

European Community Trademark and Brand Equity

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1. Change Culture

The increasingly closer relationship between economic, financial and legal issues is clear, and especially so where the new present-day form of intellectual ownership is concerned. This ownership was specifically conceived and designed to meet the requirements of companies with current or strategic interests in a market, such as the European Union, which embraces at present approximately fifteen countries and over 300 million consumers. The community trademark, from this point of view, is the first legal tool to have been created to serve the new economic environment being laboriously created in Europe. It might therefore be a good idea to consider whether - and to what extent - this environment has impacted on, and influenced, this tool and, as a consequence, whether or not it is changing the meaning and value of national and international trademark legislation, which as we all know stretches far back in time.

It is well-known that over the last ten years we have seen such an evolution in market structure, corporate strategy and consumer behaviour so as to place under the spotlight all the traditional benchmarks for any action or activity regarding company law rules and regulations. I will attempt to summarize the main steps in the development of this trend, with particular reference to the establishment of a trademark. I do not presume to state anything new, but do so solely in order to clarify subsequent discussion:

- a) In general terms, we have witnessed a phenomenon of progressive *dematerialization* of assets which has led companies, consumers and other leading market players to favour ideological, attractive or even intangible aspects of material assets.
- b) Market *globalisation* has led to increasingly more frequent horizontal and vertical integration being carried out between companies, with the effect being that of 'anchoring' the trademark more and more to company strategy, rather than to the need of identifying itself as the industrial or commercial source of the products actually positioned on the market.

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- c) Market enlargement, further favoured by the regionalisation of similar economic areas, has progressively weakened the link between trademark and local setting, which was originally of interest and relevance to the companies located in the area.
- d) In economic terms, and on the basis of a development pattern that has also involved other intangible assets, trademarks have taken on the connotation of independent *corporate asset* - a fundamental constitutional element in modern corporate equity and itself the object of separate assessment from the point of view of finance, tax, protection and utilization - which has moved attention from the *trademark* to the *brand*.
- e) Provisions and strategies for the disposal of such assets have consequently become increasingly more important, such as *licensing* contracts and *merger & acquisition* transactions.
- f) The dynamics of supply and demand are directed more and more towards reconsidering the role of *consumer*; freed from the merely passive role of being on the receiving end of supply and reinstated in an increasingly more pro-active, interactive and central role in the marketplace.
- g) Closely linked to the growing importance of the consumer's role is the emergence of the increasingly more powerful role of *distribution*, which tends to invade areas typically dominated by producer trademarks by putting forward and promoting its own trademarks.
- h) Furthermore, we must not underestimate the overpowering development of the *media* and the potential offered by information technology as a means of communication, promotion and marketing of all the distinguishing features of a business.
- i) Finally, trademark counterfeiting has now reached industrial proportions and manifests itself, in its more blatant aspects, as well and truly a phenomenon of *international piracy* requiring— as such - adequate protection.

2. TRIP's Agreements: Trademark Protection?

This latter reflection is at the source of the TRIP's agreement (*Agreement on Trade - Related Aspects of Intellectual Property Rights including Trade in Counterfeit Goods*); in other words, an agreement which included the protection of intellectual property in the GATT "General Agreement on Trade and Tariffs" global trade agreement. On the one hand, it became obvious that a minimum form of protection for some assets, such as trademarks, patents or copyright, was indispensable in order to avoid their continual, excessive and increasingly international exploitation. On the other hand, a certain amount of insight showed that these assets interact closely with the market and rules on trade. A TRIP'S agreement is a rather complex and fairly articulated document, which also attempts to set out some sort of coordination with existing international agreements and regional organizations. Indeed, the European Community took part in negotiations - not as representative for individual member states but as an independent autonomous participant. Trademarks make up one of the sections and, naturally, the minimum regulations for envisaged protection (so called

minimum standards) must be seen in a global context (there are at present more than 150 countries involved), taking into account the differing standard of economies covered by the agreement, ranging from the most advanced to developing countries. Notwithstanding the political negotiating required among the opposing and varying interests, it is important to note that on at least two occasions the section on trademarks seems to acknowledge the requirements suggested by the *change* I referred to in the previous paragraph: firstly, the absolute resumption of risk of confusion in the event that original products and their trademark are identical to the products and trademark of a counterfeiter, and, secondly, protection granted to famous trademarks (or perhaps it would be better at this point to say to *brand names*, including products other than those originally protected).

Both such circumstances were already dealt with in European Community law and they have now also crept into national legislation. Let us therefore take a closer look at them.

