Function Theory and International Exhaustion – Why it is Wise to Confine the Double Identity Rule in EU Trademark Law to Cases Affecting the Origin Function

In the current debate on the amendment of EU trademark legislation, the European Commission proposed to confine the so-called “double identity” rule – regulating protection against the use of identical signs for identical goods or services – to cases affecting the origin function. This proposal has been criticized for various reasons. A closer analysis shows, however, that by putting an end to the unpredictable and inconsistent function theory developed by the CJEU, it would substantially enhance legal certainty for both trademark owners and users. Moreover, it would avoid imbalanced protection of a trademark’s goodwill functions outside the specific system of anti-dilution protection for marks with a reputation. Against this background, the counterarguments do not have much weight. In particular, the proposal is unlikely to lead to a system of international exhaustion in the EU.

1. Function Theory

The European Commission’s package for new trademark legislation in the EU (the proposed new Trade Mark Regulation (Draft CTMR) and Trade Mark Directive (Draft TMD)) seeks to confine the so-called double identity rule to cases affecting the origin function. Whereas the present double identity rule laid down in Article 9(1)(a) CTMR and Article 5(1)(a) TMD generally grants exclusive rights in double identity situations, the new rule would entitle the trademark owner to take action only where

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\text{the sign is identical with the trade mark and is used in relation to goods or services which are identical with those for which the trade mark is registered and where such use affects or is liable to affect the function of the trade mark to guarantee to consumers the origin of the goods or services.}
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This proposal does not come as a surprise. After a series of decisions with a clear focus on the “essential” origin function, the Court of Justice of the European Union (CJEU) finally used...
the openness of the present double identity rule in Article 9(1)(a) CTMR and Article 5(1)(a) TMD to introduce a broad function theory in EU trademark law. In L’Oréal/Bellure, the Court held that besides the essential origin function, a trademark’s quality, communication, investment, and advertising functions also enjoyed absolute protection under Article 5(1)(a) TMD. These additional functions are typically fulfilled by marks with a reputation. A strong brand is capable of conveying lifestyle messages that are the result of substantial investment in advertising. Protection of communication, investment, and advertising functions is thus protection of the investment in the creation of a favourable brand image and the brand communication based on this image.

From the outset, it was unclear why the CJEU saw a need to bring these additional functions within the scope of the double identity rule. In EU trademark law, the protection of brand goodwill falls within the province of the separate protection regime concerning trademark dilution. Article 9(1)(c) CTMR and Article 5(2) TMD regulate this distinct branch of protection in a nuanced and balanced way: anti-dilution protection requires a trademark with a reputation, depends on the fulfillment of specific infringement criteria and leaves room for competing free speech and free competition interests by providing for a flexible “due cause” defence. In Davidoff/Gofkid, the Court had already clarified that this specific anti-dilution protection regime was available in double identity situations.

In general, EU anti-dilution protection can hardly be seen as unsatisfactory or not widely available. In contrast to other trademark systems requiring a trademark to be recognized among the general consuming public before it becomes eligible for protection against dilution, niche reputation is already sufficient under EU trademark law. For a trademark to constitute a mark with a reputation in the sense of Article 9(1)(c) CTMR and Article 5(2) TMD, it must be known by the target group of the goods or services marketed under the trademark. In the case of specific products, this target group may be a specialized public, such as traders in a specific sector. The required degree of knowledge is reached when the mark is known by a significant part of the relevant public. Once this niche reputation is established, EU trademark law offers

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7 CJEU, 9 January 2003, case C-292/00, Davidoff/Gofkid.


9 See CJEU, judgment of 14 September 1999, case C-375/97, General Motors/Yplon, para. 24 and 26. In respect of the territorial expansion required, see CJEU, ibid., para. 28; and judgment of October 6, 2009, case C-301/07, Pago/Lattella, para. 29.
broad anti-dilution protection covering blurring, tarnishment and unfair free-riding. The evidence to be produced need not necessarily include proof of a change in the economic behaviour of consumers. In respect of the taking of unfair advantage, it suffices to show that a third party attempts, through the use of a sign similar to a mark with a reputation, to “ride on the coat-tails of that mark.”

