

EÖTVÖS LORÁND UNIVERSITY
FACULTY OF LAW
DOCTORAL SCHOOL OF LAW AND POLITICAL SCIENCES

DR. PÉTER LUKÁCSI:
TRADEMARK – COMPETITION – PUBLIC DOMAIN:
TRADEMARK PROTECTION OF THREE DIMENSIONAL
SIGNS

DOCTORAL DISSERTATION
THESIS

SUPERVISOR:
DR. ATTILA HARMATHY
PROFESSOR EMERITUS

Budapest

2017

I. Short summary of the aimed research project

The basic theoretical questions of the research are formed of the collision between industrial property protection and competition, intellectual property and public domain, the optimal balance between the protection of distinctive signs with exclusive trademark right and competition, balancing the interests of interest groups relevant in a trademark law sense, as well as the competition law origins of the absolute grounds for refusal of trademark protection that create an internal limit¹ for trademark law. Amongst these issues, the focus is on the three-dimensional trademarks related to the goods or their packaging.

Essential parts of the problems are especially the followings: the rising importance of the international trade of goods, the increased importance of legal regulation of competition, the strengthening of the already international character of industrial property protection, and the determining role of the regulation of the European Union. Accordingly, the theoretical (economical) issues of competition, the international legal literature and practice, the legislation and practice of the European Union and the legal comparative studies have a central role in the research.

The optimal balance between the trademark protection of distinctive signs and the protection of competition is a new and pioneer topic also in the international legal literature. Nevertheless, the protection of the three-dimensional trademarks is the subject of several foreign monographs.² The research dealt with an issue that has not been or has hardly been a topic in the Hungarian legal literature.³ The issue also has significant practical importance, having regard also to the fact that important business interests and consequences are connected thereto if a sign is granted protection through trademark law for a potential unlimited time, or not.

The protection of the three-dimensional trademarks is one of the most topical issues in recent years and in the decade, and in which also the industrial property protection professional circles are intensively interested. The cause of this is on the one hand the inconsistency practice, on the other hand that the protection of three-dimensional trademarks raises specific competition law problems, as regarding three-dimensional signs the product and the indication of the product cannot be separated, and furthermore the remaining public domain is limited. The grand Study on the Overall Functioning of the European Trade Mark System by the Max Planck Institute⁴ dealt with the three-dimensional trademarks in a separate chapter due to their importance, and made suggestions to the legislation, which, however, in our view unfortunately were not accepted in the recently adopted trademark law legislation package.

Based on the above, the thesis is divided into four major parts.

¹ DR. FALUDI, Gábor: *A szerzői jog és az iparjogvédelem belső korlátai* [“Internal limits of protection of copyright and industrial property rights”], *Jogtudományi Közlöny* [“Jurisprudence Gazette”], 2006/7., 280-290. p. (FALUDI, 2006.)

² See in particular BÖHMANN, Dirk: *Der Schutz der dreidimensionalen Marke*, Universität Osnabrück, 2001. (BÖHMANN, 2001.); Dr. HETZELT, Nina: *Dreidimensionale Marken: Freihaltebedürftigkeit, Unterscheidungskraft und Schutzzumfang*, EUL Verlag, Lohmar-Köln, 2004. (HETZELT, 2004.); SCHRAMM, Peter: *Der Europaweite Schutz des Produktdesigns*, Nomos Verlagsgesellschaft, Baden-Baden, 2005 (SCHRAMM); WINKEL, Frank N.: *Formalschutz dreidimensionaler Marken*, Carl Heymanns Verlag, Köln, 1979. (WINKEL, 1979.)

³ In the Hungarian legal literature Natalie Náthon has prepared a thorough study on the new type trademarks, with the exception of three-dimensional trademarks. In her study she examined in details the color trademarks, sound and tactile trademarks, the smell and taste trademarks, and the trademarks of the future, i.e. the motion picture trademarks, the movement trademarks, the hologram and position trademarks, and the light trademarks. See NÁTHON, Natalie: *Az új típusú védjegyek az Európai Unióban. A Belső Piaci Harmonizációs Hivatal (OHIM), valamint az Európai Közösségek Bíróságának és Elsőfokú Bíróságának joggyakorlata* [“New types of trademarks in the European Union. Legal practice of the Office for Harmonization in the Internal Market (OHIM) and the Court of Justice and the Court of First Instance of the European Communities”], PhD thesis, Pécs, 2009.

⁴ “Study on the Overall Functioning of the European Trade Mark System” presented by the Max Planck Institute for Intellectual Property and Competition Law, 15 February 2011 (Max Planck Study) Source (date of last view: 28 February 2016):

http://ec.europa.eu/internal_market/indprop/docs/tm/20110308_allensbach-study_en.pdf (MPS)

In the first part of the thesis, I examine the basic questions of trademark protection, in particular the trademark in the system of intellectual property, performances and indications of goods, the economic analysis of trademarks, the concept of trademark and its functions, the relationship between intellectual property rights and competition, the role of trademark protection in the system of competition and the various interests groups protected by the trademark law.

The second part sets out the concept of three-dimensional trademarks, their socio-economic background, history and the special problems raised by them, in particular the competition law issues and the problems in connection with the system of the intellectual property rights

The biggest, third part of the thesis outlines and evaluates in detail the European legal regulation related to the protection of three-dimensional trademarks, in particular the conditions of protection and the relevant grounds for refusal of protection, and the relevant legal practice.

In the fourth, summarizing part of the thesis, I try to summarize my standpoint as the result of the research, on the basis of the basic academic questions and causations, and the economic, competition aspect analysis of trademarks, how I see the optimal balance between the distinctive signs and competition and the protection of three-dimensional trademarks to be achievable through legislation and legal practice.

