

HONEST PRACTICES IN INDUSTRIAL OR COMMERCIAL MATTERS [2277 words]

Keywords: honest practices; descriptive fair use; nominative fair use; honest practices; good faith; dilution by tarnishment, trademark

The definition of unfair competition was introduced in the →Paris Convention at the Revision Conference in The Hague in 1925. The added provision art. 10bis(2) Paris Convention states that '[a]ny act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition.' The question is what kind of behaviour falls within the scope of unfair competition in the context of trademark law defenses? Art. 10bis(3) provides three examples of such acts in the course of commerce that 1. confuse as to the source [Editor Note: link to →likelihood of confusion]; 2. [tarnishment →trademark dilution_{BJ1}]; and 3. mislead the public about the nature/manufacturing process/characteristics etc. of the goods. In the absence of a universal standard, each jurisdiction interprets 'honest practices' differently (Anemaet, 2021). The →US and →EU jurisdictions are being used here as a case study in regard to the limitations to descriptive and nominative fair use.

Descriptive use of a word that happens to also be a trademark to describe one's own trademark is called 'descriptive or classic fair use' _{BJ2}_{DF3} which the law usually permits (*WCVB-TV v. Boston Athletic Ass'n*, 926 F.2d 42, 46 (1st Cir. 1991)). A descriptive fair use defense 'forbids a trademark registrant to appropriate a descriptive term for his exclusive use and so prevent others from accurately describing a characteristic of their goods.' (*Soweco, Inc. v. Shell Oil Co.*, 617 F.2d 1178, 1185 (5th Cir. 1980)).

→Nominative fair use is where a trader needs to use the only word reasonably available to describe a particular trademark, because it uses that product or service under that trademark for its own product or service and because it does not use the trademark of the third party in any source-indicating way, nor does it imply sponsorship or endorsement of its own product or service by the third party trademark holder. And the words of Justice Holmes are relevant for descriptive and nominative fair use: 'When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth.' *Prestonettes, Inc. v. Coty* (264 U.S. 359, 368, 44 S.Ct. 350, 351, 68 L.Ed. 731 (1924)). However, traders can only use a third party's trademark in a descriptive or nominative fair use if they make sufficient efforts to avoid detriment to the original trademark holder. In that case it would constitute an 'honest practice'.

UNITED STATES

Under the Lanham Act, descriptive fair use is mentioned as a defense in case of trademark infringement →trademark infringement (s. 1115)(b)(4)). And both descriptive and nominative fair use can be used as defenses of trademark dilution (s. 1125(c)(3)). These provisions do not give clues on how to use these fair uses properly, this has to be gleaned from the case law. s. 1115(b)(4) states:

[t]hat the use of the name, term, or device charged to be an infringement is a use, otherwise than as a mark, of the party's individual name in his own business, or of the individual name of anyone in privity with such party, or of a term or device which is descriptive of and used fairly and in good faith only to describe the goods or services of such party, or their geographic origin;

s. 1125(c)(3) provides some exclusions in case of dilution by blurring or tarnishment:

(A) Any fair use, including a nominative or descriptive fair use, or facilitation of such fair use, of a famous mark by another person other than as a designation of source for the person's own goods or services, including use in connection with (i) advertising or promotion that permits consumers to compare goods or

services; or (ii) identifying and parodying, criticizing, or commenting upon the famous mark owner or the goods or services of the famous mark owner.

(B) All forms of news reporting and news commentary.

(C) Any noncommercial use of a mark.

DESCRIPTIVE FAIR USE

The key case in regard to descriptive fair use, also known as classic fair use, is *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.* (543 U.S. 111 (2004)). Petitioner KP Permanent Make-Up and respondent Lasting Impression both sold permanent make-up. Lasting Impression alleged in the District Court that KP infringed its registered incontestable trademark 'Micro Colors' by using a version of the term in KP's advertising brochures. The District Court granted summary judgment in favor of KP's descriptive fair use defense in regard to the trademark infringement claim. The Ninth Circuit reversed finding that KP could only have benefitted from the fair use defense if there was no likelihood of confusion between its use of the term 'Micro Color' and Lasting Impression's mark.

