

# OPINION

## Debranding: A Form of Trade Mark Infringement? A Discussion of the CJEU Decision in *Mitsubishi/Duma*

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☞ EU law; Imports; Infringement; Rebranding; Removal; Trade marks

*The Court of Justice recently rendered a decision in which the question came up whether debranding of products is a form of trade mark infringement. It concerned products that were imported into the EU by a third party after having been debranded. The court concluded that it is, because the act of debranding conflicts with the right of the trade mark owner to control the first placing on the EU market of his products. The author argues that the reasoning leading up to this conclusion is wrong.*

This opinion will discuss whether “debranding” (i.e. the removal of a trade mark from a product without the trade mark proprietor’s consent) is a form of trade mark infringement, a question which came up before the Court of Justice of the European Union in the *Mitsubishi v Duma* case.<sup>1</sup> Applying an—in this author’s view incorrect—line of reasoning, the CJEU has decided that, in the particular circumstances of this case, this indeed constitutes trade mark infringement. In his written Opinion, Advocate General Campos Sánchez-Bordona had—by contrast—expressed the view that it is not possible to challenge debranding on the basis of trade

mark law, but that it might be possible to do so based on unfair competition rules. So what are the facts of this case? The defendants purchased original Mitsubishi forklift trucks outside the EEA and placed them in customs warehousing. There, the defendants removed the Mitsubishi marks, attached their own signs and made a number of modifications to bring the trucks into line with EU standards, after which the trucks were taken out of the warehousing and imported into the EEA market. Mitsubishi opposed this before the Belgian courts, invoking its EU and Benelux trade marks. The Brussels Court of Appeal asked the CJEU—in brief—whether the debranding of goods that have not previously been traded within the EEA can be opposed as a form of trade mark infringement and, in this regard, whether it makes a difference whether the other party has affixed a distinctive sign of its own (“rebranding”) and whether the relevant goods can still be identified by the average consumer as originating from the trade mark proprietor.

To refresh the reader’s memory: a trade mark proprietor’s right include the right to oppose the unauthorised use, in the course of trade, of a sign identical or confusingly similar to the relevant trade mark in relation to goods or services such as those for which that trade mark is registered (see art.5 of the Trade Marks Directive and the virtually identical art.9 of the European Union Trade Mark Regulation; for the sake of convenience only the Directive provision will generally be referred to from now on). In order for the proprietor to be entitled to exercise a right of opposition, the sign’s use must therefore occur both (1) in the course of trade and (2) in relation to goods or services. The above-mentioned provisions give non-exhaustive examples of use, such as affixing the trade mark to goods (or their packaging), importing or exporting goods under the trade mark, or using the trade mark in advertising. Debranding is not mentioned.

In the run-up to its actual decision, the CJEU begins by reminding us of the doctrine of the exhaustion of trade mark rights (at [31]–[32]) and the court’s case law on the various functions of a trade mark (at [34]–[38]). With regard to exhaustion (once goods bearing a trade mark have been placed on the market by or with the consent of the proprietor of that trade mark, the proprietor cannot oppose the use of the trade mark in relation to those goods), a political choice was made at the time to limit the scope of its application to the territory of the EEA and to preclude worldwide exhaustion. In other words: if goods that have been placed on the market outside the EEA by or with the consent of the trade mark proprietor are imported into the EEA by another party, the exhaustion rule does not apply and the proprietor can oppose the importation of those goods. At the time of the harmonisation of European trade mark laws, a problem was posed by the fact that some of the countries recognised the worldwide exhaustion of trade mark rights

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<sup>1</sup> *Mitsubishi Shoji Kaisha Ltd v Duma Forklifts NV* (C-129/17) EU:C:2018:594; [2018] Bus. L.R. 2405.

and others only national exhaustion. A compromise was reached by opting for EEA-wide exhaustion, hence the current rule.