II. Brief description of the examinations and analyses carried out and the methods of processing

During the examination I reviewed the academic literature dealing with the economic analysis of trademarks, in particular the works of Landes and Posner.⁵ Further, I examined the connections of the intellectual property rights and the competition law⁶, and the academic literature analyzing and researching the trademark law interests and trademark functions.⁷

I also examined the history of the regulation of three-dimensional trademarks, the socio-economic reasons of the development of this protection and also the academic literature examining these.⁸

⁵ See in particular: LANDES, William M. – POSNER, Richard A.: *Trademark Law: an Economic Perspective*, In: The Journal of Law and Economics, October 1987. (LANDES – POSNER, 1987.) and LANDES, William M. – POSNER, Richard A.: *The Economic Structure of Intellectual Property Law*, The Belknap Press of Harvard University Press, 2003. (LANDES – POSNER, 2003.); DOGAN, Stacey L. – LEMLEY, Mark A.: *A search-cost theory of limiting doctrines in trademark law*, In: Trademark Law and Theory: A Handbook of Contemporary Research (ed.: Graeme B. Dinwoodie, Mark D. Janis), Edward Elgar, Cheltenham UK Northampton, USA, 2008. (DOGAN – LEMLEY, 2008.)

⁶ See in particular: ANDERMAN, Steven D. – SCHMIDT, Hedvig: *EC competition Policy and IPRs*, In: The Interface between Intellectual Property Rights and Competition Policy, ed.: Steven D. Anderman, Cambridge University Press, 2007. (ANDERMAN – SCHMIDT, 2007.); Dr. BENDZSEL, Miklós: *Védjegy és versenyképesség* [“Trademark and competitiveness”], Iparjogvédelmi és Szerzői Jogi Szemle [“Industrial Property and Copyright Law Review”] (112.) year 4., 2007. August, HIPO, Budapest, 5-11. p. (BENDZSEL, 2007.); BOBROVSZKY Jenő: *Az enyém, a tied és a miénk a szellemi tulajdonban Áttekintés a közkincs és a szellemi magántulajdon egyes összefüggéseiről az Internet tükrében* [“Mine, Yours and Ours in Intellectual Property. Overview of Some Connections of Public Domains and Intellectual Property in the Mirror of the Internet”], Hungarian Association for the Protection of Industrial Property and Copyright, 2008., source (date of view: 28 February 2016): www.mie.org.hu; Dr. CHRONOPOULOS, Apostolos: *Das Markenrecht als Teil der Wettbewerbsordnung*, Carl Heymanns Verlag 2013. (CHRONOPOULOS, 2013.); KOLSTAD, Olav: *Competition law and intellectual property rights – outline of an economic-based approach*, In: Josef Drexl (ed.): *Research Handbook on Intellectual Property Law and Competition Law*, Edward Elgar Publishing Limited, Glos, 2008. (KOLSTAD, 2008.); RÉGIBEAU, Pierre – ROCKETT, Katherine: *The Relationship between Intellectual Property Law and Competition Law: an Economic Approach*, In: The Interface between Intellectual Property Rights and Competition Policy, Steven D. Anderman (ed.), Cambridge University Press, 2007. (RÉGIBEAU – ROCKETT, 2007.); WHISH, Richard: *Versenyjog, Competition Law – Hungarian translation of the 6th edition in English*, HVG-ORAC, BUDAPEST, 2010.

⁷ See in particular: PRÜFER-KURSE, Tihani: *Interessenschwerpunkte im Markenrecht*, Herbert Utz Verlag, München, 2010. (PRÜFER-KURSE, 2010.)

⁸ See in particular: ANNAND, Ruth: *Developments in Registrability: The Definition of a Trade Mark and its Relationship with the Requirement of Distinctiveness*, In: Trade Marks Retrospective (ed.: Norma Dawson & Alison

In the biggest, third part of the thesis that examines the legislation and jurisprudence, I followed the following methods.

Firstly, it shall be noted that the conditions of trademark protection and the absolute grounds for refusal were regulated by the directive of the European Union⁹, which was taken over basically word for word by the European Union Trademark Regulation¹⁰ and also by the Hungarian Trademark Act¹¹. Having regard also to this, the relevant rules of the directive, thus the conditions of protection and the relevant absolute grounds for refusal were examined one by one. Within this method, at first I shortly examined the positive conditions of trademark protection, i.e. the concept of a sign, the possibility of graphical representation and the competence to distinguish (Chapter III.2); thereafter I examined in details the relevant absolute grounds for refusal or in other words the negative conditions of trademarks protection (Chapter III.3). Among the grounds for refusal of protection, I discussed the general questions (Chapter III.3.1), thereafter the grounds that are general and to be applied to every sign, thus the lack of distinctive character, the descriptive character and the possibility of acquiring distinctive character (Chapters III.3.3- III.3.7). Thereafter, I examined the general questions of the three special grounds for refusal of protection related to the shape of goods and packaging (Chapter III.3.8), then the regulations and practice of each special ground for refusal of protection one by one: firstly the shape resulting from the nature of the good (Chapter III.3.9.), secondly the technical functionality (Chapter III.3.10.), and thirdly the shape which gives substantial value of the good (Chapter III.3.11.).

Secondly, I set out the goals of legal policy and the connections in the legal system related to each condition of protection and to each relevant absolute ground for refusal, in particular the connections to designs and patents.

Thirdly, I analyze in details the case law regarding each positive condition of protection and absolute ground for refusal.

