

Summary Report



Question Q192

Acquiescence (tolerance) to infringement of Intellectual Property Rights

At its Executive Committee Meeting held in Berlin in September 2005, the AIPPI approved a comparative law study regarding acquiescence to acts of infringement of Intellectual Property rights as a working question for the Congress to be held in Gothenburg in October 2006. The working guidelines outlined the main differences that exist between the *Common Law* and Civil Law legal systems regarding the recognition of the effects of acquiescence to infringement of an Intellectual Property right, and requested that the Groups describe in detail the features of their national laws on this subject.

45 National Groups responded to the Working Guidelines. And the Reporter General has received Reports from the following countries' Groups: Arab Regional Group, Argentina, Australia, Belgium, Bolivia, Brazil, Bulgaria, Canada, Chile, China, Czech Republic, Denmark, Ecuador, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Indonesia, Israel, Italy, Japan, Latvia, Luxembourg, Malaysia, Mexico, the Netherlands, Norway, Panama, Paraguay, Philippines, Poland, Portugal, Republic of Korea, Singapore, Slovenia, South Africa, Spain, Sweden, Switzerland, United Kingdom, United States of America and Venezuela.

In responding to the questions of the Working Guidelines, these Reports constitute a comprehensive source of information on the solutions of these countries concerning the problem of the consequences of acquiescence to acts of infringement of an Intellectual Property right. However, it should be highlighted that the Reports of the American, Australian, Belgian, Czech, Danish, Dutch, Finnish, French, German, Japanese, Portuguese and South African Groups went beyond a particularly complete outlining of their legal solutions, and also offer very thorough information on the reasons that led to the adoption of specific legal solutions.

In general, it may be considered that the Working Committee risks encountering significant difficulties in proposing a Resolution to the AIPPI on this Question given the fact that the Groups' responses show that there are major discrepancies concerning the rules applicable to the issue of acquiescence to acts of infringement of Intellectual Property rights.

However, it should also be recognised that these discrepancies are more focussed on the principle itself of recognising an effect of the acquiescence to an infringement of Intellectual Property rights and on the justifications for this, than on the practical methods through which national Intellectual Property rights recognise an effect of such acquiescence.

I) The state of substantive law in the various countries

1) Recognition of an effect of acquiescence:

The National Groups were first of all requested to indicate if their national laws include rules that grant an effect to the acquiescence shown by an Intellectual Property right-holder to an act of a third party that infringes that right, as well as the scope of application of such rules and the justification therefor. It can be stated from reading the Groups' Reports, that at least three types of legal systems exist which deal with the issue of tolerance and which adopt their own specific rules.

The first group is made up of countries that refuse to recognise any effect whatsoever of acquiescence to infringement of an Intellectual Property right. These countries strictly apply the principle according to which "*acquiescence confers no rights*". And their national laws do not contain any rule that makes it possible to maintain that the person who infringes an Intellectual Property right, owing to the acquiescence shown by the holder of that right, would be able to benefit from this acquiescence as a means of defence or as a means of constituting his/her own right. This group of countries is first of all made up of Latin American countries, such as Argentina, Brazil, Chile, Ecuador, Mexico, Panama, Paraguay or Venezuela. These countries are joined by China, Indonesia, the Philippines, South Korea, as well as by Georgia and Morocco, which also do not recognise any rules that grant any effect to acquiescence. Obviously, the legal principles of these countries recognise the mechanism of statutes of limitation for infringement. However, it should be remembered that the Working Guidelines requested that the Groups not deal with the issue of statutes of limitation on lawsuits, even if it deals with infringement actions or actions asserting Intellectual Property rights within the context of Question Q192.

The Groups' Reports show that at the opposite extreme of this first group there is another group of countries that recognises a significant effect of acquiescence to infringements of Intellectual Property rights, and for all Intellectual Property rights, such as patents, trade marks, designs and models or copyright. This is essentially a group of *Common Law* countries (Australia, Canada, South Africa, United Kingdom and United States). In these countries, the effect of acquiescence applies to all types of Intellectual Property rights and its application is based on the notion of equity and this acquiescence is merely a means of defence that prevents the holder of an Intellectual Property right from obtaining a judicial sanction against an infringement of such right, but does not grant the infringing party any substantive right. And on this point, the reports of the American and South African Groups can be consulted in particular, which contain a very detailed explanation of the rules on defence pleas such as estoppel and laches, which may be asserted by the defendant in an infringement action on the basis of the acquiescence to the defendant's acts shown by the holder of the Intellectual Property right.

