The TRIPS Regime of Trademarks and Designs

Third Edition

By Nuno Pires de Carvalho

Wolters Kluwer
Law & Business

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Published by:
Kluwer Law International
PO Box 316
2400 AH Alphen aan den Rijn
The Netherlands
Website: www.kluwerlaw.com

Sold and distributed in North, Central and South America by:
Aspen Publishers, Inc.
7201 McKinney Circle
Frederick, MD 21704
United States of America
Email: customer.service@aspenpublishers.com

Sold and distributed in all other countries by:
Turpin Distribution Services Ltd
Stratton Business Park
Pegasus Drive, Biggleswade
Bedfordshire SG18 8TQ
United Kingdom
Email: kluwerlaw@turpin-distribution.com

Printed on acid-free paper.

ISBN 978-90-411-5017-2

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Printed and Bound by CPI Group (UK) Ltd, Croydon, CR0 4YY.

For Ana
(for ever)
For André, Hugo and Carolina
For Theo, Felipe, Sofia, Pedro and Mateo

Preface

We live in a world of nameless inventors and faceless merchants. As consumers, we expect to find in the stores of shopping malls the articles that meet our needs and respond to our tastes, no matter where they come from. Very probably, they are manufactured in China, and, in spite of their being branded with trademarks that have a European, North American or Japanese flavour, they are conceived and designed in some other place of the globe. If we decide not to buy a certain product because we do not like its price or because its quality does not serve our interest, generally what we do is simply postponing the purchase: we will wait until tomorrow, when the same product will be sold at a lower price or will be improved – or both.

Who invents and designs? Who manufactures? Who distributes? We do not care. Many other elements will help us make our decisions of consumption without needing to spend time in looking for the person of the inventor, the designer, and the merchant.

Underpinning this globalized world there is a notion of intellectual property that is very different from the rules that were developed in the nineteenth century and that are behind international treaties, such as the Paris and the Berne Conventions, under whose framework the laws that ruled the system until 1994 have been formulated. Today's intellectual property serves the world of nameless inventors and faceless merchants: it is a world that is mainly oriented to the production of intangible assets. Today's intellectual property serves their circulation, even more than their creation.

Along millennia, intellectual property has evolved as both an engine and a product of free trade. As the first organized societies designed ways of producing and circulating goods and ideas, they also embraced the tools and the norms that protected differentiation and buttressed commercial rivalry outside the boundaries of the first trading polities, i.e., those polities that were capable of producing surpluses to be sold and interchanged with other polities. The first of those norms was the imposed guaranty of honesty in relations of trade. Written expressions of that norm are found in the earliest compilations of social norms, such as the Codes of Lipit-Ishtar and Hammurabi, the Bible, and the Roman Law of Twelve Tables.

The basic principle of honesty in trade can be seen as the thread of Ariadne that links the ancient merchants and manufacturers to the contemporary ones.

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One tip of that Ariadne's thread lies in the Mediterranean basin, or, more precisely, some four thousand years ago in Mesopotamia (or even earlier, some six thousand years ago, in Southern Anatolia), when professional merchants started crisscrossing the Mediterranean Sea and surrounding lands selling handicrafts, precious metals, wine, textiles, and olive oil. The first brands appeared then, when identifying seals would be printed on contracts to serve as an expression of merchants' personal liability. Those merchants would also spread the first articles displaying decorative impressions, thus originating the visual identity of some cultures. With the travels of merchants, technology also travelled. In a world without books, personal testimony was the only manner of making ideas move on from one region to another.

The other tip of Ariadne's thread is the TRIPS Agreement, which provides the intellectual property rules that merchants' agents, gathered at the GATT, negotiated in the Uruguay Round so as to buttress the new reality of global trade. This is a tip very different, of course, from the other that is connected to the dawn of our civilization. It is a tip that corresponds, as said, to our world of nameless inventors and faceless merchants. This notion is expressed by the TRIPS Agreement in an unequivocal manner.

Under the TRIPS Agreement, inventors have no name. The TRIPS Agreement does not even bother to mention them, except for the need that they state the best mode they know of putting an invention to practice (a requirement that is not even mandatory). The reason is that today's inventors are not important in a world that has erased their names. It is true that the names of a few great inventors may spring from obscurity and oblivion, such as those of Thomas Edison, Kia Silverbrook, and Shunpei Yamazaki, but their inventions have acquired an economic dimension and have spurred a profound change in our lives because of their being patented. To the merchants who drafted the TRIPS Agreement, Steve Jobs was nobody. If someone were capable of inventing a robot that makes inventions, WTO Members would be obliged to make patents available to the inventions generated by that machine. The only caveat is that machine-made inventions should be as differentiated (i.e., new and non-obvious) as inventions made by human beings. In short, the TRIPS Agreement is about patents, not about inventions, let alone about who makes them. The reason is in globalization: inventions and ideas are transformed easily into electronic bits and can travel long distances instantly. Inventors are conducted by capitalists and once the inventions are made, they are no longer necessary (until their corporate employers want them to invent again). This is also true for designers – with a caveat. Whereas the TRIPS Agreement makes an incidental reference to inventors, it does not even cite designers. The reason is the same: design has become an integral part of modern trade, which incorporates aesthetically motivated shapes into manufacture at a very early stage of the inception of articles. For merchants – hence, for the TRIPS Agreement – it is the design that counts, not the designer.

