

MEMO

For: backaldrin Österreich The Kornspitz Company GmbH

From: Dr. Egon Engin-Deniz (author)
Mag. Hans Lederer (author)
Translation: Georg Eberle

2012/228/k/memo130919

Date: 27 October 2013 Version 3 English Translation
(04 October 2013 Version 2; reworking Version 1 from
the 26 September 2013)

**Concerning: Background information, course of procedure and
opinion on the questions referred to the ECJ - with special
reference to the Opinion of the Advocate General
- in dispute over deletion of Austrian word mark
KORNSPITZ (AT 108.725) for finished pastry (Class
30); focus lies on raising awareness**

1. Background

The family-owned enterprise backaldrin Österreich The Kornspitz Company GmbH (backaldrin), founded in 1964, produces more than 400 products for bread, pastry and confectionery. backaldrin is represented in 90 countries worldwide, in 14 countries with company-owned offices. In **1984**, backaldrin developed an **elongated dark bread roll that is running together at the ends in a pointed form**, and which is based on a baking mixture consisting of rye and wheat flours, rye, wheat and soybean crushing, whole-wheat malt, flax seeds and salt.

backaldrin is the owner of the **Austrian word mark KORNSPITZ**, brought to registration on **13 December 1984** and registered on 27 March 1985 (AT 108.725). The mark is protected for goods and services in Classes 5, 25, 28, 29, 30, 35, 41, 42, 43 and 44.

Nowadays, the vast majority of Austrian bakers uses the **baking mixture** developed and produced by backaldrin, which forms the basis for the production of the bread roll marked with the brand name *KORNSPITZ* and which is responsible for its characteristic flavour. The bakers must only add basic ingredients such as water, flour and yeast to the baking mix to make a dough, which is then moulded and baked out to get the finished pastry. In addition, backaldrin offers a mixture for the manufacture of said bread roll marked with the brand *KORNSPITZ* which only needs the admixture with water to form a dough.

In addition to the baking mixture, **backaldrin provides** for the bakers the **recipe** as well as **appropriate baking instructions and a training course for the production of said bread**

roll. These measures are designed to ensure a consistently high quality and a consistent taste of the bread roll to which the brand *KORNSPITZ* applies.

backaldrin concedes at the same time a **non-exclusive license** to those bakers that purchase the baking mixture for manufacturing the bread roll under the mark *KORNSPITZ* owned by backaldrin. This license gives the baker permission to produce a bread roll according to the recipe and baking instructions of this baking mixture and to put said bread rolls on the market under the brand *KORNSPITZ*, and specifically permits the bakers to sell them under that name to customers (grocery, restaurants, end-users).

This **business model is due to the special characteristics of the market for bread and pastries.**

Consumers generally **have high expectations for the freshness** of baked goods. If a bakery does not have a tightly knit branch network, it would be impossible for it to sell its products in a geographically wider area, across the country or even across national borders. Therefore, it requires a different sales model to meet the expectations of the consumer concerning freshness requirements. This is accomplished by backaldrin in the way that bakeries produce their bread using the finished baking mixture based on the ingredients responsible for the characteristic taste.

Another distinctive fact is **the presentation of bread and pastries** in bakeries, but also increasingly in food stores. The **product is regularly presented** there to the customer **unpacked**. This form of presentation is closely related to those consumer expectations for the freshness of bread and pastries mentioned above, but also means that the trademark owner is restricted in the possibility to point out his trademark rights to the purchaser, for example on the design of the packaging of the goods.

Moreover, **the image of the consumer of bakeries** is also shaped by the fact that, particularly in urban areas, large producers are present with a widespread, dense network of stores. The consumer is aware that the baked goods offered for sale in the individual stores are not produced locally, but that the baked goods are produced in a central bakery and only sold in the stores - some after they are fully baked in each store. The same applies to baked goods sold in grocery stores - often unpacked. Again, the end users know that the food offered there includes bread and pastries produced by various bakeries.

The bread roll marked with the brand *KORNSPITZ* is **widely available** in Austria, **well known among consumers and highly popular**. These consumers connect with the brand *KORNSPITZ* very **specific characteristics in terms of recipe and ingredients, shape and appearance, taste and health value of the bread roll** and have a **consistent quality association** regardless of where it is purchased.

In addition to the bread roll marked with the brand *KORNSPITZ*, bakeries and food retailers also offer numerous further elongated dark bread rolls that are running together at the ends in a pointed form **under other names** (e.g. *Knusperspitz, Alpenspitz, Kerni, Urkornweckerl, Topfenkornweckerl*). Commonly this kind is of bread rolls to which also the bread roll marked with the brand *KORNSPITZ* is counted are referred to under the umbrella term *Kornstange* or *Kornweckerl*.

2. Previous course of cancellation proceedings

2.1 On **11 May 2010**, a competitor of a backaldrin, Pfahnl Backmittel GmbH (Pfahnl), requested the deletion of the Austrian word mark *KORNSPITZ* (AT 108.725) at the Austrian Patent Office for all goods in Class 30, for which the mark is registered. According to Pfahnl, the mark *KORNSPITZ* for the goods in Class 30 became a common name in accordance with § 33b Austrian Trademark Protection Act (Trademark Law), which transposes Article 12(2)(a) of Directive 2008/95/EC to approximate the laws of Member States relating to trademarks (Trademark Directive) into national law.

According to **Article 12(2)(a) Trademark Directive**, a trademark shall be liable to revocation if it has become a common name in the trade for a product or service for which it is registered after the date of registration in consequence of acts or inactivity of the proprietor.

