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Question B: "How can the holder of intellectual property rights protect its brands in the context of on- and off-line distribution and after-sales service, and does the existing framework for such protection strike a fair balance between the interests of rights holders and the interests of consumers?"

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Draft Resolution

Whereas the digitization has significantly changed the abilities of holders of intellectual property rights to manage and control their distribution channels to protect their brands;

whereas a constant increase of the significance of digital goods and online distribution channels can be observed;

whereas there is a need for effective consumer protection in offline and online distribution channels;

whereas the ECJ in a landmark ruling accepted certain selective distribution networks for luxury products as compatible with EU competition law;

whereas there is a general trend towards a higher degree of centralization and economic concentration, especially in relation to e-commerce and communication platforms;

whereas there are attempts by owners of intellectual property rights to limit competition in secondary and downstream markets

whereas there is a general trend of manufacturers towards exerting more influence over after sales markets;

whereas the protection of the public image of a brand, and thus the assurance of quality standards and safety, is widely recognized as a legitimate interest of the trademark holder;

whereas the TRIPS Agreement specifically excludes setting any rules for the exhaustion of intellectual property rights;

whereas the aspect of environmental sustainability is gaining importance in the context of the definition of consumer rights;

whereas the participants acknowledge the difficulties of international harmonization

the LIDC recommends the following:

Further clarifications concerning the exhaustion of rights in digital goods are desirable.

Legislatures and courts should take into due consideration the effects of the balancing of the interests of holders of intellectual property rights in protecting their brands and of consumers on the sustainability of the economy, such as in relation to the right to repair.

The conditions under which selective distribution networks are compatible with competition law should be clarified on a more general and abstract level. Where a more general clarification is not possible, the categories of legitimate interests and specifically the category of luxury goods should be defined more clearly.

More emphasis should be put on the potentially harmful levels of concentration among online e-commerce and communication platforms. Even within the existing consumer welfare centered approach to anti-trust and competition law the courts and authorities should pay attention to the long-term effects of business practices by dominant market participants.

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The access to the repair market by third party providers should be improved, and due consideration should be given to lock-in effects by warranties tying consumers to partners of the manufacturer.

The effort to understand and harmonize the conditions for the exhaustion of IP rights and the applicability of the first sale doctrine to digital goods should be continued.

Competition and the anti-trust law should incorporate consumers' interests at any level.

Holders of trademark rights should be allowed, within reasonable limits and subject to strict limitations, to protect their brand image and the value of the brand by setting conditions for the distribution of goods that relate to their quality and are compatible with the public interest.

The anti-competitive aspects of geo-blocking and its fragmenting impact especially on the EU single market should be taken into account beyond the scope of the recent secondary legislation.

Background

There are numerous reasons for holders of intellectual property rights to protect their brands in the context of on- and off-line distribution and after-sales service. To give examples, they might want to maintain a certain quality of service throughout the entire value chain; they might want to ensure or increase brand recognition; secondary markets or repair markets might promise high returns, potentially even higher returns than the primary markets for the original product; they might want to protect their licensed merchants from unwanted competition; they might want to price discriminate between customer groups or regional markets.

The representatives of brands argue that it is their natural right to determine the ways and means of the distribution of their products and that after-sales services are an integral part of the experience that the companies are offering. They emphasize a holistic approach to competition and warn that limiting the downstream influence of the ultimate holders of intellectual property would harm innovation and, eventually and inevitably, consumers.

The holders of intellectual property rights realize the protection of their brands by employing direct contractual limitations, by attaching negative consequences to behavior that circumvents the desired distribution and after-sales infrastructure, or by building on practical measures. Examples of these categories are general terms and conditions dictating the business practices of licensed merchants, provisions limiting guarantees or product liability rights of consumers in cases of repairs by unlicensed providers, and product design that supports vertical integration, such as non-removable batteries.

Resale competitors, downstream service providers and consumer protection groups, however, are rather critical of the common practices employed by the holders of intellectual property rights. They fear that the measures which are taken to protect brands harm downstream competition and, thereby, also lead to higher prices and worse services in the long run. Furthermore, they refer to the liberty increasing effects of the various versions of the exhaustion doctrine which are challenges by holders of intellectual property rights aiming at protecting their brands.

In the recent past, the platform economy has become a highly significant way of the distribution of goods and services. For certain products, especially for consumer goods, the platform industry has even become the dominant form of distribution. In the wake of this development, the platform providers have emerged as crucial stakeholders in the debate on the adequate protection of brands.

As Art 6 of the TRIPS-Agreement (Agreement on Trade-Related Aspects of Intellectual Property Rights) explicitly does not set harmonized standards for the exhaustion of intellectual property rights, the national and regional supranational legal frameworks define the relevant legal boundaries. With respect to the question on parallel imports the GATT 1994 (General Agreement on Tariffs and Trade) might be of significance. Over the last years especially the discussion of the triggers and scope of the doctrine of exhaustion have gained momentum.

While not necessarily relevant to all National Rapporteurs, I still would like to point out the judgment of the European Court of Justice from 6 December 2017 on selective distribution systems at the intersection of intellectual property and competition law, Case C-230/16, ECLI identifier: ECLI:EU:C:2017:941. In his verdict, the Court stated that a supplier of luxury cosmetics may, in

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principle, set up a selective distribution system for luxury goods designed, primarily, to preserve the luxury image of those goods.

Specifically, the Court established that competition law (Article 101(1) of the Treaty of the Functioning of the EU, TFEU) must be interpreted as not precluding a contractual clause, which prohibits authorized distributors in a selective distribution system for luxury goods designed, primarily, to preserve the luxury image of those goods from using, in a discernible manner, third-party platforms for the internet sale of the contract goods, on condition that that clause has the objective of preserving the luxury image of those goods, that it is laid down uniformly and not applied in a discriminatory fashion, and that it is proportionate in the light of the objective pursued. The scope of this judgment, including the precise definitions of “luxury goods” and “luxury image” and the application of these terms, as well as the consequences for other potential interests in protecting brands are not yet fully conceivable.

International Report

This international report is based on national reports from Austria, Belgium, Brazil, Czech Republic, France, Hungary, Hong Kong, Italy, Romania, Spain, Sweden, Switzerland, and the United Kingdom.¹

As a very general observation, the legal and political discussions around the protection of brands by holders of intellectual property rights in the context of on- and off-line distribution and after-sales service show strong parallels across the various jurisdictions. Apart from the specific insular legislative action the variations between the jurisdictions mainly revolve emphasis on consumers' rights within the application of principles based and technological neutral regulation. Unsurprisingly, within the European Union, there is a significant level of harmonization, especially in the areas of unfair competition law, anti-trust law, and consumer protection, mainly due to EU secondary legislation and the jurisdiction of the ECJ. To that end, the Czech report, for example, notes that Czech courts even outside the scope of full or partial legal harmonization rely heavily on trends set by EU case law in areas relevant to this report.² That said, national legal regimes even within the EU vary not just relating to the application of Union standards, but also in so far as some Union acts only provide for minimum standards or are limited in scope. Hong Kong Copyright law, by and large, incorporates principles of the UK Copyright, Designs and Patents Act³ and, thus, is influenced indirectly by the past and recent developments in the EU as well.

All national reports showcase the economic relevance and distributive significance of the balance between the interests of the holders of intellectual property rights and consumers. The debate on the right balancing of the interests involved inevitably incorporates larger, policy-centered questions on the fair, just, and efficient design of the economic system.

