Trademark Coexistence Agreements in the EU from an Interdisciplinary Perspective

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PREFACE

Through the study of law and economics we have become acquainted with the difficult task that lies with legal professionals as well as economists. The difficult task these professionals face consists of combining the area of law and the area of economics in a way that results in a fair and efficient outcome.

We have been introduced to the area of trademark coexistence agreements by an inspirational instructor of law and economics. These agreements have a great economic impact. Nonetheless, they seem to have been forgotten in the context of the Community Trademark in the European Union, and this has inspired us to take on the task of investigating this area further. This research has led to a fascinating academic journey that constitutes our final step before graduating as EU Business and Law professionals.

First and foremost we would like to thank our supervisor Matthew J. Elsmore for his enthusiasm and help in the process of writing this thesis. Every meeting has been fruitful and left us with inspiration for further research in the area. We would also like to thank Erik Strøjer Madsen for the view he has offered us on applying game theory in the thesis.

Throughout writing this thesis the two of us have had productive discussions regarding law, economics and trademark coexistence agreements (and many other related and unrelated areas). These discussions have widened and redefined our point of view and helped shape our academic research skills. We have both learned a great deal from critically reflecting on our own and each others work. Therefore our biggest gratitude is to each other for being great friends and colleagues in this process.

Linn Kjeserud & Marie Martens Lawsen
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ABSTRACT

The purpose of this study was to investigate the possible effects of, and rationales for, trademark coexistence agreements in the European Union (EU). These agreements are currently being evaluated differently depending on the court that has jurisdiction to hear the case, and in specific, the Office for Harmonization the Internal Market (OHIM) has only referred to coexistence agreements in a very few existing cases. This is even though that it can be assumed that coexistence agreements are quite widespread within the European Union. This is especially applicable after the introduction of the Community Trademark (CTM) system.

The thesis has been conducted by using the academic discipline of law and economics as well as a pure legal analysis in certain parts. Within the discipline of law and economics there has been made both a positive and a normative inquiry. The area of coexistence agreements has been researched by looking into trademark and contract law separately and then combining the two areas. An illustrative case study has been used to provide the reader with practical examples of the theoretical findings.

Results of the investigation showed that, when applying economics to law, non-acceptance of coexistence agreements by courts are not economically efficient. Both consumers and companies gain from this type of arrangement and the value of the trademark remains intact. If courts accept coexistence agreements as evidence in disputes this will result in Kaldor-Hicks improvements for the society as a whole. A problem at the current time is, however, that there are no, or little, guidance as to how coexistence agreements should be drafted in order for them to be accepted as valid and unambiguous by courts, and in particular the OHIM.

The authors recommend that the OHIM, which has been the main focus of this thesis, gives guidelines to companies as to how to draft agreements that will be valid at a later stage in case a dispute arises – in specific a regulation in the area could offer a solution to this problem. Furthermore, it is recommended that some sort of a registration system for CTM related coexistence agreements is created in the near future to help the OHIM keep track of
the number of existing agreements as well as their content. This system could contain formal requirements in regards to having the agreement registered, which in turn would help companies entering into agreements by giving them guidance to save *ex ante* transaction costs and create more foreseeability by ensuring enforcement.
LIST OF ABBREVIATIONS

CFI = Court of First Instance

CTM = Community Trademark


CTMR = Council Regulation (EC) No 40/94 on the Community Trade Mark

ECJ = European Court of Justice

EU = European Union

INTA = International Trade Association

IP = Intellectual Property

IPR = Intellectual Property Rights

OHIM = The Office for Harmonization of the Internal Market

SME = Small and Medium Sized Enterprises

TTAB = Trademark Trial and Appeal Board

US = United States of America
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1. INTRODUCTION
Trademark coexistence agreements (coexistence agreements\textsuperscript{1}) allow for potentially infringing marks to coexist peacefully in the market without causing confusion in the eyes of consumers\textsuperscript{2}, and help producers decrease the risk of having to defend a trademark infringement lawsuit. These agreements within the European Union (EU) have been paid little attention by academics. They are not a new phenomenon and have existed in practice for many years, and we therefore believe that there is a need for a wider discussion within this area. Since, in effect, coexistence agreements are private and exist outside trademark law there is no system to keep track of the number of agreements that exists or what terms they include.

With the introduction of the Community Trademark (CTM) system in 1994 we believe that these agreements are quite widespread within the EU as millions of national trademarks in the 27 EU Member States now meet at a supranational registration system, which in turn increases coincidence of similar marks across boarders. In the EU small and medium sized enterprises (SMEs), which are defined as being companies with no more than 250 employees and with a maximum turnover of €50 million, accounts for 99 per cent of all companies.\textsuperscript{3} These companies often lack financial resources to go through court litigations and instead a favourable solution for them is to make agreements on coexistence allowing their trademarks to exist peacefully side by side in different geographical markets and/or product markets, while at the same time avoiding consumer confusion. There is, however, no guarantee that these agreements will ensure peaceful coexistence between the marks at all times, and if a dispute arises (e.g. opposition proceedings, cancellation decisions, registration of trademarks to the contrary of what has been agreed, or the like) it will be brought before the Office for Harmonization of the Internal Market (OHIM/Office). The OHIM has in the past shown reluctance in looking into coexistence agreements and there is no guarantee that the Office will even accept it as factual evidence in a pending dispute.

\textsuperscript{1} ‘Coexistence agreement’ and ‘contract’ will be used interchangeably to describe trademark coexistence agreements.

\textsuperscript{2} For the purpose of this thesis consumers will be referred to as being potential customers

This means that the companies that are drafting agreements on coexistence, and are using time and resources on them, in the end might have wasted these resources. We believe that this might not be an economically efficient solution to such problems facing SMEs, and we will in this thesis raise questions regarding if and how the system concerning coexistence agreements in the EU can be made more economically efficient.

1.1. Problem Statement
“We will investigate the possible effects of, and rationales for, trademark coexistence agreements in the EU. To do so we take a closer look at the economic effects of contracts and trademarks combined. We will examine how the current legal framework within the EU, namely national and Community rights, treat trademark coexistence agreements. We will also look into how these agreements impact the effect of trademarks and their value in the market. Finally we will evaluate if and how this system could be made more economically efficient in the future.”

1.2. Methodology and Sources
Within the field of law and economics various schools can be identified and each has an elaborate research program with a distinct methodological approach. In this thesis we will not evaluate the theory of these approaches but merely explain our approach. In evaluating the position of law and economics as a scientific discipline it is also important to distinguish between positive and normative law and economics. That is, it should be clear whether law and economics regards statements about how the law and its effects are, or about how they ought to be.⁴

Positive economics⁵ concern the description and explanation of economic phenomena. Within law and economics the positive approach was developed by the Chicago School. Positive economic analysis of law seeks to identify a legal rule and then make one or more descriptive statements about the economic effects of that rule.⁶ The positive approach

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⁵ Positive economics should be able to set up a hypothesis and either falsify or verify it without any judgments.
seeks to verify or falsify a given statement. When applying the positive approach no judgments should be incorporated.

Normative economics incorporate judgments about what the economy should be like or what policy actions should be recommended to achieve desired goals. The normative approach in law and economics is associated with the Yale School. Normative law and economics is established upon the efficiency criterion and makes policy advice based on the economic consequences of diverse policies.

In the present thesis we will make both a positive and normative enquiry. Firstly, we will make a positive enquiry and describe the economic effects and business rationales for entering into coexistence agreements within the present legal framework in the EU, this will also include a purely legal analysis of the present EU legislation and practice in the area. Moreover, we will make a normative enquiry based on our initial positive findings and propose how the system could be made more economically efficient in the future.

1.2.1. Sources
We will use a number of academic articles and online sources (such as blogs) to set the theoretical framework for the thesis. This framework will especially be important in order to answer our positive enquiry which in turn will form the basis for our normative enquiry. We recognize that most prominent authors in this area are from common law countries and this can mean that the views presented will tend to be developed within these legal systems. The primary legal sources that will be evaluated are the Council Regulation (EC) No 40/94 on the Community Trade Mark (CTMR) as well as relevant case law from the European Community Courts, the OHIM and National Courts. Furthermore, will we develop an illustrative case study that will serve as practical tool to guide the reader through the thesis in a comprehensive manner.

1.3. Limitations
Up till now, academically, little attention has been paid to trademark coexistence agreements within the EU, and for these reasons our investigation into coexistence agreements is merely based upon the work of a few authors. Coexistence agreements both
concern trademarks and contracts, and a challenge in our research has been to combine these two areas of law.

We have limited our research to word trademarks, and have hereby excluded designs, slogans, etc. In addition to this we have not focused upon trademark dilution as this is a concept that relates to stronger and famous trademarks, while our main field of research is related to SMEs with less familiar marks. Furthermore, we are aware of the ongoing academic debate of whether trademarks should be viewed as the property of their owner or not. For example, under the CTMR trademarks should be perceived as a property right, while for example, under the United States (US) legal system trademarks are not perceived as the property of their owner. We have chosen to leave this debate outside this thesis as we do not see it as being relevant to our research. However, we do acknowledge that there are relevant ‘property’ theories that could have been discussed in relation to the area of coexistence agreements as such.

In relation to contract law, the doctrines to excuse promise breaking will not be further investigated. We do acknowledge that it is important for the theory of contract law, but it is not relevant for this thesis topic. Furthermore, we have not introduced any discussions regarding contracts based on mistake, duress, misinformation or fraud, but do acknowledge that this theory is relevant to contract law in general. The theory of damages is referred to where relevant, but there are a number of different damages and we therefore do not find the discussion on all of them necessary for this thesis as well as we have left the discussion on incompleteness and default rules and gap filling out of the thesis after realizing that it is not highly relevant to the discussion at this point in time. A further limitation to our research within contract law has been that bargain theory is based upon common law, while the EU is more based upon civil law. Nevertheless, the European Court of Justice (ECJ) also tends to follow some principles of common law as well. We are also aware that there are different legal traditions regarding contract law, depending upon if it is common or civil law. A lot of the scholars and materials regarding contract law which has been introduced in this thesis are from common law authors. In addition, most international contracts are
based on common law principles. A problem might arise when common law terms are interpreted by civil law judges and we do acknowledge this fact.

We have only introduced some general concepts within the law and economics discipline and do recognize that the theory within this subject could have been further elaborated upon. However, our main intention was merely to introduce some relevant theory, particularly related to efficiency, in order to base our positive and normative findings on coexistence agreements on these.

Another limitation to our research is the limited case law from the OHIM concerning coexistence agreements, and therefore there is no clear line of precedence currently. Consequently we have chosen to focus upon a few prominent decisions in this area of law in order to be capable to reach some final conclusions about the current state of law within the EU. We have also chosen to only introduce a few national decisions on coexistence agreements, from EU Member States and the United States of America (US), to illustrate the different legal assessments that are being made. We do, however, realize that these cases might not be representative to all cases of coexistence agreements.

Moreover, competition law has only shortly been introduced in this thesis. It could have been discussed in more detail in relation to coexistence agreements, and also in terms of the general anticompetitive effects that might arise from trademarks. Nevertheless, we have chosen not to dedicate a larger part of the thesis to this due to the few anti-competitive effects these agreements have, and the few anticompetitive effects trademarks have in general.

Finally, we make a few suggestions to the OHIM, based on our findings about economics of trademarks and contracts, yet we do realize that these suggestions might be bureaucratically difficult to carry through, as well as we have not included any further discussion about the legal power vested in the OHIM.
1.4. Structure
This thesis has been divided into 6 main parts. In the first part we introduce the problem statement and give the reader the necessary details regarding methodology, limitations and so on. Furthermore, in this section we will introduce the case study that will be used throughout the thesis. In the second part we introduce the discipline of law and economics and the concept of trademark coexistence agreements. Moreover, we go on to discuss the relevant underlying theory of trademarks and contracts respectively. This part of the thesis predominantly includes economic rationales of trademarks and contracts, with less focus on the legal aspects. In the third part we turn to the legal aspects of the issue at hand. Here we introduce the reader to the relevant regulation as well as we investigate trademark decisions related to coexistence agreements. Throughout the section regarding the relevant regulation we apply the case study to exemplify how the regulation must be considered by companies in the EU wishing to enter into an agreement of trademark coexistence. In the fourth part of the thesis we apply the underlying theory of trademarks and contracts to the case study to show how the theory can influence companies entering into a coexistence agreement. This part provides advice for the companies based on the present legal framework, and is therefore primarily legal in nature. In turn this section is also the foundation for developing the sample agreement attached in the appendix [Section 8.3. Appendix 3: Sample Trademark Coexistence Agreement]. In the fifth part of the thesis we look into the economic effects of coexistence agreements, and here we make an evaluation of how coexistence agreements impact trademarks and their value in the market from an efficiency perspective. We then go on to outline a number of economic effects that agreements might result in, and raise questions regarding how the OHIM can improve the legal system in the future to move towards Pareto efficiency. We end this section with suggestions and advice for the OHIM in the future. Finally, in the sixth part we conclude the findings of the thesis.

1.5. Illustrative Case Study
The purpose of this illustrative case study (case study) is to introduce some foundational concepts within trademark coexistence agreements. We will evaluate the future issues Lavaria S.L. is facing when the company finds that Birks Fabrikker A/S has a similar trademark to theirs and is applying for a CTM, as well as the motivation Birks Fabrikker has for proposing a coexistence agreement. This case study will be referred to as we move
along in the thesis and we will revisit the questions raised, respectively in section 4.1, 4.2 and 5.4.

Lavaria S.L. is a small Spanish chemical company that has 40 years of experience of producing laundry detergent for the Spanish market. It is specialist in fulfilling the Spanish people’s needs and preferences – including adding exactly the right amount of sweet perfume that is so characteristic to the South European environment. Their detergent, RIELIS, is a registered trademark\(^7\) in Spain and has helped Lavaria maintain a substantial market share in the Spanish market for several years. The company has never given any thought to seeking protection in other countries, or at the EU level, and has no plans of international expansion. The reason for this is the amount of time and high costs (i.e. transaction costs) that are involved in registering trademarks. Furthermore, Lavaria would have to consider adapting its detergent to other markets and local needs, and not to mention the difficulties in adapting the trademark to work across borders without offending consumers or creating confusion.

The housewives of Spain are very familiar with the package and trademark of RIELIS, and every time the company wishes to renew its packaging or chemical formula it is very careful not to destroy the value of recognition but merely updating it in subtle ways, to indicate progress. Lavaria wants to maintain the goodwill it has spent so many years to build. The Spanish consumers are happy because the company produces detergent of predictable quality, it smells good, and the clothes feel so soft after the wash. They base their repeat purchase decisions on previous positive experiences with this specific product. This reliance helps make their shopping trips easier and faster in the form of reduced search costs and less uncertainties, and therefore the customers\(^8\) are reluctant to venture into the trial of a new product.

