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Trademark Co-Existence Agreements in the Perspective of EU Competition Law

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Preface

This thesis is the fruit of my academic labours after five and half years of law studies in both Sweden and Hong Kong. During this time, as always, my family has supported my work. Thank you, mum, dad, sister and my partner Peter. I am far more grateful to you, than I think you know. There are a lot of friends and classmates who have made direct and indirect contributions to this thesis. I am especially grateful to the following people for their invaluable feedback and comments: Jens Andreasson (for supervising), Helena Billing-Clason, Magnus Jonson, Marcus Lundén, David Palmqvist, Emma Tengskog and Karin Wallman. Finally, I am very grateful to the lawyers Mikael Åström, Agnes Andersson and Emelie Kuusk-Jonsson at Setterwalls Law Firm in Gothenburg for all their encouragement. Being your thesis trainee has been rewarding.

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Abstract

In this thesis the author has investigated and analysed the treatment of trademark co-existence agreements from a European Union Competition law perspective, i.e. agreements which allow the parties to set rules by which the marks can peacefully co-exist without any likelihood of confusion.

Practitioners deal with uncertainty regarding what is lawful to agree upon in a co-existence agreement without the risk of violating competition regulations. By not focusing on co-existence agreements, we miss a lot of the real commercial world of trademarks and the impact these ‘unknown’ agreements have. The agreements also provide necessary legal certainty for investments, which encourage competition, and it should be considered of public interest that the parties settle their dispute through agreement instead of litigation. Moreover, the advent of the European Union trademark system will probably lead to an increased number of conflicts between trademarks and it is therefore appropriate to hold a wider discussion within the area of co-existence agreements.

Trademark co-existence agreements in general consist of a territorial delimitation and/or a product delimitation clause and a non-challenge clause. Due to this, the investigation showed that co-existence agreements could very easily fall within the application of Article 101 (1) of the Treaty on the Functioning of the European Union (TFEU), in case the agreement affects competition in the EU. Article 101 (1) TFEU prohibits agreements with the object or effect of restricting competition and which affects trade between member states. Moreover, the fact that a co-existence agreement can be seen as a type of licensing agreement may result in Article 5(1)(c) of the Technology Transfer Regulation to be applicable by analogy to non-challenge clauses.

The thesis’ conclusion is that the validity of co-existence agreements depends on how the clauses are written. If the trademark holder is acting within the scope of protection of the trademark right, the restrictive impact of the agreement is usually relatively low since it does not affect the trade of goods. In such case, the agreement merely affects the possibility to promote certain goods by using a specific trademark. On the other hand, if the trademark

holder is acting outside the scope of protection of the trademark right, then, the Courts and the Commission could consider the co-existence agreement unlawful.

A limited number of cases relating to co-existence agreements have been subject to the European Courts and the Commission. The view on co-existence agreements has varied, ranging between large scepticism and a more liberal approach. Today, the Courts and Commission recognize the positive effects of such agreements, and currently there is a more positive attitude towards the agreements. Even though the co-existence agreement falls within the scope of Article 101 (1) TFEU, case law suggests that the agreement may be exempted if there is serious likelihood of confusion between the trademarks, and the co-existence agreement is a genuine solution to the conflict.

As co-existence agreements become increasingly important, there is a growing demand for guidance concerning these agreements. It is recommended that further investigations be undertaken and that guidelines are created or implemented in already existing guidelines with respect to co-existence agreements. Of course it is difficult to provide specific answers to every possible scenario, but the existence of appropriate guidelines would assist companies and lawyers in assessing the compatibility of the co-existence agreement with Article 101 TFEU.

List of Abbreviations

CJEU	Court of Justice of the European Union
CTM	Community Trademark
ECJ	European Court of Justice (renamed Court of Justice of the European Union by the Treaty of Lisbon)
EEA	European Economic Area
EU	European Union
INTA	International Trade Association
IPO	The Intellectual Property Office
IP	Intellectual Property
IPR	Intellectual Property Right
KKV	Swedish Competition Authority
NJA	Nytt Juridiskt Arkiv
OHIM	The Office of Harmonization for the Internal Market
PRV	Swedish Patent and Registration Office
SCA	Swedish Competition Act
SME	Small and Medium Sized Enterprises
TEU	Treaties establishing the European Union
TFEU	Treaty on The Functioning of the European Union
TTBE	Technology Transfer Block Exemption
TTBER	Technology Transfer Block Exemption Regulation

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1. Introduction

A long dispute means that both parties are wrong. (Voltaire)

A strong and well-established trademark may be one of the most valuable assets of a company.¹ Apple is ranked the most valuable global brand in 2012, with a value of \$153 billion.² H&M has a brand value of \$13,5 billion and IKEA \$9,2 billion.³ A strong trademark is important for the company's business strategy and has the power to decrease the cost of entry into new markets.⁴ Today, protecting a company's trademark is equally important as to create it.

Thus there are no doubts about the value of a strong trademark in the society, and trademark co-existence agreements serve an important function in today's crowded market place.⁵ From a practical view, when investigating if there are any similar trademarks the question is not if there is a problem, the question is how many problems there are, and how many of these problems that are possible to solve.⁶ In order to avoid time and expense for both parties, a co-existence agreement is an amicable settlement of the matter.

A co-existence agreement allows the parties to set rules by which the marks can peacefully co-exist without any likelihood of confusion.⁷ The agreements have existed in trademark practice for many years, but somewhat surprisingly they have not received much attention neither by academics nor courts. As an example, Apple Corps and Apple Computer entered into a co-existence agreement already in 1981 regulating the use and registration of their respective APPLE marks.⁸ Recent statistics from The Office of Harmonization for the Internal Market (OHIM) regarding finally settled oppositions were 18.307 in 2011 and about one third of these (6.576) were settled by formal OHIM decision, whereas about two thirds

¹ According to the Swedish Patent and Registration Office (PRV) 'a trademark is a distinctive indicator or sign which makes

² The term brand is often used as a synonym to trademark. However, the term brand is a wider concept. According to the Intellectual Property Office (IPO) 'a company's brand refer to a combination of tangible and intangible elements such as the trademark, design, logo and also the concept, image and reputation associated with that business.' See, IPO.

³ Millward Brown, (2012).

⁴ Global Finance (2012).

⁵ Trademark conflict resolution agreements may have different names. In literature, articles and case law figure, different terms such as co-existence agreements, delimitation agreements, prior rights agreements, consent agreements etc are used. The author has chosen to only use the term co-existence agreements which is a common definition within the EU. In the following, only *co-existence agreements* will be used when referring to *trademark co-existence agreements*.

⁶ ABA (2007).

⁷ Moss (2006) p. 197.

⁸ Smith and Deacon (2006), p. 13. For a detailed assessment of the APPLE case, see section 4.3.1.

(11.731) were set by agreements between parts.⁹ This indicates the high amount of private conflict resolution agreements.

Matthew Elsmore, associate professor at University of Aarhus, points out that by not focusing on co-existence agreements we miss a lot of the real commercial world of trademarks and the impact these ‘unknown’ agreements have.¹⁰ On the background of this statement and that practitioners deal with uncertainty regarding what is lawful to agree upon in a co-existence agreement, it is assumed that there is a need for a wider discussion in the area of trademark co-existence agreements.

When it comes to intellectual property rights there is often a conflict with competition law. According to the EU/Competition Law barrister David Vaughan: ‘there has been a seemingly endless conflict between intellectual property (IP) and competition law – not just in Europe, but in many countries of the world’.¹¹ As our part of the world gets more ‘Europeanised’ and the number of trademark infringements rises, it is appropriate to discuss whether certain clauses common in a co-existence agreement are lawful or in conflict with competition regulations. The agreement may be unenforceable if it partitions the market according to products or geographical area or is a restraint on trade. These concerns are greater when the parties have a certain degree of market power.

The quotation from Vaughan indicates that there is an unresolved tension between intellectual property protection and free competition. Intellectual property protection and competition law have a lot of contradictions, but the underlying goal of both systems is encouraging businesses and competition. Trademarks are now regarded as an essential element in the aim of creating a system with undistorted competition.¹² This is the system the Treaty on the functioning of the European Union (TFEU) wants to create and maintain.

‘Fields of use’ based on territory or products and a non-challenge clause are frequently included in co-existence agreements and often necessary since, without them, there would be

⁹ OHIM is the official trademarks and designs office of the EU. The Community trademark (CTM) is administered by OHIM, The CTM system has been established in order to harmonize the European trademark system and facilitate for the company to have its trademark valid across the European Union. See OHIM, Statistics, p.12. See also *Council Regulation (EC) No 207/2009 on the Community trade mark* and OHIM.

¹⁰ Elsmore (2008) p. 9.

¹¹ See Turner (2010) p. vii. David Vaughan writes the foreword in Turner’s book.

¹² 10/89 HAG §13 ECJ.

no such agreement.¹³ Such restrictions are often valid according to contract law. However, the restrictions may be in conflict with competition regulations.¹⁴ As a general rule, a co-existence agreement may be unlawful according to Article 101 (1) TFEU if it affects the trade between member states and aims at or results in preventing, restricting or distorting competition within the EU market. There are, however, exceptions to this main rule. Firstly, as clarified *BAT v Commission*, the agreement may be lawful if there is a serious likelihood of confusion between the two trademarks and the agreement is a genuine attempt to solve the conflict between the signs.¹⁵ Secondly, such an agreement is valid if it falls within the individual exception under Article 101 (3) TFEU or any block exemptions.¹⁶ Thirdly, a non-challenge clause may be permitted under the Technology Transfer Regulation.¹⁷

There is a limited number of cases relating to co-existence agreements and the decisions consequently serve an important function in discussing the application of Article 101 (1) TFEU to the agreements. The view has gone from treating co-existence agreements as a way of partitioning the market to realising that the agreements may have legitimate aims. Most recent case law indicates that today, the Courts and the Commission may take a more liberal approach to co-existence agreements.¹⁸

What is lawful to include in a co-existence agreement is an unclear and unexplored question. This thesis deepens this discussion.

¹³ See below chapter 6.

¹⁴ See for example Smith and Deacon, *The enforceability of coexistence agreements* (2006) p. 16.

¹⁵ See below chapter 8.

¹⁶ See below subparagraph 7.2.

¹⁷ See below subparagraph 7.2.1.

¹⁸ See below chapter 8.

2. Objective and Problem Statement

2.1 Objective

The main purpose of this thesis is to investigate and analyse the treatment of trademark co-existence agreements from a EU Competition law perspective. Particular consideration will be given to three clauses, which are frequently included in co-existence agreements and relevant from a competition law perspective. The thesis analyses how far-reaching the clauses can be without violating competition law. The focus lies on Article 101 TFEU, which deals with agreement between undertakings, which may affect trade between Member States and has as its object or effect to prevent, restrict or distort competition within the common market.

The subject was initiated by Setterwalls Law Firm in Gothenburg which perceives a general uncertainty regarding competition aspects of co-existence agreements, hence an assumption that this may lead to obscurity in practice. A fundamental issue is if the Commission's aim with Article 101 TFEU, is at contradiction with how the clauses are written in practice. Given the various types and combinations of co-existence agreements and differing market circumstances in which they operate, combined with a potential lack of guidance on how they should be treated, this thesis does not strive to provide a general answer for every possible case. The intention of this thesis is to serve as a practical tool and highlight when the Courts, the Commission and competition authorities may raise warning flags and consequently where lawyers and undertakings to the agreement should be careful.

2.2 Problem Statement

Answering the following questions will fulfil the objective of this thesis:

- Do trademark co-existence agreements present a potential violation of Article 101 TFEU?
- Could any exemptions be applicable?
- How should trademark co-existence agreements be constructed in order to be valid according to Article 101 TFEU?

2.3 Outline

The thesis consists of eleven main parts. *Chapter 1* contains the introduction. *Chapter 2* contains the objective of this thesis and details concerning problem statement, outline and delimitations. *Chapter 3* contains the method and material used in this thesis. In order to provide the reader with a broader understanding concerning the relationship between intellectual property law and trademark law versus competition law, *Chapter 4* explains the main principles of EU competition law, intellectual property law and trademark law. Moreover, this chapter discusses when trademark or competition interest shall prevail in case of a potential clash between these legal fields. *Chapter 5* contains the concept of co-existence agreement. The intention with this chapter is for the reader to get a general overview about the agreements and the competition aspects that may arise. *Chapter 6* gives an overview of the clauses in co-existence agreements relevant for discussing competition law aspects. This chapter will serve to highlight the three types of clauses, delimitations of ‘fields of use’ based on territory or products and a non-challenge clause, co-existence agreements are often built up with. In *Chapter 7*, the basic principles for the assessment of agreements under Article 101 TFEU are presented. This chapter also discusses whether a co-existence agreement may easily fall within Article 101 TFEU. *Chapter 8* gives an overview of the relevant case law useful in discussing the application of Article 101 TFEU in relation to co-existence agreements. The cases are presented chronologically in order to highlight the gradual changes in the view of co-existence agreements. In *Chapter 9*, the author analyses and discusses whether co-existence agreements could be considered lawful according to trademark and competition provisions. *Chapter 10* is a summary of the present thesis. Finally, *Chapter 11* contains bibliography.

