

Has the ECJ's expanded list of functions widened the scope of trademark protection?

While the dust settled on the *L'Oreal v Bellure* decision some time ago, clarification is still needed on recognised functions of a trademark. Without this, there is a danger that the treatment of marks will run contrary to the core purpose of trademarks as economic tools in an effective competitive marketplace

The 2010 case of *L'Oreal v Bellure* (C-487/07) will be familiar to trademark lawyers and brand owners throughout the European Union. Following this decision, trademark infringement can arise even where the complained-of use does not damage the mark's essential function of indicating origin, provided that one of its other 'functions' is adversely affected. Although the existence of multiple functions had been alluded to in previous cases, in *L'Oreal* the European Court of Justice (ECJ) formally recognised for the first time that trademarks possess the functions of 'quality', 'communication', 'investment' and 'advertising', in addition to their origin function.

This article examines the genesis of trademark functions and tracks their gradual development and expansion in ECJ jurisprudence before *L'Oreal*. It considers the existing state of the law and asks whether the ECJ has inadvertently introduced legal uncertainty into one of the most critical aspects of European trademark law. It also discusses the contrasting reactions of national courts in the United Kingdom, France, Benelux and Germany to the trend towards expanding trademark functions, and considers whether there is sufficient uniformity in their application across member states. Finally, it discusses the impact on brand owners and asks whether trademark proprietors actually enjoy wider protection for their marks in the post-*L'Oreal* era.

The evolution of functions

The idea that trademarks have functions that deserve protection is not new. Their "essential function" of guaranteeing origin was recognised by the ECJ in *Hoffmann La Roche v Centrafarm* (102/77) as early as 1978, and the existence of functions was subsequently encapsulated in the First Recital to the Preamble of the EU Trademarks Directive (89/104/EEC), which held that "the protection afforded by the registered trade mark, the function of which is in particular to guarantee the trademark as an indicator of origin, is absolute in the case of identity between the mark and the sign and goods or services" (emphasis added).

In early case law under the directive, it was accepted that

the primary purpose of trademarks is to enable consumers to differentiate between goods and services of different undertakings without confusing them. It was also understood that there were purely descriptive uses (eg, for identifying the goods or services of the proprietor, or nominal or referential uses) which could not be perceived by consumers as indicating origin. These were incapable of affecting the origin function, even in the case of identical marks for identical goods (*Holterhoff v Freiesleben* (C-2/00), which concerned a type of diamond cut used in a referential sense to describe product characteristics).

The ECJ's ruling in *Arsenal* (C-206/01) put functions centre stage. It considered whether the protection conferred by Article 5(1)(a) of the directive is truly "absolute" in relation to identical signs for identical goods, or whether some type of injury to the trademark proprietor's interests is also required. The ECJ confirmed that the protection of Article 5(1)(a) is reserved for cases where the complained-of use affects or is liable to affect "one of the functions of the trade mark", in particular its origin function. The wording of the directive thus leaves the door open for other functions to be identified and protected. While the ECJ acknowledged this fact, it did not attempt to specify what those other functions might be.

At first blush, *Arsenal* appeared to restrict the scope of Article 5(1)(a) by requiring an adverse effect on functions even in so-called 'double identity' cases. However, the decision clarified that infringement can arise even where the complained-of use is not trademark use for the purpose of identifying origin, provided that one or more functions is affected. Coupled with the apparently open-ended array of functions, this set the wheels in motion for a shift in the ECJ's approach.

The *Arsenal* test was repeated and applied in numerous subsequent cases. There was also a growing recognition by the ECJ (particularly in the context of parallel imports) that the 'aura of luxury' or 'mental quality' of a trademark deserves protection even where there is no confusion as to origin. In *Dior v Evora* (C-3337/95) it held that a trademark owner can prevent the use of its mark for advertising re-sales of genuine luxury products where the shoddy nature of that advertising causes "serious" damage to the mark's reputation. A similar finding was made in *Dior v COPAD* (C-59/08), decided shortly before *L'Oreal*, which confirmed that infringement can arise where the allure and prestigious image that bestows an aura of luxury on a product is harmed by unauthorised sales in discount stores.

The ECJ finally broke new ground in *L'Oreal* by expressly setting out the expanded list of functions for the first time: "These functions



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include not only the essential function of the trade mark, which is to guarantee to consumers the origin of the goods and services, but also its other functions, in particular that of guaranteeing the quality of the goods or services in question and those of communication, investment or advertising” (emphasis added).