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\(^7\) In this thesis we refer to trademarks as being a distinctive sign or indicator used by an individual, business organization or other legal entity to identify that the products and/or services to consumers with which the trademark appears originate from a unique source, and to distinguish its products or services from those of other entities. Definition found at: http://en.wikipedia.org/wiki/Trademark (Retrieved 15th of May 2009)

\(^8\) For the purpose of this thesis customers will be referred to as being consumers that are currently buying the product.
On the 20th of December 2008 Lavaria is contacted by a Danish soap company, Birks Fabrikker A/S, with a proposal for a coexistence agreement based on division of geographic markets. Birks Fabrikker is a medium sized Danish company that has operated in the Scandinavian market for 7 years with the trademark RILIS. It has come to the attention of Birks Fabrikker, due to some prior research leading up to the application for a CTM, that Lavaria has a very similar trademark. Birks Fabrikker has decided to approach Lavaria to discuss this issue, because it does not want any unexpected surprises after it rolls out a multi million euro campaign to conquer the European market. It foresees the possibility that Lavaria might oppose registration of its trademark RILIS as a CTM, which in turn could lead to a loss of investments made in time, money etc. in the registration process. This scenario, with similar trademarks in different countries, is not a rare occurrence, and with the introduction of the CTM in 1994, trademarks of 27 Member States are now offered protection under one harmonized system that gives access to free trade within the Internal Market. In the EU Member States there are millions of registered trademarks, while the total number of registered CTMs reached 507,715 in 2008, please see [Section 8.1. Appendix 1: Community Trademark Statistics]. With these two systems existing side-by-side there is a much higher possibility of coincidence of similar marks. Prior to the CTM, owners of similar trademarks, for example in Greece and Sweden, might have had no reason to get to know of the other’s existence, nonetheless, if one party now applies for a CTM it realizes that there is a highly similar trademark in another Member State.

Lavaria is faced with two questions: 1) does the company secure the continued existence of its trademark in the local market by negotiating a coexistence agreement, and thereby reduces the risk of expensive litigation? Or 2) Does the company continue as before and just hope that no conflicts will arise in the future? After some consideration Lavaria decides that it will be in its own best interest to meet Birks Fabrikker for a talk about the proposed coexistence. The parties agree to meet on the 10th of February 2009 to discuss the potential terms of a contract. There are some important questions the parties must consider before the agreement is negotiated and signed:

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9 The Internal Market (European Community) is one of the three pillars in the EU. The others are: Common Foreign and Security Policy and Police and Judicial Co-operation in Criminal Matters.
1. Has Lavaria thought about the business environment in 10 or 20 years (e.g. further development and integration of the Internal Market, potential opportunities in new emerging markets etc.)?
2. How much certainty should the parties ask from one another?
3. Can the customers of Lavaria securely rely on the recognition of, and experience with, the trademark they know so well in the future, even if they are highly mobile?

On the 5th of March 2009 the parties have finalized the negotiations and come to an agreement of coexistence. They agree to divide the markets for their trademarks – Lavaria will only operate in Spain with RIELIS and Birks Fabrikker can expand as it pleases for now, with its trademark RILIS, with exception of the Spanish market. This solution seems beneficial for both companies, taking their own business plans into consideration. They also agree on a future date, 1st February 2016, to review how the agreement is performing and whether it needs any changes. Birks Fabrikker considers that it has taken the best precautions for any future dispute that may arise as a result of its application for a CTM. Preempting trademark law, by use of a contract, could prove less expensive, enable it to shape its own commercial destiny and reduce the risk of potential lengthy and costly court disputes. Lavaria also considers that the agreement is beneficial for its business because it will reduce the risks of facing their worst case scenario – expensive long term litigation that hurts its product reputation and company image. Lavaria cannot afford this scenario to come true after the many years and money it has spent on building an excellent reputation in the Spanish market. The company almost feels that it owes the local consumers a sort of insurance for the future existence of RIELIS.

The aim of trademark law is to create strong trademarks that benefit the consumers and trademark owners. As this case study shows, there are several issues trademark owners’ now face as the CTM system operates alongside national trademark systems. These private coexistence agreements help companies to predict what happens in the future and they are a proactive way of facing potential disputes arising under trademark law. However, it might also be argued that they can undermine the beneficial effects that some consumer groups enjoy due to trademark protection, leading to increased risk of confusion because similar
trademarks exist side by side. On the other hand, a system that does not allow for coexistence agreements might lead to a situation where companies do not invest in creating strong trademarks at all because of the risks of costly litigations, or the possibility of losing their rights to the respective trademark, because another company might already have registered rights at Community or national level, in a similar or the same mark. In addition, non-acceptance of these agreements would also probably lead to a vast increase in opposition and invalidity cases that are brought before the OHIM and national courts. The subsequent question that arises regarding the legal framework is:

4. With particular emphasis on principles of trademark and contract law, how do we secure a system in which trademark coexistence agreements are acceptable for both businesses and consumers involved?

2. BACKGROUND AND THEORY
In this section we will start by briefly introducing the discipline of law and economics. We will then go on to introduce the concept of coexistence agreements as well as the underlying theory of trademarks and contracts. This is the foundation for further analysis.

2.1. Law and Economics – The Academic Discipline
The law and economics discipline is a relatively new movement that involves applying economics to the study of law. Acknowledgement of this field of research as an independent study derives from research and studies in the US after the 1970s. It is, however, from Europe most of the precursors can be found, for example the work of Adam Smith on the economic effects of legislation,\(^\text{10}\) and Jeremy Bentham’s theory of legislation and utilitarianism.\(^\text{11}\) Law and economics was first applied to specific areas of law, concentrated around corporate law, tax law and competition law. However, in the 1960s Ronald Coase and Guido Calabresi introduced the discipline to all areas of law. Their breakthrough allowed direct transferability to the areas of tort, contract and property, and

\(^{10}\) For more information about this please see Smith, A. (1776), *An inquiry into the Nature and Causes of the Wealth of Nation.*

\(^{11}\) For more information about this please see Bentham, J. (1782) *Of Laws in General,* and Bentham, J. (1789), *An introduction to the Principles of Morals and Legislation.*
then to all other areas. In the 1970s the studies emerging in the area of law and economics utilized economic studies to gain a better understanding of the whole legal system – from its origin and evolution and also extending to substantive, procedural and constitutional rules. Despite some resistance in combining the two areas, it has been a great success and also beyond its planned ambitions. Economics is now used to describe the vast body of legal rules in a modern legal system, while also affecting the economic profession by expanding the original microeconomic analysis (study of individual and economic choices in the market) to the study of other institutions and non-market phenomena.\(^\text{12}\)

### 2.1.1. Applying Economics to Law

When one is applying economics to law the standard underlying economic assumption is that individuals are rational maximizers. One should therefore ask what consequences/incentives the legal rules will produce when rational individuals adjust their behavior and actions to the legal rules they face. The assumption of rationality, meaning that behavior can best be understood by the purpose it is intended to achieve, has not gone undisputed. Nonetheless, we will not question this here. The important element is that people have a goal they wish to achieve and tend to choose correctly, albeit imperfectly, how to reach it and therefore their actions are to some extent predictable. Economics can be used as a tool to discover implications for rational choice and help us analyze the effects of legal rules. In turn, knowing these effects helps us understand the rules we already have and to decide what rules we should have in the future.\(^\text{13}\)

The economic notion of market equilibrium or market clearance can be transferred to the study of law. Market equilibrium is based on the notion that when prices go down demand rises and vice versa, the equilibrium price will be reached when supply equals demand. The role of law is interpreted by economics as a means for changing relative prices linked to alternative individual actions. Therefore, if there is a change in the rule of law this will automatically alter the relative price structure and thus also affect human behavior. For example, imagine a situation where the price attached to criminal activities increases (e.g.


\(^{13}\) Ibid, p. 8-9.
strict sentences), demand will subsequently go down, fewer people will risk criminal activities, and this will lead to a new price equilibrium.\textsuperscript{14}

2.1.1.1. Welfare Economics
Economics can be used to carry out a comparative evaluation between different rules. One can therefore use economics in an attempt to find an aggregation of individual preferences into social preferences (i.e. finding how decisions of several individuals affect the well-being of individuals as a group). There are three fundamental criteria that can be used: the Pareto Criterion; Bentham and Kaldor Hicks Criterion; as well as Nash and Rawls Criterion.\textsuperscript{15} Below we will introduce the Kaldor Hicks and Pareto criteria. However, we will not go further into the Nash and Rawls Criterion due to the fact that it has not gained much popularity within the field of law and economics and because we see the two other criteria as being more fit for our investigation of efficiencies.

2.1.1.1.1. Pareto Criterion
The \textit{Pareto Criterion} was introduced by the Italian economist and sociologist Vilfredo Pareto. The criterion is based on the presumption that an optimal allocation will maximize the well-being of one individual relative to the well-being of others being constant. In simple words this means that a Pareto optimal solution makes one party better off without making other parties worse off. The Pareto Criterion has been criticized on two main points: firstly, it is dependent on status quo and therefore results are only achieved depending on the choice of the initial allocation; secondly, it only allows for ordinal evaluation of preferences and not a mechanism to induce parties or decision makers to reveal or evaluate cardinal preferences (evaluating the intensity of preferences).\textsuperscript{16}

2.1.1.1.2. Bentham and Kaldor-Hicks – Utility
The \textit{Bentham} and \textit{Kaldor-Hicks Criteria} take the degree of all affected individuals into consideration. These utilitarian tests can best be represented by the studies of Bentham\textsuperscript{17}

\textsuperscript{14} Ibid, p. 5.
\textsuperscript{15} Ibid, p. 12-17.
\textsuperscript{16} Ibid, p. 13-14.
\textsuperscript{17} For more information about this please see Bentham, J. (1839), \textit{A Manual of Political Economic}, New York: G. P. Putnam.
and later by economists such as Kaldor\textsuperscript{18} and Hicks\textsuperscript{19}. Here the focus is on formulating criteria for social welfare based on cardinal preferences of individuals, unlike the Pareto criterion that focuses on ordinal preferences.

Bentham’s studies are based on a moral imperative of giving the greatest happiness to the greatest number and thus maximizing total utility of individuals. His studies on utility have had an impact on the methodological debate of law and economics. However, because he does not identify the trade-offs between the two maximizers – the degree of pleasure and number of individuals – his studies can only be seen as an inspiration for policy purposes.\textsuperscript{20}

The Kaldor-Hicks test came later and manages to avoid the theoretical ambiguities related to Bentham’s studies. The test is based upon the fact that an outcome is considered to be more efficient if a Pareto optimal outcome is reached in which the winners hypothetically can grant compensation to the losers. The compensation is only hypothetical and potential because it does not need to take place to fulfill the test. The central idea is that as long as the winners gain more than the losers lose then the outcome is efficient.\textsuperscript{21} This way of reaching an efficient outcome, in which the group as a whole is considered, has nonetheless been criticized. The outcome does not take into consideration that there are interpersonal effects. Furthermore, human nature is characterized by diminishing marginal utility and this has relevance to distribution of benefits among groups. If we take a moment to think of a practical example concerning food, according to the Kaldor-Hicks test, if half of the society gets the double amount of food and the other half gets none, the half that are the winners hypothetically has enough to compensate the other half, and thus society should remain indifferent. Nonetheless, in the absence of compensation surely not many will accept this test as efficiency enhancing, considering the unfairness and potential for starvation.\textsuperscript{22}

\textsuperscript{18}For more information about this please see Kaldor, N. (1939), Welfare Propositions of Economics and Inter-personal Comparison of Utility, 49 Economic Journal 549-52.
\textsuperscript{19}For more information about this please see Hicks, J. R. (1939), The Foundations of Welfare Economics, 49 Economic Journal 696-712.
\textsuperscript{20}See note 12, p. 14.
\textsuperscript{22}Ibid, p. 15-16.
2.1.2. Maximization of the Legal System

Law and economics scholars have widely debated what the legal system is aiming to maximize. The question is whether the objective is aggregate wealth, aggregate utility or if it should provide conditions for free individual choice. The utility-based method of maximization is rarely used in the study of law and economics. A reason for this is that utility cannot be objectively measured. Interpersonal comparison of utility is not possible and therefore any balancing across groups or individuals is largely arbitrary.\footnote{Ibid, p. 18.} The other end of the debate, which is wealth maximization as a paradigm for the analysis of law, has been embraced by scholars such as Posner\footnote{Posner is the most notable supporter of the wealth maximization paradigm in law and economics. For more information about this please see Posner, R. A. (1985) \textit{Wealth Maximization Revisited} 2 Notre Dame Journal of Law, and Public Policy 85-105.} and other practitioners. Here wealth maximization is based on the fact that a transaction is desirable if it ends up increasing the sum of wealth (including all tangible and intangible goods and services) for the parties involved. The third approach, stemming from the Virginia School (functional), believes that individual choice and revealed preferences should be the paradigm for law and economic analysis. They support metarules that are aimed at fostering free individual choice by removing strategic and transactional impediments to reveal true preferences.\footnote{See note 12, p. 17-19.}

2.1.3. Game Theory and Law and Economics

Law often deals with situations in which there are few players, and often the optimal action for a given player depends on the other player(s)’s choices. This leads to the need for a strategy that corresponds to the reactions of the other players of the game. Game theory deals with any situation in which strategy is important. By making predictions about the reactions of certain actors in certain situations game theory can improve our understanding of legal rules and institutions. To characterize a game three things must be specified: 1) the players; 2) the strategies of each player; and 3) the payoffs to each player for each strategy.\footnote{Cooter, R. & Ulen, T. (2000) \textit{Law & Economics}, 3\textsuperscript{rd} Edt. p. 35.} Once the three things have been specified one can develop a payoff matrix to
show the outcomes of a given game.\textsuperscript{27} In the payoff matrix we can see the payoff of each of the players using two different strategies. A dominant strategy is the optimal move for one player to make, regardless of what the other player does. If both players follow their dominant strategy they will end up in a Nash Equilibrium. In this equilibrium no individual player can do any better by changing his or her behavior as long as the other players do not change theirs. There are games in which there is no Nash Equilibrium and other games where there are several Nash Equilibria. Furthermore, it is important to know that the Nash Equilibrium is not necessarily a Pareto-efficient solution.\textsuperscript{28} The analysis of game theory extends to repeated games, fixed or indefinite number of games and tit-for-tat. These kinds of games all influence the strategy of the players.

Having outlined the overall theoretical framework of law and economics we now turn to the concept of trademark coexistence agreements.

2.2. Trademark Coexistence Agreements
The International Trade Association (INTA) defines a trademark coexistence agreement to be: “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”.\textsuperscript{29} In essence a coexistence agreement is a contractual bargain over property owned or to be owned in a trademark or related rights. A coexistence agreement is a private agreement that, in most cases, pre-empts trademark law. The agreement seeks to set out the use of rights by the parties in a way to ensure that there is no confusion in the market.\textsuperscript{30} Coexistence agreements may be based on a division of the territories in which each holder may operate, or on a delimitation of their respective fields

\textsuperscript{27} The famous example is ‘Prisoner’s Dilemma’ which was originally framed by Merrill Flood and Melvin Dresher.
\textsuperscript{28} See note 26, p. 38.
of use, i.e. regarding the goods or services on which they are used.\textsuperscript{31} We will refer to these as geographical coexistence or product coexistence, respectively.