Within this, I examined in their entirety the principles of application of law set out in the preliminary rulings of the Court of Justice of the European Union, as follows: (i) Philips v. Remington¹², (ii) Linde/Winward/Rado¹³, (iii) Henkel¹⁴, (iv) Dyson¹⁵, (v) Benetton v. G-Star¹⁶, (vi) Hauck v. Stokke¹⁷, (vii) Nestlé v. Cadbury.¹⁸

Firth), University of London, 2000. (ANNAND, 2000.); BURRELL, Robert – BEVERLY SMITH, Huw – COLEMAN, Allison: *Three-dimensional Trade Marks: Should the Directive Be Reshaped*, In.: Norma Dawson – Alison Firth (ed.) Trade Marks Retrospective, University of London, 2000. (BURRELL – BEVERLY SMITH – COLEMAN, 2000.); DRESCHER, Thomas D.: *The Transformation and Evolution of Trademarks – From Signals to Symbols to Myth*, In: Trademark Reporter 1992., Vol. 82. 301-340. p. (DRESCHER, 1992.); ISAAC, Belinda: Brand Protection Matters, Sweet & Maxwell, London, 2000. (ISAAC, 2000.)

⁹ First Council Directive of 21 December 1988 to approximate the laws of the Member States relating to trade marks (89/104/EEC) (Old Directive) and the Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate the laws of the Member States relating to trade marks (Directive) – Article 3 Points (1) b-c) and Article 3 Point (1) e. Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States relating to trade marks (New Directive) – Article 4 Points (1) b-c) and Article 4 Point (1) e).

¹⁰ Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark (old CTR), and the Council Regulation (EC) No 207/2009 of 26 February 2009 on the Community trade mark (CTR) Article 7 Points (1) b-c) and Article 7 Point (1) e). Further see: Regulation (EU) 2015/2424 of the European Parliament and of the Council of 16 December 2015 amending Council Regulation (EC) No 207/2009 on the Community trade mark and Commission Regulation (EC) No 2868/95 implementing Council Regulation (EC) No 40/94 on the Community trade mark, and repealing Commission Regulation (EC) No 2869/95 on the fees payable to the Office for Harmonization in the Internal Market (Trade Marks and Designs) (Amendment of CTR).

¹¹ Act XI of 1997 on the protection of trademarks and geographical indications (Trademark Act) Section 2.

¹² Preliminary ruling of the Court in case No. C-299/99 Philips v. Remington of 18 June 2002. The subject of the English case that was the basis of the reference for preliminary ruling was the three-headed electric razor under trademark protection for Philips, and the alleged infringement thereof and the validity of the trademark. The trademark consisted of three circle-shaped heads, which form an equilateral triangle.

Further, I discuss in connection with the European Union trademarks the decisions of the European Union Intellectual Property Office, its Boards of Appeal, the General Court and the Court of Justice of the European Union, in particular the cases that reached the court phase and the case law that has emerged from these cases.

Further, I analyze the decisions of Hungarian legal practice and make references to legal practices of other legal systems (e.g. Germany), and I also have a look, without an extensive comparison of laws, on the legal regulation and practice of the United States of America.

At last, to all ground for refusal of protection belongs a case study, which sets out the case in details, including the facts of the case, the arguments of the parties and the decisions.¹⁹ The detailed description is not an end in itself: the case study is namely a significant (in some cases the most significant) relevant decision, through which the evaluation, critics of the case law can be formulated in details and in an illustrative manner.

The part covering the legal regulation and the practice is not only informative, but also analytical that places the legal regulation and practice in the theoretical context, criticizes them based on the aspects set out in the academic literature, competition law and economics, further points out and analyses the contradictions and flaws in the case law, and contains conclusions based on all of these in connection with the legal regulation and practice with respect to each ground for refusal of protection.

III. Summary of the scientific results

III.1 Trademark protection in the system of competition

¹³ Preliminary ruling of the Court in joined cases C-53/01, C-54/01 and C-55/01 Linde AG, Winward Industries Inc. and Rado Uhren AG of 8 April 2003. Three three-dimensional trademarks served as the basis of the reference for preliminary ruling. The first trademark application related to a forklift, the second to a flashlight and the third to a wristwatch.

¹⁴ Preliminary ruling of the Court (Sixth Chamber) in case No. C-218/01 Henkel of 12 February 2004. The subject of the case that was the basis of the reference for preliminary ruling was a German trademark application from Henkel, which applied for trademark protection for the sign related to an elongated bottle shape for storing liquid detergents.

¹⁵ Preliminary ruling of the Court (Third Chamber) in case No. C-321/03 Dyson Ltd. of 25 January 2007. An English trademark application case served as the basis of the reference for preliminary ruling. The subject of the three-dimensional trademark application filed by the Dyson company was a vacuum cleaner containing a clear storage box.

¹⁶ Preliminary ruling of the Court (Sixth Chamber) in case No. C-371/06 Benetton Group SpA v. G-Star International BV of 20 September 2007. The case serving as the basis of the reference for preliminary ruling took place in the Netherlands, where G-Star had two three-dimensional trademarks. The trademarks were protected for clothing products, the signs aimed to get protection for a special design of trousers.

¹⁷ Preliminary ruling of the Court (Second Chamber) in case No. C-205/13 Hauck GmbH & Co. KG v. Stokke A/S, Stokke Nederland BV, Peter Opsvik and Peter Opsvik A/S of 18 September 2014. The reference for preliminary ruling was presented by the Dutch court in the procedure for cancellation of the Benelux trademark depicting the shape of the "Tripp Trapp" children's chair distributed by Stokke and company.

