

The function theory in trade mark law

and the holistic approach of the ECJ¹ - Tobias Cohen Jehoram

After many years at the helm of the Commercial Law and Corporate law department, Krijn unfortunately has to retire. His mind is as sharp and agile as ever, but it we still live in a time where academics are not allowed to stay on after the age of 65. However, the times they keep a changin'².

I personally had the pleasure of being headhunted by Krijn; he had a vision on how his department should function and which fields should be covered, both from an academic perspective and a practical perspective. The latter is of course one of Rotterdam's core values: what we do should serve the society in practice. Another key characteristic of Krijn is his ability to see the broader picture; he sees where different field link and overlap, where the one could learn from the other or where the answers we are looking for can be found in a different area (usually: of the law, but not necessarily). Of course the international angle has always been key. This ability to put things into perspective, in my view, is one of the great strengths of Krijn.

The article in this Liber Amicorum (and a friend I dare call him) should of course reflect such a broader view. And serve practice at the same time, if at all possible. Finally, we should of course share our views with the largest possible audience, and of the subject is international, a publication in English is nothing but logical.

For this article I turn to a theory developed by the (European) Court of Justice ("**CoJ**") in the field of trade mark law: the function theory. In the past years it has become the pivot of trade mark protection within the EU, which is remarkable as no word on the function can be found either in the Trade Marks Directive (89/104/EEC of 21 December 1988; "**TMDir**") or the Community Trade Mark Regulation (last amended and codified version: 207/2009 of 26 February 2009; "**CTMR**"). This is of course odd, as the TMDir and CTMR aim to provide full harmonization in particular on the protection granted to trade marks in case of use of signs in relation to goods or services; this is one of the most important aspects of an internal market within the EU. It was thus conceived, created and defined solely by the CoJ. And it continues to shape this theory. That fact in itself shows that there is a lack of legal certainty here, but it also underlines the need for a clear interpretation, both to appreciate the effect of what the CoJ has decided to date, and to try to get a grip on where the CoJ is heading. Of course, for this is it essential to see where the CoJ is coming from and what is the (legal) background of this theory.

Below I will try to first provide a theory on the genesis of the function theory; let me already now give away that I think it comes from an adjacent area of the law. This will be followed by a synthesis of where we stand today. I will also aim to indicate what his might mean for future developments. Finally, I will have a brief look as to where else the ECJ is applying non-trade mark doctrine in trade mark law.

What is the function theory?

The first time the function theory (or maybe the prelude to this theory) appeared was in the decision of the CoJ in the case *Hölterhoff vs Freiesleben*, dated 14 May 2002³. The diamond dealer Hölterhoff had, in a commercial transaction with another dealer, referred to the cut of the diamonds he sold as being those known as the Context Cut and the Spirit Sun. These cuts were developed by Mr Freiesleben, who

¹ T. Cohen Jehoram in: *Verbindend recht, liber amicorum K.F. Haak*, Kluwer 2012, pp. 177-188, op IE-Forum [IEF 12001](#).

² © Bob Dylan, 1964.

³ CoJ 14 May 2002, C-2/00, IER 2002, 29.

had registered these names as a trade mark o.a. for diamonds. Did this constitute a trade mark infringement, as the sign used was identical to the trade mark, and was used in the course of trade in relation to goods identical to those for which the trade mark was registered. This means that all the elements of the infringement article based on art 5(1)(a) TMDir were met⁴, so the logical answer would be 'yes'. And even though, according to the CoJ, "it is common ground that, in such a situation, the use of the trade mark is a use in the course of trade in relation to products identical with or similar to those for which the trade mark was registered", it considered that there was no question of the trade mark used being perceived as a sign indicative of the origin of the undertaking, so that the use of the trade mark does not infringe any of the interests which Article 5(1) is intended to protect. Those last words seem to be the seed from which the function theory sprouted.

This decision came as a surprise to all of us, active in trade mark law, and many indeed considered this decision a mistake by the CoJ⁵. This view was quickly abandoned, following a series of decisions in which the CoJ time and again stressed that a court could only find for trade mark infringement in case one or more of the functions that is intended to be protected, is adversely affected⁶. At first the cases revolved around art 5(1)(a) and (b) TMDir, but soon it became clear that the same 'extra requirement' should also be met in art 5(2) TMDir-cases, which deals with the (extra) protection for trade marks with a reputation⁷.