\subsection{2.2.1. Background to Trademark Coexistence Agreements}

Coexistence agreements are not a new phenomenon, they have existed as an attempt to create a proactive solution for potential infringements and expensive litigation for many years. These agreements have offered an alternative method of trademark governance in which the companies have made a bargain of division of rights in a certain mark. Since there are only a few prominent cases that regard coexistence agreements we can assume that the majority of these private agreements remain private\textsuperscript{32} and do not become subject to legal scrutiny due to litigation proceedings. One of the prominent cases involves an agreement between Apple Corps, the Beatles record company, and Apple Computer.\textsuperscript{33} The first agreement between the parties was entered into in 1981 and the parties acknowledged the similarity between their respective trademarks and their wish to avoid confusion between the two trademarks, in order for both parties to preserve their respective rights. According to the terms of the agreement, Apple Computer would not use its name and logo on any computer products specifically adapted for use in the recording or reproduction of music or of performing artist works, and both parties would not oppose or attempt to cancel the registration of the other’s trademark.\textsuperscript{34} This agreement was based on product coexistence. The agreement permitted the two companies to continue to do business and build on their reputation without infringing each other’s rights. This case is an example of two very well known trademarks coexisting because both companies rely on great brand recognition on a nearly global scale. Nonetheless, many coexistence agreements are between small and medium sized companies that are relatively unknown in the bigger market, but highly dependant on their brand recognition in the local or regional market. In the Internal Market there are millions of trademarks that are registered under national systems and also marks that are not registered at all. The restructuring of EU trademark

\textsuperscript{32} See note 30, p. 10.
\textsuperscript{34} Ibid.
law, i.e. introduction of the CTM, has meant an increase in the incidence of initial disagreement among rights’ holders. This is due to an increased awareness of each other’s presence in the local markets. Companies which have operated alongside each other in separate national markets for some time might now unexpectedly meet, typically after one of them applies for a CTM. The development of the Internal Market is likely to mean that more companies get into contact with each other and more companies need to safeguard themselves from either infringing someone else’s rights or having someone else infringe their right. In our case study we see how the two companies become aware of each other’s presence in the Internal Market because Birks Fabrikker wants to apply for a CTM. Before this the companies operated in two different regions of the Internal Market unaware of each others existence.

2.2.2. When Should A Company Coexist?

That similar trademarks exist is nothing new or uncommon. There are many small companies that use their trademark within a limited geographical area or with a regional consumer base, and often these small companies are likely to have unregistered rights. Therefore it is not unusual to find companies using a similar mark in different areas, and often their unawareness of each other is utterly genuine. This kind of coexistence does not lead to problems or litigation as long as the trademarks in question continue to perform their function of distinguishing the goods and services from those of competitors.\(^{35}\) The problems arise when the companies start to expand their business. Though both of the companies are using their trademark in good faith, due to expansion they might start to trespass each other’s territories. Drawing on the example of the case study, this is exactly the scenario that Birks Fabrikker is experiencing with its expansion plan.

A company should consider entering into a coexistence agreement if it becomes aware that another company (with a similar trademark) is trading, or about to be trading, in a way that might confuse its consumer or damage the business.\(^ {36}\) It might also consider a coexistence


\(^{36}\) This awareness can be brought about by a deliberate trademark search as a part of an expansion plan, in which you learn that a similar trademark exist in another product or geographical market.
agreement to reduce the risk of potential infringements that might come about, in the future, as a result of its own expansion into other markets. This could either be because the company wishes to expand, and in the process of planning this it comes to its attention that it might potentially infringe someone else’s rights as a result of this expansion, or because another company is seeking to register a trademark that might make it difficult to expand in the future.\textsuperscript{37} A coexistence agreement could be the most useful way of protecting the integrity of a precious brand with reputation, while an agreement can also be appealing to SMEs with unregistered rights, as an alternative to dealing with expensive and complex intellectual property (IP) issues.\textsuperscript{38} In the case study Lavaria’s focus is on ensuring protection of its precious brand. A coexistence agreement can moreover be used as a sort of ‘settlement’ following a dispute or aborted lawsuit. This was how the first coexistence agreement between the parties in the APPLE case came about. In this case an undisclosed amount of money was being paid by Apple Computer to Apple Corps as a settlement.\textsuperscript{39} Finally, coexistence agreements can be used if a bigger company is selling off a subsidiary, or being broken up into smaller units, as a result of a de-merger, and each party wants to have some rights in the original company name.

After looking at several circumstances in which a coexistence agreement will be a beneficial solution to the parties involved, it is only appropriate also to mention the situations in which a coexistence agreement might lead to more costs than benefits. Firstly, the real challenge for companies lies in anticipating the future development of the company’s business activities. Each party must attempt to imagine how its business activities will be in 20 years.\textsuperscript{40} In the APPLE case the parties neglected to foresee the future development, and this meant a breakdown of the agreement and expensive litigation.\textsuperscript{41} In the case study, a great challenge for Lavaria is also to foresee future development of business activities due to the further integration of the Internal Market within the EU.
Secondly, owners of stronger trademarks may have more to lose from a coexistence agreement than owners of weaker trademarks due to the negative effects the agreement can have on distinctiveness, and due to the fact that the owner of the stronger mark could experience problems with claiming infringement of other similar marks in the future because he accepted that no confusion existed when he entered into a coexistence agreement with another party.\(^{42}\) Thirdly, if a good agreement cannot be formed (e.g. due to lack of expertise, too high transaction costs related to negotiation and drafting, etc.) this can lead to a breakdown of the agreement. A breakdown is likely to favor the technologically-oriented and larger party.\(^{43}\)

Besides the fact that cooperation is cheaper than litigation, there are other economic reasons for contracting. One reason is relevant to intellectual property rights (IPRs) in general and relates to investments made in IP. Coexistence agreements can help a company avoid free-riding from other companies which would undermine the investment made in its IP development. Regarding trademarks in particular, the positive effects of trademark protection are enhanced by the company’s effort and investment in making a strong mark. This investment can be compared to the investments a company makes in research and development to obtain a patent. With patents, cooperation can be a means of sharing technology that can lead to more efficiency. If a company enters into an agreement it can protect and reap the benefits from initial investment and possibly ease the process of subsequent product diversification. Compared to patents and copyrights a trademark is very well suited for contracting due to its tangible nature. Trademarks are tangible in the way that they can be seen and touched. In fact many trademarks are identity creating for their user and are often used to make a statement towards society.\(^{44}\) Furthermore, trademarks are perpetually renewable so investment in brand recognition can pay off in the long run. Finally, trademarks are less exclusionary compared to other IPRs, making it easier to transact because they are less likely to violate anti-trust rules.\(^{45}\)

\(^{42}\) See for example National Arbitration Forum, MGW Group Inc. v. Gourmet Cookie Bouquets.com, Claim Number: FA0405000273996 (NAF 2004)
\(^{43}\) See note 30, p. 13.
\(^{44}\) This is especially true with designer brands and luxury products. E.g. wearing Gucci shoes or driving a BMW.
\(^{45}\) See note 30, p. 13.
2.2.3. What Should the Agreement Include and What Happens Afterwards?

Above we discussed what a trademark coexistence agreement is and when a company should, or should not, enter into one. Following these considerations, it is only natural also to take a closer look into what an agreement should include in order for it to be a legitimate and proactive way of avoiding future disputes. Therefore as a starting point, even before negotiations are entered into, an essential question that should be considered is that of public interest. The reason for this consideration to be made early on is that if courts find the agreement contrary to public interest they can render the agreement invalid, meaning wasted resources for the parties. When making a contract the parties use time and resources in searching for partners, negotiating the terms of agreement, and drafting and enforcing it, these would be sunk costs for the parties if the agreement is subsequently deemed to be invalid by courts. A specific example of agreements that can be found contrary to public interest would be if two different producers of medical products enter into a coexistence agreement for similar products. Courts could invalidate this agreement in any case due to the potential irreversible harm that could happen if consumers mistake the medical products for each other, this could also happen even though the two products do not exist in the same geographic market. Another important point to consider before negotiations are entered into is competition and anti-trust regulations (both at national and international level). All economic actors must follow these rules because if courts find that the agreement affects competition in the market place they can render the agreement invalid.46

The agreement of coexistence should cover some basic information such as: a clear identification of the parties entering into the agreement; a clear identification of what trademarks, logos or other things the agreement covers; a starting date and an end date (if that exists) of the agreement; and an express understanding of which domain names are covered. It is also important that the agreement reflects the aspirations and ambitions of the contracting parties as to the areas they operate in and the areas they expect to expand into, as it was discussed above it can be a great challenge for the companies to anticipate future development. Here the parties can address issues such as trademark dilution and likelihood

of confusion. Many coexistence agreements are concerned with the negative duties of the parties (i.e. what the parties should not do) but it can be beneficial to include a ‘who-does-what’ list of the positive duties (i.e. what the parties should do). This could for example be that it includes an agreement about the contracting parties’ duty to give information about future plans, for example if they are planning to file for a trademark application of further goods and services or if they are planning to change packaging or logos.\textsuperscript{47}

In an agreement it is very important to include a list of types of commercial activities and geographical locations that are allowed and/or not allowed to operate within – the more detailed the better.\textsuperscript{48} However, as in the case of APPLE\textsuperscript{49}, it is not always possible to foresee future developments. Apple Corps and Apple Computer entered into a coexistence agreement in 1981 for a division of product markets. However, as time passed the neat line between computer goods and services had not only blurred, but it had been erased all together. Computers are now also concerned with records, music and entertainment, which is basically the core business of Apple Corps. In these highly technologically advanced times it is hard to foresee what will happen in the future, and for this reason agreements cannot remain valid forever.\textsuperscript{50} Many coexistence agreements are in fact stored away and forgotten about after negotiations have been finalized. In most cases this is an indication that the agreement performed its job properly, but it is not wise to forget about it altogether. Therefore, a good suggestion is for the contracting parties to agree upon a future date of meeting at the time when the agreement is signed. By doing this the parties can ensure that they remain conscious about their coexistence and the problems that might arise if they do not respect the terms of the agreement.\textsuperscript{51} Moreover, the parties should also agree upon a date to review how the agreement is working out and whether it needs any adjustments. This is especially beneficial for companies operating within technology driven industries.\textit{Even though Lavaria and Birks Fabrikker are not technology driven companies as such, the two parties will still find it beneficial to agree on a date to review the agreement. This

\textsuperscript{48} Ibid, p. 4.
\textsuperscript{50} Ibid.
\textsuperscript{51} See note 47, p. 5.
could especially be a good thing for Lavaria as it has limited itself to only operate with its trademark RIELIS in Spain. In this way it can still reconsider and discuss the possibility of expanding into other market or diversify its product line in the future, after all the Internal Market is constantly developing and integrating more extensively. In any case, since the agreement is a way of avoiding expensive litigation, the contracting parties should include a clause on dispute settlement to meet potential future problems (e.g. mediation and/or arbitration). In addition, if it comes to that, the applicable law and which court has jurisdiction to hear the case should also be included.\textsuperscript{52} This is especially an important issue for Lavaria and Birks Fabrikker to consider as they are operating in different countries with different legal systems. This would save the companies time and money in the future and ensure more foreseeability about their commercial destiny.

When companies are choosing trademarks they should do this with caution and foresight. A good solution is to contact a lawyer who is a specialist in the area of trademarks to ensure that the search for similar trademarks is as comprehensive as possible before launching promotion campaigns.\textsuperscript{53} As we saw in the case study, Birks Fabrikker decided to make a comprehensive search before launching a campaign. Furthermore, if a conflict arises and coexistence is a good alternative a trademark lawyer could be of great assistance in negotiating and drafting the agreement. The bigger and more complex a company is, or the more substantial the investment in the business is, the more beneficial assistance from a lawyer will be.\textsuperscript{54} Coexistence agreements are interpreted differently depending on the court that has jurisdiction to hear the case. Some courts find them binding while others deem them invalid.

\textbf{2.3. Theory of Trademarks}  
A trademark is a sign that producers or vendors use within economic activities to identify the source of a specific good or service. The trademark is a powerful economic device for a producer because it allows him differentiate his goods and services from those of

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\textsuperscript{52} Ibid, p. 4.  
\textsuperscript{53} World Intellectual Property Organization: WIPO Magazine:  
\textsuperscript{54} See note 47, p. 2-3.
competitors. The consumers, on their side, can more easily distinguish between different products offered and recognize their provenance in a more efficient way. In addition, the various trademarks allow them to make informed purchase decisions based on specific quality attributes deriving from their own or others’ past experiences with the mark. The trademark holder, that is fully aware of the importance of quality attributes, has an incentive to invest in quality in order to gain higher profits by having a good reputation and thus create repeat purchases.\textsuperscript{55} When we have strong trademarks in the market positive consumer welfare effects can be attained in the form of a guarantee of predictable quality, reduction of search costs, less uncertainties etc. All in all, trademarks have many positive economic effects and through trademark law this can help produce incentives for maximizing market efficiency.

\textbf{2.3.1. Background to Trademarks}

Trademarks have a long tradition through history. It is hard to identify when they first appeared, but it is widely posited that they “have existed for almost as long as organized trade.”\textsuperscript{56} Examples of this tradition can be traced back to ancient Greece, the Roman Empire or production of pottery and silk in Imperial China, where craftsmen were dependent on trademarks to convey information about origin of goods. At that time protection was not commonly handed to craftsmen through law, but in ancient Rome principles of commercial law developed which acknowledge the origin and title of potters’ marks. However, this did not deter lower quality manufacturers of pots to abuse high quality manufacturers, as a consequence counterfeiting was widespread.\textsuperscript{57} The use of trademarks continued to advance as markets and trade expanded, reaching its maturity with the Industrial Revolution. Trademarks were increasingly more important at the advent of mass production because it extended the geographical scope of production and consumption, leading to a situation where the producers’ reputation through familiarity between buyers and sellers was no longer enough.\textsuperscript{58} Trademarks became a crucial element

\textsuperscript{56} Blackett, T. (1998), \textit{Trademarks}, p. 5.
\textsuperscript{57} Ibid.
\textsuperscript{58} See note 55, p. 550.
for the producer to promote himself and have continued to be so into modern times. It is also fair to posit that trademarks have become an ultimate way of expressing capitalism.