Hence, there was no need to establish an additional basis for brand goodwill protection under the double identity rule of Article 9(1)(a) CTMR and Article 5(1)(a) TMD. By doing so with the recognition of communication, investment and advertising functions in L’Oréal/Bellure, the CJEU neglected the boundary line between general protection against confusion and specific protection against dilution in EU trademark law. Without any sound justification, the Court created an avenue for bypassing the EU system of protection against dilution.

The problem with this alternative avenue lies in the fact that the double identity rule of Article 9(1)(a) CTMR and Article 5(1)(a) TMD does not provide for the checks and balances that can be found in the anti-dilution protection regime set forth in Article 9(1)(c) CTMR and Article 5(2) TMD: no requirement of a mark with reputation, no specific infringement criteria and no flexible “due cause” defence for safeguarding competing free speech and free competition interests.

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13 Article 9(1)(a) and (b) CTMR and Article 5(1) TMD.

14 Article 9(1)(c) CTMR and Article 5(2) TMD.


Not surprisingly, the CJEU has never arrived at a consistent application of its own function theory in double identity cases. Soon after the L’Oréal/Bellure decision, this became obvious in the keyword advertising cases. In Google/Louis Vuitton, the Court held the view that the use made by keyword advertisers did not encroach upon the advertising function newly protected under Article 5(1)(a) TMD. To justify this conclusion, the Court assumed that the website of the trademark owner would feature prominently among the natural search results. This assumption is questionable in the case of trademarks without a reputation. It is simply invalid in the case of trademark owners not having a webpage. Hence, the argument based on natural search results can be unmasked as part of a strategy to circumvent the function theory developed in L’Oréal/Bellure. The fact that the Court did not even address the communication and investment functions in Google/Louis Vuitton seems to confirm that the Court itself was unable to apply the function theory consistently.

Attempts to define the new functions, moreover, show that the CJEU has difficulty in tracing the conceptual contours of a trademark’s goodwill functions. In Google/Louis Vuitton, the Court contented itself with explaining in respect of the advertising function that the trademark owner may have not only the objective of indicating the origin of its goods or services, “but also that of using its mark for advertising purposes designed to inform and persuade consumers.” In its later decision in Interflora/Marks & Spencer, the Court elaborated with regard to the investment function that in addition to its origin and (potential) advertising function, a trademark may also be used “to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty.” This investment function may overlap with the advertising function. Nonetheless, it had to be separated according to the Court because not only advertising was employed, but also “various commercial techniques” when the trade mark was used to acquire or preserve a reputation.

http://ssrn.com/abstract=1492032; Max Planck Institute for Intellectual Property and Competition Law, Study on the Overall Functioning of the European Trade Mark System, Munich: Max Planck Institute 2011, online available at http://ec.europa.eu/internal_market/indprop/tm/index_en.htm, para. 2.260, stating that the present state of law is unsatisfactory because of absolute protection “in the sense that it does not depend on any balancing of interests, apart from a functional analysis.”


18 CJEU, judgment of March 23, 2010, cases C-236/08-238/08, Google France and Google/Louis Vuitton et al., para. 97.


20 CJEU, ibid., para. 91.

21 CJEU, 22 September 2011, case C-323/09, Interflora/Marks & Spencer, para. 60.

22 CJEU, ibid., para. 61.
These vague indications of potential objectives underlying the use of trademarks for advertising and investment strategies hardly qualify as reliable clarifications of the scope and reach of the protection which these functions should enjoy in double identity cases. In particular, they do not give any reason for granting protection. The mere fact that trademarks may be used in this way and with these objectives does not justify the conclusion that trademark owners should be able to bring an infringement action without any showing of their marks having a reputation, without fulfilling specific infringement criteria, and without a chance for the defendant to advance a “due cause” argument for unauthorized use. The fact that the CJEU also recognized a trademark’s communication function in L’Oréal/Bellure further enhances the legal uncertainty surrounding the function theory. As the Court did not comment on the communication function in any subsequent decision, this function still constitutes terra incognita and an unpredictable risk factor.

