indications under Articles 22–24 of TRIPS. For a detailed explanation of the differences between trademarks and geographical indications, see Chapter 15.

<sup>236</sup> For a list of the current Parties to the Agreement, see <<http://www.wipo.org/treaties/documents/english/pdf/i-nice.pdf>>.

<sup>237</sup> On the original motivations to negotiate the TRIPS Agreement, see *Intellectual Property Rights: Implications for Development*, Policy Discussion Paper, UNCTAD-ICTSD, Geneva, 2003, p. 44 et seq. (“The emergence of TRIPS”) (also available at <<http://www.ictsd.org/iprsonline/unctadictsd/projectoutputs.htm#policy>>) [hereinafter Policy Paper].

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and profits, particularly in developing countries, were being eroded by such misappropriation.

### 2.2.1 Tokyo Round developments

Towards the end of the Tokyo Round, the United States floated a proposal for an Anti-Counterfeiting Code, though this proposal was not actively pursued.<sup>238</sup> A Ministerial Declaration adopted 29 November 1982 included a Decision on Trade in Counterfeit Goods that instructed the GATT Council to “examine the question of counterfeit goods with a view to determining the appropriateness of joint action in the GATT framework on trade aspects of commercial counterfeiting and, if such action is found to be appropriate, the modalities of such action.” At the 40<sup>th</sup> Session of the Contracting Parties, in November 1984, a Group of Experts on Trade in Counterfeit Goods was convened to examine the issue. The Group met on six occasions in 1985, tabling its report on 9 October 1985. The report observed that:

“(a) while all intellectual property rights were affected, goods bearing protected trade marks were more directly affected;

(b) a growing problem of trade in counterfeit goods existed;

(c) existing provisions in international law [...] particularly the Paris Convention were very useful yet insufficient instruments to prevent trade in counterfeit goods. . . .

...

(f) any measures taken to prevent trade in counterfeit goods should not become an obstacle to trade in genuine goods.”

### 2.2.2 The 1987 U.S. proposal

The 1987 United States Proposal for Negotiations on Trade-Related Aspects of Intellectual Property Rights addressed trademarks as follows:

“Trademarks

A trademark should consist of any word, symbol, design or device, including any distinctively shaped three-dimensional object, except the generic name of the goods and services or words descriptive thereof. The term trademark should include service mark.

Exclusive rights to a trademark should derive from use or registration. Well-known marks should be protected. Trademarks which offend national symbols, policies or sensibilities should not give rise to exclusive rights.

Systems for registration of trademarks and service marks should be provided on equal terms and at reasonable costs. Owners of marks identical or confusingly similar to a mark for which registration is sought should be given the opportunity to challenge promptly such registration.

Trademarks should be registered for no less than 5 years and should be renewable indefinitely for similar terms. The trademark right should lapse if the trademark has not been used for a period of years and no special circumstances can be shown

<sup>238</sup> Frederick M. Abbott, *Protecting First World Assets in the Third World: Intellectual Property Negotiations in the GATT Multilateral Framework*, 22 Vand. J. Transnat'l L. 689 (1989).

to justify such non-use. The use of a trademark should not be encumbered by any special requirements.

Licensing of trademarks, with provision for adequate compensation for the licensor, should be permitted. No compulsory licensing of trademarks shall be permitted. Assignments of trademarks should not be unnecessarily encumbered.”<sup>239</sup>

### 2.2.3 The 1988 EC proposal

The European Communities’ 1988 submission of Guidelines and Objectives Proposed by the European Community for the Negotiations on Trade Related Aspects of Substantive Standards of Intellectual Property Rights said:

#### “D.3.b. trademarks

(i) The registration of a trademark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade identical or similar signs for goods or services which are identical or similar to those for which the trademark is registered. In case of the use of an identical sign for identical goods or services, a likelihood of confusion shall not be required.

Protection shall, as far as possible, also extend under trademark law or other law to the use in the course of trade of any sign which is identical with, or similar to, the trademark in relation to goods or services which are not similar to those for which the trademark is registered, where the latter has a reputation and where use of that sign without due cause takes unfair advantage of or is detrimental to the distinctive character or the repute of the trademark.

Limited exceptions to the exclusive rights conferred by a trademark, which take account of the legitimate interests of the proprietor of the trademark and of third parties, may be made, such as fair use of descriptive terms and exhaustion of rights. The term trademarks shall include service marks and collective marks

(ii) Protection shall be granted for any signs capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of goods or of their packaging, provided that such signs are capable of distinguishing the goods or services of one undertaking from those of other undertakings. Protection shall, in particular, be denied to marks which are (i) devoid of any distinctive character, (ii) contrary to public policy or to accepted principles of morality, (iii) of such a nature as to deceive the public, for instance as to the nature, quality or geographical origin of the goods or services, and (iv) in conflict with earlier rights.

(iii) A trademark right may be acquired by registration or by use, in particular by use resulting in a reputation of the trademark. A system for the registration of trademarks shall be maintained. Use of a trademark prior to registration shall not be a condition for registration.

(iv) Registration of a trademark may be renewed indefinitely.

(v) If use of a registered mark is required to maintain trademark rights, the registration may be cancelled only after an uninterrupted period of at least five

<sup>239</sup> Suggestion by the United States for Achieving the Negotiating Objective dated 19 Oct. 1987, MTN.GNG/NG11/W/14, 20 Nov. 1987, at Annex.

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years of non-use, unless legitimate reasons for non-use exist. Circumstances arising independently of the will of the proprietor of a trademark which constitute a serious obstacle to the use of the mark (such as e.g. import restrictions on products protected by the trademark) are sufficient to constitute legitimate reasons for non-use.

The compulsory licensing of trademarks shall not be permitted. Trademarks may be transferred with or without the transfer of the undertaking to which they belong.”<sup>240</sup>

The EC had introduced a number of concepts not found in the U.S. proposal. These included exceptions for fair use and exhaustion of rights, and the possibility for “naked” transfers (that is, transfers unaccompanied by assets of the business), as well as explicit recognition that use of a trademark should not be a precondition for registration.

### 2.2.4 The 1989 Brazilian proposal

In December 1989, Brazil made the following proposal on trademarks:

#### “TRADEMARKS

##### (a) Definition

31. Protection should be granted to distinctive signs, such as names, words, denominations, monograms, emblems, and symbols which allow the differentiation of goods and services for commercial purposes.

32. A trademark should also enable the distinction between the goods or services of two undertakings and assure quality to the consumer.

33. Those signs which contain some elements that form part of an existing registration or conflicts therewith or are prohibited by law or by the Paris Convention shall not be registerable as trademarks.

##### (b) Derivation of rights

34. Protection for trademarks should derive from registration. The use of a trademark should not be a pre-requisite for registration.

##### (c) Rights conferred

33. The registration of a trademark shall confer on the owner exclusive rights therein.

36. The use, reproduction, manufacturing and non-authorised imitation by third parties, which would result in error or confusion, should be considered as a violation of the rights conferred to trademark owners.

##### (d) Protection of well-known marks

37. Protection should be provided for trademarks which are well-known in the country where such protection is granted. For that purpose, countries should examine the adoption of internal rules of protection, according to their interests and needs. Such rules may establish, for example, that well-known trademarks should be given protection in all classes and be kept on a special register so as to prevent the registration of another mark which reproduces or imitates the well-known

<sup>240</sup> MTN.GNG/NG11/W/26, 7 July 1988.

mark, when confusion may arise as to the origin of the goods or services or when the reputation of the well-known mark is damaged.

38. It is incumbent on the owner of the mark to have recourse to means provided in domestic legislation against violation of well-known marks.

(e) Exceptions to rights conferred

39. Exceptions to rights conferred by a mark, which take account of rights of third parties as well as of public interest, should be allowed. The principle of international exhaustion of rights should be applied in the case of parallel imports.

(f) National registration systems

40. Countries should maintain a system for the registration of marks, with a view to administering existing trademark rights under conditions of fullest possible transparency. Such system should include provisions allowing third parties to raise objections to the granting of a registration, among other procedures which permit the safeguarding of rights of third parties in the country, the enforcement of law, as well as facilitate the administrative control by interested third parties of the local use of marks, including well-known marks.

(g) Term of protection

41. The term of protection as well as the conditions for renewal of registration should be defined by national legislations.

(h) Use requirements

42. National legislations which establish compulsory use of a mark should include provisions for forfeiture of a mark due to non-use or interrupted use, after a reasonable period of time and in cases where the owner does not present valid justifications. –

43. National legislations could establish the following criteria for the use of a mark: (i) a licensing agreement per se is not an evidence of the use of a mark; (ii) evidence of use by third parties requires the registration with the relevant government authority of the licence granted by the owner of the mark.

(i) Licensing and assignment

44. National legislations should be able to establish the terms and conditions for the assignment of a mark.

(j) Non-discriminatory treatment

45. The principle of national treatment, as contained in the Paris Convention, should be strictly observed by national legislations.

(k) Obligations of trademark owners

45. In order to avoid abuse, trademark owners should have the following obligations:

(i) to use a mark in the host country lest the registration of the mark be declared forfeited;

(ii) to avoid anti-competitive use of a mark;

(iii) to avoid engaging in restrictive business practices in connection with licensing agreements, such as tied purchases of inputs, prohibition or restrictions on exports from the host country; restrictions on the use after the expiry of an agreement; and others;

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(iv) contribute to the transfer of technology to the host country through transparent and more favourable licensing agreement conditions.

47. Participants assume the obligation to control and punish national trademark owners which engage in restrictive business practices adversely affecting the rights of third parties.”<sup>241</sup>

### 2.2.5 A 1990 developing country joint proposal

A 14 May 1990 submission of Argentina, Brazil, Chile, China, Colombia, Cuba, Egypt, India, Nigeria, Peru, Tanzania and Uruguay included the following with respect to trademarks:

“Article 7: Marks

(1) Parties shall provide protection for trademarks and service marks registered in their territories in compliance with the formalities and requirements laid down in their respective national legislation.

(2) The registration of a trademark or a service mark shall confer upon its registered owner the right to preclude others from the use of the mark or a similar mark for goods or services which are identical or similar to those in respect of which the registration was granted where such use would result in a likelihood of confusion. Rights shall be subject to exhaustion if the trademark goods or services are marketed by or with the consent of the owner in the territories of the Parties to the present Agreement.

(3) It shall be a matter for national legislation to determine the conditions for the use of a mark as well as the duration of the protection granted.”<sup>242</sup>

This proposal called for a uniform rule of international exhaustion of trademark rights, and would have left to each Contracting Party the duration of protection.

### 2.2.6 The Anell Draft

The consolidated text of Chairman Anell (June 1990) included the following provision on the subject of trademarks (identified by “A” as developed and “B” as developing country proposals):

“SECTION 2: TRADEMARKS

1. Protectable Subject Matter

1A.1 A trademark is a sign capable of distinguishing goods or services of one undertaking from those of other undertakings. It may in particular consist of words and personal names, letters, numerals, the shape of goods and of their packaging, combinations of colours, other graphical representations, or any combination of such signs.

1A.2 Trademarks which are:

- (i) devoid of any distinctive character;
- (ii) of such a nature as to deceive the public, for instance as to the nature, quality or geographical origin of the goods or services; or

<sup>241</sup> MTN.GNG/NG11/W/57, 11 Dec. 1989.

<sup>242</sup> MTN.GNG/NG11/W/71, 14 May 1990.

(iii) in conflict with earlier rights,  
[shall not be protected] [cannot be validly registered]. Protection may also be denied in particular to trademarks contrary to morality or public order.

1A.3 The term “trademark” shall include service marks, as well as collective [and] [or] certification marks.

1B PARTIES shall provide protection for trademarks and service marks registered in their territories in compliance with the formalities and requirements laid down in their respective national legislation.

## 2. Acquisition of the Right and Procedures

2A.1 PARTIES shall enable the right to a trademark to be acquired by registration or by use. For the acquisition of the right to a trademark by use, a PARTY may require that the trademark is well-known among consumers or traders of the PARTY.

2A.2 A system for the registration of trademarks shall be provided. The nature of the goods [or services] to which a trademark is to be applied shall in no case form an obstacle to registration of the trademark.

2A.3 [[Actual] use of a trademark prior to [the application for] registration shall not be a condition for registration.] [Use of a trademark may be required as a prerequisite for registration.]

2A.4 PARTIES are encouraged to participate in a system for the international registration of trademarks.

2A.5 PARTIES shall publish each trademark either before it is registered or promptly after it is registered and shall afford other parties a reasonable opportunity to petition to cancel the registration. In addition, PARTIES may afford an opportunity for other parties to oppose the registration of a trademark.

2B Parties shall provide protection for trademarks and service marks registered in their territories in compliance with the formalities and requirements incorporated or laid down in their respective national law.

## 3. Rights Conferred

3.1 [The owner of a registered trademark shall have exclusive rights therein.] The owner of a registered trademark [or service mark] shall be entitled to prevent all third parties not having his 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 registration has been granted [where such use would result in a likelihood of confusion.] [However, in case of the use of an identical sign for identical goods or services, a likelihood of confusion shall be presumed.]

3.2A Protection for registered or unregistered trademarks shall extend under trademark law or other law to the use in the course of trade of any sign which is identical with, or similar to, the trademark in relation to goods or services which are not similar to those in respect of which the right to the trademark has been acquired, where the latter has a reputation and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trademark.

3.3A PARTIES shall refuse to register or shall cancel the registration and prohibit use of a trademark likely to cause confusion with a trademark of another which is

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considered to be well-known [in that country]. [This protection shall be extended inter alia against the use of such marks for goods or services which are dissimilar to original goods or services.] [In determining whether a trademark is well-known, the extent of the trademark's use and promotion in international trade must be taken into consideration. A PARTY may not require that the reputation extend beyond the sector of the public which normally deals with the relevant products or services.]

3.4A The owner of a trademark shall be entitled to take action against any unauthorised use which constitutes an act of unfair competition.

### 4. Exceptions

4A Limited exceptions to the exclusive rights conferred by a trademark, such as fair use of descriptive terms, may be made, provided that they take account of the legitimate interests of the proprietor of the trademark and of third parties.

4B Rights shall be subject to exhaustion if the trademarked goods or services are marketed by or with the consent of the owner in the territories of the PARTIES.

### 5. Term of Protection

5A Initial registration of a trademark shall be for a term of no less than ten years. The registration of a trademark shall be renewable indefinitely.

5B It shall be a matter for national legislation to determine the duration of the protection granted.

### 6. Requirement of Use

6.1 If use of a registered trademark is required to maintain the right to a trademark, the registration may be cancelled only after [an uninterrupted period of at least [five years] [three years]] [a reasonable period] of non-use, unless valid reasons based on the existence of obstacles to such use are shown by the trademark owner.

6.2A Use of the trademark by another person with the consent of the owner shall be recognized as use of the trademark for the purpose of maintaining the registration.