2.3.2. Trademarks and Protection

Trademarks can either be a word, symbol, device, logo or other distinctive features that indicate the source of goods or services. The trademark in itself says little or nothing about the composition or characteristics of the product – it is merely there to identify its origin and is useful in that it resolves information asymmetry problems. The EXXON Trademark is a good example of such a mark, it says nothing about the characteristics of the good it is merely a sign used by the American oil and gas Company Exxon Mobil to familiarize their goods and services. The reason as to why trademarks are given protection is because of their ability to facilitate purchase decisions and to assist consumers in making informed purchase decisions by conveying information about the good or service. In sum one can say that trademarks have three main functions: 1) distinguish goods or services; 2) indicate the source or origin of goods and services; and 3) represent the goodwill of the owner and indicate the quality of his goods or services.

From a legal perspective, protection granted to a trademark holder gives him an exclusive right to use the trademark, i.e. a legal monopoly. In order to receive trademark protection through law the producer or vendor must apply for registration either through a national system or, as in the EU, through supranational systems like the OHIM, in some countries protection is also received automatically through the use of a trademark. Protection through use was, however, more common when trade covered more limited geographical areas. Although registration is not compulsory in some countries, it gives the owner some advantages in the form of a more secure right that does not have to be demonstrated by prior use, it gives a greater ease of protection, and includes almost unlimited duration.

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60 See note 55, p. 549.
There are specific requirements a trademark must fulfill in order to receive protection through law: it must be distinctive and not be a term or a symbol that the public associates with the entire product (i.e. generic name); and it must be different from other existing marks belonging to traders of the same or similar goods to avoid confusion or deception. Different sorts of trademarks range from being weak to strong in a hierarchy of descending order starting with those that are termed as being fanciful, arbitrary, suggestive, descriptive and lastly generic marks.  

2.3.2.1. Infringement and Confusion
Once trademark protection is granted the owner can prevent others from selling goods under the same or similar mark as long as he can prove that there is a likelihood of confusion in the eyes of consumers. Similar trademarks might, however, legally exist side by side in different product markets and geographical markets without any likelihood of confusion. This is the case if both marks can convey accurate information about the products they represent, and thereby removing the risk of free-riding. Similar trademarks that are unlikely to cause confusion in the eyes of consumers should not be prevented from coexisting, because this would cause litigation and other costs without any offsetting benefits.  

Take the example of a situation where a producer adopts a similar mark in another part of the country in good faith after investing a lot of time and resources in strengthening his mark. It seems more reasonable that a trademark that is required through use will have a stronger burden in proving confusion than a registered trademark since registration should warn off potential infringers.

When courts assess likelihood of confusion of existing trademarks they look into factors such as similarity of the trademarks and products sold, the strength of the original mark (the stronger the mark the greater the price reduction would be for the goods in case of infringement), if there is an overlapping consumer group, if the goods are sold through the same retail outlet, and finally sophistication of the buyers. Sophistication of buyers is a particularly interesting economical question because the level of information needed for different consumer groups is different. The sophisticated buyer usually knows a lot more

about the product. As an example take businessmen buying goods that are related to their core business, they have more background knowledge and therefore the seller must supply less information about his trademark to distinguish himself from a competitor. In this sense, inputs into sales of a product therefore not only include information supplied by the seller but also include information supplied by buyers.\textsuperscript{64}

### 2.3.3. Economics of Trademark Law

"That the law of intellectual property, including trademark law, can be analyzed in economic terms is no longer an insight with any power to astonish or even to offend."\textsuperscript{65}

According to Landes and Posner\textsuperscript{66} trademark law can be explained on the hypothesis that the law is trying to promote economic efficiency. This notion can be traced back to the early studies of tort law\textsuperscript{67} where it was suggested that the common law of torts (including trademarks under the branch of competition law), can best be explained in the way that judges who created the law through decisions as precedents in later cases had the intention of promoting efficient resource allocation.\textsuperscript{68}

Landes and Posner\textsuperscript{69} have outlined some main economic effects of trademark law as being reduction of search costs for consumers, encouraging manufacturers to invest in maintaining high quality, costs of enforcing trademark protection, and incentives to invest in resources to invent new words and other symbols that are used for trademarks. Below we will look further into these economic effects.

#### 2.3.3.1. Search Costs for Consumers

Trademarks are beneficial because they reduce consumer search costs by conveying information about the quality of goods and thereby help facilitate consumer purchase decisions. A trademark’s value can therefore be found through savings in search costs made

\textsuperscript{64} Ibid, p. 301.
\textsuperscript{65} Ibid, p. 265-266.
\textsuperscript{66} Ibid, p. 265-309.
\textsuperscript{69} See note 63, p. 265-309.
possible by the information the trademark conveys, or its reputation. The producer has an interest in maintaining a good reputation and therefore invests in quality, service, advertising and promotion and so on, to obtain larger profits. By having a good reputation repeat purchases occur and word of mouth references increase sales allowing the producer to sell his goods at a higher price. If the producer provides consistent quality over time the consumer can use the brand as a benchmark for the quality produced and the trademark will serve its identifying function. As a cost the consumer chooses to pay higher prices for lower search costs and more consistent quality.\textsuperscript{70} This line of reasoning, looking at trademarks as informational devices, is commonly accepted within economic theory and through decisions in courts.\textsuperscript{71} However, if the trademark is to fulfill its identifying function it must be connected with a good, otherwise it loses its main purpose – to reduce consumer search costs. This is a requirement in law because if the trademark is not tied to a specific product there will be no assurance that the trademarked good or service is of the same quality.\textsuperscript{72}

The fact that trademarks reduce consumer search costs presupposes legal protection. One of the arguments for this is that the costs of duplicating trademarks are small. An actor could easily duplicate label, design or package from a competitor with a well known trademark and only incur small costs in doing so. In turn he would end up capturing a share of the trademark holders’ profits. The actor that is duplicating the trademark would have no incentive to invest in quality because consumers would automatically assume that the quality of the two products is the same. He could therefore cut costs in reducing quality without consumers becoming aware of it. If this duplication takes place it would eventually destroy the information the trademark is conveying and remove incentives for producers to invest in creating valuable trademarks.\textsuperscript{73} On these grounds it is important to have legally enforceable rights to prevent free-riding.

\subsection{2.3.3.2. Maintaining High Quality}
By having an institutional system like trademarks quality uncertainties related to goods are reduced. Sellers have more incentives to maintain a good reputation of their trademarked

\begin{footnotesize}
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\item \textsuperscript{70} Ibid, p.269-270.
\item \textsuperscript{73} Ibid.
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goods because they know that consumers have a certain expectation of what they will get. Consumers buy trademarked goods based on quality attributes and if he or she is unsatisfied with the result they may retaliate by not buying the good again. Furthermore, new products are often associated with existing trademarks and this too ensures consumers of quality attributes relating to the new product.\footnote{Akerlof, G. A. (1970) The Market for Lemons: quality uncertainty and the market mechanism, p.449-500.} On these grounds one might say that trademarks have a self-enforcing nature because once a company has gained a certain reputation it will be reluctant to lower the quality of its goods and suffer a capital loss on promotion expenditures in the trademark.\footnote{See note 63, p. 270.} In the absence of a trademark system buyers will have higher search costs relating to uncertainties in the quality of goods, whilst sellers will have incentives to mislead consumers by marketing goods of poor quality. This information asymmetry problem is reduced by having a trademark system, leading to a maximization of social welfare and not a situation where social and private returns differ.

\textbf{2.3.3.3. Costs of Enforcing Trademark Protection}

Costs of enforcing trademarks are in general quite moderate. The distinctive combination of letters that make up a trademark is almost infinite, implying a high degree of substitutability and therefore a slight value exchange.\footnote{Ibid, p. 273-274.} In the case of fanciful trademarks such as “EXXON”, costs are low because the mark is merely there to identify the origin of a specific producer or brand and says nothing about the product as such. Arbitrary and suggestive trademarks\footnote{A suggestive mark is a mark that has some kind of connection with the product (e.g. ‘Business Week’ which is a weekly business magazine).} are also quite unproblematic because such terms have a high degree of elasticity of demand. This is especially true in the case of arbitrary marks because the words used to make up such a brand do not have any meaning related to the product (e.g. APPLE personal computers). When it comes to descriptive trademarks (showing proof of secondary meaning), they are less substitutable than the above mentioned marks because they are more exclusive to competitors. There are only so many words to describe a product’s attributes, so if a producer gains protection of one of these words it will prove more costly for other producers to use another word to describe their trademarks. As time passes, however, the words that make up the descriptive mark might be removed from
common language\textsuperscript{78} use and instead be something that is used only to signify that specific mark, and thereby increase the benefits of protecting the mark (i.e. lower consumer search costs, risk of confusion etc.) by more than the costs to rivals.\textsuperscript{79}

Costs that arise in connection with rent-seeking to stake out a trademark are not very high as long as we do not allow banking of trademarks (i.e. registration of a trademark without an accompanying good). Furthermore, costs of enforcing trademarks are quite modest and do not include costs of inefficient resource allocation from having prices higher than marginal costs. After all, a trademark is not a public good and it only has a social value when it is used to designate a single brand.\textsuperscript{80} When one is using trademarks as a way of product differentiation, it does, however, undeniably lead to higher prices for trademarked products compared to those of similar non-trademarked products. One could therefore argue that this type of product differentiation is creating deadweight losses through monopoly. In fact, many economists used to believe that trademarks were anticompetitive for the reason that the trademarked products were sold at a higher price than their generic substitutes. However, now there is a common consensus that the full price of a trademarked product, which is a sum of the nominal price and consumer search costs, do not need to be higher than the price of a non-trademarked substitute.\textsuperscript{81} Take pharmaceutical products as an example. Even though patent protection is expired the branded pharmaceutical product is usually sold at a higher price. Low priced generic substitutes will appear, but consumers are often hesitant in buying this less expensive product if the brand has been successful on the market, and especially if it had no close substitutes before the patent expired. Consumers will tend to continue to buy the product they are familiar with, even if they can get the same quality at a lower price. Nonetheless, the price-inelastic consumers will switch to the less expensive product and this can lead to an increase in the price for the price-elastic consumers of the original product. This behavior from consumers is still rational because the producer will have an incentive to invest heavily in the trademark in order to maintain high quality (not only covering chemical formulas, but also including quality control and

\textsuperscript{78} E.g. the surname ‘Ferrari’, the descriptive term ‘All Bran’ for whole grain breakfast serials, and terms that originally refered to geographical locations as ‘Marlboro’.

\textsuperscript{79} See note 63, p. 289-290.

\textsuperscript{80} Ibid, p. 274.

\textsuperscript{81} See note 72, p. 67.
packaging etc.). The consumer on its side would kill the brand if the quality drops, and therefore they will end up with a product that reduces search costs and maintains a high quality but at a higher price.\textsuperscript{82}

2.3.3.3.1. Procedural Costs
There are two different procedural costs that might occur when trademarks are being enforced, costs of enforcing trademark law and error costs.\textsuperscript{83} Costs of enforcing trademark law include administrative costs of litigating trademark suits. These costs depend upon the frequency of trademark litigation and the average cost of resolving a trademark suit. Error costs are costs of over and under-enforcing trademark rights. Two different types of error costs exist: false positive, which are costs that occur when a party obtains a result he should not have had; and negative positive, which entails a party failing to obtain a result that he should have obtained because of the prospect of high litigation costs. Administrative costs and error costs are related to each other in that a rule that reduces administrative costs usually increases at least one type of error costs, and vice versa.

2.3.3.4. Economics of Language
Trademark protection creates incentives to invest resources in inventing new words and other symbols, designs etc. that are used for trademarks. In the case of words there are three ways trademarks help improve and economize our language:\textsuperscript{84} 1) trademarks economize communication by increasing the stock of names of things; 2) trademarks create new generic words that denote entire products and not just a specific brand; 3) trademarks enrich the language by adding words used and valued for their pleasingness and their information value. The most efficient trademarks are those that are highly distinctive and unusual because they are more likely to communicate noteworthy messages to consumers and help increase returns on advertising. Therefore companies have incentives to invest in creating new words and phrases to communicate their products. By having this exclusive ownership of trade names consumers can minimize their search costs when purchasing goods or

\textsuperscript{82} Ibid, p. 67.

\textsuperscript{83} Bone, R. G. (2004), Enforcement costs and trademark puzzles, p. 2123.

\textsuperscript{84} See note 63, p. 271.
services, while at the same time it can also help increase the stock of words.⁸⁵ The symbolic value of trademarks is enormous and allows the producer to communicate his products in an efficient way because the trademarks say so much with so little words.

Although there are various benefits of trademarks on our language, trademark protection is not only necessary just to guarantee that we have enough words, as we for example need patent protection to have enough inventions. This may also help explain some features of trademark law, as for example why a trademark loses protection when it becomes generic.⁸⁶ Genericide might occur if the owner uses the trademark so extensively that it becomes a generic expression in our daily tongue. This might result in a situation where competitors must incur high costs to use other words to market their products. If this happens then the costs of protecting trademarks would outweigh the benefits. Landes and Posner⁸⁷ use the expression language monopoly to describe such a situation and it is very descriptive because it captures the resulting inefficiency.

The theory of economics of language can help explain why trademark protection is not needed just to make sure we have enough words. This theory of economics is built upon the belief that word length is inverse to its frequency. On the one side, the more common a term is the more likely the benefits of having a single word will outweigh the costs, including lesser costs in learning and remembering a word. On the other side extending the length of a word is also important because it adds greater meaning and detail to communication. The important point here is that having property rights in words, grammatical forms etc., is not necessary to achieve efficiency in our language. New words are still being invented even though no property rights are given, thus creation of new words for new things does not seem to be retarded by the fact that no property rights can be gained.⁸⁸

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⁸⁶ See note 63, p. 271.
⁸⁸ See note 63, p. 271-273.
2.3.3.4.1. Economics of Language and the CTM System

The accessibility of words in our language is very large, almost limitless. However, at the EU Community level there are reasons to assume that the source of applicable words and phrases are not limitless for any given product. Linguistic obstacles might occur when companies are transferring their business interests from national to Community level. One part of this problem is to create combinations of words and phrases that work across borders. A CTM must retain its original meaning and impact whilst not offending or creating confusion in another language.\(^89\) The theory of economics of language, please see [Section 2.3.3.4. Economics of Language] above, also gives reasons to believe that a finite number of suitable phrases exist at Community level. As mentioned above, shorter words are more efficient because they more easily can be remembered. This economic rule of words is also reflected in trademarks. Producers in the EU might find it harder to invent functional trademarks they can use across borders, markets and cultures, and that in addition need to be short and snappy. It may be that especially SMEs will be affected by these challenges because of their lack of financial resources, and thus contribute in jeopardizing fulfillment of the Internal Market’s objectives.\(^90\) It is therefore important that protection of trademark rights at the EU level is neither too small nor too extensive. In any case, benefits given to the trademark user should be weighed against the costs of protection to ensure that negative externalities are not too high.

Having established the economic functions of trademarks and their legal protection we now turn to contracts.