In fact, trademark owners should be aware of the hybrid nature of the CJEU’s function theory. At first sight, the recognition of additional trademark functions besides the traditional origin function in L’Oréal/Bellure gives the impression that the Court broadened the scope of protection. Who would not like to draw on the full panoply of trademark functions – ranging from origin to communication – in double identity situations? However, the very selective, inconsistent and unpredictable use of the function theory in later decisions gives rise to doubts about this interpretation. Apparently, the Court feels free to ignore certain functions in certain cases and is reluctant to define the protected functions more clearly.

Against this background, it cannot be ruled out that the Court’s primary intention is the use of the function theory as a meta norm that forces specific infringement criteria in EU trademark law onto the sidelines. This meta norm would function as a general yardstick for assessing trademark claims – an unwritten de minimis threshold for asserting trademark rights. Without a showing of adverse effect on at least one protected function, a trademark


\[24\] In this sense also A. Kur, “Trademarks Function, Don’t they?”, Max Planck Institute for Innovation and Competition Research Paper No. 14-05 (2014), available at http://ssrn.com/abstract=2401536, p. 11, who sees the function theory as a basis for introducing a more flexible infringement analysis including considerations of fair and reasonable competition into EU trademark law.
infringement action cannot succeed. This understanding of the function theory would explain why the CJEU inquires into an adverse effect on protected trademark functions in double identity situations even though the relevant provisions of current EU trademark law – Article 9(1)(a) CTMR and Article 5(1)(a) TMD – do not reflect this test as an additional infringement criterion. In this vein, the Court openly conceded in Leidseplein Beheer/Red Bull that the function theory was a means of putting absolute protection under Article 5(1)(a) TMD “into perspective”\(^{25}\) It would also explain why the Court, in Interflora/Marks & Spencer, saw the absence of a conflict with any protected trademark function as a relevant factor for determining whether a trademark’s unauthorized use for the purpose of informing consumers about alternative offers in the marketplace was made with “due cause” in the sense of Article 5(2) TMD\(^{26}\) and why, in Chronopost/DHL, the Court saw the absence of a conflict with any protected trademark function as a reason for setting territorial limits to a prohibition against further infringement of a Community trade mark\(^{27}\).

Finally, Advocate General Kokott gave an impressive demonstration of the use of the function theory as a balancing tool in Viking Gas/Kosan Gas. Having concluded that the exhaustion doctrine could not be applied to the gas in the composite bottles at issue (an assumption which the Court did not adopt), Kokott embarked on an analysis of the refilling of gas bottles in light of the function theory\(^{28}\). Addressing communication, investment and advertising functions, Kokott postulated that

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\text{not every adverse affect on those functions justifies the application of [the double identity rule laid down in] Article 5(1) of Directive 89/104. The protection of those functions on the basis of that provision, first, must not undermine the requirements of specific protective rules and, second, must respect overriding other interests.}^{29}
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The assessment of “overriding other interests”, then, led the Advocate General to conclude that even though the exhaustion doctrine did not apply, consumers’ property rights in the composite bottles and the need to protect competition outweighed the affected functions of the trademark and justified the limitation of trademark rights. If consumers could only exchange empty gas bottles with Kosan as an exclusive supplier, they would not be free to exercise their property rights in the bottles by becoming customers of other suppliers. In this latter regard, the situation was comparable to the provision of repair services for a particular make of car which also fell under a limitation of trademark rights\(^{30}\).

In sum, the unpredictable function theory is a source of legal uncertainty for trademark users because the scope of protected functions is unforeseeable. At the same time, it creates legal

\(^{25}\) CJEU, 6 February 2014, case C-65/12, Leidseplein Beheer/Red Bull, para. 32.

\(^{26}\) CJEU, 22 September 2011, case C-323/09, Interflora/Marks & Spencer, para. 91, clarifying that “where the advertisement displayed on the internet on the basis of a keyword corresponding to a trade mark with a reputation puts forward – without offering a mere imitation of the goods or services of the proprietor of that trade mark, without causing dilution or tarnishment and without, moreover, adversely affecting the functions of the trade mark concerned – an alternative to the goods or services of the proprietor of the trade mark with a reputation, it must be concluded that such use falls, as a rule, within the ambit of fair competition in the sector for the goods or services concerned and is thus not without “due cause” for the purposes of Article 5(2).” (emphasis added).

\(^{27}\) CJEU, 12 April 2011, case C-235/09, Chronopost/DHL, para. 46-48.