6.3A Valid reasons for non-use shall include non-use due to circumstances arising independently of the will of the proprietor of a trademark which constitute an obstacle to the use of the trademark, such as import restrictions or other governmental requirements for products protected by the trademark.

### 7. Other Requirements

7A The use of a trademark in commerce shall not be [unjustifiably] encumbered by special requirements, such as use with another trademark, a use requirement which reduces the function of the trademark as an indication of source, [or use in a special form].

7B It shall be a matter for national legislation to determine the conditions for the use of a mark.

### 8. Licensing and Compulsory Licensing

8A Compulsory licensing of trademarks shall not be permitted.

8B It will be a matter for national legislation to determine the conditions for the use of a mark. (See also Section 8)

### 9. Assignment

9A The right to a [registered] trademark may be assigned with or without the transfer of the undertaking to which the trademark belongs. [PARTIES may require that the goodwill to which the trademark belongs be transferred with the right to the trademark.] [PARTIES may prohibit the assignment of a registered trademark which is identical with, or similar to, a famous mark indicating a state or a local public entity or an agency thereof or a non-profit organisation or enterprise working in the public interest.]

9B It will be a matter for national legislation to determine the conditions for the use or assignment of a mark. (See also Section 8 below)”<sup>243</sup>

The position of developing country Members included demands for international exhaustion of trademarks and national determinations regarding the duration of protection. In addition, developing country Members wanted to preserve the right to determine the conditions of use of marks. Trademarks are defined at this stage to include service marks. Among the developed country proposals, there was question whether use could be retained as a pre-condition of registration. A specific provision acknowledging fair use was included, although limitations were introduced.

#### 2.2.7 The Brussels Draft

The Brussels Ministerial Text of December 1990 follows. At that stage, the Chairman’s Commentary that accompanied the text said regarding trademarks “In Section 2 of Part II on Trademarks, there is an outstanding issue concerning special requirements regarding the use of a mark (Article 22).”<sup>244</sup>

#### “SECTION 2: TRADEMARKS

##### Article 17: Protectable Subject Matter

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2. Paragraph 1 above shall not be understood to prevent a PARTY from denying registration of a trademark on other grounds, provided that they do not derogate from the provisions of the Paris Convention (1967).

3. PARTIES may make registrability depend on use. However, actual use of a trademark shall not be a condition for filing an application for registration. An application shall not be refused solely on the ground that intended use has not taken place before the expiry of a period of 3 years from the date of application.

<sup>243</sup> MTN.GNG/NG11/W/76, 23 July 1990.

<sup>244</sup> MTN.TNC/W/35/Rev.1, 3 Dec. 1990.

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4. The nature of the goods or services to which a trademark is to be applied shall in no case form an obstacle to registration of the trademark.

5. PARTIES shall publish each trademark either before it is registered or promptly after it is registered and shall afford a reasonable opportunity for petitions to cancel the registration. In addition, PARTIES may afford an opportunity for the registration of a trademark to be opposed.

### Article 18: Rights Conferred

1. The owner of a registered trademark shall have the exclusive right to prevent all third parties not having his 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.

2. Article 6bis of the Paris Convention shall apply, *mutatis mutandis*, to services. In determining whether a trademark is well-known, account shall be taken of the knowledge of the trademark in the relevant sector of the public including knowledge in that PARTY obtained as a result of the promotion of the trademark in international trade.

3. Article 6bis of the Paris Convention shall apply, *mutatis mutandis*, to goods or services which are not similar to those in respect of which a trademark is registered, provided that use of that trademark in relation to those goods or services would unfairly indicate a connection between those goods or services and the owner of the registered trademark.

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PARTIES may provide limited exceptions to the rights conferred by a trademark, such as fair use of descriptive terms, provided that such exceptions take account of the legitimate interests of the owner of the trademark and of third parties.

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Initial registration, and each renewal of registration, of a trademark shall be for a term of no less than seven years. The registration of a trademark shall be renewable indefinitely.

### Article 21: Requirement of Use

1. If use is required to maintain a registration, the registration may be cancelled only after an uninterrupted period of at least three years of non-use, unless valid reasons based on the existence of obstacles to such use are shown by the trademark owner. Circumstances arising independently of the will of the owner of the trademark which constitute an obstacle to the use of the trademark, such as import restrictions on or other government requirements for goods or services protected by the trademark, shall be recognised as valid reasons for non-use.

2. When subject to the control of its owner, use of a trademark by another person shall be recognised as use of the trademark for the purpose of maintaining the registration.

### Article 22: Other Requirements

A. The use of a trademark in commerce shall not be unjustifiably encumbered by special requirements, such as use with another trademark, use in a special form or

use in a manner detrimental to its capability to distinguish the goods or services of one undertaking from those of other undertakings.

B. It shall be a matter for national legislation to determine the conditions for the use of a mark.

#### Article 23: Licensing and Assignment

PARTIES may determine conditions on the licensing and assignment of trademarks, it being understood that the compulsory licensing of trademarks shall not be permitted and that the owner of a registered trademark shall have the right to assign his trademark with or without the transfer of the business to which the trademark belongs.”<sup>245</sup>

It is rather interesting to note that only under the Brussels Draft a more detailed treatment of well-known marks was introduced. These rules represented a fairly substantial innovation in the law of trademarks. The duration of the mark is now recognized as indefinite. Renewals are now set with a minimum term of seven years. Reference to exhaustion has been moved to the more generally applicable Article 6. As noted by the Chairman, differences remain over conditions on the use of marks.

#### 2.2.8 The Dunkel Draft

There was no material difference between the Dunkel Draft text (20 December 1991) and the final TRIPS Agreement text with respect to Articles 15–21.

### 3. Possible interpretations

#### 3.1 Article 15

##### 3.1.1 Article 15.1: definition

#### Article 15: Protectable Subject Matter

1. Any sign, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings, shall be capable of constituting a trademark. Such signs, in particular words including personal names, letters, numerals, figurative elements and combinations of colours as well as any combination of such signs, shall be eligible for registration as trademarks. Where signs are not inherently capable of distinguishing the relevant goods or services, Members may make registrability depend on distinctiveness acquired through use. Members may require, as a condition of registration, that signs be visually perceptible.

The definition of the subject matter of trademark protection, while relatively brief, carries with it a great deal of content. The first sentence indicates that “any sign” . . . “shall be capable of constituting a trademark”. This definition would include anything perceptible to a human being that could serve as a signalling device,

<sup>245</sup> MTN.TNC/W/35/Rev.1, 3 Dec. 1990.

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including not only visually perceptible words and designs, but also sounds, scents, tastes and textures. In fact, sounds and scents have been determined to qualify for trademark protection in a number of jurisdictions, and the first sentence of Article 15.1 does not exclude this. However, the second sentence says that “in particular” the listed subject matter “shall be eligible for registration as trademarks” (i.e., “personal names, letters, numerals, figurative elements and combinations of colours as well as any combination of such signs”). The list does not include signs that are not visually perceptible. It also limits the reference to colours to “combinations”, whereas single colours have in some jurisdictions been held to qualify for trademark protection. The fourth sentence permits Members to condition registration on visual perceptibility.<sup>246</sup> This now makes clear that sounds, scents, tastes and textures need not be accorded protection, even though they may well qualify as “signs”. Thus the broad reference of the first sentence is intended to permit Members to adopt an extensive scope of trademark subject matter protection, the second sentence is intended to set out a list of obligatory subject matter and the fourth sentence permits the exclusion of certain subject matter.

It was earlier observed that the function of the trademark is not entirely settled. Traditionally, it is well accepted that trademarks serve the function of identifying the source of goods. A can of soda, for example, with the well-known trademark “Coca-Cola” is the product of the Coca-Cola Company. Yet source identification is not the only potential function of the trademark, and the traditionally accepted “source identification” function to some extent has been diluted by the express provisions of TRIPS.

In addition to source identification, the trademark may also serve to protect the so-called “goodwill” of an enterprise. In a trademark sense, the term “goodwill” is used to capture an intangible: the reputation of an enterprise that it has built up.<sup>247</sup> This reputation is not earned solely by the quality or other characteristics of products placed on the market. A business may specifically invest in the reputation of its products or services without in fact doing anything to modify or improve them. This is investment in advertising or promotion that is intended to give consumers a certain impression of the products or services, even if they have never purchased them. It is artificially created reputation. To the producer there is a real financial value to advertising and promotion. There is also a potential economic and social cost. Consumers may be encouraged to purchase products they do not need, and may purchase products of inferior quality as a result of advertising.

Should trademark law protect the investment of enterprises in promoting their goods and services, even if that investment is not directly correlated to the quality or other characteristics of the goods and services? While this may seem an esoteric question, the answer may have quite significant implications for trademark litigation, both in terms of the capability of an enterprise to enforce a mark against an alleged infringer, and in terms of remedies (including damages). If a

<sup>246</sup> On the question of visual perceptibility or graphic representability of *olfactory signs*, see the approach taken under EC law, below, Section 6.3.1.

<sup>247</sup> The term “goodwill” also has a financial accounting meaning, generally referring to the difference between the value of a company’s hard assets and its market value (or the premium a buyer may be willing to pay over its hard asset value).

third party is understood to contravene the rights of the trademark holder only by misrepresenting the source of goods or services, this might permit the third party to avoid infringement by clearly indicating the true source of its goods or services, even if the trademark is referenced by it on the goods (or, for example, in comparative advertisement). If, on the other hand, a third party is understood to contravene the rights of the trademark owner by taking advantage of its goodwill, then any reference to the mark may be sufficient to give the third party a reputation benefit (that is, by attracting the attention of consumers), even if the true source of the goods or services is clear. This effectively lowers the threshold for infringement. Moreover, when calculating damages, there may be a significant difference between determining injury based on consumer confusion as to the true source of goods, and determining injury based on the effect on the trademark owner's goodwill.

Article 15.1 provides that trademarks are signs "capable of distinguishing the goods or services of one undertaking from those of other undertakings". A sign that allows consumers to distinguish or differentiate among undertakings is not the same thing as a sign that identifies a particular undertaking as the source of goods or services. Article 15.1, first sentence, does not require that the consumer be able to identify the specific source of the goods or services. The consumer should be able to determine that goods or services identified by the mark are distinct from other goods or services.<sup>248</sup>

It is doubtful that the text of Article 15.1, first sentence, lays to rest the question whether trademark protection must extend to goodwill as an essential feature, in addition to providing protection for source identification. On the other hand, Article 15.1, first sentence, appears to allow Members to extend trademark protection to goodwill.

Article 15.1 specifically refers to signs distinguishing "services" as being subject to registration. This is a significant change from Article 6*sexies* of the Paris Convention that requires states to provide protection for service marks, but does not mandate that they be subject to registration.<sup>249</sup> However, it is doubtful that inclusion of a registration requirement for service marks engendered a significant change in the practice of Members since most would have permitted the registration of service marks prior to the conclusion of TRIPS. Just as the subject matter of "services" is not defined in the General Agreement on Trade in Services (GATS), it is not defined in TRIPS.

The third sentence of Article 15.1 provides that "Where signs are not inherently capable of distinguishing the relevant goods or services, Members may make registrability depend on distinctiveness acquired through use." Trademarks are generally understood to fall into the following categories. "Arbitrary" or "fanciful" marks, such as "Exxon", have no inherent meaning. They are created by the enterprises that use them. "Suggestive" marks may have a meaning in common

<sup>248</sup> For example, Article 15.1 does not require that soda carrying the Coca-Cola trademark is manufactured by the Coca-Cola Company. It requires only that consumers are able to distinguish Coca-Cola from Pepsi and other cola products.

<sup>249</sup> "Article 6*sexies* Marks: Service Marks

The countries of the Union undertake to protect service marks. They shall not be required to provide for the registration of such marks." (Paris Convention)

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language, but the common meaning is not ordinarily associated with the goods or services. Thus “Sunrise”, for example, has a common meaning with reference to a planetary phenomenon. Yet “Sunrise” can be used in connection with marketing a dishwashing liquid to suggest light and cleanliness. It is a suggestive mark. “Descriptive” marks rely on the common meaning of terms to identify the goods or services. In their common meaning, the terms do not identify or distinguish between undertakings. Consider, for example, “General Electric” for electrical appliances, or “Volkswagen” (i.e., “people’s car”) for automobiles. In both cases, the words used to form the mark convey a meaning that, even if somewhat indirectly, describe the goods of the business. Trademark law generally permits descriptive terms to acquire trademark status, but in many jurisdictions this depends on the terms having achieved a certain level of recognition among consumers as associating goods or services with an enterprise. This is what Article 15.1, third sentence, means when it refers to “distinctiveness acquired through use.” Thus, Members may condition registration of “descriptive” marks on their having achieved some level of distinctiveness in the minds of consumers. The tests for when sufficient recognition has been achieved vary among countries.<sup>250</sup>

#### 3.1.2 Article 15.2

2. Paragraph 1 shall not be understood to prevent a Member from denying registration of a trademark on other grounds, provided that they do not derogate from the provisions of the Paris Convention (1967).

A Member might elect to refuse registration of a trademark on grounds other than that it does not distinguish the goods or services of an undertaking. For example, in the *U.S. – Havana Club* case decided by the WTO Appellate Body (AB), the United States had refused to register a mark on grounds that the party claiming ownership of the mark was not its rightful owner. The U.S. refusal was upheld by the AB as being within U.S. discretion to make determinations regarding the lawful holders of marks.<sup>251</sup>

Article 6*quinquies* of the Paris Convention, which was at issue in the *U.S. – Havana Club* case, obliges Members to accept marks for registration in the same form (“as is”, or “*telle quelle*”) as registered in the country of origin. This rule was designed to prevent trademark registration authorities from requiring translations or other adaptations of marks to meet local preferences or rules. Under Article 15.2, a Member must comply with the “as is” obligation, and in that way it may not derogate from the Paris Convention. There are exceptions even to the “as is”

<sup>250</sup> It should be noted that “generic” terms may not serve as trademarks for the goods they identify. A “generic” term is that which is used for a type or class (a “genus”) of products or services, such as “bed” or “car”. So, a maker of beds could not use “bed” standing alone as its trademark. However, generic terms sometimes form part of combination term trademarks, and can be protected only as used in the combination. Moreover, a generic term may be used in its non-generic sense as a trademark, e.g., “Apple” for computers.

<sup>251</sup> The *U.S. – Havana Club* decision of the AB is discussed in detail, *infra* at Section 4.1.

obligation. That is, Article 6*quinquies*, Paris Convention, recognizes certain bases even for refusing to accept the same form of the mark. These are:

- “B. . . 1. when they are of such a nature as to infringe rights acquired by third parties in the country where protection is claimed;
2. when they are devoid of any distinctive character, or consist exclusively of signs or indications which may serve, in trade, to designate the kind, quality, quantity, intended purpose, value, place of origin, of the goods, or the time of production, or have become customary in the current language or in the bona fide and established practices of the trade of the country where protection is claimed;
3. when they are contrary to morality or public order and, in particular, of such a nature as to deceive the public. It is understood that a mark may not be considered contrary to public order for the sole reason that it does not conform to a provision of the legislation on marks, except if such provision itself relates to public order. This provision is subject, however, to the application of Article 10*bis*.”