2.4. Theory of Contracts

Capitalism is an economic system in which wealth, and the means of producing wealth, are privately owned and controlled rather than publicly or state-owned and controlled.\(^91\) As early as in the 1770s Adam Smith addressed the importance of bargaining as a means of allocating resources to the individuals that value them the most: “Whoever offers to another a bargain of any kind, proposes to do this: Give me that which I want, and you shall have

\(^{89}\) See note 85, p. 142.

\(^{90}\) Ibid, p. 144-145.

this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of."  Many authors have since dealt with the importance of bargaining to maximize wealth. To achieve a capitalistic society in which resources are efficiently distributed it is necessary to allow for exchanges among enterprises and humans, in which each party gives something in return for what is given by the other party. Their terms are arrived at voluntarily by the parties themselves through the process referred to as bargain by Adam Smith. This forms part of the economic roots that contracts and contract law have.

2.4.1. Background to Contracts

Contracts and contract law facilitate the exchange and production, and freedom of contract which is a necessary part of the market economy. A contract is a specification of actions that the named contracting parties are supposed to take at specific times. A contract is essentially a promise to do something in exchange for something else. The contract contains the conditions under which the actions are to be performed. Contracts can be complete or incomplete. Nonetheless, an incomplete contract may very well provide a complete set of instructions by implication.

2.4.1.1. Bargain Theory

According to Cooter and Ulen there are two fundamental questions in contract law: 1) what promises should be enforced? And 2) what should be the remedy for breaking enforceable promises? Theory of contract law must guide courts and legislatures by answering these two questions.

Bargain theory of contracts attempts to answer the two questions posed above. In response to the question of which promises should be enforced the bargain theory has answered this by introducing the bargain principle. According to the bargain principle a promise is legally enforceable if it is given as part of a bargain, otherwise the promise is

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95 This would be highly unlikely and almost impossible.
97 See note 26, p. 178.
unenforceable. According to bargain theory certain requirements exist and must be fulfilled before a genuine bargain can be said to exist. The three requirements are: offer, acceptance and consideration.\textsuperscript{98} Consideration is the essential element that makes the promise enforceable. It can be regarded as the price for a promise. Valuable consideration has an economic meaning as some benefit or detriment passes from the promisee to the promisor. This may be a money price or an opportunity cost in the sense of some detrimental reliance.\textsuperscript{99} According to bargain theory the answer to the second question – what should be the remedy for the breach of enforceable promises? – The promisee is entitled to the \textit{benefit of the bargain}. This means that the promisee is entitled to the amount of benefit that he would have gained had the promise been performed.\textsuperscript{100}

Bargain theory might be criticized for its \textit{strict} definition of a promise. That is, there must be offer, acceptance and consideration. There might be promises where both the promisor and promisee wish to have the promise enforced, however, they are not able to enforce it because it did not arise from a bargain (consideration is lacking in many promises). Contract law should in fact enforce these promises to help the people get what they want.\textsuperscript{101}

\textbf{2.4.1.2. Enforcement}

Contracts are assumed to be enforced. This can be done by a state authorized court or other body (trade association, arbitration, religious group etc). Furthermore, reputation and other factors might also serve to enforce contracts.

Contract enforcement by courts involves a number of actions. Courts must decide about contract formation. If there is a valid contract the court must engage in contract interpretation, i.e. fill the gaps. Moreover, the court must decide whether there has been a breach of contract, and if this in fact has happened, the court must decide on remedies (damages or specific performance). Finally, the court can override the contract\textsuperscript{102} – refuse

\begin{flushleft}
\textsuperscript{98} In different legal systems different formal requirements regarding these conditions exist. Consideration is part of the common law approach.
\textsuperscript{99} See note 94, p. 137.
\textsuperscript{100} See note 26, p. 182.
\textsuperscript{101} Ibid, p. 183.
\textsuperscript{102} For example when there are harmful externalities or enforcement would lead to other socially undesirable results.
\end{flushleft}
to enforce it even if it was properly formed. In principle reputation can lead to the same enforcement of contract as courts, although it is unlikely in practice. Firstly, courts resolve disputes taking into account much information about contractual situations. For example, a number of factors are taken into account to determine damages for breach of contract, and it is highly unlikely that reputation would be measured in a manner which is equally precise. Second, reputational incentives for the parties to adhere to in connection to their contracts may not be sufficient to induce that. This could be the case in which the gains from breach are very large and the party does not transact very often. Here the benefits of breaching the contract could be greater than the reputational benefits of performing.

2.4.1.3. Coase Theorem
The Coase Theorem describes how economic efficiency is obtained in the presence of externalities. In a simplified version of the Coase Theorem it is stated that if transaction costs are zero, then the initial assignment of a property right will not affect the ultimate use of property. When trade in an externality is possible then bargaining will lead to an efficient outcome because the party that values the right the most will end up with it. In the analysis of contract law this means that if there are no transaction costs and people are rational then they will allocate rights and obligations in a contract in a Pareto-optimal manner. Coase has later addressed the (unrealistic) assumption of zero transaction costs and restates: once the costs of carrying out market transactions are taken into account it is clear that a rearrangement of rights will only be undertaken when the increase in the value of production consequently upon the rearrangement is greater than the costs which would be involved in bringing it about. In this reconsideration of the assumptions, Coase suggests that because transaction costs in fact exist, property rights should initially be assigned to those who value them most. A further normative conclusion that can be drawn from Coase’s work is that, due to the fact that it can be hard to establish ex ante who is the highest utility user of a right, the government should create institutions, in this context contract law, which minimizes transaction costs and allow for reallocation of resources as cheaply as possible.

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103 See note 96, p. 3.
105 Ibid, p. 15.
2.4.2. Economics of Contracts

Before evaluating contract law it is necessary to investigate the economics of contracts. A number of economic implications have been discussed in the literature, and these form the foundation for further analysis.

Firstly, in the analysis of contracts lies the presumption that exchange is mutually beneficial. The parties enter into a contract because they gain from it. Even if there is inequality of bargaining power it is presumed that the contract is mutually beneficial (otherwise it would not be entered into). This situation might arise where there is a monopoly or oligopoly on either side of the market. In this case the contract terms will not be Pareto efficient, please see [Section 2.1.1. Applying Economics to Law] and will excessively benefit the party with market power. Thus even if the contract is mutually beneficial it might not be efficient.\textsuperscript{107}

Secondly, the agreed terms of the contract are assumed to be enforced. Freedom of contract is the basis of market economy and when the terms of a contract are genuine, i.e. neither party has been misled, defrauded or coerced, then the economic approach prescribes that the parties are in a better position to decide what is best for them, as opposed to having a judge deciding otherwise.\textsuperscript{108}

Third, markets for goods and services are generally efficient, especially if the market is competitive. Therefore the terms of trade will reflect scarcity of resources, and the goods and services will flow to those who value them the most. Furthermore, contract terms are often shaped by the market forces, not by individual negotiations.\textsuperscript{109} In competitive markets consumers and companies are price and contract term takers and have no economic power. There are situations in which contracts and contract law are not even necessary. Such a situation might arise in a spot transaction, in which the parties act simultaneously. This sort of transaction is self-enforcing, and if the exchange does not take place there will be no

\textsuperscript{107} See note 94, p. 111 & 113.
\textsuperscript{108} Ibid, p. 111.
\textsuperscript{109} See also Achol, R. & Gundlach, G. (1999) \textit{Legal and Social Safeguards Against Opportunism in Exchange} for an interesting view on the importance of social norms in fulfilling the role contract law sometimes cannot.
loss. These transactions are normally consumer contracts and there is essentially no need for a body of law governing these spot contracts, all that is needed is *caveat emptor*.\(^{110}\) For the resolution of disputes that might arise due to the quality of the goods and the like, the markets will in most cases force themselves to provide a solution for these disputes. This is referred to as market governance.\(^{111}\) The problems of contract arise when we are dealing with deferred exchanges – that is, transactions that involve the passage of time for their completion.\(^{112}\)

Fourth, from an economic perspective it is presumed that real-world contracts generally are efficient adaptations to the costs and uncertainties of transacting. Economics views a contract as an institutional arrangement designed to create wealth in a way that deals with the frictions of exchange, production and negotiations. In the cases where transaction costs are distinct, individuals and companies will adapt by forming a more complex contract to internalize and economize on these costs. These contracts may not seem to be efficient, because they are not easily explained. However, a closer look reveals that they are often efficient adaptations to risk and transaction costs.\(^{113}\)

Fifth, contracts and the company (firm) are both part of the same field of institutional arrangements designed to deal with frictions of the market which lead to contractual problems.\(^{114}\) The company has been explained by economists as a response to the difficulties and inefficiencies of using market contracts to arrange production and distribution. Coase explains “(...) contracts are not eliminated when there is a company but they are greatly reduced.”\(^{115}\) The company substitutes market governance with administrative governance.\(^{116}\)


\(^{111}\) See note 94, p. 112.

\(^{112}\) See note 26, p. 184.

\(^{113}\) See note 94, p. 112.

\(^{114}\) Ibid, p. 113.


\(^{116}\) An example of how contractual inefficiencies can be resolved by the company is by vertical integration.
Finally, the elements of a contract, such as contract terms, contract law and price, are interrelated and will adjust to changes that happen in one of the elements. For example, if some of the contract terms are changed to the advantage of the buyer this may offset an increase in price. This basically neutralizes the impact of the law on the real variables. Nonetheless, the law will have an allocative effect which might result in a lower level of contractual activity as some buyers and sellers drop out of the market and a new market equilibrium is reached.\(^{117}\) Having covered some economic fundamentals of contracts we now turn to the economics of contract law.

### 2.4.3. Economics of Contract Law

If the parties subject to a contract do not perform their obligation simultaneously, as they do in spot contracts, two dangers to the process of exchange arise for which the law offers remedies: opportunism and unforeseen contingencies.\(^{118}\) There are a number of economic functions of contract law which Posner have summarized to be: 1) to prevent opportunism; 2) to interpolate efficient terms; 3) to prevent avoidable mistakes in the contracting process; 4) to allocate risk to the superior risk bearer; and 5) to reduce the costs of resolving contract disputes.\(^{119}\) Not all of these will be discussed here, only the aspects we find relevant for the further discussion.

Contract law should provide incentives for the parties to enter into contracts and to break contracts, when taking into account the full costs and benefits that these actions impose.\(^{120}\) Economic efficiency requires enforcing a promise if the promisor and promisee both wanted enforceability when it was made.\(^{121}\) Cooter and Ulen use the technical name ‘Pareto-efficient law’ to describe law that is responsive to Pareto efficiency. That is, the kind of law that will be changed if that change can make someone better off without making someone else worse off.

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\(^{117}\) See note 94, p. 114.


\(^{119}\) Ibid, p. 108.

\(^{120}\) See note 94, p. 120.

\(^{121}\) See note 26, p. 184.
From an economic standpoint contract law should seek to prevent opportunism. By providing a legal framework which ensures enforcement of a contract, the contracting parties will cooperate and commit to one another. This cooperation typically involves two steps: 1) the promisor invests in performing; and 2) the promisee invests in reliance upon the promise. Reliance involves making plans, undertaking expenditures and entering into other arrangements which increase economic value. It also involves the use of real resources (i.e. expenditures made to enhance the value of performance), but might in turn give rise to post-contractual opportunism (e.g. renegotiating more favorable terms which simply redistributes wealth and is not responsive to changes in market circumstances).

Contract law helps to increase efficient reliance and decrease opportunism by allocating risk and imposing damages for breach of contract.

2.4.3.1. Transaction Costs
According to the Coase Theorem, in the absence of transaction costs a contract would be Pareto efficient. However, in practice transaction costs exist and as a result contracts are often incomplete (as discussed above). Transaction costs can both be *ex ante* and *ex post*. The *ex ante* transaction costs include searching for the right partners, negotiating the terms and drafting the contract. Whereas the *ex post* transaction costs include enforcing the contract, monitoring performance and so on. Despite transaction costs, contracts are made because the gains from cooperation often outweigh the costs. Usually contracts only include the main aspects of a relationship, and leave the less important aspects out. The parties agree to do this to reduce the transaction costs and in turn expect contract law to fill the gaps. Veljanovski offers a simple rule: if the *ex ante* costs of stipulating a term are less than the expected *ex post* costs then incorporate the term in the contract, otherwise leave a gap and resolve any difficulties when and if the contractual problem arises. Some times transaction costs can be so large that they preclude cooperation if the parties do not choose to leave gaps. Perfect contracts have no gaps to be filled by courts, and the court merely has to enforce its terms.

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123 See note 94, p. 126.
124 Ibid, p. 121.
125 This calculation should also include the likelihood of the event taking place (probability).
126 See note 26, p. 207.
2.4.3.2. Efficient Breach
As well as contract law is meant to ensure efficient terms of contract it should further provide for the possibility of efficient breach of contract. Under contract law the rule is that the parties should either honor their promise or pay damages for non-performance. Thus the obligation is not to perform but rather to compensate the non-breaching party for the losses that party might suffer as a consequence of non-performance. The purpose of contract law is to avoid breach that is inefficient. In this process it is necessary to balance the costs of inefficient breach against those of excessive performance.\(^{127}\) Breaching is more efficient than performing when the costs of performing exceed the benefits to all parties. The costs of performing exceed the benefits in a situation where a contingency materializes which makes the resources needed for another purpose which is more valuable.\(^{128}\)

2.4.3.3. Renegotiation of Contracts
The possibility of renegotiation of contracts can prove beneficial to the parties in some situations. Many contracts are complex and based on long-term relationships, which in turn might benefit from being more incomplete and hereby the parties will be able to rely on future modifications and renegotiation – in response to any uncertainties and transaction-specific investments. These are called relational contracts. When taking a relational contract approach the emphasis is not on a pre-determined set of economizing default rules but rather on a mechanism for gaining acceptable adjustments and adaptations to the changing circumstances.\(^{129}\) Renegotiation reduces the need for complete contracts and serves as an implicit substitute for them. Nonetheless, there are situations in which renegotiation cannot be used. First, when difficulties might arise leading to a potential breach of contract the one party might benefit from acting quickly. If that party is not in contact with the other party to the contract, arranging immediate renegotiation can prove costly (here efficient breach could be a solution). An example could be a producer that is given a better offer for his product though with the requirement that he accepts the offer immediately. A second situation in which renegotiation will not be used is when there is asymmetry of information between the parties, which leads to breakdown in the bargaining. Thirdly, it might be impossible to alter the outcome of the situation. If the breaching event

\(^{127}\) See note 94, p. 126.
\(^{128}\) See note 26, p. 238.
\(^{129}\) See note 94, p. 173.
cannot be undone, then the renegotiation of the contracts is rendered doubtful. Renegotiation can be mutually beneficial in a situation where the expected costs of production become higher than the agreed price. For example, a contract has been concluded in which it is agreed that a tradesman should produce a bench for a customer at the price of $500. Unexpectedly the price of wood rises and the tradesman realizes that he cannot produce the bench for any less than $750. In the present situation it would be mutually beneficial for the parties to the contract to renegotiate an agreement in which the tradesman pays the customer $625 not to perform the contract. Though renegotiation can be beneficial in a number of situations it impacts other elements of contracting. Renegotiation impacts the incentives to invest in contractual relationships. If one party knows that renegotiation can be initiated by the other party, that party will be reluctant to proceed with the adequate reliance investments because the profits from reliance investments could then be partially extracted from the party that made the investment. The correct damage measure can help balance this influence. Furthermore, renegotiation impacts risk bearing. It tends to reduce the risk for the party who makes a payment to be allowed not to perform (this party would be worse off if he had to perform under circumstances in which it would be very expensive). However, there are still uncertainties about the amount that should be paid. To understand the cost of renegotiation one should compare the cost of writing an explicit term in the initial contract (ex ante cost) with the cost of renegotiating it (ex post cost). If these costs are equal then the renegotiation cost is only incurred with a probability (i.e. if renegotiation becomes relevant) which in turn will make this the cheaper solution. Damage measures can be used as an alternative to the renegotiation. If a damage measure is properly chosen it will automatically result in correct performance (performance or efficient breach) and this will be less costly than having to renegotiate the terms.