According to the CJEU, this means that the trade mark proprietor can control the first placing of goods bearing the trade mark on the market in the EEA (see [32], with the relevant case law); the court actually refers to a “right” to such control and (at [47]) even to the infringement of that right. The concept of a “right to control” comes from an earlier CJEU judgment in the *Top Logistics* case.<sup>2</sup> As we can see, this “right” forms the point of departure for the CJEU’s judgment in the case at hand; it is set out in the very first part of the justification of the judgment (at [42]). This, in the author’s view, is where things go wrong. The trade mark proprietor cannot be said to have a right here. The rights of a trade mark proprietor are explicitly formulated in art.5 of the Directive under the heading “Rights conferred by a trade mark”. Nowhere in the legislation is there a reference to a right to control the first placing of trade marked goods on the market in the EEA. The fact that the proprietor has such control is a consequence of the political decision to apply an EEA-wide exhaustion rule. This rule is an exception to the rights granted by law to the proprietor, but does not in itself give the proprietor an autonomous right. The CJEU, however, relies on a right of control as the first argument in support of its decision, by asserting that debranding deprives the trade mark proprietor of its ability to invoke that right. If the CJEU is correct, this means that the proprietor will be able to invoke this construed right also where goods are debranded outside the EEA and then imported into the EEA in debranded form, without it being necessary to address the question of whether or not there has been an act of “use” in the EEA.

Instead of using this so-called right as a point of departure, the CJEU should first have addressed the question of whether debranding constitutes use of the trade mark in the course of trade in relation to goods under art.5 of the Directive. It is only in the fourth point of the court’s assessment (at [48], “Finally ...”) that the subject of use is raised. At [38] the CJEU had stated, referring to its case law on the list of types of use given in art.5(3) of the Directive, that this non-exhaustive list refers exclusively to active behaviour. At [48], the court then rules that the removal of signs identical to the trade mark and the affixing of the third party’s own signs “involves active conduct on the part of that third party” and also occurs in the course of trade. What the court overlooks, however, is that there must always be use *in relation to goods or services*, that is to say, use for the purpose of distinguishing those goods or services in the eyes of the relevant public. In the author’s view, removal of the trade marked sign does not constitute use in this sense; on the contrary, the consequence is that the public ceases to be confronted with the mark distinguishing the products. In other words: there may indeed be active conduct on the part of the third party, but not for the purpose of

distinguishing the goods by means of the trade mark. At the very most, there is active conduct in that the third party affixes its *own* distinctive sign to the goods, but this obviously does not constitute use of the trade mark.

As mentioned earlier, the CJEU also refers to the functions of a trade mark (at [34]–[37]) and invokes these as further (second) grounds for its conclusion that debranding can be opposed on the basis of trade mark law (at [43]–[46]). The first (and, in the court’s opinion, essential) function of a trade mark is to guarantee the identity of the origin of the relevant goods to the consumer or end-user, by enabling the latter to distinguish them from goods of a different origin. At [44], referring to its *Top Logistics* judgment, the CJEU concisely states that any act preventing the proprietor of a trade mark from exercising his right to control the first placing of goods bearing that mark on the market in the EEA by its very nature undermines that essential function of the trade mark. With all due respect, however, here the court completely overlooks the fact that following its removal the trade mark is no longer visible and, therefore, that the question of control over goods bearing the trade mark does not arise. Advocate General Campos Sánchez-Bordona is correct in observing, at [80] of his Opinion, that the *Top Logistics* judgment does not apply here. In its discussion of the indication-of-origin function, the CJEU addresses the question posed by the referring Belgian court about whether it makes a difference that the trucks are still recognisable to the relevant consumers as original Mitsubishi products, despite the removal of the trade marks and the affixing of the third party’s own signs. However, the only thing the court says is that this fact “is likely to accentuate” the effects of the harm to the trade mark’s essential function. Why the court finds this to be the case is not explained. Moreover, in any event this author does not think that the recognition of the trucks by consumers has anything to do with the function of the Mitsubishi trade mark as a distinctive sign. The potential confusion on the part of the consumer is due to the fact that Mitsubishi products apparently have a distinctive appearance and therefore, if the consumer sees that same outward form, he/she can be confused as to the origin of the relevant product. In other words, the confusion results not from the function of the trade mark, but from the distinctive character of the products’ outward appearance.