2.4 Delimitations

Several delimitations have been made in order to keep the thesis coherent.

Firstly, the main focus of the thesis is on competition law aspects. It will not deal with other problems, which might arise in relation to these agreements such as commercial related issues regarding interpretation of the agreements. It is assumed that the agreements follow all relevant provisions in contract law and are therefore enforceable according to these provisions.

Secondly, the definition of relevant market plays an important role in the examination of the conduct of undertakings under EU competition law. However, given the potentially large number of types and combinations of co-existence agreements and market circumstances in which they operate, it is difficult to provide a general answer for every possible case. If the parties in the agreement operate on different product markets it is in general no restraint on competition. This thesis therefore discusses the validity of co-existence agreements between parties on the *same relevant* market. Hence, relevant product and geographical market will therefore not be discussed in detail.¹⁹

Thirdly, the author's view is that a co-existence agreement in general is between actual or potential competitors at the same level of production or distribution and is therefore considered as a horizontal agreement.²⁰ The reason for this is that the authentic co-existence agreements as well as the case law presented in this thesis concern horizontal co-operation. The horizontal agreement shall be distinguished from so-called vertical agreement, which is an agreement between suppliers and distributors. This distinction is crucial because horizontal and vertical agreements are analysed in different ways. This thesis will not deal with the relevant rules relating to vertical agreements.

Fourthly, the amount of problem statements and material regarding the relation between intellectual property rights and competition law is extensive. This part of the thesis has the intention to provide the reader with a general background on the aim of intellectual property law in general and trademark law in particular as well as the interface between these legal fields and competition law. Theory of trademarks, background of trademarks, economic functions of trademarks, the laws governing trademarks, trademarks and protection etc. will therefore only be discussed briefly.

Fifthly, according to Article 102 TFEU, any abuse by one or more undertakings of a dominant position on the market is prohibited. The author will however primarily focus on non-dominant companies. If the co-existence agreement can result in partition of the market

¹⁹ For more information about the relevant market, see *Commission notice on the definition of relevant market*. See also subparagraph 7.1.2.1.

²⁰ It should also be pointed out that even though this thesis does not deal with co-existence agreements entered into between companies at a different level of production or distribution (vertical co-operation), it cannot exclude that such agreements exist in practice.

contrary to Article 101 TFEU, this means that Article 102 TFEU falls outside the scope of this thesis.

Sixthly, this thesis will not evaluate the several consequences, such as fines and decision by the Commission to take necessary action, which may follow if a co-existence agreement violates Article 101 (1) TFEU.

Seventhly, laws of the European Economic Area (EEA) as well as from individual member states will not be considered. Case law and antitrust regulations from any other non-member states are also left outside the scope of this thesis.

Finally, this thesis addresses readers with a basic knowledge of law in general and competition law and intellectual property law in particular. All legal aspects will therefore not be discussed in detail.

3. Methodology and Material

In order to achieve the main objective of this thesis, the author has primarily used a *traditional legal dogmatic method* and combined it with a *jurisprudential method*.²¹

The question about the content and purpose of the traditional legal dogmatic method is not completely clear and can be answered in different ways.²² According to Jareborg, professor of Criminal law at Uppsala University, the traditional legal dogmatic method is associated primarily with a reconstruction of valid law and whose method uses legislation, case law, preparatory work and doctrine as its point of departure.²³ Peczenik, late professor of Jurisprudence at Lund University, has held that the primary purpose of the traditional legal dogmatic method is ‘interpretation of valid law in a cohesive and ethically sustainable manner’.²⁴ Olsen, professor of Private law at Uppsala University, points out that one common feature of the Swedish traditional legal dogmatic method appears to be that ‘the research task

²¹ See, Sandgren (2007) p. 37 *et seq.*

²² See Sandgren (2000), p. 445-482 and Sandgren (2005) p. 648 – 656. For example Person-Österman, a senior lecturer in financial law at Stockholm University, stated in one of his books that ‘In order to describe the law I use what commonly is referred to as the traditional legal dogmatic method. In order to gain knowledge about the content of the legal rules I use in principle the same sources as the court, i.e. laws, case law and legal doctrine’, see Wahlgren (1957-2010) p. 507 who quotes Persson-Österman (1997) p. 18 (Original in Swedish).

²³ Jareborg (2004) pp. 4, 8.

²⁴ Peczenik (1995) p. 314. (My translation)

as closely as possible anticipates the information needs of a judge with respect to authoritative sources of law'.²⁵ Consequently, the traditional legal dogmatic method may traditionally reflect the perspective of the judge. Moreover, according to Sandgren, professor of Private law at Stockholm University, principles of contract interpretation may attribute to the traditional legal dogmatic method.²⁶

The approach of the present thesis has mainly been to employ the same method as the courts, i.e. EU primary law, EU secondary law, case law and literature.²⁷ No specific principles have been used.

Since the legal issue in this thesis is uncertain, the traditional legal dogmatic method is not enough. In addition to the traditional legal dogmatic method, the author has used a jurisprudential method, which is a wider concept and also allows i.a. policy- and functional arguments and material beyond the standard legal sources.²⁸ Different legal fields, e.g. Civil law, Maritime law etc. have developed various methods of investigation.²⁹ Dealing with Competition law, legal and economic considerations are taken into account. For example the basic assessment whether a certain behaviour is deemed lawful or unlawful, largely rests on presumptions arising from economic theories.³⁰

As stated above it is the objective with the thesis, due to lawyers experiencing problems in practice, to identify and analyse the problems that exist and suggest solutions according to what is lawful to agree upon in a co-existence agreement. The thesis is therefore problem-oriented.³¹

Mainly foreign legal sources have been used since Swedish law is coherent with EU law with regard to competition.³² The Europeanization process has been strong in the field of trademark law and competition law and it also affects the view of the legal sources. With the increasingly significant role played by trademarks in commercial activities and the expansion

²⁵ Olsen (2004) p. 111 (My translation). See also Ross (1953), p. 53 *et seq.*

²⁶ Sandgren (2007) p. 38.

²⁷ In more detail, see below subparagraph 3.1.

²⁸ Sandgren (2007) p. 39.

²⁹ Wahlgren (1957-2010) p. 507.

³⁰ Hettne and Otken Eriksson (2005) p. 74.

³¹ Sandgren (2007) p. 29.

³² See Council Regulation (EC) No 1/2003 *on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty* §3. For Swedish Law, see Prop. 2007/2008:135, pp. 68, 70.

of the internal market of the EU, the relationship between trademark law and competition law has become more complex. At the same time, an understanding of the relationship between these legal fields has become ever more important.

By analysing fifteen authentic co-existence agreements, the author has identified three clauses, which are frequently included in the agreements and relevant from a competition law perspective.³³ The three clauses exemplify what co-existence agreements in general consist of and provide a basis for discussion as to whether co-existence agreements potentially violate Article 101 TFEU.

3.1 EU hierarchy of norms

This thesis discusses co-existence agreements *from a EU Competition law perspective*. Since EU law has its own legal system with hierarchy of norms, it is appropriate to briefly describe the sources of EU law and how they relate to each other. EU law is based on primary law, secondary law and supplementary law. The main sources of primary law are the treaties establishing the European Union (TEU). Primary law is considered as the supreme source of law of the EU and prevails over all other sources of law.³⁴ Secondary law are based on the treaties and include unilateral acts (e.g regulations and directives) and conventions and agreements. Supplementary law consist of laws, which are not provided for by the treaties, such as CJEU case-law, general principles of law and international agreements.³⁵ The supplementary law constitutes so-called unwritten sources of EU law which is characteristic for EU law.³⁶ In addition, other sources of law than the traditional ones are for example non-binding guidelines, communications from the Commission and Opinion of the General Advocate. These sources of law are not binding acts but nevertheless of great practical importance.³⁷

The author has used EU primary law, namely the Treaty on The Functioning of the European Union (TFEU). Mainly Article 101 TFEU has been used.³⁸

³³ The author acknowledges Setterwalls Law firm in Gothenburg, Sweden for fruitful discussions on this thesis. For a detailed assessment of the authentic o-existence agreements, see Chapter 6.

³⁴ See Directorate General for Competition (2012). See also Hettne and Otken Eriksson (2005) p. 24 *et seq.*

³⁵ See Hettne and Otken Eriksson (2005) p. 24 *et seq.*

³⁶ Hettne and Otken Eriksson (2005) p. 24.

³⁷ Hettne and Otken Eriksson (2005) p. 26.

³⁸ See Directorate General for Competition (2012).

The EU secondary law that has been used is the, Council Regulation³⁹ (EC) No 1/2003 *on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty*, Council Regulation (EC) No 207/2009 *on the Community trade mark* and Directive⁴⁰ 2008/95 *to approximate the laws of the Member States relating to trademarks*. Regulations and Directives constitute so-called *legislative acts*.⁴¹

Input from relevant case law has been crucial in order to fulfil the objective of this thesis. Since the issue is not much discussed in the literature, case law serves as an important function in the context of co-existence agreements.⁴²

The Commission has issued *Guidelines on the applicability of Article 101 TFEU to horizontal co-operation agreements*, which contain the general principles that will apply to co-operation between competitors and potential competitors.⁴³ The guidelines are not a binding legislative act but nevertheless of great practical importance and the Commission is bound by the principle that self-imposed rules must be followed, which creates legal certainty.⁴⁴ Other guidelines, which have been useful, are *Commission Notices on agreements of minor importance*⁴⁵ and *Guidelines on the application of Article 81(3) of the Treaty*.⁴⁶ The guidelines constitute so-called *soft law*.⁴⁷

Moreover, with respect to the lack of information on how co-existence agreements shall be assessed, guidance has been sought for on how other intellectual property rights are treated in similar contexts. A co-existence agreement may be regarded as a type of licensing agreement and guidance may be obtained from how the clauses in regard to licensing agreements are treated competition law wise.⁴⁸ The Commission issues *Guidelines on the application of Article 81 of the EC Treaty on technology transfer agreements*⁴⁹ and guidance will also be

³⁹ Article 288 TFEU states that a *regulation* shall have general application and it shall be binding in its entirety and directly applicable in all Member States.

⁴⁰ Article 288 TFEU states that a *directive* shall be binding, as to the result to be achieved, upon each Member State to which it is addressed, but shall leave to the national authorities the choice of form and methods.

⁴¹ *Legislative acts* are adopted following a legislative procedure (Article 289 TFEU). Those shall be distinguished from *non-legislative acts* such as delegated acts (Article 290 TFEU), implementing acts (Article 291 TFEU), recommendations and opinions etc. See also Hettne and Otken Eriksson (2005) p. 26 *et seq.*

⁴² Regarding the cases, the author has found *The EU Competition Law Handbook* very useful. The book serves as a case citator for competition cases and Commission decisions. See, Van Der Woude and Jones et. al (2011).

⁴³ *Guidelines on horizontal co-operation agreements*.

⁴⁴ Sattler (2011) p. 343.

⁴⁵ *De minimis*.

⁴⁶ *Guidelines on the application of Article 81(3) of the Treaty*.

⁴⁷ See Sandgren (2007) p. 51.

⁴⁸ See below, subparagraph 5.2.

⁴⁹ *Guidelines on technology transfer*

found in the *Technology Transfer Regulation* (TTBER)⁵⁰ even though the Commission will not extend the principles developed in the TTBER and the Guidelines on technology transfer agreements to trademark licensing.⁵¹

3.2 Literature, Articles and Electronic Sources

The research started by reading comprehensive literature in the field of competition and trademark law, such as *Trade Marks in Europe: A Practical Jurisprudence* by Spyros M Maniatis, a professor of Intellectual Property law at Queen Mary University of London.⁵² *Immaterialrätt och Otillbörlig Konkurrens* by Ulf Bernitz, a professor of European law at Stockholm University, and *Intellectual Property and EU Competition Law* by Jonathan DC Turner, a barrister specialising in Intellectual Property law and Competition law.⁵³

The articles '*Trade Mark Coexistence Agreements: What is all the (Lack of) Fuss About?*' By Matthew Elsmore, an associate professor at University of Aarhus in Denmark and *Trademark 'Coexistence' Agreements: Legitimate Contracts or Tools of Consumer Deception* by the intellectual property lawyer Mariana Moss have been useful in order to understand the problems arising in the context of co-existence agreements.⁵⁴

Moreover, the homepages of Swedish Competition Authority and Directorate General for Competition have been helpful with respect to the relevant regulations.⁵⁵

3.2.1 Work by other Master students

To the author's best knowledge there is only one recently written (2009) master's thesis regarding co-existence agreements, by two Danish students.⁵⁶ However, Competition law aspects have only shortly been introduced in their master's thesis.⁵⁷

3.2.2 Remark on Material

A major challenge with the material has been the virtual absence of information regarding the specific problem statement. Co-existence agreements have not been given much attention and

⁵⁰ Commission Regulation 772/2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements.

⁵¹ *Guidelines on technology transfer*, § 53

⁵² See Maniatis website.

⁵³ See Bernitz website and Turner website.

⁵⁴ See Elsmore website and Moss website.

⁵⁵ See KKV (2012) and Directorate General for Competition (2012).