3. The Trademark as an Exclusive Right of Monopoly

Trademark counterfeiting, by making an identical copy and using it to produce identical products to those of the legitimate owner, is acknowledged as an unlawful act, which may in itself be punished without further conditions or specific proof having to be supplied by the owner of the legitimate trademark. There is, in fact, a statement to the effect that the risk of confusion both on the market and among consumers is presumed in absolute. Hence, it fails to take into account both possible present and potential confusion and we know well that the possibility of confusion is a basic requirement to protect trademark rights; the function whereof is normally precisely that of distinguishing a product as originating from one company rather than another. The fact is that in the situation described above, it is no longer a question of actual or potential confusion, and this leads us to reconsider the very nature and function of a trademark. Should its traditional concept, as an indication of origin, be thought through again in the light of the developments that the notion has undergone over the last few decades, and as a consequence of the *changes* that have come about in the environment in which it operates? It is true that its traditional function is apparent in the TRIP'S agreement and in European Community trademark regulations, but the unqualified presupposition in the case of identity undoubtedly leads us to consider trademark legislation as well and truly absolute; whereby the product deserves protection in that it has a clearly recognisable financial value, thus bringing it almost as close as to the protection granted to copyright. Our Italian national policy-maker has recognised this significant change and therefore made the necessary changes to domestic legislation to bring it into line with the international agreement. As far as the other issue is concerned (i.e. the issue of protecting famous trademarks), besides the original underlying issue of distinguishing products or services, the law has finally acknowledged the pleas made by companies which, in the face of large investments made for the promotion and distribution of trademarks which even if not famous have become well known, have found themselves increasingly over exposed to blatant plunder

at the hands of unfair competition or simple speculators. Such ‘pirates’ have registered trademarks in countries where the owner of the trademark failed to formally protect the trademark with suitable registration, including registering it for other classes of products or services, thus causing a detrimental ‘diluting’ of original owner prominence and standing, and the trademark’s capacity to set itself apart.

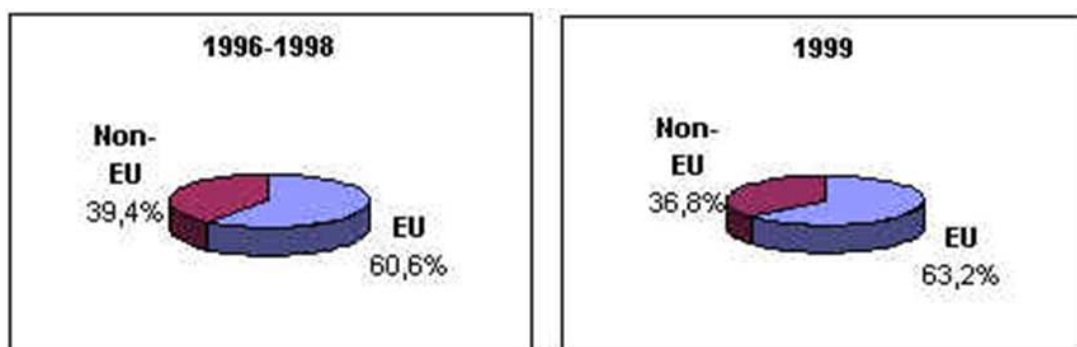
4. The Trademark: a Distinguishing Role among Distinguishing Marks

Moving on to specifically consider the community trademark, which has for its own part closely influenced issues inherent in TRIP’S agreements, we notice first and foremost that we are specifically dealing with the two economic situations described above, i.e. protection in the event of absolute identity, and, secondly, a “*famous*” (as its protection describes it) trademark which extends its influence to products or services which are not similar.

Community regulations, rather more explicitly than is found in the TRIP’S agreements, actually appear to have taken this sense of “*change*” even further than the two types of circumstances described above. In general terms, and with reference to the nature and purpose of trademarks, they specifically acknowledge that by disciplining the community trademark, certain legal conditions are securely put in place “*which allow companies to readily adapt their activities involving the manufacture and distribution of goods or supply of services to the dimensions of the Community*”. To this end, trademarks which allow them to differentiate their respective products or services in an identical manner throughout the European community, and thereby overcome national barriers, are in actual fact most suitable. A function – therefore - of guaranteeing the origin of something, but not only that: I would say rather a distinguishing role amongst distinguishing marks, in keeping with the new scenarios arising in Europe. It is, in any case, common knowledge that consumers nowadays do not really seem particularly interested in knowing all the ins and outs of the industrial origin of the product they are buying. There are also other points to be taken into account, traces of which can be found in the setting up of Community trademark regulations, when it is stressed that if there is no differentiating identity between features and products or services, but similarity, it is best to interpret this notion by referring primarily to the risk of confusion. However, the risk of confusion depends on a number of factors, and in particular on the level of awareness the corporate trademark has in the market, the psychological association that may be made between the corporate brand and the trademark used or registered, and the degree of similarity between the corporate brand and trademark, and the specific products or services. I would say a clear predisposition emerges from this, on the part of the community legislator to direct attention towards practical or realistic situations, or where there is clear financial reward. This might even go so far as to include real concrete marketing issues: the market (standing for *relevant market*, i.e. the reference market), the consumer, with his or her rational and emotive behaviour and associations, in a continual *feed-back* with the trademark, where the latter is taken as meaning the mark that associates it closely with the product or service to which it is linked, and thus all going to play a decisive role in building a trustworthy judgement as to its liability to be confused.

