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Written Pleading of Mattel Inc.

The Caledonian, Imperial and Mattel doll cases

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This document contains the written statements of Mattel related to the disputes between Mattel and Caledonian and Mattel and Imperial. The disputes will be settled on the basis of the written statements by a board of two arbitrators, on May 6 at Stockholm University.

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LIST OF ABBREVIATIONS

Full name/ word	Abbreviation
Mattel Inc.	Mattel
Caledonian Crown Ltd.	Caledonian
Imperial Clothing Inc.	Imperial
Court of Justice	ECJ
European Trademark Directive	TMD

1. INTRODUCTION

1.1. Facts of the case

In 1948 the firm Caledonian Crown Ltd. (Caledonian) was established in Glasgow, Scotland. Two years later, Caledonian registered a national figurative trademark in the UK for games, playthings, gymnastic- and sporting articles but is mainly used for golfing equipment. The Caledonian trademark is now considered to be a reputed trademark.

In 2000 the London based fashion house Imperial Clothing Inc. (Imperial) received registration for a figurative trademark with the text GLASGOW CROWN in the UK for clothing, footwear and headgear. Shortly thereafter Imperial introduced a product line with a vintage design for men and women's golf wear. The product line did not gain the popularity that Imperial had hoped for and the company decided in 2005 to launch a comprehensive advertising campaign across the UK. In addition to this, Imperial had produced small textile dolls of golfers wearing clothes bearing the Glasgow Crown trademark.

A couple of years later the toy company Mattel Inc. (Mattel) the creator of the popular Barbie doll, launched Barbie and Ken as golfers with the accessories to go with them. On the golf bag there was a Caledonian trademark and on the jacket of the Barbie doll, there was the trademark of the Glasgow Crown. Caledonian contacted Mattel's American law department, but they were not interested to discuss the matter.

The owner of Imperial, Laura Longshank, also realised the matter but found it initially extremely opportune that Mattel chose to launch the dolls bearing their trademark. Later on, she found out that this may not only give good will to the company and changed her attitude towards the publicity the dolls gave her trademark. She then decided to contact Mattel.

1.2. The settlement

The disputes will be settled at the same time by a board of two arbitrators, on May 6 at Stockholm University. The disputes will be settled only on basis of *acquis communautaire*, and the written statements provided by the three companies will be the point of departure for the negotiations.

1.2.1. Applicable law

When dealing with potential infringements of a nationally registered trademark the national courts apply EU law supplemented where appropriate by national law. The circumstances in the present case will therefore be assessed according to both of these sets of rules. Concerning EU law the Council Directive No. 89/104/EEC, to approximate the laws of the Member States relating to trademarks (hereinafter the TMD) will be applied.

2. Caledonian vs. Mattel – statement of claims

2.1. Short facts on the dispute

The dispute **between Caledonian and Mattel** concerns the use of Caledonian's trademark. However, Mattel is also planning to ask Caledonian for a licence to use the trademark across the EU. Mattel will therefore present an objective investigation of the possibility for Caledonian to stipulate the conditions.

2.2. Use of the Caledonian trademark

Mattel has launched a line of Barbie and Ken dolls with golf equipment bearing the Caledonian trademark. Caledonian has registered a national figurative trademark in the UK for games, playthings, gymnastic- and sporting articles. Mattel's use of the trademark gives rise to the following issues, and with this, potential claims:

- Is the sign used in commerce?
- Is the sign used as a mark in the "TMD sense"?
- If negative – does other types of protection apply?
- If affirmative – Article 5 (1) and (2) should be considered
- Limitations to the effects of a trademark as stipulated in Article 6

Since it is not disputable that Mattel is using the sign in commerce no more attention will be spent with this matter. The remaining issues/ claims are considered in turn below.

2.2.1. Is the sign uses "as a mark" in the TMD sense?

In order for a conduct to be considered an infringement, and therefore for a claimant to be successful in a claim under Article 5 of the TMD the sign must be used „as a mark“. Where it is not disputable that use of a sign as a trademark, that is to indicate origin, will constitute a *relevant use*, some uncertainty prevail¹ related to whether, and if so, which other uses should constitute infringements, and it's therefore possible for Mattel to argue that the way the Caledonian sign is used by Mattel does not fall within the understanding of "*use as a mark*" as currently interpreted by the ECJ. Caledonian would naturally argue the opposite, i.e. that the way the sign is used by Mattel falls within the current understanding of "*use as a mark*", why Article 5 of the TMD would apply.

The general standpoint of the ECJ is that when assessing if these *other uses* can be considered infringing it should be considered if the use can or will affect the functions of the trademark “in particular its essential function of guaranteeing to consumers the origin of the goods²”.

The question - what uses of a mark constitute a use that is liable to jeopardize the essential function of a mark - have been considered in a number of cases by the ECJ, and the current status of protection should consequently be derived from case law. In general, there seem to be an agreement amongst commentators³ that assessing exactly what uses that are likely to implicate the essential function of the mark is an unambiguous and not straight forward task. The table below give some examples of cases on this matter to demonstrate the development of the interpretation provided by the ECJ on this ‘use requirement’.

As can be seen from the overview, the different cases point to examples of both *accepted* and *not accepted uses*. Mattel would consequently follow the line of reasoning listed in column 3, pointing to the fact that the sign is used solely to denote the particular characteristics of the good so that there can be no question of the trademark used being perceived as a sign indicative of origin and that this use will not be seem ad an indication that the products come from Caledonian or an undertaking economically linked to it. Caledonian on the other hand is likely to follow the line of reasoning provided in the 4th column, and point to the likelihood of establishing a link between the Barbie product and Caledonian.