Even though the **Cancellation Division of the Austrian Patent Office**, which was in charge of the proceedings at first instance, closed the case for the majority of products covered by the application for cancellation - namely confectionery, yeast, baking powder, spices, baking aids, fine pastry and confectionery, as long as not included in other classes, also prepared for baking; chocolate, chocolate products, chocolate masses and couverture, cocoa powder and cocoa products; nougat and nougat products, pralines and confectionary goods, bread dumplings and dough dumplings; dough, also deep-frozen for the production of fine pastries - **by decision of 26 July 2011, Nm 52/2010-6**, it concluded that the trademark has become a common name in relation to some goods - namely, flours and preparations made from cereals; baked goods; baking agents, pastry, cakes, also prepared for baking, dough, also deep-frozen for the production of fine pastries.

Against the acceded part of the decision of the Cancellation Division of the Austrian Patent Office, backaldrin raised an **appeal to the Supreme Patent and Trademark Senate (OPM)**.

2.2 In its **decision of 11 July 2012, Om 6/12-4**, OPM first made it clear that the Austrian word mark *KORNSPITZ* is registered for goods that are or can be traded on different markets. *"On one hand, these goods are raw materials and intermediates for which the end users are mainly bakers and grocers (flour, cereals, baking ingredients, dough for baking and prepared pastry). Bakers are still aware that the name 'Kornspitz' is a reference to the origin from a particular company. The same will apply for grocers that use 'Kornspitz' dough prepared for baking or bread rolls designated for further processing towards the final product in their stores. For raw and intermediate products, the term 'Kornspitz' therefore has in no way become a common name. This excludes a deletion of the mark for these goods. In this respect the decision of the Cancellation Division will therefore have to be altered in any case (OPM 11 July 2012, Om 6/12-4, page 7)."*

But also with regard to the remaining goods, namely in particular **ready-baked pastry**, it has already been determined due to the decision of OPM that the **decision of the Cancellation Division of the Austrian Patent Office will be revoked** and in any case is remanded for reconsideration. Thus, OPM stated regarding such goods: *"Customers here are primarily end consumers. According to the findings of the lower instance, for end consumers, 'Kornspitz' has become a common name for baked goods with a specific composition and a certain form, and is no longer understood as an indication of the origins of said goods. This raises two questions: On one hand, the trademark owner [note: backaldrin] denies on appeal that the understanding*

of the consumer has actually developed in this sense. **Whether this is true, would have to be cleared by an independent consumer survey, if it matters to the results of this preliminary ruling.** On the other hand, it can also be considered acceptable that expiration revocation according to Art 12 para 2 lit a Trademark Directive can only be considered if not only the end-users (consumers here), but also the producers and intermediaries understand the brand only as a generic term. **Then the understanding of the consumers would not be a decisive factor, because bakers and food retailers know in the vast majority of cases that, Kornspitz' is a protected mark for the goods they sell, and which they are only allowed to sell due to the purchase of raw material from the trademark owner. The present preliminary ruling only refers to this second group (bakery, pastry) (OPM 11 July 2012, Om 6/12-4, page 7f).**"

Furthermore, OPM addressed in its decision the question whether backaldrin is responsible for a conversion of the Austrian word mark *KORNSPITZ* into a common name due to **causal inactivity**. Such inactivity would usually be seen in the fact that the trademark owner is not moving against **third party interference** in his trademark rights. Such interferences **were not detected** by the Cancellation Division of the Austrian Patent Office **in a relevant number**: *"The fact that the trademark owner, according to the findings of the Cancellation Division, did not or only belatedly move in (only) four cases against bakers who produced ,Kornspitz' without using the branded baking mixture for the final product and therefore were not allowed to use the trademark cannot be seriously considered as causal for the conversion into a common name (OPM 11 July 2012, Om 6/12-4, page 12)."*

At last OPM wrote: *"According to the Austrian Supreme Court (4 Ob 269/01i - Sony Walkman II), the understanding of traders is also relevant for a trademark to become a common name;- as long as the traders recognize the trademark as an indication of origin, in principle a revocation of the trademark is not acceptable. It is a different matter, from the perspective of end users, when there is **no alternative** name for a trademark available to designate specific goods or services. [...] If the revocation of a trademark depends on whether there are alternative names to a trademark, which in the understanding of end users has become a common name, it would have to be considered whether the alternative designations used in daily business by the relevant consumers are actually understood as a synonym for ,Kornspitz'. **For this, also an independent consumer survey would be required. Whether it actually is to be carried out depends on whether the ECJ follows the ruling of the Austrian Supreme Court that the existence of alternative names excludes the revocation of a disputed term (Art 12 para 2 lit a Trademark Directive), if the trademark is no longer recognized by end users but is still understood as a trademark by the retailers and intermediaries (OPM 11 July 2012, Om 6/12-4, page 13f).**"*

Based on these facts OPM, following Article 267 TFEU, laid before the European Court of Justice (ECJ) the following **three questions for the interpretation of Article 12(2)(a) Trademark Directive** for a preliminary ruling and suspended the appeal proceedings until the arrival of the decision of the ECJ; the questions **refer solely on finished bakery goods that are purchased primarily by end consumers**:

"1. Has a trademark become "the common name for a product or service" within the meaning of Article 12(2)(a) of Directive 2008/95/EC where

a) even though traders know that the mark constitutes an indication of origin, they do not generally disclose this to end users, and

b) (inter alia) on those grounds, end consumers no longer understand the trademark as an indication of origin but as the common name for goods or services, in respect of which the trademark is registered.

2. *Can a conduct of a proprietor be regarded as 'inactivity' for the purposes of Article 12(2)(a) Directive 2008/95/EC simply if the proprietor of the trademark remains inactive notwithstanding the fact that traders do not inform customers that the name is a registered trademark?*

3. *If, as a consequence of acts or inactivity of the proprietor, a trademark has become a common name for end consumers, but not in the trade, is that trademark liable to be revoked if, and only if, end consumers have to use this name because there are no equivalent alternatives?***2.3** In the **preliminary ruling procedure before the ECJ, C-409/12**, besides backaldrin and Pfahnl, the **Federal Republic of Germany, the French Republic, the Italian Republic and the European Commission** presented written statements to the referred questions.

