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Volume 5, Issue 1, April 2008

Trade Mark Coexistence Agreements: What is all the (lack of) fuss about?

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Abstract

Traditionally, it is understood that trade mark law tackles the prospect of damage resulting from the use of confusingly similar trade marks. The aim is broadly to ensure commercial origin is differentiated and proprietary rights secured. A lot is written on this in Europe. In contrast, very little time and space is allocated to trade mark coexistence agreements. Despite a shortage of authoritative rulings, it is not immediately clear why, especially as they may be having a profound impact on the use of product markers. Coexistence agreements commonly exist between parties with at least similar trade marks who decide to formally coexist, often in the wake of legal skirmishes. In the busy European market, where Community-wide protection is available, an up-front contract may be an attractive way to avoid trade mark conflict. When these contracts work, trade mark law is effectively pre-empted as the underlying agreement, possibly remote of genuine trade mark concerns, is the real governing law. Among other things, this affects the ability of competitors to acquire rights and the quality of information available to consumers. A better understanding of these agreements is essential therefore, not least because on the limited occasions they come before trade mark bodies, the juridical response is inconsistent, though a theme that emerges is of a dismissive and unconvincing attitude. The reasons why are rarely elaborated and while this may simply reflect an awkward interplay between contracts and trade marks, the article deepens the discussion. Starting from concepts and commercial realities, the analysis proceeds to case law and underlying legal and economic rationale to determine whether the lack of fuss is justified.

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DOI: 10.2966/scrip.050108.7

1. Introduction: why have this discussion?

Though they are nothing new in practice, this article analyses trade mark coexistence agreements. Coexistence agreements take many forms, but in essence, represent a contractual bargain over property owned or to be owned in trade marks or related rights.[1] The terms will set out what can and cannot be done with those rights in a way to ensure (theoretically) there is no confusion in the market. Delimitation of sets of rights – based on the goods or services, or geographical markets involved – is often the foundation of an agreement commonly through the use of no-challenge or priority clauses. In spite of the probable rise in their number, and a substantial ripple effect on the interests of competitors and consumers, the topic remains underrepresented among scholarly comment. It is not easy to see why. The trickle of formal rulings is a factor, which may tell us that these sorts of agreements largely work. While this is a positive thing, there is good cause for knowing more than we do.

A further incentive for this article is to do with the ordinariness of trade marks. Trade marks are not about endless technical litigation despite what statistics suggest – the opposite in fact is true. The overwhelming majority go about their day-to-day business in a rather boring, non-spectacular way. Contracts, themselves a very normal thing, that aid this process provide an authentic snapshot of what is currently going on, especially as the overlapping national and Community protection systems in Europe raises the odds of trade mark conflict. By not focussing on these agreements, it may mean we do not get a sense of the real commercial world (of trade marks) and the impact these 'unknown' agreements have.

There are other compelling reasons to indulge in deeper, richer debate. For example, because these contracts are private and technically outside trade mark law, it is vital to check to what extent central trade mark interests are represented, in particular, third party consumers who are strangers to any contract. Another point, and the main one developed here, is the indecisiveness and inconsistency of rulings in cases involving these contracts. It is wholly undesirable that trade mark systems treat the contracts pendulum-like; swinging from one extreme to another, from reliance to inadmissibility. Arguably, approaches reflect a shortage in proper dialogue as to what role, if any, these agreements should have in resolving trade mark disputes.

The starting position for this article is that these agreements bring up important and interesting questions for the trade mark community. To find out more, the analysis taps into the theory and practice of coexistence agreements and measures this against an analysis of European decisions, both Community and national. While the limited numbers of reported cases is a drawback, a deep enough pattern of actions exist to cast judgment. From here, various moral, legal and economic arguments are put forward. The dominant message emerging is that in appropriate circumstances, reference and reliance on these contracts will add to the wider trade mark discussion,

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[1] This article assumes that contracts in case law and as part of the argument are validly formed in the absence of vitiating factors.

increase economic efficiency, and in disputes, may actually aid the reaching of sensible outcomes.

2. The case for contractual coexistence

2.1 An alternative methodology

Trade mark law is the usual way of tackling trade mark disputes. The system deals with possible harm occurring via the institutional involvement of a designated court or agency through principally, registration or infringement proceedings. Registration decisions, by the 'state', regularly involve working out the worth of an opposition based on relative sets of *unconnected* rights. In the case of applying for or maintaining Community trade mark (CTM) rights, this can boil down to an assessment of whether national and EU-wide rights are able to sit alongside each other free of confusion. This broad perception of how things work may not equate with reality because the methodology of the trade mark system is on most occasions reactive.[2] It will normally hear matters *ex post*, which reflects a western style of market governance where the 'legal system' is not *actively* interventionist. For commercial rights, the legal system is mainly comprised of an enabling framework broadly reflecting the populist belief that the market must be, as often and as far as possible, left to its own self-regulatory devices. Contract law is the classic example. It allows parties to manage and quantify their own affairs, subject to later intervention by a court or similar body. Private contracts designed to 'share' contemporaneous trade mark rights may, on this basis, be a rather significant part of what is actually going on in the world of trade marks.

Thus, an 'alternative method' of trade mark governance is a coexistence agreement, a compromise bargain somewhere amid conflict and acquiescence. It usually involves a series of negative covenants with the key clauses setting out in heavy language what each party *cannot* do: you are not allowed to enter my field of use or geographical market (either per se, or under specific marks or names), and because we anticipate you will do so anyway, you are not allowed to use the trade mark when you do in fact do so, and so on. The key aspect of the contract is its proactive nature compared to the trade mark system. Yet it is designed to cover the very same issues as trade mark law. For the most part, we can assume these contracts are effectively unregulated by the legal system as the vast majority of private agreements remain private. Accordingly, these agreements are pre-empting trade mark law. The nature of these not-for-public-viewing arrangements could be a big problem if we have little idea of what they say, how they work or even to begin with how many there are.

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[2] Even in respect of trade mark registration, applicants may have been already trading under the 'sign' (as some kind of unregistered right) or at least decided on the brand following research and development. The opposition process tests the relative impact of earlier rights that up until then is not necessarily the concern of the 'system' or the applicant.

2.2 Some commercial realities

As to their number, official figures are unavailable. It is possible though to conceive of numerous and varied occasions giving rise to an agreement.[3] All one has to do is think of the potential sources of conflict, of which there are almost any number in the EU alone. RITZ and POLO are good examples – the latter used variously for marking cars, confectionary, and clothing. The closeness of marks and related rights is reality, and reflects interdependent and interrelated markets saturated with advertised brands (and 'vigilant' owners/advisors). The way economic activity continues to globalise and rely on the Internet (and domain names) adds a whole new dimension to trade mark conflict and means awkward unconnected rights can land in a firm's lap from almost anywhere.[4] The worldwide dimension of trade reflects in the worldwide effect of conflict, and any follow-up agreement. We know as well that coexistence contracts can follow a dispute or aborted law suit and thereafter embody a sort of trade mark 'settlement', as in the *APPLE* case.[5] Contracts can also follow on from mergers and acquisitions, and de-mergers, where the agreement is part of a wider corporate process involving technology licenses or joint ventures. A further source of conflict is firms meeting each other at the OHIM. The latest statistics indicates that of the oppositions which are finally settled, less than a third come via formal OHIM decision. Roughly, this means 60,000 sets of CTM-related proceedings settled *informally* to date – presumably many of these are codified by an agreement of some kind.[6]

These numbers are revealing but not that surprising. The restructuring of EU trade mark law has considerably heightened the incidence of initial disagreement among rights' holders. Many millions of trade marks operate within the Internal Market with registries overcrowding and classes of goods and services overlapping. Substantive requirements can mean getting hold of and holding onto rights is relatively straightforward. Furthermore, the frequently capricious and unpredictable girth of the (anti-) dilution doctrine and the reach of well-known earlier rights is a factor, and applies in areas of trade that appeared at one point to be non-competing as well as to sectors where parties did not *previously intend* to enter (possibly according to prior agreement). The risk of conflict goes up even more where rapid and unforeseeable technological change underpins a sector.

