

Summary Report

by Sarah MATHESON, Reporter General
John OSHA and Anne Marie VERSCHUUR, Deputy Reporters General
Yusuke INUI, Ari LAAKKONEN and Ralph NACK
Assistants to the Reporter General

Question 245

Taking unfair advantage of trademarks: parasitism and free riding

This Question concerns the taking of unfair advantage of trademarks, which is also commonly referred to as "free riding" or "parasitism". Free riders seek to take advantage of the reputation attached to a third party's trademark, in order to benefit from the attractive force of that trademark, and the efforts expended by the rights holder in creating that attractive force. The purpose of this Question is to study the exact status of any available protection, in particular whether the protection may be invoked at all, and if so, what the requirements for protection are. Also, this Question aims to identify to what extent any changes to the status quo and harmonisation may be desirable.

For the purposes of this Question, ***the taking of unfair advantage of trademarks, free riding*** and ***parasitism*** are used as synonyms, and are used as defined terms to denote the use of a third party trademark in circumstances where advantage is taken of the reputation (or distinctive character) of that third party trademark, and in a manner which is unfair. This will be referred to as "the definition in this Question" hereafter.

Notably, the definition in this Question is distinguished from dilution, which generally concerns the situation where detriment is (or may be) caused to the distinctive character of a trademark. If in a jurisdiction the taking of unfair advantage of trademarks is characterised as a type of dilution, the Groups were asked to identify this and respond only on the basis of that type of "dilution".

The Reporter General has received reports from the following Groups and Independent Members (in alphabetical order): Argentina, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, Central American & Caribbean Regional Group, Chile, China, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Germany, Greece, Hungary, India, Indonesia, Israel, Italy, Japan, Latvia, Luxembourg, Mexico, The Netherlands, New Zealand, Norway, Paraguay, Peru, Philippines, Poland, Republic of Korea, Russian Federation, Singapore, Slovenia, Spain, Sweden, Switzerland, Taiwan (Independent Member), Turkey, United Kingdom, Uruguay, United States of America and Venezuela. 47 reports were received in total. All of the Reports were very helpful and assisted greatly.

The Reports provide a comprehensive overview of national and regional laws and policies relating to the taking of unfair advantage of trademarks. This Summary Report does not attempt to reproduce the detailed responses given by each Group or Member. If any question arises as to the exact position in a particular jurisdiction, or for a detailed account of any particular answer, reference should be made to the original Reports. See <https://www.aippi.org>.

In Part IV below, some conclusions have been drawn in order to provide guidance to the Working Committee for this Question.

I. Current law and practice

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

a. The taking of unfair advantage of trademarks as defined in this Question (see also above)

Most Groups answer this question with "yes". In the EU countries there are specific provisions in the trademark laws and the same is the case in e.g. New Zealand, Singapore and the Republic of Korea. However, several groups note that there is no specific provision in this respect, or that action can (also) be taken under unfair competition/marketing laws.

Seven Reports responded negatively to this question, namely: Australia, Brazil, Canada, Egypt, Russia, USA and Venezuela. Of those, the Brazilian and Russian Groups indicate that some protection is possible under more general provisions. The US Group notes that US law does not prohibit using a third party trademark, as long as there is no deception, dilution, or likelihood of confusion; it however notes that certain prohibited activities may be regarded as taking unfair or unlawful advantage of another party's trademark. The US Group has a strong view against a statutory prohibition along the lines of the definition in the Working Guidelines, as it (in short) would create conflicts with existing statutes, precedents and policies, lead to significant litigation and would possibly be unconstitutionally vague and indefinite.

b. Use that you consider similar but outside the scope of the definition in this Question?

The majority of the Reports answers this question positively. Of those, many refer to dilution and registration/use causing (a risk of) confusion.

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

In many jurisdictions there is no specific name for the protection and/or it is not included in a statutory provision. Specific terms that are used, among others, include:

- taking of unfair advantage (of the distinctive character or the repute of a trademark);
- free riding;
- parasitism;
- dilution;
- parasitic competition/copying/exploitation;
- depreciation/exploitation of goodwill;
- usurpation of a reputed trademark/famous indication;
- exploitation of reputation.