General Overview

As a starting point, it can be concluded that the general practical application of IP rights, including trademarks, patents, and copyrights has recognizable parallels in all jurisdictions that were surveyed, not least due to the ongoing EU efforts to harmonize the legal regimes. The rules specifying the preconditions for protection and governing the levels of protection are either laid out in more comprehensive codes or separate specific acts pertaining to different IP rights.⁴ The abstract general standing of IP protection varies by jurisdictions. The Swedish report emphasizes the strong position

¹ The author thanks the National Reporters for their excellent contributions from Austria: Andrea Zinober; Belgium: Richard Steppe; Brazil: Felipe Oquendo; Czech Republic: Radka MacGregor Pelikánová; France: Linda Arcelin, Jean-Philippe Arroyo, Jean Louis Fourgoux, Marc Lauzeral, Thibaut Marcerou, and Anne Servoir; Hungary: Szakács Eszter, Hong Kong: Winnie Tam and Stephanie Wong; Italy: Marco Francetti; Romania: Paul Buta; Spain: Anna María Ruiz Martin and Vanessa Jiménez; Sweden: Johanna Spjuth; Switzerland: Pierre Kobel; the UK: Collette Rawnsley. Please note that as this international report first and foremost constitutes a summary of the national reports, verbatim quotes from the national reports are not necessarily identified as such.

² Czech report, p. 8.

³ Hong Kong report, p. 3.

⁴ Brazilian report, p. 1; French report, pp. 1-3; Austrian report, pp. 1-2; Swedish report, pp. 1-2; Hungarian report, pp. 2-3; Czech report, pp. 1-2; Swiss report, p. 2; Romanian report, p. 2; Hong Kong report, pp. 1-8.

of copyright protection specifically in Swedish law and points out that it is referenced explicitly in the Constitution.⁵ Other jurisdiction, Germany for example, summarize certain aspects of IP protection under various more general constitutional guarantees.

In France, an exhaustive list of protections defines the scope of IP rights and any attempt by an IP right holder to protect an essential function not defined in the IP laws will be considered fraudulent.⁶

In Hungary, there is an exhaustive list of infringing activities contained in the Patent Act, while the Trademark Act contains a non-exhaustive list of activities that may be considered infringing.⁷ Various jurisdictions report an absence of a distinction concerning the level of protection with regard to various distributive channels, for example differentiating between offline or digital distributions.⁸ Specifically, the Brazilian and the French reports mention special restrictions relating to the use of geographical indications to protect both, consumers as well as the fairness of competition.⁹

Computer programs and other digital products are generally governed by special rules. The Brazilian report points at specific legislation for computer programs¹⁰; the French report mentions a *sui generis* right concerning databases¹¹; the Austrian Copyright Act¹² and German Copyright Law¹³ protect computer programs protected as specific kinds of work; the Romanian Copyright Law¹⁴ contains a *sui generis* right protecting database designers.

Competition and anti-trust law in all jurisdictions is governed by similar basic principles. Most jurisdictions operate under the assumption of a special responsibility that is derived from a dominant position in the market. All jurisdictions recognize some version of an essential facilities doctrine. In the practical application of competition law principles, the economic approach and interpretation of consumer welfare seem dominant.

Protection of Trademarks and Brands

In all jurisdictions, trademark owners are granted the right to exclusively use certain signs to identify themselves and ensure distinctiveness.¹⁵ To ensure distinctiveness, the protection of brands includes protection against the use of identical or similar signs if there is a likelihood of confusion.¹⁶

Specifically, the report from Hong-Kon points out that well-known or established brands enjoy a higher degree of protection as a potential infringement does not depend on the offering of similar goods or services.¹⁷

⁵ Swedish report, p. 1.

⁶ French report, p. 3.

⁷ Hungarian report, p. 2.

⁸ Brazilian report, p. 1; French report, p. 3; Czech report, p. 2; Romanian report with regard to trademarks, p. 4.

⁹ Brazilian report, p. 1; French report, p. 2.

¹⁰ Brazilian report, p. 1.

¹¹ French report, p. 2.

¹² Austrian report, p. 3.

¹³ §§ 69a ff. German Copyright Law.

¹⁴ Romanian report, p. 3.

¹⁵ Compare, Italian report, p. 1; Austrian report, p. 1; French report, p. 1; Brazilian report, p. 1; Swedish report, p. 3; Czech report, p. 3; Hungarian report, p. 2; Romanian report, p. 2; § 14 German Trademark Law.

¹⁶ Austrian report, p. 1; Czech report, p. 3; Romanian report, p. 2; Hong Kong report, p. 2.

¹⁷ Hong Kong report, p. 2.

The essential function of trademarks has been recognized by the European Court of Justice in order *“to guarantee the identity of the origin of the marked product to the consumer or ultimate user by enabling him without any possibility of confusion to distinguish that product from products which have another origin”*¹⁸ Various national reports supplement this reasoning by pointing out other functions, such as consumer protection, advertising or ensuring quality standards¹⁹. According to Belgian courts, it is a breach of an essential function when third parties’ actions limit trademark owners in examining the first sale of resulting products.²⁰

Generally, trademarks must be registered to benefit from legal protection as an IP right.²¹ Under certain circumstances, however, unregistered marks may enjoy legal protection as well. German Trademark law, for example, attributes protection to unregistered signs used in the course of business which have gained sufficient acceptance as marks and to well-known marks. The Swedish Trademarks Act applies to unregistered trademarks that have acquired distinctiveness through use.²² In Romania, well-known symbols are protected if they acquire a distinctive status.²³ Certain unregistered signs used for products or services (e.g., packaging, the color of employee clothes, or design of an online store) can fulfill functions similar to those of registered trademarks. It is important to note that unregistered brands can be protected by IP rights other than the respective trademark law in question, including by rules against unfair competition²⁴. If the relevant characteristics enjoy a certain level of recognition and distinctiveness, owners may invoke them against third parties using similar signs suitable to cause confusion, in Austria for example based on the Unfair Competition Act²⁵. In Hong Kong, the holder can additionally invoke the common law tort of “passing-off” to protect unregistered trademarks.²⁶

The level of protection is generally independent of the marks’ online or offline use.²⁷ Furthermore, it is technologically neutral. Though, the application of the very same standards in an online and an offline context can lead to differing outcomes as certain online platforms limit the expressive choice of users to letters, words and certain signs. By and large, the protection of trademarks is furthermore independent of other factors such as the intensity of its use and the monetary value of the brand. Related to this aspect, the Austrian report notes that trademarks can be subject to cancellation if they are not used over a period of 5 years.²⁸ An identical provision can be found in German trademark law.²⁹

¹⁸ e.g. EJC C-102/77.

¹⁹ Romanian report, p. 2; French report, p. 1.

²⁰ Belgian report, pp. 13-14.

²¹ Italian report, p. 1; Austrian report, p. 1; Romanian report, p. 2.

²² Swedish report, p. 3.

²³ Romanian report, p. 2.

²⁴ Czech report, p. 7.

²⁵ Austrian report, p. 2.

²⁶ Hong Kong report, p. 2.

²⁷ Czech report, p. 1; Austrian report, p. 1.

²⁸ Austrian report, p. 1.

²⁹ § 49 German Trademark Law.

The Hungarian report points out that trademark protection cannot be enforced if the holder has not put the trademark to genuine use or in cases of the exhaustion of the right or if the trademark has lost its distinctive character.³⁰ Trademark holder may not prohibit third parties to use the mark in order to inform consumers about their own products and services which is especially relevant with regards to accessories, spare parts, and repair services.³¹ However, the trademark may not be used in a way that it invokes an impression of contractual association between the trademark owner and the third party and the use must be in line with honest commercial practices.³² The French report points out that trademark may be used by third parties to describe composition, function, nature, characteristics or qualities of the product or service in question.³³ A distributor may not register a trademark as part of a domain name unless it becomes clear that the website is not related to the trademark owner.³⁴

Protecting Brands Using Distribution Management

It has become commonplace for holders of IP rights to try to protect their brands by managing the distribution of their products and services. The balance to be struck between their interests and consumers' interests relates to the extent to which a legal system allows the holders of intellectual property rights to define the framework for distribution after the initial sale. Distribution management may include factual or legal limitations within or beyond the direct chain of distribution and may concern downstream merchants, consumers, and the public interest.