This expanded list appears to derive, at least in part, from the advocate general’s opinion in *Dior v Evora* over a decade earlier. In that case, it was argued that trademarks have other functions (which Advocate General Jacobs loosely termed the “communication, investment or advertising functions”), since the investment made in promoting a product is built around its mark, and that investment deserves protection, even without any misrepresentation regarding either origin or quality. However, Jacobs remarked that “[the other functions] seem to me to be merely derivatives of the origin function: there would be little purpose in advertising a mark if it were not for the function of that mark as an indicator of origin, distinguishing the trade mark owner’s goods from those of his competitors... Accordingly, it follows that the circumstances in which a trade mark owner can invoke his trade mark rights in order to protect his reputation should not be construed too widely”.

Nevertheless, in *L’Oreal* the ECJ made it plain that Article 5(1) (a) infringement could arise from damage to any one of the newly specified functions. Despite treating each function separately as potentially conferring a standalone right, the ECJ gave no further guidance on the meaning and scope of these functions. In fact, it even left open the possibility of yet more functions being identified.

Subsequent keyword advertising cases, in which the advertising and investment functions were considered more closely, did little to clarify the position. In *Google France* (C-236/08, C-237/08 and C-238/08) the court suggested that the advertising function would be jeopardised if the use of an identical mark in respect of identical goods “adversely affected the proprietor’s use of its mark as a factor in sales promotion or as an instrument of commercial strategy”. However, on the facts, the need for a trademark owner to increase its advertising expenditure to ensure that its own ads appeared at the top of Google searches did not jeopardise the advertising function. This begs the

question: if increased cost of advertising is not considered an adverse effect on the advertising function, then what is?

In *Interflora* (C-323/09) the ECJ considered the investment function to be adversely affected if a third party’s use of the mark “substantially interfered with the proprietor’s use of its trademark to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty”. It was not sufficient that the brand owner had to adapt its efforts in order to acquire or preserve a reputation when faced with third-party use of its mark in the context of fair competition. Moreover, the investment function was not adversely affected merely because some consumers might be prompted to switch to a competing brand.

Therefore, despite the ECJ’s express recognition of the multiple functions of trademarks, it has thus far been reluctant to find infringement on the basis of these other functions. It remains unclear what circumstances (if any) would give rise to an adverse effect. This suggests that the scope of protection conferred by the advertising and investment functions is likely to be relatively limited. No further guidance has been issued by the ECJ on the other functions mentioned in *L’Oreal* (ie, the quality and communication functions); accordingly, their scope and meaning remain undefined and untested.

National courts’ reaction

The English courts’ frosty reaction to the introduction of the new standalone functions is perhaps best encapsulated in the judgment of Justice Jacob in *L’Oreal*, following the reference, where he commented: “I am bound to say that I have real difficulty with these functions when divorced from the origin function. There is nothing in the legislation about them. Conceptually they are vague and ill-defined... Trade mark owners of famous marks will have spent a lot of money creating them and need to continue to spend to maintain them. But all advertisements for rival products will impinge on the owner’s efforts and affect the advertising and investment function of the brand in question. No one would say just jostling for fame and image in the market should be stopped. Similarly all comparative advertising... is likely to affect the value of the trade mark owner’s investment.”

Serious concerns have been expressed in the United Kingdom about the notion that trademark owners should be able to take action to prevent any form of detriment or damage to their brands, even if it arises from legitimate competition in the marketplace. Unlike some other member states, the United Kingdom does not recognise a general tort of unfair competition. The closest equivalent is the much narrower common law concept of passing off, which has always required an element of misrepresentation. Comparative advertising and lookalike products are also widespread in the United Kingdom, and tend to be accepted as amounting to fair competition, provided that they do not mislead consumers.

A harmonised Community approach?

As a result, the English trademark courts have focused on preventing confusion and deception in the marketplace. Although the United Kingdom has adopted Article 5(3) of the directive to protect well-known marks in the absence of any confusion, that provision has also attracted widespread criticism for conferring unreasonably wide protection on brand owners without any clear justification. The idea that trademark owners can prevent and control certain types of otherwise lawful competition on the basis of abstract functions of their trademarks therefore represents a significant leap for English courts, whose attitude to competition has traditionally been more permissive.

Perhaps unsurprisingly, courts in the Benelux – which have historically offered more generous protection to trademarks against unfair competition – have welcomed the *L’Oreal* decision. Long before *L’Oreal*, Benelux authors and judges accepted that trademarks do not fulfil an origin function only. On March 1 1975 the Benelux Court of Justice in *Claeryn/Klarein* implicitly recognised the advertising function, stating that a trademark is capable of “convincing consumers to purchase”. The advertising function was later reiterated by the Dutch Supreme Court. In 1977 the Benelux Court of Justice considered goodwill to be another essential trademark function, as confirmed on February 26 2007 by the Ghent Court of Appeal (*Upper At Home BVBA/ETT CVBA*). The communication function (ie, conveying messages about product characteristics) was also discussed, but was regarded as an element of the advertising function.