The Paris Convention enumerates other bases on which the registration of trademarks may be denied (Article 6*bis* and 6*ter*). Article 6*bis* establishes an obligation to refuse third party registration of well-known marks. Treatment of well-known marks is addressed in Subsection 3.2.2 below. Article 6*ter* creates obligations to refuse trademark registration for state flags and symbols.

### 3.1.3 Article 15.3: use of trademarks

3. Members may make registrability depend on use. However, actual use of a trademark shall not be a condition for filing an application for registration. An application shall not be refused solely on the ground that intended use has not taken place before the expiry of a period of three years from the date of application.

Trademark protection originated as a form of unfair competition law. The tort of “passing off” in Commonwealth jurisdictions evolved to address claims of taking unfair advantage of another person’s trademark or business name. This cause of action did not depend on the registration of a mark. The concept is broader than trademark infringement, and could encompass misuse of trade names as well as other distinctive characteristics of a business. It was and remains the subject matter of common law.<sup>252</sup> Protection of trademarks developed in the United States as a part of the law of unfair competition. Although trademarks long ago came to benefit from registration in the Commonwealth and U.S. legal systems, there remains the possibility to establish and enforce “common law” trademarks from use in commerce.

Before TRIPS was negotiated, the United States required use of a trademark in commerce as a precondition to federal registration. This precondition was intended to assure that trademarks were associated only with real goods or services.

<sup>252</sup> On the common law doctrine of “passing off”, see W.R. Cornish, *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* (4<sup>th</sup> ed. 1999), at Chapter 16.

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Among other objectives, this would avoid a proliferation of unused marks on the records of the Patent and Trademark Office (USPTO). The use precondition also served as a reward to business enterprises that acted swiftly to put their goods and services on the market.

However, even without the complications that this use-based registration system created at the international level (since there was a basic incompatibility with most other countries that allowed registration without use), the precondition came to be seen as an impediment to more modern marketing strategies that involved the advertisement to the public of new goods and services before they were actually placed on the market. If use were a precondition for registration, business enterprises would face risks by advertising in advance of product and service introduction. Other businesses might actually use a mark on a good or service before the enterprise advertising it placed its own good or service on the market.

The USA moved to a modified use-based registration during the Uruguay Round as the advantages of a more globally-integrated trademark registration system became apparent to U.S. businesses. A Madrid Protocol-based registration system (administered by WIPO) could be employed to reduce registration inefficiencies, and some of the domestic difficulties that the use-based system presented for marketing strategies could be overcome. The U.S. system remains grounded in “use” as a condition of registration, but it is now acceptable to file for registration declaring “intent to use” a mark, and subsequently filing within a prescribed period a verification that the mark has actually been used in commerce.<sup>253</sup> Formal registration of the mark does not occur until the applicant submits verification of actual use to the USPTO. In the meantime, the applicant benefits from priority “constructive use” of the mark that in effect precludes a third party from acquiring competing federal trademark rights during the intent-to-use period, and also allows infringement claims based on that constructive use.<sup>254</sup>

Article 15.3, third sentence, provides that registration may not be denied during a three-year application period solely on the grounds of non-use. This in effect requires that a form of priority be established for unused marks included in filed applications since for a period of three years the mark should be treated (for application purposes) as if it is being used. However, this does not appear to require that an applicant be given rights as against an alleged infringer of an unused mark during the “priority” period since it refers only to the ultimate grant of registration, not to the interim period. It is for each Member to determine the effect of an application under national law. Article 4 of the Paris Convention provides a six-month right of priority in respect to the filing of trademark applications outside the country of first application. This prevents the intervening use of a mark or filing of an application from interfering with the rights of the priority holder.

<sup>253</sup> See 15 U.S.C. §1051(b)–(d). The prescribed period for filing a verification of use is within six months of a “notice of allowance”, extendable by an additional 24 months. Because a notice of allowance is issued after examination, period for response, publication and an opposition period, it is very doubtful that registration would be denied for non-use within the three-year period prescribed by Article 15.3, TRIPS Agreement.

<sup>254</sup> See 15 U.S.C. §1057(c). The benefits of “constructive use” do not arise until registration is granted, but can be applied with retroactive effect.

Article 15.3 accommodates the U.S.-style registration system that continues to require use as a precondition to completion of registration, but permits an application to be filed prior to actual use. It is of interest that non-use cannot be the sole grounds for refusing registration during a three-year period, but otherwise the effects of an application are not stated.

#### 3.1.4 Article 15.4

4. The nature of the goods or services to which a trademark is to be applied shall in no case form an obstacle to registration of the trademark.

Article 15.4 essentially restates Article 7 of the Paris Convention, adding express reference to service marks.<sup>255</sup> As noted elsewhere in this book, IPRs are not market access rights. The fact that Article 15.4 states that trademark registration must be granted in connection with all kinds of goods and services does not require that a Member allow such goods and services to be sold.

Article *6quinquies* of the Paris Convention (“as is” or “*telle quelle*”) permits trademark registration to be refused on grounds that the mark is “contrary to morality or public order and, in particular, of such a nature as to deceive the public”. Note that reference is to the mark itself, and not to associated goods or services.

The question of morality or public order might arise in connection with goods such as cigarettes that are known to be harmful to health, the advertising or sale of which Members might choose to heavily regulate or even ban. Article 15.4 suggests that a mark used in connection with, for example, cigarettes may not be refused registration because of the product with which it is associated. This appears to create a tension with Article *6quinquies* that permits refusal of registration of a mark on morality and public order grounds. This apparent tension might be resolved by interpreting Article *6quinquies* to be limited to refusals for signs or symbols that are offensive “as such”. Yet this is a difficult line to draw since a sign or symbol inherently acts to draw (or stimulate) a connection in the public mind to some good, service, activity or belief. A Member might argue that it is entitled to block the registration of a mark used on cigarettes not because of the product, but because promotion of the mark itself has adverse consequences for the public; that is, the mark “as such” is injurious to public order because it encourages a type of behaviour known to cause serious injury (and the behaviour is not linked or limited to the products of a particular enterprise). Whether or not this argument is persuasive, the critical point from a public policy perspective is that allowing registration of a trademark or service mark does not impair the government’s authority to regulate the product associated with the mark. Even if a Member must allow registration of trademarks for cigarettes, it may ban (or limit) the sale of the cigarettes on public health grounds.

<sup>255</sup> Article 7 of the Paris Convention provides:

“The nature of the goods to which a trademark is to be applied shall in no case form an obstacle to the registration of the mark.”

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#### 3.1.5 Article 15.5

5. Members shall publish each trademark either before it is registered or promptly after it is registered and shall afford a reasonable opportunity for petitions to cancel the registration. In addition, Members may afford an opportunity for the registration of a trademark to be opposed.

Article 15.5 addresses the procedural issues of publication, cancellation and opposition. It is fairly straightforward. Marks should be published so that third persons who may have an interest in objecting to their registration may have notice of them. Members are required to provide a procedure for seeking cancellation, and may (but need not) implement an opposition system. An opposition system would allow the prevention of registration, whereas cancellation would take place after registration.

Questions may arise regarding what types of publication satisfy the requirement. Article 15.5 does not limit publication to hard text, and presumably Internet publication would suffice. This might certainly save costs for trademark offices. Questions may also arise as to how quickly “prompt” publication must occur, and what a “reasonable opportunity” for presenting a cancellation petition is. Terms such as “prompt” and “reasonable” by definition give some leeway to the Member interpreting them. It does not seem productive to explore the potential limits of those terms here. Undoubtedly there are many variations on procedures complying with these requirements.

### 3.2 Article 16

#### 3.2.1 Article 16.1: exclusive rights

1. 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. The rights described above shall not prejudice any existing prior rights, nor shall they affect the possibility of Members making rights available on the basis of use.

These few sentences of Article 16.1 alone can provide the subject matter for a book on the law of trademarks, and it is necessary to limit discussion here to some key elements.

The rights are attributable to owners of “registered” trademarks. Members may, but need not, protect “common law” trademarks. In the *U.S. – Havana Club* case the United States was defending its right to determine who the “owner” of the

subject trademark was, as a condition predicate to determining what the rights of that owner might be.

As with other IPRs, the trademark right is a “negative right” entitling the owner to “prevent all third parties”. If the owner has “consent[ed]” to use of the mark, it is no longer entitled to block its use. The owner consents to use of the mark by affixing it to a good it places on the market and it thereby authorizes third persons to resell or otherwise transfer the good. This consent underlies the principle of exhaustion of rights.

The owner’s right to prevent extends to “using [the mark] in the course of trade”. This implies that uses of the mark other than in the “course of trade” may not be prevented. So, for example, a newspaper article concerning a good’s qualities or other characteristics that is intended to inform readers, but not to promote or discourage sales of the good (as an advertisement), might not be prevented by the mark owner as a use in the “course of trade”. (Such uses are also permitted as a limited exception to trademark rights.)

The preventable use is connected with “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.” There is relatively little room for divergent interpretation of trademark infringement when an “identical” trademark is used without consent in the course of trade on “identical” goods or services. This is the basic case of trademark counterfeiting. The questions: (1) when are trademarks “similar”, (2) when are goods or services “similar”, and (3) when would “likelihood of confusion” exist, form much of the subject matter of trademark law. The basic idea is that a competitor should not be able to take advantage of the identity of the trademark owner by using a sufficiently similar sign such that consumers will be misled into believing that there is a connection between the trademark owner and the similar goods being offered by the competitor.

There are theoretically an unlimited number of signs that might be used as trademarks and to distinguish goods and services in commerce. As a practical matter the number is much more limited. Ordinary descriptive terms are often used in trademarks. There are a limited number of such terms in each language, and among those terms a more limited number is familiar to the average consumer. As a practical matter when enterprises are preparing to launch products on the market, it is not at all uncommon for them to come up with the same or similar ideas about what to call them.

The question whether two signs or trademarks are sufficiently similar such that use of one would infringe rights in the other is basically one of fact. The judge, administrator or jury must compare the two marks and determine whether they convey a similar impression. A TRIPS Agreement interpretative issue might arise if a Member decided to apply very strict standards of comparison between allegedly infringing marks such as to make it very difficult for a trademark owner to prove infringement by similar, but not identical, signs. Purely for illustrative purposes, a Member could adopt a rule under which “Coco-Cola” was not considered similar to “Coca-Cola”, and allow a local producer to take advantage of the well-known mark. While the concept of *similarity* is flexible, as with many other IPRs concepts there are limits beyond which it may not be stretched.

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There is an analogous issue regarding the similarity of goods or services. Is a powerboat similar to a sailboat for trademark confusion purposes? Is a refrigerator similar to an automobile? The rule of Article 16.1 is that an identical or similar mark may not be used on similar goods or services. This implies that an identical or similar mark may be used on goods that are *not* similar. The question is one of fact. The judge, administrator or jury must determine whether in the mind of the consumer there will be a sufficient connection between two goods or services such that an assumption is likely to be made that these are produced by the same enterprise.

Ultimately the question is asked whether “such use would result in a likelihood of confusion”. The term “likelihood” means that there is a significant probability that consumers will in fact be confused. There is, however, no common trademark law standard as to what percentage of consumers have been or might be confused, and courts even within the same national jurisdiction may apply rather different standards. If it can be demonstrated that consumers have *in fact* been confused by purchasing a good or service assumed to be offered by one enterprise, but in reality offered by another, that typically is strong evidence of “likelihood” of confusion. However, confusion *in fact* is often difficult to prove.

There are almost certain to be significant variations among Members with respect to the standards applied in determining “likelihood of confusion”. It would be difficult to set out limits to what would be considered a reasonable good faith approach, recognizing that these determinations are highly context-specific. In the final analysis, likelihood of confusion is determined by a finder of fact based on an overall impression drawn from a mix of elements. Courts have established various multi-pronged approaches that identify elements to be considered (in the USA perhaps the best known is the eight-element “Sleekcraft” analysis<sup>256</sup>), but even here the elements may be weighted differently depending on the setting.<sup>257</sup>

The second sentence of Article 16.1 provides that, “In case of the use of an identical sign for identical goods or services, a likelihood of confusion shall be presumed.” This provision should facilitate the successful prosecution of infringement claims where the intent to directly take advantage of the trademark owner is evident (e.g., straightforward trademark counterfeiting). By establishing a presumption of likelihood of confusion where the signs and goods/services are identical, the burden is shifted to the alleged infringer to prove the absence of likelihood. This removes a significant evidentiary task from the trademark owner. It is, however, possible to rebut the presumption. Professor T. Cottier has noted that in cases of parallel importation (in countries following a rule of international exhaustion of trademarks), the presumption may be rebutted by showing that the goods were put on the market with the trademark owner’s consent in another country.<sup>258</sup>

<sup>256</sup> *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341 (9th Cir. 1979).

<sup>257</sup> For example, whether an infringer acts with bad intent bears significant weight even though this does not directly affect the perception of the consumer.

<sup>258</sup> Thomas Cottier, *Das Problem der Parallelimporte im Freihandelsabkommen Schweiz-EG und im Recht der WTO-GATT*, *Revue Suisse de la Propriété Intellectuelle*, I/1995, 37, 53–56 [hereinafter

The third sentence of Article 16.1 refers to non-prejudice to existing prior rights. The intent of this phrase is not entirely clear. On one hand, it may refer to a rather typical situation in which two parties have used potentially conflicting trademarks within the same national territory, perhaps in different locations, and national jurisprudence has recognized that identical or similar trademarks may be used concurrently by different owners. Even if one of the trademarks is or becomes registered, the concurrent use may be allowed to continue. This concept of non-prejudice would allow prior or concurrent use rights on an ongoing basis, regardless of whether conduct pre- or post-dates TRIPS. On the other hand, the phrase might be interpreted to the effect that the rules of Article 16.1 are not intended to have an effect on trademark rights that arose prior to its entry into force, and that such uses might continue. However, similar situations would not be permitted to arise after TRIPS Agreement rules became applicable. This would in effect modify the rule of Article 70.2, establishing an obligation to extend new TRIPS Agreement rights to existing subject matter, unless otherwise provided. The third sentence of Article 16.1 was added after the Brussels Ministerial.

The second phrase of Article 16.1 (“nor shall they affect the possibility of Members making rights available on the basis of use”), is not ambiguous. It makes clear that the institution of common law trademark rights may continue in Members that choose to continue or newly adopt it. However, the rights prescribed under the first and second sentences of Article 16.1 are not automatically applicable to common law trademarks, which may enjoy a different set of rights than registered marks.

