

TRADE MARKS, A TOOL FOR THE PROTECTION OF COMPANIES' INVESTMENTS OR ONE TO ENSURE THE TRANSFER OF ACCURATE CONSUMER INFORMATION?

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I. INTRODUCTION

The development of trade marks through both legislative attempts at UK national and European Union (EU) level and jurisprudential endeavours of the Court of Justice of the European Union (hereinafter referred to as 'the CJEU') has led to the establishment of a perspective and critical for business practice area of law, namely trade marks law. Trade marks are considered by some researchers to have become "nothing more, nor less than the crux of marketplace competition."¹

While trade marks can be viewed from a *business perspective* as a tool for the protection of companies' investments, it must be regarded that they can also be viewed from *consumers' perspective*, namely as a tool ensuring the transfer of accurate consumer information. Whichever view should be taken, specific attention must be paid to the economic aims of trade marks nowadays as the latter give the framework, the business logic of trade marks and therefore help for better understanding of trade marks' true essence in today's commercial world. Thus, the present thesis begins with brief analysis of the economic aims of trade marks.

II. ECONOMIC AIMS AND FUNCTIONS OF TRADE MARKS

Traditionally, the main function of a trade mark is extracted from the provision of Section 1 of the Trade Marks Act 1994 (hereinafter referred to as 'the TMA 1994'), namely a sign or symbol placed on, or used in relation to, one trader's goods or services to distinguish them from similar goods or services supplied by other traders. Thus, the main function of a trade mark is to 'differentiate one trader's

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¹ Cornish, W.R., D. Llewelyn, T. Aplin. **Intellectual property: patents, copyright, trade marks and allied rights**. Seventh Edition. Sweet & Maxwell, 2010, at p. 640.

goods or services from those of another.’² It is true that trade marks are essential tools for selling goods and apparently they are a valuable investment of the producer.³ Indeed, trade marks allow consumers to easily identify products with the quality of which they are satisfied. Even more, they provide users with the guarantee that the products bearing the same trade mark are of the same or at least comparable quality. This is the so-called ‘guarantee’ function on trade marks which is recognised in jurisprudence of the CJEU as their ‘essential function’⁴ The ‘guarantee’ function is also recognised by the Court of Appeal in *Philips Electronics NV v Remington Consumer Products* [1999] RPC 809 where it is noted that the guarantee function is ‘important to protect both traders and consumers’. Generally, the *ratio* here could be identified in two ways. First, from consumers’ perspective, trade mark acts as a ‘badge of origin’ (as per Nicholls LJ in *Scandecor Developments AB v Scandecor Marketing AV & Others* [2001] UKHL 21). Second, from business perspective, i.e. the producer’s point of view, its function is to distinguish between similar products, to protect the better, while protecting the market from unfair competition, and to encourage the proprietor to maintain the value of their mark.

In some foreign judgments it is maintained that “*the primary value of the modern trademark lies in the ‘conditioned reflex developed in the buyer by imaginative or often purely monotonous selling of the mark itself.’ To the extent that advertising of this type succeeds,...* economically irrational elements are introduced into consumer choices...” (cited as per Kysar, D.A. **The Expectations of Consumers**. Columbia Law Review, Vol. 103, No. 7 (Nov., 2003), p. 1754).⁵ This is the third function of trade marks, distinguished in the authoritative course of Prof Cornish on Intellectual property law, namely the

² Hart, T., L. Fazzani, S. Clark. **Intellectual property law**. Fifth Edition. Palgrave Macmillan, 2009, at p. 80.

³ Ibidem.

⁴ Refer to *SACNL-Sucal v. Hag GF AG* [1990] 3 CMLR. It is pointed, *inter alia*, that the essential function of a trade mark is to give consumers ‘a guarantee of the identity of the origin of the marked product from others of a different provenance’.