Selective Distribution Networks

Most notably, in December of 2017, the EJC in the *Coty Case*³⁵ ruled on selective distributive systems that serve to ensure a “luxury image” for goods. The distributive system was based on restrictions of distributors from selling the goods in question on the platform *www.amazon.de*. Instead of using the open platform Amazon, the brand owner wanted sales only to be conducted through an “*electronic shop window*” of the authorized store ensuring the luxury image of the brand. In this context, a German court presented the ECJ with the question whether “*selective distribution systems that have as their aim the distribution of luxury goods and primarily serve to ensure a “luxury image” for the goods constitute an aspect of competition that is compatible with Article 101(1) TFEU*” and whether “*it [does] constitute an aspect of competition that is compatible with Article 101(1) TFEU if the members of a selective distribution system operating at the retail level of trade are prohibited generally from engaging third-party undertakings discernible to the public to handle internet sales, irrespective of whether the manufacturer’s legitimate quality standards are contravened in the specific case*”.³⁶ These questions resulted in a ruling of the ECJ, establishing that “*competition law*

³⁰ Hungarian report, p. 2.

³¹ Austrian report, p. 3; Czech report, p. 4; Swedish report, p. 3; Hungarian report, p. 5; CJEU, C-63/97, BMW-case; § 23 German Trademark Law.

³² Austrian report, p. 3; Czech report, p. 4; Swedish report, p. 3; Hungarian report, p. 5; CJEU, C-63/97, BMW-case.

³³ French report, p. 5.

³⁴ Hungarian report, p. 5.

³⁵ ECJ, C-230/16.

³⁶ ECJ, C-230/16, 20.

must be interpreted as not precluding a contractual clause, which prohibits authorized distributors in a selective distribution system for luxury goods designed, primarily, to preserve the luxury image of those goods from using, in a discernable manner, third-party platforms for the internet sale of contract goods, on condition that the clause has the objective of preserving the luxury image of those goods, that it is laid down uniformly and not applied in a discriminatory fashion, and that it is proportionate in the light of the objective pursued".³⁷ Applying this interpretation to the original case, the German court concluded that the clause was legal under competition law.³⁸ In reaction to the ECJ decision the Swiss Competition Commission introduced a narrow exception in an Explanatory Note laying out that imposing certain restrictions on members of a selective distribution network for luxury goods is not qualitatively significant which means that it is not considered unlawful in the meaning of Swiss Cartel Law. The exact scope of the category of luxury goods remains unclear. It is questionable whether there is a special interest only in preserving a luxury image or whether other images that brands might wish to establish exclusively are protected as well. It is well perceivable that certain values such as certain standards of corporate social responsibility, sustainability, or fair trade could be established as defining aspects of brands for the same reasons that the Court has provided in the *Coty* case. At this point, it is not possible to estimate the reach of the Court's jurisdiction or the scope of the applicability of the reasoning.

The issue of a prohibition of the use of marketplaces had been examined by the French Court of Cassation before the decision in the *Coty*-case but after the publication of the conclusions of the Advocate General. The clause had previously been validated by the Conseil de la Concurrence. In the future, the French report points out; courts will likely apply the conclusions outlined in the *Coty* decision.³⁹ On the very same question, the Brazilian report mentions a recent discussion concerning the prevention of the resale of a product in venues deemed incompatible with a trademark holder's self-perception. The measures would be based on protection against dilution of the mark and considerations of consumer protection.⁴⁰ According to the Italian report, selective distribution potentially restricts competition but is not necessarily considered to fall under the prohibition of anti-competitive agreements.⁴¹ According to the Italian Civil Code, a seller engages in unfair competition by "*continuing to market products of a certain brand even after the manufacturer has made known the existence of a selective or exclusive distribution system.*" Here the rationale lies in countering the risk of compromising a manufacturer's investments in the promotion of products or its brand, in the company's image, or in consumers' loyalty.⁴² In Hungary, national legislation exceptionally recognizes selective distribution systems.⁴³

In the context of online distribution, the holder of IP rights may generally impose constraints similar to those imposed on offline outlets. The justifications for selective distribution mechanisms in the

³⁷ ECJ, C-230/16.

³⁸ OLG Frankfurt am Main, Urteil vom 12.07.2018, Az. 11 U 96/14 (Kart).

³⁹ French report, p. 8.

⁴⁰ Brazilian report, p. 7.

⁴¹ Italian report, p. 3.

⁴² Italian report, p. 2; Art. 2598, no. 3 Italian Civil Code.

⁴³ Hungarian report, p. 11.

surveyed jurisdictions seems technologically neutral in a sense that they are based on the characteristics of the product and the brand image. It is important to note that IP right holder at least in the EU may not prohibit the use of online platforms by authorized distributors entirely.⁴⁴ Imposing qualitative criteria is possible.⁴⁵ The Romanian report stretches that limitations on subsequent sales are mostly enforceable, as long as they do not infringe on the public order. Examples of such limitations are specifications on the presentation of products, marketing materials, and packaging.⁴⁶

The Swiss report points out the significance of a distinction between vertical restrictions of active sales and restrictions of passive sales, as the latter are treated with more leniency. It is worth exploring whether and to what extent a general distinction between active and passive sales in the context selective distribution networks can provide reliable distinctions supported by a sound economic justification.

E-commerce and online platforms

In the EU the liability of online platforms for third-party content is limited by the E-Commerce Directive. The E-Commerce Directive is transposed into national law in the EU Member States for example in Germany by the Telemedia Act (TMG), in France by the Law for Confidence in the Digital Economy⁴⁷, and in Hungary by the E-commerce Act⁴⁸. It is important to differentiate between the host of third-party content whose liability is limited by the E-Commerce Directive and the direct liability of a publisher of content.⁴⁹ Similar to the situation in the EU, under Brazilian law, internet application providers are only liable if they fail to make infringing third party content unavailable after a court decision.⁵⁰

When it comes to the applications of the standards applicable in individual cases, it is highly contested which duties e-commerce platforms and individual merchants selling or reselling goods on e-commerce platforms must satisfy to avoid liability for the trademark infringements by (other) sellers on the platform. The situation is especially problematic because *amazon*, for example, allows the individual seller to sell a product under a unique identification number providing a crowd-sourced and adjustable description of the product. German courts have imposed far-reaching duties on sellers relying on *amazon's* default product description to check for potential trademark infringements on an ongoing basis. Different laws governing IP rights in Romania allow for the enforcement of rights against infringers and intermediaries. The fact that an e-commerce provider does not sell infringing products itself does not necessarily exclude its liability if it has allowed advertising and sales of such products and obtained an income from it after being made aware of the infringement and having refused to take down infringing offers.⁵¹

⁴⁴ ECJ, C-439/09.

⁴⁵ Italian report, pp. 7-8.

⁴⁶ Romanian report, p. 2.

⁴⁷ French report, p. 7.

⁴⁸ Hungarian report, p. 5.

⁴⁹ French report, p. 7; Hungarian report, p. 6.

⁵⁰ Brazilian report, p. 5.

⁵¹ Hungarian report, pp. 8-10.