Type of use considered by the ECJ	Case	Accepted use – Mattel line of reasoning	Not accepted use – Caledonian line of reasoning
Use as a description/ Use to indicate loyalty	Arsenal Football Club Case C-206/01	Certain uses for purely descriptive purposes are excluded from scope of protection because they do not affect any of the interests which that provision aims to protect (para. 54)	Having regard to the presentation of the word ‘Arsenal’ on the goods, the use of that sign is such as to create the impression that there is a material link in the course of trade between the goods concerned and the trade mark proprietor (para. 56). This fact is emphasised by the risk of post-sale confusion by the consumer (para. 57). Once this has been established it is immaterial that in the context of that use the sign is perceived as support for loyalty (para. 61)
Use on replicas/ scale models	Adam Opel Case C-48/05	Use that does not influence the relevant public to perceive the sign identical to the Opel logo appearing on the scale models marketed by Autec as an indication that those products come from Adam Opel or an undertaking economically linked to it (para. 24)	Use that affect the essential function of the Opel logo as a trade mark registered for toys (para. 24)

¹ Bentley & Sherman, Intellectual Property Law, 2008, page 923.

² Bentley & Sherman, Intellectual Property Law, 2008, page 923, referring to the Arsenal case, Case C-206/01

³ I.e. Bentley & Sherman, Intellectual Property Law, 2008, page 924, refers to the opinion of AG Mengozzi in the O2 case, C-533/06.

Use as a trade name	Céline Case C-17/06	Where the use of a company name, trade name or shop name is limited to identifying a company or designating a business which is being carried on (para. 21)	Where a third party affixes the sign constituting his company name, trade name or shop name to the goods which he markets (para. 22). Where the third party uses the sign in such a way that a link is established between the sign which constitutes the company, trade or shop name of the third party and the goods marketed/ service provided by the third party (para. 23)
Use for internet advertising	Google Joined cases C-236/08 to C-238/08	Use where an internet referencing service provider stores, as a keyword, a sign identical with a trade mark and organises the display of advertisements on the basis of that keyword does not use that sign (para. 105)	Use of an ad that does not enable an average internet user, or enables that user only with difficulty, to ascertain whether the goods or services referred to therein originate from the proprietor of the trade mark or an undertaking economically connected to it or, on the contrary, originate from a third party (para. 84 and 85)

Generally considered, more types of uses of the sign, other than the use as a trademark, could as a starting point be argued to fall within the scope of the harmonised protection of Article 5, but when considering a specific case, it follows from case law, that the national authorities should consider the actual use of the sign from the point of view of the average consumer⁴. These uses, are in other words not infringing *per se* – potential infringement should be assessed on a case by case basis from the point of view of the average consumer. This has most recently in the Google-ruling from March 2010, been phrased the following way: *“It is for the national court to assess, on a case-by-case basis, whether the facts of the dispute before it indicate adverse effects, or a risk thereof, on the function of indicating origin as described in paragraph 84 of the present judgment⁵.”*

2.2.1.1. The average consumer of the Mattel products

The concept of an average consumer has been considered in a number of cases⁶, and the average consumer can be described as a *reasonably well informed and reasonably observant and circumspect person*⁷. The concept of the average consumer varies from case to case, and a holistic approach to the assessment has to be applied, when assessing if the use of the sign is likely to affect the essential function of the mark, i.e. the function of indicating origin.

For matter of illustration the figure below shows an example of one of the disputed Mattel products - and with this - how the Caledonian trademark appears on the product.

⁴ Arsenal case, Case C-206/01 para 23, Anheuser-Busch case, Case C-245/02, para 60.

⁵ Google case, Joined cases C-236/08 to C-238/08, para 88.

⁶ Cf. footnote 6 and Google case, Joined cases C-236/08 to C-238/08, para 84.

⁷ Bentley & Sherman, Intellectual Property Law, 2008, page 921.



Caledonian is likely to argue that the average consumer of the product are not the end users of the products (the children), but instead the parents of the children, since they would typically purchase the products on behalf of the children. Further, Caledonian is likely to argue, that since the Caledonian mark is well known and by the mere presentation of the sign on the products, the average consumer would think that the product “originate from the proprietor of the trademark (i.e. Caledonian) or an undertaking economically connected to it” why the essential function of the mark has been affected.

Mattel would counter argue (mainly supported by the Arsenal case⁸) that the original function of the Caledonian trademark is unaffected. As can be seen from the illustration above, when using the Caledonian trademark on Barbies’ golfbags, it is obvious in the eyes of the average consumer that the Barbie golfbag isn’t a Caledonian product. The consumers of the Barbie products accord a great deal of importance to the absolute fidelity with products that exist in reality, and the average consumer is therefore used to the fact that, for a very long time, Barbie has used and uses products which exist in reality.

Also the presentation of the sign on the products as such should be highlighted to support Mattels case. The Barbie golfbags are very characteristic, and like all Barbie products, would always appear as a typical Barbie product; with use of colours in pink tones, use of hearts and flowers on the product and lastly use of the Barbie doll motive and word mark on the product. All these features

⁸ Arsenal Case C- 206/01, Football Club v Reed, Opinion of AG [2002] at para 43 : Where the the essential function of a trademark was held to “guarantee the identity of origin of the marked goods or services to the consumer or end user by enabling him without any possibility of confusion to distinguish the goods or services from others which have another origin.”⁸ The ECJ referred to the essential role of the trademark in creating a market of undistorted competition and the importance of guaranteeing the commercial origin.

of the Barbie products make the likelihood of associating the product with the vintage-style Caledonian products very remote.