### 3.2.2 Article 16.2: well-known trademarks

2. Article 6bis of the Paris Convention (1967) shall apply, *mutatis mutandis*, to services. In determining whether a trademark is well-known, Members shall take account of the knowledge of the trademark in the relevant sector of the public, including knowledge in the Member concerned which has been obtained as a result of the promotion of the trademark.

Article 6bis of the Paris Convention addresses the subject of so-called “well-known” trademarks.<sup>259</sup> A special regime for such marks has the objective of

Cottier]. Note that these cases have to be distinguished from the above example of trademark counterfeiting: in the case of parallel imports, the identical sign originates from the same trademark holder; whereas in the case of counterfeiting, a person different from the right holder uses the latter’s trademark for his own products.

<sup>259</sup> “Article 6bis Marks: Well-Known Marks

(1) The countries of the Union undertake, ex officio if their legislation so permits, or at the request of an interested party, to refuse or to cancel the registration, and to prohibit the use, of a trademark which constitutes a reproduction, an imitation, or a translation, liable to create confusion, of a mark considered by the competent authority of the country of registration or use to be well known in that country as being already the mark of a person entitled to the benefits of this Convention and used for identical or similar goods. These provisions shall also apply when the essential part of the mark constitutes a reproduction of any such well-known mark or an imitation liable to create confusion therewith.

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providing protection for trademarks that are well known in a country as already belonging to a certain person, even though they are not, or not yet, protected in that country through a registration. In the absence of registration of the well-known mark, the conflicting mark could theoretically be registered and enforced to the detriment of the well-known mark, which would in most cases result in consumer confusion. Such practice is widely regarded as constituting an act of unfair competition,<sup>260</sup> thus requiring the protection of the well-known trademark.

The necessity of protection of well-known marks usually arises in new markets, i.e. in countries previously closed to foreign traders or which, through an increase in economic development become attractive for the suppliers of branded products. In those cases, the owner of the well-known, but unregistered trademark is considered as worth of protection as if she/he had actually registered the mark. This shows that registration is not considered the ultimate criterion of protection. It is considered more important that the registration of the same or a similar mark by a third person could lead to confusion of the public, who would automatically associate the registered mark with the non-registered, but well-known owner or his products.

To make clear that well-known service marks are subject to protection on the same basis as trademarks (for goods), Article 16.2, first sentence, explicitly extends the protection of Article 6*bis*, Paris Convention, to service marks.

Article 6*bis*, Paris Convention, has been understood to leave substantial uncertainty regarding the standards states should apply in determining whether a mark is well known.<sup>261</sup> Article 16.2, TRIPS, second sentence, addresses one aspect of that uncertainty. It establishes that the question whether a mark is well known should be determined in respect to the "relevant sector of the public". Assume, for example, that an enterprise is the leading manufacturer of sophisticated equipment used by scientific laboratories to determine the chemical composition of materials. The trademark of that enterprise might be very well known among all technical specialists in the field of chemical composition, but would likely be more or less completely unknown to the general public. Article 16.2 indicates that a mark should be considered well known based on the "relevant" sector of the public, which in such circumstances would be the technical specialists. There

(2) A period of at least five years from the date of registration shall be allowed for requesting the cancellation of such a mark. The countries of the Union may provide for a period within which the prohibition of use must be requested.

(3) No time limit shall be fixed for requesting the cancellation or the prohibition of the use of marks registered or used in bad faith."

As noted earlier, the Paris Convention differentiates between trademarks and service marks. States, for example, are not required to provide for registration of service marks. The TRIPS Agreement requires that registration be made available for service marks.

<sup>260</sup> See G.H.C. Bodenhausen, *Guide to the Application of the Paris Convention for the Protection of Industrial Property as revised at Stockholm in 1967*, BIRPI, Geneva, 1968, p. 90 (on Article 6*bis*, under (d)).

<sup>261</sup> In September 1999 WIPO members adopted a Joint Resolution setting out guidance on various aspects of well-known marks, including criteria that might be used in making determinations. See below, Subsection 6.2.2. See, e.g., *Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks*, adopted by the WIPO General Assembly and the Assembly of the Paris Union, Sept. 1999.

is a risk that defining “well known” in terms of the relevant sector of the public will lead to a proliferation of well known marks. This risk can be addressed by imposing a relatively high standard regarding the degree of knowledge of the mark among the relevant sector, which possibility is within the scope of the provision.

Article 16.2, second sentence, adds to its relevant sector clarification the phrase, “including knowledge in the Member concerned which has been obtained as a result of the promotion of the trademark”.<sup>262</sup> Ordinarily, the level of advertisement of a mark is one ground upon which knowledge among the public is evaluated by a finder of fact in determining whether a descriptive mark has acquired “secondary meaning”. The TRIPS text clarifies that a mark may be well known even if it has not been used on goods and services within the Member concerned, but has become known there through advertisement. As indicated above, one of the principal reasons the Paris Convention provided special protection for well-known marks was to prevent their registration by third parties in markets that foreign mark holders had not yet entered (and to allow cancellation of registrations so obtained). Third parties would often register well-known marks and seek “ransom” from their foreign holders wanting to obtain registration in the new market. Yet Article 6*bis*, Paris Convention, does not explicitly address the question whether a mark should be protected even if goods were not yet placed on the market. Article 16.2, second sentence, now makes clear that having goods or services on the market in a Member is not a prerequisite to holding interests there in a well-known mark.

### 3.2.3 Article 16.3: well-known trademarks

3. Article 6*bis* of the Paris Convention (1967) shall apply, *mutatis mutandis*, to goods or services which are not similar to those in respect of which a trademark is registered, 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.

Article 16.3 addresses the situation in which a third party uses a well-known mark in connection with goods or services for which the mark holder is not well known. This provision differs from Article 16.2. in three respects. First, the well-known mark in question is *registered*, as follows from the language of the provision (see quotation above). Second, the goods or services for which the confusingly similar trademark is used are different from those goods or services that are covered by the well-known mark.<sup>263</sup> Third, this provision emphasizes protection of

<sup>262</sup> The Brussels Ministerial Text (December 1990) referred to “including knowledge in that PARTY obtained as a result of the promotion of the trademark in international trade”.

<sup>263</sup> This is also what distinguishes this provision from the *first* paragraph of Article 16, which applies in case of identical or similar goods or services protected by a registered trademark (referred to below as “ordinary trademark confusion”).

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the *reputation* of the well-known mark. This is indicated by the last part of the paragraph, requiring that the “interests of the owner of the registered trademark are likely to be damaged” by the use of the third party’s trademark (see below for details). Articles 16.2 of TRIPS and *6bis* of the Paris Convention do not contain such reference to the interests of the right holder, but focus on the likelihood of confusion of the public. Nevertheless, it has been observed that Article 16.3, by referring to Article *6bis* of the Paris Convention, also takes account of the concern about confusion of the public.<sup>264</sup>

To illustrate the operation of Article 16.3, consider, for example, the situation in which the well-known automobile trademark “AUDI” was used by a third party in connection with the marketing of television sets. To begin with, there would be a difficult question whether television sets might be part of the natural product line expansion of an automobile manufacturer in an ordinary trademark confusion sense (i.e., under Article 16.1). If so, there would be similarity between the television sets potentially covered by the registered trademark and the third party’s television sets. Thus, the question of well-known marks might not arise since there may already be a likelihood of confusion between similar goods. However, if there is no likelihood of confusion in the *ordinary* trademark sense, Article 16.3 indicates that the finder of fact should proceed to ask whether a consumer would consider there to be a connection between the goods, even if not part of a natural product line expansion (i.e. the case of non-similarity of the goods). Would a consumer seeing the term “AUDI” on a television set think that there was a connection with the automobile company? In recent years there has been an increasing tendency for producers well known in one area of commerce to market into unrelated lines of commerce. Would it have been anticipated, for example, that the “Marlboro” and “Camel” cigarette marks would be used on clothing and shoes? In this context, Article 16.3 addresses a significant question regarding well-known marks.

Article 16.3 contains an important qualifier. The interests of the owner of the well known trademark must be “likely to be damaged by such use”. There are two ways such damage might be foreseen. First, the well known trademark holder might itself have been planning to enter the same market as the third party using the mark. It would therefore be injured by the loss of a revenue opportunity. Second, the third party using the mark might be doing so in a way that would tarnish or injure the reputation of the trademark holder. The burden should presumably be on the trademark holder to establish the likelihood of damage since third party use of a mark in connection with a dissimilar product would not ordinarily be assumed to cause damage.

Subjective questions such as those involving the likelihood of damage from use of a mark on dissimilar goods may be answered differently in various Members. This is to be expected. In the application of TRIPS Agreement provisions such as Articles 16.2 and 16.3, the issue from a WTO legal standpoint is whether the rules are applied reasonably and in good faith, not whether an exact methodology is used to reach a definitive result.

<sup>264</sup> See Gervais, p. 111.

### 3.3 Article 17: exceptions

#### Exceptions

Members may provide limited exceptions to the rights conferred by a trademark, such as fair use of descriptive terms, provided that such exceptions take account of the legitimate interests of the owner of the trademark and of third parties.

Trademark rights involve exclusivity in signs or symbols. In effect a sign or symbol may be taken out of public usage and reserved to private control. When trademarks involve arbitrary combinations of letters and/or designs the effects on the public may be relatively inconsequential. However, there are a variety of contexts in which the effect on the public may be substantial.

When a descriptive word becomes the subject of trademark protection the capacity for expression is restricted. Even though the rights of the trademark holder are nominally limited to use with respect to certain goods or services in the course of trade, there is a chilling effect around the use of the word that discourages others from using it. The impact, both direct and indirect, of granting private rights in words is what motivates the prohibition on the grant of trademark rights in “generic” terms.

It is difficult for one enterprise to compare its goods with those of another without referring to the latter’s goods by their trademark name. For this reason, the use of a competitor’s mark in comparative advertising is typically allowed as an exception to the rights of the holder.

There are a number of other contexts in which trademarks are referred to without the consent of the owner. A common type of reference is in news reporting and commentary. It is often difficult to make reference to the goods or services of an enterprise without referring to the trademark name. Again consider the example of the “AUDI” trademark. It would be difficult for the publishers of a magazine directed to auto enthusiasts to review the performance of AUDI automobiles without using the term “AUDI”. The publisher could, of course, refer to an automobile manufacturer based in Germany with product lines known by certain characteristics, but this would strain writers and the reading public alike. The use by the publisher of the term “AUDI” in this context is a form of fair use of a trademark, sometimes referred to as “nominative fair use”.

Like copyright, trademark protects only the identification of the product and not its function. Pharmaceutical manufacturers market drugs in coloured capsules or tablets. Doctors, pharmacists and consumer-patients come to identify those drugs by their distinctive colouring. The users of the drugs come to rely on the colour as a principal means for determining what to ingest. The colour serves a critical function from a public health standpoint. When generic versions of a drug are produced by second-comers, significant problems for consumer-patients may arise if they are unable to identify the same medication by the same colour. Colour has taken on an important functional characteristic. The use by third parties of the same colour on equivalent drugs may be justified on either of two bases. First, it might be said that the colour is not serving a trademark function because it is

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functional, and thus not protected. Second, it might be said that use of the colour is a limited exception to the rights of the trademark owner as a fair use in the public interest.<sup>265</sup>

The Paris Convention does not expressly address the subject of exceptions to trademark rights, and from that standpoint Article 17 does not have a textual precedent at the multilateral level. This is similar to the circumstances of Article 30 with respect to patents. (By way of contrast, Article 13, with respect to copyright derives from Article 9(2), Berne Convention, and has a history of prior application.) As of mid-2004, WTO panels (but not so far the Appellate Body) have rendered decisions interpreting Article 13 and Article 30, but not Article 17. While there may be a temptation to analogize because of the similar language of the three exception provisions, it is important to be aware that the forms of IPRs perform very different roles and that the public and private interests in each may be rather different.

The term “limited exception” is capable of different reasonable interpretations. In the *Canada – Generic Pharmaceuticals* case,<sup>266</sup> the panel construed the language to refer to a narrow derogation.<sup>267</sup> Canada had argued that a “limited exception” is an exception with defined boundaries. The text is susceptible to both interpretations.

Article 17 gives “fair use of descriptive terms” as illustration of a limited exception, but clearly not in an exclusive way, as is made clear by the use of the terms “such as”. As noted above, there are a number of other types of limited exception that have been recognized in different legal systems.

Article 17 further provides that a limited exception should “take account of the legitimate interests of the owner of the trademark and of third parties”. Application of this language will of necessity involve subjective judgments regarding the balance of public and private interests in trademarks. The panel in *Canada-Generic*

<sup>265</sup> Note that use by third parties of the same colour on equivalent drugs has been admitted by the Court of the European Free Trade Association (EFTA, comprising Iceland, Liechtenstein, Norway, and Switzerland. With the exception of Switzerland, the EFTA countries have concluded with the EC and its member states the Treaty on the European Economic Area (EEA), resulting in their participation in the EC's common market and their being bound by EC law). See case E-3/02, *Merck v. Paranova* of 8 July 2003, EFTA Court: one of the biggest European parallel importers, Paranova, imported pharmaceutical products into Norway that the pharmaceutical company Merck had sold before under its trademark in Southern Europe. Before selling the drugs in Norway, Paranova repacked them, leaving the tablets as such untouched. The new packings displayed Merck's name and trademark, and the colours used on Merck's own packings. However, those colours were not in the same place as on Merck's original packings; instead of placing them in the center, Paranova had moved them to the corners of the packings. In response to trademark infringement proceedings initiated by Merck, the EFTA Court decided that under EC law, the holder of a trademark may prevent parallel importers from using a certain design only if such design damages the reputation of the right holder or his mark. The use by the parallel trader of the original colours in a different place with a view to facilitating the identification by consumers of the parallel trader's own product line does not amount to such damage. Contrary to the modelling of a new packing as such, the parallel importer in creating its own design on the packing may go beyond minimum modifications required by the importing country.

<sup>266</sup> WT/DS114/R, 17 March 2000. For a detailed discussion, see Chapter 23.

<sup>267</sup> *Canada – Generic Pharmaceuticals* case, para. 7.30.

*Pharmaceuticals* found that “legitimate interests” was to be understood more broadly than “legal interests” and to take into account broader social interests.<sup>268</sup> Each of the trademark exceptions discussed above should be permissible within the scope of subjective balancing implicit in taking account of the legitimate interests of owners and third parties.

### 3.4 Article 18: term of protection

#### Term of Protection

Initial registration, and each renewal of registration, of a trademark shall be for a term of no less than seven years. The registration of a trademark shall be renewable indefinitely.

Prior to TRIPS, WTO Members maintained significantly disparate renewal periods. Many trademark offices were (and remain) dependent on renewal fees to maintain their operations, and not surprisingly are anxious to collect fees. The seven-year minimum initial and renewal registration period was a compromise between the United States proposal for a minimum ten-year period and a developing country proposal to leave the question of duration to each Member (see 2.2.5, above).