Geo-blocking

A measure of significant importance when it comes to the downstream limitation and especially the fragmentation of markets is geo-blocking. The definitions of geo-blocking vary from jurisdiction to jurisdiction. While the French report defines geo-blocking as preventing access to or modifying content according to the IP-address⁵², the Swedish report qualifies it more broadly as a restriction of access to certain works or websites based on the location of the user⁵³. The Brazilian report describes geo-blocking in even broader terms as the manipulation of availability of offers of products or services.⁵⁴ The differences between the defections are exemplified by an example that the Austrian report provides: The Austrian Association for Consumer Information brought an action against a German railway company that requested a German domicile for the use of SEPA payments. The Austrian Supreme Court asked for a ruling by ECJ and already refers to the new EU Regulation 2018/302 addressing unjustified geo-blocking.⁵⁵ The question whether such behavior constitutes geo-blocking depends on the understanding of the term and its definition. From 3 December on, EU Regulation 2018/302 will generally ban geo-blocking on an EU level. However, several national reports rightly point out the significant limitations of this framework, especially as far as copyright is concerned.⁵⁶

Various reports point out the importance of competition law to assess the practice of geo-blocking. On a European level, the question is governed by Art. 101 TFEU which prohibits anti-competitive agreements and Art. 102 TFEU which prohibits abusive behavior of an undertaking of a dominant position. Geo-blocking could be construed to amount to “applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage” Art. 102 (2)(c) TFEU. The Swedish Competition Authority considers geo-blocking in its understanding to violate the market freedoms of the EU, however, the notion has not been tested in Swedish courts.⁵⁷ To date, there is no decision by the French Competition Authority on the issue of geo-blocking practices.⁵⁸ In Hungary, sanctions by the Hungarian Competition Authority are deemed possible under competition law, applying the general standards of the abuse of a dominant position. The Swiss report points out that geo-blocking could be considered an absolute territorial restriction under Swiss Cartel Act, when *“a prohibition of Internet sales is tied to stipulations restricting usage of the distributor’s website for clients situated outside of its territory or redirecting such clients to the manufacturer or another distributor or purporting to automatically interrupt the online transaction when the credit card shows an address outside of the distributor’s territory”*.⁵⁹ German Law does not specifically address geo-blocking.

⁵² P. 6.

⁵³ P. 13.

⁵⁴ P. 3.

⁵⁵ Austrian report, pp. 3-4.

⁵⁶ French report, p. 7; Italian report, p. 6; Romanian report, p. 7.

⁵⁷ Swedish report, p. 13.

⁵⁸ French report, p. 6-7.

⁵⁹ Swiss report, p. 13.

The Brazilian report mainly qualifies geo-blocking as an issue of consumer protection law. The practice could be characterized as an abusive practice under Consumer Protection Code in the form of a refusal to meet consumer demands and a refusal of the sale of goods or services to those who are willing to acquire them upon prompt payment. Furthermore, geo-blocking could violate the Consumer Protection Code regarding the duty to provide clear information on products and services. While lawsuits have been filed in Brazil, there are no specific court decisions on the subject so far.⁶⁰

Exhaustion

A significant limitation to the ability to manage the downstream marketing of goods is the doctrine of exhaustion. Due to the regional exhaustion in the EEA, parallel importation from the other EU Member States cannot be prohibited where an IP right has been exhausted by an authorized first sale somewhere in or into the EEA.⁶¹ The Romanian report points out that the Romanian Competition Council closely monitors the market behavior and imposes significant fines if it finds that agreements aim at limiting or impeding parallel imports between the EU Member States.⁶² The French report comes similar conclusions⁶³ which suggests that the mechanisms outlined in EU law are generally implemented effectively in the EU. It is to be noted that parallel importation of medicines and pharmaceuticals falls under special rules.⁶⁴ In general, the laws of the EU Member States contain two very similar provisions on the exhaustion of trademarks and their usage.

General Conditions and limitations

First, trademark holders cannot prevent the use of the trademark for products which have been put on the market in the EEA under that mark by the holder or with his consent. Second, there is an exception in cases of legitimate reasons to oppose certain marketing practices, e.g., alterations of the product.⁶⁵ The ECJ has specified those legitimate reasons to be cases in which the usage of the trademark would likely cause serious harm to the image, reputation or brand itself (C-349/95, C-59/08, C-337/95) or where the use of a trademark gives the impression of a business connection between the reseller and the rights holder (C-63/97).

In France, courts have accepted a legitimate exception to the exhaustion where the “maintenance of the mark on the modified product tended to make the consumer believe that the owner of the mark was responsible for the entire production process.” The French report in this context also mentions the decisions in favor of the French luxury company Chanel against the marketing of products under devaluing conditions that were deemed incompatible with the brand’s image.⁶⁶ In Belgium courts

⁶⁰ Brazilian report, pp. 3-5.

⁶¹ Italian report, p. 13; Hungarian report, p. 10; French report, p. 14; Romanian report, p. 17.

⁶² P. 17.

⁶³ French report p. 14.

⁶⁴ Hungarian report, p. 10; French report p. 14.

⁶⁵ 1 Chap. 12 § Swedish Trademarks Act; L. 713-4 CPI, France; Art. 16 Hungarian Trademark Act; Art 10b Austrian Trademark Protection Act; Art. 5 Italian Industrial Property Code; Art. 11 Czech Trademark Act; Art. XI.163 BCEL juncto Benelux Treaty on Intellectual Property; Art. 38 Romanian Trade Marks Law; § 24 German Trademark Law.

⁶⁶ (Cass Com March 23, 2010, No. 09-65844: CHANEL c / LAND; Cass Com March 23, 2010, n °: 09-65839: CHANEL c / CAUD; Cass Com 24 May 2011, No. 10-18474 CHANEL v. CAPI; Cass Com 4 October 2011, n ° 10-20914: CHANEL c / VILL), French report, p. 10.

have recognized the reputation of trademarks as far as they relate to the quality of the products and the way in which they are traded and whether the circumstances of the transport, storage, and display of the products (here: chocolates) are detrimental to their quality, and, therefore would be detrimental to image of the brand.⁶⁷

The Law of Hong Kong provides a similar exception: The trademark may be limited where a change or impairment of the conditions of the goods occurs after they have been put on the market and the use of the trademark would be detrimental to the distinctive character or reputation of the mark. According to the ruling in the case *Hugo Boss Trade Mark Management GmbH & Co KG v. ISA Boutique Ltd*, it is irrelevant why, where and by whom the impairment has taken place.⁶⁸ In Brazil, trademark owners cannot forbid the free circulation of products placed on the internal market by it or with its consent. The Superior Court of Justice has accepted international exhaustion in some cases in the past but backtracked by requiring a written contract to constitute consent to the parallel legal importation in these cases.⁶⁹

Switzerland has the widest scope of trademark exhaustion. Trademark law's main function in Switzerland is considered to be distinctive in a sense that is limited to the designation of the source of the goods. According to the early jurisprudence of Swiss Supreme Court (based on national exhaustion), parallel imports, for example, could not be opposed as long as there was no likelihood of confusion of consumers as to the origin of the goods.⁷⁰ Unlike the previous law, the Swiss Trademark Act does not reference the distinctive function, but according to the Swiss Supreme Court, Swiss legislator had "*no intention to challenge the previous jurisprudence and to prevent parallel trade. Therefore, an interpretation supporting a national exhaustion regime could not stand.*" This results in international exhaustion of trademarks, limited to the extent necessary for the further trading of the products.⁷¹ Concerns about the quality or advertisement and marketing are not protected.

The exhaustion of patents is significantly more fragmented in the EEA. There is only national exhaustion according to the Czech Patent Act⁷² and the Belgian Code of Economic Law.⁷³ The Swiss Patent Act contains rules concerning the geographic scope of exhaustion, and the Supreme Court construed it to amount to national exhaustion. However, the Swiss Parliament adopted a regional approach to exhaustion covering the area of the EEA.⁷⁴

Exhaustion of Copyright only concerns the distribution rights, while the rights of reproduction and representation or communication (including rental rights) and diffusion are inexhaustible.⁷⁵ In

⁶⁷ P. 18.

⁶⁸ HCA 251/2007, 2 October 2008, Hong Kong report, p. 9.

⁶⁹ Pp. 2, 5.

⁷⁰ P. 3.

⁷¹ P. 4.

⁷² P. 5.

⁷³ P. 6.

⁷⁴ pp. 7-9.

⁷⁵ French report, p. 9; Swiss report, p. 6, Czech report, p. 6, Belgian report, p. 26; Romanian report, p. 13; § 17 German Copyright Law.