On **29 May 2013**, a **hearing** was held before the ECJ. **Chairman** of the Senate is the Slovenian judge **Marko Ilešič**. The other members of the Senate are the Romanian judge **Camelia Toader**, the Lithuanian judge **Egidijus Jarašiūnas**, the Irish judge **Aindrias Ó Caoimh** and the Swedish judge **Carl Gustav Fernlund**. Advocate General is the Spaniard **Pedro Cruz Villalón**. Besides the representatives of backaldrin and Pfahnl, representatives of the **European Commission** and the **Federal Republic of Germany** appeared at the hearing.

On **12 September 2013**, the **Opinion of Advocate General Villalón** was issued, where he proposed answers to the individual questions - contrary to the opinions of the majority of the parties.

A date for the delivery of the judgment is not yet known. Regularly however, the time interval between the Opinion of the Advocate General and the delivery of a judgment is at least two to three months.

3. Opinion on the various questions referred to the ECJ

Even if the **revocation of a trademark** that has become a common name is based on a reasonable explanation like the expiration of the function of the trademark, one must not lose sight of the fact that it is a **serious consequence for the brand owner** - far more serious than the non-registration of a generic term as a trademark at the beginning of their economic existence. The entrance of a trademark into common language as a term for the product itself, ultimately shows the success of the hard, often long-standing work of the proprietor, whose product was the epitome of the type of product in the eyes of the world. In many cases, the trademark owner just established that product category by a particularly innovative product, which is now referred to by its brand.

The legislature was therefore called for a **thorough weighing of interests**. It had to reach a balance, on the one hand considering the interest of the public and competitors in the free usage of a term that is no longer connected for the interested parties to its original sense and forcing competitors due to its monopolization to avoid said term - perhaps in favour of an appearingly contrived alternative. On the other hand, the interests of the owners have to be addressed in the assessment, whose trademarks, being intellectual property, also enjoy protection under Article 17(2) of the Charter of Fundamental Rights and Article 1 of the First Protocol to the European

Convention for the Protection of Human Rights and Fundamental Freedoms. The legislature came in its consideration to the conclusion that the proprietor of a trademark can only be held responsible for the conversion of a trademark into a common name of a product, if it is based on the acts or inactivity of the proprietor.

Article 12(2)(a) Trademark Directive therefore requires as *actus reus* that the trademark has become the common name in trade for the goods or services for which it is registered. As a *mens rea* the provision requires that the development has occurred in consequence of acts or inactivity of the proprietor (see Opinion, 12 September 2013, C-409/12, paragraphs 30 to 32).

The first and third questions concern the actus reus. The second questions refers to the mens rea.

3.1 First Submission

3.1.1 Submission. With this question, OPM would like to know whether a trademark has become a common name, if, even though traders know that the mark constitutes an indication of origin, and they do not generally disclose this to end users, and (inter alia) on those grounds, end consumers no longer recognize the trademark as an indication of origin but rather as a common name for goods or services, for which the trademark is registered.

From all involved parties, only the Italian Republic and Pfahnl take the view that this question should be affirmative. The **Federal Republic of Germany**, the **French Republic**, the **European Commission and backaldrin** are of the opinion that in cases such as the present, **both the consumer and the traders are to be considered as the relevant public.**

3.1.2 Opinion of Advocate General Villalón: Advocate General Villalón proposes to answer the first question as follows: "*Article 12(2)(a) of Directive 2008/95/EC is to be interpreted as meaning that the decisive target public for assessing whether a trademark in trade has become the common name of the product for which it is registered comprise mainly of the consumers and end users. Depending on the characteristics of the market, the traders involved in the retail of the product are taken into account. Characteristics that support such a consideration are, in particular, if the corresponding traders exert a degree of influence on the purchase decision of the final consumer. In that regard, this is not the case if a trademark has become the common name of the product for which it is registered, if it is understood by end-users as such, although the dealers who produce the goods themselves from a precursor of the trademark owner and sell them with the consent of the proprietor are aware that this is an indication of origin, and just not disclose this fact to the consumer in general.*"

From the judgment of the ECJ of 29 April 2004 in **Case C-371/02 - Björnekulla Fruktindustrier**, Advocate General Villalón reaches the conclusion that for the fulfilment of the *actus reus* of Article 12(2)(a) Trademark Directive (= conversion of a brand into a common name) it is regularly sufficient if consumers view a trademark as a common name. However, for a trademark to fulfil its original function despite the lack of knowledge of the buyer of the brand property, **the intermediary has to extend a significant influence on the purchase decision for the buyer.** This would be the case if in the respective market a purchasing decision is usually determined to a vast extent on the advice of the intermediary or the intermediary is executing the purchasing decisions for the consumer itself, as is the case with doctors and pharmacists concerning prescription drugs.

Such a significant influence on the purchase decision is not present in this case, since customers of a bakery would be making their purchasing decisions without consultation or even decisive influence on the purchase decision itself. The acquisition of baking mixtures had no influence on the purchase of the finished pastry, but has to be handled as another product that would be produced by the bakers from the preliminary and offered to the customer under license. The decision of the bakers about their own supply and the lack of information to their customers about the trademark of the bread roll would also not constitute a significant influence on the purchase decision of the consumer in terms of this bread roll. The bakers were on the side of the manufacturer, not the consumer, since they produce the finished product only under license (Opinion 09 December 2013, C-409/12, paragraphs 59 to 62).