\(^{28}\) Opinion of Advocate General Kokott, 7 April 2011, case C-46/10, Viking Gas/Kosan Gas, para. 36-37.

\(^{29}\) Opinion Kokott, ibid., para. 59.

\(^{30}\) Opinion Kokott, ibid., para. 65-67.
uncertainty for trademark owners because it remains unclear in which situations the Court will deny any adverse effect on protected functions and permit an unauthorized use on that basis.

2. International Exhaustion

Considering this risk of legal uncertainty, the European Commission seems to have seen the debate on amendments to EU trademark law as a welcome opportunity to put an end to the function theory and eliminate an unpredictable meta doctrine developed by the CJEU. Making it a condition that use in double identity cases “affects or is liable to affect the function of the trade mark to guarantee to consumers the origin of the goods or services”, the Commission intends to reduce the scope of the double identity rule to reasonable proportions and re-establish a clear boundary line between protection against confusion on the one hand (Article 9(2)(a) and (b) Draft CTMR and Article 10(2)(a) and (b) Draft TMD) and protection of marks with a reputation against dilution on the other (Article 9(2)(c) Draft CTMR and Article 10(2)(c) Draft TMD). Recital 19 of the proposed new TMD reflects this intention:

In order to ensure legal certainty and clarity, it is necessary to clarify that not only in the case of similarity but also in case of an identical sign being used for identical goods or services, protection should be granted to a trade mark only if and to the extent that the main function of the trade mark, which is to guarantee the commercial origin of the goods or services, is adversely affected.

In the Explanatory Memorandum to the proposed new TMD, the Commission also points out that the recognition of additional trademark functions in the context of the double identity rule created legal uncertainty. The Commission adds that the function theory developed by the Court blurred the relationship between double identity cases and the extended anti-dilution protection afforded to trademarks having a reputation.

Given the unclear scope of the function theory and its unpredictable application by the CJEU, the abolition of this meta doctrine can indeed be expected to offer important advantages in terms of legal certainty and clarity of the EU trademark system. It would lead to a transparent and clear distribution of tasks between the protection of the origin function in the subsystem of protection against confusion, and the protection of goodwill functions in the subsystem of protection against dilution. As the proposed new legislation also makes it clear that the protection of marks with a reputation against dilution is readily available in relation to goods or services which are “identical with, similar or not similar to those for which the trade mark is registered”, the application of the double identity rule in cases affecting a trademark’s goodwill functions (communication, investment and advertising) evidently creates an unnecessary protection overlap.

One would have expected that the EU trademark community embraces this proposal to clarify the EU trademark system: trademark owners because the function theory is increasingly used as a limiting doctrine that serves as a gatekeeper to control access to trademark protection; competitors and advertisers because the double identity rule – in contrast to the system of

31 Article 9(2)(a) Draft CTMR; Article 10(2)(a) Draft TMD.
33 European Commission, ibid., p. 6.
34 Article 9(2)(c) Draft CTMR; Article 10(2)(c) Draft TMD.
protection against dilution – does not provide for an open-ended “due cause” defence. Instead, the Commission proposal was heavily criticized for creating protection gaps and, in particular, leading to de facto recognition of international exhaustion. As explained above, protection gaps with regard to communication, investment and advertising functions are unlikely because protection against dilution is readily available in the case of trademarks fulfilling these functions, namely trademarks with a (niche) reputation.

The international exhaustion argument runs as follows: as confusion with regard to the commercial origin of genuine products is unlikely, trademark owners would be deprived of the possibility to take measures against parallel imports of genuine products coming from outside the European Economic Area (EEA). The additional requirement of a showing of adverse effect on the origin function in double identity cases would prevent trademark owners from stopping the importation of genuine goods that have been sold under their control outside the EEA. The confinement of the double identity rule to the origin function would thus de facto imply the establishment of a system of international exhaustion.

This line of argument is surprising for several reasons. Firstly, a closer analysis of the proposed wording shows that the Commission, in fact, used language developed by the CJEU long before the adoption of the overbroad function theory in L’Oréal/Bellure. It is long-standing, established case law of the CJEU that protection in double identity cases is reserved to cases in which a third party’s use of the sign affects or is liable to affect the functions of the trade mark, in particular its essential function of guaranteeing to consumers the origin of the goods.

