

COMPETITION OFFICE'S RESOLUTION AFFECTS TRADEMARK USE

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An unsettling jurisprudence relating to the interplay between trademark law and competition law seems to have surfaced pursuant to a recent resolution of the Competition Council, according to which the use of an own trademark in itself may constitute an unfair market practice.

Act LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practices ("Competition Act") regulates the following issues: (i) prohibition of unfair competition, (ii) prohibition of unfair influencing of consumer decisions, (iii) prohibition of agreements restricting economic competition, (iv) prohibition of abuse of dominant position, and (v) merger control. Ordinary courts have competence over the issues listed under (i), and the issues set forth under (ii)-(v) belong to the competence of the Competition Office, the regulatory body in charge of fair economic competition. The decisions of the Competition Office may be challenged before ordinary courts.

In the instant case, the Hungarian Competition Office initiated a procedure to investigate whether the examined party breached Section 8 of the Competition Act, which Section prohibits the misleading of consumers, through the indication of its figurative trademark on its products¹. In the case at hand, the Competition Council (a decision making body of the Competition Office) terminated the procedure due to the minor effect on the market of the examined party's behavior, however, according to the Competition Council's reasoning, the use of the figurative mark on the products is indeed apt to unfairly influence the decisions of consumers.

Such jurisprudence is unsettling based on the following:

According to Section 3 (1) b) of Act XI of 1997 on the Protection of Trademarks and Geographical Product Markings currently in force, "*a mark may not enjoy trademark protection, if it is suitable for deceiving consumers with regard to the type, quality, geographical origin or other characteristic of the goods or services.*" According to Section 3 (1) a) of Act IX of 1969 on Trademarks previously in force, "*the marking shall not be granted trademark protection, if it is suitable for deception*", and according to Decree 4/1970 IM issued for the execution thereof: "*the marking is suitable for deception especially if it can mislead buyers in respect of the features, quality, function, origin of the commodity, or if it is identical to or mistakable for the publicly known corporate name of another party.*" Therefore, both trademark acts require that a mark is not suitable for misleading consumers/buyers, as a condition precedent for the granting of trademark protection.

The Competition Council set forth in its resolution terminating the procedure that, "*the aspects examined by the Competition Office and the provisions of the Competition Act cannot be taken into consideration before the Hungarian Patent Office* [the regulatory body in charge of granting

¹ 160/2001. Vj.

and registering trademark protection] *during its procedure relating to trademarks which procedure substantially focuses on the marks's suitability for distinction and the lack thereof. Therefore it cannot be excluded that in case of the use of a trademark which was registered by the Hungarian Patent Office, the Competition Office, on the basis of the Competition Act, establishes the suitability for the unfair influencing of consumers' decisions."*

In connection with the above reasoning of the Competition Council, the statement that the Hungarian Patent Office substantially focuses on the distinctive nature of the mark in the course of the trademark registration procedure, is unfounded. On the basis of the provisions of the trademark acts, prior to the registration of a mark as a trademark, the Hungarian Patent Office, in the course of the formal and substantive investigation, also examines whether the mark may deceive consumers.

According to the Competition Council, the same behavior can be judged in different procedures on the basis of different laws, which laws enforce different aims and apply different criteria. This statement may be true in general, however, the misleading of consumers/buyers itself, or the potential for deception itself may not be judged differently as per the Competition Act and the trademark acts. Neither the trademark acts, nor the Competition Act contains different or specific rules in this respect. According to the established jurisprudence, both the Hungarian Patent Office and the Competition Office bases its decisions on reasonable consumers, both in the course of trademark procedures and when ascertaining the unfair influencing of consumers' decisions. Therefore, in case of a trademark duly registered by the Hungarian Patent Office, as long as the trademark protection exists, the Competition Office may not come to a different conclusion with respect to the issue relating to the misleading of consumers/buyers.

The fact that the misleading, or the potential to mislead itself shall be ascertained taking into consideration the same criteria both on the basis of the Competition Act and the trademark acts, does not mean that additional, different criteria could not be examined by the Competition Office. The statement of the Competition Office can be supported that "*the Competition Office does not protect the interest of the consumers or the competitors in itself, but it protects competition itself.*" The misleading of consumers as indicated in Section 8 of the Competition Act requires in addition to the suitability for misleading consumers the distortion of economic competition: "*The misleading of consumers in the economic competition is realized when in respect of the material qualities of the goods untrue facts are stated or true facts are stated in a manner capable of misleading the consumer, or important qualities are not mentioned and this influences the decisions of the consumers in a manner that an unfair advantage is gained in favor of a competitor, that is the competition is distorted²" and "the misleading of the consumer can be evaluated by the competition law, if the misleading has a harmful effect on the competition.³" Finally, "for the breach of Section 8 of the Competition Act it is also required that the misleading have a verifiable harmful effect on economic competition.⁴"*

On the basis of the above, the Competition Office may prohibit acts within a more limited scope than the Hungarian Patent Office; and for such prohibition by the Competition Office the

² 42/1999. Vj.

³ 135/1997. Vj.

⁴ 135/1997. Vj.

suitability for misleading consumers in itself is not enough, but in addition the distorting effect on the competition is required. The Hungarian Patent Office, however, may not register the mark if it may potentially mislead consumers, independently of any other aspects. That is, the Hungarian Patent Office shall not register the mark even if the potential to mislead would have no effect on the competition at all (e.g., the trademark owner does not even use the trademark prior to its registration or shortly afterwards).

Additionally, the Competition Act only prohibits unfair market practices, and in case of the use of a mark protected as a trademark by the trademark owner, such unfairness is excluded by definition. The Supreme Court of Hungary, acting as the court of second instance, pointed out in its judgement Pf.IV.25 410/1999/8 - which judgement can be applied to trademark protection by analogy - relating to industrial design protection that "*as long as such protection exists, the use of the protected item in itself shall not be deemed as unfair.*" Further, the Supreme Court, acting as the appellate court, in its decision Pfv.X.22.919/2000/7., to be applied by analogy to the instant case, pointed out with respect to the relationship between the Competition Act and Act 28 of 1978 on Industrial Designs with universal effect that, "*on the basis of the comparison of the provisions of these acts it can be concluded that the Competition Act and the Industrial Design Act relate to each other as a general rule and a specific rule. Therefore the court of second instance pointed out correctly, that the defendant obtained with its industrial design protection such special and exclusive rights, the use of which cannot breach the prohibition of unfair market practices.*" Although the referenced judgements were rendered relating to unfair market practices carried out against competitors and not relating to the unfair influencing of consumer decisions, and as such fell within the competence of the courts and not within the competence of the Competition Office, the judgements generally assert the primacy of the acts granting exclusive industrial property rights (trademark, industrial designs, etc.) in relation to the Competition Act.

A further argument not to make the above analyzed decision of the Competition Office a general practice is the consideration relating to predictability and foreseeability of the laws, as well as the jurisprudence and the legal stability. Allowing a departure from the absolute structure of the trademark rights by the Competition Act would weaken such previously absolute structures resulting in an erosion of the rights enjoyed pursuant to trademark protection.

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