The practical reality therefore, is of more and more disconnected owners connecting in the EU, globally, and the virtual market. Firms who have operated alongside each other in separated national markets for some time (maybe unwittingly) might abruptly

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[3] Unlike other proprietary based interests, a coexistence agreement is not normally on a public register. However, in France, registration of coexistence agreements is required in the national trade mark register in order to perfect the rights, as regards for instance, third parties and possible future right holders.

[4] WIPO's Arbitration and Mediation Center, the leading institution in the resolution of Internet domain name disputes, has administered over 25,000 separate sets of proceedings since December 1999. A substantial number of disputes have links with the 'real' trade mark world. For a good example of an international conflict, see *WWF & Anor v World Wrestling Federation Entertainment Inc* [2002] EWCA Civ 196 (27 February 2002).

[5] Elsmore, "Who gets the biggest bite? A discussion of the long and winding Apple trade mark dispute" (2007) 5 *Nordiskt Immateriellt Rättskydd*, 427-446.

[6] *See* http://oami.europa.eu/pdf/office/SSC009-Statistics_of_Community_Trade_Marks_2008.pdf.

meet, typically after one of them applies for a CTM. It is also likely that a lot of coexistence agreements in place prior to the CTM system coming into effect (in the mid-1990s) and which set out local right vis-à-vis local right, are no longer relevant and have been or have to be updated. Others may prefer to try their luck and test old contracts before the authorities – yet another route to a fresh 'worldwide' agreement.

2.3 The business case for contracting

There are a number of facts that point toward an increasing need for agreements at firm level.[7] However, the main rationale for coexisting (or not) is commercial. As a rule, cooperation is cheaper than conflict and though trade mark owners acquiesce without agreement all the time, a formalised contract avoids certain costs associated with policing and enforcing trade marks. Tracing the movement and ownership of IP is complex and time consuming, and when trading in several markets or at some kind of Community level, the financial case for an agreement could be irresistible. Trade marks enable manufacturers and service providers to extend reputation from one market to another without having to start from scratch in every case. For holders of marks with a reputation, delimiting markets or fields of use (via a contract) can mean expansion without the diluting effect of undesirable though not necessarily actionable associations. Protecting the integrity of precious brands may initially be served best by agreement. An up-front, lower risk approach may also be more in line with the agendas of persuasive institutional and private investors. At the other end of the scale, small and medium sized firms are more likely to have unregistered rights. Many will view agreement as appealing because IP issues, especially contentious ones, raise costs and complexities they are simply not equipped to deal with. Rightly or wrongly, they do not want to get into too many fights with the bigger boys. For a variety of reasons, a sound business case for entering coexistence relations applies to all sorts of firms with trade marks or related rights. Mainly, agreement provides a way to quantify costs associated with future plans: risk is manageable, uncertainty is not.

There are economic reasons as well, and relate to IP more generally. Rational firms are much less likely to spend time and resources on developing a new product (to be trade-marked) if it knows other firms can free ride. It would be irrational to invest in trade marks because others who have not borne the largest proportion of the costs of research and development etc. can easily duplicate the marked good or service by means of among other things, trade-marking. They can produce at the same marginal cost as the first to market: imitation is cheaper than creation. Over time, low-cost competition will push prices down to the marginal cost of the first supplier and the full outlay incurred bringing the product to market will be irrecoverable. Agreement is a means of protecting and reaping benefits from initial investments and possibly, easing the process of subsequent product diversification.

Another persuasive reason for the greater use of these agreements is because trade marks and contracts are very well-matched. Of all the species of IP, trade marks are

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[7] Agreement can take place even between EU countries. What amounts to a coexistence agreement between Poland and Slovakia (in respect of GIs for cheeses) has been accepted by the Commission (Commission Regulation 127/2008 of 13 February 2008). For further information, go to http://class46.blogspot.com/2008/02/coexistence-of-gis.html.

probably the most 'tangible'. Consumers can see a brand and more easily relate to it, and in certain cases, even touch it–this is partly what they pay for: the Mercedes-Benz badge, the Lego brick, the Coca Cola bottle, and so forth. Purchasing decisions send messages to others – I am wearing an Armani suit or I am not listening to an iPod but another MP3 player. In addition of course, marks usually last longer. Once secured, they are, in theory, perpetually renewable. On the contrary, one cannot ordinarily see or touch patent rights protecting hidden technology, or less so, copyrights or designs. These things are there, but not in the same visible way as trade marks. Technology intangibles also tend to be shorter lived and more unpredictable. An added advantage of transacting as to trade marks is they are less exclusionary and will not so easily fall foul of anti-competition rules. Overall, the process is less problematic because they are of something measurable and suited as the subject of a quantifiable bargain.[8]

2.4 Common causes for avoidance and breakdown

However, it is not all rosy and as with commercial decision-making generally, potential benefits must be offset against potential costs: 'SWOT' style analysis. Bigger brand holders especially may have the most to lose from agreement. Contracting can have a negative effect by damaging the distinctiveness of a famous mark due to association and the fact the well-known mark owner is less able to claim at a later stage that the use of the other similar mark would confuse the public. There are other things that often catch parties out and in some cases, encourage an intentional departure from agreed to terms. Technology is one such area. The real problem is anticipation. Swift, unforeseeable changes in underlying technology can bring previously non-competing firms (and their marks) closer. A convergence of sectors can result from a party taking advantage of new applications of technologies, as in the *Apple* case.[9]

Unsurprisingly, much of the challenge created by technology is exacerbated by poor contract drafting and management – a perennial problem particularly affecting fast-moving sectors such as telecoms and entertainment. In some cases an agreement can be effectively obsolete before the signature ink has even dried. Again, this is illustrated in the *Apple* case where one of the parties failed to take a good look around before agreeing, and this happened twice. Such an oversight tends to favour the technologically-oriented and usually larger party, in that case, the US giant Apple Inc. For all parties, it is better if clauses pay very close attention to what is happening as regards industry development and new modes of exploitation, as well as innovative types of media that may develop in the near future. For sets of lucrative global rights, it is wise to try to secure trade mark exploitation in respect of all media, *whether currently known or not*. As this kind of bargain may be difficult to negotiate, a back up of mutual benefit is to ensure scope exists to painlessly carry out revision or amendment to previously agreed boundaries as and when necessary. If the drafting of

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[8] This is not to say the coexistence rationale is inapplicable for patent rights. *See Bayer AG and Maschinenfabrik Hennecke GmbH v Süllhöfer* [1990] F.S.R. 300 referred to in the very recent *Knorr-Bremse Systems for Commercial Vehicles Ltd v Haldex Brake Products GmbH* [2008] EWHC 156 (Pat) (reported at http://ipkitten.blogspot.com/2008/02/knorr-merrier.html).

[9] *See* note 5.

clauses including technology and media specific terminology is done without an awful lot of care a danger is the whole agreement ends up interpreted restrictively or worse, as unlawful. The point is to avoid litigation, even if aborted. In the event of a re-negotiation or a settlement out-of-court, the result must be plain and binding to all concerned. From there, regular monitoring will drastically improve the chances of the agreement being effective and lawful, i.e. what was intended and paid for. As with many of these things, a great many problems can be avoided by simply maintaining a transparent audit trail.[10]

3. How trade mark decisions treat coexistence contracts

The ECJ has long-acknowledged the great practical import of coexistence in the trade mark field.[11] In a well-quoted passage, the Court said that in view of the number of existing trade marks, such agreements "are lawful and useful if they serve to delimit, in the mutual interest of the parties, the spheres within which their respective trade marks may be used, and are intended to avoid confusion or conflict between them."[12] A large part of the commercial incentive to transact in the first place is an understanding of how the law will treat an agreement. However, while the list of reasons to strike up and stick to an agreement is long and compelling, inevitably relations break down. From now on, the analysis is about working out what should happen when one or both parties change their mind. In this respect, there are many interesting aspects to consider, including that as with other IP contracts, no-challenge type clauses can upset the competition authorities.[13] The focus here is on the response from trade mark bodies. The section first looks at OHIM decisions and practice, with a follow up of scattered national decisions found.

