KLUWER LAW INTERNATIONAL

The TRIPS Regime of Trademarks and Designs

Second Edition

By Nuno Pires de Carvalho

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FOREWORD

We live in a world of nameless inventors and faceless manufacturers. As consumers, we take it for granted that we can find in the stores of shopping centers the articles that meet our needs and serve our esthetical preferences, regardless of where they come from. Probably, they are manufactured in China, even though they display trademarks with a European or US taste, and their design may have been conceived anywhere else on the planet. If we decide not to purchase a certain article because we do not want to pay its price or its quality does not satisfy us, what we generally do is simply to postpone the purchase: we invariably assume that tomorrow that article will come with a lower price or with an improved quality – or both.

Who manufactures? Who invents? Who distributes? That does not matter. There are many other elements that help us take our decisions of consumption without the need for personally knowing the inventor and the manufacturer. Our personal decisions of purchasing goods are based on impersonal information that reaches us through the media. Behind that information lays a notion of intellectual property that is strikingly different from that one that developed through the bilateral and multilateral treaties of the 19th century, which, directly or indirectly, still preside over the legal framework that gives intellectual property its regime. Today's intellectual property – the intellectual property that merchants and consumers resort to in their relations – corresponds to a globalized world of nameless inventors and faceless manufacturers.

The TRIPS Agreement has given a bold step in the direction of a globalized intellectual property: it has once and for all delinked trademarks from the sources of goods. It has also confirmed that the protection of inventions conforms to the immediate interests of investors, and only remotely cares about the rights of inventors – when it does, actually. However, some elements of the old intellectual property have remained, and they necessarily generate tensions with the new rules. Here and there, in the TRIPS Agreement, we find vestiges of old traditions and approaches that no longer correspond to a globalized market. On the other hand, not all articles of consumption are globalized, nor have all WTO Members acceded to the global market. Tariffs still break national markets apart. Different social and cultural values still stand in the way of fully harmonized economic standards.

As a commentary of the TRIPS Agreement, this book tends to look at the trees and thus ignore the coherent picture of the vast forest. However, here and there, protection of trademarks and designs gives way to conflicts and contradictions that are nothing else than the expressions of the tension between harmonized, globalized standards of intellectual property and the basic and familiar rules that used to dictate our behavior as citizens and consumers in our neighborhood. More often than not, trade negotiators are led by different concerns: they want to extract trade concessions from partners. The more they extract the better. After all, we should not forget, in spite of the essentially moral values that have forged intellectual property for ages, the WTO, as well as the organization that preceded it, the GATT, can be described as a worldwide chamber of commerce.

Trademark law is not subject to the same tensions as patent law – after all, technology evolution may increase our exposure to brands and advertising, but it does not change the essence of their function. To give an extreme example, there is no conceptual difference between the use of a shop sign hanging over the window of a medieval artisan and the e-address of a major multinational conglomerate's website: both show consumers where they should go in order to do business with the shop owner. The major change in trademark law from the Middle Ages was reflected by the TRIPS Agreement, when, as said above, it delinked them from the notion of source. This is a change that occurred as a matter of course when consumers lost the possibility (and the interest) of knowing who was manufacturing the goods they were buying because of the increase of the distances and the complication of the distribution networks that resulted from globalization.

In the area of designs, changes have even been less radical: the shapes of goods, functional or not, have solicited consumers to prefer certain products because of their esthetical appeal since the Classical Antiquity, when artisans would decorate oil lamps with artistic designs. Today, conspicuous consumption persuades us to prefer goods that are ornamented with motives that are allusive to wealth and success. Consumption is linked to desire and envy. The TRIPS Agreement has also responded to this, when it paid special attention to the fleeting interests of the fashion industry.