Trademarks are capable of indefinite duration. This does not mean that trademark rights last indefinitely based on the mere payment of renewal fees. Trademarks are subject to cancellation on grounds such as non-use (see Article 19 below). Article 18, however, makes clear that there is no temporal limit to how long a trademark may remain valid if requirements for maintaining rights are satisfied.

### 3.5 Article 19: requirement of use

#### Requirement of Use

1. If use is required to maintain a registration, the registration may be cancelled only after an uninterrupted period of at least three years of non-use, unless valid reasons based on the existence of obstacles to such use are shown by the trademark owner. Circumstances arising independently of the will of the owner of the trademark which constitute an obstacle to the use of the trademark, such as import restrictions on or other government requirements for goods or services protected by the trademark, shall be recognized as valid reasons for non-use.
2. When subject to the control of its owner, use of a trademark by another person shall be recognized as use of the trademark for the purpose of maintaining the registration.

<sup>268</sup> Ibid., paras. 7.68 and 7.73.

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Article 19.1, first sentence, sets a three-year (uninterrupted) minimum term prior to which a registered mark may not be cancelled for non-use. The Paris Convention, at Article 5.C(1), provides that “the registration may be cancelled only after a reasonable period.”<sup>269</sup> TRIPS, thus, effectively defines the “reasonable period” of the Paris Convention.

Article 5.C(1), Paris Convention, and Article 19.1, TRIPS, first sentence, each provide a basis upon which the trademark owner can prevent cancellation. The Paris Convention permits the trademark owner to “justify his inaction”. TRIPS refers to the “existence of obstacles to such use”. Neither formulation is clear as to what types of facts or circumstances might justify non-use, leaving substantial discretion to Members to delimit the scope of the grounds. They might be quite broad, for example, allowing the registered holder to justify non-use on grounds that it was unable to put a good into production for technical reasons. On the other hand, they might be narrow, for example, referring only to obstacles arising outside the trademark holder’s control, such as a government ban on sales of the subject good.

The Paris Convention rule allowing owners to “justify” non-use might be construed not to provide an excuse when the government acted. The government’s action might be construed to de-legitimize the trademark owner’s excuse. Article 19.2, second sentence, makes clear that indeed the obstacle may arise from outside the trademark owner’s control, including government-imposed restrictions on the subject goods or services. Thus, an excuse based on a legitimately-imposed government restriction should still constitute a legitimate excuse.

Article 19.2 provides for the situation in which the trademark is licensed by its owner to a third party. Use by the licensee is equivalent to use by the owner for purposes of preventing cancellation for non-use. However, the licensee’s use of the mark is only covered “When subject to the control of its owner”. It would appear that a “naked license”, that is, a license under which the trademark holder merely collects royalties but does not supervise the licensee, may not constitute use under this provision. This is the logical import of the language and supported by the negotiating history which shows the language concerning control replacing an earlier text according to which only the owner’s consent to use of the mark was required.<sup>270</sup> It might alternatively be argued that so long as the trademark owner holds a contractual interest in the mark the licensee is under its control (however loose) and that this may suffice for “control” within the meaning of Article 19.2. This does not seem very persuasive in light of the express language and negotiating history.

<sup>269</sup> Article 5 of the Paris Convention provides:

“C. (1) If, in any country, use of the registered mark is compulsory, the registration may be cancelled only after a reasonable period, and then only if the person concerned does not justify his inaction.”

<sup>270</sup> Note that the “A” proposal under the Anell Draft did not include a requirement of control, providing:

“6.2A Use of the trademark by another person with the consent of the owner shall be recognized as use of the trademark for the purpose of maintaining the registration.” See text *supra*, Section 2.2.

### 3.6 Article 20: other requirements

#### Other Requirements

The use of a trademark in the course of trade shall not be unjustifiably encumbered by special requirements, such as use with another trademark, use in a special form or use in a manner detrimental to its capability to distinguish the goods or services of one undertaking from those of other undertakings. This will not preclude a requirement prescribing the use of the trademark identifying the undertaking producing the goods or services along with, but without linking it to, the trademark distinguishing the specific goods or services in question of that undertaking.

Prior to negotiation of TRIPS, it was not unusual for national trademark legislation, particularly in developing countries, to include requirements concerning the manner in which trademarks could be used. The domestic licensee of a foreign-origin trademark might be required to use its own trademark alongside that of the licensor. Additional rules might prescribe the relative placement of local and foreign-origin marks on goods. Despite the “*telle quelle*” or “*as is*” rule regarding registration in the same form, a foreign-origin trademark owner might be required to transform its mark into a more locally-friendly form, such as by providing a translated version of descriptive terms. The development-oriented objective of such requirements, *inter alia*, was to assure that some name or trademark recognition was established in favour of a local enterprise, assuming that the foreign licensor’s presence in the market might be transitory. By requiring the foreign licensor to link its mark with that of a local enterprise, developing country authorities encouraged continuity in business relationships since the licensor might be more reluctant to discontinue its association with a business with whose name or products it had been linked in the public mind. From the perspective of the foreign-origin licensor, this type of requirement presented obstacles to business planning. If the mark or name of a licensee (such as a distributor) was to be linked with the licensor’s mark, the licensor risked injury to its own reputation based on actions of the licensee. Also, as the special requirements might discourage foreign-origin licensors from changing or discontinuing business relationships, this was not viewed positively by the licensors.

Article 20 precludes the imposition of “special requirements, such as use with another trademark, use in a special form or use in a manner detrimental to its capability to distinguish the goods or services of one undertaking from those of other undertakings”. The first reference is clear, that is “with another trademark”. The meaning of “special form” might refer either to a standard format prescribed for all trademark owners (such as “in translation”, or in a particular size or colour scheme), or to a case-by-case determination by a trademark authority. It is less clear what is intended by “use in a manner detrimental to its capability to distinguish”. Such a result might come about if a mark-owner is required to reduce the size or placement of its mark to a point that consumers would have difficulty recognizing it, or to place it alongside information or materials that likewise would reduce its impact on consumers. Thus, for example, a requirement to include

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the generic name of a product alongside a trademark might be argued to have such an effect. However, the legal formulation leaves substantial flexibility to the interpreter.

However, Article 20 specifically authorizes rules that require the mark or name of the producing enterprise to be included with that of the trademark owner. Such requirements are intended to serve a development objective by indicating to the public that a local producer is the *de facto* supplier of the goods or services, with the expectation that the local public will gain assurance regarding the capacity of local suppliers. At the same time, Article 20 provides that the local enterprise will use its mark “without linking it to, the trademark” of the subject owner. This is presumably intended to prevent the local enterprise from taking “unfair advantage” of the foreign-origin mark. There should be some form of differentiation, though Article 20 does not provide or suggest a specific means. Although this provision was negotiated in response to developing country insistence that they should be allowed to facilitate awareness of local production capacity, the text does not distinguish between local undertaking-producers and foreign undertaking-producers. If a Chinese producer is making a product on which a U.S. trademark is placed, and the product is being sold in Indonesia, the mark of the Chinese producer should just as well be required to appear (based on the principle of national treatment) as that of an Indonesian producer putting the U.S. mark on the product for sale in Indonesia.

#### 3.7 Article 21: licensing and assignment

##### Licensing and Assignment

Members may determine conditions on the licensing and assignment of trademarks, it being understood that the compulsory licensing of trademarks shall not be permitted and that the owner of a registered trademark shall have the right to assign the trademark with or without the transfer of the business to which the trademark belongs.

Trademarks were traditionally understood to serve as identifiers of the source of goods. The consumer expected that goods placed on the market by a particular producer would conform to the quality standards that the trademark, and thus the producer or source, represented. Consequently, in many legal systems it was not permitted to license a trademark to a third party or, if licensing was permitted (and this was largely a development of mid-20<sup>th</sup> century trademark law), the licensor was required to exercise control over the licensee so as to assure the consumer that the trademark continued to represent an equivalent product.

If a trademark was owned by a business, and the business was sold, there was generally not a legal obstacle to transfer of the mark along with the business. As businesses became more multinational, as well as subdivided into separate operating units, it became commonplace to sell and transfer part of the business, or business operations in a particular country, as opposed to selling and transferring an entire combined enterprise. National trademark laws, as well as Article 6*quater*(1) of the Paris Convention, acknowledged that assignment and

transfer of a mark should be permitted to take place if at least “the portion of the business or goodwill located in that country be transferred to the assignee, together with the exclusive right to manufacture in the said country, or to sell therein, the goods bearing the mark assigned”.<sup>271</sup>

Article 21 acknowledges the right of Members to continue to impose restrictions on the licensing and assignment of trademarks.<sup>272</sup> Members may, for example, continue to require that trademark licensors exercise adequate control over the activities of licensees so as to protect the source indication function of the mark (that is, the integrity of the mark from the standpoint of the consumer). The terms of the first clause are not restricted, “Members may determine conditions” on licensing and transfer. The limitations are set out in the second clause.

First, compulsory licensing of trademarks is not permitted. While Article 5.A of the Paris Convention authorizes the compulsory licensing of patents, Article 5.C does not specifically address compulsory licensing of trademarks. It provides that cancellation for non-use should only take place after a “reasonable period” (see Subsection 2.1.1, *supra*). If a mark is cancelled, it becomes available for use by third parties. In an indirect way cancellation might be viewed as a form of compulsory licensing, but the two concepts are different.

Since trademarks are intended to indicate the source of products, it might seem contradictory to that basic function to permit compulsory licensing to third parties. The source of products would by definition change, and consumers might be misled. Yet there is perhaps more to this question than first meets the eye. Consider the situation in which a compulsory patent license is issued for a medicine. Prior to the introduction of the third-party version of medicine under compulsory license, it is marketed to doctor-pharmacist-consumers under the trademark of the patent holder company. The patent holder asserts that its trademark rights extend to the colour of the medicine tablet. If the colour of the tablet is not licensed along with the patent, this might lead to a situation of confusion in the consuming community (i.e. among doctors, patients and pharmacists). As a practical matter, under TRIPS a compulsory license for the claimed mark – which is

<sup>271</sup> Article 6*quater*

“Marks: Assignment of Marks

(1) When, in accordance with the law of a country of the Union, the assignment of a mark is valid only if it takes place at the same time as the transfer of the business or goodwill to which the mark belongs, it shall suffice for the recognition of such validity that the portion of the business or goodwill located in that country be transferred to the assignee, together with the exclusive right to manufacture in the said country, or to sell therein, the goods bearing the mark assigned.

(2) The foregoing provision does not impose upon the countries of the Union any obligation to regard as valid the assignment of any mark the use of which by the assignee would, in fact, be of such a nature as to mislead the public, particularly as regards the origin, nature, or essential qualities, of the goods to which the mark is applied.”

<sup>272</sup> A “license” is generally understood to refer to a legal arrangement in which a person is given permission to use something owned by another person, but without transfer of ownership interest in the subject matter of the license. An “assignment” is generally understood to refer to a legal arrangement in which ownership interest is effectively transferred from one person to another. However, because the law sometimes imposes restrictions on the formal transfer of ownership of things, an “assignment” of rights might not in all cases involve a formal recordation of change in ownership. For this reason, the words “assignment” and “transfer” are often used to refer first to the change in legal interest in a thing, and second to the formal act involved in recording a change in ownership.

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prohibited by Article 21 – is not necessary for two reasons. Trademarks do not cover “function”, and if the colour of a medicine tablet is performing a function for doctors, patients and pharmacists, the colour cannot be exclusively reserved to a trademark holder. In addition, Article 17 permits limited exceptions to trademark rights, and a Member may recognize a “fair use” right in the mark in these circumstances.<sup>273</sup>

Second, “the owner of a registered trademark shall have the right to assign the trademark with or without the transfer of the business to which the trademark belongs”. This formula represents a break with the traditional view of the trademark as an indication of source. There is now permitted the “naked assignment” of marks. The trademark has in essence become a stand-alone commodity that can be traded just as lumber. This acknowledges a major change in the general principles underlying trademark law.

However, the fact that trademarks may be sold and transferred as commodities does not dispense with the basic requirements for the maintenance of marks. In countries where use is required to maintain marks, the new owner must assure that some use in connection with the covered goods or services is made so as to avoid cancellation after the minimum prescribed period has elapsed. Likewise, the mark cannot be allowed to become “generic” and thereby lose its trademark function. (Even a fanciful mark may become generic if it is widely used in reference to a product and the trademark owner does not take steps to assert its rights and control over the term.)

#### 4. WTO jurisprudence

##### 4.1 United States – Havana Club

###### 4.1.1 Factual background

United States – Section 211 Omnibus Appropriations Act of 1998 (“U.S. – Havana Club”)<sup>274</sup> is the first decision in which the Appellate Body (AB) interprets substantive intellectual property rights rules of TRIPS and the Paris Convention for the Protection of Industrial Property. It is also the first case that applies the national and most favoured nation (MFN) treatment provisions of TRIPS.

The factual setting is complex, but may be briefly summarized. Prior to the coming to power of the revolutionary government in Cuba, a family-owned Cuban enterprise made and sold rum under the trademark “Havana Club”. That enterprise registered the Havana Club mark in Cuba and the United States. The revolutionary government confiscated the assets of the family-owned business, including the trademarks, and did not compensate the former owners. The former owners

<sup>273</sup> As noted in the text, when medicines are identified by a single colour, that colour is often functionally used by consumers as the means to identify it. In these circumstances, there are strong grounds for either (a) denying trademark rights in a single colour as it serves a functional (and therefore non-trademark) purpose, or (b) recognizing a fair use right on behalf of third party producers. Even a limited reference to the “brand name” of the trademark holder may be permitted as fair use when done in a way that does not suggest endorsement of the third party product by the trademark holder.

<sup>274</sup> WTO Appellate Body, *United States – Section 211 Omnibus Appropriations Act of 1998*, WT/DS176/AB/R, 2 January 2002 (“U.S. – Havana Club”).

did not attempt to renew their trademark registration in the United States, and it lapsed. Subsequently, the Cuban state enterprise that succeeded to the mark in Cuba registered the mark in the United States.

In the 1990s, a France-based multinational liquor manufacturer and distributor (Pernod Ricard) entered into a joint venture with the Cuban state enterprise to sell Havana Club rum worldwide. The joint venture took assignment of the U.S.-registered trademark. In the same period, a U.S.-based (Bermuda incorporated) liquor manufacturer and distributor (Bacardi) purchased the residual interests of the former Cuban-family owners of the Havana Club mark, and began to sell rum under the Havana Club mark in the United States. The Cuban-French joint venture was precluded from selling into the U.S. market because of U.S. legislation and regulations that prevented Cuba and its nationals from doing business in and with the United States. Nonetheless, the Cuban-French joint venture sued the U.S. distributor in federal court in the United States for infringement of its trademark and trade name (and related unfair competition claims) to preserve its rights in the U.S. market.