The argument that consumers would easily tend to use brands as a common name did not convince Advocate General Villalón either. Even if consumers would often use trademarks as common names, they are usually aware of the brand property. Finally, Advocate General Villalón states that the risk of loss of value of the trademark of the precursor by the revocation of the trademark for the final product resulted from the decision of the trademark owner to register the trademark for both product groups, and from the specific production and sales structure of the final product, especially its production by bakers and the license granted to sell the final product under the brand. backaldrin made these decisions and thus created the corresponding risk (Opinion 12 September 2013, C-409/12, paragraphs 65 and 66).

3.1.3 Opinion of backaldrin. Both the wording and purpose of the provision of Article 12(2)(a) Trademark Directive as well as the systematics of the Trademark Directive make it clear that in assessing the question of whether a trademark has become a common name, **the perception of both the consumer and the traders involved in the production and sales of goods is a decisive factor.** Due to the particular characteristics of the market for bread and pastries, the understanding of the trader even has a central role.

In its judgment in the *Case Björnekulla Fruktindustrier* the ECJ noted that if the distribution of some product covered by a registered trademark to the consumer or end user involves intermediaries, the relevant public for the assessment of the question whether such a trademark has become the common name of the product in question comprises of all consumers and end users, **and** also consists of all intermediaries involved in the marketing of the product (ECJ 29 April 2004, C-371/02, paragraph 26 - *Björnekulla Fruktindustrier*).

3.1.3.1 According to the wording of Article 12(2)(a) Trademark Directive, it depends on the perception of both the consumers and the professionals involved in the manufacture and distribution of goods.

The examination of the different language versions of Article 12(2)(a) Trademark Directive shows that the terms used in the English and Finnish versions ("*in the trade*" and "*elinkeino-toiminnassa*") **rather refer only to the professionals**, while the terms used in the Spanish, Danish, German, Greek, the French, the Italian, Dutch, Portuguese and Swedish version **distinguish** ("*en el comercio*", "*indention for handeln*", "*Im geschäftlichen Verkehr*", "*συνήθης εμπορική ονομασία*", "*dans le commerce*", "*la generica denominazione*", "*„in de handel*", "*„no comércio*" and "*i handeln*") **both between consumers and end-users and the traders who sell the product** (ECJ 29 April 2004, C-371/02, paragraph 17 - *Björnekulla Fruktindustrier*).

This is also referred to by the **Federal Republic of Germany** (Opinion of the Federal Republic Germany 17 December 2012, paragraphs 4 to 7), the **French Republic** (translation of the Opinion of the French Republic 20 December 2012, paragraphs 14 to 16) and the **European Commission** (Opinion of the European Commission, 14 December 2012, paragraph 13) in their written statements.

3.1.3.2 Following the systematics of the Trademark Directive, the perception of a trademark depends on the perception of both the consumers and the professionals involved in the manufacture and distribution of goods.

Advocate General Philippe Léger came in his Opinion of 13 November 2003 in the case *Björnekulla Fruktindustrier*, especially due to the systematics of the Trademark Directive, to the following conclusion: *"Article 12(2)(a) of the Directive should therefore be interpreted by reference to Article 3(1)(c) and (d) of that directive. In that regard, the wording of Article 3(1)(d) of the Directive deserves particular attention. In order to assess whether a sign or an indication has become the common name for goods and services in respect of which the registration of the mark is applied for or has been applied for, with the result that such registration would be refused or that a registered trademark is liable to be declared invalid, it expressly states that it should be considered whether the sign or indication in question has become customary 'in the current language or in the bona fide and established practices of the trade' (as was held by the Court in Merz & Krell). In my opinion, this expression clearly refers globally both to the perception of the average consumer of the type of goods or services in question (that is to say to the perception of the reasonably well-informed and reasonably observant and circumspect consumer) (36) and to that of persons in the trade who deal with those goods or services commercially [note: the Advocate General noted in footnote 37 further on: It might be considered that Article 3(1)(d) of the Directive applies to persons in the trade in question in two capacities, namely both as representing the context in which the bona fide and established practices of the trade are forged and as a section of the population which uses the current language, in the manner of the average consumer.] (Opinion, 13 November 2003, C-371/02, paragrapha 56 to 58 - Björnekulla Fruktindustrier)."*

According to Advocate General Léger, moreover, this is shown by the current practice of the Office for Harmonisation in the application of Article 7(1)(d) CTMR, which has the same wording as Article 3(1)(d) Trademark Directive. The Office for Harmonisation undertakes a global assessment of the perspective of the relevant public, which varies depending on the type of goods or services in question. Thus, were a mark relates to goods whose pattern of consumption is widespread, as can be the case for a food product, particular attention is paid to the meaning of the term in the current language, i.e. not only from the perspective of the average consumer, but also that of the trade concerned (Opinion, 13 November 2003, C-372/02, paragraphs 59 and 60 - *Björnekulla Fruktindustrier*).

The **Federal Republic of Germany** also refers in its written observations on the systematic context of Article 3(1)(b) and (d) Trademark Directive on the one hand and Article 12(2)(a) Trademark Directive on the other. When assessing the distinctiveness of a sign at the time of registration, the ECJ refers to both the perception of the consumer of the goods or service as well as the perception of the trade involved in marketing (Opinion of the Federal Republic of

Germany 17 December 2012, paragraphs 8 to 13, with reference to the ECJ judgments 4 October 2001, C-517/99, paragraph 31 - *Merz & Krell* and ECJ 4 May 1999, C-108/87 and C-109/97, paragraph 29 - *Windsurfing Chiemsee*).