As this quotation shows, the CJEU focused on the origin function in the context of the double identity rule before L’Oréal/Bellure. However, the Court did so without ever questioning trademark owners’ ability to invoke the double identity rule in cases where genuine goods are imported from outside the EEA. It is difficult to see why this should change after the adoption of the Commission proposal which would only make the unwritten protection requirement of an adverse effect on the origin function visible in the statute itself. In light of its own long-standing case law, the Court would understand that this clarification is an invitation by the legislator to return to the traditional focus on the origin function in double identity cases and abandon the extension to communication, investment and advertising functions which took

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36 In this sense in particular INTA, ibid., p. 16, and APRAM, ibid., p. 7. For a broader analysis in the light of international obligations, see K.H. Fezer, “Der Wettbewerb der Markensysteme”, Gewerblicher Rechtsschutz und Urheberrecht 2013, p. 1185 (1192-1193).

place in L’Oréal/Bellure. The Court would also understand that, in the sense of EU trademark legislation, genuine goods not giving rise to any confusion are only those goods that have been put on the market within the EEA by the trademark owner. The specific rules on the exhaustion of trademark rights in the present and the proposed new EU trademark legislation leave no doubt about that.38

If the CJEU was willing to take a different approach, the rejection of the Commission’s double identity proposal would not help either. The moment the Court is prepared to accept the argument that the importation of genuine goods from outside the EEA does not affect the essential origin function, the same argument would apply to other trademark functions as well. As the goods are genuine, they can hardly have an adverse effect on quality, communication, investment or advertising functions. Why should the trademark attached to genuine goods from outside the EEA be incapable of serving “advertising purposes designed to inform and persuade consumers”39 and why should it thwart the objective “to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty”,40 if we are willing to accept that the same trademark fulfils these advertising and investment functions when it is attached to genuine goods sold within the EEA?41

Hence, the risk of an implicit introduction of a regime of international exhaustion is inherent in the jurisprudence of the CJEU anyway. This would not change when the unwritten requirement of an adverse effect on trademark functions was made visible in EU trademark legislation itself, and when in addition, this unwritten requirement was confined to the origin function, as proposed by the Commission. For changing the situation, the concept of “genuine goods” would have to be limited to goods that have been put on the market within the EEA by the trademark owner.

A further international law aspect must not be overlooked in the debate on the Commission’s double identity proposal. According to Article 16(1) of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS),

[in case of the use of an identical sign for identical goods or services, a likelihood of confusion shall be presumed.]

As the EU and its Member States are bound by the TRIPS Agreement, this international norm provides important guidelines as to the burden of proof in double identity cases.42 The mere

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38 Article 13 CTMR and Article 13 Draft CTMR; Article 7 TMD and Article 15 Draft TMD. For a similar argument based on the presentation of goods to consumers, see Koppensteiner, supra note 23, p. 3.
39 See the description of the advertising function in CJEU, judgment of March 23, 2010, cases C-236/08-238/08, Google France and Google/Louis Vuitton et al., para. 91.
40 See the description of the investment function in CJEU, 22 September 2011, case C-323/09, Interflora/Marks & Spencer, para. 60.
41 In this sense also R. Arnold, “The CJEU’s Article 5(1)(a) Jurisprudence: Problems and Solutions”, Berichten industriële eigendom 2012, p. 58 (60-61), wondering “[w]hich function of the trade mark is adversely affected and why?” Also A. Kur, supra note 24, p. 8, points out that “the additional trade mark functions on which the CJEU has so far expanded cannot properly explain regional exhaustion either.” As a way out, the Court could introduce further functions, such as a specific exhaustion function. See Kur, ibid., p. 8-9.
42 As to the relevance of TRIPS provisions in the context of EU trademark legislation, see CJEU, 16 November 2004, case C-245/02, Anheuser-Busch/Budĕjovický Budvar, para. 42, where the Court held that “[s]ince the Community is a party to the TRIPS Agreement, it is indeed under an obligation to interpret its trade-mark legislation, as far as possible, in the light of the wording and purpose of that agreement.” For commentary on the presumption of a likelihood of confusion in Article 16(1) TRIPS, see N. Pires de Carvalho, The TRIPS Regime of
fact that the Commission proposal requires use in double identity cases to affect the origin function need not lead to the conclusion that the trademark owner is obliged to give proof of confusing use. In light of Article 16(1) TRIPS, it would be more consistent to presume a likelihood of confusion and place the burden of proof on the defendant.\footnote{In this sense also T. Cohen Jehoram, “Nieuw en verbeterd! Het Europees merkenrecht – Commissievoorstel doet 3 stappen vooruit, 1 achteruit”, Berichten industriële eigendom 2013, p. 198 (201-202).} In the case of goods sold by the trademark owner outside the EEA and being afterwards imported into the EEA by a third party, this would mean that customs authorities are free to presume a likelihood of confusion. According to the solution proposed here, the trademark owner could then defend a seizure of the goods on the ground that they are not “genuine” in the sense of EU law because they have not been put on the market within the EEA. Also from this perspective, the Commission proposal is thus unlikely to result in a system of international exhaustion.