Switzerland, the principle of exhaustion the subject to the type of protected work: Parallel imports of DVDs and videotapes are prohibited during the first performance right (right of performance in cinemas); the online distribution of copies of works is considered to fall under the right to communicate and generally does not constitute a distribution.⁷⁶ The Swiss Supreme Court applies an international approach to exhaustion to copyrights.⁷⁷

Trigger

The trigger for exhaustion is the first sale of the product in the relevant geographic market. According to the jurisdiction of the ECJ, a “sale” is an *“an agreement by which a person, in return for payment, transfers to another person his rights of ownership in an item of tangible or intangible property belonging to him.”* The application of this standards varies by Member State and ranges from the first sale or other property transfer⁷⁸ to the first sale of work in a tangible form⁷⁹, to the first sale or in case of a rental, if the author receives adequate remuneration⁸⁰, and to the first transfer of property of a copy⁸¹.

Trademarks’ exhaustion is triggered by putting the products on the market⁸² which is defined by the ECJ as the actual sale of the protected product going beyond preparatory actions⁸³. According to the Czech report, a first sale is not required.⁸⁴ The Belgian Court of Cassation stresses that exhaustion of the trademark does not occur where the holder tries but does not succeed in selling the products on the EU market.⁸⁵ In Italy, exhaustion is triggered for industrial property rights by *“any legal transaction [...] which implies the destination to the market of the marked product and assigns to the third party power of enjoyment over the product for which payment is typically required”*. This includes any transfer of property for consideration or free of charge or through stipulation of a contract which constitutes a right of usage such as rental or lease agreements).⁸⁶

According to Brazil’s first sale doctrine, the owner of an IP right or authorized party must enter the product into commerce, either for consideration or free of charge and transfer of ownership of a physical good. Leasing or rental agreement is not sufficient.⁸⁷

Burden of Proof

One of the most relevant aspects in the practical application of the exhaustion doctrine is the allocation of the burden of proof. In general, this burden lies with the alleged infringer and person

⁷⁶ Swiss report, p. 6.

⁷⁷ Swiss report, p. 5.

⁷⁸ Belgian report, p. 5.

⁷⁹ Czech report, p. 6; French report, p. 10.

⁸⁰ Austrian report, p. 6.

⁸¹ § 17 German Copyright Law.

⁸² French report, p. 10; Hungarian report, p. 8; § 24 German Trademark Law.

⁸³ ECJ, C-16/03.

⁸⁴ P. 5.

⁸⁵ P. 11.

⁸⁶ P. 10.

⁸⁷ PP. 5-6.

who claims the exhaustion of the IP right in questions⁸⁸. Several national reports cite the *van Doren+Q Case* of the ECJ⁸⁹ as defining the distribution of the burden of proof to lie with the third party using the trademark in question. According to this standard, the burden can shift where the third party successfully establishes a real risk of a partitioning of the market, particularly where exclusive distribution systems are in place. Specifically, the Czech report notes that in trademark cases the burden of proof can be shifted comparatively easily.⁹⁰

The Austrian report mentions a 2009 judgment⁹¹ according to which the defendant bears the burden of proof relating to the exhaustion unless she can prove that revealing her source of supply would carry the risk of market foreclosure. If that were the case, then the burden of proof falls back on the trademark owner. She then must prove that products were inserted into the market from outside the territory of the EEA without her consent.

Digital Goods

Concerning digital goods, the starting point in all jurisdictions seems to be the transfer of a physical copy of the digital good. However, since the ECJ's *UsedSoft* Decision, the download of a digital copy of Computer programs for an unlimited time in exchange for payment is generally considered sufficient to trigger the doctrine of exhaustion for computer programs. The Higher Regional Court of Hamburg, on the one hand, ruled that the ECJ's *UsedSoft* jurisprudence could not be transferred to other digital goods, such as e-books or audiobooks.⁹² This approach leads to a split according to whether the exhaustion concerns computer programs or other digital content. Belgian Law takes a similar approach.

On the other hand, the definition of copies in Romanian Copyright Law expressly includes digital copies, which suggests that transfer of ownership of any digital copy leads to the exhaustion of the IP rights.⁹³ In the Czech Republic, only the Copyrights Act distinguishes between tangible and intangible goods. Aside from copyright law, the exhaustion doctrine applies without regard to the digital or physical nature of the goods.⁹⁴ For Brazil, the national reporter would expect Brazilian Courts in a case similar to *UsedSoft v. Oracle* to construe software licensing as a trigger of exhaustion (“insertion in the market” can be construed to include licensing).⁹⁵ The Italian report stresses that Italian law does not recognize an exhaustive effect from any sort of interactive availability.⁹⁶ It is noteworthy that the French report stresses the significant challenges related to the determination of a first sale in relation to digital goods⁹⁷.

⁸⁸ Hungarian report, p. 9; Italian report, p. 11; French report p. 11; Belgian report, p. 9; Romanian report, p. 15; Brazilian report, p. 7.

⁸⁹ ECJ, C-244/00.

⁹⁰ Czech report, p. 5.

⁹¹ OGH 22.09.2009, 17 Ob 16/09s.

⁹² OLG Hamburg, Hinweisbeschluss vom 4.12.2014 - und Beschluss vom 24.3.2015 – 10 U 5/11 (LG Hamburg).

⁹³ P. 16.

⁹⁴ Czech report, p. 7.

⁹⁵ Pp. 6-7.

⁹⁶ Pp. 11-12.

⁹⁷ P. 13.

Overall, the doctrine of exhaustion will persist to play a significant role in limiting the influence of holders of intellectual property rights over the downstream and secondary markets and the respective market infrastructure. The future development of the exhaustion doctrine will have a major impact in determining the fungibility of digital products.

Protecting Brands by Controlling After-Sales Service

Guarantee

Manufacturers of goods around the globe try to secure their share in the repair markets and markets for spare parts as such markets have proven to offer comparatively large margins. One obvious option to secure influence over these markets is to limit the guarantees associated with the product. The provisions governing the limitations manufacturers may impose on customers differ significantly by jurisdiction. Some jurisdictions acknowledge a right of the producer to limit guarantees in case of unauthorized repairs. According to the Brazilian report, “*the law seems to admit that the guarantee can be conditional on an accredited network of technical assistance*” and no court has so rejected condition of that sort illegal or abusive.⁹⁸

The Hungarian consumer protection regulation and Civil Code contain mandatory provisions concerning the terms of guarantee and product liability which cannot be limited by manufacturers. However, in case of additional contractual guarantees, manufacturers are granted significant leeway when defining the conditions of that guarantee.⁹⁹ In Italy, warranties are considered to only apply in case of repairs using original parts. In case of a replacement with an unauthorized part, a guarantee expires as it relates to further malfunctions. To preserve the guarantee, repairs may only be conducted by authorized service providers or specialized repair companies.¹⁰⁰ Romanian courts have held that consumers are no longer able to enforce their guarantees if they choose an authorized third party to repair a product. The same likely applies to “breaking of seals” of a product.¹⁰¹ According to the Austrian report, additional warranties of producers can be bound to repairs by authorized partners.¹⁰²

In contrast to the described rather liberal approach, the French legislature has enacted provisions to curb the practice of limiting guarantees for consumers in the event of third party repairs. This enhances competition in the repair market as it allows third-party providers to enter the market. Apart from an obligation to provide spare parts to third party repair providers, sellers offering a guarantee by the Consumer Code must inform the customer that the guarantee is not subject to repair and maintenance services being carried out by a partner approved or authorized by the seller.

⁹⁸ p. 11.

⁹⁹ Hungarian report, pp. 12-13.

¹⁰⁰ Italian report, p. 16.

¹⁰¹ Romanian report, pp. 5, 22.

¹⁰² Austrian report, p. 5.

Additionally, professionals offering maintenance or repair services for certain types of vehicles specifically must allow consumers to opt for the use of spare parts in accordance with the principles of the “circular economy” instead of opting for new parts.¹⁰³

The Swedish report mentions a specific case in which the restriction of a warranty was struck down¹⁰⁴: The manufacturer *KIA* offered a seven-year warranty for a certain model if regular services were provided by authorized service centers approved by *KIA*. Otherwise, the guarantee would only last three years. The court concluded that *KIA* and the authorized service centers had a collective market share of 80% for after-sales services and the warranty provisions excluded unauthorized service centers from the market in violation of Art. 101(1) TFEU.