The reader should not be worried with these introductory lines: this book is really a commentary, not a philosophical essay. However, these notes of perplexity, rather than of discomfort, result from the intensive reading and thinking about the TRIPS Agreement to which I have been exposed in these last years, as a result both of my work, as an international civil servant in the Secretariat of the World Intellectual Property Organization (WIPO), and as a researcher. Increasingly I have been acquiring the impression that real-life intellectual property is growing beyond the rigid boundaries imposed by treaties and these are condemned to become anachronistic very rapidly. It seems to me that the response by the multilateral system in the last years has been invariably wrong or shortsighted, dictated by short-term trade or financial interests. However, that is part of the

trial-and-error exercise that serves as the mechanism and the compass for the evolution of law in general. A serious and deep re-thinking of the multilateral intellectual property system is perhaps in order, but this is not the place to do it. This book is a commentary, as noted, and therefore it looks at a number of provisions of the TRIPS Agreement, their operation, their interpretation and their implementation. As a matter of course, these are my views only, and do not necessarily reflect (actually, I am aware that frequently they contradict) the views of WIPO Member States.

I am deeply indebted to a friend and colleague, Lauro Locks, of the WTO Secretary. His frequent questions and criticisms have helped me to clarify obscure passages and correct mistakes. A good deal of the improvements of this second edition are owed to his analytical thinking. Of course, all the mistakes remain exclusively mine.

As a minor, but relevant, editorial note, it should be emphasized that throughout this book the words "trademark" and "mark" are interchangeable. When, for some reason, it is necessary to distinguish between marks for goods (trademarks, *stricto sensu*) and marks for services (service marks), that distinction is clarified. The word "brand" is also used but rarely with the same meaning of mark or of trademark. Indeed, a brand is a mark plus its goodwill. Even if, as the Supreme Court of New York put it in an opinion of 1876, there is not such a thing as a trademark in gross, for the purposes of law it is often indifferent that the distinctive sign is associated with the goodwill it represents. It is true that real life trademarks are more than trademarks – they are brands. However, this book is about the law, and law is not the same as real life. The Paris Conventions deals with trademarks, not brands. And so does the TRIPS Agreement.

TABLE OF CONTENTS

Foreword xv

INTRODUCTORY NOTE
THE LEGAL STRUCTURE AND THE ECONOMIC NATURE OF INTELLECTUAL PROPERTY 1

1. The legal structure of intellectual property 2

   (a) Intellectual property: the branch of law that protects business differentiating intangible assets 2

   (b) The intrinsically exclusive nature of intellectual property 13

2. The economic function of intellectual property: to promote the creation and the preservation of business differentiation 14

   (a) Intellectual property and the reduction of transaction costs 19

3. Intellectual property: a spontaneous legal tool that has embedded the structural fabric of every organized society since the dawn of civilization 24

4. A special note on the interface between trademarks and designs and competition law 33

5. Industrial property, competition law and repression of unfair competition 39

6. Trademark protection from the national to the international level 39

7. Trademarks yesterday, trademarks tomorrow 46

8. The question of the appropriation of marks and their social construction 49

9. The essence of trademark law: its future is in its past 57

PREAMBLE
AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS 59

1. The scope, the nature and the function of the trips agreement 60
   (a) The scope of the TRIPS Agreement 60
   (b) The dynamic dimension of the TRIPS Agreement 63
   (c) The nature and the function of the Agreement 65
      (i) The first objective of the TRIPS Agreement: to reduce distortions and impediments to international trade 68
      (ii) The second objective of the TRIPS Agreement: to protect private property rights 72
2. Intellectual property and trade 74
   (a) TRIPS and the GATT 79
   (b) The WTO and WIPO 87

PART I
GENERAL PROVISIONS AND BASIC PRINCIPLES 99

Article 1
Nature and Scope of Obligations 101

1. The TRIPS Agreement: a minimum standards agreement 103
2. Method of implementing the provisions of the TRIPS Agreement 109
3. Implementation 110
4. The scope of TRIPS obligations 116

Article 2
Intellectual Property Conventions 121

1. The objective of the Paris Convention: the articulation of national industrial property systems 121
2. The national treatment principle under the Paris Convention 124
3. The principle of priority 126
4. The principle of independence 127
   (a) Independence of trademarks 127
   (b) Independence of designs 132
5. Article 5 of the Paris Convention and trade protectionism 134

6. From the Paris Convention to the TRIPS Agreement 135

7. The relationship between the TRIPS Agreement and the Paris Convention 138

Article 3
National Treatment 147

1. The "no less favourable" treatment standard of the TRIPS Agreement as opposed to the "same" treatment standard of the Paris Convention 147