While the infringement litigation was proceeding, the U.S. Congress passed legislation directed at trademarks and trade names that had been confiscated from Cuban nationals. This legislation retroactively invalidated the assignment of the Havana Club trademark registration to the Cuban-French joint venture, and denied Cuba the right to renew its registration of the Havana Club mark in the United States. In addition, the legislation instructed U.S. courts not to enforce rights in trademarks and trade names asserted by Cuban nationals or their successors-in-interest based on earlier confiscations. The federal court in which the Cuban-French joint venture brought its infringement and unfair competition action rejected the claims based on the newly adopted legislation. This decision was upheld by a federal appeals court, and the U.S. Supreme Court refused to grant a further right of appeal.

#### 4.1.2 The EC position

The EC initiated a dispute settlement action under the DSU based on a number of asserted TRIPS inconsistent actions by the United States. The principal claims involved alleged inconsistencies with U.S. obligations under trademark provisions of TRIPS and incorporated rules of the Paris Convention. The most heavily relied upon was Article 6*quinquies*, Paris Convention, which embodies the so-called “*telle quelle*” or “*as is*” rule (see 3.1.2, above). This rule generally provides that the trademark registration authorities of a party must accept for registration a mark in the same form it has been previously registered in the trademark holder’s country of origin. This rule was designed to prevent trademark authorities from demanding changes to the form or appearance of marks to conform with national preferences, and to allow for the use of marks on a uniform basis throughout the Paris Convention system. The EC took this rule a step further, arguing not only must the mark be accepted for registration in the same form, but the mark must be accepted for registration, thereby attempting to convert a rule relating to form to a rule relating to conditions of registration.

The panel and the AB accepted that the rules of the Paris Convention are incorporated by reference in TRIPS, and treated the task of interpreting the Paris

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Convention as equivalent to interpreting the TRIPS Agreement. It is notable that the panel requested and received an extensive factual report from the WIPO International Bureau (or Secretariat) regarding the negotiating history of Article 6 *quinquies*, Paris Convention.<sup>275</sup> The panel relied on this negotiating history to confirm its interpretation of the Paris Convention.<sup>276</sup> The AB also relied on the WIPO-furnished report, as well as Professor Bodenhausen's Guide to the Paris Convention (1967) for interpretative guidance.<sup>277</sup>

##### 4.1.3 The Appellate Body's interpretation of the *telle quelle* rule under the Paris Convention

The panel and the AB both rejected the EC's claim concerning the *telle quelle* rule in Article 6 *quinquies* of the Paris Convention. Contrary to the view expressed by the EC, the AB interpreted the *telle quelle* rule as being limited to the *form* of a trademark. WTO Members are thus free to determine, through domestic legislation, the requirements for the filing and the registration of trademarks. The AB relied on Article 6(1) of the Paris Convention, which provides that

“The conditions for the filing and registration of trademarks shall be determined in each country of the Union by its domestic legislation.”

According to the AB, this provision would be undermined if Article 6 *quinquies* required Members to accept not only the form of a foreign mark, but equally another country's substantive conditions for the filing and registration of trademarks.<sup>278</sup>

<sup>275</sup> *United States – Section 211 Omnibus Appropriations Act of 1998*, Report of the Panel, WT/DS176/R, 6 Aug. 2001, at VI. The panel referred to its request and the reply (having furnished a summary of the reply), as follows:

“8.11 As mentioned previously, at the first substantive meeting, we informed the parties of our intention to seek information from the International Bureau of the World Intellectual Property Organization (‘WIPO’) pursuant to Article 13 of the DSU. The International Bureau of WIPO is responsible for the administration of the Paris Convention (1967) for the Protection of Industrial Property.

8.12 Article 13.1 of the DSU states that a panel has ‘the right to seek information and technical advice from any individual or body which it deems appropriate.’ Article 13.2 further provides that panels may ‘seek information from any relevant source and may consult experts to obtain their opinion on certain aspects of the matter.’

8.13 Pursuant to this authority vested in panels under Article 13, we requested, in a letter dated 1 February 2001, the International Bureau of WIPO to provide us with factual information, in particular the negotiating history and subsequent developments, concerning the provisions of the Paris Convention (1967) relevant to the dispute, including Articles 2(1), 6, *6bis*, *6quinquies* and 8 of the Paris Convention (1967). With respect to Article 6 *quinquies*, we requested any factual information on its intended scope. We also requested the International Bureau of WIPO to provide any factual information on whether the provisions of the Paris Convention (1967) regulate how the owner of a trademark is to be determined under domestic law of the Paris Union members. The International Bureau of WIPO responded to our request on 2 March 2001.” [footnote omitted]

<sup>276</sup> *Id.*, at para. 8.82.

<sup>277</sup> AB, *U.S. – Havana Club*, paras. 122–48 (see, e.g., footnote 81). The United States made extensive reference in its pleadings as an interpretative source to the guide to the Paris Convention prepared by Prof. Bodenhausen, a former senior WIPO official, during his tenure at WIPO.

<sup>278</sup> *Ibid.*, at paras. 139 *et seq.*

#### 4.1.4 The Appellate Body's interpretation of Articles 15 and 16 of the TRIPS Agreement

The panel and AB also rejected the EC's claims that Articles 15 and 16 mandated that the United States accept for registration a mark that its legislature had determined not to be lawfully owned by the party asserting ownership. The EC had argued that Article 15, which defines the nature of signs that are eligible for trademark protection, and Article 16, which defines the rights that must be accorded to trademark holders, require that the United States accept marks for registration. The USA argued that questions as to whether a mark qualifies for registration, and as to the rights of trademark owners, are distinct from the more primordial question as to who is the legitimate holder or owner of the mark. According to the U.S. view, Articles 15 and 16 do not purport to regulate the question of ownership.

In essence, the panel and AB endorsed this interpretation. They confirmed the authority of the United States to determine that it would not recognize claims to ownership based on foreign confiscations that offended the public policy of the forum state.

The panel and AB relied mainly on the plain language of Articles 15 and 16 to reject the EC's claim, and in confirming that interpretation noted the absence of TRIPS negotiating history that would support the EC's more expansive view of those provisions.

a) With respect to Article 15.1, the AB observed that trademarks "eligible" for registration are not *entitled* to protection; they only *qualify* for protection. In other words, the fact that a trademark meets all the distinctiveness requirements under Article 15.1 does not impose on Members the obligation to *automatically* provide for the registration of such mark. Registration may still be denied on the basis of other requirements (such as the question of trademark ownership) that each country may determine in its domestic legislation (see above).<sup>279</sup>

The AB supported this textual interpretation with several arguments relating to the context of Article 15.1. In particular, the AB stressed the significance of Article 15.2, authorizing Members to deny registration of trademarks on other grounds than those provided in Article 15.1. This implies, according to the AB, that Members are not obligated to register every sign meeting the distinctiveness requirements under Article 15.1.<sup>280</sup> Another contextual argument advanced by the AB was based on Article 6(1) of the Paris Convention. As under Article 6*quinquies* of the Paris Convention (see above), the AB observed that the EC's interpretation of Article 15.1 would deprive WTO Members of the legislative discretion accorded to them by Article 6(1). If Members were obliged to automatically register any trademark meeting the distinctiveness criteria in Article 15.1, there would be no room for additional criteria set up in Members' domestic laws.<sup>281</sup>

Concerning Article 15.2, the EC had argued that the relevant U.S. legislation, besides violating Article 15.1, could not be justified on "other grounds" within the

<sup>279</sup> See report of the AB, at paras. 155 *et seq.*

<sup>280</sup> *Ibid.*, paras. 157–159.

<sup>281</sup> *Ibid.*, para. 165. The AB further relied on paragraphs 3 and 4 of Article 15 TRIPS to support its above interpretation of Article 15.1. See *ibid.*, paras. 160–164.

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meaning of Article 15.2.<sup>282</sup> In this context, the EC contended that those “other grounds” referred to in Article 15.2 were only those exceptions *expressly foreseen* in the Paris Convention or in TRIPS. Since neither the Paris Convention nor TRIPS expressly provided for a rule requiring, as a precondition for registration, a proof of ownership of the kind stipulated under the relevant U.S. legislation, such requirement could not be considered as being justified on “other grounds” within the meaning of Article 15.2.<sup>283</sup> The AB refused this interpretation, relying on Article 6(1) of the Paris Convention. The discretion of Paris Union countries to determine the conditions for the registration of trademarks include, according to the AB, the right to also determine the conditions to *refuse* a registration. The only limits to this latter right are those grounds explicitly prohibited by the Paris Convention.<sup>284</sup>

The AB thus expressed a view contrary to the EC’s interpretation: WTO Members may freely determine the grounds for the denial of trademark registration according to their domestic rules, unless those grounds are expressly prohibited by the Paris Convention or by TRIPS.

As to Article 16, the AB stated that neither this nor any other TRIPS provision contains a definition of trademark ownership.<sup>285</sup> The AB inferred from Article 6(1) of the Paris Convention (see above) that WTO Members have kept the discretion to regulate in their domestic laws the conditions for ownership of a trademark.<sup>286</sup>

##### 4.1.5 Points of disagreement between the panel and the AB in the *Havana Club* case

The AB overruled the panel on four aspects of its decision. For the purposes of the present chapter, the most important one concerned the question whether “trade names” are to be considered “intellectual property” in the sense of Article 1.2 of TRIPS.

The panel decided that “trade names” were not “intellectual property” within the meaning of Article 1.2, TRIPS Agreement, because they were not a “category” of Sections 1 through 7, Part II.<sup>287</sup> The panel went on to consider whether Article 2.1, TRIPS, by incorporating Article 8, Paris Convention (obligating parties to provide trade name protection), brought trade names within the scope of intellectual property covered by the Agreement. The panel reasoned that since Article 2.1 provided that the referenced Paris Convention articles were to be complied with “in respect of” Parts II, III and IV of TRIPS, and since those parts did not refer to trade names,

<sup>282</sup> See *ibid.*, para. 169. The AB, even though noting that *without a violation* of Article 15.1 TRIPS, an examination whether the relevant U.S. legislation would be justified on “other grounds” within the meaning of Article 15.2 would not be necessary, nevertheless decided to do so, referring to its obligation under Article 17.6 of the DSU to rule on alleged legal misinterpretations by a panel.

<sup>283</sup> *Ibid.*

<sup>284</sup> *Ibid.*, para. 176. For such explicit prohibition, see Article 6(2) of the Paris Convention, according to which a registration may not be refused or invalidated on the ground that filing, registration, or renewal, has not been effected in the country of origin.

<sup>285</sup> See the AB report at paras. 187 and 195.

<sup>286</sup> *Ibid.*, at para. 189.

<sup>287</sup> *United States – Section 211 Omnibus Appropriations Act of 1998*, Report of the Panel, WT/DS176/R, 6 Aug. 2001, at paras. 823–40.

Article 8, Paris Convention did not add obligations regarding trade names. The panel referred to the negotiating history to confirm its conclusion, though the references are somewhat tangential to its reasoning.

The AB disagreed with the panel. It said that the panel's interpretation of Article 1.2, TRIPS, was too restrictive, and essentially assumed that "intellectual property" was limited to the specific subject matter set out in the titles of the relevant sections of the agreement, ignoring that other subject matter is addressed within those sections.<sup>288</sup> Perhaps more importantly, the AB said that the panel's interpretation would effectively render useless the incorporation through Article 2.1 TRIPS of Article 8 of the Paris Convention (dealing exclusively with trade names), thus depriving Article 8 of "any and all meaning and effect".<sup>289</sup>

In addition to this interpretation concerning trade names, the AB reversed the panel's findings in three other respects, concerning the compatibility of the relevant U.S. legislation with TRIPS Articles 3 (national treatment obligation), 4 (most-favoured nation obligation), and 42 (fair and equitable judicial proceedings for the enforcement of IPRs).<sup>290</sup>

In sum, the *Havana Club* case illustrates the outstanding importance of the Paris Convention for the interpretation of TRIPS: most of the trademark-related arguments advanced by the AB are more or less directly based on the interpretation of Article 6(1) of the Paris Convention. This provision in turn indicates the WTO Members' large discretion as far as filing and registration conditions are concerned.

#### 4.2 Indonesia – Certain Measures Affecting the Automobile Industry

For the sake of completeness, it should be noted that the United States made certain trademark claims against Indonesia in the "*Indonesia – Cars*" case.<sup>291</sup> U.S., EC and Japanese claims in this case were primarily asserted under the Agreement on Subsidies and Countervailing Measures. However, as part of its National Car Programme, Indonesia required a joint venture or national company to acquire and maintain an Indonesian-registered trademark intended for that purpose. The idea was that the cars produced in the program would have an Indonesian character not dependent on a foreign brand name. The USA argued that this was inconsistent with the TRIPS national treatment rule because it provided a preference for Indonesian nationals in acquiring marks. The panel rejected this on ground that foreigners were entitled to register marks as well as Indonesians, even if

<sup>288</sup> In this context, the AB mentioned Part II, Section 5 of the TRIPS Agreement, the title of which only refers to "patents", although Articles 27(3)b also covers *sui generis* protection systems for plant varieties (see para. 335 of the AB's report).

<sup>289</sup> *Ibid.*, para. 338.

<sup>290</sup> For a detailed analysis of the AB's interpretation of these provisions, see Chapter 4 and 30, respectively. The AB's arguments with respect to Articles 3 and 4 TRIPS are also presented by F. Abbott, *WTO Dispute Settlement Practice Relating to the TRIPS Agreement*, in: WTO Jurisprudence 1995–2002 Law and Dispute Settlement Practice of the World Trade Organization, Kluwer Publishers, Studies in Transnational Economic Law, 2003, under I. C. See also UNCTAD, *Course on Dispute Settlement*, Module 3.14 (TRIPS) (F. Abbott), Section 5.5 (available at <[http://www.unctad.org/en/docs/edmmisc232add18\\_en.pdf](http://www.unctad.org/en/docs/edmmisc232add18_en.pdf)>).

<sup>291</sup> Report of the Panel, WT/DS54/R, WT/DS55/R, WT/DS59/R, WT/DS64/R, 2 July 1998.

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Indonesian-owned marks had a preference in respect to a subsidy program. The USA also argued that the Indonesian program discriminated against foreigners in the maintenance of marks since it did not allow foreign holders to use their globally-recognized marks in the local market on the same basis as Indonesian-owned marks. Again, the panel noted that foreign owners were entitled to maintain and use their marks in Indonesia, but only to not have the benefits of a particular subsidized program. Finally, the USA argued that the Indonesian program was inconsistent with Article 20, TRIPS Agreement (as well as the Article 65.5 requirement not to lessen the degree of consistency with TRIPS rules), because Indonesia was imposing special requirements on the use of marks in connection with participation in its program. It said that if a mark was used in the program, it could not be used elsewhere, and this would deprive the owner of the mark's potential value. The panel said that the developer and owner of a mark used in the program would be well aware at the outset that the subject mark would be restricted in its use, and thus the Indonesian rule did not amount to a "requirement" for use of the mark in the sense of Article 20. The panel also said that while only Indonesia-owned marks would benefit from the program, this was not a fact tied to the mark as such, but rather was a condition of participating in the program. This did not constitute a "requirement" regarding the use of a foreign-origin mark.