Another argument that could be put forward by Mattel is that the average consumer is not the parents, but instead the end user of the product, i.e. the children. This argument would however not be beneficiary to Caledonians case since the average Barbie consumer-child is unlikely to be familiar with the Caledonian golf equipment. The golf equipment is targeted at the grown-up-segment, and the risk of the children associating the Barbie product with Caledonian is very remote.

2.2.2. If negative – does other types of protection apply?

If Caledonian doesn't have any luck in arguing that Mattel's use of the sign falls within the essential function of the trademark they could argue that Article 5(5) of the TMD applies.

In that case Caledonian would probably argue that when dealing with potential infringements the national courts apply EU law supplemented where appropriate by national law. The circumstances in which a mark is infringed should therefore be assessed according to both of these sets of rules. In several cases⁹, the ECJ has pointed out that where the national examination of a concrete use show that the sign in question, in the main case, is used for purposes other than to distinguish the defendants goods or services from those of other traders, liability would turn on whether national law had taken advantage of art 5(5), and liability would therefore depend upon whether a given member state has taken advantage of the option available to introduce additional protection for other uses.

Despite the wider and wider interpretation of the essential function of the mark, Mattel would agree with Imperial, that Article 5(5), should not be ignored completely in this case. Mattel would however point the attention to the fact that only very limited literature is available on the member states exploitation of the option given in Article 5(5), something that could prompt one to conclude that only very few Member States has taken advantage of the option. And in this specific case, where we are considering a potential infringement in the UK, and the UK hasn't taken advantage of Article 5(5)¹⁰, Caledonian would have no luck in pointing to the additional protection granted by Article 5(5).

⁹ This is for example pointed Anheuser-Busch Case C-245/02 - para 64 and Celine Case C-17/06 para 20.

¹⁰ Bentley & Sherman, Intellectual Property Law, 2008, page 927.

2.2.3. Rights conferred by a trademark

Before continuing the following section on rights conferred by a trademark it should be stressed that these claims are only relevant to consider if Caledonian has any luck with arguing that Mattels use of the sign falls within the essential function of the mark.

2.2.3.1. Infringement under the Article 5(1)(a) provision

The main question that will be discussed below is if there has been an infringement under Article 5(1)(a) provisions – i.e. identical goods and services. Caledonian Crown Ltd (“Caledonian”) is likely to argue that Mattel has infringed Caledonian’s trademark under Article 5(1)(a) of the TMD¹¹, the so called *double identity* provisions. In Article 5(1)(a) of the TMD, the owner of a trademark with an identical mark and identical services has the right to prevent third parties from using such marks in the course of trade (provided that no prior consent to such use has been given). The meaning of identical has been held by the Court of Justice to cover a trademark when “viewed as a whole, it contains differences so insignificant that they may go unnoticed by an average consumer”.¹² It is undisputed that Mattel is using the identical trademark to Caledonian.

Further, as regards identical services, Caledonian does not have a claim under Article 5(1)(a) as Mattel is not using the Caledonian trademark on games, gymnastic-and sporting Articles in class 28. Mattel is rather using the trademark on toys. Caledonian may seek to argue that its description of goods covers toys as the word “playthings” is included. Firstly, it is not clear what is meant by playthings in this context. Secondly, in response to such frivolous claim, Mattel will firmly remind Caledonian that there appears to have been no use of their trademark on “playthings” since it was registered in 1950. Thirdly, for these reasons Mattel is considering having the word “playthings” invalidated for non-use in the last 5 years under Article 9 of the TMD.

2.2.3.2. Infringement under the Article 5(2) provisions – extended protection

In order for a claimant to be successful in a claim under Article 5.2 of the TMD the following requisites must be established:

1. reputation of the earlier registered trademark ; and
2. that the use of the later mark would take unfair advantage of the distinctive character or repute of the earlier trademark (free-riding); or be detrimental to the distinctive character (dilution) or the repute of the earlier mark (tarnishment);

¹¹ Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate laws of the Member States relating to trademarks.

¹² Case C-291/00 [2003] E.C.R. I-2799 at paragraph 54.

3. such use is without due cause.

In the *Chevy* case, the ECJ stated that to have reputation the trademark must be known in a substantial part of the member state concerned. The court further held that it would suffice if a “significant part” of the relevant public knew about the mark. This could for example mean the public at large or a specialised sector.¹³ Although the Court of Justice did not elaborate on this definition it listed the following pieces of evidence in support of reputation: (1) the market share of the claimant in the particular goods or services; (2) the extent of use of the mark; (3) geographical scope; (4) duration of use; and (5) promotional and advertising investment. In our case we will presume that Caledonian can produce the necessary evidence to support claims of reputation.