⁵⁶ Lawsen and Kjeserud (2009)

⁵⁷ Lawsen and Kjeserud (2009) p.5.

even though it is recognized that certain clauses may lead to partition of the market, it is never further discussed. In the literature and the articles it is suggested to seek legal advice when the problems arise and nothing more is evaluated.⁵⁸

3.3 Explanation of terms

The terms that are used in this thesis can be found under List of Abbreviations. This part provides the reader with three definitions, which will be helpful for the future discussion in this thesis.

Co-existence agreement

The terms ‘delimitation agreement’ and ‘prior right agreement’ are sometimes used in articles and cases. The author’s interpretation of the terms is that trademark co-existence agreement, delimitation agreement and prior right agreement are examples of conflict resolution agreements. Since the literature is sparse in relation to these agreements, the term ‘trademark co-existence agreements’ will always be used and should be understood to cover all these agreements.

Article 101 TFEU

Article 101 TFEU was formerly Article 81 EC Treaty and before that Article 85 Treaty of Rome. To make it easier for the reader, Article 101 TFEU will be used as the general reference to the article even where the case was decided before the reformation, except where citations are used directly from case law.

CJEU

The court has changed its name from the Court of Justice of the European Communities (ECJ) to the Court of Justice of the European Union (CJEU). Reference is made to CJEU in relation to both Courts in order to facilitate for the reader.

⁵⁸ Smith and Compton write in their article that *it would be prudent to seek specialist competition law advice when drafting the parameters of coexistence*. See Smith and Compton (2008) p. 39.

4. The interface between Intellectual Property Law and EU Competition Law.

Before discussing the concept of co-existence agreements, it is appropriate to start with a general background of the interface between intellectual property law and competition law. This chapter provides the reader with a broader understanding concerning the relationship between these legal fields.

4.1 Objectives of EU Competition Law

The fundamental principle of the EU is the establishment of a single market within the territory of the EU and the EEA. Article 120 TFEU states that members of the EU shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources. The promotion and protection of competition is the primary objective of EU Competition law, as it is presumed to enhance efficiency in the sense of maximizing consumer welfare and optimizing the allocation of resources. In other words, a well-functioning competitive market is crucial for growth and prosperity.⁵⁹ Although, this is the predominant view, the Commission has in recent years undertaken efforts to move towards ‘a more economic approach’.⁶⁰ This has led to a change in EU Competition law; the tendency has gone from focusing on protecting consumers to protecting competition as such. The CJEU explicitly stated in *T-mobile Netherlands* that Article 101 TFEU ‘is designed to protect not only immediate interests of individual competitors or consumers but also to protect the structure of the market and thus competition as such’.⁶¹ The General Court in *Visa Europe and Visa International Service* repeated this statement.⁶² In addition, Christopher Townley, lecturer in Competition law at King’s College London, argues that public policy goals also must be considered within Article 101 TFEU.⁶³

The goals of EU Competition Law have changed after the Lisbon Treaty came into force. The Lisbon treaty no longer includes a system of ‘undistorted competition’, which was rooted in the fundamental provisions of Treaty establishing the European Community. However, CJEU

⁵⁹ Craig and De Burca (1998) p. 891.

⁶⁰ Rompuy Van (2011) p. 6.

⁶¹ C-8-08 *T-mobile Netherlands BV*, §§ 38-39 ECJ.

⁶² T-461/07, *Visa Europe and International Service v Commission*, § 126.

⁶³ According to Townley ‘public policy goals’ means policy goals other than economic efficiency (welfare) ones. He mentions that it could be cultural, environmental or development goals. See Townley (2011) p. 345.

has held that removal of undistorted competition from the treaty to the *Protocol on the internal market and competition* does not affect the constitutional status of the Treaty rules on Competition.⁶⁴

As mentioned earlier, a co-existence agreement may be unenforceable if it partitions the market.⁶⁵ Unlawful partitioning of the market is contrary to (i) the principles of the EU that aims for an internal market where competition is free and undistorted and (ii) the idea of the CTM system, which gives trademark proprietors the possibility of one unitary trademark right within the whole EU.⁶⁶

4.2 The role of intellectual property rights in the economic system

Intellectual property rights provide an important function for the competitive conditions in the market. The legislation regarding intellectual property rights mainly focuses on the formation, range and scope of exclusive rights.⁶⁷ The exclusive right of a trademark means that no other person or entity is allowed to use the mark on their goods or services or in their marketing as this would lead to trademark infringement.⁶⁸ Regarding the commercial exploitation of the rights, the proprietor is in general, provided in line with relevant legislations, allowed to use the rights the way he or she desires, for instance through assignment in a licensing agreement. Thus, it is hardly surprising that there is a close connection and sometimes a conflict between intellectual property rights and competition regulations.

The existence of exclusive rights, which is the essence of intellectual property, is often said to distort competition.⁶⁹ A better view could be trying to understand the mutual interaction between these legal fields, i.e. that these rights are essential to promote innovation and ensure a correct competitive exploitation.⁷⁰ Intellectual property rights restrict some forms of competition (production and distribution) in order to enable and enhance others (innovation and quality). Turner, barrister specialising in Intellectual Property law and Competition law,

⁶⁴ Rompuy Van (2011) pp, 2, 6 *et seq.*

⁶⁵ See chapter 1.

⁶⁶ See Casalonga (2003) p. 2. See also, Smith and Deacon (2006) *The enforceability of coexistence agreements* p. 17.

⁶⁷ Bernitz (2009), p. 321.

⁶⁸ PRV, Why trademark protection?.

⁶⁹ Turner (2010) p. 3.

⁷⁰ *Guidelines on technology transfer* § 7.

says that there is not much conflict as there is a need of balance between these forms of competition.⁷¹

The relationship between competition regulations and intellectual property rights has always been complicated. Even though there are a few guidelines it is always depending on each case when it is allowed to apply competition regulations to these rights. It is nevertheless clear that EU Competition rules cannot affect the *existence* of intellectual property rights, but imposes restrictions on their *exercise*, provided these restrictions do not have a disproportionate interference of the rights *substance* and *the specific subject-matter*.⁷² In relation to trademarks, the Court has stated that the meaning of the exclusive right's specific subject matter is:

'to guarantee that the owner of the trademark has exclusive right to use that trademark, for the purpose of putting products protected by the trademark into circulation for the first time, and is therefore intended to protect him against competitors wishing to take advantage of the status and reputation of the trademark by selling products illegally bearing that trademark'.⁷³

The specific subject-matter of a registered trademark may be extended to other marks and products where likelihood of confusion may occur. In *BAT v Commission* it was suggested that if there is a serious risk of confusion between the marks, a contractual restriction in a co-existence agreement may be justified.⁷⁴ In contrast CJEU has held that the rights cannot be used in a manner that might harm the attainment of the objectives of a single market.⁷⁵

Tabulated summary

The following table briefly summarizes the interface between trademark and competition law.

Restrictions *within* the scope of protection of the specific subject-matter of trademark rights – Trademark law prevails.

Restrictions *outside* the scope of protection of the specific subject-matter of trademark rights – Competition law prevails.

⁷¹ Turner (2010) p. 3.
⁷² See for example the case C-491/01 *Tobacco Products* §§ 149-153, ECJ. In the Tobacco Products judgement, the Court held that, 'its exercise may be restricted, provided that those restrictions in fact correspond to objectives of general interest ... and do not constitute a disproportionate and intolerable interference, impairing the very substance of the rights guaranteed'. See also Wetter, Karlsson et al (2004) p. 503.
⁷³ 16-74, *Centrafarm v Winthrop* § 8, ECJ. See also Korah and O'Sullivan (2002) p. 63 *et seq.*
⁷⁴ 35/83 *BAT v Commission* §§ 40-44, ECJ.
⁷⁵ 56, 58/64 *Consten and Grundig v Commission*, § 6, ECJ, See also Korah and O'Sullivan (2002) p. 60-63.

Furthermore, trademarks may be distinguished from other types of intellectual property rights. The economic function of patent law is to reward the invention of the patent and copyright law provides incentives to artistic creation. Both may benefit the society. Trademark law, on the other hand, does not exist for these reasons and does not benefit the society immediately after creation in the same way.⁷⁶

4.3 Functions of trademarks from a competition law perspective

CJEU has held that the essential function of the trademark is ‘to guarantee to consumers the origin of the goods or services, by reason of a likelihood of confusion on the part of the public’.⁷⁷

Signs capable of distinguishing goods or services of one undertaking from those of another undertaking⁷⁸ can be protected by national⁷⁹ and/or community trademark in the EU.⁸⁰ EU legislation can refuse a trademark to be registered if it for example does not have a distinctive character⁸¹, if it consists exclusively of a shape resulting from the nature of the goods or necessary to obtain a technical result or giving substantial value to the goods⁸², if it is deceptive⁸³ or if it is identical with an earlier mark.⁸⁴

The aims and objectives of trademark laws and competition regulations may seem, at first glance, wholly at odds. However, as been discussed in previous sections the two disciplines of laws are somewhat complementary, as both are aiming at encouraging economic activity and competition. Furthermore, EU competition law seeks to prevent an anti-competitive market without interfering with the legitimate function of trademarks and other intellectual property rights. As mentioned in chapter 3, the author's view is that the relationship between these two fields of law has become more complex and consequently an understanding of the relationship has become ever more important.

⁷⁶ Smith (1992) p. 91.

⁷⁷ C-533/06 *O2 Holdings v Hutchinson 3G*, §57, ECJ. See also Smith (1992) p. 92.

⁷⁸ Directive 2008/95 to approximate the laws of the Member States relating to trademarks, Article 2.

⁷⁹ In Sweden, the Swedish Patent and Registration Office (PRV) is the authority responsible for trademark protection. See PRV.

⁸⁰ Council Regulation (EC) No 207/2009 on the Community Trademark, Article 4.

⁸¹ Directive 2008/95 to approximate the laws of the Member States relating to trademarks, Article 3(1)(b). See also, *Council Regulation (EC) No 207/2009 on the Community trade mark*, Article 7(1)(a).

⁸² Directive 2008/95 to approximate the laws of the Member States relating to trademarks, Article 3(1)(e). See also, *Council Regulation (EC) No 207/2009 on the Community trade mark*, Article 7(1)(e)(ii).

⁸³ Directive 2008/95 to approximate the laws of the Member States relating to trademarks, Article 3(1)(g). See also, *Council Regulation (EC) No 207/2009 on the Community trade mark*, Article 7(1)(g).

⁸⁴ Directive 2008/95 to approximate the laws of the Member States relating to trademarks, Article 4(1)(a). See also, *Council Regulation (EC) No 207/2009 on the Community trade mark*, Article 8(1)(b).

4.3.1 Pro- and Anti-Competitive Effects of Trademarks

Trademarks have many positive economic effects. Three functions of trademarks may be distinguished, (i) Origin function (ii) Quality or guarantee function and (iii) Investment and advertising function.⁸⁵ Moreover, trademarks serve an important function as means of communication due to the possibility for the companies to communicate with the market. Without the trademarks the search costs for consumers would be higher, which is a standard economic rationale for trademark law.⁸⁶ The economists William Landes and Richard Posner presented in 1987 a ‘search cost’ theory of trademark laws. In short, Landes and Posner held that trademarks are socially valuable since they reduce consumers’ search costs and hence benefit consumers by facilitating their decision making. Moreover, they argued that when the consumers became familiar with products, they started to associate the trademarks with a certain quality.⁸⁷ To apply this reasoning on co-existence agreements, the fact that co-existence agreements permit similar trademarks to operate in the same market may result in consumer confusion. Moss, intellectual property lawyer, points out the risk that if the agreements causes consumer confusion, this may lead to consumers quit using trademarks as quality indications. Hence, ‘if co-existence agreements create consumer confusion, the effect of reduced consumer search cost will be eliminated’.⁸⁸ A result of this may be that the manufacturers do not care as much about quality and there will be lower quality on the products. On the other hand, it is important to bear in mind that not all co-existence agreements may restrict competition. It may be the case that agreements between similar trademarks increase the competition. None of the companies will sue for infringement and they may get incentives to work harder for their consumers and spend more money to differentiate themselves from similar brands.⁸⁹ Moreover, the Federal Supreme Court of Germany has held that co-existence agreements are positive in the trademark field since they reduce conflicts and provide necessary legal certainty for investments, which encourages competition.⁹⁰

As stated above, there are many positive functions with trademarks from a Competition law perspective. However, trademarks also have some anti-competitive effects. This is linked to

⁸⁵ Cornish and Llewelyn (2007) p. 620. See for example, C-487/07 *L’Oreal v Bellure judgment* §58, ECJ

⁸⁶ Bernitz, Pehrson et al (2011) p. 323.

⁸⁷ Landes and Posner (1987), p. 305.

⁸⁸ Moss (2006) p. 208.

⁸⁹ Moss (2006) p. 197.

⁹⁰ Stelzenmuller (2012) p. 661, concerning case KZR 71/08, *Jette Joop*. See below subparagraph 8.4.1 for a detailed assessment of the case.

the fact that the trademarks in practice not only individualize products, they also differentiate them from a consumer perspective. This is e.g. the case with brands. Most brands are marked with the manufacturer's trademark, but it is also common that especially food manufacturers mark their products with private labels. The fact that consumers prefer to buy certain brands, rather than objectively similar products, gives the manufacturer a unique competitive weapon.⁹¹

4.4 Conclusions - Intellectual Property Law vs. EU Competition Law

The following conclusions can be drawn regarding the relationship between intellectual property law and EU Competition law.