Overall, there seems to be a divide in jurisdictions opting for a more liberal approach to limiting the downstream influence of manufacturers and others that put a bigger emphasis on competition on the respective secondary markets and especially sustainability and environmental protection. The legitimate interests of the holders of intellectual property rights in protecting their brands in after-sales services do not seem to justify the impediments and the environmental harm inevitably caused by restrictions on guarantees to repairs by authorized partners generally relying more heavily on new parts.

Right to Repair

As a reaction to the practices by manufacturers in restricting the possibilities to repair goods contractually or factually, across various jurisdictions there is an ongoing debate on whether and to what extent a consumer should have a specific right to repair aside from contractual guarantees or statutory remedies for defects. This right is to enable consumers to repair devices or have them repaired by third party providers and may mainly consist just of the provision of the necessary information. The right to repair is also discussed in relation to the design of products and possibility to repair them without destroying central parts.

The definition of the scope of the right to repair is at the center of the balance between consumer interests, environmental protection and the interests of the holders of intellectual property rights in the protection of their brands. A Resolution of European Parliament from 4 July 2017 demands that “repairs and spare parts should be made more readily accessible” and calls on the Commission to promote product repairability in general. In the EU, Regulation 595/2009 requires that automotive manufacturers must provide unrestricted access to maintenance and repair information and the necessary diagnostic equipment enabling independent repairers to provide their services. In some countries, a further trend towards improving access to repair can be seen.

The EU Battery Directive, mentioned by the Belgian and the Romanian report as having been transposed into national law¹⁰⁵, obliges the Member States to ensure that manufacturers allow end

¹⁰³ Art. R. 224-22 Consumer Code, French report, p. 17.

¹⁰⁴ Swedish Market Court of 4 December 2012, reference MD 2012:3, *Sveriges Bildelsgrossisters förening v KIA Motors Sweden AB*, Swedish report, pp. 8-9.

¹⁰⁵ Belgian report, p. 31; Romanian report, p. 21.

users to remove batteries and accumulators personally or by qualified professionals. The factual difficulties of removing and exchanging the batteries and the potential consequences for the warranties, however, are not sufficiently addressed in this Regulation.

While there is no legally defined right to repair in Brazilian law, the Consumer Code states that manufacturers and importers must make replacement parts available for as long as the product in question is still being manufactured or imported. The offering must be maintained for a reasonable period after the product is no longer available. Legal precedent suggests that “a reasonable period” equates to the average expected life of the product. The Brazilian report identifies problems on the secondary market for spare parts due to the enforcement of rights in registered industrial designs which prevent dealers from making identical or similar parts without paying royalties.¹⁰⁶

In France, spare parts can be protected by design law, and the legislature has refused to adopt a respective “repair clause.” Despite the recommendations from the French Competition Authority, provisions are still described to be very favorable to rights holders.¹⁰⁷ In 2014, the “Hamon” law introduced a far-reaching duty to provide information on the availability of spare parts and to provide these spare parts within a certain period. Manufacturers must inform professional resellers and consumers about the period during which spare parts for a product will be available. The reparability is presumed to be a relevant criterion for purchase and an important contributor to the development of more sustainable consumption patterns. Suggestions for further improvement relate to the fact that there is no duty to provide negative information: while manufacturers have no obligation to provide information about the fact that they do not offer spare parts, they might be fined if they do offer insufficient information about the spare parts that they do provide. Furthermore, the specificities of the provision of information are said to be suboptimal.¹⁰⁸

Unlike the French design law, the Hungarian Design Act states that a protected design does not entitle its holder to prohibit the third party from using the said design to repair a complex product.¹⁰⁹ This provision in itself is subject to the limits of honest industrial and commercial practices. The Hungarian report specifically points out the potential of competitions law to limit the possibility to restrict the provision of spare parts to third-party providers.¹¹⁰

In Italy, Reg. no. 1475 gave independent repairers a right to access spare parts and technical information. Difficulties in accessing technical information and diagnostic equipment necessary for the repair of the most recent vehicles hinder competition on the repair market. A new regulation is supposed to expand the access to software, tools, diagnostic equipment, workshop equipment, and training. The new law is designed to prevent the holders of IP rights from abusing these rights to unduly limit the possibilities to repair goods.¹¹¹ According to the Austrian report, repair shops for

¹⁰⁶ Brazilian report, p. 12.

¹⁰⁷ French report, pp. 3-4.

¹⁰⁸ French report, p. 16.

¹⁰⁹ Hungarian report, p. 12.

¹¹⁰ Hungarian report, p. 12.

¹¹¹ Italian report, pp. 4-5

motor vehicles are to be supplied by producers with original spare parts and the necessary technical information.¹¹²

The Swedish report states that there is no general right to repair in Swedish law. A governmental inquiry on the advancement of the circular economy found a common practice in the IT-sector to limit access to codes and instructions to authorized parties.¹¹³

In German law, there are no express provisions of general applicability requiring manufacturers to provide spare parts unless the product is defective at the time of the sale. Theoretically, such duty could only be derived on an individual basis relying on the concept of good faith. In a case in which an automobile manufacturer ended the contractual relationship with an auto shop specialized in tuning cars exclusively by this manufacturer and refused to continue to provide spare parts, accessories, and access to the diagnostic system, this behavior was considered to constitute the anti-competitive abuse of a dominant position.¹¹⁴

Concerning digital good, the Brazilian report points out that there is no duty for an owner of IP rights to provide updates to the software provided to customers. At most, the consumer can demand technical assistance regarding a particular version of the program during the term of its technical validity. In cases in which consumers have demanded updates to be able to use applications in upgraded versions, courts have struck down these demands as long as the missing updates did not prevent consumers from using their devices with previous versions of the applications.¹¹⁵

Reverse Engineering

Reverse engineering can constitute an infringement of copyrights. Especially in the context of computer programs, the limitations on reverse engineering are an important element in protecting the holder of intellectual property rights against horizontal competitors trying to replicate the products. Thereby, the anti-reverse engineering rules protect the investments of the holder of the intellectual property rights. Though, beyond the protection against horizontal competitors, the anti-decompilation rules also have the potential to allow holders of intellectual property rights to exert control over downstream markets. This is where exceptions to the general rules protecting IP right holders ensuring interoperability gain relevance.

The rules on the reverse engineering of software in the EU are defined by EU Directive 2009/24 on the legal protection of computer programs. Art 6 of the directive establishes far-reaching protections of the IP rights holder against any sort of decompilation. The only exception to the general requirement to obtain authorization from the rightsholder relates to the situation where “*where reproduction of the code and translation of its form*” are “*indispensable to obtain the information necessary to achieve the interoperability of an independently created computer program with other*

¹¹² Austrian report, p. 5.

¹¹³ Swedish report, p. 12.

¹¹⁴ BGH, Urteil vom 06.10.2015 - Aktenzeichen KZR 87/13.

¹¹⁵ P. 11.

programs.” Various national reports mention this exception, and some describe it as being very narrow.¹¹⁶

The French report mentions that the rights are indeed practically enforced by courts¹¹⁷ whereas the Austrian report points out that the practical relevance of the provision is rather negligible.¹¹⁸ In France, the rules on technical protections against infringements of copyrights prohibit protective measures that prevent or limit the interoperability. Also, a regulatory authority, the *Regulatory Authority for Technical Measures* is specifically charged with ensuring interoperability.¹¹⁹ In general, the observation and testing of a program to reproduce its functionality are deemed to be permissible under the legal regimes influenced by the Software Directive.¹²⁰ The same holds true for Brazil.¹²¹ The report from Hong Kong draws connections to repair markets and clarifies that the so-called spare parts exception cannot serve as an entitlement to manufacture spare parts using reverse engineering.