¹⁸ Judgment of the Court (First Chamber) in case No. C-215/14. Société des Produits Nestlé SA v Cadbury UK Ltd. of 16 September 2015. The request for preliminary ruling was presented by the High Court of Justice (England&Wales) in the procedure of the opposition filed against the trademark registration in the United Kingdom of the three-dimensional sign depicting a chocolate covered wafer bar consisting of four fingers of Nestlé.

¹⁹ In relation to distinctiveness and the acquisition thereof see: judgment of the General Court (Third Chamber) in case No. T-460/05 Bang & Olufsen A/S v. OHIM of 10 October 2007 (Bang & Olufsen first decision) and Judgment of the General Court (Eighth Chamber) in case No. T-411/14 The Coca-Cola Company v. OHIM of 24 February 2016 (Coca-Cola bottle case).

In relation to the shape resulting from the nature of the good see order No. Pfv.IV.21.096/2010/3. of the Curia (the Lindt chocolate bunny case).

In relation to technical functionality see the judgment of the Court (Grand Chamber) in case No. C-48/09. P. Lego Juris A/S v. OHIM of 14 September 2010 (Red Lego Brick case).

In relation to the shape which gives substantial value of the good see the judgment of the General Court (Eighth Chamber) in case T-508/08 Bang & Olufsen A/S v. OHIM of 6 October (Bang & Olufsen second decision).

According to the economic analysis of trademarks, the advantage of trademark protection is (i) primarily that it reduces the costs of consumer searches, and (ii) facilitates the quality control, the maintenance and improvement of quality and (iii) enriches the language and visual culture. These advantages can be fulfilled by the signs that have distinctive character. The distinctive character is the basic function of the trademarks, from which every other function derives. Furthermore, the concept of trademarks can be defined through the distinctive character.

Nowadays it has been widely accepted that competition policy and intellectual property are complementary and essential components of the modern economic policy. Trademarks having distinctive character have an important role in the market economy and they are part of the system of undistorted competition according to the practice of the Court of Justice of the European Union.²⁰

As a main principle, the intellectual property rights, including trademarks, and competition are not in conflict with each other. Nevertheless, trademark law has to, as in general the intellectual property rights have to, eliminate the possible disadvantages arising from the exclusive protection, which means numerous external and internal competition law limitations on intellectual property rights.

In relation to the external competition law limitations of the trademark law, it can be stated that in general only the exercise of the validly granted intellectual property right may be limited by the competition law on the basis of cartel law and the prohibition on abuse of dominant position. However, contrary to other intellectual property rights, in particular to the copyrights and patents, these external competition law limitations are not that relevant in trademark law due to the nature of this right.

The external competition law limitations of the exclusive intellectual property rights may be primarily the limitations deriving from cartel law and the rules on abuse of dominant position.

The importance of the rules of cartel law is reflected in the transfer of copyrights and industrial property rights and in their licensing, in technology transfer and cooperation agreements, and in respect of the legislation these appear primarily in the form of block exemption regulations in the EU. The application of the rules against the abuse of dominant position is necessary in connection with intellectual property rights if the protected right works as an “essential facility”, or when the conduct of the owner beyond the limits of his legal monopoly restricts the competition on the secondary market, or when he constitutes abuse of dominant position (e.g. overpricing).

None of the above detailed external limitations of the exercising of the intellectual property rights is typical in case of trademarks as the trademarks do not mean market standards or actual market monopolies and are not technologies. Further, the trademark by its nature practically never provides dominant position to its owner. Régibeau and Rockett named two cases concerning trademarks, in which competition law concerns could arise in connection with the exercise of trademark rights, namely the compulsory licensing of trademarks and the so-called umbrella branding. However, in both cases, the authors come to the conclusion that serious competition concerns do not arise and there is no reason for competition law intervention in any of these cases.²¹

However, numerous internal limitations of the trademark law are inspired by competition law, especially some of the absolute and relative grounds for refusal of protection and furthermore the limitation of trademark protection, the exhaustion of rights and the requirement to use. The Max Planck Study set out with principal importance that trademark law and free competition are not in conflict with each other. On the contrary, trademarks, rather than limiting the competition, are essential elements of the well-functioning competition.

²⁰ Judgment of the Court in case No. C-10/89. CNL-SUCAL NV v. HAG GF AG of 17 October 1990 (HAG II decision) Section 14.

²¹ RÉGIBEAU – ROCKETT, 2007., 543-545. p.

Among the internal limitations of the trademark law the absolute grounds for refusal of protection are subject of the present thesis, with a focus on three-dimensional trademarks.

Among the absolute grounds for refusal of protection, the economic analysis of trademarks, the relationship between trademarks and competition, and the examination of trademark law interests point to the same direction and lead to the same fundamental question.

This fundamental question is what the optimal balance is in relation to the absolute grounds for refusal of protection, as the internal competition law limitation of the trademark law. In other words, where is the optimal balance between the underlying interests (owners, consumers, competitors) and between trademark and competition, or in other words between intellectual private property and the public domain.

The granting of trademark protection to the signs or the refusal thereof means and needs eventually the consideration between two fundamental public interests and value and the establishment of the optimal balance between them. It is clearly of public interest to ensure the free use of non-distinctive or descriptive signs, to protect the competition and to prevent that the owner monopolizes descriptive or functional signs in the form of trademark protection basically for unlimited period of time. On the other hand however, there is a public interest in granting trademark protection to the signs having distinctive character, as the distinctive signs have important functions and advantages in the market economy. The trademark protection actually granted to distinctive signs facilitates that the consumer can distinguish from each other in respect of their origin the products coming from different manufacturers. Further, in the absence of the exclusive right the competitors would be allowed to copy the individual signs until the very last detail, however, beyond the harm to the interests of the owners, this would unavoidably lead to consumer confusion and to obvious harm of the consumers' interests.