4.4.1 The aim of both legal areas is to strengthen competition

To talk about the relationship between trademarks and EU Competition law as conflicting interests seems to be a narrow way of handling the issue. The author agrees with Turner that there is not much of a conflict, rather there is a need of balance between these forms of legal systems. In light of the review above, it is clear that the protection of trademark is an essential element to create undistorted competition, which is what TFEU aims to establish and maintain. Moreover, it is easier for businesses to effectively compete on basis of quality, if distinctive signs can identify their products. Also the fact that trademarks can have the function of promoting competition by advertising and acceptance by consumers of goods and services, which in turn may create consumer satisfaction. The aim of both legal fields is to strengthen competition. Intellectual property rights have been created in order to allow investments in and thus create products around a specific trademark. This would lead to more and better products. This is particularly obvious when it comes to patents, no one would invest a substantial amount of money in the research and development (R&D) if the results could not be protected.

⁹¹ Bernitz, Pehrson et al (2011) p. 323.

5. The Concept of Trademark Co-existence Agreements

In order to understand the concept of co-existence agreements, this chapter presents the reader necessary information concerning the functions and existence of the agreements. The intention is to provide the reader with a general overview about co-existence agreements and the competition aspects that may arise.

5.1 Proactive attempt to prevent potential infringements

There is no absolute definition of the term co-existence agreement but the International Trademark Association (INTA) has defined it as an:

Agreement by two or more persons that similar marks can co-exist without any likelihood of confusion; allows the parties to set rules by which the marks can peacefully co-exist. To use the same mark in connection with the same or similar goods or services, usually limited by geographic boundaries.⁹²

The essence of a co-existence agreement is to represent a contractual bargain over proprietors right in trademarks or related rights.⁹³ It is a proactive attempt to prevent potential infringements as well as lengthy and expensive litigation. The Trademark Directive states that ‘The Member States may permit that in appropriate circumstances registration need not be refused or the trademark need not to be declared invalid where the proprietor of the earlier trade mark or other earlier right consents to the registration of a later trade mark’.⁹⁴ The fact that the Directive explicitly states this illustrates the importance of ensuring that the member states accept conflict resolution agreements in appropriate circumstances. Despite this there are limited amounts of judicial and academic analysis given in the field. The reason for this might be due to the diverse circumstances which give rise to these agreements and make generalized discussion difficult.⁹⁵ The Government of Germany stated in *BAT vs. Commission* that in view of the number of existing trademarks, the agreements ‘play an important part in preventing legal disputes by enabling trade mark proprietors to define the extent of their respective rights by amicable agreement’.⁹⁶

⁹² INTA Glossary.

⁹³ Elsmore (2008) p. 9.

⁹⁴ Directive 2008/95 to approximate the laws of the Member States relating to trademarks Article 4(5).

⁹⁵ See Wilkof (2008).

⁹⁶ 35/83 *BAT v Commission* §27, ECJ This case will be discussed in detail below in subparagraph 8.3.2.

Co-existence agreement has similar features to a licensing agreement, especially when the trademarks are identical. There are no standard templates on how the agreements shall be constructed and it is up to the parties to decide the terms and conditions. Moreover, the licensor usually gets payment of royalties in return from the licensee.⁹⁷ It is not uncommon that money is involved when negotiating a co-existence agreement. The ownership in a licensing agreement is not transferred completely, unlike a true assignment of intellectual property rights. The parties in a co-existence agreement do not transfer their ownership. The parallel that the agreement is a type of licensing agreement makes that further insight on non-challenge clauses may be gained by applying Article 5(1)(c) TTBE by analogy.⁹⁸

5.2 An important practical function in today's crowded market place

The number of conflicts between national, international, and community trademarks has risen in Europe as a consequence of the introduction of the CTM system in 1994. This has led to an increase in trademark conflicts due to more awareness of other businesses operating in the local markets. Companies have been present in separate national markets for a long time and suddenly they become aware of each other, normally after one of them applies for a CTM. As illustrated in the figure below, the amount of CTM applications has increased. At a trademark forum, it was stated that today the question when searching a trademark is not if there is a problem, but rather how many problems there are and whether these are problems that can be worked out.⁹⁹ Co-existence agreements have been a common remedy to solve these conflicts.¹⁰⁰ In addition, the flexibility of the trademark system let companies register and use similar trademarks, provided they do not cause confusion in the eyes of consumers.¹⁰¹ As an example, that is why, for instance the word POLO can exist for making cars, confectionery and clothing.¹⁰²

⁹⁷ A licence is granted by the 'licensor' to the 'licensee'.

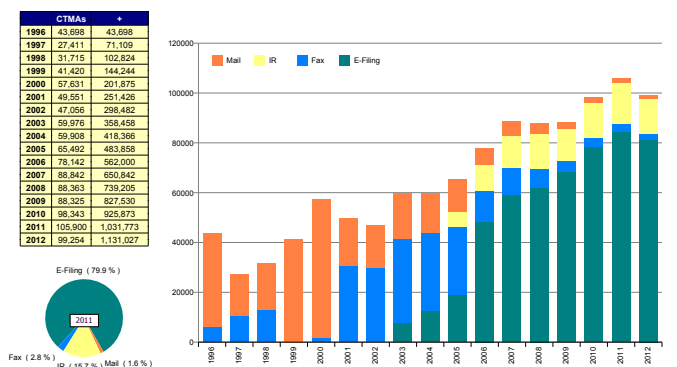
⁹⁸ Wilkof and Burkit (2005) § 9-5. See also Commission Regulation 772/2004 *on the application of Article 81(3) of the Treaty to categories of technology transfer agreements*. More information regarding this, see below subparagraph 7.2.1.

⁹⁹ American Bar Association (ABA) forum held in 2007 titled "*IP Meets Entertainment-Trademarks and Business Patents*": the panellists discuss what happens when two entities in the same marketplace have similar trademarks, and how a trademark coexistence agreement might be structured. See ABA 2007.

¹⁰⁰ Gilbert (2011) p. 75.

¹⁰¹ IPO, What is a Coexistence agreement?.

¹⁰² IPO, What is a Coexistence agreement?.



SSC009 - Statistics of Community Trade Marks 2012.rep 1 / 1 Date: 03/12/2012

Statistics of CTMs 2012.¹⁰³

5.2.1 No registration system

Co-existence agreements are private and exist outside trademark law. Since a European system for registering these agreements in European Countries does not exist, there is ambiguity of the wide range of drafting options. France is the only country with a registration system and the rationale behind this is for third parties and possible future rights holders.¹⁰⁴ The author's view is that since co-existence agreements get more common, it is desirable to get a track of the number of agreements as well as how they are drawn. This would also make it easier for national competition authorities to inspect if the agreements fulfil the requirements from a Competition law perspective.

5.3 Common reasons for entering a co-existence agreement

There are at least three common reasons for entering a co-existence agreement. *Firstly*, where businesses operate under identical or similar trademarks in different relevant markets (product or geographical markets) but start to operate on each other's markets, often after one of the undertakings apply for a CTM.¹⁰⁵ This might confuse customers or harm the business. By entering a co-existence agreement, the risk of potential infringement could be reduced. *Secondly*, a co-existence agreement may be a good solution for a settlement of trademark

¹⁰³ For latest statistics see OHIM, Statistics.

¹⁰⁴ Elsmore (2008) pp. 9,11.

¹⁰⁵ The reader may wonder, what are the benefits for the mark holder (the proprietor of a trademark) to agree upon a co-existence agreement? Let the following fictive case illustrate this: The mark holder is the owner of a Swedish trademark (word) for goods among class 30: 'Staple foods'. In September 2012, the mark holder noticed the filing of a CTM application by a German company (mark applicant), containing a similar trademark (word) for identical and similar goods in class 30. In order for the mark holder to succeed with its opposition, OHIM shall consider that likelihood of confusion exists between the trademarks, i.e. the application of the mark applicant's trademark may be rejected if the parties do not agree. Instead of facing the uncertainty that the OHIM may approve the application of the mark applicant, the parties wish to solve the situation amicably with respect to each other's trademarks and enter into a co-existence agreement.

infringement. A *third* situation when co-existence agreements could arise is in the context of a commercial acquisition.¹⁰⁶ A (bigger) business is selling a subsidiary including the right to use a trademark. The seller intends to continue to use the trademark but for other products and the parties seek an agreement for businesses to operate under the same or similar brand.¹⁰⁷ The selling of Volvo's and SAAB's passenger car production are examples of the latter situation.

The third situation is less likely to raise any competition law issues due to the fact that the parties will not be competitors after the transaction. The anti-competitive effects are normally insubstantial, even though the agreement contains restrictions of the trademark use and the markets the parties operate on. In theory, issues may arise where the parties are to be seen as potential competitors. The first and the second situation might be problematic from a competition point of view, since the agreement may be regarded as a disguised attempt to divide the markets on the basis of respective trademarks, which may be contrary to Article 101 (1) TFEU.¹⁰⁸ However, case law has suggested that if the agreement is a genuine attempt to settle litigation and not an attempt to partition the market, a restriction normally considered contrary to Article 101 (1) TFEU, may be considered lawful. On the other hand, if there is no likelihood of confusion between the trademarks or if there are reasons to invalidate any of the trademarks in the agreement, it is often considered as an unlawful partition of the market according to Article 101(1) TFEU.¹⁰⁹

Besides the fact that co-existence is cheaper than to take legal action there are also other economic reasons for entering into a co-existence agreement. Co-operation encourages a more efficient exchange and allocation of risk. Moreover, it is often a lot of investment and effort behind a strong trademark. By entering into an agreement, the investment made in the trademark can be protected and avoid other companies freeriding on the valuable trademark.¹¹⁰

¹⁰⁶ IPO, What is a Coexistence agreement?

¹⁰⁷ Smith and Compton (2008) p. 37.

¹⁰⁸ IPO, What is a Coexistence agreement?

¹⁰⁹ See Wilkof and Burkitt (2005), p. 303 *et seq.* See also, Casalonga (2003) p. 1 *et seq.* Maniatis (2009) p. 589 *et seq.* Turner (2010) p. 276 *et seq.* See below chapter 8

¹¹⁰ Elsmore (2008) p. 28.

5.3.1 Can co-existence agreements ever work?

Co-existence agreements often continue as long as the right to the prior mark is in force. It is therefore important to calculate future expansion of a company's business when entering into an agreement, which is difficult in a world with globalization as well as the never-ending opportunities of the internet. Rochelle Alpert, partner at US firm Morgan Lewis, has stated that 'I think in today's world where things change so quickly it is hard to envision a foolproof coexistence agreement unless the industries are completely disparate'.¹¹¹ The author agrees with Alpert, a specific territory today may not be the same territory in 25 years. The area of trademarks is a fast-paced industry and development is therefore hard to predict. We need to make fresh analysis of the markets all the time and adopt new findings to new developments in the field of co-existence agreements.

The case *Apple Corp v Apple Computer* illustrates the complications with co-existence agreements and the importance of future calculation. It is also an example of two valuable trademarks coexisting because they both rely on consumer awareness of their APPLE mark internationally.¹¹² The parties entered into a co-existence agreement in 1981 and agreed that Apple Corp would have the exclusive right to use its own Apple Trademark 'on or in connection with any current or future creative work whose principle content was music and/or musical performances, regardless of the means by which those works were recorded, or communicated, whether tangible or intangible'.¹¹³ Apple Computer was given the exclusive right to use its Apple mark 'on or in connection with electronic goods, computer software, data processing and data transmission services'.¹¹⁴ Even though their trademarks were similar, they agreed upon 'fields of use' based on products which was the foundation of their co-existence agreement. The companies did not expect the future development of music technology and in 2001 when Apple Computer launched the iPod and the iTunes software, Apple Corps commenced proceedings in the United Kingdom and held that there had been breach of the agreement. The Court argued from a consumer perspective and concluded there was no breach of the agreement since no consumer downloading the music would think this was relating to Apple Corps.¹¹⁵

¹¹¹ Smith and Deacon, *The end of the affair* (2006) p. 15.

¹¹² Smith and Deacon, *The end of the affair* (2006) p. 15.

¹¹³ Nanaykkara (2008).

¹¹⁴ Nanaykkara (2008).

¹¹⁵ Nanaykkara (2008).

6. Principal structure of co-existence agreements

This chapter gives an overview of the clauses in co-existence agreements relevant for discussing competition law aspects.