This extended protection may be used to prevent dissimilar goods as well as identical and similar goods.¹⁴ The ECJ laid down a test where in order to prove infringement, under Article 5(2), a link must be established in the minds of the consumer between the reputed mark and the alleged infringing sign. Caledonian will also need to produce proof or risk of detriment which will include evidence of a *change in the economic behaviour of consumers* resulting from Mattel’s use of the later mark (or a serious likelihood of such change).¹⁵

A claim for detriment where it is alleged that the Caledonian trademark is diluted by losing its identity and the ability to indicate origin is not likely to succeed. Further, Caledonian may seek to claim detriment by tarnishment, which is more concerned with the actual damage to the brand image of the trademark. In our case, it will be exceedingly difficult for Caledonian to prove that Mattel’s use of the Caledonian trademark stirs up negative images in the mind of consumers (detriment by tarnishment). In the *Elleni* case detriment by tarnishment was explained as when a trademark with a reputation is associated with a mark, which is used in an “unpleasant, obscene or degrading context.”¹⁶ Additionally, Caledonian must prove that there is a *serious future risk* of unfair advantage or detriment.¹⁷

As regards a claim for unfair advantage, the Court of Justice has stated that there must be some benefit taken from the reputed mark.¹⁸ Again, it is highly unlikely that Caledonian will succeed in proving that Mattel has gained a benefit from using the Caledonian trademark on Barbie’s golfbag accessories. This risk must not be a hypothetical risk but presented by way of proper evidence and

¹³ C-375/97, *General Motors Corp. v. Yplon S.A.*, [1999] paragraphs 12 and 26.

¹⁴ Case C-292/00 *Davidoff & Cie v Gofkid Ltd* [2003] E.C.R. I-389.

¹⁵ *Corporation Inc v CPM United Kingdom Ltd*, C-252/07, [2009] E.T.M.R. 13.

¹⁶ CR 1127/2000-3 *Elleni Holding BV* [2005] E.T.M.R. 7 Third Board of Appeal.

¹⁷ Case T-215/03 22 March 2007, CFI at paragraph 46 and *Intel* [2009] E.T.M.R. 13 at paragraph 38.

argument.¹⁹ Further, Mattel's use of the Caledonian trademark can hardly be regarded as one of free-riding as Mattel also has a well established reputation in the markets for toys and miniature dolls such as Barbie.²⁰

As a last comment the potential claim - can the affixing of the Caledonian trademark be prohibited under Article 5(2) as it is liable to affect other functions of the Caledonian trademark? - will be considered. As it clearly cannot be said that Mattel's use of the Caledonian trademark affects the essential function of the trademark, Caledonian may attempt to rely on authorities such as the *Arsenal v Reed*²¹ ("Arsenal") and *Adam Opel AG v Autec AG*²² ("Opel"). Caledonian may then argue that its advertising has been affected and thus it would qualify as "use" for the purposes of Article 5. Such potential arguments are rebutted for inter alia the following reasons:

- (1) Both *Arsenal* and *Opel*, concerned cases of identical goods and services;
- (2) The AG clearly stated that the test to be applied is whether the consumers have bought the products *because of* the distinctive trademark.²³ In the *Arsenal* case, the football supporters bought the scarves from Mr Reed only due to the fact that they were marked with "Arsenal". It can hardly be suggested in our case that the Barbies are bought because of the Caledonian mark on the golfbag. Likewise, in the *Opel* case, consumers purchased the miniature cars because of the trademark Opel;
- (3) The *Intel* case²⁴ imposes a further requirement to be established of a change in consumer behaviour for there to be a detriment. Both the *Opel* case and the *Arsenal* case were decided before the *Intel* case and therefore they should not be relied on too heavily; and
- (4) In fact, the possibility to gain a wider protection under the argument of advertising function has seriously been restricted by the recent *Google v Vuitton* where the Court of Justice interpreted the notion of advertising function narrowly.²⁵

Caledonian may argue that detriment does not need to be established for there to be an unfair advantage under the case of *In the L'Oréal v Bellure* case (Case-487/07, *L'Oréal v Bellure* and others, Judgment 18 June 2009). However, that case can be distinguished from this case in that in *L'Oréal*, it was apparent that the similarity between the marks and the products was created with

¹⁸ *Intel* [2009] E.T.M.R 13 at paragraphs 36 and 78.

¹⁹ *Ibid*; and C-67/04 SPA-FINDERS, at paragraph 34.

²⁰ Case C-487/07, *L'Oréal and Others*.

²¹ Case 206/01, *Arsenal Football Club v Reed*

²² Case C-48/05, 25 January 2007.

²³ Case 206/01, *Arsenal Football Club v Reed*, Opinion of AG [2002] concluding paragraph.

²⁴ *Ibid*.

the intention of furthering marketing of the imitations. Therefore, the ECJ held that a commercial advantage had been taken by the defendants. Mattel is rather using the Caledonian trademark for other reasons than an intention to take advantage or ride on the coat-tails of the mark for promotional purposes. In the toy industry, where toys are based on real life imitations, the intention is not to advance the marketing and commercial sales. Further, the children playing with such toys cannot obviously be presumed to purchase such Barbies because of the sign in question.

For these reasons, Mattel contends that a claim that the advertising function of the Caledonian trademark has been impaired will fail.

2.2.4. Limitations to the effects of a trademark as stipulated in Article 6

When considering the limitations to the effects of the trademark as set out in Article 6 of the TMD, Mattel has the possibility to claim the following: The Caledonian trademark is used for descriptive purposes and/ or that the Caledonian trademark is used to indicate the intended purpose of the product.

2.2.4.1. The Caledonian trademark is used for descriptive purposes

Mattel could claim that the Caledonian trade mark is used for descriptive purposes and therefore accepted in accordance with Article 6, 1, (b) of the TMD. The defence can be applied where traders use the trade mark to indicate the kind, quality, purpose, value and other characteristics of the product. Mattel would claim that affixing the Caledonian trade mark to the golf bag would qualify as use to describe the goods, i.e. to indicate that exactly the golf bags are intended to provide an indication of the characteristics of the golf bags as a type of 'scale models' of the original bags.

Caledonian would then probably point to the Opel case for supporting arguments, but since the decision of the court was contradictory to the opinion of Advocate General Colomer, and commentators are puzzled²⁶ by the decision of the ECJ to apply this restrictive approach to the Article 6(b) defence, Mattel still considers this an applicable defence.