Thus, during the examination of absolute grounds for refusal of trademark protection concerning a sign, ultimately it is always necessary to weigh whether in that case the free competition and the protection of competitors or the interests of trademark owners and the protection of consumers against the confusion are the more important. In other words, eventually balance shall be established between two great interests: between the protection of consumers against the confusion and the prevention of unfair competition.

This fundamental question and the establishment of the optimal balance is of particular significance in relation to the new types of trademarks and in particular to the three-dimensional trademarks. That is why the three-dimensional trademarks were the subject of the examination of this thesis.

III.2. Special issues raised by the protection of the three-dimensional trademarks

The trademark protection of the three-dimensional signs is based by the socio-economic change within the frame of which the visual communication is growing and as a result of which in the shape of products, and/or in the packaging of products the market players are competing noticeably stronger, and in them the consumers actually see in more cases an identifier of origin, a distinguishing sign, thus a sign having trademark functions.

The three-dimensional signs have exactly the same rational economic advantages of trademarks as the traditional trademarks, thus their protection is justified.

However, the trademark protection of three-dimensional trademarks tends to restrict more the competition by its nature rather than the traditional signs, and raises numerous specific problems, in particular the relationship with the other segments of intellectual property rights.

Firstly, the trademark protection of the shape of products, design of products somewhat overthrows the traditional paradigm of the subject-matters of the various intellectual property rights, according to which the artistic activity may be granted copyright protection, the inventive activities may be granted patent protection, while the signs indicating the origins may be granted trademark

protection. The shape of the product may be at the same time an art work, invention and, as the tendencies of the last decades show, also indication of origin.

Secondly, the expansion over the traditional scope of protection may cause the risk that it disrupts the delicate competition balance built for the protection of the separate subjects of protection, and it causes changes also in the inner structure of the trademark law, as in case of traditional signs, the good and the indication of the good are separated, while in case of trademarks protecting the good and their packaging they are not.

Thirdly, in case of three-dimensional trademarks, the reservation of the sign for one owner may narrow the remaining alternatives more than in case of traditional trademarks. In other words, trademark protection granted to specific words and expropriation of that word for the benefit of one market player has a minimal impact on the competitiveness of the remaining market players, as the number of words to designate and to describe the origin of the product is basically unlimited, therefore the expropriation by trademark protection is of negligible effect on competition. However, the range of shapes, with which a particular product may be manufactured, is usually limited. Also the Max Planck Study refers to the more limited public domain remaining after granting trademark protection to a particular product or shape of packaging, and it finds this as the starting point of the special problems in connection with three-dimensional signs.

The availability of alternative signs remaining beyond the sign that is expropriated by trademark protection is a very important factor also in the economic analysis of trademarks. The high value of this is, according to the economic analysis, the basic condition of a trademark system that efficiently reduces the search costs of consumers. The higher this value is (the higher the number of the available of alternative signs) the more realistic it is that the trademark successfully minimalizes the search costs of consumers. However, in case one undertaking gets exclusive right to use such a sign that designates one whole product group, the competition is harmed with the competitors.

With regard to the optimal balance, from an economic perspective it can be concluded that the legal monopoly provided by trademark protection becomes undesired market monopoly only if the consumers consider that the sign protected by the trademark may be weakly replaced. In this case namely the trademark provides an exclusive control over a resource that cannot be replaced, which creates real market monopoly and makes it possible to the undertaking to apply extra profit against the consumers. The degree of market power is obviously inversely proportional to the ratio of substitution. For this reason, the descriptive, the generic, and the functional signs are excluded from trademark protection.

III.3. Legislation and case law: creating the optimal balance

III.3.1 Starting point: the current imbalanced situation

In connection with the three-dimensional trademarks on the one hand the general absolute grounds for refusal are applicable and on the other hand, in connection with the shape and packaging of the product, in the European Union the legislator introduced three special grounds for refusal, namely the exclusion from trademark protection of the shape resulting from the nature of the good, the shape carrying technical function and the shape which gives substantial value to the good. Nevertheless, it shall be noted that as a result of the recent trademark reform in the European Union the application of the three special grounds for refusal will be expanded beyond the shape to any other characteristics of the product.

It is a question whether these three special grounds for refusal, the general grounds for refusal and their practice lead to the optimal balance or not.

According to my standpoint, currently there is no optimal balance. In my view the EU legal practice has excessively moved towards the protection of competitors, the free competition and the

public domains. The imbalance can be particularly spotted in the field of the special grounds for refusal but it is reflected also in relation to general grounds for refusal, in particular distinctiveness.

Unfortunately this imbalance was not remedied with the EU trademark reform. In my view the legislation missed an outstanding opportunity to create the balance.

Besides the imbalance, another main problem of the EU and national practice is the lack of clear system of requirements and the inconsistent case law.

The problems of legal regulation and case law and the solutions suggested by me thereto are summarized as follows.

III.3.2 The shape-specific grounds for refusal

III.3.2.1 The shape resulting from the nature of the good

The trademark law questions and problems in relation to the shape resulting from the nature of the goods can in my view fully be treated on the basis of the general grounds for refusal, in particular based on the lack of distinctiveness.

The only refusal based on the shape resulting from the nature of the good as separate legal ground (the case of the “Lindt Easter bunny” analyzed in the case study) brought in my view the main lesson that the choice of legal ground was wrong, as the correct legal ground would have been the lack of distinctiveness.