In addition, the CJEU discusses why, in its view, debranding and the affixing of the third party’s own sign also harm two other functions recognised earlier by the court, namely the investment function and the advertising function. This harm consists, in brief, of substantially impeding the use of the trade mark by the proprietor for the purpose of building a positive reputation among consumers, as a factor in sales promotion or as an instrument of commercial strategy. I understand why the court has concerns about the trade mark proprietor’s inability to use its trade mark to generate goodwill among

<sup>2</sup> *Top Logistics BV v Bacardi & Co Ltd* (C-379/14) EU:C:2015:497; [2015] Bus. L.R. 1014.

consumers for its own products. But this can at most form the basis of an action for unfair competition: from a trade mark law perspective, no harm to the functions of the trade mark in question can be said to have occurred because, as stated earlier, no use of that trade mark can be said to have taken place.

As a third argument in support of its decision (at [47]), the CJEU states that debranding and the affixing of new signs is contrary to trade mark law's objective of ensuring undistorted competition on the market. At [30], the court had reminded us that in the EU system for the protection of undistorted competition, undertakings must be able to attract and retain customers by the quality of their products and that this is made possible only by distinctive signs allowing those products to be identified. The point, however, is that in the case at hand the relevant sign has been removed and replaced with the third party's own sign. It is certainly possible for this to be seen as unfair competition that gives rise to a distortion of competition, but because the trade mark is not used, there is no trade mark infringement. Here I also refer to [90] and following of the Advocate General's Opinion, in which he explicitly points out the possible applicability of legislative provisions against unfair competition to a case such as the one at hand. Particularly because customers will recognise the original manufacturer from the appearance of the forklift trucks, there will indeed be confusion regarding the trucks' origin and hence grounds for an action based on competition law.

This is the first time that the CJEU has ruled on the subject of debranding. The *Portakabin/Primakabin* case involved a reseller of mobile buildings that removed all the trade marks of the trade mark proprietor and affixed

its own mark, but continued to use the original trade mark in advertising. The trade mark's use in advertising was considered by the CJEU to be trade mark infringement. However, the court did not rule on the actual act of debranding. Under former Benelux trade mark law, the predominant position was that debranding did not constitute use of the relevant trade mark (see in particular the judgment of the Benelux Court of Justice in *AP v Valeo*,<sup>3</sup> in which that court rejected the position taken by a number of lower courts and commentators). If the drafters of the EU legislation had wanted to characterise the removal of a trade mark as an act of use, the obvious course of action would have been to explicitly include it in the list of examples in art.5(3) of the Directive, especially as each of the examples listed involves the visible use of a trade mark for the purpose of distinguishing goods or services. This constitutes additional support for the argument that the CJEU's judgment is not in line with what the drafters of the EU legislation had in mind. Interestingly, under French law, the removal of a trade mark is explicitly considered as use of that trade mark.<sup>4</sup> It is questionable whether this provision is in accordance with the Directive.<sup>5</sup>

The *Mitsubishi v Duma* case involved the importation of debranded goods into the EEA. It remains to be seen whether the CJEU will rule the same way in other debranding cases. If there is a case in which, unlike in *Mitsubishi v Duma*, the so-called right to control the first placing on the market does not play a role, because the relevant goods are debranded after having been put on the EEA market, it could very well be that the CJEU will decide differently. Let's wait and see.

<sup>3</sup> *AP v Valeo* (A 89/1) Benelux Court of Justice, 6 November 1992 [1993] Nederlandse Jurisprudentie 454.

<sup>4</sup> See Code de la propriété intellectuelle art.L713-2: "Sont interdits, sauf autorisation du propriétaire...(b) La suppression ou la modification d'une marque régulièrement apposée." (The removal or modification of a lawfully affixed trade mark without the consent of the owner is prohibited.)

<sup>5</sup> See also Ronald Knaak and Annette Kur, "Markenentfernung als rechtsverletzende Benutzung?" [2018] G.R.U.R. 1120.