⁵ See the US case of *Smith v. Chanel, Inc.*, 402 F.2d 562, 567 (9th Cir. 1968). Despite being a US case, bearing in mind the international impact of trade marks, such case law could be used as general argument.

investment (or advertising) function.⁶ With regard to this function, marks are described as '*cyphers around which investment in the promotion of a product is built and that investment is a value which deserves protection as such [...]*'. It could be maintained that by understanding the investment or advertising function of trade marks, one can also understand the economic reasoning lying behind it, namely the aim to gain a market share so as to provide goods and services with certain quality, which is already recognised by consumers in the relevant market. Thus, both users and producers are protected. The first – by being sure that goods bearing certain trade mark indicate a satisfactory level of quality, and the second – by being rewarded by consumers for having invested in producing a quality product.⁷

What are the economic aims of trade marks, briefly? First, by using certain trade mark producers intend to (1) distinguish their goods from those of other producers, (2) to guarantee that a product bearing specified trade mark indicates that the product is of specific kind and not a copy⁸, and (3) to protect the investment they have made by gaining certain share in the relevant market. Second, in my opinion, it should be admitted that another economic aim important to consumers is to provide the latter with accurate information as regards quality control, maintained standards, trustworthiness of the mark etc. In this way, consumers would be stimulated to buy goods or services bearing certain trade mark, thus providing the producer of such high quality goods and services with larger market share and establishing the mark as a milestone to consumers.

This brief analysis of the economic aims and functions of trade marks is to say that it is important for the market to protect both producers and consumers as they are dependent on each other and as such a policy granting rights to both parties should be followed. The next two paragraphs will scrutinise, respectively, the effect

⁶ Cornish, W.R., D. Llewelyn, T.Aplin. Op. cit., at p. 655.

⁷ Barnard, C. **The Substantive Law of the EU. The Four Freedoms**. Oxford University Press. Third Edition, 201 (p. 1, additional chapter covering intellectual property and free movement of goods freely available at: http://www.oup.com/uk/orc/bin/9780199562244/01student/additional/barnard3e_ip.pdf).

⁸ Ibidem.

of trade marks as a tool for the protection of companies' investments and as a tool for ensuring 'the transfer of accurate consumer information', thus allowing me to show that both are equally important.

III. TRADE MARKS AS A TOOL FOR THE PROTECTION OF COMPANIES' INVESTMENTS

In US judicial practice it is not unusual that courts frequently have characterised trade marks as property.⁹ For instance, in *Coll. Sav. Bank v. Fla. Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666, 673 (1999) trade marks are regarded as 'property of the owner because he can exclude others from using them'. The following decisions also provide valuable reference in this regard: *Kmart Corp. v. Cartier, Inc.*, 485 U.S. 176, 185-86 (1988), *S.F. Arts & Athletics, Inc. v. United States Olympic Comm.*, 483 U.S. 522, 532 (1987), and especially *The Trademark Cases*, 100 U.S. 82, 92 (1879) in which directly asserts that 'trademark is 'a property right'. Traditionally, in European legal theory trade marks rights (and intellectual property rights in general) are considered to be specific type of rights which are not to be confused with property rights, despite some similarities between the two. I see no practical reason for proclamation of trade marks rights as 'property rights' as this has no practical importance, at least not in the way Continental Europe sees property rights in the light of the Roman foundation of the civilian tradition. Trade marks rights are flexible enough to put them in the frame of property law doctrines.

However, trade marks can be thought of as 'property' in a somewhat untraditional manner, i.e. not in terms of property law but rather as an investment made by the producer which relatively makes them the 'owner' of that investment. This concept facilitates the understanding of the nature of the investment. This

⁹ Carrier, M. A. **Cabining Intellectual Property through a Property Paradigm**. Duke Law Journal, Vol. 54, No. 1 (Oct., 2004), pp. 1-145, at p. 10-11, footnote 14.

investment consists of marketing and advertising efforts. Some researches argue that the process of placing a purchase is assumed to be facilitated by trade marks. In their opinion the law creates an exclusive right for the proprietor of the trade mark to affix it to the designated goods and services in the application for registration.¹⁰ It is true that producers' main aim is to sell their goods and services to consumers, and by affixing trade marks to any such goods and services, the former provide consumers with a great deal of certainty that goods and services bearing the trade mark will guarantee that quality of the latter will be of certain level. Thus, what producers really invest in is not just the manufacturing of goods and provision of services but even much more in advertising the production made in the market through use of trade marks.