In this regard it has an importance that according to the European trademark law regulation, the distinctiveness may be acquired but in case of applying the shape resulting from the nature of the good as ground for refusal it is not possible to prove acquired distinctiveness.

The shapes resulting from the nature of the goods do not have a role and sense as separate, specific ground for refusal. Therefore, in my view it should be deleted from the European trademark law. However, during the EU trademark law reform the ground for refusal was not deleted, moreover, the legal practice further expands this ground for refusal.

III.3.2.2. Technical functionality

In case of three-dimensional signs in general it is more important to separate the patent protection and the trademark protection than to separate the trademark protection and copyright and design protection. During the interpretation and application of functionality it always should be taken into account that granting or refusing trademark protection to a sign ultimately means the setting up of the ideal balance between two fundamental public domain and value: balance of interests between on the one hand the protection of distinctive signs and on the other hand the avoidance of unfair competition.

I agree with the legal policy aims of the functionality as absolute ground for refusal of protection, therefore I find the technical functionality as absolute ground for refusal to be maintained, corresponding with the standpoint of the Max Planck Study.

However I do not agree with the application of the ground for refusal of protection that was recorded in particular in the Philips v. Remington preliminary ruling of the European Court of Justice and in the "Red Lego Brick" decision.

In my view the optimal balance may be created as follows:

1. During the examination of functionality, contrary to the Philips v. Remington and "Red Lego Brick" decisions and corresponding to the decisions of the Hungarian courts passed in the Lego cases, I find it of primary importance to examine the alternative shapes, thus the shapes that qualify as economically reasonable substitutes to the shape at hand. The need for examination of alternative shapes is supported also by the economic analysis. According to economic analysis the shapes is functional if it has no economically reasonable substitute. The examination of alternative shapes is justified also by the functionality test for design protection, as well as by the taxonomy of

the Directive, within which the alternative shapes shall be examined in relation to other special grounds for refusal, for example with regard to the shape resulting from the nature of the good. The examination of alternative shapes is according to more standpoints in legal literature the only relevant test of functionality. After all, the examination of alternative shapes was the decisive examination criterion of the Swiss Lego case and this examination may be relevant also in the US practice.

2. The examination of functionality requires the assessment of wide range of evidences, including the fundamental examination of possible earlier patent documentation, primarily the examination of patent claims. Nevertheless, in my view the assessment of functionality shall be essentially a matter for experts.

3. In my view the concerns of the European Court of Justice set forth in relation to the accessibility and the remaining public domain are exaggerated, especially having regard to the fact that these concerns can be eliminated with other institutes of the trademark law (in particular: the requirement of distinctiveness, the assessment of the scope of protection in the context of likelihood of confusion and the limitations of trademark law).

4. The functionality as ground for refusal, having regard also to the modern design theory and practice that puts dominantly into the shade the function of the product, should be very narrowly interpreted and applied. Therefore, in connection with three-dimensional trademarks, the primary and (with the very narrow exceptions reading functionality) in my view the only relevant question shall be whether the trademark has distinctive character.

III.3.2.3. The shape which gives substantial value of the good

The shape which gives substantial value of the good as a ground for refusal that aims to protect the competition originally served to separate design protection, copyright and trademark protection. However, this aim has since been surpassed by the practice.

The refusal of protection of a shape having distinctive character and functioning as a source indicator on this legal basis does in my view generally does not protect competition, but rather it has an opposite effect. In the Community law, there is no balance between trademarks and competition and between the relevant trademark law interests. One can formulate more general critics against the shape which gives substantial value of the good as an absolute ground for refusal.

It is a convincing argument that the exclusion from protection of a shape carrying actual technical function is justified. The same considerations however cannot necessarily be applied to designs and copyrights. According to my standpoint, the competitors do not have justified need to be able to use an aesthetically appealing shape even if the aesthetical quality gives substantial value to the good.

According to the economic theory when a sign performs the essential trademark function then granting trademark protection fundamentally does not mean the harm of competition. On the contrary, the refusal of granting trademark protection to a shape having distinctive character does not serve the effective competition as it harms the interests of consumers against deception and it harms the interests of the trademark owner, which two interests are equal to the interest of competitors, in the perspective of effective competition.

Possible concerns about the value of goods are perfectly manageable based on the distinctiveness requirement as absolute ground for refusal, in particular with regard thereto that its required level is quite high in the European case law. In the event that a sign has either inherent or acquired distinctiveness and with these it really performs the trademark function, then, in my opinion there is no competition policy reason to refuse the trademark protection because of its aesthetical value. The ability for trademark protection of a shape should only depend on whether it refers to the origin, thus whether it has distinctive character and not on whether it is nice or ugly. Word or figurative trademarks may also have significant commercial value, however no one thinks of the exclusion of these from trademark protection because of their value.

In the United States of America “aesthetical functionality” is also uncertain and it got several critics. We can add, contrary to EU law, according to the US law and practice the alternative shapes may be examined in the context of aesthetic functionality, expanding and thereby making the examination of grounds for refusal more lifelike. Furthermore, in US law and practice, contrary to the European law, the distinctive character is possible with regard to the aesthetic features.

Based on the above, according to the suggestion of the Max Planck Study, the ground for refusal should be deleted from the European trademark law. The INTA and several representatives of the legal literature agreed with this conclusion.

I agree with this standpoint. In my view, the interest of effective competition and the optimal balance of the protection of competitors and trade indications would be ensured by the deletion of this ground for refusal from the European trademark law.

The development of law, in my view unfortunately, moves just in the opposite direction. The European comprehensive trademark law reform namely kept this ground for refusal.