However, the *Common Law* system countries are not the only ones that acknowledge the recognition of the effects of acquiescence to acts that infringe Intellectual Property rights. For example, Germany and the Netherlands recognise that all Intellectual Property rights may benefit from the effect of acquiescence by applying the doctrine of estoppel. In addition, Switzerland and Japan recognise that the doctrine of the "*abuse of rights*" could be used as justification for giving a legal effect to acquiescence to acts that infringe various Intellectual Property rights if used abusively.

Furthermore, these countries, with the exception of Japan, also recognise acquiescence with regard to registered trade marks, as introduced into the law of the countries of the European Union by Directive no. 89/104 of 21 December 1988. In addition to Germany and the Netherlands, these countries include Denmark, Finland, Estonia, Spain, Belgium, Sweden, Slovenia, Poland, Portugal, Luxembourg, Latvia, Italy and Hungary. The specific situation in Denmark deserves special mention which has recognised the effect of acquiescence in trade mark matters since 1959. Therefore, this is a country which anticipated the Community regulation adopted in 1988 in this area long beforehand. Bulgaria, which should join the European Union in the near future, also includes a provision bringing its trade mark legislation into conformity with the 1988 Community Directive.

Thus, it can be stated that the vast majority of countries represented by Groups in the AIPI recognise the effect of acquiescence concerning the infringement of registered trade marks, on different legal bases and also with different results. And it appears that the justification for recognising the effect of acquiescence is based, on the one hand, on the conduct of the prior right-holder and, on the other hand, on the need to grant a status to the later right that is used by the owner of a registered trade mark who could legitimately believe that his/her right is

lawful and, because as a result of such use, that that right has acquired a certain value. It should also be noted that numerous Groups, who have seen the mechanism of the extinction of rights due to acquiescence of the 1988 Directive introduced into their national laws, consider that this rule should be extended to all distinctive signs and should not be limited to registered trade marks only. In this way, the mechanism of the extinction of rights due to acquiescence would also apply *inter alia* to trade names and company names. In particular, this is the position of the Danish, Czech, Italian, Portuguese or French Groups. It should also be underlined that certain Groups consider that the principle granting an effect to acquiescence to an infringement committed against an Intellectual Property right should also refer to rights other than distinctive signs:

- the Dutch and Latvian Groups propose that the principle be applied to all Intellectual Property rights, in the manner of the *Common Law* system,
- the Hungarian Group proposes to extend the effect of acquiescence to acts of unfair competition.

However, this position is also opposed by a significant number of Groups as, besides those countries that do not recognise any effect to the right-holder's acquiescence to the infringement of his/her Intellectual Property right, the Belgian, Norwegian and Polish Groups oppose the possibility of extending this rule to other Intellectual Property rights. These differences of opinion do not necessarily mean that it will be impossible to adopt a Resolution acknowledging the utility of a rule setting out the effects of acquiescence with regard to distinctive signs.

2) *Requirements for the admission of acquiescence:*

The Groups were also requested to report the status of the conditions that must be met under their national laws in order for possible acquiescence to the infringement of an Intellectual Property right to be usefully asserted before the courts.

It should be noted that regardless of the general legal mechanism (estoppel, equity or statutes based on the principles of legal certainty), the practical procedures for implementing the acquiescence rule are very similar in various countries.

First of all, the Groups whose legal systems acknowledge the recognition of the effects of acquiescence to the infringement of an Intellectual Property right unanimously indicate that, in order for such acquiescence to be able to produce its effects, the act that is susceptible to constituting an infringement of an Intellectual Property right must be committed in good faith. On the other hand, it could be noted that differences exist regarding the notion of good faith. And these differences concern both the definition of good faith and the proof thereof. Thus, certain Groups consider that knowledge of the existence of the prior right precludes good faith (this is the position of the Finnish or Swedish Groups). Other Groups consider that even if the author of an act that is susceptible to constituting an infringement of a prior Intellectual Property right was aware of the existence of such right, this element is not sufficient to preclude good faith. This is the position *inter alia* of the Italian, Danish and French Groups. The Report of the Italian Group indicates that the criterion of good faith should lie in the fact that the holder of the later right be unaware that the act he/she has committed infringes a prior right. However, in general, the Reports stress that the assessment of good or bad faith is a question of fact and must be made taking into account globally all the elements relating to the conduct of the later right-holder. This flexibility in the assessment of good or bad faith is particularly stressed in the Reports of the Groups from *Common Law* countries. However, if a common principle is to be extricated from the Groups' Reports on these questions, it can be considered that the proposal made by the Italian Group to define bad faith as knowledge of the unlawful nature of the use of the later right corresponds to the opinion of the AIPPI Groups that responded to the working guidelines, albeit sometimes expressed in other terms.