6.1 Clauses which are frequently used in the agreements

Yes, we agree about the rights, but on condition no one asks us why (Jacques Maritain)¹¹⁶

In general, a co-existence agreement is agreed between competing or potentially competing parties, hence it is a horizontal agreement.¹¹⁷ As in most agreements, the clauses are the results of negotiation between the parties. In Swedish law, a co-existence agreement that does not expressly state that it is valid for a fixed time is presumed to be valid for an indefinite period, in accordance with general constitutional principles.¹¹⁸

By analysing fifteen authentic co-existence agreements, the author has identified three clauses, which are frequently included in the agreements and relevant from a competition law perspective. The three mentioned clauses are significant for co-existence agreements. In addition to these clauses, the agreements include natural provisions such as termination, dispute resolution, governing law etc. Co-existence agreements are often constructed by delimitations of ‘fields of use’ based on territory and/or products and a non-challenge clause.¹¹⁹ They may contain parts where the use of the trademarks actually or potentially overlaps, but which is tolerated by the parties in order to reach agreement.¹²⁰ The basis is to allow for potentially infringing marks to coexist without likelihood of consumer confusion. In order to be enforceable, the agreement must strike a balance between conflicting interests of trademarks and competition regulations.

¹¹⁶ The French philosopher.

¹¹⁷ According to *Guidelines on horizontal co-operation agreements* horizontal co-operation can lead to substantial economic benefits, but on the other hand lead to competition problems where it causes negative market effects with respect to prices and quality of products. A co-existence agreement is a special type of horizontal co-operation agreement since it is in general between competitors or potential competitors but the parties do not in general share risk, save costs, increase investments, pool know how etc. and the positive and negative effects which normally rises from horizontal agreements are therefore not applicable. The author’s interpretation is that co-existence agreements do in general not lead to positive effects from a competition law perspective since the parties usually do not want to help a competitor or a potential competitor. However, if for instance VOLVO is selling its production of cars including the right to use the trademark, this might be necessary in order to sell the company. The result of this is that VOLVO cars are still an actor on the market for cars and the competitive pressure on the car market is maintained. For more information about horizontal co-operation, see *Guidelines on horizontal co-operation agreements*.

¹¹⁸ NJA 1992 s.439.

¹¹⁹ Similar identification has been done by legal scholars. See Elsmore (2008). See also Casalonga (2003) and Smith and Compton (2008).

¹²⁰ Wilkof (2008)

6.1.1 Territorial Delimitation

*Mark Applicant undertakes not to use the Applied Mark in Sweden on goods and services.*¹²¹

Geographical market sharing under which one or both undertakings agree not to export into the other's territory under those marks may be unlawful from the Courts' perspective, as it undermines the internal market objectives set forth in the treaty.¹²²

6.1.2 Product Delimitation

*Mark Applicant acknowledges the right of Mark Holder for the Prior Marks and will under the Applied Mark only supply the following goods in class 9 (Electrical and scientific apparatus) and 28 (Toys and sporting goods).*¹²³

Division of the EU market on a product basis limits the right of a party to enter the product market of the other party. This can be compared with market sharing by territory and results in isolation of markets, hence contrary to Article 101 (1) TFEU under certain circumstances. It may form an integral part of anti-competitive conduct and the agreement may affect the market.¹²⁴

6.1.3 Non-challenge clause

*Mark Applicant agrees not to challenge Mark Holder's registration and use of the Prior Mark. Mark Applicant furthermore accepts not to contest or otherwise oppose directly or indirectly to any future actions taken by Mark Holder to register the Prior Mark, as trademark and/or in variants.*¹²⁵

From a socio-economic perspective, a non-challenge clause may constitute improper use of trademark law if it would allow the trademark proprietor to maintain its trademark without using it.

¹²¹ Example on a territorial delimitation from the authentic co-existence agreement.

¹²² Siragusa and Rizza et. al (2012) p. 71 -73.

¹²³ Example on a product delimitation from the authentic co-existence agreement.

¹²⁴ Siragusa and Rizza et. al (2012) p. 73-74.

¹²⁵ Example on a non-challenge clause from the authentic co-existence agreement.

7. Is Article 101 TFEU applicable on co-existence agreements?

This chapter considers the application of Article 101 TFEU. It addresses first the different elements of Article 101 (1) TFEU and then possible exemptions. It continues with a discussion of the technology transfer regulation in relation to non-challenge clauses. This chapter concludes by considering if co-existence agreements easily may fall within Article 101 TFEU.

7.1 Article 101 TFEU

It is clear that a co-existence agreement can promote trade and competition, but disproportionate limitations may restrict competition and trade between EU member states. As mentioned earlier, partitioning of the market is the main problem of co-existence agreements and Article 101 TFEU will therefore become the main focus of interest.¹²⁶ As already mentioned, the objective of Article 101 TFEU ‘is to protect competition on the market as a means of enhancing consumer welfare and of ensuring an efficient allocation of resources’.¹²⁷

Article 101 (1) TFEU prohibits: (a) *an agreement between undertakings (b) which may affect trade between Member States and (c) which has as its object or effect, the prevention, restriction or distortion of competition within the common market.*

7.1.1 Agreement between undertakings

The term *undertaking* covers any entity engaged in an economic activity.¹²⁸ However, if the restriction is a decision between undertakings in different parts of a group of companies which form a ‘single economic unit’, it does not constitute agreements between undertakings within Article 101 (1) TFEU.¹²⁹

¹²⁶ For a complete assessment of Article 101 TFEU see Siragusa and Rizza et. al (2012) p. 15 *et seq.* See also Turner (2010) p. 39 *et seq.*, Wetter, Karlsson et al (2004) p. 143 *et seq* and Korah (1994) p. 37 *et seq.*

¹²⁷ *Guidelines on the application of Article 81(3) of the Treaty* § 13. See also subparagraph 4.1.

¹²⁸ The court has stated ‘the concept of an undertaking encompasses every entity engaged in an economic activity, regardless of the legal status of the entity and they way in which it is financed’. See 41/90 *Höfner* § 21.

¹²⁹ See Siragusa and Rizza et. al (2012) p. 44 *et seq.*, Turner (2010) p. 41 and Wetter, Karlsson et al (2004) p. 147.

7.1.2 Effect on trade between member states

The term affect trade is intended to define the borderline between the areas that are covered by the EU and national competition law, respectively.¹³⁰ It is therefore crucial to determine whether the co-existence agreement either directly or indirectly, factually or potentially, is a threat to the freedom of trade between the member states in a manner not in line with the objectives of a single market.¹³¹ Agreements that do not have such an effect are assessed solely under national competition rules. Article 101 (1) TFEU does not require specific clauses in the agreement to be capable of affecting trade between member states. It suffices that the agreement, as a whole is capable of affecting trade in order to trigger the necessity to examine its clauses to assess whether they have as their objective or effect to restrict competition.¹³²

7.1.2.1 Extent of effect required

The co-operation must affect competition to an *appreciable extent*.¹³³ Appreciability can be assessed both in relation to the parties' market share and the parties' turnover in the products affected. The term 'appreciable extent' is defined in the Notice on agreements of minor importance (*de Minimis* Notice). In the Notice, the Commission will not initiate proceedings under Art. 101 (1) TFEU against small and medium-sized undertakings (SMEs) because they rarely affect trade between EU countries to a significant degree.¹³⁴ The Commission further holds that an agreement does not have an appreciable effect on trade between member states where combined market shares of the parties in the relevant markets do not exceed certain thresholds.¹³⁵ The relevant market consists of relevant product and geographic market. The market definition is a tool to identify the 'arena' of competition between the parties directly concerned as well as between parties and third parties. Third parties can be potential

¹³⁰ See Turner (2010) p. 42. See also Korah (1994) p. 49 *et seq.*

¹³¹ The condition that trade between member states be affected is easily satisfied and the concept of trade is very broad. See Siragusa and Rizza *et al.* (2012) p. 93 and Korah (1994) p. 49. See also Turner (2010) p. 42.

¹³² See 193/83 *Windsurfing v Commission*, § 96 ECJ.

¹³³ It should be pointed out that if there is *no appreciable effect* on trade between Member States, then any competition issues may still be caught under national competition rules. See e.g. Council Regulation (EC) No 1/2003 *on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty* §13. See also, KKV, Prohibition against anti-competitive cooperation, and Wetter, Karlsson *et al.* (2004) p. 167.

¹³⁴ In *De Minimis* Notice, SMEs are currently defined in the recommendation as 'undertakings which have fewer than 250 employees and have either an annual turnover not exceeding EUR 40 million or an annual balance-sheet total not exceeding EUR 27 million.' See *De Minimis* § 3. See also Korah and O'Sullivan (2002) p. 65 *et seq.*

¹³⁵ According to the Commission, the thresholds are 10 % for agreements between actual or potential competitors and 15 % for agreements between non-competitors. In cases where it is difficult to classify the agreement as either an agreement between competitors or an agreement between non-competitors the 10 % threshold is applicable. See *De Minimis* notice § 7.

competitors, customers or suppliers.¹³⁶ In addition, an agreement can only benefit from *de Minimis* Notice when the agreement does not include hardcore restrictions, for instance market sharing restrictions.¹³⁷ However, the *extent of effect* on competition is controversial. Recently Advocate General Kokott issued her Opinion in the case *Expedia Inc* concerning the extent of effect.¹³⁸ In short, AG Kokott concludes that the market share thresholds in *de Minimis* Notice are irrelevant where it is necessary to determine whether an ‘object’ agreement appreciably restricts competition.¹³⁹ The Opinion questions the matter of the market thresholds, it seems that appreciable extent is more important when determining the extent of effect.

7.1.3 Prevention, restriction or distortion of competition

To determine whether the third condition of Article 101 (1) TFEU is satisfied, it is necessary to assess the effect on competition within the common market with the co-existence agreement in force by comparison with a scenario without the agreement in force.¹⁴⁰ Competition is restricted as a result of the co-existence agreement if there would be more competition without the agreement or with an agreement on different terms.¹⁴¹ Moreover, it is also necessary to determine whether the parties would be able to accept terms in the co-existence agreement which were less restrictive on competition than the ones which were finally stipulated.¹⁴² As discussed in previous chapter, ‘fields of use’ based on territory or products and a non-challenge clause are often the foundation of the agreements and without these clauses there would be no such agreement.¹⁴³ As the Commission puts it, *the question is not whether the parties in their particular situation would not have accepted to conclude a less restrictive agreement, but whether, given the nature of the agreement and the characteristics of the market, a less restrictive agreement would not have been concluded by undertakings in a similar setting.*¹⁴⁴ Hence, whether the parties would be able to accept less restrictive terms only applies when the restriction is on the basis of objective factors and not on the basis of subjective views of the parties.

¹³⁶ See *Commission notice on the definition of relevant market* for more information of how the Commission applies the concept of relevant market.

¹³⁷ In the Commission's view ‘Hardcore restrictions exist in agreements between competitors (potential and actual competitors), which, directly or indirectly, in isolation or in combined with other factors, have as their object, the fixing of prices when selling the products to third parties, the limitation of output or sales or the allocation of markets or customers’. See *De Minimis* Notice §11 and *Guidelines on horizontal co-operation agreements*.

¹³⁸ C-226/11, *Expedia Inc*.

¹³⁹ See Opinion of Advocate General Kokott.

¹⁴⁰ Turner (2010) p. 42.

¹⁴¹ Turner (2010) p. 48.

¹⁴² Turner (2010) p.48 and see 35/83 *BAT v Commission*, ECJ

¹⁴³ See chapter 6.

¹⁴⁴ *Guidelines on technology transfer* §12 (b).

7.1.3.1 Object or effect

The object or effect are two alternative conditions when applying Article 101 (1) TFEU. An agreement is regarded to be restrictive on competition if it does so by its very nature. Agreements including hardcore restrictions are presumed automatically to restrict competition.¹⁴⁵ If the agreement does not have this *object* it is necessary to determine whether it has such *effect*.¹⁴⁶ Whether ascertaining the object or effect of the co-existence agreement, the rights and obligations arising from the agreement shall be taken into account as well as the economic and legal context in which it operates. The legal context may be legislation for the protection of trademarks as well as the prevention of unfair competition.¹⁴⁷

The prevention, restriction or distortion of competition must be *appreciable* in order to fall within Article 101 (1) TFEU.¹⁴⁸ When making the assessment, market share and size of the co-operating partners are important factors and the risk is obviously higher when the parties in the agreement have a high combined market share. Where restrictions in the co-existence agreement fall outside the specific subject-matter of the trademark right of the party imposing them, it is in general regarded as preventing, restricting or distorting competition according to Article 101 (1) TFEU.¹⁴⁹ Consequently, if the mark holder is restricting the mark applicant to apply for something else than the ‘word’ mark, for example ‘logotype’ or if the clauses are increased to be valid for rights other than the trademark, this would most likely be regarded as preventing, restricting or distorting competition within Article 101 (1) TFEU.

7.2 When are the agreements exempted under Article 101 (1) TFEU?

Pursuant to Article 101 (2) TFEU any agreement not consistent with Article 101 (1) TFEU shall automatically be void. However, the agreement might be considered lawful if the individual exemption under Article 101 (3) TFEU is applicable. In general, the individual

¹⁴⁵ See Siragusa and Rizza et. al (2012) p. 96 *et seq.* See also Turner (2010) p. 49 and Wetter, Karlsson et al (2004) p. 168 *et seq.*

¹⁴⁶ Turner (2010) p. 50.

¹⁴⁷ T-168/01 *Glaxo-Smith-Kline Services V Commission* §110, CFI.

¹⁴⁸ See Siragusa and Rizza et. al (2012) p. 99 *et seq.* See also Turner (2010) p. 50.