III.3.3 The distinctive character and the acquisition thereof

According to my standpoint the distinctive character as absolute ground for refusal should be the decisive and the most important ground for refusal, besides which, apart from the very narrow exception of really technically functional signs, I found the above summarized special grounds for refusal of the European trademark law to be irrelevant.

Consequently, in relation to the distinctive character I find it to be crucial to develop such a jurisprudence that creates the optimal balance between the private property and public domain or in other words between the interests of trademark owners, consumers and the competitors.

The requirement of legal certainty justifies the development of a uniform, predictable jurisprudence in relation to three-dimensional signs.

The optimal balance, in my view, may be ensured as follows:

1. Because of the special problems raised by the protection of three-dimensional trademarks (in particular the restricted nature of the remaining public domain, and the merger of the good and indication of good in three-dimensional trademarks) the more stringent legal practice towards three-dimensional trademarks than towards conventional signs is justified.

However, this more stringent practice should not lead to a legal practice that is overly strict, making obtaining trademark almost impossible and/or to a legal practice that is formalistic and has no regard to the specific circumstances of the given case.

Further, I do not find it to be correct that this strict legal practice is reasoned by the European courts that the consumers usually do not relate the shape, packaging of a product to the origin, while they add that stricter conditions should not set towards three-dimensional signs than towards traditional signs.

It cannot be forgotten that the main reason of introducing three-dimensional trademarks was that socio-economic background, according to which the consumer is able to see indications of origin in the shape or packaging of the good. Further, the level of attention of consumers varies by product groups, sectors; however this court practice does not make it possible to take it into account and does not lead to a differentiated approach.

2. For my part I do not agree with the suggestion of the Max Planck Study that it should be always necessary to prove the acquired distinctiveness in the event of three-dimensional trademarks. This was opposed also by professional organizations, and the US legal practice cited by the Max Planck Study was criticized by the European legal literature. In my view also the possibility to prove the inherent distinctiveness by the applicant should be upheld.

3. In my view, the detailed and substantive examination, based on all the circumstances of the case is necessary in case of every three-dimensional sign in order to determine whether it has inherent distinctiveness or not.

Consequently, according to my standpoint a complex examination that takes into account

the characteristics of the specific product sector and that adjusts thereto is necessary regarding the inherent distinctiveness. In my view the examination should cover among others the followings:

(i) similarly to the present practice: the characteristics of the product shape, namely how usual or unusual the shape is in the sector concerned (but this should not mean a novelty test as in design protection) as the usual shapes are not capable of indicating origin; further

(ii) in my view it is justified to broaden the examination and to examine in particular

- the habits of consumers regarding the product group concerned (how usual it is in the sector concerned that the consumer sees indication of origin in the three-dimensional sign),

- the freedom of creation (the bigger the variations of shapes is, the easier may be the registration), further, in relation to the freedom of creation,

- the specifics of the product market concerned, within which in particular the remaining alternatives, the quantity and quality thereof, thus in other words the extent of remaining public domain; and at the end it is important that

(iii) the consumer will not see indication of origin in the shape solely resulting from the nature of the good and in functional characteristics; however the assessment of this is somewhat more complex than aesthetical characteristics: because the aesthetical characteristics may lead in specific cases to the result that the product differs because of them from the product shape usual in that sector and with this it has distinctive character.

It is worth connecting the examination criteria and evaluating it having regard to each other. The more the consumer sees in the shape of the good or packaging an indication of origin regarding the sector concerned, the less justified it is to require a shape that should be significantly different from the usual for the inherent distinctive character. On the other hand, the narrower the remaining public domain is, it should be more strictly examined whether the shape is different from the shapes usual in that sector and whether in this way the shape has inherent distinctiveness.

Based on the above, to create the optimal competition balance regarding the examination of inherent distinctive character, I consider that a complex examination is justified, one that takes into account the specific characteristic of a product sector, that adjusts to the characteristics of a product sector, that is differentiated by product sectors and that is broader.

The examination becomes more complicated (in specific cases it requires the use of professionals), but presumably it leads to a more optimal result.

During this complex examination the interests of the relevant interests groups, thus the interests of the owners, the consumers and the competitors related to keeping the shape free, can be examined in order to bring a decision that creates the optimal balance between all interests with regard to the inherent distinctiveness. In my view, the interests of the different interests groups shall not be secured after the decision on the distinctiveness, but before bringing the decision or during making the decision.

4. I agree that in most of the cases the applicant will not be able to prove the inherent distinctiveness, thus in practice, proving the acquired distinctiveness gets an important rule.

Also regarding the acquired distinctiveness the practice shall not be too strict that makes achieving registration practically almost impossible. I agree with the suggestion of the Max Planck Study that the criteria of acquired distinctiveness should be relieved, primarily in respect of its territorial extent.

It is not necessarily justified to require conventionally proving distinctiveness in respect of all of the EU members, this was referred to by the CJEU in the Lindt chocolate bunny case. It would be satisfactory to prove acquired distinctiveness in respect of a significant territory of the EU. Further, it would be justified to reduce the standards of the necessary level and to set up unified sets of requirements.

Besides the distinctive character, I do not consider as an important ground for refusal the ground for refusal related to the so-called descriptive trademarks. On the one hand, this ground for refusal has been applied in very few cases in respect to the three-dimensional trademarks, but it leads to unwanted delimitation issues. On the other hand, in harmony with the Max Planck Study,

contrary to the current practice, the interests of competitors related to keeping the shape free should be taken into account also with regard to the distinctive character, and not only with regard to the descriptive character. With this, the relevance of descriptive character as ground for refusal would be fully reduced.

III.3.4. Scope of protection

The standpoint that the scope of protection of signs with weak distinctiveness should be set to be narrower should be guidance also in case of three-dimensional signs.