The Ninth Circuit held that the absence of confusion was a precondition in case of using descriptive fair use as an affirmative defense against the claim of trademark infringement, while the Second Circuit held that this was not necessary. To decide this split, the US Supreme Court granted certiorari, and held that a trademark holder must tolerate a certain degree of confusion from the descriptive use of words contained in its mark by a third party, 'to preserve the common right to use descriptive terms'. The case provides two remaining preconditions, to act 'fairly' and in 'good faith'.

NOMINATIVE FAIR USE

In 1966, in *Volkswagenwerk Aktiengesellschaft v. Church* (256 F.Supp. 626 (SDNY 1966)), the US District Court of the Southern District of California, held that evidence established that Douglas Church, an automobile repairman who specialized in working on Volkswagens, had not intended to give appearance or impression that his business was part of plaintiff's organization and that defendant's use of silhouette of plaintiff's automobile and his advertising use of phrase 'complete stock of factory parts' did not violate rights of plaintiff. The case established that Mr Church carefully avoided using the colours or style of lettering adopted by the plaintiff, and has avoided the use of plaintiff's encircled VW emblem, and adequately distinguishes his business from the plaintiff's organization, by giving reasonable prominence to the word 'Independent.' Without actually using the term 'nominative fair use', the case demonstrates that Mr Church needs to be able to clarify to potential customers that he has specialized in the repair and maintenance of Volkswagen cars.

In 1992, in *New Kids on the Block v News Am Publ'g Inc* (971 F 2d 302 (9th Cir 1992)), the Ninth Circuit provided more clues of what is fair use and systematized the preconditions. The context of the case: Star Magazine and USA Today organized a telephone poll, asking fans of the boy band "New Kids on the Block" to vote who is their favorite member of the five members. The magazine and newspaper advertised with the name of the boy band, and earned money every time a fan called to give her/his vote. The New Kids on the Block argued that the magazine and newspaper raised the suggestion that they sponsored or endorsed the poll which constituted trademark infringement, and claimed common and federal trademark infringement an unfair competition. The Ninth Circuit, rejected these claims and came to the conclusion that a defendant must be allowed to use a claimant's mark to identify a claimant's goods subject to three conditions:

1. if one can do without using the third party's trademark one should do so; this constitutes a subsidiarity principle;

2. if one needs to use a third party's trademark, one should minimize using the aspects of the use, such as color, font, logo, of the third party's trademark; this constitutes a proportionality principle; and
- '3. the user must not actively suggest sponsorship or endorsement by the trademark holder.'; this constitutes a passivity principle.

EUROPEAN UNION

Directive (EU) 2015/2436 → Directive (EU) 2015/2436 and its shadow Regulation (EU) 2017/1001 → European Union Trade Mark provide the limitations of the effect of the trademark, including in case of parodic use and comparative advertising, that are all conditional to 'honest practices in industrial and commercial matters'. But both documents remain silent on what these honest practices are and what practices fall outside of their scope. However, the case law does interpret what honest practices are, starting with *Gerolsteiner Brunnen/Putsch* (C-100/02, EU:C:2004:11, para. 24), where the CJEU described 'honest practice' as the expression of a duty to act fairly in relation to the legitimate interests of the trademark owner.

DESCRIPTIVE FAIR USE

Article 14(1)(a) Trademark Directive holds that a trademark shall not entitle the proprietor to prohibit a third party from using, in the course of trade, a trademark that is the name or address of the third party, where that third party is a natural person. Article 14(1)(b) where the signs or indications that are not distinctive or concern the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of goods or of rendering of the service, or other characteristics of goods or services.

NOMINATIVE FAIR USE

Article 14(1)(c) Trademark Directive, holds that furthermore, the trademark holder should not be entitled to prevent the use of the EU trade mark for the purpose of identifying or referring to the goods or services as those of the trademark holder, in particular, where the use of the trademark is necessary to indicate the intended purpose of a product or service, in particular as accessories or spare parts.