2. The concept of "necessity" in the TRIPS Agreement 152

3. Two GATT Panel Reports on the national treatment principle and Article xx(d) of the GATT 1947 156

4. The principle of national treatment in the *European Communities* cases 159

5. Scope and reach of the footnote to Article 3 163

Article 4
Most-Favoured-Nation Treatment 167

1. The most-favoured-nation treatment principle 167

2. The MFN principle and the national treatment principle: a rule of thumb 168

3. Scope of the MFN principle 169

4. Exemptions from the MFN principle 171

Article 5
Multilateral Agreements on Acquisition or Maintenance of Protection 177

1. The scope of the exemption under Article 5 177

2. An example of an admissible exemption: discriminatory reduction of fees 180

Article 6
Exhaustion 183

1. The meaning of Article 6 184

2. Exhaustion 186

3. The legal implications of international exhaustion 199

4. Other modalities of exhaustion 217

Article 7
Objectives 221

1. The scope and the meaning of Article 7 221

2. Transfer and dissemination of technology 227

3. The meaning of the expression "balance of rights and obligations" 235

Article 8
Principles 251

1. The conditions of the application of Article 8.1 252

2. Article 8.1 and non-violation complaints 254

3. The TRIPS Agreement and Public Health 256

5. The doha declaration on the trips agreement and public health – the overlooked role of trademarks 262

PART II
STANDARDS CONCERNING THE AVAILABILITY, SCOPE AND USE OF INTELLECTUAL PROPERTY RIGHTS 271

Section 2: Trademarks

Article 15
Protectable Subject Matter 273

1. A brief history of the negotiations 273

2. A functional definition of trademarks 279

3. Signs that can constitute trademarks 283

4. The trips agreement covers collective marks but not certification marks 288

5. Service marks 294

6. The condition of distinctiveness 295

7. Non-visually perceptible marks: sounds, scents and tastes 304

8. Signs that are not inherently capable of distinguishing v. signs that are inherently incapable of distinguishing 316

Article 16
Rights Conferred 343

1. The history and the scope of Article 16.1 343

2. Likelihood of confusion 349

3. Prior rights 354
(a) Objectives and scope of Article 16.2 359
(b) The protection of well-known marks does not depend on actual use 361
(c) Well-known trademarks do not need to be well reputed: notoriety suffices 364
(d) The quantitative approach of Article 16.2 366
(e) Elements that can assist in identifying a well-known mark 369
(f) The scope of Article 16.2 contrasts with that of Article 16.1 370
(g) Registration as a condition for enforcing rights in well-known marks 371
(h) The ultimate criterion: prohibition of parasitic and dishonest practices 371
(i) Article 16.2 does not apply to trademarks that are not eligible for protection under paragraphs 1 and 2 of Article 15 374

Article 17
Exceptions 383

Article 18
Term of Protection 399

Article 19
Requirement of Use 403
1. The history and scope of Article 19.1 403
2. The justification of lack of actual use 406
3. The relationship between Articles 19.1 and 15.3 413

Article 20
Other Requirements 417
1. The history and the scope of Article 20 417
2. The five elements of Article 20 422
3. The relationship between Article 20 and Article 17 428
4. The meaning of the second sentence of Article 20 430
5. The implementation of Article 20 – interpretation and practice 431
6. Article 20 and public health 438

Article 21
Licensing and Assignment 443

1. The scope of Article 21 443

2. Quality control 447

3. Compulsory licenses of trademarks 448

4. Compulsory assignments of trademarks 451

5. Solutions alternative to trademark compulsory licensing 452

   (a) Prohibitions of use and cancellation of registration 452

   (b) Limitations on injunctions 453

6. Article 21 and Article 6*quater*(1) of the Paris Convention 462

7. The implementation of Article 21 464

Section 3: Geographical Indications

Article 22
Protection of Geographical Indications 469

Article 23
Additional Protection for Geographical Indications for Wines and Spirits 483