2.2.4.2. The Caledonian trademark is used to indicate the intended purpose of the product

Mattel could make an additional claim about the fact that the Caledonian trade mark is used to indicate the intended purpose of the product and therefore accepted in accordance with Article 6, 1, (c) of the TMD. Caledonian is then likely to argue that the use is not *necessary* pointing to the

²⁵ Google v Vuitton and Others *ibid* at paragraph 77; The Court of Justice referring to L'Oréal and Others Case C-487/07.

Gillette case²⁷, which would obviously be disputed by Mattel as this is a necessary part of the normal course of trade when producing products such as Barbie dolls with accessories where absolute fidelity with the 'real world' products is of great importance.

Since use of both these defences are subject to the proviso that the use is in accordance with honest practice²⁸ in industrial or commercial matters, Caledonian is likely to argue that this is not the case. This is to be decided based on an overall assessment where Mattel would argue that the use is not leading to the establishment of a link between the product and Caledonian as a company, and that the use of the trade mark is sober and loyal, such that no harm is done to the reputation of Caledonian. Nor has an unfair advantage been taken of the mark – the Barbie product is strong enough in itself, and the strong name of the Barbie product is what drives the demand.

2.3. Interim sum up on the use of the Caledonian trade mark

As the above claims and discussions clearly show, Mattel's use of the Caledonian trade mark is not conflicting with the level of protection that is currently provided for the trade mark proprietor within the approximated EU law regime. Mattel therefore holds a strong negotiation position prior to the discussions of a potential license agreement with Caledonian.

2.4. Licensing agreement for Caledonian trademark

2.4.1. Licensing agreement as an alternative

A possibility is that, Mattel and Caledonian could conclude a trademark licensing agreement for the purpose of merchandising Caledonian trademark which would cover the whole territory of the EU. In addition to trademark law, which mainly focuses on the existence of trademark rights rather than on their exercise, companies must also comply with competition law. Furthermore, breaches of competition law are fined heavily and therefore these restrictions should not be taken for granted. Licensing agreements can be held to be pro-competitive or anti-competitive depending on the type of restrictions that are included in the agreement.

²⁶ Bentley & Sherman, Intellectual Property Law, 2008, page 934.

²⁷ Gillette, Case C-288/03.

²⁸ Gerolsteiner, Case C-100/02.

2.4.2. Prohibition under Article 101 of the TFEU

According to Article 101(1) of the TFEU²⁹, “*all agreements between undertakings... which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the internal market shall be prohibited as incompatible with the internal market*”.

The second paragraph further defines that *agreements which directly or indirectly fix purchase or selling prices or any other trading conditions; limit or control production, markets, technical development, or investment; share markets or sources of supply; apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage; make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.*” By reading this provision it is obvious that many of the restrictions described often in some form are included in trademark licence agreements. This does not, however, mean that such agreements necessarily do not comply with competition law.

An agreement falling within the scope of Article 101(1) of the TFEU may thus be exempted on the basis of Article 101(3) of the TFEU, if it “*1) contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which 2) does not: (a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives; (b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question*”. The assessment under Article 101(3) of the TFEU must be made within the actual context in which competition would occur in the absence of the agreement with its alleged restrictions.³⁰ However, in case an agreement, falling within the scope of application of Article 101(1) of the TFEU, does not fulfil the conditions for being exempted under Article 101(3) of the TFEU, the agreement automatically becomes void according to Article 101(2) of the TFEU.

2.4.3. Clauses that may not be included in the trademark licensing agreement

The Commission has adopted a number of regulations based on which certain types of agreements at large are exempted from falling within the scope of application of Article 101 of the TFEU as they

²⁹ Consolidated version of the Treaty on the Functioning of the European Union, [2010] OJ C83, p. 88.

³⁰ Communication from the Commission, Notice - Guidelines on the application of Article 81(3) of the Treaty, OJ C 101, 27.04.2004, p. 97-118, paragraph 17.

generally are presumed to be compatible with the Treaty on the basis of Article 101(3) of the TFEU due to the fact that they on balance are considered to enhance competition.

Should it be found, that none of the block exemptions are applicable to the licensing agreement between Caledonian and Mattel, the agreement falls within the scope of Article 101 of the TFEU. According to Guidelines on the application of Article 81(3) of the Treaty, *non-exhaustive* guidance on what constitutes restrictions by object can be found in Commission block exemption regulations, guidelines and notices. Restrictions that are identified as hardcore restrictions in guidelines and notices are generally considered by the Commission to constitute restrictions by object. In the case of horizontal agreements restrictions of competition by object include price fixing, output limitation and sharing of markets and customers. As regards vertical agreements the category of restrictions by object includes, in particular, fixed and minimum resale price maintenance and restrictions providing absolute territorial protection, including restrictions on passive sales.³¹

2.4.3.1. Exclusivity: territorial and sales restrictions

Licence agreements are normally divided into exclusive and non-exclusive licences. Exclusivity is very important for the licensee as the licensee thereby gains control over a certain market when it comes to selling or manufacturing products bearing the trademark. Furthermore, the degree of control is extremely important when the licensee makes investments. The granting of an exclusive or a sole licence does not *prima facie* breach Article 101 of the TFEU.³² As stated by the Court of Justice in case *Consten and Grundig*³³, exclusive agreements are not allowed when the object is to restrict competition within the internal market.³⁴ Furthermore, licensors should avoid including restrictions on passive sales in licensing agreements as they are considered to constitute hardcore restrictions under Article 101 of the TFEU which in turn renders the whole agreement void under Article 101(2) of the TFEU.