An important question to answer –before looking into the legal justification- is: why did the CoJ consider it necessary to apply such an extra requirement, not found in the law. The main reason –in my opinion- is that the CoJ wants to extend the scope of harmonized IP laws as much as possible; only then a true harmonization is guaranteed, where often we see that national legal traditions tend to influence the way directives are implemented and applied. A problem that the CoJ encountered here is the fact that trade mark law *is* harmonized when it come to the protection granted in case of use in relation to goods or services, but this is *not* the case for other use, covered by art 5(5) TMDir and as such only implemented in the Benelux Treaty on Intellectual Property ("**BTIP**"). Other jurisdictions are not familiar with a provision such as art 2.20(1)(d) BTIP, and CoJ cannot give guidance here. Art 5(1)(a) TMDir, which protects against use of an identical sign for identical goods or services (the so-called 'double identity'-situations) was written to protect against counterfeit and maybe provide that very limited monopoly for a specific sign for specific goods or services. It was never meant to cover referential use of trade marks. This would traditionally be covered by the 'other use' provisions as referred to in art 5(5) TMDir. Nevertheless, the CoJ has chosen to apply art 5(1)(a) TMDir to situations of comparative advertising⁸, which is odd, as in those cases the trade mark is not used to indicate ones own goods or services, and in fact one takes distance from those goods or services. Also, us to refer to characteristics of the goods is judged under art 5(1)(a) TMDir⁹. In fact *any* affixing of the trade mark to goods implies that it is used

⁴ The infringement articles in the TMDir fully correspond with those in the CTMR: art 5(1)(a) TMDir corresponds with art 9(1)(a) CTMR; art 5(1)(b) TMDir corresponds with art 9(1)(b) CTMR; art 5(2) TMDir corresponds with art 9(1)(c) CTMR. Art 5(5) of the TMDir –use other than in relation to goods and services- falls outside the area of harmonized trade mark law, and has no corresponding article in the CTMR. Below I will only refer to the articles in the TMDir, but of course the same applies to corresponding articles in the CTMR.

⁵ Cf. G. Eisenführ, Marken als Freiwild für Wareneigenschaften, Festschrift für Winfried Tilmann 2003 p.313-319; A. Kur, Merchandising im Spielzeug-Markt - wie weit reicht die "Eigentums-Logik"?, Perspektiven des geistigen Eigentums und Wettbewerbsrechts : Festschrift für Gerhard Schrickler 2005 p. 835-844.

⁶ Most notably the CoJ decisions: 12 November 2002, C-104/00, NJ 2003, 481 (Arsenal/Reed); 16 November 2004, C-245/02, IER 2005, 23 (Anheuser-Busch/Budvar; Budweiser); 25 January 2007, C-48/05, IER 2007, 28 (Opel/Autec); 23 March 2010, C-236, 237 and 238/08, [IEF 8692](#) (Google France); 22 September 2011, C-323/09, [IEF 10209](#) (Interflora). Hereinafter reference will be made to these decisions, only using the abbreviated name.

⁷ CoJ 18 June 2009, C-487/07, [IEF 7974](#) (L'Oréal/Bellure).

⁸ CoJ 12 June 2008, C-533/06, IER 2008, 56 (O2/Hutchinson).

⁹ As the decisions in Hölterhoff/Freiesleben and Opel/Autec show.

'in relation to those goods'¹⁰. Even trade name use, which at first was in so many words considered to fall outside the scope of harmonization¹¹, is covered by art 5(1)(a) TMDir when when the public sees a link between the trade mark and the product or service involved¹². In fact, according to the CoJ any use that directly or indirectly promotes the sale of goods or services should be considered use in relation to these goods and services, and thus covered by art 5(1)(a) TMDir. This means that the CoJ can give guidance on all these issues.