The **European Commission** refers in its written comments on the systematics of the Trademark Directive. Article 3(1)(c) and (d) Trademark Directive are referring to the understanding of the phrases "in the trade" („im geschäftlichen Verkehr“) and "in common usage or in the bona fide and established practices" („im allgemeinen Sprachgebrauch oder in den redlichen und ständigen Verkehrsgepflogenheiten“). These terms made it clear that suppliers, particularly as intermediaries or processors, are not excluded from the relevant public. If the sign for the suppliers, "the trade" („den Handel“), is not a common name, it is not excluded from registration as a trademark according to Article 3 (1)(c) and (d) Trademark Directive (Opinion of the European Commission 14 December 2012, paragraphs 18 and 19).

Finally, the **French Republic** draws the same conclusions from the systematics of the Trademark Directive in its written opinion (translation of the Opinion of the French Republic, 20 December 2012, paragraph 17).

The **Supreme Court in Austria** (OGH) concluded in its decision of 29 January 2002 in **Case 4 Ob 269/01i - Sony Walkman II**, with reference to the judgment of the ECJ in the Case *Merz & Krell* that not only the prevailing public understanding of the end-user but also that of the manufacturer and distributors must be taken into consideration: *"Those products for which the controversial trademark is registered, are mainly traded between electrical equipment retailers and consumers as customers, so both groups of people form the relevant market. Therefore, on the issue of prevailing public understanding, the literal understanding of the trademark „Walkman“ of the trader has to be taken into account just like that of the consumer."*

This view is confirmed by OGH in its decision of 6 July 2004 in the **Case 4 Ob 128/04h - Memory**: *"The question whether a trademark has become a common name must be based on a comprehensive investigation of the understanding of the trademark by the complete relevant public. The relevant public are those groups where the trademark is to be used or an impact is to be expected; for goods that are mainly traded between intermediaries as providers and consumers as end-users, not only the end consumer, but also manufacturers and traders are to be included. The German tenet [...] represents - under the same Community Law legal basis - this position."*

3.1.3.3 The meaning and purpose of Article 12(2)(a) Trademark Directive depends on the perception of consumers as well as at the traders involved in the manufacture and distribution of goods - depending on the specific characteristics of the market.

The **market for bread and pastries**, especially for the bread roll branded *KORNSPITZ*, is characterized by the following **special conditions** (see also the remarks in Section 1 above):

- **High expectations of consumers on freshness** of bread and pastries, which cannot be met on a geographically larger market without an own dense branch network.
- Regularly **unpackaged presentation** of bread and pastries in bakery stores and increasingly in food stores, which greatly limits the possibilities of the trademark owner for informing the consumer about the origin of the product, for example by the design of the packaging.

- Especially because consumers associate **very specific characteristics** with the trademark *KORNSPITZ* in terms of recipe and ingredients, shape and appearance, taste and health value of the bread roll, regardless of where these are acquired, and have **consistent quality notions** of the product, and especially because the bread roll with the branded *KORN-SPITZ* is in **high demand**, bakers purchase the baking mixture responsible for the characteristic flavour of the finished bread roll together with a non-exclusive license which allows them to denote the bread roll, finished out of the proprietors recipe, with the brand name *KORN-SPITZ*, owned by the trademark owner.

It is **settled case-law** that the essential function of a trademark is to guarantee to the consumer or end user the identity of the origin of the marked goods or services by enabling him to distinguish the product or service without likelihood of confusion from those of other origins (**origin function**). For the trademark to be able to fulfil its essential role in the system of undistorted competition, it must offer a guarantee that all the goods or services that are branded with it have been manufactured or supplied under the control of a single undertaking which can be held responsible for their quality.

The origin function is **not** intended to enable the consumer to identify **the "physical" producers of the goods**, meaning the company that produces the product itself. This does not correspond to the reality of today's **productive economy based on the division of labour**, where the products are produced in **complex production chains under license**. A brand rather guarantees that the goods are produced under the control of one enterprise - the trademark owner (Opinion 12 September 2013, C-409/12, paragraph 27).

The ECJ in its **judgment in Case *Björnekulla Fruktindustrier*** states, that if the function of the trademark as an indication of origin is of primary importance to the consumer or end user, it is also relevant to intermediaries who deal with the product commercially. As with consumers or end users, it will tend to **influence their conduct in the market**. The whole aim of the commercialisation process is the purchase of the product by those persons and the role of the intermediary consists as much in detecting and anticipating the demand for that product as in increasing or directing it. Accordingly, the relevant classes of persons comprise principally consumers and end users. However, depending on the features of the product market concerned, the influence of intermediaries on decisions to purchase, and thus their perception of the trademark, must also be taken into consideration. (ECJ 29 April 2004, C-371/02, paragraphs 23 to 25 - *Björnekulla Fruktindustrier*).

Referring to this judgment, the **European Commission** states in its written opinion that in the light of the purpose of Article 12(2)(a) Trademark Directive clearly the term "*in the course of trade*" („*im wirtschaftlichen Verkehr*“) is at least not limited to the consumer of a product or service, but also to the traders, in particular the intermediaries and processors, of the relevant product or service, especially if the latter make a **selection decision** for the product or service. This means that the goods fulfil their origin function and, consequently, the conditions for the conversion of a trademark into a common name in accordance with Article 12(2)(a) Trademark Directive are not given (Opinion of the European Commission, 14 December 2012, paragraphs 16 and 17).

The **French Republic** refers in its written opinion first to the judgment of the ECJ of 26 April 2007 in **Case C-412/05 P - *Alcon/HABM***, which states that the origin function of the trademark also is important **for intermediaries** involved in the marketing of a product by **contributing**

to the determination of their market behaviour (translation of the Opinion of the French Republic, 20 December 2012, paragraph 56).