After setting the theoretical foundation we now turn to the legal framework.

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130 See note 96, p. 16.
131 Ibid, p.17.
3. LEGAL FRAMEWORK
In this section we will review the relevant legislation and case law in the area of coexistence agreements. This will be a purely legal analysis.

3.1. Community Trademark and National Trademark Systems
A main obstacle to the integration of the Internal Market has been the lack of harmonized rules in the area of trademark law. Each Member State in the EU has its own national trademark system and therefore disparities exist between the laws of the 27 Member States. This means that companies do not have protection in other EU Member States unless they register their rights under the national system in that specific Member State. In response to this obstacle the CTM has been introduced at a supranational level to facilitate further integration and free movement in the EU. The CTM runs parallel to the national systems in the Member States, and offers uniform protection throughout the entire EU and is governed by a single community law, i.e. the CTMR. Once a community trademark is registered it is valid for a period of 10 years with the possibility of renewing it indefinitely. With the introduction of the CTM an official body, the OHIM, was established in Alicante to handle the responsibility of granting official community trademarks and design rights. OHIM is responsible for registration procedures, maintaining public registers of rights and maintaining rules on applications for declaration of invalidity of these rights after their registration. In addition to the CTMR, the Trademark Directive was agreed upon to approximate the trademarks laws of each Member State and to ensure further harmonization in the area. The Trademark Directive was a precursor to the CTM and provides a framework of minimum provisions that are applicable to all the national systems throughout the EU. The substantive provisions of the CTMR and the Trademark Directive are the same, hereby simplifying the rules for companies that wish to achieve international protection of their trademarks.

133 In accordance with Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark, Article 2.
134 OHIM Guidelines – General Introduction.
There are great advantages for a company operating in several Member States to apply for a CTM rather than to obtain national rights in all the respective national systems. This is because the registration process is costly and time-consuming, so if a company wishes to apply for trademark protection in each Member State it would prove far more expensive than obtaining protection throughout the entire Internal Market at once. Nonetheless, if a company is only operating in a few Member States it might be less expensive to register in these Member States rather than to register for a CTM. There are also risks related to applying for CTM protection because once a company has applied for a CTM the application fee will not be recoverable if the CTM is refused by the OHIM. Furthermore, as the CTM covers 27 Member States there is an increased chance of oppositions due to the many trademarks existing throughout the EU, meaning that that is more likelihood of coincidence of similarity, and this might lead to unnecessary conflict and litigation if a company is only operating in few Member States.

In the case study it is important that the respective companies take these abovementioned factors into consideration when contemplating registration for a CTM. Birks Fabrikker seems to already have a clear plan of their future – a further expansion into several European countries. Due to this, Birks Fabrikker is likely to benefit from protection under a CTM rather than merely having national rights. It is an investment for the future. Lavaria, on its side, does not have the same plans of expansion. The company wishes to focus on its present local market or possibly expand to a few closely related markets in the future. If Lavaria’s present plans for the future will in fact be shaped in this manner they might be better off by merely registering their trademark rights in the national systems (if they should wish to expand). At this point a contract of coexistence is a good opportunity for Birks Fabrikker to avoid opposition, and the costs associated with it, and it is a good option for Lavaria since a CTM does not seem to be a relevant solution for them in any case. Nonetheless, in order to have any certainty it is a good idea to look at what the CTMR says about coexistence agreements.
3.1.1. Community Trademark Regulation and Coexistence Agreements

Whereas the Trademark Directive explicitly states that in appropriate circumstances registration need not be refused or the trade mark need not be declared invalid where the proprietor of the earlier trade mark or other earlier right consents to the registration of the later trade mark, the CTMR does not speak directly of coexistence agreements nor how these agreements should be handled when they come before the OHIM in case of a dispute. At the moment there is no clear line of precedence in case law in this area neither, as only a handful of rulings referring to coexistence agreements have been heard (this will be discussed in [Section 3.2. Trademark Decisions on Coexistence Agreements] below).

Nonetheless, there are a number of articles that should be observed by the parties before entering into a coexistence agreement to avoid running into unexpected surprises. Please see [Section 8.2. Appendix 2: Community Trademark Regulation Articles], for the relevant articles. Below we will use the case study to explain some of the factors that the parties should especially pay attention to when they consider entering into a coexistence agreement.

3.1.1.1. Likelihood of Confusion and Opposition

Once it is established that a trademark fulfills the requirements of obtaining a CTM, i.e. it complies with Article 4, 5, 6 and 7 CTMR, it is important for the contracting parties to look to Article 8 – Relative grounds for refusal. Article 8 outlines that if there is an identical or similar earlier trademark (either a CTM or national mark) in the same product class, with which likelihood of confusion or association is possible, the CTM application can be refused. In the case study we have seen that Birks Fabrikker is aware of this issue, and have therefore conducted prior research leading up to their application for a CTM to avoid this type of situation, i.e. avoid the unexpected surprise of possible opposition and refusal of registration due to an existing similar national trademark. Lavaria should on the other hand consider its possibilities of making an opposition before it decides whether a coexistence agreement is the best solution (would it be more beneficial for the company to oppose at this point rather than getting into possible lengthy negotiations and binding commitments with Birks Fabrikker for the future?). In practice, most coexistence

\[136\] Ibid, Article 4(5).
agreements become the subject of dispute when one of the parties oppose to the other party’s registration of a trademark, which the latter party believed to be covered by the terms of the agreement. Though the CTMR does not speak about coexistence agreements, the OHIM Guidelines do mention how these agreements should be treated in case of a dispute. In regards to coexistence in general the Opposition Guidelines state that: “Evidence of actual and peaceful coexistence of conflicting marks on the market is a circumstance that the board may take into consideration in order to assess the likelihood of confusion in the meaning of Article 8(1)(b)”. After the ruling by the Board in the GOLDSHIELD case the Opposition Division changed its practice to be more in accordance with the board, this means they will not simply ignore private agreements. Though, the Guidelines maintain the practice of not taking contracts into account, although now with some exceptions: contracts will be considered if there is no dispute about the meaning of the contract OR if there is a national decision on the meaning of the contract. The Guidelines further state that: “The previous practice according to which civil agreements between the parties of any kind (e.g. contracts) were irrelevant to opposition proceedings is no longer followed.”

3.1.1.2. Other Provisions Relevant to Coexistence Agreements

Even though the CTMR does not speak of contracts of coexistence it seems to accept the fundamental freedom of contracts, based on Article 17 CTMR – Transfer. However, the parties should observe Article 17(4) CTMR and Recital 10 which are meant to ensure that contracts avoid harm to the public. Birks Fabrikker and Lavaria should therefore make sure that they do not cause any harm to the public (customers, consumers, possible competitors etc.) when they negotiate a contract. Having the contract invalidated at a later point due to violation of public interest will mean wasted resources for the parties in the form of time and money spent on negotiations and formation of the contract. In Article 22 which concerns’ licensing it is stated that: “A Community trademark may be licensed for some or all of the goods and services for which it is registered and for the whole or part of the Community”. A trademark license is a contract by virtue of which the proprietor of a

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140 See note 137, p. 17.
trademark (the licensor), whilst retaining his proprietorship, authorizes a third person (the licensee) to use the trademark in the course of trade, under the conditions and within the limitations and contents provided in the said contract. In regards to licensing of a trademark the CTMR recognizes contracts and enforce them. Furthermore, can these contracts be registered as stipulated by Article 22(5): “On request of one of the parties the grant or transfer of a license in respect of a Community trademark shall be entered in the Register and published.” Birks Fabrikker and Lavaria could also consider the possibility of licensing rather than entering into a coexistence agreement. A license agreement might give the parties more legal certainty and it could be registered and create transparency towards all parties involved (e.g. consumers, suppliers etc.). Though, the parties might find that there are increased transaction costs regarding negotiation of the terms of the contract, as well as costs related to legal council necessary to fulfill the requirements of a licensing contract. The parties should also consider the consequences of Article 51 CTMR which refers to absolute grounds for invalidity. Article 51(1)(b) CTMR stipulates that where an applicant acted in bad faith when he filed the application for a trademark, the trademark can later be deemed invalid. According to the OHIM Guidelines there is bad faith when the CTM applicant intends, through registration, to lay claim to a trademark of a third party with which it had contractual or pre-contractual relations. Because Birks Fabrikker made a proposal of coexistence to Lavaria before they filed the application for registration of their brand RIELIS, this action shows absence of bad faith in their application for a CTM. Birks Fabrikker and Lavaria should both in any case consider any future registration of a CTM, for example for the same name in another product class, when they draft the agreement to pre-empt possible future conflicts. On the other hand Article 52(3) must also be considered, as it states that a CTM shall not be declared invalid, where the proprietor of an earlier right expressly consented to the registration. Lavaria is now in the process of consenting to Birks Fabrikker’s registration of the mark RILIS, and must be aware that in the future they will not be able to seek invalidation of the registration, because they consented to it. Article 52(3) can also be relied upon in cases

141 Guidelines Concerning Proceedings Before the Office for Harmonization In the Internal Market (Trade Marks and Designs), Part E Section 5: Licences, p. 3.
142 OHIM Guidelines – Part D, Section 2: Cancellation Proceedings.
143 This sentiment is also found in application No. 000670042 (OHIM Cancellation Division), AROMATONIC (EN), 3 May 2001.
where an opponent withdraws an opposition following a coexistence agreement, and hereby implicitly consents to the registration, please see [Section 2.2.2. When Should A Company Coexist?].

Article 53 – Limitation in consequence of acquiescence, might also be of importance to the parties of a coexistence agreement. It is important for the parties to be aware of the consequences. According to Article 53(2) where the proprietor of a national trademark has acquiesced, for a period of five successive years, in the use of a later CTM in the Member State in which the earlier trade mark is protected he shall no longer be entitled to opposition of the use. The OHIM Guidelines state the following three conditions that must be fulfilled for Article 53 to apply: 1) the CTM has been in use in the Community during a period of at least five successive years; 2) the proprietor of the earlier mark has been aware of this or could reasonably be presumed to be so aware; and 3) has taken no action to prevent the use. It is important that Lavaria considers its possibility of opposition at this point as Birks Fabrikker has approached Lavaria and hereby made Lavaria aware of its existence. Even if the company rejects the proposal it will lose its right of opposition due to acquiescence after five consecutive years.

3.2. Trademark Decisions on Coexistence Agreements
The legal assessment of coexistence agreements varies depending on which legal forum hears the case, and in general, one can say that there are three basic approaches that exist in this area.\textsuperscript{144} The first is the approach many national courts chose to take, namely to rely on the agreement and its terms to the extent it is validly formed and applicable to the dispute in question. In these cases the contract is the first source of law and plays a significant part in determining the outcome of the dispute. Such an agreement could for example consist of a division of geographical markets for similar trademarks, as was shown in the case study of Lavaria and Birks Fabrikker. The second approach is of a more dismissive character. Here the courts choose to ignore all forms of private agreements, and regrettably, this is the approach the OHIM has taken. The third approach can be found in between the two mentioned approaches and this may seem to be the path the OHIM is moving towards now.

\textsuperscript{144} See note 30, p. 20.
3.2.1. Decisions by the OHIM

That coexistence agreements are fundamental in resolving potential trademark disputes is clear and their value has long been acknowledged by the ECJ. They have stated that: “such agreements are lawful and useful if they serve to delimit, in the mutual interest of the parties concerned, the spheres in which their respective trademarks may be used, and are intended to avoid confusion or conflict between them.”\footnote{See Case 35/83, BAT v EC Commission – [1985] E.C.R 363, para. 33.} The OHIM, on its side, seems to have chosen the path of more or less non-acceptance and has only referred to coexistence agreements in a very few existing cases. This is worrying considering the fact that there is evidence to support the probability of an increasing number of CTM related agreements.\footnote{See note 30, p. 14.}

In the past, before the CTM came into force, national trademarks usually operated peacefully side by side. Now with the introduction of the CTM, these trademark owners also have the opportunity to register their trademarks at a supranational level (i.e. registration in all the EU Member States). This means that the risk of overlaps between company names, business names, and other name rights have increased tremendously as these trademark owners now meet outside their national boundaries.

In the area of coexistence agreements two of the leading decisions by the OHIM are the \textit{OMEGA} case,\footnote{Case R 537/2002, Omega SA v Omega Engineering Inc., 28 February 2002 of the Opposition Decision of the OHIM, & Case R 330/2002-2, Omega SA v Omega Engineering Inc, 10 December 2004 of the second Board of Appeal of OHIM.} concerning the relevance of agreements to CTM applications, and the \textit{COMPAIR} case,\footnote{Case No. 478/1999, CompAir Ltd. v Naber + Co. KG, 10 July 1999 of the Opposition Decision, & Case R 590/1999-2, CompAir Ltd. v Naber + Co. KG, 30 July 2002 of the Second Board of Appeal.} concerning oppositions in the case of earlier existing national rights.\footnote{See note 30, p. 20.}

In both these rulings the Opposition Division chose not to consider the underlying agreement albeit each of the involved parties referred to the agreement in their submissions. The underlying agreements seemed to be perfectly valid and the reasons given for rejecting them are not convincing at all. In the following section we will introduce three arguments that the OHIM have used for not looking into coexistence agreements and discuss the \textit{OMEGA} and \textit{COMPAIR} case in more detail.
3.2.1.1. OHIM Arguments

Arnaud Folliard-Mongural, who is a lawyer at OHIM’s Industrial Property Litigation Unit, has listed three possible arguments to back up the judicial approach the OHIM is following. The first argument, which is given in the OMEGA case, is that the OHIM bodies do not have competences to interpret ‘deeds’ under Article 74 CTMR. The second argument is that the CTMR and its Implementing Regulation (CTMIR) does not have the legal basis to deprive the opponent of locus standi, this is even though an agreement with the CTM applicant deprives the other party of the right to file oppositions. The third argument is that “the relative effect of contracts might be incompatible with the erga omnes effects of opposition (and invalidity) decisions.”