In the *Indonesia-Cars* dispute, the United States attempted to transform part of a subsidies-goods dispute (on which it had some success) into a TRIPS dispute. The Indonesian programme favoured domestic production, and it also favoured local trademark holders to the extent they were able to participate in the program. The panel avoided the suggestion to adopt a very broad view of TRIPS Agreement obligations that might effectively convert all domestic preference programmes into IPR discrimination programmes.

#### 4.3 EC – Protection of Trademarks and GIs

Following separate requests by Australia<sup>292</sup> and the USA,<sup>293</sup> the WTO Dispute Settlement Body (DSB) at its meeting on 2 October 2003 established a single panel<sup>294</sup> to examine complaints with respect to EC Council Regulation (EEC) No. 2081/92 of 14 July 1992<sup>295</sup> on the protection of geographical indications and designations of origin for agricultural products and foodstuffs. The complaints are based, *inter alia*, on alleged violations of Articles 16 (rights conferred upon the trademark holder) and 20 (prohibition of special requirements for the use of trademarks).<sup>296</sup>

The pertinent EC Regulation in Article 14 provides protection against the registration of trademarks corresponding to protected geographical indications.

<sup>292</sup> WT/DS290/18 of 19 August 2003.

<sup>293</sup> WT/DS174/20 of 19 August 2003.

<sup>294</sup> *European Communities – Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs* [hereinafter "EC – Protection of Trademarks and GIs"], WT/DS174/21 and WT/DS290/19 of 24 February 2004, Constitution of the Panel Established at the Requests of the United States and Australia.

<sup>295</sup> See Official Journal of the European Communities (OJEC) L 208 of 24 July 1992, pp. 1–8.

<sup>296</sup> See the above requests by Australia and the USA for the establishment of a panel.

According to this provision,<sup>297</sup> such trademarks relating to the same product shall be refused registration or declared invalid

- in case the application for registration of the trademark was submitted *after* the application for GI registration was published;
- or in case the application for registration of the trademark was submitted *before* the application for GI registration was published, provided that that publication occurred before the trademark was registered.

In other terms, the only situation under which a corresponding trademark may remain valid is where the application for GI registration is published only after the *bona-fide* registration of the trademark. But even under those circumstances, use of the trademark will be discontinued where<sup>298</sup>

- the trademark consists exclusively of signs or indications which may serve, in trade, to designate the kind, quality, quantity, intended purpose, value, geographical origin, or the time of production of the goods or of rendering of the service, or other characteristics of the goods;
- or where the trademark is of such a nature as to deceive the public, for instance as to the nature, quality or geographical origin of the goods or service;
- or where the trademark, after the date on which it was registered, in consequence of the use made of it by the proprietor of the trademark or with his consent in respect of the goods or services for which it is registered, is liable to mislead the public, particularly as to the nature, quality or geographical origin of those goods or services.

Since the establishment of the panel, there has been no further WTO action in this dispute (as of July 2004).

## 5. Relationship with other international instruments

### 5.1 WTO Agreements

As noted earlier, Article XX(d) of GATT 1994 (as successor to the GATT 1947) authorizes Members to adopt measures necessary to protect trademarks (and against unfair competition), and Articles XIII and XVIII preclude interference with trademarks in connection with the adoption of certain safeguard measures.

GATT Article XI prohibits the use of measures other than duties (such as quotas or related measures) to restrict imports or exports. Some commentators have argued that GATT Article XI precludes the adoption of rules restricting the parallel importation of trademarked goods, noting that Article 6 refers only to claims regarding exhaustion arising under TRIPS (and therefore does not preclude recourse to the GATT on this question).<sup>299</sup> Further, it is argued that rules prohibiting parallel

<sup>297</sup> See Article 14(1) of the above EC Regulation.

<sup>298</sup> See Article 14(2) of the above EC Regulation, referring to the First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the member states relating to trademarks.

<sup>299</sup> See Cottier. For a detailed analysis of the issue of exhaustion of IPRs and Article 6 TRIPS, see Chapter 5.

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imports function as quotas and are unnecessary to protect trademarks since parallel import goods are initially placed on the market by the trademark holder or with its consent.<sup>300</sup> This line of reasoning has long been employed by the European Court of Justice to reject the use of national trademarks to block the free movement of goods within the EU (referring to Articles 28 and 30, EC Treaty), and it might logically be extended to the WTO context. Others have argued that TRIPS is *lex specialis* regulating IPRs within the framework of the WTO, that Article 6 allows Members to adopt their own policies with respect to exhaustion, and that this effectively precludes reference to GATT on this subject.<sup>301</sup>

The express text of Article 6 refers only to exhaustion claims “under this Agreement”. If the Appellate Body’s instruction to give effect to the words of the WTO Agreements is followed, there is no reason why the question of parallel importation of trademarked goods cannot be evaluated under the GATT. This does not necessarily lead to the conclusion that rules restricting parallel trade would be rejected as unnecessary quotas since the AB might say that (a) TRIPS permits a Member to adopt its own policy on exhaustion (b) if it exercises its discretion in favour of national exhaustion only, then in that context (c) blocking parallel imports may be necessary to protect the rights of the trademark owner. In any case, this interpretative question has yet to be addressed by a panel or the Appellate Body.

With respect to WTO Agreements other than the GATT, trademarks do not purport to be dependent for their validity on the characteristics of products or region of production (unlike geographical indications that might depend for their validity on certain objective characteristics and thereby potentially raise concerns under the TBT Agreement).<sup>302</sup> Trademarks are regulated by TRIPS as identifiers that permit consumers to distinguish between goods and services, and there is no specific connection between trademarks and any other WTO Agreement. As was suggested by the *Indonesia – Cars* case, this does not mean that trademark-related issues will not be raised in the context of disputes arising under other WTO Agreements. However, as the panel observed in that case, questions regarding trademarks that surface in disputes involving other WTO Agreements are likely to involve attempts to expand TRIPS into a market access agreement, which it is not.

### 5.2 Other international instruments

The trademark provisions of TRIPS are closely linked to various agreements administered by WIPO. The Paris Convention, directly incorporated by reference in TRIPS, differs from the latter in various respects, for example as far as the

<sup>300</sup> This is said without prejudice to the question whether parallel importation may be based on compulsory licensing of patents. There is no compulsory licensing of trademarks permitted under Article 21, TRIPS Agreement.

<sup>301</sup> See Marco C.E.J. Bronckers, *The Exhaustion of Patent Rights under World Trade Organization Law*, 32 J. World Tr. 137–159 (No. 5, 1998). See also Chapter 5.

<sup>302</sup> For more details on the potential conflict between the TBT rules and the TRIPS provisions on geographical indications, see Chapters 15 and 34.

assignment of trademarks is concerned:<sup>303</sup> under Article 6*quater* of the Paris Convention, it is up to the parties to decide whether a trademark assignment is valid only together with the transfer of the business to which the trademark belongs. By contrast, Article 21 obligates Members to provide for the possibility of a “naked assignment” of marks (see above, Subsection 3.7). Thus, WTO Members are denied the discretion accorded to them under the Paris Convention to make the validity of a trademark assignment dependent on the parallel transfer of the business. As to the relationship between these opposite provisions, the pertinent provision of the Vienna Convention on the Law of Treaties (Article 30.3) stipulates that a more recent treaty takes precedence over an earlier one. In the case of the Paris Convention and TRIPS, the latter therefore prevails. However, this concerns only those countries parties to both agreements, Article 30.4(a) of the Vienna Convention. When the parties to the later treaty do not include all the parties to the earlier one, Art. 30.4(b) provides that:

(b) as between States parties to both treaties and a State party to only one of the treaties, the treaty to which both States are parties governs their mutual rights and obligations.

Consequently, the limitation of state sovereignty with respect to the transfer of the business as pronounced in Article 21 affects all Members of the WTO when dealing with trademark holders from other WTO Member countries.<sup>304</sup> In case a mark holder from a *non*-WTO Member<sup>305</sup> intends to assign her/his mark to a national from a WTO Member, however, the latter is not bound by Article 21 and may thus require, according to Article 6*quater* Paris Convention, the transfer of the business along with the trademark (provided the assigned mark is one that is registered or used in that WTO Member’s territory).

Trademarks are also regulated by the Nice Agreement Concerning the Classification of Goods and Services for the Purposes of the Registration of Marks (1957) (see discussion above). The Trademark Law Treaty adopted in 1994 establishes uniform rules regarding trademark applications, prohibiting requirements other than those set out in the agreement.

WIPO also administers two agreements providing mechanisms for registration of marks in multiple jurisdictions, the Madrid Agreement Concerning the International Registration of Marks (1891, as revised) and the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (1989). An international system for the registration of trademarks is obviously important to their acquisition and maintenance and represents a partial trend towards integration of the global IPRs framework. There is not, however, a specific correlation

<sup>303</sup> Another important difference exists with respect to the protection of service marks, see above, Subsection 3.1.1.

<sup>304</sup> This is in conformity with Article 2.1 TRIPS, which prohibits the derogation by WTO Members from, *inter alia*, their *obligations* under the Paris Convention. Article 21 TRIPS does not obligate Members to disregard any Paris obligation; it obliges them to waive a *right* they have under that Convention.

<sup>305</sup> Such as Russia, for instance, which is not (yet) a Member of the WTO, but a State party to the Paris Convention.

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between the Madrid registration system and TRIPS trademark rules that merits further exploration at this stage.

## 6. New developments

### 6.1 National laws

Many WTO Members have amended their IPRs laws, including the trademark provisions, to establish consistency with TRIPS. It is not within the scope of this book to review all these developments.

In the United States, the only change to trademark law specifically made in the Uruguay Round Agreements Act was to clarify that non-use of a trademark for three consecutive years constitutes prima facie evidence of abandonment.<sup>306</sup> However, prior to conclusion of the TRIPS negotiations the U.S. Lanham Act regulating trademarks was amended to provide for the filing of trademark applications prior to actual use (see discussion above at Section 3), and this action was undertaken in light of the TRIPS negotiations (as well as the contemporaneous NAFTA negotiations).

In 1999 the U.S. Treasury Department adopted so-called “Lever-rules” which permit the blocking of parallel import trademarked goods which are materially different from identically-marked goods marketed in the United States, *unless* the importer places a conspicuous notice on the goods indicating that they are materially different, in which case such goods *may* be parallel imported.<sup>307</sup> This rule must be read in the context of the general rule applicable to trademarked goods, which is that goods placed on the market outside the United States by an enterprise under “common control” with the U.S. trademark owner may be parallel imported, but goods placed on the market by a third party licensee may not be.<sup>308</sup> In this context, the “Lever rules” limit to a certain extent the general principle that parallel imports are allowed when commonly controlled enterprises are involved.

<sup>306</sup> URAA, §521.

<sup>307</sup> U.S. trademark holders may notify the Customs Service of goods which are claimed to embody “physical and material differences between the specific articles authorized for importation or sale in the United States and those not so authorized.” (19 CFR §133.2 (e) (“Lever-rule’ protection”). Supporting evidence must be provided. The Customs Service will prohibit importation of “gray market” goods produced by commonly controlled enterprises which it has determined to be physically or materially different (19 CFR §133.23(a)(3)); *unless* such goods or their packaging “bears a conspicuous and legible label designed to remain on the product until the first point of sale to a retail consumer in the United States stating that: ‘This product is not a product authorized by the United States trademark owner for importation and is physically and materially different from the authorized product.’ The label must be in close proximity to the trademark as it appears in its most prominent location on the article itself or the retail package or container. . . .” (19 CFR §133.23 (b)).

<sup>308</sup> This rule was adopted by the U.S. Supreme Court as a matter of statutory interpretation in the *K mart Corp. v. Cartier*, 486 U.S. 281 (1988). For a detailed discussion of U.S. rules in this area, see Frederick M. Abbott, *Political Economy of the U.S. Parallel Trade Experience: Toward a More Thoughtful Policy*, 4 World Trade Forum (Thomas Cottier and Petros Mavroidis eds. 2002)(University of Michigan Press).

## 6.2 International instruments

### 6.2.1 ICANN

The evolution of the Internet “domain name” has had a significant impact on the development of international trademark law. In response to complaints from trademark owners concerning the unauthorized use of marks in domain names, and especially the use of those domain names in bad faith (such as to redirect Internet users to pornographic websites, or to sell the domain name to the trademark owner for a substantial price), WIPO initiated a process that culminated in the adoption by the Internet Corporation for Assigned Names and Numbers (ICANN) of the Uniform Domain Name Dispute Resolution Policy (UDRP). The UDRP applies to all domain names registered under the main generic top level domains (such as “.com” and “.org”), as well as to a variety of country code domains. ICANN has authorized several dispute resolution service providers, including the WIPO Arbitration and Mediation Centre, to make determinations regarding whether particular domain names have been registered and used abusively. The determinations are made by administrative panellists appointed by the service providers. By almost all accounts, the system developed by WIPO and adopted by ICANN has been successful in bringing a reasonable degree of legal order to the field of Internet domain names.

What is of particular interest regarding the UDRP system is its inherently multilateral character, in the absence of a traditional international legal framework (that is, a governing treaty). ICANN is a U.S.-chartered body with a multinational governing board that establishes rules for operation of the Internet, and the UDRP functions under authority of ICANN. The relationship between the dispute settlement providers (such as the WIPO Centre) and domain name holders is established by contract (i.e., the domain name registration agreement).

Panellists deciding cases under the UDRP are not infrequently called upon to resolve trademark disputes involving parties from different countries, invoking rights under various national trademark laws. Partly as a result of the harmonizing effect of the trademark rules of TRIPS (which have been referenced in a number of UDRP decisions), panellists have been able to adopt more or less common approaches to questions involving conflicts between trademarks and domain names.

The success of the UDRP process may presage the development of other streamlined IP dispute resolution systems.

### 6.2.2 WIPO and Paris Union Joint Recommendations

The Paris Union Assembly and the General Assembly of WIPO have so far adopted three Joint Recommendations, concerning provisions on the protection of well-known marks, trademark licenses and provisions on the protection of marks, and other industrial property rights in signs, on the Internet.<sup>309</sup> Such recommendations are of non-binding character; WIPO countries are thus not obligated to adopt

<sup>309</sup> See <<http://www.wipo.org/about-ip/en/index.html?wipo.content.frame=/about-ip/en/trademarks.html>>.