This leaves open the question of knowing which party bears the burden of proof, although it should be remembered that this aspect of the issue was not raised in the working guidelines. Nevertheless, it can be supposed that if, in the context of harmonisation, it is the criterion of bad faith that should be retained in order to preclude obtaining the benefit from the effect of acquiescence, the prior right-holder would bear the burden of proving the existence of bad faith. However, this being an element of fact, such proof could be provided by any means, including by means of precise and corroborating presumptions.

3) *Use of the later right:*

The Groups' Reports show that, in order for acquiescence to infringement of an Intellectual Property right to be able to produce any effect whatsoever, that right must be used and used for a certain period of time.

However, this period of time varies depending on the countries.

Thus, the *Common Law* countries do not have rules that define this time period of use of the later right, but settle for a reasonable time.

On the other hand, the countries of the European Union require that such use last for at least five years and that it be uninterrupted.

The Swiss Group reported that, in its country, use for a period of two years was sufficient to give an effect to acquiescence to such use.

Thus, it is possible to consider that if the Working Committee were to extricate a rule regarding the duration of use required to be able to produce effects and if the effects of such acquiescence had to be limited to distinctive signs, a duration of this use of five years should not encounter significant opposition. And this is all the more so when non-use of a registered trade mark for a duration of five years is generally sanctioned by the revocation of the rights on the trade mark. If the Commission were to have to take into consideration another duration, it could be noted that the longer the period of acquiesced use, the greater the effects of acquiescence to such use should be, both for the prior right-holder and for the later right-holder. This is because the acknowledgement of the effects of the acquiescence is the result of the willingness to find a balance between the rights of two persons using the same sign or two similar signs in good faith.

4) *Knowledge of the use of the later right:*

The Groups were requested to examine the other criteria required to admit the existence of an effect of acquiescence to the infringement of an Intellectual Property right, and notably the knowledge of the prior right-holder of the use susceptible to infringing the prior right and the question posed by the burden of proof of this knowledge.

In order for acquiescence to be able to apply, the Groups unanimously recognise that it is necessary for the prior right-holder to have knowledge of the use of the later right.

This is therefore an essential criterion for the application of the acquiescence mechanism.

However, the specific requirements which such knowledge must satisfy vary from one country to another.

First of all, certain countries settle for proof that the prior right-holder could not be unaware of the existence of acts likely to infringe his/her right in order to have the acquiescence period begin. In particular, this is the position of the Netherlands with regard to trade marks, of Belgium or Finland, which consider that such knowledge is presumed from the time that the later right is made the object of a registration. This is also the position of the Italian Group and the Swiss Group, which emphasize that companies have an obligation to know their market.

Other countries have adopted stricter rules and require proof that the prior right-holder have actual knowledge of the use of the later right. This is the position of the Norwegian and Hungarian Groups.

Lastly, the Groups from *Common Law* countries point out that such knowledge is a question of fact and can be proved by any means, but that it must actually be proved that the prior right-holder had actual knowledge of the use of the later right. This is the position *inter alia* of the Australian and Canadian Groups' Reports. The British, American and South African Groups consider that such knowledge may be established by presumptions. Therefore, it seems that a compromise solution could be extricated by referring to the Belgian Group's proposal, which suggests only admitting proof by presumption in the hypothesis of precise and corroborating presumptions of the knowledge of the use of the later right.

5) *Interruption of acquiescence by the prior right-holder:*

The Groups were also required to respond to the question of how the prior right-holder should interrupt this acquiescence in order to prevent it from producing an effect which favours the holder and user of the later right.

First of all, it should be noted that most of the European Groups, which have seen the introduction of the rule concerning registered trade marks into their national laws as a result of the 1988 Directive, acknowledge that no regulation has targeted this question and that it merits additional specificity, as does the entire issue of the extinction of rights due to acquiescence.

And the Dutch Group even suggests that the Court of Justice of the European Communities rule both on this specific question and on other aspects raised by the extinction of rights due to acquiescence.

Thus, certain Groups consider that a simple act by the prior right-holder, for example a cease and desist letter, should be sufficient to interrupt the acquiescence. This is the position *inter alia* of the Italian or British Groups.

On the other hand, other Groups (France, Luxembourg, Sweden) consider that it is necessary to initiate legal action in order to interrupt the acquiescence.

The German Group emphasizes that there are no precise requirements regulating the forms of interrupting the acquiescence, but indicates that there must be a clear and genuine intention to make use of the prior right in order for the effects of the acquiescence to cease.