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

In most countries, multiple causes of action are available and can be invoked cumulatively (although not always before the same court or other competent authority), in many cases at least under trademark law and unfair competition law. However, also other grounds are

possible. For example, the Central American & Caribbean Regional Group also mentions the penal code, several Groups refer to passing off, several refer to consumer protection laws and the Danish, Swedish and Norwegian Groups refer to marketing laws.

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

By the nature of this question, the responses diverge given the number of countries involved and the different grounds for action existing in those countries. Therefore, reference is made to the Group Reports for the specific details. However, in many cases the following requirements seem to exist, particularly in the EU countries:

- a trademark;
- a reputation;
- a link or association with the invoked trademark;
- an actual or potential advantage for the third party;
- unfair behaviour by the third party;
- no due cause (e.g. freedom of expression).

However, the requirements differ; thus, for example in some jurisdictions confusion or a likelihood thereof is also required (e.g. in China, Uruguay and the Philippines), or bad faith and actual advantage (e.g. in Indonesia).

5) Further to question 4):

a. What degree of reputation, if any, in the trademark is required?

Most of the Groups report that some reputation is required. The EU countries generally mention that the invoked trademark must be known by a significant part of the relevant public, which is assessed on a case-by-case basis. The Canadian Group states that the mark must have "goodwill", but does not have to be famous. In Singapore, the mark must be "well known to the public at large". In the Independent Member's Report from Taiwan, it is stated that the trademark must be well-known by domestic consumers.

In Argentina, reputation is not a requirement, but it is reported to be helpful. The Central American & Caribbean Regional Group mentions this as well, as do several other countries.

b. Who bears the burden of proof regarding the requirements?

Generally, the plaintiff (i.e. the party invoking the taking of unfair advantage) bears the burden of proof, but the defendant bears the burden of proof of any defences it invokes.

In Brazil, in consumer claims, the burden of proof can be shifted if the consumer is deemed by the court to be in a less favourable position to produce evidence. In Uruguay, the burden of proof can be shifted if it is clear that one party has evidence in its possession which it does not reveal.

c. Must the use at issue cause confusion? If so, what degree of confusion is required, e.g. actual confusion, a likelihood of confusion and/or initial interest confusion?

In the majority of the Group Reports, confusion is reported not to be a requirement. However, this is different for 15 of the reporting Groups. Mostly, actual confusion is generally not required, a likelihood suffices.

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

A clear majority of the Groups report that protection can be invoked both in case of similar and dissimilar goods and services. However, there are a few exceptions. For example, the Chinese and Philippine Groups note that protection in case of dissimilar goods/services is only afforded to well-known marks. The Hungarian Group states that the protection can be invoked only in case of dissimilar goods/services, but that in its opinion this is contrary to established EU case law.

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

Many Groups do not report other factors. However, the Austrian Group notes that any aspect/factor may be relevant as the evaluation is made on a case-by-case basis. Also, several Groups do refer to "other factors", e.g.:

- evidence of a change in the economic behaviour of the consumer (German Group, although it adds that in its view it should not be a requirement);
- degree of distinctiveness and exclusivity of use (Indian Group);
- bad faith (Indonesian Group, Israeli Group.)

6) Are there any defences against and/or limitations to the protection? If so, what are they, and what are the elements of such defences/limitations?

The defences and/or limitations vary between the various countries and different grounds of action. The following are the most mentioned:

- parody;
- freedom of expression;
- comparative advertising;
- prior use in good faith;
- "due cause"; "fair use" (e.g. to indicate compatibility, provided it is "honest"/"fair") (Note these can also encompass the specific defences and/or limitations listed immediately above).

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

The party invoking the defence and/or limitation generally bears the burden of proof. However, the Belgian Group notes that in respect of fair use, it is for the trademark owner to prove that the defendant does not meet the requirements. Also some other Reports note that the burden of proof is sometimes shifted or divided. For example, the Indian Report states that initially the claimant must establish that there is no "due cause" and then the burden shifts to the defendant to rebut. The Swedish Group notes that the burden of proof can be shared e.g. if the plaintiff argues unfair advantage, the defendant invokes a due cause argument and these and the underlying circumstances are more or less intertwined.