Trade marks protect what has been invested by a particular company in establishing a good or service in the market as a high quality and consumer-attractive one. This protection should be limited to some extent so as to avoid monopoly and unfair competition. Some authors argue that from granting the trade mark proprietor a limited monopoly does not necessarily follow that monopolistic behaviour is being promoted.¹¹ They speak of the general theory of profit maximization in accordance with which the proprietor of a monopoly right sets prices as high as possible. It is also argued that "trade mark protection poses an impediment to society since it creates an artificial difference between identical products and even if the differentiation is insignificant product prices will still be higher than under perfect competition". This position cannot be maintained. Trade mark protection is necessary to ensure that only the best producers of high quality goods and services will stay in the market. This relates to the best of consumers' interest. It is not realistic to think that only because of trade marks some companies succeed in the market and stay leaders for decades. In order for a trade mark to

¹⁰ Laustsen, R. D. **The principle of keeping free within EU Trade Mark Law.** In: Retsvidenskabeligt Tidsskrift, research paper no. 2, 2010.

¹¹ Ibidem.

become a symbol of high quality, companies first have to invest in designing goods and services of certain quality, then registering a trade mark so as to distinguish their goods and services from those of other producers, then to place those goods and services in the market and finally, if they are in accordance with the stated quality and are satisfactory for consumers, to gain a market share by establishing their trade mark as a reliable one. Thus, trade marks act as both means for establishing certain producer in the market and as one for protecting what has initially been invested. It is true that “a key aim of trade mark law is encouragement of ‘truthful competition in the marketplace by preserving the clarity of the language of trade’”.¹²

In *Case C-10/89 CNL-SUCAL v HAG GF* [1990] ECR I-3711 (“HAG II”) before the CJEU (then, ECJ) Advocate General Jacobs argued that “*trade marks reward the manufacturer who consistently produce high-quality goods and this stimulates economic progress. Without trade mark protection there would be little incentive for manufacturers to develop new products or to maintain the quality of existing ones.*”¹³ The CJEU has ever since recognised trade marks as an essential element in creating a system of “undistorted competition” and this view is reasonable. Indeed, trade marks could be regarded as *sui generis* ‘reward’ for producers’ efforts to produce goods and provide services which are of high quality. If no protection is offered to holders of trade marks, then no stimulus for them will be present to maintain and improve what has already been invested in. Thus, it is not reasonable to think of trade marks as just means of ‘advertising’. Trade marks are much more than that. They protect the very essence of companies’ investments, not just particular goods or services but rather, what stays beneath – the efforts of all the companies’ employees to provide consumers with merchandise which is worth their consideration.

The specific subject matter of trade mark is specified in the ratio of the case of *Centrafarm BV v. Winthrop BV* (16/74) [1974] ECR 1183 where the CJEU, inter alia,

¹² Ibidem.

¹³ Cited as per Barnard. C, Op.cit.

defines that it is: “the guarantee that the owner of the trade mark has the exclusive right to use that trade mark, for the purpose of putting products protected by the trade mark into circulation for the first time, and is therefore intended to protect him against competitors wishing to take advantage of the status and the reputation of the trade mark by selling products illegally bearing that trade mark.”¹⁴ As Professor Barnard points out, the subject matter of trade marks could be identified in two directions: first, as the right to put the product on the market for the first time and, second, to then protect its status and reputation. She also notes that later case law has included the guarantee of origin of the trade-marked goods but this issue shall be discussed at length when analysing trade marks a tool for ensuring the transfer of accurate consumer information.