As far as trademarks are concerned, the TRIPS Agreement has also imposed on their international protection the dimension of global trade: under the TRIPS Agreement their function of designating the origin of products has become dated, in view of the fact that their owners are faceless.

The driving force behind the deep changes in international trade is not tariffs, but distance and how the human kind is capable of defeating it. Globalization was made possible by significant advances in transportation and communication. The WTO, and its intellectual property arm, the TRIPS Agreement, is an expression of globalization facilitated by new engines and designs in transportation vehicles, ships and aircraft. But now we are in the edge of another major change: trade is being redesigned by the Internet and delivery will be profoundly impacted by 3-D printing. Very soon, the world, once again, will be changed beyond recognition by spontaneous technical and cultural forces. But the need for differentiation and its accompanying principle of honesty will stay, because it is that principle that presides over free, organized and prosperous trade between societies.

So, even if trade will change again soon – and with it, necessarily, intellectual property – it is still worthy to look at the rules that are with us now, and that translate the principle of honesty into practical norms of conduct.

Since the second edition of this book, trademark law has not evolved significantly. In contrast with geographical indications – concerning which the two basic concepts (of a *sui generis* regime, on the European side, and a trademark regime, in the US and a few other common law countries) continue clashing with no apparent winner at sight – there are no major issues challenging the diplomatic skills of merchants and their WTO agents. Eventually, the most important development in the field of trademarks in recent years has been the attack that a number of WTO Members have orchestrated against an initiative of Australia of diminishing tobacco trademarks' absolute distinctiveness – this meaning that Australia does not aim at reducing the relative capacity of trademarks to distinguish tobacco articles from those of rivals, but rather of reducing their attractiveness and power to build consumer loyalty and induce addiction. This third edition revisits this matter and, given the importance it has acquired, gives it extended attention, at the same time it also looks at similar measures taken in the fields of pharmaceutical and nutrition products, such as fast food, breast-milk substitutes and alcoholic beverages. The way the disputes between those WTO Members and Australia will unfold will have a significant impact on those two other fields, where plain packaging tends to expand.

In the field of designs, their economic importance continues growing. The visual branding of consumer goods – of all sorts – is embedded in the business strategies of entrepreneurs of all sizes and venues. Now some thinkers of marketing have even started talking of the designing of businesses, as if the shaping and modelling of goods could become as much abstract and intangible as ideas. But the law of designs has not changed much in these last years. There is, however, an issue that remains unsolved and about which the TRIPS Agreement has something to say: the protection of essentially aesthetically dictated designs of components of complex products, such as car body parts. The law of WTO Members in this regard is far from being harmonized, and significant discrepancies exist that harm the interests of car makers in favour of independent manufactures. This issue will be visited twice, in comments to Article 25, with a discussion on the possibility of excluding those designs from protection, and in comments to Article 26, with a brief analysis of the various exceptions to rights conferred in the spare car parts aftermarket.

But if the law and the practice of trademarks and designs have not changed much after the second edition was published, this author has. In preparing the third edition, many of the ideas and views expressed before were carefully reassessed and some of them have been rephrased for the sake of clarity, while others were significantly reviewed – e.g., on the possibility of the granting of compulsory licenses of trademarks under some very special and restricted circumstances, in spite of the text of Article 21, but in accordance with its spirit.

As a matter of course, all the views here expressed are mine, and they do not necessarily coincide with the views of the WIPO Secretariat, which I serve, or WIPO Member States. Actually, as in previous editions, this book does not evade from controversial topics, and some WIPO Member States might even strongly disagree with several of the points made.

Geneva, Switzerland, 23 March 2014

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Introductory Note

I THE PRIMARY FUNCTION OF INTELLECTUAL PROPERTY AND THE ROLE OF TRADEMARKS AND INDUSTRIAL DESIGNS

IN.1. In spite of the fact that intellectual property assets are used by everyone in one way or another, either as owners or users, their nature and function are not generally very well understood. On the one hand, the exclusive rights that the law generally confers upon their owners are frequently taken as monopoly rights. On the other hand, given the increasingly important role that ideas acquire in a knowledge-based society, property in some of those ideas is often seen as an encumbrance to a democratic society, in particular as far as it represents a barrier to access to those ideas by the poor. These are, unfortunately, misunderstandings that, to some extent, have inhibited governments to promote and apply the correct policies concerning the acquisition and the enforcement of intellectual property rights.