L’Oreal was celebrated in Benelux countries as a victory for trademark holders and regarded as a welcome expansion of Article 5(1) (a). Authors stated that “a trade mark is nothing without advertising and advertising is nothing without a trade mark” (see T Cohen, “*Deel 2 Merkenrecht*”, in *Industriële eigendom*, Kluwer, Deventer 2008, pp42-43). However, some have argued that other functions should be pooled under the same heading – for example, the marketing function (Brussels, February 7 2012). The origin function still features prominently in Benelux courts’ reasoning in post-*L’Oreal* cases, but with increased prominence being given to other functions.

Notably, in *Responsible Young Drivers* (Brussels, February 7 2012) breaches of the communication and investment functions were established, in addition to the origin function, on the basis that the trademark proprietor had a financial interest in the way that its mark was used, given the need to preserve an immaculate image for sponsorship purposes. In 2012 a Belgian appeal court went as far as to classify the expanded list of functions (ie, origin, identification, quality, communication, investment and advertising) as all amounting to essential functions (Ghent, March 26 2012, *Dewaele Adviesbureau CVBA/Broker BVBA*).

Despite the Benelux courts’ enthusiasm for the new functions, their focus remains (and is likely to remain) firmly on the origin function as a starting point, with the other functions having only a limited independent role. Concrete guidance on the parameters of the other functions is also still lacking. That said, it appears that the ECJ’s new functions reflect established Benelux doctrine, and that the more protective pro-brand owner approach of continental European jurisdictions is gradually making its way into ECJ jurisprudence.

In contrast to their Benelux neighbours, before *L’Oreal* the German and French courts had not embraced the other trademark functions in national case law. An adverse effect on the origin function was still required as a condition of trademark infringement under the German Trademark Act, although this was commonly found. Decisions rendered by French courts also still mainly referred to “the functions of the trade mark and in particular its essential function of guaranteeing to consumers the origin of the goods”. In both countries, decisions referring to other trademark functions were rare.

The quality function had been discussed in Germany, but only in the context of limitations to exhaustion as a result of changes to product packaging under Article 7(2) of the directive. The German Federal Court had also discussed the advertising function as possibly being separately protected in the context of infringing use in *Bananabay* (January 22 2009, I ZR 125/07), which was issued six months before *L’Oreal*. By this decision, the court asked the ECJ for a preliminary ruling on whether inclusion of a trademark in keyword advertising qualifies as ‘use’ under Article 5(1)(a). The court held that

protection of a trademark is not limited to the origin function, but also encompasses the advertising function. Furthermore, it considered that if the advertising function is protected independently of the origin function under Article 5(1)(a), then use of a trademark in keyword advertising is capable of amounting to infringing use independently of any adverse effect on the origin function, since, in the court’s view (stated before *Google France*), the advertising function of the protected trademark is weakened by its use as a keyword.

In a decision issued a matter of days after *L’Oreal*, the French Supreme Court also held that the sale of jewellery presented as replicas of well-known trademarks affected the “functions of the trade mark” (without further indication of which functions were being referred to), and was thus constitutive of trademark infringement (June 30 2009, 08-85222). As there was no confusion as to the origin of the goods (indeed, there could be no confusion as to the origin of the replicas, which were clearly identified as such), legal doctrine suggests that the case was decided on the basis of interference with the exclusivity function – that is, that function of the trademark which gives its holder the exclusive right to use it (“The New Functions of the Trademark in CJEU’s case law”, Jerome Passa, *Industrial Property*, June 2012).

The German and French courts’ approach to functions therefore appeared to be gradually shifting even in the lead-up to *L’Oreal*. The German courts subsequently adopted *L’Oreal* without hesitation (although it was the subject of much debate by legal commentators). However, to date they have found infringement based solely on the advertising function in only one case. This Federal Court decision dealt with an advertisement for an independent car repair and inspection service company which used Volkswagen’s famous logo to describe its services. The court argued, by analogy to Article 5(2), that the defendant was using the well-known mark in order to profit from its image and attractiveness, which would lead to a weakening of the distinctiveness of the mark and therefore to an adverse effect on its advertising function. Although this case concerned a famous mark, the court confirmed in another case that the advertising function was

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protected independently of the repute of the mark in double identity cases. There have been no decided cases in which other functions, in particular the investment function, were held to be adversely affected.

Several post-*L'Oreal* decisions of the French courts have referred to the other trademark functions. For example, the reservation of a trademark as a keyword for the purposes of advertising in an online sponsored links section next to natural search results did not affect the origin, communication or advertising functions of the trademark (Lyon Court of Appeal, March 22 2012, 03/1600). The same conclusion was reached by the Paris Court of First Instance on June 21 2013 (11/05600). To date, apart from the above-mentioned June 30 2009 decision rendered by the Supreme Court in relation to replica jewellery, where infringement was found by reference to the exclusivity function (which might be regarded as the origin function by another description), the French courts have upheld no other claims based solely on interference with other functions where the origin function was expressly found not to have been affected.

