

Surprise decision on EU goods in transit: a welcome boost for rights holders

A somewhat surprising – and widely criticised – decision from the Court of Justice of the European Union on the debranding and rebranding of goods in transit has provided trademark owners with a valuable tool for enforcing their IP rights

In *Mitsubishi v Duma* the Court of Justice of the European Union (CJEU) found that the debranding and rebranding of goods in transit undermines various essential functions of a trademark – in particular, the origin, investment and marketing functions. The judgment is significant as it extends the scope of trademark protection and broadens the concept of use in the course of trade. This article illustrates how the decision provides trademark owners with a valuable tool for enforcing their IP rights.

Facts

Belgian company Duma is a distributor of Mitsubishi forklifts. When faced with termination of its distribution agreement, the company embarked on an ingenious strategy to maintain part of its market position. It decided

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to continue to import Mitsubishi forklifts from non-EU countries. However, to avoid being accused of illegal parallel imports, it stored the forklifts under the customs warehousing procedure in a bonded customs warehouse in the European Economic Area (EEA). It then hired a third party to remove all references to the MITSUBISHI trademark – as well as all original serial numbers and other references to the original source – and then to adapt the forklifts to comply with technical and environmental standards. The goods were then fitted with DUMA logos and serial numbers, and subsequently sold into the EEA under the DUMA brand.

Arguing that this practice infringed their trademarks, Mitsubishi and its EU subsidiary sued Duma before the



Brussels Commercial Court. However, the court ruled that Duma's actions did not constitute trademark infringement and therefore denied an injunction. Mitsubishi appealed the decision and the Brussels Court of Appeal referred the issue to the CJEU.

A key argument that was raised in the course of the proceedings was that EU customs legislation explicitly allows debranding when goods are stored in a customs warehouse.

CJEU decision

The CJEU revisited its existing body of case law relating to the scope of trademark protection based on the functions of marks. According to established case law, a court can find infringement only where one or more functions of the mark for which protection is sought have been adversely affected. The primary function of a trademark is to indicate the origin of the goods carrying that mark. However, in *Arsenal*, *L'Oréal*, *Google France* and *Interflora*, the court has gradually added various other functions, such as the communication function, the investment function and the marketing function.

The central issue was therefore whether debranding is deemed to be "use in the course of trade" as defined in the EU Trademark Directive. As regards the concept of use in the course of trade, in paragraph 48 of the *Mitsubishi* judgment, the CJEU held that the act of debranding and subsequent rebranding by a third party involves active conduct on the part of that party. In this case, the debranding was carried out with a view to importing the goods into the EEA and marketing them there. Therefore, according to the CJEU, it was carried out in the exercise of a commercial activity for economic advantage and may be regarded as use in the course of trade. Further, the CJEU stated that it made no difference whether the goods at issue were placed under the

customs warehousing procedure, as the debranding and rebranding were carried out for the import and placing on the market of those goods in the EEA.