IN.2. The most intuitive explanation of the nature and function of intellectual property results from an economic theory proposed by Edward Chamberlin – the theory of *monopolistic competition*.[1] This theory was proposed as a more realistic alternative to the opposing situations of perfect (or pure) competition, in one pole, and pure monopoly, in the other. In a situation of perfect competition, the products sold by various sellers on the relevant market are entirely homogenous. Therefore, sellers do not have the power to set the price, or any other differntiating feature because consumers feel free (and capable) to switch from one product to the another whenever they see a price increase or any other change. Perfect competition, therefore, is incompatible with differentiation. However, this is an extremely rare situation, if it ever happens. For example, if ten products were absolutely identical and interchangeable, the respective manufacturers and merchants would still struggle to beat rivals: they would differentiate products by pricing, timing, location, or building consumer loyalty

1. Edward Chamberlin, The Theory of Monopolistic Competition (Harvard University Press, Cambridge, 1933).

(by means of advertisement). Chamberlin noted that by introducing differences in products, competitors are able to acquire a certain amount of power to set prices – up to a certain level, beyond which consumers feel motivated to seek a substitute. Of course, the existence of differences eliminates the homogeneity of products: they cease to be completely substitutable. Coca-Cola and Pepsi are substitutable to the extent they are both soft drinks made of cola, but because they have different tastes, they are marketed under different advertisement schemes, and they have different prices, they are not completely so. To the extent (larger or smaller, depending on the amount of differentiating features) consumers are willing to pay a premium price to continue loyal to either of the sodas, sellers are able to set prices without concern with the potential reaction by competitors. Like monopolists, they would have a power to set prices, albeit in a competitive environment – hence the paradoxical term *monopolistic competition*. To give a concrete example, in Geneva, in a supermarket of the Migros chain, which is in my neighbourhood, a 1.5 litre bottle of Coca-Cola costs CHF 2.20;[2] a bottle of Pepsi, of the same size, costs CHF 1.65; and a bottle of M (the trademark the chain uses for a large variety of goods it sells) costs CHF 0.80. It is worth noticing that the three trademarked colas are available on the same shelf, side by side, which means that consumers are not led to make their choice by misinformation. These important differences in prices correspond to what the consumers are ready to pay to satisfy their individual preferences. Trademarks (as well as other intellectual property assets)[3] "capture" consumers. They accept to pay more for Coca-Cola because they want to feel the particular taste of the soda identified by that trademark, or because they feel somehow touched by the message the company conveys in its advertisement campaigns, or for any other reason. But they accept to pay more for Coca-Cola only up to a certain limit. If Coca-Cola sets a price above that limit, consumers are willing to switch to Pepsi or to M. In other words, to a certain extent, consumers' preferences lock[4] them to a certain good (or service) that is identified by a trademark, whose particular features are covered by a patent or a utility model, or whose special

2. At the time of this writing (15 January 2014), 1 Swiss franc corresponds to 1.10 USD (at < www.xe.com >).
3. It is not only trademarks that ensure differentiation among the three colas. The three manufacturers also own patents and industrial design certificates granted by the Swiss Federal Institute of Industrial Property (< www.swissreg.ch >).
4. Antitrust or competition law sometimes uses the term *lock in* to mean the situation in which the consumer becomes locked to a good that he/she has purchased freely. This is the case, which will be mentioned in comments to Article 26.2 of the TRIPS Agreement, of the purchase of car spare parts. However, the *lock in* occurs in relation to all goods and services toward which consumers acquire a relation of loyalty. The problem is in the higher or lower ability of consumers to free themselves from that loyalty. When loyalty results from the acquired unit price, certainly the consumer's freedom to switch to another product is much lower than when it is dictated by mere individual preference. It is not difficult to show that it is easier for a consumer to move from Coca-Cola to Pepsi in the case he/she finds that the price of Coca-Cola is overcharged than from a BMW to a Fiat if he/she finds out that the price he/she is charged for replacing the bonnet of a BMW is very high. However, antitrust or competition law in general is not worried with the sort of *lock in* that captures Coca-Cola consumers. Competition law tends to pay attention only to *lock in* situations that do not give the consumer the margin of manoeuvre that permits them to switch to substitutes. In those situations, the cost of changing to a cheaper substitute is higher than the extra price the consumer paid for that product to which he/she was locked in.

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