The German Group states that the elements of "unfairness" and "due cause" overlap and that a use that is with "due cause" shall generally not be "unfair". Also several other Reports note that use with due cause is unlikely to qualify as unfair.

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

In many countries, the free rider may use but not register the trademark. However, there are also several countries where this is different and also registration is allowed (provided of course it complies with the general requirements for registration).

9) Can the protection be invoked in:

a. Court in civil proceedings

Almost all Group Reports answer this question with "yes". Only the US and Venezuela Group Reports state "n/a".

b. Court in other proceedings, and if so what other proceedings (e.g. criminal proceedings)

Nine Group Reports respond with "no" to this question. In the large majority of the Reports the answer is thus "yes", mostly mentioning criminal proceedings. Other proceedings mentioned are e.g.:

- administrative proceedings (China, Latvia); action commenced by the consumer law regulator (Australia, Estonia);
- antitrust court (Chile).

c. Opposition proceedings

The Group Reports mostly confirm that the protection can be invoked in opposition proceedings. However, this is different in a number of countries, including Austria, Belgium, Canada, France, Indonesia, Luxembourg and Switzerland. In the EU countries, a difference can exist between national opposition proceedings and opposition proceedings before OHIM (see e.g. the Italian Report), meaning that in some EU countries the protection can be

invoked in national opposition proceedings, and in others it cannot. Furthermore, again some Reports respond with "n/a" (Egypt, Mexico, US, Venezuela).

d. Any other, and if so what, proceedings?

About half of the Group Reports mention other proceedings, such as:

- cancellation/revocation proceedings before the trademark office;
- proceedings before competition authorities;
- proceedings before consumer protection authorities;
- proceedings before the Market Inspectorate (Slovenia);
- arbitration proceedings;
- domain name dispute resolution proceedings.

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

In general, many requirements are stated to be fairly similar. However, in particular under criminal law generally the requirements are stricter; for example, the Australian and Canadian Report mention that a higher burden of proof (beyond reasonable doubt) applies.

II. Policy considerations and proposals for improvements of the current law

11) Should there be protection against:

a. The taking of unfair advantage of trademarks as defined in this Question

41 of the 45 Groups believe there should be protection against the taking of unfair advantage of trademarks as defined in the Working Guidelines. Several of the Groups explain their position. For example, the Danish Group believes that the two most relevant considerations are: (i) protection of the investment of the trademark owner in promoting their trademark and (ii) protection of the consumer's interest in the goodwill associated with the purchased product. Also, the Japanese Group believes that protection is desirable, noting that a trademark targeted by a free rider has property value in itself, which is a result of significant investments. The New Zealand Group agrees with the importance of protection, but notes that the extent thereof should be articulated more clearly, to provide guidance on how the law should be applied (and thus preventing trademark owners from overly broad protection). Also several other countries emphasise the desirability of clear boundaries and the need to balance various interests.

The Groups who do not agree are: Australia, the Republic of Korea, the USA and Venezuela. Of those, Australia clarifies that with the present system of checks and balances in place, a further cause of action would appear an unnecessary and further incursion into a space best regulated by market forces rather than the law. The Australian Group believes that at least some likelihood of confusion should be required.

b. Use that is similar but outside the scope of the definition in this Question? Why/why not?

A majority of the Groups believes that there should be room for such. For example, the Belgian Group states that general civil liability law should remain in place. The Finnish Group emphasises that the protection against dilution should be maintained.

However, also a significant number (15) of Groups take a different position. For example, the Argentinian Group states that there are too many alternatives and situations to enable a general rule. And the US Group states that trademark violations are adequately covered by anti-deception, unfair competition and anti-dilution policies and prohibitions.

12) Is the basis for protection or the cause of action relevant? Why/why not?