2.4.3.2. Field-of-use restrictions: allocation of markets and customers

As a rule, field of use restrictions are not considered to lead to breach of Article 101 of TFEU. When it comes to field of use restrictions in agreements that do not fall within the block exemptions there is always a risk that the Commission might consider these restrictions as a way to divide markets

³¹ Communication from the Commission, Notice - Guidelines on the application of Article 81(3) of the Treaty, OJ C 101, 27.04.2004, p. 97-118, paragraph 23.

³² Whish, Richard. *Competition law*. 6th ed. Oxford University Press, 2009, 760-761.

³³ Case 56/64, *Consten and Grundig v. Commission* [1966], ECR 429.

³⁴ Jones, Alison, and Brenda Suftrin. *EC Competition Law: Text, Cases and Materials*. 3rd ed. Oxford University Press, 2007, p. 236.

in breach of Article 101(1) of the TFEU, unless the agreement is considered to fall within exemption under Article 101(3) of the TFEU.³⁵

2.4.3.3. Price restrictions: restrictions or recommendations

Price restrictions, especially minimum and fixed resale-prices, are included in the list of hardcore restrictions.³⁶ However, the use of a particular supportive measure or the provision of a list of recommended prices or maximum prices by the supplier to the buyer is not considered in itself as prohibited price-fixing.³⁷ In the case *Pronuptia* the Court of Justice found that the fact that the franchisor made price recommendations to the franchisee did not constitute a restriction of competition, as long as there was no concerted practice between the franchisor and the franchisees or between the franchisees themselves for the actual application of such prices.³⁸ Based on the finding of the Court in case *Pronuptia*, Caledonian could recommend certain prices for Barbie accessories bearing its mark but these may not be binding on Mattel.

2.4.3.4. Duration of licence

As a starting point, the fixation of the duration of a licence falls within the discretion of the parties to the agreement. There might be some specific time limits set in the block exemption regulations, *i.e.* a five years maximum duration of manufacturing restrictions. Competition law may also step in when the licence agreement is extended to cover the time after the licensed right has expired.³⁹

2.4.3.5. Royalties

Royalties may be charged after the licensed right has expired when this does not mean that the exploitation of the right is conditional on the payment and this is merely a method of calculation. When it comes to trademarks this type of clause is not likely to constitute a problem as the trademark right may always be renewed, but especially in patent and design licensing this may be an important aspect.⁴⁰

Sometimes the licensor may wish to calculate the royalties based on products which are not covered by the licensed IPR. This was analysed by the Court of Justice in case *Windsurfing* where the royalty was determined on the basis of the whole sailing boat even though the patent only covered one part of the boat.⁴¹ In the present case similar situation could occur as Barbie is a

³⁵ Whish, Richard. *Competition law*. 6th ed. Oxford University Press, 2009, p. 761.

³⁶ *Ibid*, Article 4(a) and Recital 10.

³⁷ Commission Notice – Guidelines on Vertical Restraints, 20.4.2010, paragraph 48.

³⁸ Case 161/84, *Pronuptia* [1986], ECR 00353, paragraph 27.

³⁹ Tritton, Guy. *Intellectual Property in Europe*. 3rd ed. London: Sweet & Maxwell, 2008, p. 855.

⁴⁰ Case 320/87, *Ottung v. Klee & Weilbach and others* [1989], p.1177.

⁴¹ Case 193/83, *Windsurfing International v. Commission* [1986], ECR 611, paragraph 67.

product owned by Mattel and just the trademark attached to it is covered by the licence. Under the TTBER these types of clauses constitute hardcore restrictions on competition.⁴² In case the licence is reciprocal and the royalties payable are found to be less than the market value then the parties to the agreement may be found to conduct price-fixing that is prohibited under Article 101 of the TFEU.⁴³ Minimum royalties are allowed as those are seen to constitute compensation to which the licensor is entitled when he has made significant client specific investments for instance in training and tailoring of the licensed technology to the licensee's needs.⁴⁴ Discriminatory or arbitrary royalties are prohibited under EU law.⁴⁵

2.4.3.6. Output restrictions

The licensor may wish to include a clause on quantity of the products that may be manufactured or sold. Same logic applies to output restrictions as to minimum royalties when the licensor has made significant investments etc. The permissibility of output restrictions depend on their effect on competition. Output restrictions constitute hardcore restrictions when the licence is horizontal with reciprocal element.⁴⁶

2.4.3.7. Non-competition clauses

It is in the licensor's interest to ensure that the licensee focuses on selling the products for which the trademark is assigned. Therefore, non-competition clauses are often included in licensing agreements. This means that the licensee is not allowed to sell competing products. This issue was analysed by the Commission in its decision in the *Campari* case⁴⁷ where the Commission held that the restriction on the licensees' freedom to deal in other products at the same time as the products in question prevented the licensees from neglecting Campari in the event of conflict between the promotion of Campari sales and possible interest in other products. As the Court found in *Campari* case, the non-competition clause may improve distribution of the relevant product in the same way as do exclusive dealing agreements containing a similar clause, which are automatically exempted.⁴⁸ Therefore with regard to trademark licensing, non-competition clauses are seen to fall within the exemption under Article 101(3) of the TFEU.

⁴² Commission Notice: Guidelines on the application of Article 101(3) of the Treaty (2004/C 101/08), OJ C 101 [2004], page 99, paragraph 81.