The problem the CoJ thus created is that much of the use now covered by art 5(1)(a) TMDir is allowed use, even though all criteria of that article are met. This means that the CoJ needs an escape. That is where the function theory comes in.

Background of the function theory

When considering this theory, created by the CoJ, one should realize there are no trade mark lawyers on the bench there. There are many constitutional lawyers, European law experts and in particular competition lawyers on the bench. Also, trade mark law of course 'constitutes an essential element in the system of undistorted competition'¹³, like competition law does too. The effect of we see in cases like Interflora, where fair competition becomes a due cause in the sense of art 5(2) TMDir, or in the L'Oréal/Bellure-case, where fair competition became the rationale for granting protection. Also in the case of the function theory we should look at competition law.

For this we should go back as early as 1911, in which year the US Supreme Court handed down in the case *Standard Oil Co. of NJ v. U.S.*¹⁴ This ruling provided an interpretation of the Sherman Act, one of the newly drafted anti-trust laws to fight the excesses of monopolies which had been created in the late 19th century. In short the Sherman Act basically considered all monopolies suspect, per se. This went to far for the US Supreme Court. In its decision the Supreme Court indicated that *only* combinations and contracts *unreasonably* restraining trade are subject to actions under the anti-trust laws, and possession of monopoly power is *not inherently* illegal. This concept was already early coined the 'rule of reason exception' and was later further refined in case. With the development of anti trust law in Europe, this concept definitively crossed the Atlantic Ocean on 20 February 1979. In its *Cassis de Dijon*-decision¹⁵ the CoJ considered whether *the effects* of the legislation (there: on the free movement of goods) were justified in light of *the legislation's stated goals*, thus applying its own version of the rule of reason doctrine. And indeed the CoJ now considers the *goals of TM legislation* and finds those in what it considers the protected functions of the trade mark.

An important aspect of this background is that the rule of reason doctrine provides for a limitation to the rights or application of the law; it is not a positive requirement for infringement. It is rather a 'justification theory' on which the defendant can rely, than a 'function theory' in the sense that the trade mark holder would have to prove that a protected trade mark function is adversely affected. This could, and probably should, have an important impact on the burden of proof in infringement cases. It would be up to the defendant to show that, even though all elements of the infringement article are fulfilled, the rationale of the law would stand in the way of finding for infringement.

¹⁰ Cf. the Budweiser-case.

¹¹ CoJ 21 November 2002, C-23/01, [IEF 2845](#) (Robeco/Robelco).

¹² Cf. the Budweiser-case and CoJ 11 September 2007, C-17/06, [IEF 4654](#) (Céline).

¹³ CoJ 11 November 1997, C-349/95, NJ 1999, 216 (Loendersloot).

¹⁴ 221 U.S. 1.

¹⁵ Case C-120/78 (Rewe-Zentral AG v. Bundesmonopolverwaltung Branntwein).

The protected functions of the trade mark

CoJ identifies different protected functions of the trade mark. Even though in that respect it has always put the origin function first, and decided most cases on the basis of that function, the CoJ consistently used the term in plural¹⁶. The CoJ has identified a number of protected functions to date, but it might very well be that it considers other functions relevant too; there is no indication it will leave it at the ones mentioned up till now. Those mentioned are: the origin function (always considered the most essential function, as it is actually mentioned in the law, i.e. cons. 10 to the TMDir), the identification function (art 1 TMDir required trademarks to be to distinguish goods and services from one undertaking from those of other undertakings), the quality (guarantee) function (even though one cannot require a constant quality of branded goods, consumers do expect that to be the case), the advertising function or communication function (as the trade mark holder will have to be able to use the trade mark to advertise for his goods or services) and the investment function (protecting what the trade mark holder has invested in, in particular the ability to attract and retain customers). The function missing in this list is the goodwill function, which is recognized in all major handbooks on trade mark law. The explanation for this might be that the interests at stake are already mentioned in so many words in art 5(2) TMDir, which protects against use of a sign which takes unfair advantage of, or is detrimental to, the reputation or distinctive character of the trade mark. In that case there might be no need for mentioning any specific (additional) function that requires protection.