The state of the law

The basic proposition that trademarks possess multiple functions that are capable of protection is now a firmly established principle of European trademark law. Despite national courts' contrasting attitudes to the scope and application of the new non-origin functions, there appears to be broad consensus on the basic premise that a trademark must be damaged in some way before it can be infringed. This key principle should, at least in theory, ensure that trademarks receive protection only when they require it in response to an unjustified third-party threat.

However, the *ad hoc* expansion of functions arguably risks taking the scope of that protection too far. The open-ended nature of functions opens the floodgates for potentially endless types of damage being recognised for the purposes of the new test. A multitude of different functions have already emerged in addition to the origin function – namely, the identification, goodwill, exclusivity, quality, communication, investment and advertising functions. The parameters of many of these functions remain entirely unspecified and little guidance is available on the others (even those on the basis of which infringement has been found).

Implications for brand owners and the way forward

Despite being welcomed by brand owners, *L'Oreal* has left behind a highly unsettled and unpredictable legal landscape. The law is in a state of flux and it is too soon to determine whether functions are likely to fulfil their potential of radically expanding the scope of trademark protection under European law. Although the general trend seems to be shifting towards the more protective Benelux approach, it is still unknown whether the new functions will make any significant difference to trademark owners in practice.

Despite initial enthusiasm by some national courts for the expanded scope of functions, they still seem reluctant to apply these new concepts independently of the origin function – and understandably so, given the lack of clear guidance from the ECJ. The national courts' traditional attitudes to trademark rights will almost inevitably dictate the extent to which they are prepared to recognise and apply new functions, leading to varying levels of protection across member states and potential inconsistencies in case law. It would therefore be unwise to assume that courts will now readily find Article 5(1)(a) infringement in the absence of an adverse effect on the origin function.

Many other unanswered questions still remain. Importantly, it is unclear whether the new functions are relevant only to well-known marks. Furthermore, insofar as they apply in Article 5(2) cases, it is

unknown whether the courts must now find a separate adverse effect on functions in addition to detriment or unfair advantage. The cases also do not make clear whether non-origin functions have any role to play in Article 5(1)(b), where the primary test of infringement is likelihood of confusion. Moreover, if infringement now turns on whether there is an adverse effect on one of the functions, what role is left for the Article 6 exemptions from infringement? If they still apply, how are they to be reconciled with functions?

Perhaps unsurprisingly, as a result of these uncertainties there have been calls for functions to be revisited and restrained. In its 2011 study on the overall functioning of the European trademark system on behalf of the European Commission, the Max Planck Institute commented on the “blurring” effect of the increased focus on trademark functions as an element of the test for infringement. It suggested that the additional functions identified in *L'Oreal* should have no autonomous role in assessment under Article 5(1)(a), such that only use capable of affecting the origin function could be prevented in double identity cases. This would mean that referential or purely descriptive uses of a mark would not fall under the ambit of Article 5(1)(a), even if they could be said to affect one of the other functions. Those other functions were said to be sufficiently encapsulated within Article 5(2), with no need to explicitly consider them over and above the established tests for unfair advantage and detriment. The institute also recommended setting out the functions of trademarks exhaustively in the preamble to a revised directive, in order to avoid a floodgate effect of an unlimited range of new functions being identified.

Conclusion

There is some force in the Benelux school of thought that the essential origin function of a trademark has no meaning without product characteristics, quality, image, reputation and advertising driving consumer choice. The primary justification for protecting other functions as standalone rights is that they encapsulate the true purpose and value of a trademark, for which the origin function is merely a messenger. Approaching the question of infringement by reference to functions also has the potential advantage of allowing an otherwise rigid infringement test to adapt to a fast-evolving marketplace, such as in the context of advertising keywords which were clearly not in contemplation when the directive was drafted.

Regardless of these potential benefits, the current uncertainty in the scope of trademark protection under the directive is unsustainable. In order for functions to play a constructive role in trademark law, their applicability to the various tests of infringement (and their inter-relationship with existing rules, such as those under Article 6) must be clarified. Some boundaries in the range of recognised functions should also be set, in order to avoid the possibility of infinite categories of intangible damage giving rise to trademark infringement claims. If left uncontrolled, functions carry the risk of transforming trademarks into unduly precious proprietary assets incapable of tolerating any form of detriment, however caused. This would arguably run contrary to the core purpose of trademarks as economic tools in an effective competitive marketplace. ^{WTR}

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