In the same manner, there is an evident attempt to pin regulatory data to real data, by refusing Community trademark protection when it is not supported by effective use; a reflection this of the positive appreciation only of interests which do actually deserve protection. On several occasions, institutive regulations have in fact sanctioned the inadmissibility or indefensibility of the registration of a trademark when the party opposing it has not been in a position to demonstrate any real interest, by being able to count on an effective prior use of the symbol being opposed.

Figure 1: EU and Non-EU Applications



Contrariwise, community trademark protection cannot be called upon if the legitimate owner has not proceeded to use it within the European Union territory, something that presupposes an obvious interest in making use of this title of industrial property. Obviously there is no need to be more fussy and demanding than necessary, but certainly if one wishes to defend a trademark whose presence in Europe has been wished for and requested, then that same trademark should at least be used in a significant part of Europe.

5. Trademark Recognition in the Legal Protection of the Trademark

Even in case of a famous trademark which can lay claim to some *renown*, to use a more appropriate work, regulations prefer not to provide intangible or categorizing definitions. Therefore, in order to judge whether or not the interest implicit in a trademark (a trademark which has been the object of significant investment, been present on the market for some time, is accredited with an image of quality for the products or services it represents, and is well-rooted in the recorded history and present lifestyles of consumers) merits a greater range of protection for those products or services which were initially completely unassociated with it (for instance, the *Coca-Cola* trademark which has expanded from beverages to clothing, the *COIN* trademark which has progressed from mass distribution to tourism services, and the Canon trademark which developed from photographic equipment to tennis shoes, etc.), an accurate tangible check must be made as to whether the third party has used it without rightful reason and in such a manner so as to gain unlawful advantage from its distinctive nature, or its renown, or in a way that has considerably damaged its reputation. Hence, we are increasingly closer not so much to the mark of identification and origin, as to

all that surrounds it and accompanies it in its workings, in other words, to the *brand* itself.

6. The Community Trademark and Brand Equity

When we say that the Community trademark “*must be treated as an object of ownership independently of the company whose products or goods it represents*”, what we are really saying is that a trademark is one of the assets of a modern company and, as such, the potential object of exploitation, settlement, transferral, as with any other corporate asset, without further obligations or ties. Naturally, there should always be due respect for the interests of the consumer, who is really the powerless ‘guest’ at a feast held between competitors, but who should not in any way be misled.

Table 1: Applications Based on Country of Origin (Overall Totals of First 30 Countries, %)

COUNTRY	1996-1998	1999	TOTAL
USA	28.0	25.5	27.3
Germany	16.1	17.8	16.4
United Kingdom	13.4	12.9	13.2
Italy	6.5	7.9	6.9
Spain	6.1	6.3	6.2
France	5.5	6.6	5.9
Japan	2.9	2.3	2.7
Netherlands	2.8	2.4	2.7
Sweden	2.3	2.1	2.3
Switzerland	1.9	1.7	1.9
Denmark	1.7	1.5	1.6
Austria	1.6	1.5	1.6
Belgium	1.6	1.2	1.5
Canada	1.2	1.2	1.2
Finland	1.0	1.0	1.0
Australia	0.8	1.0	0.9
Ireland	0.8	1.1	0.9
Portugal	0.6	0.7	0.6
Taiwan	0.6	0.8	0.6
Luxembourg	0.4	0.6	0.4
Israel	0.4	0.6	0.4
Hong Kong	0.4	0.3	0.3
Turkey	0.3	-	0.2
Greece	0.2	0.3	0.2
Norway	0.2	0.2	0.2
Mexico	0.2	0.2	0.2
Singapore	0.2	0.2	0.2
Brasil	0.2	0.2	0.2
New Zealand	0.2	0.2	0.2
South Africa	0.1	0.2	0.2
Korea	-	0.2	-

The fact that a trademark need no longer be accompanied by the relevant “branch of a business” when transferred or licensed is by now well accepted,

even by the Italian law courts. The peculiarity, in the case of the Community trademark, lies in the fact that the financial value and the reference to the consumer are in themselves intensified (by having to make the change from a domestic market to a much vaster common regional area) whilst the differences cannot be cancelled as an effect of a process of standardization towards a highly improbable archetype of European consumer. However, it is nevertheless true that over time the *media* and multinationals will no doubt progressively cut into certain basic behavioural models that are more easily-conditioned in that they tend towards the acquisition of mass-consumed goods and services that are increasingly more generalized.