The Swiss and Finnish Groups seem to agree with this approach, stating that if it is possible to interrupt the course of acquiescence by a mere letter, this is provided that the letter is followed by legal action within a period of a few months on the assumption that the later right-holder does not bow to this protest.

This is probably the approach that could be retained by the Working Committee if the AIPPI were to have to come to a decision on this particular point.

6) *Consequences of acquiescence:*

Acquiescence, provided it meets the legal requirements, leads to legal consequences for both rights-holders. These effects vary depending on the solution adopted by each country and notably are not the same in *Common Law* and Civil Law countries.

In general, it appears that the effect of acquiescence in *Common Law* countries consists of a means of defence to an act of infringement. All the Reports of the *Common Law* countries are unanimous on this qualification of the effect of acquiescence. This means, firstly, that its effects are limited to the relationship between the two persons who are parties to the suit and, secondly, that the plea of acquiescence raised by the defendant in an infringement action will only prevent him/her from being convicted for the acts of infringement alleged.

A completely different situation exists in the European countries that have harmonised the system of the extinction of rights due to acquiescence with regard to registered trade marks. Thus, most of the Reports of the European Groups' reports acknowledge that if acquiescence meets the legal requirements it leads to the creation of a substantive right, i.e., the later trade mark that benefits from the extinction of rights due to acquiescence can no longer be the objective of a nullification or infringement action. This means that such a right may be freely assigned to third parties. The Reports of the European Groups are unanimous regarding this assessment. Thus, acquiescence benefits not only the party who commits the acts that are susceptible to infringing a prior right, but also the subsequent right, such as a registered trade mark, use of which was an unlawful act. And, the registered trade mark that benefits from acquiescence may be subsequently used, whoever its holder may be. The Groups that replied favourably to the possibility of transferring the trade mark to third parties also added that such a trade mark could be used continuously, provided that such use corresponds to the use carried out during the period of acquiescence. The Groups pointed out that the sign that is the subject of the trade mark must not be modified during its use: this is the position *inter alia* of the Danish, Estonian and Belgian Groups. The French Group adds that it should be accepted that a modification that does not alter the distinctive character of the trade mark could be considered to benefit from the effect of this acquiescence. Thus, it appears that if a registered trade mark may benefit from the extinction of rights due to acquiescence which, if the requirements for such acquiescence are met, will make the trade mark impervious to challenge, this is only within the limits of such acquiescence, i.e., it only applies to the products and services for which the trade mark was used and to the form in which the trade mark was used. The same rule should also apply to other distinctive signs if the Working Committee reaches the conclusion that the mechanism of extinction of rights due to acquiescence should be extended at least to all distinctive signs.

7) *The possibility of regulating the coexistence:*

The working guidelines raised the question of whether this coexistence of two rights, for example of two registered trade marks, which is one of the consequences of acquiescence, could be the object of a subsequent regulation.

The Groups stated that nothing prevents such a regulation from being the object of an agreement between the parties.

This was the position *inter alia* of the French Group, which points out that these are private rights and that the parties are free to regulate their coexistence as they see fit.

However, certain Groups (for example, the Luxembourg, Norwegian and Danish Groups) consider that it should be possible for a judge to impose such a regulation on the parties, despite the irrevocable nature of the later right that benefits from the effect of acquiescence.

In fact, even the need for legal certainty should not prevent a judge, acting in the public interest, from being able to regulate the coexistence of the two rights, in particular to avoid signs from losing their distinctiveness through the effect of their dilution.

And the Portuguese and Luxembourg Groups would like the European legislator to intervene on this point.

The Committee will have to take a position on this issue.

8) *Acquiescence and the exhaustion of rights:*

The Groups also responded in a very comprehensive manner to the question regarding the exhaustion of rights.

Most of the Groups, regardless of the legal system to which their national law belongs, consider that the effects of acquiescence should not be confused with the application of the principle of the exhaustion of rights, which, for its implementation, requires the prior right-holder to have authorised the marketing of the products using his/her right.

This is the position of the German Group, but also that of *Common Law* countries such as the United States.

However, other Groups consider that the exhaustion of rights rule should at least apply nationally. This is the position of the Italian, Hungarian, Dutch or Danish Groups.

The Czech Group considers that each specific case should be examined in order to take a decision on the issue of the geographic effect and thus the possible international exhaustion.

On the other hand, the Norwegian Group is in favour of such international exhaustion as one of the effects of acquiescence.