¹⁴⁹ 82/987 *Toltecs v Dorcet* §II3.A. (f). In *Toltecs v Dorcet* the Commission could not find any serious risk of confusion between the word mark Dorcet and the word/device mark Toltecs. This was affirmed on other grounds in 35/83 *BAT v Commission*. See also Turner (2010) p. 55. According to Wilkof and Burkitt, the object of the co-existence agreement is not relevant and will usually not affect whether or not the agreement violates the prohibitions of Article 101 TFEU. They argue that it is irrelevant whether the parties enter into the agreement with intention to settle a dispute or to reach a business accommodation between the parties in connection with their respective trademarks. Wilkof and Burkitt compare it with the view in the US, where it has shown a tendency to favour giving effect to co-existence agreements when a settlement is involved. See, Wilkof and Burkitt p.303 *et seq.* (2005).

exemption does not apply to a co-existence agreement since the agreement does not contribute to improve the production or distribution of goods or to promote technical or economic progress.¹⁵⁰ Moreover the agreement may be automatically valid and enforceable if it complies with one of the ‘block exemption’ regulations. There are no specific block exemptions available for either co-existence agreements or trademark licence agreements. The applicable block exemptions with regard to horizontal agreements are for R&D agreements and specialisation agreements. If the trademark is ancillary to the technology license, the agreement may however fall under the Technology Transfer Block Exemption (TTBE).¹⁵¹

Finally, the *EU Competition Rules on Horizontal Guidelines* state that each case has to be analysed in its economic context, taking into account (a) the nature of the agreement, (b) the parties’ combined market power, and (c) other structural factors. Examining these elements will determine if the co-existence agreement will have negative market effects with respect to prices, product quality and product variety etc.¹⁵²

7.2.1 Non-challenge clauses under TTBE

Additional understanding regarding non-challenge clauses may be gained by applying 5(1)(c) TTBE by analogy.¹⁵³ Consequently, Article 5(1)(c) states that the following obligation shall not be covered by the TTBE:

any direct or indirect obligation on the licensee not to challenge the validity of intellectual property rights which the licensor holds in the common market, without prejudice to the possibility of providing for termination of the technology transfer agreement in the event that the licensee challenges the validity of one or more of the licensed intellectual property rights.

¹⁵⁰ Article 101 (3) TFEU provides that the prohibition contained in Article 101 (1) TFEU may be declared inapplicable in the case of an agreement which: (i) Contributes in a way to improving the production or distribution of goods, (ii) Does not impose on the undertakings restrictions that are not indispensable to reach these objectives and (iii) Does not allow undertakings the possibility of eliminating competition in respect of a substantial part of the products in question. Moreover, the burden is on the parties to the agreement to show that the pro-competitive effects outweigh the anti-competitive effects under Article 101 (1) TFEU. See, *Guidelines on the application of Article 81(3) of the Treaty* Commission Notice, on how to interpret Article 101 (3) TFEU.

¹⁵¹ TTBER (Technology Transfer Block Exemption Regulation) applies to licensing agreements for several intellectual property rights such as patents, know-how, software copyright. However, not trademarks except when the trademark is ancillary to the technology license. See, Commission Regulation 772/2004 *on the application of Article 81(3) of the Treaty to categories of technology transfer agreements*.

¹⁵² *Guidelines on horizontal co-operation agreements* § 4.

¹⁵³ See Wilkof and Burkitt §9-5 *et seq* (2005). See also, *Guidelines on technology transfer* § 112. As stated in the *guidelines on technology transfer*, the reason for excluding non-challenge clauses from the scope of block exemption is that licensees are normally in the best position to determine whether or not an intellectual property right is invalid. Another motive is that a non-challenge clause often applies to valuable technology and therefore creates a competitive disadvantage for the undertakings not allowed to challenge.

Hence, an obligation on the licensee not to challenge the validity of an intellectual property right is excluded from the TTBE and generally caught by Article 101 (1) TFEU. However, TTBE draws a distinction between an obligation not to challenge the validity of the trademark and a provision enabling the licensor to terminate the agreement in case the licensee challenges the validity of the trademark. In the latter case the agreement is not excluded from the TTBE. Accordingly, prohibition on challenging the ownership of an intellectual property right is not excluded from the exemption and will be exempted in an agreement covered by TTBE. This is in line with the Commission’s view in *Moosehead*, that a challenge to the ownership of a trademark would not constitute a restriction under Article 101 (1) TFEU since the effect on competition by third parties was the same regardless which party owned it.¹⁵⁴

Tabulated summary

The following table briefly summarizes the treatment of non-challenge clauses under TTBE.

<p>Obligation not to challenge the <i>validity</i> of trademarks – Excluded from block exemptions; compatibility with Article 101 depends on circumstances.</p>	<p>Obligation not to challenge the <i>ownership</i> of trademarks – Permitted under block exemptions; compatibility with Article 101.</p>
<p>Termination if challenge to <i>validity</i> – Permitted under block exemptions; compatibility with Article 101.</p>	

7.3 Conclusions - Article 101 (1) TFEU

The following conclusions can be drawn from the assessment of agreements under Article 101 TFEU in relation to co-existence agreements.

7.3.1 Co-existence agreements may easily fall within Article 101 (1) TFEU

In light of the above assessment of Article 101 TFEU, the author’s interpretation is that co-existence agreements may easily fall within the scope of Article 101 (1) TFEU. The reasons for this are: (i) A co-existence agreement is in general a co-operation between different

¹⁵⁴ 90/186, *Moosehead/Whitbread*, EuC For a more detailed assessment of the case, subparagraph 8.5.2.

companies engaged in an economic activity and therefore considered as an agreement between undertakings; (ii) The nature of most co-existence agreements is to include territorial or product restrictions and there is a broad interpretation of what constitutes effect on trade, therefore in practice most agreements will probably constitute effect on trade; (iii) Since the agreements often include market sharing restrictions it is in general not possible to rely on the exemptions regarding market sharing and the co-operation will in general affect competition to an *appreciable* extent.

See the tabulated summary under section 7.2.1, concerning non-challenge clauses.

The author's overall assessment after analysing the horizontal guidelines is that if the intention of the parties in a co-existence agreement is to solve a potential conflict and the consideration for entering into the agreement are legitimate, a co-existence agreement will most likely not be considered as an infringement.¹⁵⁵

Even where an agreement may fall within Article 101 (1) TFEU, but neither an individual exemption under Article 101 (3) TFEU nor any block exemption is applicable, the agreement may be exempted according to the principles established through case law. In relation to co-existence agreements there are examples in case law where co-existence agreements, even though the agreements are contrary to competition regulations, may be considered lawful under certain circumstances. This will be discussed in subsequent chapter.

¹⁵⁵ Depending on the parties combined market share and the concentration on the market.

8. Apparent Lack of Decisions on Co-existence agreements

There have only been a limited number of rulings by the Court and the Commission referring to co-existence agreements and there are at the time of writing no Swedish case law dealing with this issue. Consequently, this chapter gives an overview of the relevant case law useful in discussing the application of Article 101 (1) TFEU in relation to co-existence agreements. The cases are presented chronologically in order to highlight the gradual changes in the view of co-existence agreements.

8.1 Co-existence agreements which partition the market are unlawful

In *Sirdar v Phildar* (1975) a co-existence agreement between undertakings in England and France not to use their trademarks in each other's respective territory was found contrary to Article 101 (1) since the agreement had the effect of partitioning the market.¹⁵⁶

Sirdar Ltd, a UK company, was the proprietor of the registered trademark SIRDAR for inter alia knitting yarn and clothing (Class 23, 25 and 33) in all member states of the Community. Les Fils de Louis Mulliez SA, a French company, had registered the trademark PHILDAR in the French trademark register for inter alia knitting yarn and clothing. Later on, they made an application to have PHILDAR Trademark registered in the UK for knitting yarn and clothing. Sirdar Ltd opposed the registration since the trademarks were likely to be confused. To settle the dispute, the parties entered into a delimitation agreement where Sirdar Ltd undertook not to sell its goods in France, and Les Fils de Louis Mulliez SA undertook not to sell identical goods in the UK.

The Commission first stated that the parties were undertakings and that Article 101 TFEU was applicable. The object of the agreement was to restrict competition in the common market, since it reflected the stated intent of the parties not to sell knitting yarn in France and the UK, respectively. The co-existence agreement forbade the parties to use their trademarks on each other's respective territory, which was a breach according to Article 101 TFEU. The argument that Phildar was able to import knitting yarn to UK under another trademark, the Commission said would deprive Les Fils de Louis Mulliez SA the impact of the advertising under its trademark and was not a valid counter-argument. Neither did the Commission accept an opposition on the ground that the trademarks were similar and there was likelihood of confusion between the two signs. They held that even if this was the case, it would not justify partition of the market between the parties.¹⁵⁷

¹⁵⁶ 75/297 *Sirdar*, EuC. See for example Wilkof and Burkitt (2005) p. 304 and Lyxell et al (2005) p. 217.

¹⁵⁷ See for example Maniatis (2009) p. 589 and Lyxell et al (2005) p. 217.

The agreement did not qualify for exemption under Article 101(3) TFEU since it did not contribute to improving the distribution of goods. In fact it hindered it and also harmed consumers due to the fact that knitting yarn from France was denied to UK customers and likewise.

As we can see, the *Sirdar v Phildar* decision reflects the strong scepticism towards co-existence agreements containing territorial delimitation clauses, which divide markets within the EU. The author's interpretation is that one reason for this is that this case was one of the first decisions dealing with this issue. Moreover, in *Sirdar v Phildar*, the Commission's view seemed to be that almost all co-existence agreements should be caught by Article 101 TFEU regardless of whether the marks are confusing or not and in light of this decision it is not clear if Article 101 (3) TFEU ever could be applicable on these agreements.

8.2 A territorial restriction is not always unlawful

Not all co-existence agreements which contain a territorial restriction are judged contrary to Article 101 TFEU. The case *Penney's* (1977) is a notable example.¹⁵⁸

Penney America was the proprietor of a several variants of trademarks, such as Penney, Penney's and J.C Penney (Penney's). The Penney's mark was registered mainly in classes 20, 24 and 25 (furniture, textiles and articles of clothing), in all Member States except Ireland and UK. The ABF Group owned the right to use the trademark Penney's in these countries for the same types of clothing and textile goods as Penney America. In 1976, to settle the parties pending litigations and proceedings, Penny America and the ABF-group entered into a co-existence agreement. The agreement stated that:

- (i) *The ABF Group shall not use "Penney's" as a trademark or - except as a business name in Ireland - as a trade name in any country of the world.*¹⁵⁹
- (ii) *The ABF Group shall assign its French trademark Penney's to Penney America.*¹⁶⁰
- (iii) *The ABF group undertakes, for a period of five years, not to contest any existing or future trademark registration or application held or filed by Penney America for Penney's.*¹⁶¹

The territorial restriction was seen as a restriction of competition but in contrast to *Sirdar v Phildar* it was not considered unlawful under Article 101 TFEU. The reason for this was that the agreement was to settle the dispute and the restriction was not *appreciable* since the Irish

¹⁵⁸ 78/193 *Penney's Trade Mark*, EuC.

¹⁵⁹ 78/193 *Penney's Trade Mark*, §1.5(a) EuC.

¹⁶⁰ 78/193 *Penney's Trade Mark*, §1.5(b) EuC.

¹⁶¹ 78/193 *Penney's Trade Mark*, §1.5(c) EuC.

Company had not established any goodwill for the name Penney's, except in Ireland.¹⁶² *The assignment clause* had according to the Commission not as its object or effect to prevent, restrict or distort competition within the common market. It could be different if such an agreement or waiver was used to divide the markets.¹⁶³ A *non-challenge clause* would normally restrict competition, but should in this case not be regarded as restrictive. Due to the fact that it was limited to five years it does not constitute an appreciable restriction of competition. Five years is the period most member states have seen as reasonable for establishing a new trademark.¹⁶⁴

8.2.1 The search for the less restrictive solution

The principle 'the search for the less restrictive solution' was created in the *Penney's* case. The Commission stated that 'In general the enterprises involved in a situation like this must seek the least restrictive solution possible, such as incorporating distinguishing marks, shapes or colours to differentiate the products of the two enterprises which bear identical or confusingly similar marks'.¹⁶⁵ This principle was also applied in the *Syntex/Synthelabo* investigation made by the Commission regarding a co-existence agreement where one party in the health care industry agreed not to use its marks for products in the EU and certain other countries.¹⁶⁶ In the press release the Commission held that 'less restrictive solutions should be examined to determine if, for example, an agreement on how a trademark should be used would succeed in eliminating the risk of confusion'.¹⁶⁷ Moreover, the Commission held that 'Article 85(1) is applicable to trademark delimitation agreements in cases where it is not evident that the holder of an earlier trademark could have recourse to national law to prevent the holder of a later mark from using it in one or more member states'.¹⁶⁸

The author finds it clear from the decision in *Penney's* that the Commission in general will more likely consider a co-existence agreement containing a territorial restriction unlawful

¹⁶² 78/193 *Penney's Trade Mark*, §II.4(a)(ii) EuC.

¹⁶³ 78/193 *Penney's Trade Mark*, §II.4(b) EuC.