Advocate general opinion

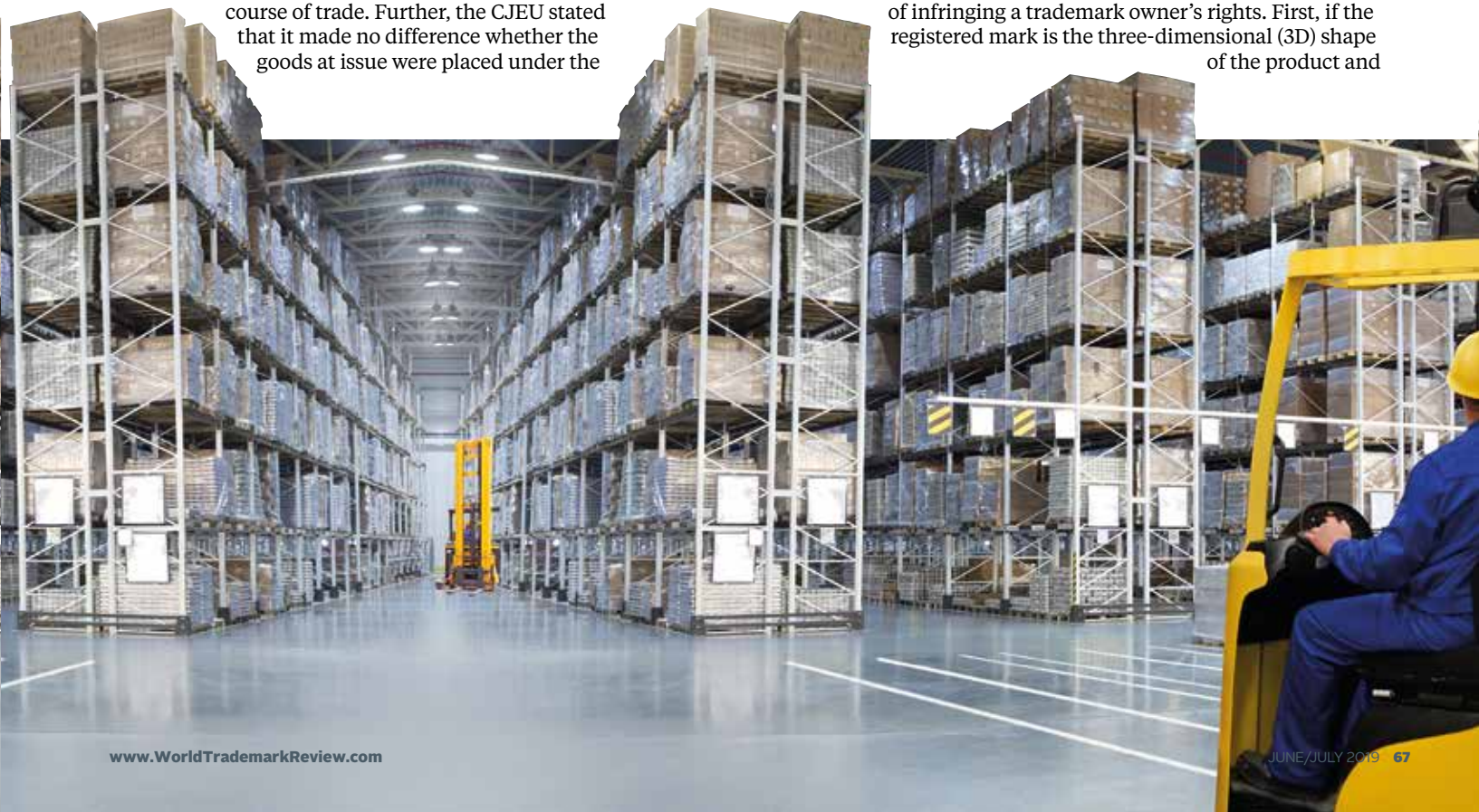
Remarkably enough, at no point in its judgment did the CJEU refer to the opinion of the advocate general, who proposed that the court rule that the unauthorised removal of signs affixed to goods does not constitute use of a mark. In contrast to the CJEU, which only briefly considered this issue, the advocate general had paid ample attention to the question of whether the removal of Mitsubishi's trademarks constituted use of those marks.

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According to the advocate general, the primary meaning of the term 'to use' is "to utilise an article for something". Conversely – and quite logically – the advocate general argued that removing or withdrawing a trademark from a particular product amounts to the opposite of use of that mark. As Duma had pointed out, there are only two situations in which the lack of a distinctive sign can be deemed to constitute use capable of infringing a trademark owner's rights. First, if the registered mark is the three-dimensional (3D) shape of the product and

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second, where a colour registered as a mark has been used continuously until it has acquired distinctive character. However, the case at hand did not concern 3D or colour marks.

Further, the advocate general held that where a trademark has been removed from the goods, consumers may be misled or unfair commercial conduct may occur. However, in his view, that does not mean that improper use has been made of the mark, which – until that point – had been affixed to those goods.

The advocate general found that this interpretation has also been confirmed by the laws of various EU member states. In the United Kingdom, for example, the removal of a trademark from goods to which it was previously affixed does not entitle the owner to oppose the debranding unless it was incomplete (ie, the previous sign has not been removed in its entirety).

Under German law, removal of the original trademark also fails to satisfy the criteria for infringement. This is based on the Federal Court of Justice's 12 July 2007 judgment in *Cordarone* (I ZR 148/04), which held that “regardless of whether or not the goods have been altered, when those goods are sold after the manufacturer's trade mark has been removed, the manufacturer cannot bring trade mark proceedings because there has been no use of his registered mark” (paragraph 24). In its written observations in *Mitsubishi*, the German government also held, in summary, that the sign must appear in the course of trade, which would not occur if the mark had been completely removed from the product. Therefore, the German government also submitted that complete debranding cannot affect any of the functions of the trademark.

In France, the removal or modification of a lawfully affixed trademark constitutes an infringement of the owner's rights. This is because the national legislation includes a prohibition of such conduct without the owner's consent. According to

the advocate general, the fact that “it was necessary to introduce that rule to supplement the protection against improper use of a trade mark means that, otherwise, that rule could not be considered to be part of the rights which Article 5(3) of Directive 2008/95 and Article 9(2) of Regulation No 207/2009 lay down for the benefit of trade mark owners”.

After this literal, systematic and purposive interpretation of the concept of use, the advocate general concluded that where a trademark is removed from the goods that it previously distinguished, consumers may be misled or unfair commercial conduct may occur. However, according to the advocate general, that does not necessarily mean that improper use has been made of the mark, which – until that point – had been affixed to those goods. Consequently, the advocate general found it unnecessary to deal with the possible infringement of the functions of the mark, as this would make sense only if those (or similar) marks had been used and continued to be used when the goods were offered for sale.