The Italian Report points out that the Italian Industrial Property Code protects information against parties that have acquired information in an abusive way and that this can include reverse engineering. The available case law permitting reverse engineering mainly relates to the support of certain file formats.¹²² The Swedish report contrasts the rather narrow options for reverse engineering in copyright law with the more generous approach in Swedish patent law that allows for experimentation with a patented product for the sake of research and development. The report also raises the interesting question of the justification for different standards for limitations on reverse engineering for different IP rights.¹²³

Software and More as a Service

The easiest way to fully control the further distribution of products and, therefore, create the most favorable environment for the protection of brands is to change the distribution model entirely from a system that is based on the one-off delivery of goods or services to the provision of services in constant increments or on demand. This practice has become visible and successful in the many sectors, but especially so relating to the digital economy. Though, the economic reasoning as it relates to the protection of brands had been established in the offline distribution long before. Breweries, for example, have bound restaurants and bars to exclusively purchase from them by linking the provision of equipment and infrastructure to the exclusive purchases. Depending on the specificities of leasing agreements, those contracts, in general, can be perceived as shifting the one-off provision of goods to an ongoing provision of services allowing for a higher degree of protection

¹¹⁶ French report, p. 8; Austrian report, p. 4; Swedish report, pp. 12-13; Hungarian report, p. 7; Belgian report, p. 24; Romanian report, p. 12; § 69e German Copyright Law.

¹¹⁷ French report, p. 9.

¹¹⁸ Austrian report, p. 4.

¹¹⁹ French report, p. 8.

¹²⁰ Swedish report, p. 12; Hungarian report, p. 7; Belgian report, p. 24; Romanian report, p. 12.

¹²¹ P. 5.

¹²² Italian report, pp. 8-9.

¹²³ Swedish report, p. 13.

of the manufacturers' brand. From a perspective of ensuring competitive secondary markets, the practice of bundling products and future ongoing services are perceived to be especially problematic.

In the EU, where a manufacturer or a distributor of products has a dominant position, according to Art 102 TFEU, that entity is barred from *“making 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”*. In the various EU Member States, the national provisions governing the abuse of a dominant position more or less resemble the rule in the Treaty.¹²⁴ However, neither the general and rather clear provision, nor the famous EU competition law cases against *Microsoft* and others seemed to have managed to settle the discussion or end the practices in question.

According to the Italian reporter, the questions about the provision of software as a service are highly contested at the moment. In a prominent case, the Italian Supreme Court limited the possibilities bundle software and hardware by pre-installing certain programs and forcing customers to accept certain End-User License Agreements (EULA). The Court considered hardware and software to be *“two distinct and structurally divisible assets”* and reasoned that since only the laptop was subject to the sales contract, the customer must not be forced to enter into an EULA.¹²⁵ In France, tied sales or bundling are generally permitted unless these practices constitute an unfair commercial practice as defined of the Consumer Code.¹²⁶ The Brazilian report also mentions limitations to the bundling of goods, both rooted in anti-trust and consumer protection law.¹²⁷

The relevant difference between limitations to the bundling of goods and (on-going) services is the scope of these restrictions. While the competition law approach, depending on the specificities of the jurisdiction in question, at least requires a significant market share and other indications of dominance, a consumer protection approach does not. Instead, again depending on the jurisdiction in question, a consumer protection approach due to the nature of its scope divides the market into consumers and non-consumers in an area in which it is very unclear whether the negative effects the practice in question only concern consumers.

Competition Law and the Abuse of Intellectual Property Rights

The relationship between intellectual property rights, including brand names as trademarks, on the one hand, and antitrust or competition law, on the other hand, is complicated, to say the least. IP rights' very purpose is to create absolute rights which specifically allow for the exclusion of others including competitors. Finding the right balance between protecting the legitimate interests of owners of IP and competitors or actors in any downstream or secondary market is crucial.

¹²⁴ Hungarian report, p. 11.

¹²⁵ Italian report, p. 13.

¹²⁶ French report, p. 15.

¹²⁷ Brazilian report, pp. 9-10.

In the EU, competition law limits the exclusion of others based on IP rights by forbidding the abuse of a dominant position even as far as it relates to the exercise of IP rights. The balance is defined by Art. 101 and Art. 102 TFEU. Any agreement or unilateral act with the aim or effect to limit competition, especially the refusal to deal, can potentially violate these standards.¹²⁸ However, ECJ case law suggests that the mere holding of an intellectual property right in itself is not sufficient to establish a dominant position. Rather, additional factors going beyond what is owed to the nature of IP rights are necessary to establish a dominant position or the conditions for the essential facilities doctrine. It is important to note that even though the Treaties do not formally distinguish between essential facilities and dominant positions, especially in relation to the abuse of IP rights, there is a significant practical difference between the obligations resulting from a dominant position and the control over an essential facility: Where the former mainly establishes a non-discrimination standard as regards to granting access to goods or services which are generally sold or provided to the public, the latter may force the controller to open a facility that it previously reserved to itself, and potentially might even be obliged to expand the facility in accordance with users' needs.

Brazilian Antitrust Law specifically refers to the violations of the economic order *“to monopolize or prevent the exploitation of industrial or intellectual property rights or technology or to “to abusively exercise or exploit intellectual or industrial property rights, technology or trademark.”*¹²⁹ It is remarkable that in certain jurisdictions the default assumption is shaped by the notion that the exclusionary effect of IP rights is deeply rooted in their nature and only to be considered abusive in certain extraordinary circumstance. In other jurisdictions, however, exclusionary acts based on IP rights even serve as an example of abusive conduct.

The French report specifically refers to the major role that IP rights play in the assessment of market power within the European and national rules governing mergers and acquisition. The French report also points at an ongoing discussion of the notion of an “essential brand” in parallel to the long-established rules around essential facilities.¹³⁰ The concept above would address situations in which competitors or other downstream providers depend on the access to branded goods or services or the usage of the brand as such.

The Swedish Market Court decided that a model calculating the appropriate compensation for music can amount to the abuse of a dominant position where it discriminates against certain market participants. The Swedish report further points out that high levels of regulations such as relating to the display of trademarks of tobacco products can justify otherwise abusive restrictions on marketing.¹³¹

Protecting Brands Using Unfair Competition Law

Apart from relying on IP rights directly, IP right holders can also use the safeguards of unfair competition law, or provisions concerning the integrity of competition in other areas of law to

¹²⁸ Romanian report, p. 19.

¹²⁹ Brazilian report, pp. 8-9.

¹³⁰ French report, p. 14.

¹³¹ Swedish report, p. 6-7.

protect their brands against direct competitors and on secondary markets. The Belgian report states that according to the jurisdiction of the Belgian Court of Cassation, third parties can be liable for complicity to the breach of a valid license. The report further notes that the infringement of existing IP rights can be deemed parasitic competition; yet, to establish such behavior, additional conditions beyond the infringement itself must be met.¹³² Similar standards can be found in Switzerland.

The interests of the holder of intellectual property rights do not only relate to the direct control over the products and their distribution but also to claims about these products. In this regard, the Swedish report emphasizes that comparative advertisement *per se* is legal in Sweden. However, the law does prohibit practices that would be considered unfair.¹³³ The scope of the prohibited types of behaviors include misleading imitations and stand independently from IP infringements as such.¹³⁴ This double standard stems from the fact that originally, there was a strict distinction between IP and marketing law in the Swedish legal system which was reflected by separate procedural competencies. This distinction was given up, and it remains to be seen what consequences this change brings about.¹³⁵ The French and German law allows for comparative advertising as such practices are perceived to further the informational interests of consumers.¹³⁶ In Germany, when considering the lawfulness of comparative advertising, apart from the truthfulness of factual claims, the likelihood of consumer confusion is duly taken into account¹³⁷.