3.1 OHIM decisions

Despite evidence to suggest a probability of an increasing number of CTM related agreements there have been only a handful of OHIM rulings referring to coexistence contracts. Two of the leading decision found concern the relevance of agreements in regard to CTM applications and oppositions on the basis of identical earlier national rights for the marks Ω OMEGA/OMEGA and COMPAIR/COMPAIR respectively.[14] Both times the Opposition Division rejected the applicability of what appeared to be perfectly valid contracts; both times with unconvincing reasons. In each decision, the

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[10] *See* http://ipkitten.blogspot.com/2008/03/inta-grapevine-symposium-report-5.html.

[11] *See* Case 35/83, *BAT v EC Commission*, [1985] E.C.R 363 (which concerned delimitation agreements).

[12] Ibid, para. 33.

[13] Article 81 EC Treaty prohibits partition of the Internal Market, and will extend to coexistence agreements if they affect trade between Member States and aim at or result in the prevention, restriction or distortion of competition within the market. Any such agreement is automatically void, though a number of exceptions exist provided the intention is to avoid confusion or conflict. See Goydor, *EC Competition Law*, (Fourth Edition. OUP, 2003) esp. chapter 12.

[14] *See* Case R 330/2002-2, 10 December 2004, OMEGA, and Case R 590/1999-2, 30 July 2002, COMPAIR.

only evaluative reference to the underlying agreement (which each party referred to in its submissions) is not offered until the Conclusion and amounted merely to stating that the findings of the Office as to confusion (which it had found on both sets of facts, thus rejecting the opposition) *could neither be bound nor be influenced by the provisions contained in a private agreement between the parties*. In the earlier OMEGA ruling, the Opposition Division elaborated a bit by saying the interpretation of a private deed does not fall into the jurisdiction of the Office by virtue of Article 74 CTM Regulation.[15]

It is difficult to understand the grounds to discard a governing contract between the two parties, especially when no substantial grounds are offered. The explanation given is very short indeed, and a statement in a conclusion is not an analysis of course. If anything, it appears almost as an afterthought and expressed in a rather self-explanatory way, which is also not helpful. Use of the term 'deed' is a bit odd and does not appear anywhere in the Regulation, including Article 74, nor could it be found in relevant parts of the OHIM Guidelines.[16] Aside from this, OHIM is using Article 74 as a way of restricting its own jurisdiction (in proceedings relating to relative grounds for refusal of registration). The result is that in its opinion, it could not interpret the underlying contract. In the context of the examination of the facts of its own motion, the article indicates that the Office is restricted to "facts, evidence and arguments provided by the parties." Contracts of the kind in the dispute are apparently not to be included in this as the private deed, so-called, was not a "fact" within the scope of the Regulation. It sounds very strange to say that agreement is not a material "fact" or for that matter "evidence."

Two possible arguments to back up this judicial approach are presented by an OHIM lawyer in one of the few articles that includes any kind of discussion of trade mark coexistence contracts.[17] The first argument is that the governing CTM legislation does not afford a legal basis upon which to deprive an opponent (i.e. to a CTM application) of *locus standi* – even though probably provided by for in the private agreement. According to the logic, it is not for the OHIM, a public body with competence to decide only trade mark issues, to determine whether a given party has a sufficient connection to the matter in hand to support that party's participation. However, to say that nowhere in the governing legislation is provision made for proper legal basis *to rid* an opponent (to a CTM application) or the like of a right to stand raises a contradiction. What this effectively means is, in spite of a directly relevant agreement

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[15] *See* Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark (OJ L 11, 14.1.1994, p. 1–36) (referred to as the "Regulation").

[16] The term 'deed' is a very specific legal expression. Under common law at least it has traditionally referred to a conveyance of real property under seal, as in for instance, the title deeds to land or buildings. Such a mechanism has to satisfy certain specific requirements that serve to distinguish it from other 'contracts' or 'covenants', including that it is to be concluded in writing and acknowledged in some way (either by the assignee or an authority).

[17] *See* Folliard-Monguiral, "Coexistence in Community trade mark disputes: Conditions and Implications" (2006) 1 (11) *Journal of Intellectual Property Law & Practice*, 703, at 708. The author is a lawyer at OHIM's Industrial Property Litigation Unit. The article overlaps a paper the author presented at a CLT Intellectual Property Conference in London during March 2006, titled 'Evidence of Successful Co-Existence on the Market' (the conference was 'Sharing Names: Whose Name is it Anyway? Resolving Disputes and Sharing Use').

on the matter, the Office is in those instances able and willing to provide a legal basis *to grant* an opponent (to an application) or the like of a right to stand, but not the opposite, *to rid*. It is unsustainable to say on the one hand that a right is not there to take away, and on the other hand it is given.

The OHIM approach is at odds with the Regulation's treatment of CTMs as 'objects of property' and transactions in a CTM. For example, rules governing the transfer of a CTM make it possible via private contract to transfer a CTM.[18] *Prima facie*, such contracts are valid and respected by OHIM – the legislation places no restriction on the fundamental freedom to contract, aside from various formalities such as the assignment shall be in writing and have the signature of the parties to the contract. There is no question about granting or taking away the right to stand, which is perfectly sensible. It is not easy to see how the *locus standi* argument provides an explanation for this, or where the relative worth of an agreement is considered but concluded as not persuasive, as in *OMEGA*. In that case, the CFI on appeal was willing at least to make an interpretation to the effect that while the contract meant the applicant could not seek registration of the mark OMEGA, there was nothing *corresponding* which meant the other party undertook *not* to oppose registration of the mark OMEGA by the applicant. This reasoning is blinkered and lopsided, and not especially sound and is picked up below.[19]

The second supporting argument is that the relative impact of contracts might be incompatible with the *erga omnes* effect of opposition and invalidity rulings.[20] In effect the point is that public bodies should not adjudicate upon civil agreements, and especially in trade mark cases where the effect of a ruling is public in nature and not confined to the parties involved. This view is consistent with the OHIM case law. In *COMPAIR*, in its conclusion the Opposition Division stated that the private agreement was only effective in a private scope, and that any action for breach should be before the national (German) courts. While this is an interesting parallel, on further analysis it may not be very relevant to either to the law of contract or trade marks. As far as the author can make out, *erga omnes* is a specific doctrine of international law normally found in the context of criminal law.[21] The gist is all States have an interest in the protection of human rights and this is binding on all States irrespective of consent – hence the concept of international obligations applying *erga omnes*. Apart from this, the general principle is not that convincing in trade mark situations because interests which are protected and promoted are both public and private, and are hardly fundamental in the traditional sense. One could argue that the trade mark and the system guaranteeing its proper function is a public right or value of some kind in furtherance of third party consumers. This is true, but equally, in the end it boils down

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[18] *See* note 15, articles 17-24.

[19] Case T-90/05, *Omega SA v Office for Harmonisation in the Internal Market, Omega Engineering, Inc.*

[20] *See* note 17*,* at 708.

[21] The doctrine refers to rights and obligations having universal validity, and was established by the International Court of Justice in *Barcelona Traction, Light & Power Co., Ltd. Case*, [1970] I.C.J. Rep. 3, 64 A.J.I.L. 653 (1970). For more information, *see* Ragazzi, *The Concept of International Obligations Erga Omnes* (2000).

to an indeterminate number of voluntary, personal decisions by a mass of reasonably circumspect and well-protected actors aiming to maximise gain (or minimise loss).