¹⁶⁴ 78/193 *Penney's Trade Mark*, §II.4(c) EuC.

¹⁶⁵ 78/193 *Penney's Trade Mark*, §II.4(b) EuC. This view was confirmed in *Persil (Persil Trade Mark, EuC)* where the parties in a co-existence agreement agreed to continue to use their respective trademarks for all their products on the common market but added distinctiveness to their trademarks. One party should use the 'Persil' mark in red letters while the other party would use a green 'Persil' mark. It was held that arrangements regarding the presentation of trademarks would not fall within Article 101 TFEU where none of the parties is banned to use its own mark.

¹⁶⁶ Commission Press Release, *Commission Ensures Amendment To Pharmaceutical Trademark Agreement*. See also for example Wilkof and Burkitt (2005) § 9 – 40.

¹⁶⁷ Nineteenth Report on Competition Policy (1989), § 59.

¹⁶⁸ Commission Press Release, *Commission Ensures Amendment To Pharmaceutical Trademark Agreement* (1989).

when less restrictive solutions to the agreement is available.¹⁶⁹ This includes incorporating distinguishing marks, shapes or colours to differentiate the products. In *Penney's*, the Commission did not, unlike in the *Sirdar v Phildar* decision, consider the co-existence agreement contrary to Article 101 TFEU only because it contained a territorial delimitation.

8.3 Co-existence agreements are not unlawful *per se*

The facts in *Toltecs v Dorcet* (1982) were as follows:¹⁷⁰

BAT, the proprietor of the trademark DORCET applied for registration of its trademark for Tobacco in Germany. The trademark was registered but not used commercially. Segers later filed an application to register the trademark TOLTECS for raw tobacco and tobacco products internationally, including Germany. BAT opposed the registration of TOLTECS on the ground that its own trademark, DORCET, had priority and that there was risk of confusion between the marks. Segers did not commence legal proceedings in Germany since he did not want to become involved in litigation against a firm in a strong financial position like BAT. Later on, the parties entered into a co-existence agreement, and BAT withdrew its opposition against Segers application in Germany. Segers was in return under an obligation not to market fine cut tobacco in Germany under the TOLTECS mark and without challenging BAT's registration on the basis of non-use. Segers applied to the Commission claiming that BAT had infringed Art 101 TFEU.¹⁷¹

The Commission held that the agreement was unlawful according to Article 101 (1) TFEU. Firstly, because it restricted Segers from marketing tobacco under his established trademark in Germany, and, secondly, because there was no serious risk of confusion between the trademarks DORCET and TOLTECS. These two elements combined with the non-challenge clause constituted a violation of Article 101 (1) TFEU. BAT's real objective was not to protect its interest in the trademark, rather to prevent the existence of Segers' products in Germany. Also the fact that the agreement was not used commercially constituted a breach.¹⁷² Finally, the agreement could not be exempted under Article 101 (3) TFEU.

In light of the above, the Commission still have some uncertainties regarding co-existence agreements. However, a change can be recognised compared to the Commissions decision in *Sirdar v Phildar*. In *Toltecs v Dorcet*, the Commission examined whether or not the marks could lead to serious risk of confusion.

¹⁶⁹ See for example Wilkof and Burkitt (2005) § 9 – 40.

¹⁷⁰ 82/897 *Toltecs and Dorcet*.

¹⁷¹ See also Wilkof and Burkitt (2005) p. 307. According to Wilkof and Burkitt, the BAT case can be said to have created 'the principle that an unused mark cannot serve as the basis for imposing restrictions via a delimitation agreement'.

¹⁷² A trademark right is subject to an obligation to use it. A co-existence agreement, which gives the trademark proprietor the right to maintain his trademark without using it, is not in line with the objectives behind. See, Directive 2008/95 *to approximate the laws of the Member States relating to trademarks* Article 10.

8.3.1 BAT v Commission

BAT appealed the Commission decision in *Toltecs v Dorces*, resulting in the judgement *BAT v Commission* (1985).¹⁷³ This is the EU reference case and importantly the only case ruled by CJEU that raises the issue trademark co-existence agreements in relation to Competition law. The Court upheld the Commission's decision in facts, but acknowledged that:

*'.... (A)greements known as 'delimitation agreements' are lawful and useful if they serve to delimit, in the mutual interest of the parties, the spheres within their respective trademarks may be used, and are intended to avoid confusion and conflict between them. That is not to say, however, that such agreements are excluded from the application of Article 85 (new Article 81) of the Treaty if they also have the aim of dividing up the market or restricting competition in other ways'.*¹⁷⁴

First, the Court recognises previous opinions expressed in earlier case law that a delimitation agreement has the function to avoid conflict or confusion between the parties' trademarks. Second, the Court expressly states that the agreement needs to be consistent with competition law and provisions such as Article 101 TFEU.¹⁷⁵ Furthermore, the view of the German Government, which represented BAT, was that co-existence agreements in principle do not constitute a restriction of competition within the meaning of Article 101 TFEU. The Court replied that if the intention of the parties is to restrict competition and the agreement does not have the function of settling a dispute regarding conflicting trademark, it might constitute a breach of Article 101 TFEU.¹⁷⁶

The author finds it clear that, while the Court upheld the Commission's decision in *Toltecs v Dorcet* regarding the facts on the case, the quotation in BAT suggests a more positive attitude towards co-existence agreements in general.

8.4 Movement towards a more liberal approach

Jette Joop (2010) is another case of relevance in this context decided by the German Federal

¹⁷³ 35/83 *BAT v Commission*, ECJ

¹⁷⁴ 35/83 *BAT v Commission*, § 33, ECJ.

¹⁷⁵ See also Wilkof and Burkitt (2005), p. 303.

¹⁷⁶ 35/83 *BAT v Commission*, §29, ECJ.

Supreme Court in December 2010.¹⁷⁷ Although, of course, it is not legally binding for other jurisdictions in Europe, it is interesting that the German Federal Supreme Court takes a more liberal approach to co-existence agreements. In short, the facts of the case were as follows:

The plaintiff, JOOP! GmbH was the proprietor of a German trademark registration for JOOP!, for clothing (class 25). In 1995 the defendant Jette Joop concluded a co-existence agreement with the plaintiff stating that she was allowed to use and register her name ‘Jette Joop’ for jewellery. However, in 2003 she used marks with ‘Jette Joop’ for clothing. JOOP! held that it was an infringement.¹⁷⁸

Discussing this case, Abel notes that the German Federal Supreme Court argued, in line with *BAT vs Commission*, that co-existence agreements per se do not restrict competition under Article 101 (1) TFEU. Furthermore, Abel also notes that ‘the Court considers that the restrictive impact of prior rights agreements is usually relatively low since it does not affect the trade of goods but only the possibility to promote goods by using a trademark. In addition, the Court considers that prior rights agreements in general rather encourage competition by providing legal certainty, encouraging investments in a trademark’.¹⁷⁹

The German Federal Supreme Court’s decision in *Jette Joop* suggests a more open-minded approach to conflict resolution agreements. Moreover, the court stresses the positive effects of this type of agreements in that they also encourage competition. This view may indicate that today we are moving towards a more benevolent, view of conflict resolution agreements.

8.5 Non-challenge clauses

As seen in the previous section, no general statement of a non-challenge clause can be seen in case law. In order to get a wider understanding about the enforceability of non-challenge clauses, the author finds it appropriate to discuss the clauses in relation to trademarks in general.

8.5.1 Trademarks are different from patents

In the field of patents, non-challenge clauses are often considered to restrict competition.¹⁸⁰ Since patents confer powerful monopoly rights over products or processes, it is established that the public interest might be harmed if patents are wrongly granted and must prevail over

¹⁷⁷ KZR 71/08

¹⁷⁸ See, Stelzenmuller (2012).

¹⁷⁹ Abel (2011) p. 29.

¹⁸⁰ Abel (2011) p. 29.

any other consideration.¹⁸¹ On the contrary, a trademark does not permit the trademark holder to restrict a person or entity from sale and marketing of goods *per se*, only the sale and marketing of goods under identical or similar trademark. From this perspective, trademark rights may be less restrictive on competition than patents, and a co-existence agreement including a non-challenge clause correspondingly less restrictive.¹⁸²

8.5.2 Difference between challenging the validity or the ownership

As mentioned in *BAT v Commission* (1985), the Court upheld the restrictive view of the Commission regarding non-challenge clauses concerning trademarks. The decision in *Windsurfing* (1986) also reflects the restrictive view of the Commission regarding these clauses.¹⁸³ The non-challenge clause did not fall within the ‘specific subject matter’ of patent and considered incompatible with Article 101 (1) TFEU in so far as it restricts competition.¹⁸⁴

In *Moosehead* (1990) the Commission distinguished between non-challenge of the ownership and non-challenge of the validity of a trademark.¹⁸⁵ The Commission held that a clause not to challenge the *ownership* of a trademark does not constitute restriction of competition as it is stated in Article 101 (1) TFEU. By contrast, the Commission held that the *validity* of a trademark may be contested, e.g. on the ground that it is generic or descriptive.¹⁸⁶ Moreover, Article 101 (1) TFEU applies to a non-challenge clause only if competition and trade between member states are appreciably affected, which cannot be presumed.¹⁸⁷ Only when the trademark is well known would it constitute an *appreciable* restriction of competition within the meaning of Article 101 (1) TFEU.¹⁸⁸ In *Moosehead* the trademark was ‘comparatively new to the larger market in the territory’ and therefore not a violation of Article 101 (1) TFEU.¹⁸⁹

In the past, the Commission and the European Court have held non-challenge clauses contrary to Article 101 TFEU. It is thought that some earlier decisions on non-challenge clauses might

¹⁸¹ 193/83 *Windsurfing v Commission*, §91 ECJ.

¹⁸² Wilkof and Burkitt (2005) § 9-53.

¹⁸³ 193/83 *Windsurfing v Commission*, ECJ.

¹⁸⁴ 193/83 *Windsurfing v Commission*, §2, ECJ. The Court held that the clause was of such nature as to restrict the licensee’s competitiveness, §81.

¹⁸⁵ 90/186, *Moosehead/Whitbread*, §15(4)(b), EuC.

¹⁸⁶ Regarding to challenge the validity of the trademark, the Commission explicitly held that *such a clause may constitute a restriction of competition within the meaning of Article 85 (1), because it may contribute to the maintenance of a trademark that would be an unjustified barrier to entry into given market*. See 90/186 *Moosehead/Whitbread* §15(4)(a), EuC.

¹⁸⁷ 65/86 *Bayer v Süllhöfer*, §§16-21, ECJ.

¹⁸⁸ 90/186, *Moosehead/Whitbread* §15(4)(a), EuC.

¹⁸⁹ 90/186, *Moosehead/Whitbread* §15(4)(b), EuC.

be decided differently today. The decision in *Jette Joop* reflects this view in which the court held that non-challenge clauses in co-existence agreements are not ‘in breach of European competition law if agreed upon within the context of prior rights agreements on trademarks’.¹⁹⁰ Furthermore, it seems that the Court shows more willingness to non-challenge clauses and considers that they are often necessary in co-existence agreements in order for its legal certainty.¹⁹¹

8.6 Conclusions - Decisions

The following conclusions can be drawn from the aforementioned decisions from the Court and the Commission relating to co-existence agreements.

8.6.1 When could a delimitation clause be enforceable?

As regards co-existence agreements, which contain division of the trademarks on a territorial basis, the view has gone from treating co-existence agreements as a way of partitioning the market to realising that the agreements may have legitimate aims. Most recent case law indicates that the Courts and the Commission may take a more liberal approach to co-existence agreements.

One of the more significant findings to emerge from the decisions is that a co-existence agreement between proprietors of identical or similar trademarks in different member states containing a territorial delimitation clause may be valid provided that there is a serious likelihood of confusion between the two marks and that the agreement is a genuine attempt to solve the conflict between the signs. Conversely, if there is no risk of confusion because the trademarks are not sufficiently close, if one of the trademarks is invalid or if the object of the agreement is to restrict competition, such an agreement is most likely considered to restrain competition and thus be in breach of Article 101 TFEU.¹⁹²

Finally, if the parties adopt the ‘least restrictive’ solution to the conflict, such as incorporating distinguishing marks, shapes or colours to differentiate the products, the Commission will in

¹⁹⁰ Abel (2011) p. 29.

¹⁹¹ Abel (2011) p. 29.

¹⁹² See Wilkof and Burkitt (2005) p. 303 *et seq.* See also, Casalonga (2003) p. 1 *et seq.*, Maniatis (2009) p. 589 *et seq.* and Turner (2010) p. 276 *et seq.*

general look with favour on territorial restrictions.¹⁹³ However, it will most likely not be valid as an individual exemption under Article 101 (3) TFEU.

8.6.2 When could a non-challenge clause be enforceable?

No general statement regarding the enforceability of a non-challenge clause can be seen for the cases relating to co-existence agreements. However, the fact that the Court held in *BAT v Commission* that co-existence agreements were seen as ‘useful’ and ‘legal’ indicates that non-challenge clauses are enforceable if the agreement is consistent with Article 101 (1) TFEU.