⁴³ Commission Notice — Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements, (Text with EEA relevance), OJ C 101, 27.4.2004, p. 2–42, paragraph 157.

⁴⁴ *Ibid.*, paragraph 157.

⁴⁵ Tritton, Guy. *Intellectual Property in Europe*. 3rd ed. London: Sweet & Maxwell, 2008, p. 862.

⁴⁶ *Ibid.*, p. 866.

⁴⁷ 78/253/EEC: Commission Decision of 23 December 1977 relating to proceedings under Article 85 of the EEC Treaty (IV/171, IV/856, IV/172, IV/117, IV/28.173 - *Campari*), OJ L70 [1978] p. 0069 – 0078.

⁴⁸ 78/253/EEC: Commission Decision of 23 December 1977 relating to proceedings under Article 85 of the EEC Treaty (IV/171, IV/856, IV/172, IV/117, IV/28.173 - *Campari*), OJ L70 [1978] p. 0069 – 0078, paragraph 2 of chapter III.

2.4.3.8. No-challenge clauses: ownership and validity of the trademark

Non-challenge clause means that the licensee is not allowed to challenge the validity and/or ownership of the right in question. In the case *Moosehead/Whitbread*,⁴⁹ the Commission had to analyse this issue.⁵⁰

The ownership of a trademark may, in particular, be challenged on grounds of prior use or prior registration of an identical trademark. A clause in an exclusive trademark licence agreement obliging the licensee not to challenge the ownership of a trademark, as specified in the above paragraph, does not constitute a restriction of competition within the meaning of Article 101(1) (at the time Article 85 (1)) of the TFEU. Whether or not the licensor or licensee has the ownership of the trademark, the use of it by any other party is prevented in any event, and competition would therefore not be affected.

When it comes to challenging the validity of a trademark, this may be contested in particular on grounds that it is generic or descriptive in nature. In such event, should the challenge be upheld, the trademark will fall within the public domain and may thereafter be used without restriction by the licensee and any other party. Such a clause may constitute a restriction of competition within the meaning of Article 101(1) of the TFEU, because it may contribute to the maintenance of a trademark that would be an unjustified barrier to the entry into a given market.

Moreover, in order for any restriction of competition to fall under Article 101(1) of the TFEU, it must be appreciable. The ownership of a trademark only gives the holder the exclusive right to sell products under that name. Other parties are free to sell the product in question under a different trademark or trade name. The maintenance of the 'Moosehead' trademark was considered not to constitute an appreciable barrier to entry for any other company entering or competing in the beer market in the United Kingdom. Accordingly, the Commission considered that the trademark non-challenge clause included in the agreement in question did not constitute an appreciable restriction of competition and did not fall under Article 101(1) of the TFEU.

The licensor should still be careful with non-challenge clauses when licensing trademarks that are reputed or well-known, as the Commission has stated that *“where the use of a well-known trademark would be an important advantage to any company entering or competing in any given*

⁴⁹ 90/186/EEC: Commission Decision of 23 March 1990 relating to a proceeding under Article 85 of the EEC Treaty (IV/32.736 - *Moosehead/Whitbread*), OJ L100, [1990] p. 0032 – 0037.

⁵⁰ Bently, Lionel, and Brad Sherman. *Intellectual Property Law*. 3rd ed. Oxford: Oxford University Press, 2009. 971.

market and the absence of which therefore constitutes a significant barrier to entry, non-challenge clause would constitute an appreciable restriction of competition within the meaning of Article 101(1)".⁵¹ Caledonian trademark is reputed which render a clause prohibiting Mattel to challenge the validity of its trademark anti-competitive.

⁵¹ 90/186/EEC: Commission Decision of 23 March 1990 relating to a proceeding under Article 85 of the EEC Treaty (IV/32.736 - *Moosehead/Whitbread*), OJ L100 , [1990] p. 0032 – 0037, paragraph 4 of chapter II.

3. Imperial vs. Mattel – statement of claims

3.1. Short facts on the dispute

The dispute **between Imperial and Mattel** concerns the use of Imperial's trade mark. However, Mattel is also planning to suggest Imperial to enter into a delimitation agreement, where Mattel refrains from using the Glasgow Crown mark in the UK as long as Imperial refrains from using that mark on the European continent. Mattel will therefore present an objective investigation of the possibilities to agree upon such non-use of the trade mark without infringing upon the relevant EU law.

3.2. Use of Imperials trade mark

In 2000 Imperial entered the trade mark shown to the below on the UK trade mark register in product class 25 for clothing, footwear, and headgear.



Mattel has launched a line of Barbie and Ken dolls with golf jackets bearing the Glasgow Crown trade mark.

3.2.1. No trade mark infringement

Mattel contends that Imperial does not have any legal grounds under the Trademark Directive to refrain Mattel from using the Glasgow Crown trademark on the jackets of its Barbies.

As Imperial does not have a legal case for infringement against Mattel, it is plausible they may use a weak argument that they have registered clothes and Mattel is using the Imperial trademark for Barbie clothes. However, such argument can swiftly be discarded of by stating that the jacket used for Barbie is covered within class 28 for toys and not class 25 for clothes used on persons.

For matter of illustrating that Mattel is clearly not using the Imperial trademark on clothes for persons two examples of the products are presented below.



3.2.2. Copyright

Caledonian may attempt to argue that Mattel is prohibited from using the figure of a golfer used in its trademark due to copyright protection. Mattel firmly disputes such allegations as no copyright subsists in the golfer due to lack of originality.