Moreover, a trade mark decision though *prima facie* towards all is first and foremost about settling a conflict between the instant parties – as in the nature of a civil dispute. Two sets of private parties have initiated the conflict. Taking the *erga omnes* point to the extreme would mean all opposition issues and decisions should be administered by a public authority (such as the OHIM) on behalf of the wider public (companies and citizens). In one respect, an opposition decision decided one way or the other does have an impact on the market, including competitors. However, the real essence of an opposition is an individual party pursuing a claim against another, at registration rather than at court. It is about relative rights. The effect of the decision is binding to all in theory but in reality it only directly affects the individual parties applying and opposing. Only indirectly are third parties affected. The actual facts and merits of the decision are strictly confined to those parties. Only they can appeal or otherwise contest the registration decision, which is incapable alone of automatically binding future litigants, even if the facts are the same. The consumer as an 'affected' party cannot intervene in an invalidity case, even if there is some personal or collective dissatisfaction with a ruling: *locus standi*. On reflection, the private coexistence contract mirrors these systematic characteristics very closely.

3.2 OHIM guidelines and practice

Among the different reasons why two signs coexist at a national level is that there is an agreement between the parties involved.[22] OHIM opposition guidelines say so, and thus acknowledge such contracts. More than this, the very latest guidelines state, "The previous practice according to which civil agreements between the parties of any kind (e.g. contracts) were irrelevant in opposition proceedings is no longer followed."[23] On paper, this is encouraging. While it is true the Opposition Division will not simply ignore private agreements (according to the guidelines) this is only "*where they are not disputed.*" In what circumstances this occurs is not clear, nor is the subject matter of dispute. It appears the Office will only rely on contracts in very narrow cases such as if there is (separate) agreement between the parties as to the meaning of the disputed agreement. Though again, it is not clear what it means and what form the other agreement should take. Reliance is stated as well where there is a decision of a national court about the meaning of the agreement – once more there is no accompanying explanation.

For the Office to be able to rely on a domestic decision as to the contract, a party will have to request the suspension of the proceedings until a final judgment is passed at national level. Even if this suspension occurs it is quite possible the OHIM will decide not to follow the judgement anyway. While national rulings are welcome before the OHIM they are not binding. In some instances the action before OHIM is in direct

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[22] *See* Opposition Guidelines, Part 2, Chapter 2: Likelihood of confusion D. Global assessment, page 16, where various decisions are referred to, including 537/1999 SIDEI (fig.) / SIDE (fig.) (EN). Some of these references are misleading and do involve an agreement at all. The current version is available at http://oami.europa.eu/en/mark/marque/pdf/global_assessment-EN.pdf.

[23] Ibid, page 17.

defiance of previous national rulings on the contract, and is effectively a last ditch effort by one of the parties. Discrepancies will not necessarily feature in the analysis by the Office.[24] The argument then to push the parties to national contract litigation – which may or may not be relied upon by the OHIM – is simply unconvincing, ignoring the fact it involves additional time and cost.

There is an interesting comparison to OHIM's cancellation practice where the usefulness of prior trade mark agreements is clear cut. The relevant guidelines say that, in the context of the absolute grounds of invalidity, 'bad faith' can among other things be understood as an underhand practice based on actions infringing third party rights.[25] Admittedly, there is a technical point to be made here about opposition and cancellation and the raising of bad faith, and this is mentioned below. Nonetheless, the comparison is informative. The guidelines state an example of bad faith as where an applicant "intends through registration to lay claim to a trade mark of a third party with which it had contractual or pre-contractual relations."[26] The sentiment is applied in the *AROMATONIC* ruling where the Cancellation Division said the fact that the owner of a CTM made a proposal to the other party (applying for cancellation) for an agreement to coexist, which was prior to filing the application for registration of the disputed sign, *proved the absence of bad faith*.[27]

3.3 Selected national decisions and practice

At national level, there are a number of interesting decisions. The *SKY* case at OHIM, discussed in the next section, followed earlier hearings in both UK and French courts, and in the latter, the coexistence contract was central. In fact, the practice at national level is also varied. In Poland for example, a recent decision from the Supreme Administrative Court confirmed on appeal that in circumstances where the applied for mark is identical to an earlier mark and the goods or services, agreement between the parties in the form of a letter of consent allowing the application was insufficient grounds to register a trade mark.[28] The reason seems to be because Polish law has not implemented Article 4(5) Trade Marks Directive and this is interesting partly as it has proved elusive to find any material relating to this provision.[29] Article 4(5) says that

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[24] This occurred in the SKY trade mark case discussed below, following action in both the UK and French courts.

[25] *See* Section 3 Regulation, Grounds for Invalidity, esp. Article 51(1)(b). See also Guidelines, Part D, Section 2: Cancellation Proceedings, Substantive Provisions (available at http://oami.europa.eu/en/mark/marque/pdf/cancellation-EN.pdf).

[26] Ibid, page 11 of the Cancellation Guidelines.

[27] *See* Application No. 000670042 (OHIM Cancellation Division), AROMATONIC (EN), 3 May 2001. Also reported at [2001] E.T.M.R. 89. Professor Phillips believes the reasoning from the decision reflects that the CTM applicant had put that earlier party on notice by approaching the earlier trade mark owner before hand. This is logical though regrettably it is not touched upon in the decision itself. Phillips, *Trade Mark Law: A Practical Anatomy*, (2003) p. 458. The reasoning is explored below.

[28] For more information on the ruling, go to http://class46.blogspot.com/2008/01/poland-consent-letter-is-not-enough.html

[29] *See* First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks (OJ L 40, 11.2.1989, p. 1–7) (referred to as the "Directive").

in appropriate circumstances the trade mark *need not be declared invalid* (or the registration of a trade mark *need not be refused*) (by Member States) where the earlier trade mark or right owner *consents* to the registration of the later trade mark (emphasis added). It is apparent that while there is the possibility for bodies to recognise the existence and effect of a prior agreement, this is not found in any actual cases. As for the CTM Regulation, there is also mention of the issue of consent. Article 9(1) and Article 5 Directive say infringement actions are to be brought only against third parties *not having consent*. The rules on the relative grounds for invalidity state that a CTM is valid where an earlier right holder consents expressly to registration, though consent must take place before submission of the application for a declaration of invalidity or the counterclaim.[30] In contrast to Polish law, the UK position appears to be that registration is preventable where an earlier proprietor or other earlier right holder consents (to the registration). Thus, the UK approach reflects the wording of Article 4(5) Directive.[31]

UK practice also differs, and is seen in an interesting revocation case involving the existence of an underlying no-challenge clause as part of a delimitation agreement for the mark BACTI GUARD.[32] At first instance and on appeal, the contract was viewed as a vital component and designed to avoid litigation with each party agreeing to restrict its use of BACTI GUARD and slight variations of it to its respective field of use.[33] The parties sought to bring the position regarding their potential objection to the use and registration of the mark into line with the user constraints – hence, the applicant for revocation agreed not to object to the other party's use and registration of the mark BACTI GUARD for any medical related fields (with a corresponding clause for the other party).[34] On appeal, the proper interpretation meant the applicant was prohibited from seeking to revoke the registered BACTIGUARD trade mark for non-use. It was incorrect that a no-challenge clause, in a settlement of a genuine dispute, should necessarily be considered void as being an unreasonable restraint of trade. It is for the party seeking to avoid the agreement to justify such a finding.[35]

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[30] *See* Article 52(3) Regulation. Further, Article 43(4) Regulation states, "The Office may, if it thinks fit, invite the parties to make a friendly settlement."

[31] *See* Section 5(5) Trade Marks Act 1994 (as amended). Similar wording can be found elsewhere, e.g. Section 47(2) (b).