In case of three-dimensional signs (where the registration examination is stricter than in case of traditional trademarks) it is in my view not absolutely necessary to ensure wide scope of protection. The reason of this is that the trademark protection of three-dimensional trademarks is justified by their protection as distinctive signs and they should not serve to monopolize product categories, thereby hindering the free competition.

In my view the trademark law concerns related to three-dimensional signs or to the trademark protection of three-dimensional signs could be balanced by setting the scope of protection narrower in case of three-dimensional signs, during which the interests of all interests groups could be also evaluated to create the optimal balance. The concerns of the Court of Justice of the EU set forth in the “Red Lego Brick” case related to the access could be reduced this way.

IV. Utilization of scientific results, possibilities of utilization

To sum up the above, according to my standpoint the optimal balance between trademark and competition, between the trademark law interests groups (owners, consumers, competitors), further between private property and the public domain can be achieved in relation to three-dimensional trademarks through the followings.

The below items give guidance partly to a possible future reform in legislation, partly to the legal practice. Therefore, the results of the research can be used both in legislation and in legal practice.

1. The distinctive character shall be the most important and in most cases the only relevant requirement for protection or absolute ground for refusal in connection with three-dimensional trademarks.
2. In relation to distinctiveness the stricter legal practice compared to traditional signs is justified; however, contrary to the suggestion of the Max Planck Study, the applicant should have the opportunity to prove inherent distinctiveness.
3. In relation to inherent distinctiveness, the evolution of a more complex legal practice than the current would be necessary, i.e. a practice that covers all aspects of the case, takes into account the characteristics of the product sector concerned and that is differentiated by product sectors. This would give opportunity to take into account and to consider the interests of owners, interests of consumers against deception and the interests of competitors to remaining public domain.
4. Presumably in most cases it will continue to be necessary to prove acquired distinctiveness on the part of the applicant to obtain protection. It would be justified to reduce and to unify the territorial requirements and the necessary level of this.
5. The shape resulting from the nature of the good or other characteristic as special ground for refusal shall be deleted from the European trademark law.
6. Significant changes are necessary in the practice of technical functionality as special ground for refusal, primarily the introduction of examination of alternative shapes and providing the taking of evidence by experts, whereas in general the ground for refusal should be handled as a very narrow exception.
7. The shape which gives substantial value of the good or other characteristic as special ground for refusal shall be deleted from the European trademark law.

8. It is justified in specific cases that the scope of protection of three-dimensional signs under trademark protection should be narrower to eliminate competition law concerns, similarly to the protection of signs with weak distinctive character.

V. List of publications in the subject of the thesis

DR. LUKÁCSI, Péter: *Funkcionalitás a védjegyjogban* [“Functionality in Trademark Law”], *Védjegyvilág* [“Trademark world”] 2005/1., Hungarian Trademark Association, Budapest, 2005.

DR. LUKÁCSI, Péter: - DR. SZAMOSI, Katalin: *Three-Dimensional Trademarks in the Jurisdiction of the European Court of Justice*, AIPPI Proceedings of the Hungarian Group, AIPPI Hungarian Group, Budapest, 2006.

DR. LUKÁCSI, Péter: *A magyar LEGO védjegytilési ügy* [“The Hungarian LEGO cancellation case”], *Védjegyvilág* [“Trademark world”] 2009/2., Hungarian Trademark Association, Budapest, 2010.

DR. LUKÁCSI, Péter: *Védjegy és verseny, különös tekintettel az EU Bíróságának gyakorlatára* [“Trademark and competition, with particular reference to the practice of the EU Court of Justice”] In: *Jogi Tanulmányok 2010 Ünnepi Konferencia az ELTE megalakulásának 375. évfordulója alkalmából 2010. április 23.* (ed.: Nagy Marianna) III. kötet [“Legal Studies 2010 Festive Conference on the occasion of 375th anniversary of establishment of ELTE, 23 April 2010, 3rd book”] Eötvös Loránd University Faculty of Law, Budapest, 2010., 109-123. p.

DR. LUKÁCSI, Péter: *The LEGO trademark cancellation case in Hungary*, In: AIPPI Proceedings of the Hungarian Group (AIPPI Hungarian Group), 36th booklet, Budapest, 2010., 42-56. p.

DR. LUKÁCSI, Péter: *A Legfelsőbb Bíróság döntése térbeli megjelölés védjegy oltalmáról* [The decision of the Supreme Court on trademark protection of three dimensional trademark”], *Jogesetek Magyarázata* [“Explanation on Legal Cases”] 2011/3., Opten Publishing, Budapest, 2011.

DR. LUKÁCSI, Péter: *A térbeli védjegyek jelene és jövője* [“The present and future of three dimensional trademarks”], In: *Európai Jogi Kultúra - Megújulás és hagyomány a magyar civilisztikában* (ed.: DR. FUGLINSZKY Ádám - DR. KLÁRA Annamária) [European Legal Culture - Renewal and tradition in Hungarian civilistics”] ELTE Eötvös Publishing, Budapest, 2012., 111-128. p.

DR. LUKÁCSI, Péter: *A védjegytilvény 2. §-ának magyarázata* [“Commentary of Section 2 of the Hungarian Trademark Act”], In: *A védjegytilvény magyarázata* [“Commentary of the Hungarian Trademark Act”] (ed.: DR. FALUDI Gábor - DR. LUKÁCSI Péter) HVG-ORAC, Budapest, 2014.

DR. LUKÁCSI, Péter: *The LEGO cancellation case*, In: *ECTA Special Gazette*, European Communities Trademark Association, Brussels, 2014.