These considerations would apply even more so when the traders involved in the production and retail of a product marked with a brand **consciously did not disclose** to consumers that the name is an indication of origin. If only the consumer point of view would be taken into account in such a case, it would **facilitate the revocation of a trademark artificially**. The perception of the trader of a certain trademark, especially a successful one, is decisive for its considerations, affecting the distribution of the goods designated by the trademark, and for its market behaviour on the relevant market. The fact that the commercial retailers conceal the origin of goods towards the consumer does not reduce nor eliminate the influence of the traders on the purchase decision of consumers, but rather it is likely to reinforce this decision. The intermediaries are namely able to restrict or even prevent the choice of consumers by marketing a single product or limited number of goods from a company of their choice (translation of the Opinion of the French Republic, 20 December 2012, paragraphs 25 to 32).

At last the French Republic with reference to the ECJ judgment of 27 April 2006 in **Case of *Levi Strauss*** points out **the distortive effects to the detriment of the proprietor**, if the conversion of a successful trademark into a common name should also be assumed if the traders involved still see it as an indication of origin on the trademark owner's company (translation of the Opinion of the French Republic, 20 December 2012, paragraphs 33 and 34).

The more valuable and well-known a trademark is, the higher the **interest by competitors to participate in the reputation of such a mark**, even if it is only by having the trademark deleted so they can place on the market freely their own goods under the former trademark.

This problem was also pointed out by **Advocate General Léger** in his Opinion in Case *Björnekulla Fruktindustrier*, in which he stated: "*There must be a strong risk that some economic operators, who deal commercially with goods or services that are the same as or similar to those covered by a trademark, or who wish to enter that market, might resort to bringing proceedings for revocation of the trademark solely in order to establish themselves in that market, thereby doing serious harm to the interests of their competitor (the proprietor of the trademark) and benefiting improperly from his efforts and investment in promoting trade in the goods or services in question. The proprietor of the trademark would be entitled to expect that he would receive lasting benefits from his efforts and investment, since a registered trademark confers on its proprietor an exclusive monopoly, allowing him to claim the registered sign as a trademark without limit of time (paragraph 82).*"

The **Federal Republic of Germany** also refers in its written opinion to the fundamental role of bakers and grocers in the marketing of the bread roll marked with the brand *KORNSPITZ*. A **special characteristic of the market** lies in the fact that **traders involved in the marketing of the product are also involved in the production** of the goods. "*With their decision for the baking mixture of the trademark owner and the processing of this baking mixture to a bread roll as intended by the brand owner, the bakeries and grocers have generated the consumer demand for the product marketed under the brand Kornspitz and created the consumer perception of the bread roll's quality. Further on, the bakeries and grocers have met this quality expectation of end users by continuing to use the baking mixture of the trademark owner. The main reason for the acquisition of the baking mixture is the concomitant right to sell the bread*

rolls under the brand Kornspitz. The acquisition of the baking mixture is being done in awareness of quality expectations of consumers associated with the trademark Kornspitz (Opinion of the Federal Republic of Germany 17 December 2012, paragraph 28)."

Bakeries and grocers significantly contribute to ensure and spread the quality guaranteed with the brand by backaldrin. At the same time they make use of the quality expectations of the consumers associated with the trademark to their advantage to direct the demand on the goods produced by them. **The consumer choice would thus be influenced by the perception of the baker and grocer of the trademark.** This emphasises the need to include the perception of the traders for assessing whether a trademark has undergone the change towards a common name (Opinion of the Federal Republic of Germany 17 December 2012, paragraph 29).

Finally, the Federal Republic of Germany also refers to the **distortion-generating effects** at the expense of the proprietor, if a possible loss of origin function would depend only on the perception of consumers in assessing the objective question (Opinion of the Federal Republic of Germany 17 December 2012, paragraphs 30 and 31).

According to **German case law and scientific consensus**, the conversion of a brand into a generally common or customary name is a process that leads to the loss of trademark right and is based on a change in the prevailing perception, for whose verification **strict demands** have to be made. As long as the term is understood as a trademark by a legally significant portion of the relevant public, it will not become a common name, a free product name or a generally used generic or customary term. The prevailing public understanding is determined by the relevant public, **namely manufacturers and traders** who use the same or similar products, and **less by the opinion of the end consumers**, who are more prone to use well-known brands as a generic term for the product. With well-known brands, the brand name is often used as a general product name by the consumer. Such a usage does not establish the properties of a generic term (*Fezer, Markenrecht*, 4th edition, § 8 paragraph 518).

From the understanding of the different groups of the relevant public one can draw conclusions for an overall understanding of the whole market or in commercial transactions. A conversion of a trademark towards a common name can only be answered in the affirmative when only a completely insignificant part of the public establishes an idea of origins with the trademark (see *Hacker in Ströbele/Hacker, MarkenG*, 9th edition, § 49 paragraph 30).

3.1.4 Conclusion. If it is sufficient for the registration of a sign as a trademark that traders do not understand this as a generic term, it must apply much more to the assessment of whether an already registered mark has become a common name.

Also because of the special characteristics of the market for bread and pastries, namely the high freshness requirements of consumers and the regular presentation of the finished product in unpackaged form, the perception of traders involved in the sales and production of the goods concerned has to play a significant role in assessing whether the mark has turned into a common name. This is even more true when retailers participating in the distribution and production of the product concerned acquire with the baking mixture, which is responsible - because of the specific consumer expectations of ingredients, shape and appearance, taste, nutritional value and quality, and due to high demand - for the characteristic flavour of the finished bread roll, an exclusive license from the trademark owner which allows them to name the finished bread roll produced according to the recipe of the proprietor with the brand name *KORNSPITZ*. Only

due to this license the consumer is being offered assurances that the bread roll branded *KORN-SPITZ* is being produced under the control of a single company that can be held responsible for its quality. The selection decision of the bakers and retailers are thus contributing significantly to the fact that the trademark can fulfil the origin function also for finished baked goods that are purchased regularly by consumers.