[32] See the Decision of David Kitchin QC, 25 August 2005, In the matter of an interlocutory hearing held in relation to revocation no. 80161 by Fenchurch Environmental Group Limited of registration no. 2027376 in the name of Ad Tech Holdings Limited. The ruling is available at http://north.patent.gov.uk/tm/legal/decisions/2005/o23605.pdf.

[33] Fenchurch (the applicant for revocation) agreed not to use or register the mark BACTIGUARD in relation to antimicrobial additives or other medical products, devices, equipment or applications. The other party, Ad Tech (seeking to strike out the revocation proceedings) agreed not to use or register the mark BACTI GUARD in relation to antimicrobial air filters for use in non-medical applications.

[34] The key part of the delimitation agreement was Clause 5. It stated, "Fenchurch agrees not to object to Ad Tech's use and registration of the marks BACTI GUARD and BACTI GUARD and device for any medical product, device, equipment or application, including but not limited to those in classes 1, 5 and 10, or as these classes may change in the future."

[35] *See* note 32, paras. 43-45.

Trade mark courts in the US are more willing to get into the practical details of trade mark contracts, which is not that surprising given a greater openness among the American judiciary to most 'external' sources. On several occasions, an agreement has been the sole determinant for applications in non-public interest cases, for example, concerned with fashion products and service industries.[36] Further a field still in places like China and certain countries in South America, trade mark letters of consent are recognised provided the rights under consideration are not identical. It is clear that cultural considerations are important and can differ from country to country. In a number of high profile cases that have reached the UK courts for instance, it is the US side (as opposed to the Europeans) that view the agreement as without legal effect, and may reflect a cultural approach to such contracts.[37]

3.4 A sign of change?

It is apparent a wide variance exists. Whichever type of legal forum hears a contract related trade mark case there are three basic approaches. One is to rely on coexistence clauses when assessing the instant case almost at face value–to the extent validly formed and applicable to the dispute at hand. National courts appear more willing to use this approach. Here, the contract may play a significant part in determining the outcome and can operate for instance, to prevent one of the parties applying for rights given a prior and lawful promise *not* to do so (bearing in mind a confusing similarity to the rights of the other party). A second approach, the opposite and more straightforward, is just to ignore all forms of private agreement. Regrettably, this approach has found favour at the OHIM. The final approach sits somewhere in the middle of these two and may be the position the OHIM is moving toward.

Evidence for this statement is in the latest decision regarding the SKY related rights. During late 2007, OHIM's First Board of Appeal heard arguments related to a contract on the SKY trade mark and variations of it in an appeal relating to a CTM opposition decision.[38] The Board gave serious thought to the underlying 20-year old agreement: "The parties have discussed at some length the validity and significance of an agreement concluded between the applicant's predecessor and the opponent on 3 November 1988." After pointing out the contract settled litigation between the parties, the Office proceeded to discuss the main clauses. It found that the critical clause operated such that the parties' mutual promise not to obstruct each other in the use and registration of trade marks was confined to those expressly mentioned: SKYROCK, SKYZIN and SKY CHANNEL. The mark in the current dispute, a figurative mark consisting of the word SKY, was not therefore covered.[39] Effectively,

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[36] *See* Moss, "Trademark 'Coexistence' Agreements: Legitimate Contracts or Tools of Consumer Deception?" (2005) 18 (2) *Loyola Consumer Law Review*, 197. The article is available on SSRN, at: http://ssrn.com/abstract=916551.

[37] This is seen in various cases, including *Apple Corp v Apple Computer* [1991] 3 CMLR 49, *Apple Corps Ltd. v. Apple Computer, Inc.* [2006] EWHC 996 (Ch), and *Prudential Assurance Co Ltd v Prudential Insurance Co of America* [2003] EWCA Civ 327 (12 March 2003, unreported).

[38] Case R 1167/2006-1 *British Sky Broadcasting Group plc v VORTEX (Société Anonyme)*, 27 November 2007.

[39] "The opponent did not promise that it would refrain from opposing any attempt by the other party of the Agreement to register the word SKY, by itself, as a trade mark." Ibid, para. 18.

the Office rejected the applicant's argument that precluded the opponent via contract from opposing the CTM application. On the interpretation of the OHIM, the contract did not support the claim.[40]

OHIM's conclusion contradicts the finding of the French courts as regards the same contract. At first instance and on appeal, the French courts regarded the essence of the agreement as being one in favour of the applicant as far as the SKY trade mark was concerned. This meant cancelling the mark according to the meaning of the contract. One of the key differences is future conduct. The Office, in contrast to the national courts, did not view the agreement as entailing an open-ended commitment to allow each party to use and register any conceivable trade mark that they might wish to use at some future point. Had this been the case the CTM applicant would have had a much stronger argument. It is perhaps understandable if the Office is reluctant to use this approach to prevent an opposition: safety first. There is also a point here that because the agreement is inapplicable to the proceedings, the Board is perfectly happy to interpret it as such. Whether or not the OHIM interpretation adopted is correct, it is a move forward, and an eminently preferable approach to earlier cases. Having a discussion of some kind is better than no discussion. The author applauds the OHIM and the national courts for openly discussing the contracts and respecting the formalised intention of the parties. It is no great shock that international judicial bodies interpret in a contradictory way – this is not really the point.

4. Coexistence contracts are worth the fuss of a discussion

Only a handful of decisions exist. Relative to other areas such as confusion, this is a truly negligible amount. In one respect it is refreshing, yet in another, rather disabling. It is not known for example, whether divergence in approach and an often-strong sentiment against these contracts is a contributory factor. For a variety of unrelated reasons, parties may simply feel it not worth it to contest. The other possibility is the agreements are doing their job and keeping matters private. Either way, it is important to expose the approaches found to rigour, on top of what has already been done above. This section specifically puts forward three main arguments against the reluctance and inconsistency approach, notable at OHIM – a focus reflecting the strategic role it plays in EU trade mark matters.

4.1 A moral argument

Where a party decides breaking the agreement is the best option, courts and tribunals should be on notice for possible abuse. Within EU law, a principle of abuse of rights is emerging and applying in an increasingly broad way to prevent the use of Community rights in an abusive way.[41] This whole topic of abuse is naturally a bit

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[40] In the final analysis the Board of Appeal reversed the previous decision, and found in favour of the applicant as there was no likelihood of confusion on the facts, given in part, obvious differences between the marks and that the public would not establish a link between the goods and services offered.

[41] *See* Sørensen, "Abuse of rights in Community Law: A Principle of substance or merely rhetoric" (2006) 43 (2) *Common Market Law Review*, 423-459.

more vague, and can creep into a number of areas indirectly. Thus, even in CTM opposition cases, where the issue of bad faith is not allowed to be raised (only upon registered rights), the principle of abuse could at least on moral grounds be persuasive. One reason is because it would a plug a loophole that currently may be used to negate (during an opposition) the possible evidence of bad faith a contract might point to and impact on an application. In any event, the technicalities may simply mean the relevance of bad faith is delayed (until invalidity). The argument would be between the exact same parties and the exact same contract. Without good reason, this is hardly ideal. The earlier a case is solved the better. However, a general problem might be that the contract appears at that later stage to have been 'ignored' once already (at registration) and this might say something to the new OHIM examiner of its worth. Not discussing bad faith–assuming it is relevant, merely delaying is counter to both efficiency and a moral rationale of entering an agreement (in good faith) in the first place. It is encouraging and significant that in at least one ruling the OHIM takes into account, in determining bad faith, a rejected offer between the parties for coexistence made *prior to filing the application for registration*.[42]

In *OMEGA*, the CFI found the agreement irrelevant to the assessment of the likelihood of confusion. The moral argument here is not presuming anything different in fact–even though this seems rather harsh. More that where a contract is in good faith and relied upon as such by both parties up until the instance in hand, the very fact of proceedings is indicative of bad faith unless convincing counter observations *made by the opposing party* can be proved. If such grounds cannot be made out, the behaviour could amount to an abuse of rights, e.g. where national decisions have favoured a dissimilar interpretation to the one the party arguing before the OHIM is relying on. The OHIM is not an appeal body for national court decisions. Moreover, national laws are not yet harmonised on the meaning of bad faith. Countries like Germany and Portugal classify a finding bad faith as only a ground for cancellation, an approach reflecting the wording of the Regulation. But this is in contrast to other national approaches and that of the Directive, which regards bad faith as an absolute ground for refusal. The net result could be different individual Member States and the OHIM continuing to understand bad faith in different ways – to the potential benefit of unscrupulous yet resourced parties.