HONEST PRACTICE

Article 14(2) Trademark Directive clarifies that limitations to the effect of the trademark will only apply if the use was made in accordance with honest practices in industrial or commercial matters. In addition, Recital 27 of the Directive (EU) 2015/2436 and rec. 21 of the Regulation (EU) 2017/1001 clarify that that use of a trademark by third parties to draw the consumer's attention to the resale of genuine goods that were originally sold by, or with the consent of, the trademark holder in the EU should be considered as being fair as long as it is in accordance with honest practices. These Recitals also state that a trademark used by a third party for the purpose of artistic expression should be considered as being fair as long as it is at the same time in accordance with honest practices. Finally, these Recitals urge that the Directive/Regulation should be applied in a way that ensures full respect for fundamental rights and freedoms, in particular the freedom of expression → freedom of expression.

In the same vein as the *Volkswagenwerke* case in the US, the CJEU [BJ4][DF5] in 1999 in *Bayerische Motorenwerke AG v Deenik* (C-63/97, EU:C:1999:82). dealt with nominative fair use. Ronald Deenik, the owner of a garage in the Netherlands, used the trademark BMW without the authorization from the BMW company in Germany, in advertisements for the sale of second-hand BMW cars and repairs and maintenance of BMW cars. The BMW company claimed that Mr Deenik infringed its trademark. The CJEU held that the defendant's use of the

mark fell within the meaning of art. 5(1)(a) of First Directive 89/104 (double identity of trademarks and goods/services and thus a likelihood of confusion is assumed). However, the ECJ held also that the First Directive 89/104 does not entitle the trademark holder to prohibit a third party from using the mark for the purpose of informing the public. That was the case, since Deenik informed the public in his advertisement that he has specialized in the repair and maintenance of BMW cars that were put on the market under that mark with the consent of the trademark, unless the mark was used in a way that may create to the impression that Deenik is affiliated with or endorsed by BMW.

The CJEU provides a definition of honest practices in Footnote 61 of the *Deenik* case: ‘s constituting in substance the expression of a duty to act fairly in relation to the legitimate interests of the trade mark owner, similar to that imposed on the reseller where he uses another’s trade mark to advertise the resale of products covered by that mark.’

In *Gillette Co v LA-Laboratories Ltd Oy* (C-228/03, EU:C:2005:177), the CJEU held, in the context of Art. 6(1)(c) of the Trademark Directive, that use will not be in accordance with honest practices in industrial and commercial matters if, inter alia:

‘it is done in such a manner as to give the impression that there is a commercial connection between the user and the trade mark owner;

or it affects the value of the trade mark by taking unfair advantage of its distinctive character or repute;’ This condition prohibits free-riding.

or it entails the discrediting or denigration of that mark.’

or where the third party presents its product as an imitation or replica of the product bearing the trade mark of which it is not the owner.’

These three conditions prohibit against affiliation or endorsement confusion, dilution by tarnishment and counterfeiting, which will lead to confusion. *Gillette* does not mention any subsidiarity or proportionality principles as in the *New Kids on the Block* case. However, these principles become relevant if one wants to meet the conditions stated in *Gillette*.

BIBLIOGRAPHY

Annette Kur, Annette (2009) ‘Of Oceans, Islands, and Inland Water – How Much Room for Exceptions and Limitations Under the Three-Step Test?’ 8 Rich. J. Global L. & Bus. 287.

Anemaet, Lotte (2021) ‘Which Honesty Test for Trademark Law? Why Traders’ Efforts to Avoid Trademark Harm Should Matter When Assessing Honest Business Practices’ 70(11) GRUR International 1025–1042.

Ilanah Simon (2007) ‘Normative and Honest Practices in Industrial and Commercial Matters – a Very European History’, Intellectual Property Quarterly, p. 117, 2007.