Taking a slightly closer look, we can identify what the different functions aim to protect. The origin function (sometimes also referred to as the origin guarantee function) protects the link made between the trade mark and the undertaking using it. If there is a likelihood of confusion as to whether or not the goods or services might come from the same or commercially linked undertakings, this function is harmed¹⁷. Oddly enough, however, we see the focus shift once the online environment plays a role. In the Google France decisions the CoJ ruled on a situation where an advertiser buys a keyword (with Google: AdWord) that triggers a sponsored link (electronic advertisement next to or above the natural search results). The CoJ indicated that the origin function would be adversely affected if the advertisement does not enable reasonably well-informed and reasonably observant internet users, or enables them only *with difficulty*, to ascertain *whether the goods or services* referred to by the advertisement originate from the proprietor of the trade mark or an undertaking economically connected to it or, on the contrary, originate from a third party. This is in line with the earlier application of that function. However, the function is also adversely affected when the advertisement shown is vague to such an extent, on the origin of the goods or services at issue, that reasonably well-informed and reasonably observant internet users are unable to determine, on the basis of the advertising link and the commercial message attached thereto, *whether the advertiser is a third party vis-à-vis* the proprietor of the trade mark or whether, on the contrary, it is economically linked to that proprietor. Here, the CoJ suddenly jumps to art 6 of the e-Commerce Directive, which prescribed online advertisers to be clear on their identity. This influences –apparently- the way the origin function should be interpreted.

The identification function relates to the ability to attract and retain customers by use of the trade mark¹⁸. An important aspect of the protection of that function relates to the fact that one should refrain from using a trade mark in such a way that the public might consider it to be, or it could become, a generic term for that kind of goods or services¹⁹.

¹⁶ Even as early as in CoJ 22 June 1994, C-9/93, NJ 1995, 480 (Ideal Standard) other functions have been recognized.

¹⁷ CoJ 29 September 1998, C-39/97, NJ 1993, 393 (Canon/Cannon) and CoJ 22 June 1999, C-342/97, NJ 2000, 375 (Lloyd/Loint's).

¹⁸ In that sense already: the Loedersloot decision.

¹⁹ Cf the decision in the Interflora case.

The quality function (or quality guarantee function) symbolizes qualities associated by consumers with goods or services and guarantees (not in the legal sense, but in a factual sense) that they live up to the expectations²⁰. The trade mark guarantees that products have been manufactured under the control of a single undertaking which takes responsibility for quality the quality of the product²¹. This should not be understood as an obligation of a trade mark holder to guarantee a consistent (high) quality; consumers are considered informed enough to change products or services if their experiences are not good²². It *does* protect the trade mark holder against use of a sign by a third party that might jeopardize the positive experience that the consumer attributes to the branded goods or services.

The advertising function deals with the ability of a trade mark to inform and persuade consumers²³ and is thus considered an instrument of commercial strategy. In the case of the use of keywords by search engines, the CoJ has ruled that this function is not affected of the site of the trade mark holder turns up in the top of the natural search results²⁴, even when others appear in the sponsored links at the same time.

The investment function relates to the ability of a trade mark to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty²⁵. This function is adversely affected when one *substantially interferes* with such use of the trade mark and one jeopardizes the maintenance of a reputation capable of attracting consumers and retaining their loyalty. This function shows an overlap with the advertising function, but also covers other commercial techniques than just advertising, so should be considered broader.

As indicated above, the CoJ has not (yet) mentioned the goodwill function of the trade mark. Nevertheless, we do see that function protected in practice. One cannot detract from the allure and prestigious image of a trade mark²⁶, one is protected against free riding²⁷ and the reputation and distinctive character is (in general) protected under art 5(2) TMDir.

Which protected trade mark function is protected when?

Which function should be considered, really depends on which of the infringement articles is at stake. relevant depends on the article in question.

Application in art 5(1)(a) TMDir situations

In case art 5(1)(a) TMDir applies, we should –according to the CoJ- consider *all* trade mark functions relevant²⁸. That being so, it is add to see that when it comes to appreciating the use of trade marks as keywords, suddenly the CoJ does not consider all functions, but only the origin function and the advertising function²⁹. It does not explain why the other functions would not be relevant here and are not considered. As this is the most important of the infringement articles in this respect, it is worth while to have a closer look as to what this means for application of this infringement ground.