3.2.1.1.1. OHIM Bodies Cannot be Bound by Private Agreements

In the OMEGA ruling the Opposition Division did not refer to the coexistence agreement before the very last part of the judgment, and the reasons given for not looking into it are not substantial of nature. The Office merely stated that in the assessment of confusion it cannot be bound or influenced by the provisions of a private agreement between the parties. Furthermore, it stated that interpretation of a private ‘deed’ does not constitute a fact under Article 74 CTMR, and for this reason the private agreement falls outside the scope of the Office’s jurisdiction. The question that appears here is where does the term ‘private deed’ come from? It is not mentioned in Article 74 CTMR or in the relevant OHIM guidelines, therefore the use of this term is peculiar. Furthermore, apparently the OHIM is restricting its own jurisdiction under Article 74(1), in regards to proceedings on relative grounds for refusal of registration, by not looking at a private agreement as a material fact in their

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151 Ibid, p. 708.
153 Locus Standi is the right of a party to address the Court on a matter before it. It enables a party to appear and be heard by a court in relation to a given question that is within his private interest or in regards to the public interest. (Definition retrieved: 24th of March 2009 from: http://www.duhaime.org/LegalDictionary/L/LocusStandi.aspx).
154 Erga Omnes (in relation to everyone) is frequently used in legal terminology describing obligations or rights toward all. (Definition retrieved: 25th of March 2009, from: http://en.wikipedia.org/wiki/Erga_omnes).
155 See note 150, p. 708.
156 Deed can be defined as a legal instrument used to grant a right, and is contract-like in that they require the mutual agreement of more than one person. (Retrieved: March 25th, 2009 from: http://en.wikipedia.org/wiki/Deed).
assessment. Under Article 74(1) the OHIM is restricted to examine “facts, evidence and arguments provided by the parties” and the private agreement, as it is a private deed, is from the court’s point of view therefore not covered under this wording.\(^{157}\) Not looking at the agreement as a fact or evidence which is relevant in the proceeding is to us odd and worrying, considering the fact that the agreement seems to have been concluded legally and was therefore intended by the parties to be legally binding at the outset.

This decision was later appealed to the Second Board of Appeal in an attempt to draw more focus upon the agreement between the parties. Nevertheless, the Board also here chose to dismiss the relevance of the underlying agreement between the parties. Even though the Board of Appeal admitted that “prima facie it would appear that the applicant had acted in breach of the agreement by including in the application installation for checking, measuring time and distance (…) in class 9”, it withheld that the effects of the agreement were not entirely clear and therefore not applicable. In their final decision the court chose to not look into the agreement at all because they considered it as being ambiguous because ‘time’ and ‘distance’ are variable parameters and it was not clear whether the list of variable parameters mentioned in the agreement was exhaustive.\(^{158}\) Whether this reasoning for not looking into the agreement is convincing is questionable.

The decision was further appealed to the Court of First Instance (CFI) which also dismissed the appeal.\(^{159}\) The CFI stated that “it was not clear that the intervener undertook not to oppose registration of the trademark of OMEGA by the applicant”,\(^{160}\) and for this reason the agreement was therefore irrelevant in the assessment of likelihood of confusion. Considering the fact that a great deal of time an effort is put into negotiating coexistence agreements in order to ensure that similar or the same marks can be utilized by different companies for the benefit of them and consumers, it is unsatisfactory that the OHIM and the CFI treat them as being irrelevant.\(^ {161}\) It should also be considered that when an

\(^{157}\) See note 30, p. 15.


\(^{159}\) See Case T-90/05, Omega SA v Omega Engineering Inc.

\(^{160}\) Case T-90/05, Omega SA v Omega Engineering Inc., para. 49.

agreement is concluded and one party is applying for a CTM in bad faith, to the contrary of what has been agreed between the parties, the most reasonable thing would be for the OHIM to consider bad faith, at least from a fairness point of view. In the agreement it is stated that OMEGA SA (the opposing party) undertakes not to “use, register or apply to register any trademark consisting of or containing the word OMEGA (…)”. In this situation, where Omega SA decided to disregard the agreement and applied for a CTM for the specific product class, without considering the interests of the other party that had an interest in the similar mark, the agreement should be looked into, at least on the grounds of bad faith even though the agreement as such did not directly shed any light on the issue of likelihood of confusion.

3.2.1.1.2. Locus Standi
The second argument, that there is no legal basis to deprive the opponent of locus standi, is based on the fact that the CTMR does not allow for this even though the agreement between the parties allow for it. Since the OHIM is a public body with competences only within trademark law they cannot determine whether a party has sufficient connection to the case in question in order to support that party’s participation. That the OHIM is claiming that they cannot rid an opponent (to a CTM application) or the like of the right to stand is contradictory. In practice, as Matthew J. Elsmore put it, this means that “in despite of a directly relevant agreement on the matter the Office is able and willing to provide a legal basis to grant an opponent (to an application) or the like of a right to stand, but not the opposite, to rid.” What this means is that the OHIM is granting a right, and then on the other side is claiming that a right is not there to take away – this is unsustainable.

The CTMR treats CTMs as objects of property. However the approach the OHIM is taking is at odds with the Regulation. As an example, the rules on transfer of CTMs make it possible to transfer the CTM via a private contract. The contracts are prima facie accepted
by the OHIM, as long as they fulfill the formal requirements under Article 17(3), that is, it must be in writing and include the signature of both parties to the contract. Thus the fundamental freedom of contract is accepted. The argument of *locus standi* is therefore questionable because the Regulation mentions nothing about granting or taking away the right to stand. It is also not easy to understand why the relative worth of an agreement was considered, but then concluded as being unpersuasive by the OHIM in the OMEGA case. The CFI, as mentioned above in [Section 3.2.1.1.1. OHIM Bodies Cannot be Bound by Private Agreements], made an interpretation of the agreement and even though we do not agree on their final interpretation of treating the agreement as irrelevant, the CFI was, nonetheless, willing to look into the effects of the agreement (i.e. that the contract specifically mentioned registration of the mark OMEGA and not that the other party had undertaken not to oppose registration of the word mark OMEGA). The fact that they disregarded the agreement in the end does, however, entail a narrow understanding of the private property rights associated with trademarks and the owners’ ability to exploit them within the boundaries of their contractual freedom. This does indicate that EC trademark law at least in this case favors *public* instead of the *private* realm of trademarks.

3.2.1.1.3. *Erga Omnes Effects of Opposition (and Invalidity) Decisions*

The third argument is based on the fact that public bodies, as the OHIM, should not concern itself with civil agreements. Trademark rulings are in effect public in nature, and not confined to the parties involved. Therefore, the OHIM considers itself as not having jurisdiction. This is why the Opposition Division in general chooses to refuse to give weight to private agreements when they assess likelihood of confusion. This point of view is also consistent with OHIM case law and, in particular, this line of reasoning can be found in the conclusion of the Opposition Decision in the COMPAIR case. Here the Office stated that the agreement could not be taken into consideration “as it is a private agreement between the parties which is only effective in their private scope”, and should therefore be brought before the German courts for interpretation.

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167 See note 30, p. 15-16.
169 See note 150, p.708.
The argument, that trademarks and the system that guarantees for its proper functioning is a public right and that it does have some value to consumers, is reasonable. However, in fact, trademarks are a result of a number of voluntary and personal decisions of careful and well-protected economic actors that are trying to maximize their gains/minimize their losses. If an opposition is raised it is in effect a dispute between two civil parties, so if the *erga omnes* principle is taken to the extreme that would mean that all opposition issues and decisions should be administered by a public body (e.g. the OHIM) on behalf of the public (companies and citizens). This situation would be unreasonable as the opposition is directed by an individual party towards another that is attempting to register a trademark. In one aspect third parties are affected, but this is only indirectly as the facts and virtues of the case are strictly revolving around the two parties in question. It is only the parties that can appeal or contest the decision: the consumers cannot intervene in this process. Considering the arguments mentioned above civil agreements should at least be looked into, and this is also what happened when the case was appealed to the Second Board of Appeal at the OHIM. The Second Board of Appeal concluded that the agreement could not be disregarded as it was relevant evidence in the opposition proceedings. Under the agreement the parties had determined “the conditions under which the parties could use the trademark COMPAIR in Germany without any risk of confusion,” and therefore the opponent could not argue for a likelihood of confusion between the affected marks without breaching the agreement. In general, if you enter into an agreement you must also accept the burdens of it if you enjoy the benefits given.

3.2.1.2. A New Way for OHIM to Assess Coexistence Agreements?
Evidence that the OHIM might be changing their approach from total invalidation of agreements to more of a middle road can be found in the SKY case. In this case the Second Board of Appeal chose to look into the underlying agreement between the parties and the main clauses of it. Similarly, a less restrictive approach to coexistence agreements

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170 See note 30, p. 16-17.
171 Case R 590/1999-2, CompAir Ltd. v Naber + Co. KG, 30 July 2002 of the Second Board of Appeal, see para. 14 through 22.
172 Case R 590/1999-2, CompAir Ltd. v Naber + Co. KG, 30 July 2002 of the Second Board of Appeal, see para. 17.
can be found by the Second Board of Appeal in the Le MERIDIEN case. This decision concerns procedural issues, but it is nevertheless interesting as it also regards the relevance of coexistence agreements in proceedings before the OHIM.

3.2.1.3. Considering the Underlying Agreement
In the SKY case the Second Board of Appeal at OHIM gave serious consideration to the 20-year old agreement that had been conducted between the parties. The Office started by stating that “the parties have discussed at some length the validity and significance of an agreement concluded between the applicant’s predecessor and the opponent on 3rd of November 1988,” and then it moved on by referring to some of the main clauses of the agreement. The Board of Appeal concluded by stating that since the agreement specifically included the names SKYROCK, SKYZIN and SKY CHANNEL, and not the word “SKY” alone, the opponent had therefore not undertaken not to oppose the registration and it is thereby “not necessary to consider whether the agreement is still valid (…)”. Consequently, since it was the word mark SKY that was applied for a CTM, the opponent had not restricted itself through the agreement to oppose registration. The Office then moved on to decide whether there was any risk of confusion under Article 8 CTMR. It concluded by stating that even though “the marks were not entirely dissimilar, the similarities are outweighed by the differences.” It continued by stating that the use of the trademark SKY will not dilute or otherwise damage the distinctiveness of the opponents mark SKYROCK or take advantage of it. On these grounds the opposition was rejected in its entirety. This finding was however contradictory to what the French courts found, please see [Section 3.2.2. Decisions by National Courts] below. The OHIM interpreted the agreement as one settling litigations relating to the specifically mentioned marks, and not one that could be applied in a forward looking manner (i.e. in the case of resolving future disputes between the same parties involving other marks than those specifically mentioned in the agreement). Even though it could be argued whether the OHIM’s interpretation of the agreement is the correct one, it is still a step in the right direction in view of the fact that

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175 See note 173, para. 18.
176 Ibid, para. 19.
177 Ibid, para. 29.
they took the time to consider the underlying agreement, and as Matthew J. Elsmore has put it: “having a discussion of some kind is better than having no discussion at all.”

3.2.1.4. The OHIM and Jurisdictional Competence

In the recent Le MERIDIEN case MERIDIANA S.P.A. had applied for a revocation decision on behalf of the CTM proprietor’s allegedly non-use of the trademark Le MERIDIEN for certain groups of goods. The CTM holder had claimed that the action of revocation was contrary to what the parties had agreed upon in a contract concluded in 1992. The Cancellation Division had reached a decision to revoke the CTM without looking into the agreement between the parties at all, as well as rejecting the CTM proprietor’s request for suspension of proceedings until a final decision on interpretation of the agreement that was pending before the French court had been reached. The case was later appealed to the Second Board of Appeal at the OHIM which led to an annulment of the decision. The Board of Appeal stated that the request for suspension was correctly rejected by the Cancellation Division, but because the Office had used “inappropriate justification” for their decision, it was not valid. Furthermore, the Board of Appeal pointed out that the “parties must be able to rely upon the Office to consider that an coexistence agreement, and in particular, a non-aggression clause may be enforced before the national courts before a final irremediable decision is taken by the Office.” If the Office follows this statement in the future we believe that this approach will help create better legal certainty and foreseeability for the parties involved. The case in question was however quite complex because on the one side there was a clause in the agreement that said that the CTM proprietor should never have used the trademark for ‘air transport services’ in the first place, and on the other hand that the other party had undertaken not to contest the CTM proprietors rights in the trademark. However, wrong it was of the CTM proprietor to disregard the agreement and apply for the respective trademark within ‘air transport services’, according to the Office this “does not automatically mean that the
revocation applicant is allowed to disrespect its own contractual obligations in the agreement. This is in our opinion the right conclusion based on fairness and justice, because a contract is naturally expected to be enforced.

According to Philipp von Kapff, who participated as a Member of the First Board of Appeal in the Le MERIDIEN case, there will often be a problem of jurisdictional competence when the Office is deciding whether a coexistence agreement should be taken into consideration or not. He claims that because the OHIM normally does not have competences to enforce private agreements the problems of jurisdiction are often a contributory factor as to why the OHIM is not looking into these agreements. This statement is fair, but it does not excuse the Cancellation Division of its complete disregard of the underlying agreement and the fact that interpretation of the agreement was pending before the French courts and should have been taken into consideration in the final decision. We are therefore pleased to see that the Second Board of Appeal reached the decision to remit the case to the Cancellation Division for further prosecution. As advice to parties making coexistence agreements Folliard-Monguiral suggests that the party that is seeking an opposition or action of invalidity in breach of a coexistence agreement should first obtain a ruling from a national court on interpretation of the agreement if the agreement is ambiguous. It is, however, questionable how the outcome of such a case would be because, as the Le MERIDIEN case demonstrates, the Cancellation Division showed reluctance to await the decision on interpretation of the agreement by the French courts.

3.2.2. Decisions by National Courts

As we established above, the OHIM has shown reluctance in considering coexistence agreements in decisions regarding trademark disputes. At the national level there are inconsistent practices in regards to how these agreements are treated, though national courts and tribunals seem to be more willing to consider and evaluate the underlying agreements, and they have the competence to do so. The national practice can be highly important for

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183 Ibid, para. 25.
184 See note 150, p.709.
185 Ibid.
the outcome of a dispute at EU level, as was illustrated in the Le MERIDIEN case, please see [Section 3.2.1.4. The OHIM and Jurisdictional Competence] above, in which the Second Board of Appeal, emphasized that the parties must be able to rely upon the office waiting for judgment from the national court. Furthermore, after the GOLDSHIELD case the Opposition Division has changed its practice and will now consider coexistence agreements if there is no dispute about the meaning of the contract OR if there is a national decision on the contract. Nonetheless, it has been seen in the past that the OHIM disregards the national decisions on a coexistence agreements, as will be discussed next.