Criticism

The CJEU judgment has evoked considerable criticism throughout Europe. Various commentators have argued that the CJEU's qualification of debranding as use in the course of trade is contrary to the system of trademark law, as well as to the balance between the interests of trademark owners on the one hand and the free movement of goods on the other.

Trademark law is an exception to the main rule of freedom of entrepreneurship. It provides protection to the registered mark and its use in the course of trade for the goods and services in question. However, it is argued that such protection cannot be extended if it undermines the primacy of the internal market and fundamental rights. In any event, the trademark owner's monopoly does not include the marketing of

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goods and services which are unmarked or which bear dissimilar marks.

Various commentators have therefore argued that a solution on this matter should have been based on alternative legal means (eg, the rules of unfair competition or unlawful conduct), rather than trademark law by overstretching the meaning of ‘use’.

By disregarding the advocate general’s opinion (which does not happen very often), the CJEU seems to have created additional rights for trademark owners. Indeed, by qualifying debranding as an exclusive right, it provides trademark owners with a right to market goods for the first time in the EEA, without those products having to bear the required element of protection (ie, the trademark). However, this right should arguably no longer exist as soon as the trademark is removed from the goods in question.

Other criticisms relate to the CJEU’s considerations in response to the referring court’s question of whether it makes any difference that the debranded goods imported or placed on the market can still be identified by the average consumer as originating from the trademark owner on the basis of their appearance or shape. The CJEU observed that while the essential function of the mark may be harmed irrespective of the consumer’s perception, that perception is likely to accentuate the effects of such harm. This consideration is remarkable, particularly in view of the CJEU’s established case law concerning 3D marks. Based on this, the CJEU takes the starting point that average consumers are deemed not to be in the habit of making assumptions as to the origin of products merely on the basis of their shape or the shape of their packaging (ie, in the absence of any graphic or word elements).

Practical significance

One of the main questions arising from *Mitsubishi* is whether this applies only to the specific facts of the matter at hand (ie, in cases of removal of trademarks (and subsequent rebranding) within a duty-free zone, before their release into the EEA market or in relation to the debranding (and possible subsequent rebranding) of goods which are already placed in the EEA market by or with the consent of the trademark owner). One example of the latter comes from the District Court of The Hague, in a case between Pioneer and Agrifirm. Pioneer owns the trademark PIONEER for seeds and sells corn seeds in bags carrying the PIONEER mark. Agrifirm purchased the branded bags in the EEA, opened them, treated the corn seeds with a protective substance and repackaged the seeds under certain Agrifirm brands. The Hague District Court denied Pioneer’s request for an injunction, holding that there was no use of the PIONEER mark in the course of trade. It goes without saying that a trademark owner has the right to invoke its mark in the event that branded goods have been tampered with and are subsequently sold under the original brand name. Selling such tampered goods would be a violation of both the origin function and the goodwill function.

In contrast, the debranding of goods that have already been put on the market by the trademark owner arguably does not qualify as trademark infringement because the owner’s right of first marketing is not

prejudiced. *Mitsubishi* can therefore be distinguished from the CJEU’s *Portakabin* case, in which the defendant continued to use the PORTAKABIN trademark to advertise its PRIMAKABIN goods, which included rebranded second-hand PORTAKABIN goods.

It seems unlikely that the rather strange consequence of *Portakabin* – namely, that the debranding of non-exhausted goods for the purpose of import within the EEA would constitute trademark infringement, but the debranding of goods that are exhausted would not – has been well considered or intended by the CJEU in *Mitsubishi*. Since the trademark was removed and thus no longer used in the course of trade in both these situations, the difference should be irrelevant.



The CJEU has demonstrated that it understands the concerns of brand owners and is willing to extend the protection granted to them under trademark law

Following *Mitsubishi*, the removal of a trademark from the original product (debranding) is now considered to be use in the course of trade. If such use constitutes infringement, it comes down to the question of whether the debranding may affect one or more of the mark’s functions. This is likely to be the case, as the removal of trademarks will usually affect the goodwill function. Although this seems to be good news for trademark owners, we will have to wait to see how the national courts – including the Court of Appeal in Brussels – will apply the *Mitsubishi* judgment.

The function of a trademark may differ depending on the nature of the goods. The corn seeds in *Pioneer* are commodities sold in bulk. By their nature, they cannot be recognised as typical Pioneer goods in the event that the bags in which they have been packaged carry a different trademark. On the other hand, it would be remarkable if an importer of original BMW cars produced in Latin America was allowed to import those cars into the EEA by simply removing the famous BMW logo from the hood, wheels, steering wheel and back of the car, and then rebrand the car with its own trademark. Disregarding the IP protection on the car design, consumers would still instantly recognise the car as originating from BMW. It is clear that the CJEU is not prepared to take that path, which would open the door for unlimited rebranding.

It can take several years before the issue of debranding and rebranding is further refined by the CJEU. Until then, trademark owners can take a firm stand against such activity. Once again, the CJEU has demonstrated that it understands the concerns of brand owners and is willing to extend the protection granted to them under trademark law. **WR**



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