Protecting Brands by Technical or Factual Behavior

Contractual limitations or a denial of service are not the only routes perused by IP right holders to protect their brands or exert power over secondary markets. The French report accounts for a case in which Nespresso, the manufacturer of coffee machines and capsules, was accused of deliberately modifying machines so that they would be incompatible with capsules offered by third-party providers. Nespresso was said to have complemented this technical approach to excluding competitors on a secondary market with potentially misleading descriptions of the incompatibility in the manual.¹³⁸ Though, the French report clarifies that this case is an exception and that generally, the competition authorities accept justifications of exclusionary behavior as it relates to the quality or safety of products.¹³⁹

¹³² Belgian report, p. 33.

¹³³ Swedish report, p. 4.

¹³⁴ Swedish report, p. 5.

¹³⁵ Swedish report, p. 4.

¹³⁶ French report, pp. 18-20, BGH, Urt. v. 2.4.2015 – I ZR 167/13.

¹³⁷ OLG Frankfurt a.M., Urteil vom 22.09.2016 - 6 U 103/15.

¹³⁸ French report, p. 5.

¹³⁹ French report, p. 5.

Consumer Protection

It can be concluded that in most jurisdictions, the relevant consumer protection standards stem from specific legislation¹⁴⁰, and not the respective Constitution directly. The Hungarian Constitution is an exception in this regard: It specifically recognizes consumers' rights as in the Fundamental Law. Not least so a reluctance of Hungarian courts to practically apply the provisions of the Fundamental Law directly, these consumer rights are rarely referenced in consumer protection cases.¹⁴¹ That said, many jurisdictions recognize consumer protection as a legitimate government interest that may or even must be taken into account when balancing the interests involved. In some jurisdictions, consumer protection is interpreted into existing constitutional guarantees such social rights. The French Constitutional Council, for example, has invoked consumer rights as part of the public interest and held that property rights can be limited to ensure fairness of commercial transactions and to defend consumer interests.¹⁴² Consumer rights are also regularly invoked by the Romanian Constitutional Court in decisions confirming the constitutionality of statutory provisions aimed at consumer protection.¹⁴³ On the EU-level, consumer protection is explicitly mentioned in the Treaties as a value to be taken into account. The practically determining standards of consumer protection and the specificities, however, are almost exclusively defined in secondary legislation. Within the EU, consumer protection is governed both, by EU and national legislation and case law. The level of consumer protection is generally perceived to be rather high – at least in theoretical terms.¹⁴⁴ The Swedish report points out that, traditionally, consumer policies were based on negotiations between industrial players and supervisory authorities and heavily relied on self-regulation.¹⁴⁵

While the burden of proof for the violations of consumer rights by and in large follows general rules and, therefore, lies with the plaintiff, the reports identified various situations in which the burden of proof for consumers is (partly) reversed.¹⁴⁶ Italian law, for example, contains a reversal of the burden of proof in cases of violations of competition law: Where the Competition and Market Authority sanctions an undertaking, a consumer may use this sanction as evidence of unlawful conduct against her when claiming damages in a subsequent proceeding.¹⁴⁷ In Hungary, at the request of the competent authority, a business entity must “*provide proof to verify the authenticity of any fact comprising its commercial practices*” in relation to violations of consumer interests.¹⁴⁸

Balancing Consumer Interests

Finding the right balance between the interests of consumers and the interests of holders of intellectual property rights first and foremost is a question of policy and the fundamental believes on

¹⁴⁰ Brazilian report, p. 11; Hungarian report, p. 13.

¹⁴¹ Hungarian report, p. 13.

¹⁴² French report, p. 18.

¹⁴³ Romanian report, p. 22.

¹⁴⁴ French report, p. 17; Austrian report, pp. 7-8; Swedish report, p. 2.

¹⁴⁵ Swedish report, p. 2.

¹⁴⁶ Brazilian report, p. 10; Romanian report, p. 20.

¹⁴⁷ Italian report, pp. 14-15.

¹⁴⁸ Hungarian report, p. 12.

the right and just design of the economic system and its functions. However, apart from this very general and abstract question, every case concerning the limitations of holders of intellectual property rights in protecting their brands includes a balancing of consumer interests. Especially since the most of the legal provisions relevant to the issues covered in this report are standard and not rule-based, the element of weighing the interests concerned is the decisive factor. In most jurisdictions the margin of appreciation that is left with the judiciary is significant. The specific rules set forth by the legislature are only insular.

The dependence on case law is especially high in the area of competition and anti-trust law. While in all jurisdictions, the degree of codification seems to be higher in the area of unfair competition law, the relevant determinations, by and large, are still based on the circumstances of the behavior in the individual case and hardly predictable. The Romanian report to that extend emphasizes, that due to a lack of general priority of consumer interests a case-by-case assessment of the interests at stake is inevitable and refers to the context of avoiding consumer confusion as an aspect of trademark law.¹⁴⁹

In all jurisdictions, consumer protection is considered an important value that significantly influences the jurisdiction of the courts and the practices of the competent authorities. The degree to which consumer protection is recognized as a valid interest in competition law, both in anti-trust in the narrow sense as well as in unfair competition law, varies greatly and so does the interpretation of consumer welfare. In France, consumer interests are explicitly taken into account and interpreted rather broadly, and the combination of competition law and specific consumer law is perceived as effective.¹⁵⁰ Italian law is described as being open to the consideration of consumer interests as well, especially as the lawfulness of competitive behavior to a large extent is based on a consumer perspective. This becomes especially obvious in relation to potentially misleading information.¹⁵¹ The Hungarian Trademark Act directly references consumer interests by denying protection to trademarks that may be misleading or confusing to consumers as regards to the quality or geographical origin of goods or services.¹⁵²

French law includes far-reaching restrictions of the rights and freedoms of trademark owners where the public health is at stake. Examples include a ban on tobacco advertising and the regulation of the advertising concerning alcohol, medicines or cosmetics. The balance of consumer interests with the rights of the holders of intellectual property rights is perceived to be proportionate.¹⁵³

The Brazilian report mentions the existence of a presumption of consumer vulnerability and deduces a general priority of consumer interests. The report differentiates between the offline and the online market and sees an appropriate balance only in the offline market. Concerning digital goods and online distribution, the report points out that crucial aspects of consumer protection are lacking. Insofar the report specifically refers to the absence of duties to upgrade software and reasons that

¹⁴⁹ p. 24.

¹⁵⁰ French report, pp. 20-21.

¹⁵¹ Italian report, p. 16.

¹⁵² Hungarian report, p. 13.

¹⁵³ French report, pp. 18-20.

the judiciary still does not appropriately recognize the importance of digital goods.¹⁵⁴ The Czech Report points at a priority of consumer interests in case law concerning misleading and incomplete information.¹⁵⁵

The Brazilian report concludes that consumer protection is at the core of the balancing of interests in antitrust law as the law aims at increasing consumer welfare and the reporter considers the combination of anti-trust and specific consumer protection rules to strike a fair balance of interests.¹⁵⁶ The German Law against Unfair Competition mentions consumer protection as one of its core purposes. The same holds true for Austrian¹⁵⁷ and Czech law.¹⁵⁸

In Hungary¹⁵⁹ and Romania¹⁶⁰, courts seem to be more reluctant to directly take consumer interests into consideration. Though in Romania, there seems to be an exception in cases in which the competition authority has specifically pointed out potential negative effects on consumers.¹⁶¹ The Swiss report concludes that consumers' rights hardly limit the ability of manufacturers to exert control over their distributive infrastructure.¹⁶²

Overall, the classic economic approach in anti-trust and competition law in the narrow sense seems to be perceived as sufficient to safeguard consumer rights. Whether that is true in the context of giant e-commerce and communication platforms needs to be discussed further.

¹⁵⁴ P. 12.

¹⁵⁵ Czech report, pp. 8, 9.

¹⁵⁶ Brazilian report, p. 12.

¹⁵⁷ Austrian report, pp. 8-10.

¹⁵⁸ Czech report, pp. 8, 9.

¹⁵⁹ P. 14.

¹⁶⁰ Pp. 23, 25.

¹⁶¹ Pp. 23, 25.

¹⁶² Swiss report, pp. 16-17.