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the higher standards contained therein in their domestic laws. However, India for example has proposed to integrate the Recommendation on the protection of well-known marks into her 1999 draft trademark law.<sup>310</sup> Bilateral free trade agreements refer specifically to the WIPO Joint Recommendation on well-known Marks. For example, in the agreement between Chile and the U.S. the parties commit themselves to be guided by the principles contained in the Recommendation.<sup>311</sup>

### 6.3 Regional and bilateral contexts

#### 6.3.1 Regional

**6.3.1.1 Andean Group.** Decision 486 of the Andean Group<sup>312</sup> regulates the field of trademarks in detail. National trademark authorities of the Member Countries remain responsible for implementing the Decision, including by acting as registration authorities. Decision 486 provides for the international exhaustion of trademark rights, stating:

“Article 158. Trademark registration shall not confer on the owner the rights to prevent third parties from engaging in trade in a product protected by registration once the owner of the registered trademark or another party with the consent of or economic ties to that owner has introduced that product into the trade of any country, in particular where any such products, packaging or packing as may have been in direct contact with the product concerned have not undergone any change, alteration, or deterioration.

For the purposes of the preceding paragraph, two persons shall be considered to have economic ties when one of the persons is able to exercise a decisive influence over the other, either directly or indirectly, with respect to use of the trademark right or when a third party is able to exert that influence over both persons.”

Regarding the licensing of marks, Decision 486 requires the registration of licensing agreements with the competent authority of the member country concerned. Article 163 provides that,

“The competent national authority shall not register any trademark licensing agreements or assignments or transfers that do not conform to the provisions of the Common Regime for the Treatment of Foreign Capital and for Trademarks, Patents, Licenses, and Royalties, or that do not conform to Andean Community or domestic antitrust.”

**6.3.1.2 European Union.** The EU regulates extensively in the field of trademarks, and there is a substantial jurisprudence on the subject of marks by the European

<sup>310</sup> J. Watal, *Intellectual Property Rights in the WTO and Developing Countries*, Kluwer Law International, 2001, p. 394.

<sup>311</sup> See Article 17.1.9, FTA between Chile and the United States.

<sup>312</sup> Commission of the Andean Community, Decision 486, Common Intellectual Property Regime, 14 Sept. 2000, available at <<http://www.ictsd.org/iprsonline/legalinstruments/regional.htm>>.

Court of Justice (ECJ). Until adoption of the First Trade Marks Directive in 1988,<sup>313</sup> trademarks were almost exclusively regulated by member state legislation. The major exception involved questions relating to free movement of goods (i.e., intra-Union exhaustion) in which the ECJ took an active interest. The First Trade Marks Directive has established a set of approximated trademark rules that member states are required to reflect in national trademark law. As to protectable subject matter, the Directive obligates member states to protect as trademarks “any sign capable of being represented graphically”.<sup>314</sup> According to the ECJ, this does *not* mean that the respective sign must be capable of being perceived visually, provided that the sign

“can be *represented graphically*, particularly by means of images, lines or characters, and that the representation is clear, precise, self-contained, easily accessible, intelligible, durable and objective.”<sup>315</sup>

With respect to *olfactory signs*, the requirement of graphic representability is neither satisfied by a chemical formula, nor by a description in written words, nor by a deposit of an odour sample or by a combination of these elements.<sup>316</sup>

Under the Trade Marks Directive, marks remain independent within each member state, and registration functions and adjudication of disputes is a national matter. In addition to the Directive, the 1993 Community Trade Mark Regulation was adopted,<sup>317</sup> and this created a new situation for the EU. Although member states would continue to maintain their own trademark registration systems, it would now be possible to obtain a single Community Trade Mark (CTM) extending rights throughout the EU. A Community trademark authority was established (the Office for Harmonization in the Internal Market (OHIM)) in Alicante, Spain, which performs registration functions, including the conduct of opposition proceedings. Adjudication of trademark infringement actions is somewhat complex, because an action to invalidate and cancel a mark is conducted before the OHIM, while the infringement proceeding is pending in a member state court authorized to hear infringement claims. The CTM is “indivisible” in the sense that it may

<sup>313</sup> First Council Directive of 21 December 1988 to approximate the laws of the Member States relating to trade marks (89/104/EEC).

<sup>314</sup> See Article 2 of the Directive: “A trade mark may consist of any sign capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of goods or of their packaging, provided that such signs are capable of distinguishing the goods or services of one undertaking from those of other undertakings”.

<sup>315</sup> *Ralf Sieckmann v Deutsches Patent- und Markenamt* (Case C-273/00), Court of Justice of the European Communities, European Court Reports 2002, p. I-11737, 12 December 2002, at para. 55 (emphasis added).

<sup>316</sup> *Ibid.*, at para. 73. The ECJ argues that a chemical formula is not sufficiently intelligible to make people recognise the odour in question. In addition, a chemical formula does not represent the odour of a substance, but the substance *as such* (para. 69). The written description of an odour, even though being graphic, is not sufficiently clear, precise and objective (para. 70). The deposit of an odour sample does not constitute a graphic representation; neither is such a sample sufficiently stable or durable (para. 71). Finally, even a combination of all those elements does not satisfy the requirements of clarity and precision of the graphic representation (para. 72).

<sup>317</sup> Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark.

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not be assigned and transferred in respect to a part of EU territory, although it is possible to grant licenses limited to a part of the EU.

There are many interesting aspects to the EU's trademark system, which is rather complicated owing to the integration of long-standing member state trademark systems with a unified CTM system. For present purposes, it is of particular interest to refer to the attitude of the EU with respect to exhaustion of trademarks.<sup>318</sup> The ECJ developed and has long recognized a doctrine of "intra-Community" or "intra-Union" exhaustion, in which it is understood that importation of a good placed on the market by or with the consent of the trademark owner in one member state may not be blocked by invocation of a parallel trademark in another member state. There are many ECJ decisions that address nuanced questions that arise in respect to this basic rule. For example, pharmaceutical trademark holders have attempted to prevent parallel trade within the EU by registering different marks for the same medicine in different member states. Unless an importer changes the trademark on the medicine to reflect the particular mark used in the importing country, pharmacists may be resistant to dispensing the "foreign" product (or medicines registration rules may even prohibit its marketing). The ECJ has decided that in these circumstances an importer has the right to re-brand the medicine since otherwise the pharmaceutical producers would be able to circumvent the intra-Union exhaustion rule, subject to the condition that this is done in a way to protect the consumer.<sup>319</sup>

Perhaps of most direct relevance to the WTO and TRIPS Agreement was the decision of the ECJ in *Silhouette v. Hartlauer*.<sup>320</sup> In that case, the ECJ interpreted the First Trade Marks Directive to adopt a rule of intra-Community exhaustion of trademarks only, and by extension to exclude a rule of international exhaustion for the Community. The Court reasoned that the member states should have only a single policy on exhaustion, and since several of them did not recognize a doctrine of international exhaustion, it would create a difficult situation to allow different policies for different members. Although this reasoning is open to question (since the situation of different policies had existed for many years without apparent trouble), the EU today maintains a single policy of intra-Community exhaustion of trademarks. Therefore, the owner of a trademark within the Community may block parallel imports from outside the Community.<sup>321</sup>

<sup>318</sup> See also Chapter 5.

<sup>319</sup> See *Bristol-Myers Squibb v. Paranova*, ECJ Joined Cases C-427/93, C-429/93 and C-436/93; *Upjohn v. Paranova*, ECJ Case C-379/97 and *Boehringer v. Swingard*, ECJ Case C-143/00, and by the EFTA Court, *Paranova Inc v. Merck & Co*, Case E-/302.

<sup>320</sup> *Silhouette International Schmied GmbH & Co, KG v. Hartlauer Handelsgesellschaft mbH* (Case C-355/96), Court of Justice of the European Communities, [1998] 2 CMLR 953, 16 July 1998.

<sup>321</sup> It is interesting to note that the EFTA Court in its interpretation of the same EU Trade Marks Directive has come to the opposite conclusion: according to the EFTA Court, the Trade Marks Directive leaves EFTA countries the freedom to maintain a system of international trademark exhaustion. See *Mag Instrument Inc./California Trading Company Norway, Ulsteen*, (Case E-2/97), in *Gewerblicher Rechtsschutz und Urheberrecht (GRUR) Int.* 1998, p. 309 et seq. (3 December 1997).

**6.3.1.3 NAFTA.** Article 1708 of the NAFTA addresses trademarks in a manner that effectively incorporates TRIPS requirements in this regional framework (that was negotiated contemporaneously with TRIPS). While there are certain minor differences (e.g., the minimum period for renewal is ten years, rather than the seven-year standard of TRIPS), none appear to raise any issues of particular interest from a TRIPS implementation standpoint.

**6.3.1.4 MERCOSUL/R.** On 5 August 1995, the Mercosul/r Council adopted a Protocol on the Harmonization of Norms regarding Intellectual Property in the Mercosul/r in Matters of Trademarks, Indications of Source and Appellations of Origin.<sup>322</sup> In that Protocol, the state parties commit themselves to observing the rules of the Paris Convention and TRIPS (Article 2). There are additional common rules concerning the subject matter of protection (Articles 5–6), the rights conferred by registration (Article 11), procedures for registration and cancellation (Articles 7–10, 15) and use of marks (Article 16). For the most part, however, the details of trademark law in the Mercosul/r are left to the national authorities.

#### **6.4 Proposals for review**

There are no pending proposals for review of the trademark provisions of TRIPS.

### **7. Comments, including economic and social implications**

#### **7.1 The opportunities**

Economists are confident that there are significant net benefits to a well-functioning trademark system in market economies.<sup>323</sup> It is generally acknowledged that trademarks serve a useful social and economic function by providing consumers with information that assists them to sort through a complex marketplace. Indeed, trademark protection could be particularly valuable in developing countries because of the potential to develop brand recognition for high-quality crafts, clothing, and music.<sup>324</sup> Enterprises in developing countries may establish their own market identities through appropriate trademarks and offer products that can be distinguished from those already on the market. Subject to the respect of Article 20 (special requirements, see above), governments in some developing countries may consider policies and incentives that encourage foreign firms to allow licensees to adapt more of the licensed products for both domestic and export needs and promote the use of local trademarks. The success of Japanese industry in importing foreign technology while developing indigenous marks constitutes an example for other countries to emulate, even if countries at lower stages of development may have less bargaining power when formulating appropriate regulations and may, therefore, remain more dependent on the introduction of foreign marks.

<sup>322</sup> MERCOSUR/CMC/DEC. No. 8/95, available at <http://www.mercosur.org.uy/espanol.snor/normativa/decisiones/DEC895.htm>.

<sup>323</sup> See *The TRIPS Agreement and Developing Countries*, UNCTAD 1996, paras. 188 et seq. [hereinafter UNCTAD 1996].

<sup>324</sup> See UNCTAD 1996, para. 189; see also Policy Discussion Paper, p. 69.

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Apart from the promotion of local marks, strengthened trademark regimes may also encourage both direct investment and licensing by foreign producers who seek to monitor quality and to maintain brand names and goodwill in the international market generally. On the whole, more technology will be licensed to domestic firms when the licensor can both lower transaction costs by recourse to standard intellectual property norms and maintain quality controls through trademark licence agreements. Local production under licence again reduces the need for imports and helps to build an industrial infrastructure.

There are few grounds on which to quarrel with the proposition that businesses should be able to protect their identity in the marketplace. For this reason, the basic proposition that trademarks should be protected against misappropriation was subject to little controversy during the Uruguay Round negotiations, and that basic proposition is similarly non-controversial today. In an integrated world market where products of different countries circulate freely and prices are determined by open competition, it is hard to see any social benefits resulting from a toleration of trade in counterfeit goods to any country, at least in the medium and long term. Border controls are thus a logical outgrowth of both the provisions on trademarks in general and the provisions that incorporate the international standards of unfair competition law set out in Article 10*bis* of the Paris Convention into TRIPS. Hence, the imposition of border controls to repress imports of counterfeit goods represents one significant result of TRIPS, provided that countries implement these measures in a genuinely non-discriminatory fashion and do not erect disguised barriers to trade.<sup>325</sup>

### 7.2 The challenges

TRIPS may require changes in legislation with regard to several aspects of trademark law, including strengthening protection of service-marks and of well-known marks. In this area, however, the implementation of enforcement rules and, particularly, requirements related to border measures, may have greater implications than the provisions relating to the availability of rights as such.

In addition, as with all forms of private ownership of property, questions arise concerning the rights of ownership and where the most appropriate boundary lines are to be drawn. Next to the issue of the scope of fair use rights, the question of whether mark holders should be permitted to block parallel trade that acquires particular importance in this context.

TRIPS allows each Member to determine its own policy with respect to parallel imports. Such imports, if allowed by national legislation, are one of the instruments that may be used to tackle excessive pricing or other unreasonable commercial conditions eventually imposed by trademark owners. Parallel trade may foster sound competition, to the extent that it permits access to legitimate products commercialized under more favourable conditions abroad. This may avoid price discrimination to the detriment of the consumer and increase the social gains of the protection. The realization of these gains, however, may be impaired if the use of trademarks on parallel imported products creates confusion for the public about the quality and other characteristics of the protected products or

<sup>325</sup> UNCTAD 1996, para. 194.

services. In addition, there is a need to assure coherence between domestic exhaustion regimes in trademark law and patent law. Parallel importation of trademarked goods such as pharmaceuticals will be most efficient as a remedy against excessive pricing if the WTO Member in question follows the rule of international exhaustion in respect of both trademarks and patents.<sup>326</sup>

Whether there will be trademark-related problems from the standpoint of developing country interests depends on whether the Appellate Body will allow a reasonable level of discretion to each Member to define its own interests in trademark protection. So far, the Appellate Body has stressed that Members are required to comply with the terms of the Agreement, but are not obligated to fulfil the expectations of other Members regarding what the agreement might have said, but did not.

Of course, large multinational enterprises use trademarks to promote their goods, and those trademarks have themselves become associated with the process referred to by some in a pejorative sense as “globalization”. As a visible symbol of capitalism, well-known trademarks may be the subject of popular attack. Yet it might be wise to resist the temptation to associate the identifier with the underlying problem. Trademarks may be an instrument of powerful multinational corporations, but they are also an instrument of the small businessperson. Trademarks are a form of intangible property that is capable of being abused. From the standpoint of promoting and protecting developing country interests, it is a matter of exercising vigilance over the misuse of trademarks and other IPRs. Accordingly, strengthened trademark regimes should be complemented with up-to-date regulations dealing directly with the abusive licensing practices that may flow from market power.<sup>327</sup>

<sup>326</sup> In case a country has adopted the rule of international exhaustion in the field of trademarks, but follows a national exhaustion regime in the patent area, companies holding a domestic trademark and patent on the same pharmaceutical product cannot oppose parallel imports of such product on the basis of their domestic trademark, but may do so on the basis of their domestic patent. This does leave open the possibility to import other drugs not covered by the patent, but nevertheless seriously limits the efficacy of price control (in particular where there are no generic alternatives to a patented drug).

<sup>327</sup> See UNCTAD 1996, at para. 193.