Due to these differences in points of view, it would be prudent not to overly disrupt the rules in this area and to limit the possible effect of acquiescence solely to the territory of the country or to the territory of the region in case of a regional right such as a Community trade mark in which the later right that benefits from this acquiescence exists, in such a way that the beneficiaries of such acquiescence cannot cite any international exhaustion.

9) *Evaluation of the national systems:*

Lastly, the Groups were invited to provide an evaluation of the operation of their legal systems with regard to the extinction of rights due to acquiescence.

Most *Common Law* countries which recognise the plea of the extinction of rights due to acquiescence as a means of defence are satisfied with the manner in which this system is applied in their countries, underlining its flexibility.

This is the position *inter alia* of the Australian or South African Groups, which also acknowledge that very few cases of jurisprudence have actually led to the effective application of these rules.

Among the European Groups where the mechanism of the extinction of rights due to acquiescence was established by the 1988 Directive, the Dutch Group underlines the deficiencies of the Community text and the need to complete it, in particular, by requesting interpretation from the Court of Justice of the European Communities.

The Spanish Group considers that the legal rules are not sufficiently precise and, in their current formulation, cannot be used as a basis for possible international harmonisation.

Other Reports underline a near total absence of court decisions in the area (the Belgian, Hungarian or Czech Groups).

Moreover, it appears that the rule is infrequently applied in practice and, consequently, potential deficiencies in the regulation have not yet been examined sufficiently.

This is the observation made by the Luxembourg Group.

It therefore seems that the regulation in existence in those countries that have adopted the mechanism of the extinction of rights due to acquiescence in application of the 1988 Directive is not considered satisfactory and cannot be used, in its current state, as a basis for international harmonisation.

This demonstrates the usefulness of the AIPPI's work, which is aimed at completing the reflection on the acquiescence mechanism and its effects on acts that are susceptible to infringing prior Intellectual Property rights.

II) Proposals with a view to possible harmonisation

1) The positions of the Groups regarding possible international harmonisation vary.

Certain Groups express doubts about the mere idea of such harmonisation. The Japanese Group considers that acquiescence amounts to an existing relationship between two persons and that there is no reason why this mechanism could be regulated at the international level. And, furthermore, the Japanese Group raised the question of whether recognising the effect of acquiescence would be in conformity with the TRIPS rules. Similarly, the Belgian Group, which opposes the idea of recognising any effect whatsoever of acquiescence, considers that if there is to be eventual international harmonisation, it cannot be based on the principles adopted by the European Union with regard to trade marks.

Other countries are favourable to the idea of international harmonisation, but differ regarding the way to achieve such harmonisation and regarding the types of rights that should benefit from it. Thus, the Danish, Dutch, Latvian or Portuguese Groups are of the opinion that international harmonisation should essentially focus on the effects of acquiescence with regard to all types of Intellectual Property rights. Other Groups are favourable to international harmonisation, on the condition that it be limited to certain specific rights, and in particular, to distinctive signs. This is the position of the Swedish, Finnish, French, Czech or Italian Groups.

Lastly, the question also arises of what issues should be more specifically addressed by international harmonisation. The British Group suggests that it be limited solely to practical problems such as the issue of what steps must be taken to interrupt the course of acquiescence. Similarly, the Australian Group proposes that such international harmonisation focus on the issues of the definition of good faith and the extent of the prior right-holder's knowledge of the use of the later right.

Lastly, certain Reports underline that if harmonisation is to intervene, it should be on the condition that the plea of acquiescence be recognised only as a means of defence. This is the position of the Reports of the South African, Estonian or American Groups. This same stance is expressed by the Groups whose national laws do not recognise any effect of acquiescence.

The Argentinean, Brazilian or Mexican Groups would accept the idea of international harmonisation on the condition that the mechanism of the extinction of rights due to acquiescence be recognised as a means of defence only.

2) Thus, it appears that despite all of these differences an international harmonisation of the rules of Intellectual Property law on this issue should be sought out.

And a common set of rules could be drafted, at least with regard to distinctive signs, for the following issues:

- the duration of the use of the later distinctive sign in order to give effect to the prior right-holder's acquiescence to such use;
- the definition of the good or bad faith which must accompany this use of the later right;
- the definition of the degree of the prior right-holder's knowledge of such use;
- the issue of the burden of proving these elements;
- the possibility or not of legally regulating the coexistence of the two rights;
- and lastly, the territorial effect of such acquiescence, in particular from the point of view of the possible exhaustion of the right.

The Working Committee should essentially work on these questions, but it could also consider other subjects that were dealt with incidentally in the Groups' Reports.