Article 24
International Negotiations; Exceptions 487

Section 4: Industrial Designs

Article 25
Requirements for Protection 497

1. The origins of the international protection of industrial designs 497

2. Novelty and originality 502

3. Designs essentially dictated by technical or functional considerations 508

4. Implementation of Article 25 510

Article 26
Protection 521

1. Exceptions to rights in industrial designs 523

2. Exceptions regarding aircraft spare parts: the convention on international civil aviation 524

3. Compulsory licenses of industrial designs 529

PART IV
ACQUISITION AND MAINTENANCE OF INTELLECTUAL PROPERTY RIGHTS AND RELATED *INTER PARTES* PROCEDURES 537

Article 62 539

PART V
DISPUTE PREVENTION AND SETTLEMENT 543

Article 64
Dispute Settlement 545

1. Objectives and nature of the dispute settlement mechanism 545
2. The new features of the dispute settlement mechanism 547
3. Conciliatory steps 548
4. The outcome of the dispute settlement mechanism 549
5. Specific issues concerning the withdrawal of concessions in the TRIPS agreement – the problem of cross-retaliation sanctions 550
6. Non-violation and situation complaints 553
7. The special (and overlooked) interest of LDCs in non-violation complaints 559
8. Trademark-related disputes 561
9. Lessons from the dispute settlement mechanism 563
   (a) First lesson: good intentions do not count 563
   (b) Second lesson: more (protection) is always better than less 564
   (c) Third lesson: international trade has reasons that the Reason does not know 564

PART VI
TRANSITIONAL ARRANGEMENTS 567

Article 65
Transitional Arrangements 569

1. Standstill 569
2. Standstill and LDCs 570

Article 66
Least-Developed Country Members 577

Article 70
Protection of Existing Subject Matter 585

Annex **593**

Agreement on Trade-Related Aspects of Intellectual Property Rights 593
Paris Convention for the Protection of Industrial Property 631

Index **651**

INTRODUCTORY NOTE

THE LEGAL STRUCTURE AND THE ECONOMIC NATURE OF INTELLECTUAL PROPERTY

IN.1. The protection and enforcement of intellectual property rights promote competition. This assertion may sound strange to some readers, yet pro-competitiveness lies in the core of all branches of intellectual property. Indeed, it is commonly accepted that it is in the nature of intellectual property rights to convey monopoly power. Ownership of intellectual property, therefore, would generate market power per se. It is also very frequently said that intellectual property is a necessary evil to the extent that society has not yet found an alternative mechanism that promotes the creation and economic circulation of intangible assets without generating such market power. Generally, monopoly power is associated with patents, but it is not rare to see that same association with other branches of intellectual property, such as copyright and trademarks. Actually, that is a basic misconception, which cannot be attributed to laypersons exclusively. A number of well-known economists and law professors, who would naturally be supposed to have a more sophisticated understanding of intellectual property, have expressed the same wrong view.[1] It does not come as a surprise, then, that policy makers,

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[1] See, *e.g.*, Joseph E. Stiglitz and Andrew Charlton, *Fair Trade for All – How Trade Can Promote Development* (Oxford Univ. Press, 2005, New York):

> "Intellectual property provides innovators with temporary monopoly power. Monopoly power always results in an economic inefficiency. There is accordingly a high cost of granting even temporarily monopoly power, but the benefit is that by doing so, greater motivation is provided for inventive activity."

Id. at 141. See also Lawrence Anthony Sullivan, *Handbook of the Law of Antitrust* (West Publ., 1977, St. Paul):

> "Let there be no pretense that the patent system is not in potential collision with antitrust. It clearly is. Suppose a firm accumulates enough patents to control a market [...]."

Id. at 505. Prof. Sullivan's supposition overlooks a basic enquiry: how many firms are able to accumulate enough patents to control a market? A very few, only. The answer is that those firms are less than the number of firms that accumulate enough real estate to control the market of apartments and houses in a city, because technology, unlike land, is not naturally scarce. Would Prof. Sullivan suggest that property rights in real estate are in potential

influenced by those scholars, as well as by social pressure, fail to use intellectual property in a correct manner, thus missing the opportunity to benefit from the advantages provided by such a legal tool. Indeed, intellectual property is a legal tool with an intrinsic economic dimension, and that is perhaps the factor that generates much confusion: economists write about intellectual property without understanding its essentially legal nature; and lawyers write about intellectual property without mastering a few basic notions of microeconomics. And the fact is that policy makers in both developed and developing countries have approached intellectual property without a clear vision of either of its two dimensions.