There are other abuse aspects to consider as 'unconscionable behaviour.' Take the instance where one of the parties, let us say the CTM applicant, fully understands OHIM practice and its nuances. If the applicant, prior to the application, makes an 'offer' of formal coexistence to the other party, even if the offer is not accepted the applicant knows it may act as a defence (or some kind of mitigation) to later action by that other party, i.e. opposition or invalidity. It may provide evidence of good faith just as rejecting an offer may provide evidence of bad faith as in the *AROMATONIC* case. Such an approach is usable for a range of potential complainers in waiting. Problems may occur if one or more of the other parties in fact accepted the

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[42] See Application No. 000670042 (OHIM Cancellation Division), AROMATONIC (EN), 3 May 2001. Also reported at [2001] E.T.M.R. 89. In the part of the guidelines explaining where the CTM is valid on relative grounds, it is clear that the Office will take into account a contract between the parties– where it is indicative of the earlier right holder's consent to registration even if the consent is not before the date of registration of the CTM. It is sufficient if it is before the filing of the application for invalidity. *See* page 13 of the Cancellation Guidelines.

(disingenuous) offer. Presumably, there would be an easy enough Plan B (the price is too high, too low, etc, "let's renegotiate"). There at least exists the leeway for abuse and it would be difficult for the hearing officer to be aware of the full facts. Abuse remains an extremely problematic issue, both in substantive and procedural terms, i.e. proof. It is a challenge to detect, establish and demonstrate another party had no real intention of doing something; proving a negative. However, the value in a more cynical approach is that only actual *bona fide* actual agreements carry weight and on the basis of an opposition ruling, something the Office is willing to adopt.[43] On the flip side, it should not be the case that the refusal of an earlier offer to coexist is bad faith *per se* – as long as cogent reasoning is offered in explanation.

We know OHIM guidelines indicate while it will not simply ignore private contracts, they will only be relied upon if there is a national court ruling about its meaning. Imagine the following scenario. An opposition party before the Office appeals such a national decision, but only after the OHIM have heard and ultimately rejected its counter-arguments that the agreement allows the CTM application (or more likely, does not prevent it – the sort of approach used in *OMEGA*). The OHIM take this view in part because this interpretation is consistent with the (non-binding) national court's view. Somehow, the opponent manages to reverse the national decision on appeal and promptly re-applies to the Office for revocation of the registered CTM. The OHIM faces a tricky choice. Technically, there is nothing wrong with the party's conduct and trying to prove otherwise would be problematic to say the least. It is perfectly normal for the same international agreement to attract divergent judicial views even within the same legal system, let alone internationally. Preserving or undermining a trade mark monopoly at Community level may be worth the cost and time involved.

These are hypothetical scenarios and may never crop up in practice, but go some way to highlight potential avenues for abuse. A simple solution is to look at all underlying agreements full stop: to understand whether the party concerned had contracted (not) to do this, which the bargain and conduct (up until now) reflected, and what bearing this presently has. Basic values underpinning the notion of estoppel are supportive here. As a rule of evidence, estoppel operates to prevent a party from denying the existence of facts that he has led others to believe (by act or omission). Reasoning like this is in the *AROMATONIC* case and commentary on it – the refusal of a prior offer of agreement negates the refusing party's ability to subsequently claim invalidity of acquired CTM rights. This rationale is not a technical one. It is simply about fairness and determining what is 'reasonable'; a commercial concept dominant in contract ideology and practice, and hardly something foreign to trade mark bodies. For the sake of consistency of practice as well therefore, OHIM should recognise in principle the coexistence agreement as evidence of good or bad faith.

The argument so far is to *encourage* judicial intervention and reliance. As with these kinds of moral arguments, it cuts both ways. There are certainly dangers from relying on underlying contract clauses in a blinkered way notably when taking the perspective of unfair competition. The case of a purely fictitious agreement can occur where a proprietor of an earlier trade mark opposes the registration of a new one on untenable

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[43] *See* Opposition Decision No. B 48639, 1340-1999, BOSS / BOSSI (EN), 2 December 1999. OHIM regarded evidence of the prospect of an agreement (through the offer by one party to the other) as inconclusive to a finding of likelihood of confusion.

grounds to induce the applicant for registration to settle the 'conflict', facilitated and produced by means of a coexistence agreement. From the dominant firm's view, this strategy exploits an actual or perceived disparity in financial power among the parties, i.e. where a CTM applicant is weaker economically and in receipt of poorer advice. If such an agreement is enforced by a court of law, merely an artificial bargain is sustained that has very little to do with real trade mark considerations or those of fair competition – an argument that worked for the Commission in the *BAT* case.

4.2 A law argument

Where a genuine contract is at hand and where the force and terms of an agreement is relatively unambiguous, is realistic for trade mark bodies to consider contracts. The genuineness of the agreement will usually be apparent as in the resolution of a previous trade mark dispute. Thus, technical questions as to the validity and so on are not what we are talking about. In dispute is the issue of entitlement to apply for and/or oppose registered trade mark rights. In fact, what the party relying on the agreement is trying to do is enforce a specific performance. In practice, this applies in almost all jurisdictions, and is an easier determination to make as it does not have to include value for the purposes of for instance, awarding expectation damages. The case for intervention is also made easier where an obvious public interest is involved, such as public health would be relative no brainer. In many other cases, the line is admittedly much finer.

In specific trade mark terms, when assessing a likelihood of confusion the OHIM looks at coexistence which during inter partes proceedings may be relevant as regards the (co)existence of conflicting marks in the same territory. By using standards of reasonableness they are already familiar with (as to the 'reasonable consumer'), including a person having all the background knowledge that would reasonably have been available to the parties in the situation in which they were at the time of contracting the Office is in a position to ascertain the proper meaning that a contract conveys.[44] In making its assessment, a given court may decide to consider carefully what level of goodwill, if any, existed at the time the contract of contracting, which may shed light on the reasonableness for a party to restrain, perhaps indefinitely, the other from challenging its right to use and register the disputed mark (or sign). For example, actual use of the mark at the date of the agreement and since could be significant. Furthermore, where coexistence on the market is established, which the contract would *prima facie* suggest, the proof of the reputation of the earlier mark may be a relevant argument in the next stage of analysis, of supporting (or not) the finding that there is no likelihood of confusion.