Table 2: *Applications by Language (Totals, %)*

First Language					Second Language				
Language	1996-1998	Position	1999	Position	Language	1996-1998	Position	1999	Position
ES	6.9	5	7.2	6	ES	8.7	3	8.5	3
DK	2.0	8	1.9	8					
DE	19.5	2	20.0	2	DE	5.5	4	6.8	4
EL	0.2	11	0.2	11					
EN	42.9	1	42.7	1	EN	52.3	1	52.8	1
FR	7.2	4	8.1	4	FR	29.1	2	28.8	2
IT	16.8	6	8.1	5	IT	3.2	5	5.4	5
NL	10.6	3	7.6	3					
PT	0.7	10	0.7	10					
SF	0.9	9	1.0	9					
SW	2.6	7	2.6	7					

7. Corporations and the Community Trademark

The Community trademark has effectively been available since April 1, 1996, although recourse to this tool does not imply abandonment of protection at a national level - something still of interest to SMEs. It might therefore be interesting to assess how corporations, both European and non-European, have reacted to the community proposal, bearing in mind that for anyone intending to venture into this field, sooner or later, in at least three or four countries of the Union, there will be considerable financial advantages to be gained, easier trademark portfolio management (NB. the community trademark is single, and valid for all countries), and greater legal – and therefore financial – reliability. The latter is especially interesting for countries such as our own where the national Trademark and Patents Office is chronically and clearly lacking.

a) One initial fact is the evidence of market “*globalisation*”, considering that a little under 40% of all applications originate from non-European Community regional areas (Figure 1). What is surprising is an additional fact present in the first, which highlights the evident interest that this tool has attracted amongst American businesses – not all necessarily multinationals – even after the first

initial rush of enthusiasm brought about by the novelty of the system. The opportunity to have just one “point of reference” for the entire European market, which moreover is expanding eastwards, is the first obvious explanation for this. Yet there is something else as well: paradoxically, the Americans seem to believe more in the opportunities offered by the new unified market than the Europeans themselves. Look, for instance, at how strangely reluctant French businesses are to make use of this new tool, which is evidently much more congenial to the Germans (Table 1). Italy, on the other hand, after a period of cautious observation, has of late shown itself to be decidedly more active. Whilst, once again, Spain’s position constitutes a recognition of the “*field factor*” in every type of business, even though the Spanish economy is going through a particularly dynamic and positive moment, a fact which has now been widely recognised.

b) From a linguistic point of view, the language in which applications are made confirms the same trend, and hence English is followed by German (Table 2). As regards the language in which procedures are performed, and the language companies choose for their relations with the Alicante Office (the highly criticised choice of the location of the European Agency seems to have become more acceptable over time, given the widespread use of information systems and faxes in all communications) however, it is interesting, though not excessively, to note that French is definitely preferred (almost 29%) to German (6.8% in 1999), notwithstanding the predominance of English (52.8% this year).

Table 3: Applications Based on Class – First 15 (Totals, %)

POSITION	CLASS	%
1	9	11.7
2	42	8.0
3	16	7.1
4	25	5.6
5	35	4.2
6	41	4.2
7	5	3.5
8	3	3.2
9	7	2.9
10	30	2.8
11	38	2.7
12	28	2.7
13	18	2.4
14	36	2.4
15	1	2.4

Table 4: Applications Bon Type of Trademark (Units, %)

TYPE	NUMBER	%
Word marks	75182	64
Figurative marks	40254	34
3D marks	1146	1
Other	990	1

c) But which products and services are of most interest? Certainly any devices and products with a high technological content, starting from computers and software (Table 3, class 9, 11, 7%), followed by all services in general (8,0 %). As far as types of mark are concerned (Table 4), there is always a strong prevalence of the “*verbal*” type (64%), compared to the “*figurative*” kind. However, I am personally of the impression that businesses will have to progressively shift attention more towards the second type. A verbal trademark has, in fact, a better chance of meeting problems over descriptiveness (and hence nullity) in those countries where the words may have a trite or simple descriptive meaning. Thus it may happen, and it already has, that a word which was completely new to the Finnish language (“delicate” for food) appeared completely obvious in another Community member country, Italy.

At this point it seems evident from all that has been said and put forward up to this point that bare regulatory data, from whence arises the monopoly of the exclusive right of utilization of a trademark considered as an *intangible asset*, and in particular of a community trademark, is coloured by the vitality of confronting interests, corporate strategies, and continually- developing situations; all of which must by nature affect the interpretation and enforcement of that same regulatory data.

Whosoever is called upon to interpret and enforce that regulatory data, whosoever has to make corporate choices, will ignore this fact at their peril.