3.3. Interim sum up on the use of Imperials trade mark

Since it is very clear that, Mattel's use of Imperials trade mark is not conflicting with the protection that is currently provided for the trade mark proprietor within the approximated EU law regime, nor can copyright protection be granted, Mattel holds a strong negotiation position prior to the discussions of a potential delimitation agreement with Imperial

3.4. Introductory comments related to the Delimitation agreement - IP and Competition

The rights given to an intellectual property owner are not necessarily determined as such by the legislation concerning competition law. However, matters of competition can very well arise in relation to the use of intellectual property law, in terms of what rights are exclusive for the rights holder and the freedom he or she has to limit others from using the right in question. The terms and conditions under which a trade mark is exploited are usually determined between the contracting parties and the legal frame concerning trade marks should be viewed upon as shell within which the parties have a certain margin, as long as they do not exceed that scope in terms of competition law.⁵²

3.3.1 The licensor's proprietary rights

The primary right of the licensor with respect to the trade mark is as mentioned above is mainly to permit the use of the trade mark by the licensee in accordance with the terms and conditions specified in the licence agreement. Article 8 of the trade mark directive states that a trade mark may be licensed for some or all of the goods or services for which it is registered and for the whole or part of the Member State concerned. A licence may be exclusive or non-exclusive. In general, the licensors proprietary rights in a trade mark licence agreement can be covered by the following provisions as they are identified in Article 8.2 of the TMD.

1. the form, covered by the registration, in which the trade mark may be used,
2. the scope of the goods or services for which the licence is granted,
3. the territory in which the trade mark may be affixed,
4. the quality of the goods manufactured or the services provided,
5. the duration of the licence.

3.5. Delimitation agreement related to the Glasgow Crown mark

Co-existence agreements are applicable to the co-existence of identical trade marks used or registered in good faith, or when the parties do not see the market being overlapped by the use or their marks, a trade mark delimitation agreement is a contract between owners of similar trade marks, which is intended to settle conflicts and potential future conflicts between the parties. The agreements are often based on the foundation of agreement terms for the use of no-challenge or priority clauses. Such contracts can very well include licensing parts but are more likely contain only licensing terms that are similar to the terms mentioned above for licence agreements that are

⁵² Bentley & Sherman, Intellectual Property Law, 2008, page 967.

regulated by competition law⁵³.

3.4.1 What can constitute a restriction of competition?

The ECJ stated in the case of *BAT v. The Commission*⁵⁴ that it is not the delimitation agreement, or the consent agreement as the also are called, that is unlawful in it self. The court recognises that a delimitation agreement may very well be lawful and certainly very useful for the parties when used to avoid conflict or confusion between the trade marks. The question that arises is thus when such an agreement would constitute a breach of Article 101 of the treaty. When deciding whether such an agreement is lawful or if it constitutes a breach of Article 101, it is not relevant to look at the purpose of the agreement, which can be relevant in some countries. This means that it is not relevant whether the agreement is intended to settle a dispute or to reach a business accommodation between the parties regarding their trade marks if the effect of the trade mark is in breach of Article 101 of the Treaty.

It is not always clear what terms of agreement that constitute a breach of Article 101. To decide whether the agreement restricts competition one should consider the use to which the mark was previously being put. If the party that submits to the restraints has not used the mark, the Commission has taken the view that assignment of the trade mark to the other party will not constitute a restriction on the assignor's ability to compete.⁵⁵ Although, in most cases, both parties have used their mark to some extent. To avoid the conflict in these cases, the parties may agree to use their respective product in somewhat a different way, which would make the agreement fall outside the scope of Article 101.⁵⁶

3.5.1.1. Cases

In the case of *BAT v the Commission* the ECJ upheld the Commission's decision that a delimitation agreement is unlawful as it in that case held one of the parties out of the German market in respect of tobacco products. The effect of the agreement was thus to exclude one of the parties from the key market without any justifiable reasons.

In the *Sirdar/Phildar Decision*⁵⁷ from the Commission it was found that the delimitation agreement between the parties to partition the market was unlawful when the marks were similar and the

⁵³ Bentley & Sherman, *Intellectual Property Law*, 2008, page 972.

⁵⁴ Case 35/83 *BAT Cigaretten-Fabriken GmbH v Commission of the European Communities*.

⁵⁵ Bentley & Sherman, *Intellectual Property Law*, 2008, page 973.

⁵⁶ Bentley & Sherman, *Intellectual Property Law*, 2008, page 973.

⁵⁷ 75/297/EEC: Commission Decision of 5 March 1975 relating to a proceeding under Article 85 of the EEC Treaty (IV/27.879 - Sirdar-Phildar) *OJ L 125*, 16/05/1975.

goods were identical. In this case, the agreement obligated one of the parties to undertake not to sell their products in France, whereas the other company undertook not to sell its products in the UK. This can be interpreted as the Commission considers such agreements where the common market of the Community is divided to be a presumption to having restrictive influence on the market.⁵⁸

Although, the Commission has also said that territorial restriction not necessarily is unlawful and not all delimitation agreements containing territorial restriction would be unlawful. In the Commission's decision "Persil" the Commission showed an example of a delimitation agreement that was found to be legitimate. The parties had in that case agreed to leave their objections to the use of the "Persil" trade mark. The trade mark "Persil" was owned by both parties in different Member States. The parties agreed that they would use the Persil-mark in different fonts and colours.⁵⁹

⁵⁸ Bentley & Sherman, *Intellectual Property Law*, 2008, page 973 in referral to the Commission's decision.

⁵⁹ Van Bael & Bellis, *Competition Law of the European Community*, 4th ed. 2005 Kluwer Law International.