The exclusive reliance on the perception of consumers, who just tend to use well-known trademarks as a term for a product, would also lead to massive competition distortions unintended by the legislature - taking into account the peculiarities of the represented market. The participation of competitors of the trademark owner in the reputation of the product's economic success would thus only become possible, and at the same time the reputation of the product would be diluted due to a variety of baked goods, which could then be sold under the mark, and the currently existing concrete consumer expectations would be blurred.

Because of the far-reaching interference with the property rights of the trademark holder strict demands are to be made on the revocation of a trademark.

In addition, for goods whose consumption is common, as it is undoubtedly the case for bread and pastries, traders also belong to the group of consumers, whose perception also has to be taken into account when discussing the perception of this trademark.

3.2 Third Submission

3.2.1 Submission. With this question, OPM would like to know whether a trademark that has become a common name for consumers due to the acts or inactivity of the proprietor, but not for the traders, retailers and intermediaries, then - and only then - should be liable to be revoked if the end consumers have to rely on this term because there are no equivalent alternative designations for the brand name.

3.2.2 Opinion of Advocate General Villalón. Advocate General Villalón proposes to answer the third question as follows: *"For the assessment of the deletion of a trademark it is irrelevant whether consumers are bound to use the brand name due to the lack of equivalent alternatives."*

A reference to alternative terms which are in use is not covered by the wording of Article 12(2)(a) Trademark Directive and not compatible with the purpose of this provision. By the revocation of trademarks that have become common names, the legal system satisfies the need of the public for the free use of the mark („*Freihaltebedürfnis*“). However, the proof of a need of the public on the availability of the mark, that may be smaller if other terms are available for the same purpose, is not a prerequisite for deletion. The sole legal requirement is only that the trademark has become the common name of a product. This question is independent of the fact whether synonyms are introduced to the use of language.

3.2.3 Opinion of backaldrin. A conversion into a common name is only given where the use of a trademark has become **so widespread that the sign which constitutes the trademark has come to designate the kind, the type or the nature of the goods or services covered by the registration** rather than the specific goods or services originating from of a particular undertaking (Opinion, 13 November 2003, C-371/02, paragraph 50 - *Björnekulla Fruktindustrier*).

The **French Republic** states in its written opinion that the fact that there are alternatives for the designation of the goods in addition to the trademark **is one of several indications when determining whether a trademark has become a common name for the product.** *"Namely,*

if several terms can be used to designate the same goods or of similar goods, it is less likely that the trademark has become a generic term (translation of the Opinion of the French Republic, 20 December 2012, paragraphs 54ff)."

According to the **jurisprudence of OGH** it would be a **key reason** for the conversion of a trademark into a common name if the market participants have **no substantially equivalent alternative** term available in order to identify competitive products to the marked goods of the proprietor. Therefore **the trademark of the brand holder is the only common name for such goods** and so far acts as a monopoly (OGH 29 January 2002, 4 Ob 269/01i - *Sony Walkman II*). Because these are often extremely valuable and well-known brands that are in danger of a conversion process, fundamentally strict requirements have to be provided for a development towards a common name. Therefore, for the maintenance of trademark rights it is no requirement that the alternative terms to the trademark in language use are equivalent in all respects - particularly in the extent of their circulation (OGH 6 July 2001, 4 Ob 128/04h - *Memory*). In this matter OGH has in each case based its decision on a **common understanding of retailers and consumers**.

The fact that **alternative terms** to the trademark *KORNSPITZ* are **available and actually used** by a relevant part of the relevant public for the designation of a bread roll made of dark flour that comes together at the ends pointed alone speaks against a conversion of the trademark into a common name.

3.2.4 Conclusion. Even though the existence of alternative terms and their actual use by a relevant part of the relevant public is no separate criteria specified in Article 12(2)(a) Trademark Directive, it is still relevant to assess the question of whether a trademark has become a common name. Such a use of alternative terms relates not only to the question of a need in the community for the free use of the mark, but it is also an indication that a term has not become a common name.

3.3 *Second Submission*

3.3.1 With this question, OPM would like to know if an inactivity of the proprietor in the sense of Article 12(2)(a) Trademark Directive already exists if the proprietor of the trademark remains inactive even though the fact that traders do not inform customers that *KORNSPITZ* is a registered trademark.

3.3.2 Opinion of Advocate General Villalón. Advocate General Villalón proposes to answer the second question as follows: *"A failure to act within the meaning of Article 12(2)(a) of the Directive is when the trademark owner fails to take reasonable measures to protect its trademark from becoming a common name prior to conversion. It also includes a corresponding influence on its licensees."*

The scope of the responsibilities of the trademark owner is supposed to be determined based on the meaning and purpose of Article 12(2)(a) Trademark Directive. The provision is intended to create a balance between the interests of the trademark owner and those of other market players in the availability of signs. Protection of the rights of the trademark owner is therefore not unconditionally guaranteed, but the trademark proprietor must show vigilance with regard to

the protection of its brand. This is not only true in terms of defence against injuries of the brand, but also in terms of the risk that a trademark becomes a common name. The duty of vigilance implies that the trademark owner monitors the market and takes reasonable measures to protect its trademark from becoming a common name.

It is for the national courts to determine in each case which measures of the trademark owner are necessary and reasonable. Examples of such measures would be found both in the practice of the Office for Harmonisation, as well as in the scientific literature. To be considered are advertising, placing of warnings on labels (or panels next to the product with regard to the product name) or interacting with publishers of dictionaries to convince them to enter a reference to the trademark property of a specified word therein. The trademark proprietor must avoid to use the trademark as a generic term, and take reasonable measures to combat such use by others and to sensitize trade to the trademark carefully. In that regard, if a license to use the trademark is granted, the trademark owner has to ensure reasonable measures to protect the mark, meaning he has to add appropriate conditions to the license agreement, and to monitor compliance to a reasonable level within this framework.