It is clear that a non-challenge clause in a trademark license relating to the *ownership* of a trademark does not constitute restriction of competition as it is stated in Article 101 (1) TFEU but the *validity* of a trademark may be contested. In addition to this, only when the mark is well known would it constitute an appreciable restriction of competition within the meaning of Article 101 (1) TFEU.¹⁹⁴

Moreover, a non-challenge clause limited to five years will most likely be in line with Article 101 TFEU if the co-existence agreement does not include a territorial division of the ownership. Correspondingly, a non-challenge clause with validity of more than five years would most likely restrict competition.¹⁹⁵

A trademark right is subject to an obligation to use it. As seen in *BAT v Commission* a non-challenge clause, which gives the trademark proprietor the right to maintain his trademark without using it, is not in line with the objectives behind and most likely considered unlawful.

¹⁹³ See for example Wilkof and Burkitt (2005) § 9-40.

¹⁹⁴ See for example Wilkof and Burkitt (2005), § 9-45 *et seq.*

¹⁹⁵ See for example Lyxell et al (2005) p. 217.

9. Final Analysis and Discussion

In this chapter, the author will analyse and discuss whether co-existence agreements could be considered lawful according to trademark and competition provisions. There are three particular points that need to be highlighted. First, the validity of co-existence agreements depends on how the clauses are constructed. Secondly, even though a co-existence agreement easily falls within the scope of Article 101 TFEU, the agreement may be exempted if there is a serious likelihood of confusion and a genuine attempt to solve the conflict. Thirdly, as co-existence between competitors becomes increasingly necessary in the era of globalisation, clear rules are needed to contribute to a competitive market.

9.1 Do co-existence agreements potentially violate EU competition law?

The main purpose of this thesis is to investigate and analyse the treatment of trademark co-existence agreements in the perspective of EU Competition law. The question whether a clause in a co-existence agreement is lawful under EU competition law cannot be answered with a simple yes or no. Many elements need to be taken into consideration to evaluate the interface between competition law and intellectual property law, generally, and trademark law, in particular. This thesis has shown that both legal areas share common objectives, namely promoting consumer welfare and efficient allocation of resources. However, potential conflicts between the fields may arise if the co-existence agreement has anti-competitive effects. The author's conclusion is that trademark law prevails concerning restrictions *within* the scope of protection of the trademark right. When it comes to restrictions *beyond* the scope of protection of the trademark right, competition law prevails.

This study has shown that even though co-existence agreements often include market sharing by territory and/or products clauses, so-called hardcore restrictions, and non-challenge clauses, the agreements only infringe competition law under certain circumstances.

9.1.1 The validity depends on how the clauses are constructed

One conclusion of this investigation is that the validity of co-existence agreements depends on how the clauses are constructed. If the trademark owner is acting within the scope of protection of subject specific-matter of trademarks, then co-existence agreements are valid even though the restrictions have anti-competitive effects. In general, the restrictive impact in

this situation is relatively low since it does not affect the trade of goods. The agreement just affects the possibility to promote goods by using a specific trademark. On the other hand, if the proprietor is acting outside the scope of protection of the specific subject matter of trademarks, then, the Court and the Commission could consider the co-existence agreement unlawful.¹⁹⁶

In the context of co-existence agreements, identical or similar trademarks may be owned by different undertakings in different territories and/or in relation to different products. Conflicts may arise when one of the undertakings for instance applies for a CTM trademark. A territory or product clause delimitation with respect to identical or similar trademarks in a co-existence agreement is most likely consistent with the primary values of trademarks, namely to identify products, guarantee the quality of the products, and reduce consumer confusion. Moreover, it would also protect the trademark holder's investment. However, the effects cannot only be seen as positive from the trademark perspective. Co-existence agreements may cause consumer confusion due to the fact that similar trademarks are allowed to co-exist and this could be seen as contrary to the aim of trademark law.¹⁹⁷

Case law states that competition rules cannot affect the *existence* of intellectual property rights. Competition regulations do not pertain to the possibility of maintaining or obtaining protection. This can be illustrated in the context of repackaging of a pharmaceutical, for instance. The legitimate interest of the trademark proprietor includes that the original condition of the product is not affected, that the changes to the packaging will not destroy the reputation of the trademark or proprietor, and that the proprietor's ability to protect itself against counterfeiting is not damaged.¹⁹⁸ Protection of reputation might be justified as a mandatory overriding of the principle of free trade within the internal market.¹⁹⁹ Accordingly, under trademark provisions, the trademark holder operating in Sweden would be allowed to restrict the trademark applicant to, for example, *not sell batteries under similar or identical trademark in Sweden*. In this situation, the mark applicant is still permitted to sell batteries in Sweden but under a different trademark. Since the trademark holder is acting within the scope

¹⁹⁶ See, subparagraph 4.3.

¹⁹⁷ See, subparagraph 4.3.1.

¹⁹⁸ See C-143/00 *Boehringer Ingelheim v Swingward* judgement §§16, 32, 61.

¹⁹⁹ See C-384/93 *Alpine Investments v Minister van Financiën*, ECJ.

of his trademark protection, the restriction is valid in accordance with competition regulations.²⁰⁰

On the other hand, if the proprietor of a trademark is *exercising* the right in a way that goes beyond the scope of the specific subject matter of the trademark right, we can assume that competition law will prevail over trademark law. Accordingly, if the trademark holder restricts the mark applicant to *not sell batteries under similar, identical or any other trademark in Sweden*, the mark applicant is restricted from selling batteries under its own trademark as well as under any trademark at all in Sweden, hence being prevented access to the market for batteries. There are no cases regarding this scenario but the Court and the Commission would likely be critical since, in this situation, the mark holder acts beyond the specific subject matter of the trademark and exercises the right in an unlawful manner that might be contrary according to competition provisions. The trademark holder is also acting outside the scope of the trademark protection in case the holder would restrict the trademark applicant to apply for services if the trademark right only is protected for goods. The same would apply if the trademark holder is restricting the trademark applicant to apply for something other than for example 'word', for example 'logotype' or if the clauses are increased to be valid for rights other than the trademark right.²⁰¹

9.1.2 Analogising Article 5(1)(c) TTBE to co-existence agreements

The same concept for market sharing by territory or product applies to a non-challenge clause. A co-existence agreement that contains a non-challenge clause does not necessarily constitute an anti-competitive effect. The validity depends on how the clause is written. Although the TTBE does not cover trademarks, the Commission will, according to the author's findings, probably apply Article 5(1)(c) TTBE by analogy. In light of the discussion under section 7.2.1, if the non-challenge clause is written so the trademark holder has a right to terminate the contract if the trademark applicant challenges the trademark holder's registration and use of the prior mark, it would be possible to argue that the clause might be exempted under TTBE and therefore lawful according to competition provisions. On the other hand, if the non-challenge clause is written in a way, which *totally* forbids the mark applicant to challenge the mark holder's registration and use of the prior mark, this situation may be contrary to competition provisions. From a socio-economic perspective, a non-challenge clause may

²⁰⁰ See, subparagraph 4.2.

²⁰¹ See, subparagraph 4.2.

constitute improper use of trademark law if it would allow the trademark proprietor to maintain its trademark without using it. As seen from the *Moosehead* decision, a wrongful trademark could constitute an unjustified barrier to entry to a given market provided it is a well-known trademark that would be an important advantage to any company entering in any given market. In addition to this, the effect of a non-challenge clause in trademark co-existence agreements is not as harmful as for example in relation to a patent.

In case the mark holder is acting outside the scope of the trademark protection, it is appropriate to take a closer look on the objective of the agreement in light of the context in which it occurs. If the agreement has as its objective or effect to cause a partitioning of the market, which affects the competition on the market, it may be considered anti-competitive. In summary, it may be argued that if the objective is genuine and a large and expensive dispute is avoided due to the co-existence agreement, the parties will most likely have a strong case.

9.1.3 Exemptions when co-existence agreements fall within Article 101 (1) TFEU

The author considers it interesting that, even though the agreements seldom fall within the individual exemption under Article 101 (3) TFEU or any of the block exemptions that are applicable, case law has created ‘principles’ whereby the agreement may be exempted from Article 101 (1) TFEU. Based on case law within the EU, even though the co-existence agreement falls within the scope of Article 101 TFEU, the agreement is exempted if there is a serious likelihood of confusion between the two marks and the agreement is a genuine attempt to solve the conflict.²⁰² On the other hand, if confusion is unlikely because the trademarks are not sufficiently close, if one of the trademarks is invalid due to non-use or if the object of the agreement is to distort competition, such an agreement is most likely considered to restrain competition and in breach with Article 101 (1) TFEU. Consequently, the agreements are less likely to impact competition when the products are similar due to the fact that the restriction actually reduces the risk of confusion. When the products are different one should be more careful. However, in practise it is often hard to predict whether or not the agreement is a genuine solution to the conflict since it is difficult to predict the outcome regarding likelihood of confusion or validity.

²⁰² 35/83 *BAT v Commission*, ECJ.

9.1.4 Change towards a more liberal approach

How the clauses shall be treated with regard to the Commission's 'effects based approach' is still unclear. In addition, while there is no firm guideline on the basis of case law, a changing attitude in the Court's approach towards co-existence agreements can be observed in case law. In older case law such as *Sirdar v Phildar* from 1975, co-existence agreements containing delimitation by territory and products were almost by their nature considered unlawful. A change from this view was seen in the only decision by the CJEU concerning co-existence agreements, namely *BAT v Commission*. The approach in *BAT v Commission* was that co-existence agreements are not unlawful *per se*. Firstly, the court acknowledged that a co-existence agreement has the function to avoid conflict or confusion between the parties' trademarks. Secondly, the court expressly stated that the agreement needs to be consistent with competition law and provisions such as Article 101 TFEU. Moreover, the decision by the German Federal Supreme Court in *Jette Joop*, from 2010, further supports the change towards a more liberal approach regarding these agreements. The author's interpretation is that this is *inter alia* linked to that trademark rights are dynamic and change over time. Today the trademarks are more accepted as a competitive tool than it was in previous years. The author finds the changing attitude to co-existence agreements positive and the approach of the Courts should start from the positive effects of the agreements. Moreover, an interpretation is that the Courts and the Commission are aware that co-existence agreements serve an important function in the increasingly crowded marketplace. The analysis above has shown, in line with the court ruling in *Jette Joop*, that provided the trademark holder is acting within the scope of protection, the restrictive impact of the agreement is usually relatively low since it does not affect the trade of goods. The agreements merely affect the possibility to promote goods by using a specific trademark. The agreements also provide necessary legal certainty for investments, which encourages competition and it should be considered of public interest that the parties settle their dispute through agreement instead of litigation.

9.1.5 Growing demand for guidance

The uncertainty of how co-existence agreements shall be constructed in order to be valid is not just a situation of uncertainty for the lawyers drafting and the parties negotiating the agreement. The uncertainty might also constitute a competitive disadvantage for the EU due to the commercial value of the agreements. It is not unlikely that the advent of the CTM system will lead to an increased number of conflicts between trademarks and an increasing

need of co-existence agreements. The author does not anticipate revolutions in EU Competition law enforcement with regard to co-existence agreements in the future but a higher degree of predictability regarding these issues is required. The development of co-existence agreements leads to a growing demand for guidance concerning these agreements. It is recommended that further investigations be undertaken and guidelines be created and implemented. Although difficulties are foreseen to provide specific answers to every possible scenario, the existence of appropriate guidelines would assist companies and lawyers in assessing the compatibility of the co-existence agreement with Article 101 TFEU.

Case law has demonstrated that the Court and the Commission have not made any difference between different products. Suppose that the parties have entered a co-existence agreement with regard to cars, and that the consumers are experiencing confusion. Would this be less harmful than if the products are directly related to or affecting health, for instance medications? Today, competition law is based on an economic approach. However, in line with the Townley's view, if policy goals, such as public health also must be considered within Article 101 TFEU, the decisions may be different. In this situation the Court and the Commission may be more willing to invalidate co-existence agreement between two proprietors with identical or similar trademarks if the products have the intended use to protect and promote public health.

10. Summary

In this thesis the author has investigated and analysed the treatment of trademark co-existence agreements from the perspective of EU Competition law. The results of the investigations demonstrate that the validity of co-existence agreements depends on how the clauses are constructed. It is advisable to draft a co-existence agreement limited to the actual conflict and not beyond the scope of protection. A limited number of cases relating to co-existence agreements have been subject to the European Courts and the Commission. The view on co-existence agreements has varied, ranging between large scepticism and a more liberal approach. Today, the Courts and Commission recognize the positive effects of such agreements, and currently there is a more positive attitude towards the agreements. Even though the co-existence agreement falls within the scope of Article 101 (1) TFEU, case law suggests that the agreement may be exempted if there is serious likelihood of confusion between the trademarks and the co-existence agreement is a genuine solution to the conflict.

As co-existence between competitors becomes increasingly necessary in the era of globalisation, clear rules are needed to contribute to a competitive market. Further research and investigations in this field are recommended. The existence of appropriate guidelines would assist in the process of drafting a co-existence agreement.

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Examination

Opponering på uppsatsen har inte ägt rum vid något tidigare tillfälle. Uppsatsens författare, Carin Thomsen, registrerades första gången på examensarbetskursen i augusti 2012 och har inte vid något tillfälle omregistrerats på kursen.