Specific attention must be paid to the recent *Case C-487/07 L’Oreal SA and Others v Bellure NV and Others* [2009] ECR I-5185. In this case the CJEU rules that the owner of a well-known trade mark (i.e. L’Oreal) may prohibit a third party from using a sign *similar* to that trade mark where that third party seeks “to ride on the coat-tails of the mark [...] in order to benefit from the power of attraction, the reputation and the prestige of that trade mark and to exploit, without paying any financial compensation, the marketing effort expended by the proprietor of the mark [...]”. Notably, for the first time, the CJEU observes that under Directive 89/104/EEC on trade marks the proprietor of the trade mark is entitled to prevent the use by a third party of a sign *identical* with that mark even where such use is not capable of jeopardising the essential function of the mark, “which is to indicate the origin of the goods or services, provided that such use affects or is liable to affect one of the other functions of the mark”, in particular the functions of communication, investment or advertising. L’Oreal successfully argued that trade mark protection can be invoked to protect the investment made by the trade mark owner in developing its brand. The CJEU accepted this argument and thus allowed the claim.

¹⁴ Ibidem.

In summary, it could be maintained that trade marks should be regarded as a tool for the protection of companies' investments as they protect the status and reputation of certain producers of specific goods and/or services. It follows that trade marks, on the one hand, protect the goods and services of their holders, and on the other hand, once established on the market as reputable and reliable marks, the name of their holder. That is why in my opinion trade marks rights are 'dynamic' rights, i.e. at first they act to establish the goods and services of their holders on the market but then, at some point in time, they become means for the protection of those same holders' name and reputation.

Although this is undoubtedly one of the essential purposes of trade marks, it would be incorrect to say that this is their sole function. Equally, trade marks exist to ensure the transfer of accurate consumer information. This is so because in the end it should be reminded that trade marks are used to place and protect goods and services on the market. And the reason to put them on the market is to attract potential consumers and if successful, to gain a market share.

IV. TRADE MARKS AS A TOOL TO ENSURE THE TRANSFER OF ACCURATE CONSUMER INFORMATION

Trade marks, when viewed from consumers' perspective, are often regarded as "crucial elements in the process of reaching decisions about what to buy".¹⁵ Indeed, as Professor Cornish says, consumers rarely have the personal knowledge of suppliers "which is the hallmark of a village economy". Consumers are really interested in the quality of the desired product or service. Here comes what is known as "a range of personal expectations about quality which derive from previous dealings"¹⁶. Or, in other words, consumers rely on what they hav¹⁷e already had

¹⁵ Cornish, W.R., D. Llewelyn, T.Aplin. Op. cit., at p. 655

¹⁶ Ibidem.

experience and are satisfied with. Thus, trade marks act as means for transferring accurate consumer information to potential consumers. It means that once a consumer is satisfied with a product bearing certain trade mark, chances are good that they will choose this product again. On the contrary, if they buy goods which are not satisfactory, the trade mark will act as a warning to them and thus will prevent them from buying the same unsatisfactory product again (the so-called 'means of retaliation'¹⁸)

It is argued that consumers must be familiar with "relevant differences" between different goods and services so as to make a reasonable choice to go with certain product or service bearing specific trade mark. But this could be a time-consuming activity involving surplus costs and, of course, risks. As Professor Cornish points, it is not until the purchase that consumers can really be sure of quality and reliability of certain product or service. Certainly, it is in producer's interest to "emphasise qualities (including price) that differentiate his product from those of his competitors".¹⁹ He notes that if the consumer cannot trust the information that he receives, he will tend to buy things of lower quality, although overall he may be less satisfied with the results. I am not sure if this can still be maintained. It is up to the consumer to conduct adequate research of the market so as to make sure that the information provided is indeed correct. With the use of modern technologies like Internet and social networks (Twitter, Facebook etc.), consumers are provided with virtually innumerable opportunities to check on a certain product (including other consumers' experience with it) and make sure that what the producer has said about it is correct or not. It is true that Internet can also be used as means for unfair competition by other producers by publishing misleading information about certain companies or products so as to influence consumers'

¹⁷ Cornish, W.R., D. Llewelyn, T.Aplin. Op. cit., at p. 656

¹⁸ Laustsen, R. D. **The principle of keeping free within EU Trade Mark Law**. In: Retsvidenskabeligt Tidsskrift, research paper no. 2, 2010.