3.3.3 Opinion of backaldrin. The ECJ has made clear in **Case C-145/05 - *Levi Strauss*** that the loss of the distinctive character of a trademark can only be related to the owner if the loss is attributable to its acts or omission.

In its decision of 30 January 2008 in Case **3 Ob 281/07f** OGH found that from § 33b Trademark Law it could also be derived that the trademark should not be revoked, even if indeed there was the development towards a common name, if the trademark owner fought against this development. Whoever covets the deletion of a trademark on the basis of this provision therefore has to assert and prove that the proprietor did not defend its brand against the development towards a common name. Only vaguely defined time indications from when a brand has established itself as common name are insufficient.

According to **German case law and scientific consensus**, the actual development process of a registered mark towards a generic name, as such, is still no reason for the deletion of a trademark. In addition it is necessary that this development has occurred as a result of the acts or inactivity of the proprietor (*Fezer*, Markenrecht, 4th edition, § 49 paragraph 30).

Such a development will particularly occur if the trademark owner does not defend its trademark against use by third parties and therefore against rights violations (*Fezer*, Markenrecht, 4th edition, § 8 paragraph 517).

According to the jurisprudence of the ECJ, such a failure to act in particular consists in the failure of the trademark owner to take action against the unauthorized use of the mark by a third party. Especially such claims have the purpose of preserving the distinctive character of a trademark (ECJ 27 April 2006, C-145/05, paragraph 34 - *Levi Strauss*).

Anyway, as especially the **French Republic** explains in its written observations, an **overall assessment of all the acts and omissions of the proprietor is necessary**. This is the only way to determine whether the proprietor was sufficiently vigilant in preventing its trademark from becoming a common name for the goods in the course of trade. According to the French Republic, possible measures of the trademark owner refer in particular to the judicial and extrajudicial defence against interference with the trademark through an unauthorized third party, to promotional activities of the trademark owner as well as the possibility of the trademark owner

to indicate the ownership of the trademark with entries of marks in dictionaries and encyclopaedias.

The requirement for the proprietor to ensure that the end user is informed by every individual baker and food retailer before, during or after the purchase of baked goods that *KORNSPITZ* is a registered trademark (of backaldrin) to the effect that it is a failure to act of the proprietor in the sense of Article 12(2)(a) Trademark Directive is not reasonable. The actual control of such an obligation of the individual bakeries and the food trade by the proprietor would not be reasonable, since alone in Austria there are over a thousand bakeries as a licensee of backaldrin that sell the bread roll for which the brand *KORNSPITZ* is the trademark. All the licensees in turn would have to school their sales staff with regard to such an undertaking accordingly. It is also questionable whether such an obligation would be enforceable at all. In view of the fact that bread and pastries are products made and consumed in large amounts and that they are essentially produced, sold and consumed in a day, it would be - at least for the area of daily fresh food - an unrealistic, unusual measure. In addition, there would be no reason for such an approach because the bakeries have no doubt themselves about the trademark characteristic of the product itself. Also, the baker cannot know if such information is required, because they might have no doubt that the customer knows the brand. Also, consumers would react rather puzzled on such a "forced happiness measure".

3.3.4 Conclusion. Due to the special characteristics of the market for bread and pastries it has to be ensured that the requirements for the owners that speak against its inactivity remain reasonable and the demands on the proprietor are in accordance with the business practices of the industry. In this direction probably also leads the Opinion of Advocate General Villalón even though it leaves open many questions in detail.

4. Examples for different views of brand owners and end users

Especially consumers often tend to use well-known trademarks as a term for the product sold under the mark. Relevant examples can be found in virtually any language:

Language	Term	Used for	Brand
German (Austria)	Tixo	Duct tape	CTM 5310008
German (Austria)	Soletti	Pretzel sticks in the form of snacks	CTM 116673
English, German, Dutch	Frisbee	Flying disc	CTM 2995231
English, German, Dutch, Swedish	Jeep	Cross-country vehicle	CTM 188185
English, German, French, Spanish, Swedish	Post-It	Note paper with adhesive on one side of the sheets for mounting on surfaces	CTM 5916804
English	Sellotape	Duct tape	CTM 543256
French	Carte Bleue	Chipcard/payment card	FR 96645267, CTM 2387736
English, French	Cellophane	Plastic film for packaging	CTM 5352786
English, Romanian, Danish	Jacuzzi	Bath in which the bathing water is brought to bubble through nozzles	UK 2464129, RO 60235, DK 198702072

The European and national trademark provisions specifically are **not offering any legal handle for the trademark owner to take action against such generic use** of registered trademarks by consumers, since it is not a trademark usage (see Article 5(3) Trademark Directive).

A regular exclusive reliance on consumer perceptions of a brand, as called for by Advocate General Villalón in his Opinion in Case C-409/12, is not just **contrary to a literal, systematic and teleological interpretation** of the provision of Article 12(2)(a) Trademark Directive, but it would also inevitably **result in the artificial facilitation of revocation of trademarks**.

Since **trademarks as intellectual property enjoy fundamental legal protection** under Article 17(2) of the Charter of Fundamental Rights and Article 1 of the First Protocol to the European Convention for the Protection of Human Rights and Fundamental Freedoms, there is a great need to **assess** the question of whether a trademark has become a common name for goods covered by the trademark **only under the most stringent requirements**.

Dr. Egon Engin-Deniz
Mag. Hans Lederer