The majority of the Groups believes that the basis is indeed relevant. Considerations/views mentioned are:

- trademark law should provide strong and effective measures;
- in the EU, harmonisation of trademark law has the advantage that it would apply in the entire EU and thus provides more uniformity;
- harmonisation is likely to be easier in the case of statutory law;
- the basis may e.g. affect the remedies available, and the competency of the court; also, different requirements may apply (with unfair competition e.g. requiring that the parties are competitors).

Several countries disagree. For example, the Swedish Group states that it used to be relevant but that the differences have become less important.

13) Should it be possible to invoke the protection in all types of proceedings mentioned above under 9) above? Why/why not?

Most of the Groups (30) are of the view that it should be possible to invoke the protection in all types of proceedings mentioned under 9) above. The Chinese Group for example states that comprehensive protection can only be achieved when a trademark is respected and protected at all stages.

The UK Group notes that it should be possible to invoke the protection in civil court and opposition proceedings, but not in criminal court proceedings as the harm at issue is commercial harm and not harm to the consumer or society in general (and nor is there a requirement of intention, relevant because some sort of *mens rea* must be required for criminal penalties).

Also a fair number of Groups (15) have a different view though. The Australian Group points to different evidentiary requirements in various proceedings and is of the view that this kind of matters is best dealt with as part of civil proceedings. The French Group believes that it should not be possible to invoke the protection in opposition proceedings, nor in criminal proceedings. Also some other Groups believe the protection less appropriate for criminal proceedings (and in this respect thus agree with the UK Group's view). The Swiss Group notes that actions based on free riding or parasitism often require a deeper clarification of facts which is not suitable for administrative proceedings.

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

Potential improvements mentioned are e.g.:

- the option to invoke the taking of unfair advantage of a trademark in national opposition proceedings;
- more specific requirements;
- clarification that likelihood of confusion is not a requirement.

III. Proposals for harmonisation

15) Is harmonisation in this area desirable?

A large majority of the Groups deem harmonisation desirable. The Groups that take a different view are: Czech Republic, Egypt, Hungary, New Zealand, Republic of Korea, USA and Venezuela.

The Swedish Group notes that harmonisation is in general and as a starting point desirable, but that for the present topic this is especially the case because advertising campaigns (in which trademarks are used) are becoming increasingly global, e.g. in digital media. Also the Turkish Group refers to the present importance of improved and extended communication technologies and the acceleration of transfer of information. The UK Group makes similar observations.

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

Most Groups responded to this question that it is not applicable to them or did not respond.

The Australian Group notes that this is indeed in principle its view and that any protection against free riding should require, to some degree, a likelihood of confusion. The Egyptian Group takes the position that each jurisdiction should be left to determine the issue. The US Group believes that this is an area in which opinions and national policies may differ. The Venezuelan Group states that protection against free riding should be covered by competition laws.

17) Should there be harmonisation of the definition of:

a. The taking of unfair advantage of trademarks as defined in this Question

Most of the Groups favour harmonisation of the definition. An advantage mentioned is increased certainty in the law. In this respect, also the facilitation of cross-border marketing is mentioned (see the Greek Report). Different proposals for definitions are made. For example, the Latvian Group agrees with the definition used for this Working Question (see above on p. 1); also other Groups including the Luxembourg, Bulgarian, Central American & Caribbean Regional, Spanish and Swedish Groups refer to this definition. The Spanish Group adds that it would have to be specified that the use must be commercial.

However, several Groups point to the difficulties caused by differences in the laws; and also several Groups believe it would be difficult given the many different situations that can be

covered, emphasising that assessment on a case-by-case basis is appropriate and noting that a too detailed definition may make it difficult to apply it to different situations.

b. Use that you consider similar but outside the scope of the definition in this Question?

The answers to this question are more or less split. On the one hand, often the differences between the various grounds are emphasised, while on the other hand, among other things legal certainty is mentioned.

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

See above under 17(b) - there is no consensus.

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

The majority of Groups think that (at least) action under trademark law should be possible. In addition, unfair competition law is mentioned often.