²⁰ See already A-G Jacobs before CoJ 4 November 1997, C-337/95, NJ 1997, 621 (Dior/Evora).

²¹ Cf CoJ in the Ideal Standard and Loedersloot cases.

²² Even though in some jurisdictions outside the EU this guarantee function is taken much more seriously, like in the USA and China.

²³ CoJ in the Google France case.

²⁴ CoJ in the Google France case.

²⁵ CoJ in the Interflora case.

²⁶ CoJ in the Dior/Evora case.

²⁷ CoJ in the L'Oréal/Bellure case.

²⁸ The CoJ already indicated this in the L'Oréal/Bellure case, and –despite criticism in literature, f.i. by Senftleben and Ohly- it confirmed this approach in the Interflora case.

²⁹ CoJ in the Google France case.

There are (now) 6 requirements that should be met in order to find for infringement under art 5(1)(a) TMDir? 1) There should be use of a sign by third party, 2) in the course of trade, 3) without consent of the trade mark holder, 4) of a sign identical to the trade mark, 5) in relation to goods or services for which the trade mark is registered, 6) which use must affect or be liable to affect any of the functions of the mark. The first 4 requirements are usually easy to establish. With the 5th requirement the CoJ takes –as we have seen- a “functional approach”: any case of referential use (comparative advertising, offering of an alternative, use in the course of advertising one's own –differently branded- goods or services) this condition will be met. This provides for a broad application. The 6th requirement is noteworthy as covering *all* the functions seems less logical; art 5(1) TMDir seems to focus on origin related function(s) –see also consideration 11- and only art 5(2) TMDir on goodwill related functions, which should –nevertheless- play a role under art 5(1)(a) TMDir³⁰. At the same time, the CoJ seems not to follow its own rules: when it comes to the keyword cases, it suddenly 'forgets' all the functions but 2: the advertising and the origin function.

This has a result which shows that this reasoning cannot be correct. According to the CoJ the advertising function is never affected in the case of use of the Google search engine, as the trade mark holders' page will appear on the top of the natural search results. Whether this is always the case, I will not discuss (even though it can be argued that this is factually incorrect), but what the effect of this reasoning is, is that in cases of AdWords, by deduction, *only* the origin function would be relevant. The CoJ goes on to indicate that the origin function is affected when it is unclear or difficult to establish, where goods originate from, or if it is unclear or difficult to establish, what the relationship between advertiser and the trade mark proprietor is. In fact this thus suggests that the national court –in cases like this- should apply (only) a likelihood of confusion test. This result is in violation of our national and EU obligations under art 16 TRIPs. This article describes the protection that should be granted in case of a risk of confusion, and goes on to indicate: “In case of the use of an identical sign for identical goods or services, a likelihood of confusion shall be presumed”. This is also reflected in consideration 11 of the TMDir which mentions that under art 5(1)(a) absolute protection should be granted. Requiring more would thus be a violation of TRIPs treaty obligations. Nevertheless, this is exactly what happened in the Google case, where the CoJ requires the origin function to be affected (while the other functions would not be relevant). Maybe there is an escape in the *presumption* of the likelihood of confusion in cases of double identity, but at the very least this would mean that burden of proof, that there is no detriment to the trade mark function, lies with the defendant. That would fit the rule-of-reason-approach as identified above.

Another issue which has not been explained to date is the fact that parallel trade from outside the European Economic Area of goods which are brought on the market within that area without the consent of the trade mark holder, constitutes a trade mark infringement under art 5(1)(a) TMDir³¹. Nevertheless, at least I fail to see which of the trade mark functions is adversely affected in those situations.

Application in art 5(1)(b) TMDir situations

When it comes to the application of article 5(1)(b) TMDir the origin function is at stake. That comes as no surprise, as this article requires a likelihood of confusion³². As we have seen in the Bergspechte case, this goes beyond the situation in which the relevant public believes that the goods or services come from the same or commercially linked undertakings, when one considers an online environment. There

³⁰ But this is what the CoJ teaches us in the Interflora case.