¹⁹ Ibidem.

choice. But even so, if one conducts a thorough research, such risks can, to some extent, be avoided. Of course, one may argue that this is a time-consuming (and, therefore, costly) and practically impossible activity given the number of resources offered on the Internet. This problem is known in theory as the search costs theory and here come trade marks to solve it.

According to this theory trade marks are “assumed to facilitate consumers in determining the origin of different products; the marks essentially lower consumer search costs. Therefore, an incentive is created for the mark owners to affix the mark to products of consistent quality only. Lower search costs and consistent product quality increase the efficiency of the market”.²⁰ It is acknowledged that the search costs theory recognises trade marks as “a means for enabling consumers to distinguish between different products and determine their origin”.²¹ Thus, it makes it possible for consumers to find ‘the desired product with the desired characteristics’. According to this theory previous purchases are the milestone to which products are evaluated and thus, the product bearing the trade mark will, generally, be of the same quality as that of the previously purchased products. The general idea this theory implies is that it is much easier for the consumer to search for a trade mark rather than examining products separately. Therefore, it is apparent that this theory accepts the idea of trade marks a tool for the transfer of accurate consumer information.

In this regard, a reasonable question to pose would be ‘what happens if the information ‘transferred’ by trade marks to the consumer is inaccurate, not to say misleading?’ What would happen in case of infringing use of a trade mark? The case of *HAG II* before the CJEU concerning the ‘essential function’ of a trade mark has already been discussed above. According to the findings of the Court, this function is “to guarantee the identity of the origin of the marked product to the consumer or

²⁰ Ibidem.

²¹ Ibidem.

ultimate user by enabling him without any possibility of confusion to distinguish that product from products which have another origin.”²² In *Arsenal Football Club v Matthew Reed* [2003] RPC 39, [2003] 3 All ER 865 the CJEU found that “the relevant question was not whether the use was “trademark use” but whether this was liable to “jeopardize the guarantee of origin” which constitutes the essential function of the mark.”²³ In *Arsenal Football Club*, the opinion of Advocate General Colomer established that “the essential function of a trademark is to identify and differentiate products on the basis of their trade origin and should be seen as part of a broader objective, namely ensuring a system of genuine competition within the internal market.”²⁴ This position could be maintained. The essential functions is indeed part of the aforementioned broader objective as ensuring a system of genuine competition is one of the primary aims of the EU at all and by trade marks it could be stimulated additionally.

As mentioned above, case law of the CJEU following *Centrafarm v. Winthrop* “has expanded the concept of the specific subject matter still further to include the guarantee of origin of the trade-marked goods which enables the consumer to know what that the trade-marked goods have been manufactured by the trade mark holder to the usual (presumably high) standards and that the goods have not been interfered with by unauthorized third parties in such a way as to affect the original condition of the product.”²⁵ In the case of *F Hoffmann-La Roche & Co AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH* (102/77) [1978] ECR 1139 the CJEU held that the essential function of the trade mark is “to guarantee the identity of the origin of the trade-marked product to the consumer or ultimate user, by enabling him without any possibility of confusion to distinguish that product from

²² Cited as per Evans, G. E. **Recent developments in the protection of trade marks and trade names in the European Union: From Conflict to Coexistence?** In: The Trademark Reporter, Vol. 97, July-August, 2007, No. 4, at p. 1026.

²³ Ibidem.

²⁴ Evans, G. E., Op. cit., at p. 1042.