The Danish Group notes that it may be easier to harmonise trademark law as marketing laws/unfair competition laws materially differ in different jurisdictions. Also, the UK prefers trademark law, in addition to common law action in respect of unregistered trademarks (such as passing off); unfair competition is a very broad concept meaning different things in the various jurisdictions.

The French Group also favours the application of general civil liability, as it provides a relatively broad and sufficient protection against free riders. The Israeli Group favours the application of unlawful enrichment laws.

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

Requirements mentioned are e.g.:

- a certain level of reputation;
- a connection between the invoked trademark and the sign used by the third party;
- some kind of unfair advantage;
- with the trademark owner generally bearing the burden of proof.

Regarding the (level of) reputation, several Groups of EU countries note that the trademark must be known by a significant part of the public concerned by the product or services which it covers in a substantial part of the relevant territory, referring to established EU case law. At the same time, they note that no fixed percentages should be applied. The Brazilian Group notes that the trademark must have an attractive force, so that the free rider would benefit from the power of attraction, reputation etc. There are also Groups (see e.g. the Mexican Group Report) who state that reputation should not be required.

A minority of the Groups favours inclusion of likelihood of confusion as a requirement.

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

Defences and limitations mentioned are:

- parody;
- freedom of expression;
- comparative advertising;
- prior use in good faith;
- "due cause"; "fair use" (e.g. to indicate compatibility, provided it is "honest"/"fair") (Note these can also encompass the specific defences and/or limitations listed immediately above).

The Finnish Group proposes that a separate Working Question be established to study this question.

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

The Groups generally agree that the party invoking such should bear the burden of proof, thus (normally) the defendant.

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

Many Groups state that it should be possible to invoke the protection in criminal, civil and administrative actions. However, a number of Groups believes criminal action should be excluded or should be subject to additional requirements, while there are also some Groups that do not favour the use in opposition or other administrative proceedings.

Respondents were asked to comment on any additional issues concerning the taking advantage of trademarks in the sense of parasitism and free riding considered relevant to this Question.

The Chilean Group queries whether it makes a difference if the trademark at issue is a word mark or other type of mark, and if the use is for goods or services.

The Paraguay Group strongly recommends harmonisation on the present topic. Also the Polish Group strongly recommends harmonisation.

IV. Conclusions

Based on the Group Reports, there is ample support for protection of the taking of unfair advantage of trademarks as defined in this Question. Only a few Groups disagree.

A majority of the Groups also agrees that there should be protection against similar use, but there is a significant minority who disagree. For that reason, and also because the criteria are not fully developed let alone aligned in the Group Reports, at this stage there is probably not sufficient basis for a resolution on this aspect.

Most Groups favour harmonisation of the definition of taking unfair advantage of trademarks as defined in this Question, but no clear consensus emerges from the Group Reports. It may be best to apply this definition as a starting point for discussion, given that at least several Groups refer to it.

As to the legal basis for action, the majority of Groups favour action under at least trademark law. Also other grounds are mentioned, amongst which, often unfair competition. It is suggested that the draft resolution mention that it should "at least" be possible to take action against the taking of unfair advantage of trademarks under trademark law, thus leaving open other grounds for action.

As requirements for protection, no clear consensus emerges from the Group Reports. As a starting point, probably (i) a certain level of reputation, (ii) a connection between the invoked trademark and the third party sign and (iii) unfair advantage should be listed as criteria.

Regarding potential defences and limitations, the ones mentioned most are (i) parody, (ii) freedom of expression, (iii) comparative advertising, (iv) prior use in good faith and (v) "due cause" and "fair use". However, the criteria mentioned differ, also for the different potential grounds of action. It is therefore suggested to include in the draft resolution that the protection should not be absolute and that defences should be available, but without going into detail.

As to the burden of proof, the Groups generally agree that in principle the burden of proof should be on the party invoking the taking unfair advantage, except in respect of defences, in which case the burden of proof should in principle be on the defendant.

Regarding the types of actions, the Groups generally agree that the protection should at least be possible to be invoked in civil proceedings. Many, but not all, also find that it should be an option in criminal and administrative proceedings.