The legal argument also reflects a public interest point. The Regulation has provisions to ensure contracts (as to CTM rights) avoid harm to the public. It is difficult to see how this is achieved, consistently, by *not* looking at contracts. The rules state that the transfer of a CTM right will not be effective where it is clear that as a result of the transfer the public is likely to be misled as regards the nature, quality or geographical

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[44] *See* Case C- 342/97, *Lloyd Schufabrik Meyer & Co GmbH v. Klijsen Handel BV*, [1999] ECR I-3819 and Case C-210/96, *Gut Springenheide and Tusky*, [1998] ECR I-4657.

origin of the goods or services in respect of which the CTM is registered.[45] There could be various instances where certain clauses are contrary to the public interest or at least that the arguable case is strong because the activity is in health-oriented sectors where trade marks attach to pharmaceuticals and medicinal type products.[46] A general no admissibility approach is inconsistent with international practice as well. At the WIPO, underlying contracts are part of an overall assessment. For example, in relation to domain name cases, contracts are conclusive where the parties arrive at a private settlement. The governing rules demand a respect of the agreement, and the proceedings are terminated.[47]

It is not clear therefore, why national trade mark courts such as those in the UK and France are willing and able to determine contractual questions whereas others and the OHIM especially are reticent and not at all sure of the right approach or that eager to discuss the matter at all. The OHIM is perfectly capable of the task and is in fact the most qualified to determine whether a CTM opposition case is admissible in the light of an underlying agreement. Delegating this task to national courts is not the solution, and is unreasonable as domestic courts are not able to determine for instance, if an opposition before the OHIM is procedurally proper. When this does occur, as a minimum we should be provided with cogent legal reasoning why they are *not* willing to make an assessment of the contractual circumstances. Much of this is about determining a "fact". Factual context is critical in trade mark cases and can determine the merits of the arguments. The "facts" that prevailed at the time of contracting, and those leading up to the current dispute is an important part of the evidence process, and sheds light on why and how the agreement broke down. Armed with this kind of information, the judge or examiner can assess whether the agreement which, having regard to the nature and extent of the respective businesses of the parties and their use of confusingly similar marks, does any more than avoid confusion or conflict between the parties and in the market. There is no automatic legal reason to assume why such agreement may be unhelpful and unlawful. Nor why these clauses are necessarily in restraint of trade, or anti-competitive, or unlawful and inadmissible in some other way. Such a *finding* is ideally based on sound substantive (and procedural) argumentation by the party seeking to avoid the effects of the key clauses. Either way,

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[45] *See* Article 17(4) Regulation, and Recital 10 which says, "Whereas a Community trade mark is to be regarded as an object of property which exists separately from the undertakings whose goods or services are designated by it; whereas accordingly, it must be capable of being transferred, subject to the overriding need to prevent the public being misled as a result of the transfer."

[46] In the US, contractual clauses concerning medicated products are void where confusion "could generate irreversible damage to human health". See the dispute between *Merrell Pharmaceuticals Inc. and Allergan Inc.* reported in The Eleventh Annual Int'l Rev. of Trademark Jurisprudence, 94 Trademark Rep. 277, 355-56 (cited in the Moss article, referred to above).

[47] *See* WIPO's Uniform Domain Name Dispute Resolution Policy (UDRP) Rules (paragraph 17). The approach extends to statements made in settlement discussions, which can be indicative of bad faith. Evidence of offers to sell the domain name is admissible under the rules and reflects the central importance of good or bad faith in the resolving domain name cases. Many prospectors will simply wait until a trade mark owner launches an official complaint before asking for payment for the domain. For a relevant panel decision, *see McMullan Bros., Limited, Maxol Limited, Maxol Direct Limited Maxol Lubricants Limited, Maxol Oil Limited Maxol Direct (NI) Limited v. Web Names Ltd* D2004-0078, Transfer.

this assessment will have serious implications possibly involving Community rights. It absolutely should not therefore be a matter of course of the hearing body.

4.3 An economic argument

We know that there are persuasive reasons for exposing trade mark issues to the rigour of economics.[48] Equally, it is apparent the impetus remains unfulfilled. This is a shame. A whole host of interesting questions crop up when inspecting law and policy scientifically. To establish an argument here, the analysis is confined to the economics of *not* enforcing contracts, bearing in mind the special case of trade marks.

From an economics viewpoint, trade mark law promotes efficiency. It does so by recognising, rewarding and enforcing rights related to the natural enabling value of a trade mark: to *identify and inform*. Alternatively, one could argue the law in fact tries to avoid the harmful aspects of a mark: to *misinform and misidentify*. The distinction is about more than mere semantics, but is a question for another time. This argument adopts the *optimistic* view such that the guaranteed presence of the positive functions of marks, through the system's intervention, means purchasers are less likely to base key product assessments on 'wrong' information and thus less likely make 'wrong' decisions. Applying this theory means the law should only recognise, reward and enforce distinctive, non-descriptive signs that are capable of being trade marks for registration purposes, and in clashes between established rights, only marks that differentiate unconnected commercial origin. A desired economic effect is to lower the search costs of a purchase, which is a forceful motive for suppliers to mark their offerings clearly and distinctively. It may also give cause for firms to invest in a consistent and higher standard of product and communication quality. As well as this, it encourages, even demands, rights' vigilance. The essence is that there is an incentive for suppliers to match consumer expectation: the market is facilitated.

On the basis of this admittedly very truncated economic view of trade mark law, the indispensable nature of the underlying right is irrefutably established. The argument draws heavily on the conventional economic theorem of property rights, based on the notion of an artificial right, a property right, as a legally enforceable power to exclude others from using a resource which they already 'own' in some conflicting way. According to the theory however, there is no need *to contract with them (the others)* for this 'right' to work. What the theory fails to explain therefore, is contracting may be necessary to make it work, especially given the description of current trading conditions and dual systems in the EU (referred to above). The use of a coexistence agreement appears to challenge the basic premise. An important question to consider is whether the use of agreements jeopardises the realisation of economic efficiency, as dictated by the traditional theory.

This question is one for a thesis. *Prima facie* however, there is no overriding reason why a contract for the coexistence of a trade mark right would endanger market

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[48] "That the law of intellectual property, including trademark law, can be analyzed in economic terms is no longer an insight with any power to astonish or even to offend." This is the opening sentence from the leading paper in a field that has failed to take off, in spite of such a promising start. *See* Landes and Posner, "Trademark Law: An Economic Perspective" (1987) 30 (2) *Journal of Law and Economics*, 265-309.

efficient functions. It is unlikely that rational economic actors, in pursuit of profit, would actively seek to confuse actual or prospective purchasers. On one of the rare occasions where the OHIM decided to open up the contract and take a proper look, a positive view emerges in this respect: "…from the text of the agreement it transpires quite clearly that the consumers' interest not to be confused between the signs was also duly considered since the parties determined the conditions under which both parties could use their respective trade marks…without any risk of confusion."[49] Logic indicates that a private self-serving agreement exactly promotes efficiency by preserving the dominant trade mark function. We can believe owners are good judges of what is in their own interests, and this is further reason why trade mark bodies should not assume agreed to contractual restraints are unrepresentative of a reasonable division of the parties' rights.

On one hand, economics is important to the coexistence topic because trade mark law is built on the idea of promoting economic efficiency. The message is that it tends to confirm the soundness of contracts in the first place. On the other hand, this is a leap of faith of sorts, as finding direct economic literature on the topic has proved elusive. Instead, general economic theories answering 'what contractual promises should be enforced?' and 'what should be the remedy for breaking enforceable promises?' are the nearest to the issues in this analysis.[50] Nonetheless, from the general theoretical perspective, the rejection of agreements by trade mark courts does not make sense for two reasons.

First, the approach can be characterised as *dogmatic*. A better approach, a *responsive* one, demands contracts are enforced or at least relied upon where both parties sought such enforceability at the time of transaction. Referred to as 'Pareto efficiency', this broadly means that the law should not result in making one person better off at the expense of making the other (in fact, anyone else) worse off. To take a simple example, where one party is applying for CTM rights which have been previously agreed to as 'off limits', by ignoring the contract the law is promoting Pareto *inefficiency* and this is particularly harmful where as is often the case, significant time passes between formation and 'breach'. Contracting is a different thing because it now involves an increased risk, primarily, that the deliverables of the promisor will not materialise. This situation must be avoided wherever possible because cooperation is efficient and promotes productivity. Where non-cooperation arises because prior agreement, i.e. cooperation, is ignored, the law facilitates a misallocation of resources. If non-enforceability is dogmatic, the attractiveness of agreement is severally diluted because it is more expensive and higher risk. Efficiency is jeopardised. Breaking an agreement or simply not having one is more attractive.