²⁵ Barnard C., Op. cit.

products which have another origin. This guarantee of origin means that the consumer or ultimate user can be certain that a trade-marked product which is sold to him has not been subject at a previous stage of marketing to interference by a third person, without the authorization of the proprietor of the trade mark, such as to affect the original condition of the product” (at para 7). Further, the Court says that the right attributed to the proprietor of preventing any use of the trade mark which is likely to impair the guarantee of origin is part of the subject-matter of the trade mark right. Indeed, the position of the CJEU could be maintained as it clearly states the guarantee of origin as essential to consumers and declares the right of preventing any impairing the guarantee of origin use of trade mark granted to the proprietor of the trade mark. It is important for both consumers and producers to be guaranteed by high level of protection, at least throughout the EU.

In theory some researchers maintain that prevention confusion has historically been the purpose of trade marks law. Trade marks “reduce search costs by allowing consumers to ascertain the link between a product and its manufacturer without directly investigating the product’s characteristic”.²⁶ They prevent consumers from being confused by providing marketplace “infused with optimal source identification” in which the former can identify the goods and services.²⁷ As Griffiths says, “trade marks can gain a ‘psychological hold’ on the minds of consumers, which gives them a selling power above that of the underlying goodwill”.²⁸ This psychological hold could and should be interpreted in accordance with the extensive development of media, communications and advertising. It would not be exaggerating to say that advertising nowadays can influence mass consumer’s choice to an extent unseen before. If properly promoted, today any new product can almost immediately gain consumer’s interest. There are a lot of examples of goods and services bought or used by consumers just because of the aggressive advertising of

²⁶ Carrier, M. A. Op. cit., at p. 20.

²⁷ Carrier, M. A. Op. cit., at p. 42-43.

²⁸ Cited as per Cornish, W.R., D. Llewelyn, T. Aplin. Op. cit., at p. 659.

their manufacturers. The crux is that in many cases this could prove to be insufficient to guarantee that a product or service advertised as 'reliable' and of 'high quality' is indeed such. This example once again demonstrates the importance of trade marks in ensuring the transfer of 'accurate' consumer information. This is so by virtue of the functions and economic aims of trade marks as discussed in the first part of this study. Consumers must be ensured that what is advertised as 'good', 'reliable', 'high-quality' etc. is in fact such. The sanction (figuratively), of course, is the loss of market share by losing consumers of products advertised by applying misleading practices. In recent years, however, one could notice that many such producers register their products under different trade marks and thus manage to stay on the market. This can be prevented only by way of heightening the protection of consumers by guaranteeing that trade marks bear 'accurate information' concerning the product in question. If not properly addressed, this issue could turn into a deterrent for the development of trade marks and of trade at all because of consumers' confusion.

In summary, it could be maintained that, next to acknowledging trade marks as a tool for the protection of companies' investments, they must also be thought of as a tool for ensuring the transfer of accurate consumer information. This is so because both views concerning trademarks are interconnected.

V. CONCLUSION

What may be concluded after conducting a short research on the contemporary problems of trade marks is not much and this is by virtue of the tremendous variety of positions, theses and practical situations which may arise. Two things however may pose some interest and perhaps lead to additional and thorough research on the subject-matter. Trade marks can be viewed as both means for the protection of companies' investments and as one for ensuring the transfer of accurate information to consumers. Those two functions should not be taken

separately however. They are connected to each other by virtue of the nature of trade marks. They protect both consumers and producers. What should be borne in mind is that the challenges of new technologies, advertising techniques and consumers' access to information place new problems before the legal regulation of trade marks. It is no longer sufficient to just look from the perspective of 'traditional' means of communication where consumers have direct contact if not to producers, then at least to distributors or shop consultants with some relevant experience. This is not the situation when it comes to new-age technologies such as 'cloud computing' where trans-border transactions occur every second and where the accuracy of the information is crucial for both enterprises and end-users. Despite being problems subject to additional research which goes beyond the scope of the present study, these issues will immensely affect the future of trade marks and trade as a whole.