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J.NR. 600-098-LIA-PLM

Trademark Rights Give Way to Free Competition

Principled decision concerning the scope of 3D trademark protection
ensures cheap gas for the consumers

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On 14 July 2011, the Court of Justice of the European Union passed a judgment establishing that given certain assumptions, considerations for the consumer and for free competition take precedence over the protection rules concerning trademark rights.

The case deals with the question of whether Viking Gas A/S (Viking Gas) has infringed the exclusive licensee's, Kosan Gas A/S, formerly BP Gas A/S (Kosan A/S), trademark rights when filling gas into a gas bottle protected as a 3D mark and selling it.

DAHL Advokatfirma has represented Viking Gas through the entire course starting at the enforcement court in Viborg with order of 6 December 2005, continuing at the Danish Maritime and Commercial Court with judgment of 21 December 2006, and at present at the Danish Supreme Court where the case was tried on 9 March 2009. Subsequently, the Supreme Court decided to present the case to the Court of Justice of the European Union, where the case was prepared in writing and argued orally on 20 January 2011.

On 7 April 2011, the Advocate General submitted a proposal for a decision, and the Court's prejudicial decision is now available with the judgment of 14 July 2011.

The Court follows the Advocate General's proposal for a decision, and in its complete response to the submitted questions, the Court concludes as follows:

Articles 5 and 7 of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks must be interpreted as meaning that the holder of an exclusive license for the use of composite gas bottles intended for re-use, the shape of which is protected as a 3D mark and to which the holder has affixed its own name and logo that are registered as word and figurative marks, may not prevent those bottles, after consumers have purchased them and consumed the gas initially contained in them, from being exchanged by a third party, on payment, for composite bottles filled with gas which does not come from the holder of that license, unless that holder is able to rely on a proper reason for the purposes of Article 7(2) of Directive 89/104.

Thus, it can be concluded in general that the use of simple 3D trademarks for products of the same kind is allowed if there is no intervention in the original function if the consumer's property rights and the free competition would be significantly limited by prohibiting its use. This also applies even though the use in question to a certain extent damages the distinctiveness of the trademark.

The Court applies that in this case exhaustion of the trademark right has taken place. In relation to Kosan Gas' allegation that exhaustion cannot concern the packaging of the product, the Court draws attention to the fact that the composite bottles to be reused a number of times does not comprise a mere packaging of the original product, but have an independent economic value and must be regarded as products in themselves¹.

The Court emphasizes that when first purchasing a gas bottle filled with gas from one of Kosan Gas' suppliers, the consumer pays not only for that gas, but also for the composite bottle, the price of which is higher than the price of traditional steel gas bottles, in particular on account of their specific technical characteristics, and than the price of the gas which they contain.

In those circumstances, a balance must be struck between, on the one hand, the legitimate interests on the part of the licensee and the proprietor of the trademark in profiting from the rights attached to those marks, and, on the other, the legitimate interests of the purchasers of those bottles, in particular the interest in fully enjoying their property rights in those bottles, and the general interest in maintaining undistorted competition.

The Court acknowledges the legitimate interest of the licensee and the proprietor of the trademark in profiting from the rights attached to the trademarks, but also points out that the sale of composite bottles allows it to realize the economic value of the trademarks relating to those bottles. The Court has already held that a sale which allows the realiza-

tion of the economic value of the trademark exhausts the exclusive rights to be conferred¹.

The Court weighs the interests of the consumer higher, as the Court – in accordance with the Advocate General – establishes that the purchaser will not be able fully to use his property rights in the bottle if this right – even after the sale has been made by the proprietor of the trademark or with his consent – should be limited by the trademark rights attached to the bottle. If so, the purchaser – among other things – will no longer be able freely to exercise his property rights, but will be tied to a single supplier of gas in case of a later refill².

If Kosan Gas is allowed to oppose a later refill, this will, according to the Court, limit competition unreasonably on the market for refilling gas bottles and will entail a risk of splitting up the market if the proprietor of the trademark and the licensee succeed in maintaining their bottle, owing to its specific technical characteristics, the protection of which is not the subject of the trademark right.

A parallel can be drawn to the EU registration authority, OHIM's restrictive practice concerning the option of obtaining protection when registering 3D trademarks at all.

The limited protection area for 3D trademarks – both in relation to the actual registration, which is not in dispute in this case, and in relation to the scope of the protection obtained by the registration of a 3D trademark – is legitimized by the fact that when protecting this type of trademarks, the fundamental principles concerning intellectual property rights are departed from in a way.

In the traditional trademark right, an exclusive right to a *feature* is obtained which, in principle, is independent of the product. However, e.g. design and patent rights constitute a certain protection of the product in itself and its design. These intellectual property rights, however, are subject to a number of limitations, the most important one being a fixed-term exclusive right period.