³¹ See f.i. T. Cohen Jehoram/C.J.J.C. van Nispen/J.L.R.A. Huydecoper, European Trade mark Law, Kluwer International 2010, par 9.3 and on.

³² Implicitly in CoJ 25 March 2010, C-278/08, [IEF 8707](#) (Bergspechte).

also uncertainty as to the identity of the advertiser and its relation to the trade mark holder play a role. However, again we see odd consequences when the CoJ applies the theory to cases of AdWord use. There it again only considers the advertising and origin functions, again it considers the advertising function not affected and again the same application and interpretation of the origin function can be found. This leads to a situation where the court should apply identical criteria under art 5(1)(a) TMDir and art 5(1)(b) TMDir, regardless of their essentially different nature. Again, this seems in violation of art 16 TRIPS, which article clearly distinguishes the two situations and the rules that should apply to them. Therefore I can only conclude that the CoJ seems to be on the wrong track, either on its interpretation of art 5(1)(a) TMDir or on 5(1)(b) TMDir, or –more likely- on both.

Application in art 5(2) TMDir situations

When one considers article 5(2) TMDir, which provides for an extended protection of trade marks with a reputation against use of a sign which takes unfair advantage of or is detrimental to, the reputation or distinctive character of the trade mark. This means that the origin function is relevant (suggesting a link is a qualified form of riding coat tails), as well as the advertising function, the quality (guarantee) function, the Investment function and –in as far as the CoJ would explicitly recognize it- the goodwill function³³.

The holistic approach of the CoJ

As we have been able to conclude from the above, the CoJ is struggling with the legal structure of trade mark law and seems to overstep the legal possibilities when confronted with interfaces with other areas of the law. The CoJ then seems to have (especially) little concern for the trade mark law legislation. The judges in the court seem more familiar with fields like competition law, which then tends to influence the approach of the CoJ (as we have seen), also earlier, in cases like Magill³⁴.

Also other parts of the law have a great influence on trade mark law, and on intellectual property laws in general, for that matter. We already saw how art 6 of the e-Commerce Directive influences the likelihood of confusion threshold in trade mark law. Also, in the L'Oréal/Bellure case the CoJ applies different concepts from the Directive on Misleading and Comparative Advertising³⁵ ("**MCADir**") to trade mark law. Art 4(f) and (g) MCADir are now part of trade mark law (art 5(2) TMDir) as they help define what "taking unfair advantage of a reputation" is.

Recently the CoJ seems to have taken another turn, by testing the statute (i.e. harmonized and Community intellectual property rights) against what remained of the 'European constitution', i.e. the Lisbon Treaty and the Charter of Fundamental Rights. Art 17 of this charter mentions intellectual property rights as fundamental rights. Recently the CoJ has, however, started to weigh those fundamental rights against other fundamental rights, such as the freedom to conduct a business and right to privacy; intellectual property rights are not absolute, but should be weighed against those other fundamental rights to strike the right balance³⁶. This again opens up a range of possibilities for the CoJ to interpret, or even ignore, intellectual property laws.

Nevertheless, one should realize that the CoJ is in a difficult position, trying to reconcile different legal systems with each other, while few of them were actually drafted with a view to other legal structures. The holistic approach –the reader will pardon me for using this euphemism- of the ECJ does not lead to

³³ CoJ in the L'Oréal/Bellure case.

³⁴ CoJ 4 June 1995, C-241 and 242/91, in which it was accepted that one can abuse a copyright-monopoly by keeping new products off the market.

³⁵ 2006/114/EC of 12 December 2006.

³⁶ CoJ 24 November 2011, C-70/10, [IEF 10551](#) (Scarlet/SABAM).

well structured application of the law, but a hotchpotch of casuistic rulings which should lead the way in specific circumstances. It does not help to bring legal certainty or clarity, which makes it even more important for academics to keep showing the way.

So what Krijn has always taught us, once again is proven true: different fields of law influence each other, and in more ways than one. And there is no end to academic strive, which is also why I expect and hope to hear and read more from Krijn after his retirement.

Den Haag, March 2012

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