IN.2. The next pages will be dedicated to explain the pro-competitive role of intellectual property. For that purpose, I will start by explaining the very basic notion of intellectual property – something that might seem very obvious but, as I will show, is very widely ignored or misunderstood even by those who have the functional duty to know about it. I will also describe the components of intellectual property. At that point, I will turn my attention to industrial property and very briefly describe its economic nature. Once the legal structure and the economic nature of intellectual property have been clarified, its intrinsically pro-competitive nature will become a matter of course.

1. THE LEGAL STRUCTURE OF INTELLECTUAL PROPERTY

(a) Intellectual property: the branch of law that protects business differentiating intangible assets

IN.3. Intellectual property is frequently defined as a legal branch that deals with the protection of works of the human mind, which comprise literary works and other artistic creations as well as inventions.[2] Generally, that is the notion of intellectual

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collision with antitrust? Stiglitz' and Sullivan's mistake is that they do not understand that the monopoly power of patent owners does not arise from the fact they own patents (as a barrier to entry, patents are a very weak one, because the research exception makes it easy for competitors to enter the market of the patented product – if such specific and narrow market exists), but from the fact they own unique technologies. Uniqueness does not arise from the patent system, for patented technologies compete very often with other patented as well as off-patent technologies. Uniqueness arises from the head-start, that is, the time advantage that a pioneer has over his/her competitors. But it is in the very nature of the patent system to permit (and indeed promote) competitors to "alter-invent" or "invent around" the first invention. This is not possible with real estate, for example. The mistake of Stiglitz and Sullivan – as well as of those many who have the same view – is that they were not able to grasp the essential nature of intellectual property rights as rights to exclude. They take such exclusion for monopoly power.

[2] See, *e.g.*, the very first paragraph of the *WIPO Intellectual Property Handbook* (WIPO, Geneva, 2001):

> "Intellectual property, very broadly, means the legal rights which result from intellectual activity in the industrial, scientific, literary and artistic fields. Countries have laws

property that springs to mind when one attempts to define it. However, one may wonder: where is the inventiveness or the creativity of using the word "Ford" to designate cars that are made in a factory owned by Mr. Ford? Or where is the inventiveness or creativity of designating mineral water extracted from the French Alps with the word "Evian," a city that is located exactly near the French Alps? Or where is the originality or ingenuity of typing a list of clients into a computer hard drive and protect it with a password (say, the typist's birthday)?

IN.4. Of course, the use of the words Ford and Evian in that context has nothing to do with creativity or inventiveness. Nor is there anything original or ingenious in setting up a list of clients of a firm, and keeping it secret. The most important asset of businesses – reputation, which is generally associated with a trade name – has nothing to do with invention or authorship either. Nevertheless, all these assets are protected by intellectual property, as much as literary creations and inventions.

IN.5. The link between intellectual property and creativity, therefore, is a misleading one, because it takes into account a very narrow dimension of intellectual property. Actually, intellectual property goes much beyond creations of the human mind, be they of a technical, literary, artistic or scientific nature.

IN.6. On the other hand, it is also common to assert that the purpose of intellectual property is the appropriation of business intangible assets. But intellectual property does not comprise all intangible assets. For example, rights of credit (receivables) and other personal obligations or negotiable instruments are intangible assets, and yet they are not covered by intellectual property.

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to protect intellectual property for two main reasons. One is to give statutory expression to the moral and economic rights of creators in their creations and the rights of public access to those creations. The second is to promote, as a deliberate act of Government policy, creativity and the dissemination and application of its results and to encourage fair trading which would contribute to economic and social development."

Id. at 3. See also *Current and Emerging Intellectual Property Issues for Business – A Roadmap for Business and Policy Makers* (8th ed., ICC, Paris, 2007):

"What is intellectual property?

"Intellectual property is a creation of the intellect which is owned by an individual or an organization who can then choose to share it freely or to control its use in certain ways.

[...]

"Why is intellectual property protected and who benefits?

"Through a system of intellectual property rights, it is possible not only to ensure that an innovation or creation is attributed to its creator or producer, but also to secure 'ownership' of it and benefit commercially as a result."

Id. at 9.