With the burden of proof being placed on the defendant, the double identity rule as proposed by the Commission also offers an important advantage when compared with the similarity situation dealt with in Article 9(2)(b) Draft CTMR and Article 10(2)(b) Draft TMD. While the trademark owner must provide evidence of a likelihood of confusion in situations where signs or products are only similar, the double identity situation would not require such evidence.\footnote{This solution for clarifying the interplay between double identity protection on the one hand, and protection in situations where signs or products are only similar on the other hand, is also proposed by Sack, supra note 35, p. 658. Cohen Jehoram, supra note 43, p. 201, points out that the presumption of a likelihood of confusion could also be taken into account under Article 9(2)(b) Draft CTMR and Article 10(2)(b) Draft TMD. While this is certainly true, the difference would come to the fore much more clearly with a separate double identity rule. As to the situation in international law, see de Carvalho, supra note 42, p. 349, who also points out that the double identity situation implies a presumption of infringement, whereas similarity between signs and/or products does not generate this presumption.}\footnote{C.M. Correa, Trade-Related Aspects of Intellectual Property Rights: A Commentary on the TRIPS Agreement, Oxford: Oxford University Press 2007, p. 186-187; A. Kur, “TRIPs and Trademark Law”, in: F.K. Beier/G. Schricker (eds.), From GATT to TRIPs – The Agreement on Trade-Related Aspects of Intellectual Property Rights, Weinheim 1996, p. 93.} By contrast, the defendant would have to show that confusion is unlikely to arise even though the signs and products concerned are identical.

3. Conclusion

A closer analysis of the Commission proposal to confine the double identity rule to cases affecting the origin function shows that the proposal, indeed, would enhance legal certainty by putting an end to the vague, inconsistent and unpredictable function theory developed by the CJEU in \textit{L’Oréal/Bellure}. It would also clarify the relationship between protection against confusion on the one hand, and enhanced protection of marks with a reputation against dilution on the other hand. Overbroad protection of goodwill functions on the basis of the imbalanced double identity rule could be avoided in this way.

Given these merits, the arguments against the proposal do not have much weight. In particular, the proposal is unlikely to lead to the introduction of a system of international exhaustion in EU trademark law. If the arguments supporting the assumption of international exhaustion were valid, an international exhaustion regime would already have followed from the unwritten requirement of an adverse effect on protected trademark functions in double identity situations which is a long-standing and well-established element of the jurisprudence
of the CJEU. The Commission proposal only makes this unwritten requirement visible in the EU trademark statutes themselves. Apart from the confinement to the origin function in double identity situations, it does not change this long-standing, unwritten condition.

Nonetheless, the Commission proposal concerning the double identity rule has received little support in the ongoing legislative process. If it is finally rejected, there will be much work lying ahead for trademark scholars and lawyers. The Court’s function theory is a risk factor for trademark owners seeking protection because it may be applied as an unwritten *de minimis* threshold for obtaining protection by the CJEU. It is also a risk factor for trademark users relying on freedom of expression and freedom of competition. As long as the conceptual contours of the different functions remain obscure, the function theory may have a deterrent effect on comparative advertising and product information, as well as on trademark parody, criticism and comment.

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