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[49] *See* First Board of Appeal ruling in VICHY/VICHY CATALAN (decision of 12 July 2004 in Case R 24/2003-1, paras 48–50). This reasoning helped support a finding of no opposition, as it pointed to the various measures of the parties to reduce the likelihood of trade mark derived confusion occurring in the market.

[50] *See* Cooter and Ulen, *Law & Economics,* (2000). *See* Chapter 6 generally. The lack of direct economics material is difficult to rationalise. It might be because the coexistence contract is not at all the typical exchange of consideration and is about negative sets of deferred open-ended promises. This framework differs from the normal nature of IP contracts like assignment and license, which at base, involve a positive exchange: the right to do something.

The second point is that by not recognising such agreements, courts may also put into jeopardy consumer interests. As mentioned, it is unlikely parties in most cases will actively agree to and pay for consumer confusion to exist (rather than not). Such a situation may dramatically affect repeat sales in highly competitive markets–and this is a source of income many firms rely on heavily. The basic economic argument does not prevent parties renegotiating their risk allocation, should circumstances warrant. Preferably though, the trade mark system is not the means to do so.

4.4. Summary

A series of moral arguments related to abuse support the entering, reliance and if necessary, enforcement of valid promises to coexist. In commerce, a moral obligation is not enough. Nor can one simply rely on the shaking of hands. Even loss of reputation, a powerful incentive, is insufficient – it is an unpredictable thing and most relevant in sectors involving close personal contact. There are also a few law-based reasons why contracts should at least be looked at. For one thing, the burden of proof must remain a positive one that rests with the party relying on the existence or non-existence of an applicable contract. This simply cannot be a matter of course. Similarly though, the legal arguments have not compelled an open and consistent judicial attitude thus far. The most compelling justification to help shift attitude may come from economics.

Economics tells us the case for enforcement of agreed to promises is stronger than for non-enforcement. The simple reason is that cooperation encourages a more efficient exchange and allocation of risk. Not only are the costs of transacting lowered, but crucially, consumer search costs and interests are unaffected. If it is true that many more coexistence contracts are in place, economic benefits have a profound practical impact and particularly in Community-wide and international trade mark transactions. The implementation of a pro-agreement approach may result in other efficiencies later on. Less resource is spent defending rights as the contracts effectively 'regulate' in a private, pre-emptive sense, and connectedly, actual clauses will be more efficient and (trade mark) lawful due to increased public investigation that helps match contract and trade mark considerations.

5. Is a lack of fuss justified?

Readers of this article may end up with one of two feelings. Some may feel a lack of fuss remains justified and the article is a missed opportunity to talk about something more interesting and more important – the article has missed a rather fundamental point and *that* is why this topic does not feature on the radar. Given though it is not clear what, if any, fundamental point this might be (even *after* the analysis), the other feeling and one eminently more preferable to the author, is that the lack of fuss is not sustainable. Hence, the analysis has unearthed a topic worth casting a quizzical eye to. Several points emerge in support of this latter view.

First, the notion of a coexistence agreement is significant as a standalone market tool. It is of increasing pervasiveness and something of wide yet relatively unknown impact in trade mark terms. Statistics and logic indicate for all sorts of owners – national, regional, international – the agreement option is a good bet at some stage. Delimiting markets or fields of trade mark use can be prudent as a way to avoid the diluting effect of association with other brands on the horizon. More simply, agreement can help manoeuvre round the hassle and unpredictability of conflict. Formal, lawful cooperation enables management of commercial risk.

Second, the best chance to push the analysis of this relevant topic forward and improve knowledge sits with trade mark courts. To do so however, they have to open these contracts up, surgeon-like. The suggestion is not that trade mark courts should supervise commercial contracts nor cast profound hasty judgements that affect their operation. Equally though, it must be borne in mind that direct third party action is not usually possible. The *locus standi* point used in *support* of the no-nonsense OHIM approach is ironically good cause to take the opposite view.

Third, assuming the first two points are taken on board, when they occur, juridical responses must be clearer and more measured. It is not only in Europe that attitudes and approaches show discrepancy. Admittedly, understanding coexistence contracts and the contradictions they highlight is challenging. *Prima facie*, the private, profit-oriented contract appears at odds with the public interest perspectives of a system of trade mark protection. There are complex interactions to be explored, but this can apply equally in cases of assigning and licensing IPRs and we know about these kinds of transactions. The unknown for the current topic and the biggest cause for concern, is the extent agreement is a tool that on a very wide-scale pre-empts trade mark law. Because this happens outside the usual regulatory reach, we do not precisely know what is going on.

6. Final remarks

Ordinarily, the coexistence agreement is the outcome of a commercial choice to exist somewhere in between trade mark war and peace. The *effet utile* of any agreement is its ability to reduce some of the sources of harm that can derive through acquiring and using trade mark rights. Defining the extent of respective rights up front is sensible, and not just because of cost management. In this way it is about (managing) risk. In another way, as more and more *unconnected* rights land in other's laps, firms need to map out potential paths for growth in congested markets, which is about opportunity. The private contract is a tried and tested device for realising these objectives, and from the point of view of society, the costs could be minimal. For example, the essence of the agreement, the bargain, may be in line with consumer interests. One of the arguments from above is the improbability for rational firms to go to the trouble of formalising arrangements that encourage and sanction trade mark confusion.

To consistently promote the interests of certainty and risk allocation, the trade mark system must respect and enforce valid and applicable contractual promises unless there is good reason not to, such as to avoid consumer harm. When the system fails to enforce cooperation without good reason, negative consequences flow. Parties are not getting what they bargained. Business certainty is undermined. The sanctity of contracts shattered. Possibly, a conflict that both parties undertook to avoid is reignited.[51] Casting aside in an instant the time, effort and foresight incurred to

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[51] As the Court of Appeal concluded in *WWF*, "…to set aside the agreement would be to signal a resumption of the worldwide, tit-for-tat battles, which the Federation sensibly sought to avoid when they opened negotiations in 1991." *See* note 4.

precisely avoid what is currently happening is dangerous especially when without good cause. Negotiating and formalising international trade mark coexistence is no simple thing. OHIM's dismissive statement that it will ignore the provisions of a private agreement – whatever the correct interpretation of it may be, is not only out of touch and offensive; it is plain wrong when done as a matter of principle.

This article is not a one-off thing and hopes to trigger deeper discussion – a desire shared by others.[52] The subject in hand criss-crosses legal and economic issues, and uncovers a potentially uneasy overlap of contract law and trade mark law, compounded by a wide range of practical situations. A reasoned account is harder to pin down at one sitting therefore. While there is some truth to this statement it remains puzzling why the topic is under-represented. Does the trade mark community take contracts for granted? They are rather dull, not that exciting when there is so much stirring *trade mark* stuff going on. Or is it simply a case of *if it ain't broke, don't fix it*? Hopefully the answer is no in both cases. It is not at all the case for instance that the public would hear more about these agreements if they *were broke*. More often than not the matter will remain a private affair throughout – a point that reinforces the ordinariness of trade marks. High profile litigation as in the *Apple* and *WWF* cases is a rarity. As with international sales, a healthy proportion of arguments on trade mark contracts are probably settled amicably or taken to arbitration *as provided for in the agreement*. In either case, the rest of us are none the wiser. The argument for knowing more is strong and hurried along by a motivation to gather a better account of commercial reality. The recent OHIM ruling in *SKY* is a step in the right direction. All in all there is good reason to believe not only is the lack of fuss unwarranted, it is also about to end.

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[52] The topic was keenly debated at INTA's Advanced Trademark Symposium in March 2008. See http://www.inta.org/index.php?option=com_intaevents&task=eventdetails&id=1032&catid=1&parentid=0&Itemid=67&getcontent=2.