The acquisition of an exclusive right in itself limits the free competition. Thus, the protection of 3D trademarks actually constitutes indefinite product protection which, in the nature of things, is suitable for creating a monopoly.

Thus, the registration authority is reluctant to give the product in itself protection as a trademark, in particular in cases where a former design and patent protection has run

¹ Premise 32 with reference to judgment of 30 November 2004, case C-16/03, Peak Holding, premise 40.

² Premise 33.

out. LEGO's repeated attempts, which have been in vain so far, to register the LEGO brick as a 3D trademark is an example of an attempt to expand the protection of a product where the patent right has expired³.

In relation to the competitive considerations, the Court states directly that the risk of an illegal division of the market is increased as the price for the composite bottle is higher than for the gas, and because the purchaser, in order to regain a free choice of gas supplier, would have to forgo the initial outlay made in purchasing the bottle, the recouping of which requires the bottle to be reused a sufficient number of times.⁴.

The purchaser's right freely to choose a supplier when refilling or replacing implies as a logical consequence that also competitors like Viking Gas have the right to refill and replace empty bottles – within the limits that follow from Article 7(2) of the Directive.

The assessment of whether, within these limits, Kosan Gas has reasonable reason to oppose Viking Gas' refill must be made by the Supreme Court.

In its judgment, the Court provides the court making the reference with rather clear guidelines for this assessment.

The Court clarifies that the answer to the question of whether marketing of composite bottles filled by Viking Gas has taken place in a way that gives the impression that there is a financial connection between this company and Kosan Gas depends on the labeling of the bottles and the circumstances under which they are replaced⁵. I.e. a decision on whether the actual labeling of the gas bottles with stickers is sufficient to ensure the original function of the trademark.

The average educated, rather attentive and well-informed consumer is namely not to be lead to think that there is a connection between the two companies dealt with in the case, or that the gas used for refill of these bottles originates from Kosan Gas. In this assessment, consideration must be paid to practice on the market in question, including in particular whether the consumer is used to the gas bottles being refilled by other suppliers.

Subsequently, the Court remarks that it is reasonable to assume that a consumer, who contacts Viking Gas directly either to have his empty gas bottle replaced with a filled bot-

³ Cf. the article by Eva Aaen Skovbo in U.2010B.23 with a survey of among other things the LEGO cases – T-270/06, Lego Juris A/S ctr. Office for Harmonisation in the Internal Market (The Court of first instance).

⁴ Premise 34.

⁵ Premise 39.

tle or to have his own bottle refilled, is able easily to see that there is no connection between this company and Kosan Gas⁶.

This premise contains the Court's proposed settlement of the fact that with the labeling of the bottles, the educated consumer *in general* is not likely to confuse Viking Gas and Kosan Gas and *in particular* is not likely to confuse the parties when the bottle is being replaced or refilled at Viking Gas.

Thus, the requirements for the labeling must be considered to be smaller if the replacement or refilling takes place from Viking Gas' own outlets. Likewise, replacement or refilling will be allowed from a Viking Gas supplier who shows with large signboards that he is a Viking Gas supplier. Similarly, it must apply for other forms of refilling of e.g. fire extinguishers, kegs of beer and any other recycling material which is trademark protected. Thus, the judgment can be extended as a contribution to the interpretation of the scope of protection also in a number of other industries.

In closing, the Court remarks that the fact that the composite bottles are supplied with word and figurative marks made up of the name and logo of Kosan Gas which remain, according to the findings of the national court, visible in spite of the labeling affixed by Viking Gas to those bottles, constitutes a relevant factor in so far as it seems to rule out labeling from altering the conditions of the bottles by masking their origin.⁷

In the judgment, the Court, in accordance with the practice of the past years, makes a balancing of the involved parties whereby the functions of the trademarks is interpreted into the relevant protection sphere when deciding infringement questions. Subsequently, the scope of the exclusive right is neither for the 3D trademarks to be understood only from the wording of the Trade Marks Directive and the Trademark Act, but also from the wording as well as the functions of the trademark.

In accordance with characteristics of the 3D trademark rights as an actual product protection and the restrictive registration practice in the area, the Court makes yet another limitation of the scope of protection for these marks. In the assessment of the infringement question and the balancing of the involved parties contained in this, the trademark rights must give way to the consideration for the consumer's property rights and free competition.

For further information on the case, please contact attorney Louise Ingerslev Andersen or attorney Peter Henrik Würtz, who has conducted the case before the Supreme Court as well as before the Court of Justice of the European Union.

⁶ Premise 42.

⁷ Premise 41.