The SKY case\textsuperscript{186} was heard both in the UK and in France prior to the case coming before the OHIM. In this dispute the opponent claimed that the applicant was infringing rights conferred by the registrations, and in response the applicant relied upon the existing agreement between the parties, which dated back 20 years. As opposed to the OHIM’s interpretation of the agreement, the French court did not view the existing agreement between the parties as merely a tool for settling litigations relating to the specifically mentioned marks when the dispute arose 20 years ago, the French court, both in the first instance and on appeal, perceived the agreement also to apply to future disputes between the parties. After carefully looking into the agreement the French court ruled in favor of the applicant and hereby rejected that the agreement was void or had lapsed, and perceived the agreement to be final and binding. In this case both the French court and the OHIM reviewed the agreement between the parties and the terms of it. However, OHIM did not follow the French decision, but relied on its own interpretation of the agreement. Please see [Section 3.2.1.3. Considering the Underlying Agreement] above. Which might indicate that if the agreement is not deemed unclear and ambiguous the OHIM will not follow the national decision.

The WWF case,\textsuperscript{187} which is one in a line of cases between the parties in question, concerns a dispute about whether the existing agreement between the parties in fact was invalid because it restricted trade and harmed public policy. An agreement was formed between the

\textsuperscript{186} See note 173.
parties in 1994 as a resolution to a dispute, in which the World Wildlife Fund (the foundation) in 1989 objected to the World Wrestling Federations Entertainment Inc.’s (the federation) registration for a federal trademark in the US. The parties negotiated an agreement, governed by English law, which allowed both parties to peacefully coexist within certain limits. On the basis of this agreement the foundation dropped its opposition to the federation’s US registration. However, in the following years the federation’s expanding business led it to repeatedly breach the agreement. This breach was a fact that had not been disputed by the parties, and in 2001 there was a summary judgment\(^{\text{188}}\) for injunction and monetary relief at the High Court of Justice Chancery Division. The Honorable Mr. Justice Jacob explained: “(…) the obligation lies at the heart of the agreement. The federation has had the benefit of the agreement. Equity, looking to the federation’s conscience, will hold it to the bargain it made. There is not case for withholding an injunction here.”\(^{\text{189}}\) Mr. Jacob clearly considered the agreement between the parties to be a serious commitment that had to be considered and honored by the parties, because they each willingly had entered into the agreement for their own mutual benefit, which according to principles of contract law are assumed to be present (the fact that the agreement were been mutually beneficial cannot be disputed by showing that there was unequal bargaining power, as the federation attempted to do). The Order by Mr. Jacob was appealed and heard by the Court of Appeal in 2002. During the appeal case the agreement between the parties was further scrutinized and an examination of potential restraint of trade and harm to public policy was made. In response to these claims the court explained: “Where there are disputes, it is in the interest of everyone, including the public, for those disputes to be settled by agreement, rather than litigation, and for such agreements to be respected. This proposition does not mean that the doctrine of restraint of trade is altogether excluded, it merely acknowledges that the public interest represented by the doctrine has to be applied in factual context of the agreement, that the parties with proper legal advice are the best judges of what is reasonable in their respective trading interests and that the agreement between them is normally the fairest and most efficient way of drawing the

\(^{\text{188}}\) A court has made a judgment without a full trial. Please see: http://dictionary.law.com/default2.Asp?selected=2063&b does for more information on this. (Retrieved: 6\(^{\text{th}}\) of April 2009).

boundaries.”\textsuperscript{190} This was also the approach in the APPLE CORPS v APPLE COMPUTERS case in which Taylor LJ explained: “If one party to such an agreement, dissatisfied with his bargain, can by challenging its enforceability require the court to explore and adjudicate upon the validity and strength of the other's rights country by country, then such an agreement would totally fail to achieve its object of avoiding disputes and litigation. A settlement agreement would settle nothing. It would merely set the stage for the very lengthy and expensive litigation sought to be avoided.”\textsuperscript{191}

As we see from the SKY, WWF, and APPLE cases mentioned above, the French and English Courts seem to favor and respect any agreements existing between the parties. They find that a mutual beneficial bargain is more efficient for the parties, and therefore enforcement of such bargains is necessary. Nonetheless, not all national courts follow this practice. In Poland, a decision from the Supreme Administrative Court confirmed on appeal the decision by the Polish Patent Office to reject a registration of a mark, because of the existence of a similar registered mark. This rejection was made even though the party had achieved a letter of consent from the owner of the existing mark. The Supreme Administrative Court explained in its decision that a letter of consent allowing the application was insufficient grounds to register a trademark since Poland has not implemented Article 4(5)\textsuperscript{192} of the Trademark Directive.\textsuperscript{193}

As illustrated above, national courts have differing practices in evaluating coexistence agreements, and there are divergent outcomes at the OHIM. Nonetheless, it seems clear that the OHIM has an intention to respect national decisions (if the agreement is deemed unclear and ambiguous) to secure the reliance that is expected by the parties to a contract. Though, this leaves the companies in the dilemma of estimating when an agreement is in fact unclear and ambiguous, and surely more guidance is needed in this area.

\textsuperscript{190} See note 187, para. 42 & 43.
\textsuperscript{191} Apple Corp v Apple Computers [1991] 3 CMLR 99, para. 149.
\textsuperscript{192} Article 4(5) Trademark Directive reads: The Member States may permit that in appropriate circumstances registration need not be refused or the trade mark need not be declared invalid where the proprietor of the earlier trade mark or other earlier right consents to the registration of the later trade mark.
\textsuperscript{193} Please see: http://class46.eu/2008/01/poland-consent-letter-is-not-enough.html.
3.2.3. United States Case Law

Different legal authorities throughout the world evaluate coexistence agreements differently. The EU consists of many national legal systems each with their own approach to coexistence agreements. Furthermore, as we saw in [Section 3.2.1. Decisions by the OHIM] above, the OHIM has been reluctant give too much weight to coexistence agreements for various reasons. In the US, on the other hand, there are a number of rulings regarding coexistence agreements, and the Courts and Tribunals in the US seem to have a more clear approach as to how they handle disputes about these agreements. The US courts expressly rely on coexistence agreements, and have in several cases merely evaluated whether there was breach of contract. The case of RON CAULDWELL JEWELRY INC. (opposer) v CLOTHESTIME CLOTHES INC. (applicant) is an example of this approach. The parties entered into a coexistence agreement regarding the use of the mark EYE CANDY. However, the opposer was (seemingly) unaware of the full contents of the agreement and chose to oppose one of the applications for registration of the mark EYE CANDY that the applicant had pending. The opposer claimed that the basis for this opposition was that the coexistence agreement was not clear and unambiguous, adequate consideration was not provided for and the applicant was in breach of the agreement. In this case the sole concern of the Trademark Trial and Appeal Board (TTAB) was whether the contractual terms had in fact been breached or not. The court found that the agreement in fact was clear and unambiguous and stated that “interpretation of an agreement must be based, not on the subjective intention of the parties, but on the objective words of the agreement.” In regards to consideration, the TTAB evaluated this point to determine that the contract was in fact enforceable (in accordance with contract law please see [Section 2.4.1.2. Enforcement]). The TTAB found that the coexistence agreement evidenced consideration: “(...) in exchange for the opposer not objecting to the applicant’s use and registration, the applicant indicated that the opposer’s use for its store was acceptable”.

The opposer had at one point sent a notice to the applicant about possible confusion, and

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194 The opposer claims that he was unaware of the second application for registration in the agreement. This application was in fact mentioned by serial number in the coexistence agreement.
195 Consideration is discussed in [Section 2.4.1.1. Bargain Theory]
196 Ron Cauldwell Jewelry Inc. v Clothestime Clothes Inc. (opposition No. 121,784), p. 11.
believed that the applicant had breached the contractual terms in regards to this. The court found that the applicant had been responsive to this notice, and therefore had not breached the contract and had fulfilled its obligations to cooperate to resolve any confusion (as outlined by the contractual terms). The court did not examine the effect on the public in this case, which might be surprising, however, this approach could be explained by the fact that any possible overall effect on the public would be negligible, and in turn it was most appropriate for the court to solely rely on the contract. In further support of this approach is the ruling in the case of TIMES MIRROR MAGAZINE (plaintiff) v FIELD & STREAM LICENSES (defendant). In this case the plaintiff sued for breach of contract and trademark infringement and sought cancellation of the coexistence agreement between the parties. The parties both had a long history of using the mark FIELD & STREAM and decided to coexist by dividing the product classes in which the mark could be used. The coexistence agreement was modified several times to accommodate changes and problems arising to avoid court litigation. In 1996 the defendant licensed the trademark to a third party producing fishing and hunting apparel (the theme of the plaintiff’s magazine) and this resulted in the plaintiff’s lawsuit for breach of contract. The plaintiff’s arguments for invalidating the agreement were based on the substantial consumer confusion and injury to public interest that the agreement would lead to. Also in this case the court based its ruling on the terms of the contract and stated: “In general, courts considering negotiated agreements governing mark use accord them greater deference that they give to the equitable defenses of laches and acquiescence.” Here the court indicated the weight it accords to the terms of the contract, even so in the following comment the court tacitly acknowledges that there are situations in which public interests will prevail over contract enforcement: “We hold that in order to obtain rescission of a freely bargained trademark contract, a party must show that the public interest will be significantly injured if the contract is allowed to stand. We have no doubt that there are situations in which consumer

199 Times Mirror Magazine v Field & Stream Licensing Co. 294 F.3d 383, 384, US Second Circuit Court of Appeals.
200 Ibid, Part IV Voiding the Agreement on Public Policy Grounds.
201 The legal doctrine that a legal right or claim will not be enforced or allowed if a long delay in asserting the right or claim has prejudiced the adverse party (hurt the opponent) as a sort of "legal ambush." (Definition retrieved: April 17th, 2009, from Source: law.com Dictionary).
202 See note 199. Part IV Voiding the Agreement on Public Policy Grounds.
confusion will cause such harm." In this case the court came to the conclusion that the harm to the public, by letting the contract stand, would be minimal, which is not sufficient to outweigh the public interests in holding the parties responsible for their contractual commitments.

It is clear that the US courts approach coexistence agreements as legitimate contracts that should be enforced. Though as explained above the courts still consider public interest and consumer confusion more important factors in trademark disputes.

4. APPLYING THEORY TO THE CASE STUDIES
Trademark coexistence agreements cover areas of both trademark law and contract law and their formation therefore necessitates consideration to both areas of law. In this section we will outline the main issues within each area that the parties need to be aware of and consider, to avoid breakdown of the agreement.

4.1. Trademark Issues in the Case Studies
When signing a coexistence agreement there are areas of trademark law that Lavaria and Birks Fabrikker must consider. These issues are especially related to consumer confusion, assessment of such confusion by courts, public interest and competition law and finally, consideration of different consumer groups.

4.1.1. Likelihood of Confusion
When Lavaria and Birks Fabrikker are considering entering into a coexistence agreement with similar trademarks, respectively the marks RIELIS and RILIS, there are certain considerations the companies should make in order to obtain the goals of trademark protection. For Lavaria the coexistence agreement means that it can ensure continued

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203 See note 199. Part IV Voiding the Agreement on Public Policy Grounds. Such a situation arose in the dispute between Merrell Pharmaceuticals Inc. and Allergan Inc. reported in The Eleventh Annual Int’l Rev. of Trademark Jurisprudence, 94 Trademark Rep. 277, 355-56 (cited in Moss, M. (2005) Trademark "Coexistence" Agreements: Legitimate Contracts or Tools of Consumer Deception, where it was found that even though the coexistence agreement between the parties spoke in favor of the registration of the mark Allegra, it was refused due to the potential harm that confusion could lead to.

204 See note 198, p. 15.
existence in the local market place, i.e. Spain, whilst Birks Fabrikker may expand as it pleases for now. Since the companies are using similar trademarks they should do their best to avoid confusion in the eyes of consumers because an important reason for having trademark protection is just that – preventing consumer confusion. Similar trademarks may legally exist side by side in different product or geographical markets, and since Lavaria and Birks Fabrikker have decided upon a division of geographic markets this helps counteract the likelihood of confusion of their local consumers. This arrangement makes the agreement more in line with the original purpose of trademark law – to protect consumers.

Lavaria should keep in mind that when it signs a contract which includes conditions under which their trademark can coexist with Birks Fabrikker’s without likelihood of confusion, please see [Section 8.3. Appendix 3: Sample Trademark Coexistence Agreement, Article 7], it cannot argue for likelihood of confusion if it decides to oppose the registration for a CTM afterwards. This was illustrated in the COMPAIR case where the Second Board of Appeal found that the agreement between the parties had specifically been conducted to avoid confusion in Germany, and when the opposing party had argued for possible confusion between its German mark and the applicant’s CTM this was rejected.

4.1.1.1. Factors Courts Will Consider In Assessment of Likelihood of Confusion
In case of a dispute arising between the contracting parties in the future, for example if Lavaria decides to apply for a revocation decision or the like because of a disagreement between the parties, it should be aware that courts will focus on likelihood of confusion in their assessment. In fact likelihood of confusion has, as illustrated in [Section 3.2.1. Decisions by the OHIM], been the main focus of the OHIM when it looks into a dispute which concerns CTMs and coexistence agreements. This type of assessment can for example be found in the OMEGA ruling where the OHIM disregarded the underlying agreement between the parties and then moved on to assess likelihood of confusion under Article 8 CTMR.
In general terms, courts will make an assessment of likelihood of confusion by looking at the similarity of the trademarks and products sold, the strength of the original mark, if there are overlapping consumer groups, if the goods are sold through the same retail outlet and the sophistication of buyers (please see [Section 2.3.2.1. Infringement and Confusion]). Firstly, in the case of Lavaria and Birks Fabrikker’s products these are similar/identical since both companies are selling detergent, thus indicating higher likelihood of confusion. Secondly, the strength of the original mark (Lavaria’s RIELIS is the oldest mark) is quite strong in Spain as it has gained a great market share here over the past 40 years, indicating less likelihood of confusion. Thirdly, Lavaria and Birks Fabrikker have overlapping consumer groups as both companies are selling detergent. However, evidently the two companies are not selling in the same markets because RIELIS is only sold in Spain whilst RILIS is sold elsewhere (predominantly in Scandinavia for now), as long as the companies are operating in geographically different market this indicates a lower likelihood of confusion. Fourth, both companies are presumably selling their detergent through supermarkets and the like. Nonetheless, it seems highly unlikely that they are selling through the same retail outlet, due to their geographically different markets. Fifth, sophistication of buyers of household products, such as detergent, is generally not high because consumers are commonly less discerning when purchasing everyday products as opposed to purchasing luxury products, which in turn indicates a higher likelihood of confusion.

4.1.2. Public Interest and Competition Law

In the assessment of likelihood of confusion public interest factors are an important aspect that courts will consider. If the courts find that the coexistence agreement is contrary to public interest they can render the agreement invalid, please see [Section 2.2.3. What Should the Agreement Include and What Happens Afterwards?]. In the WWF case, which concerned a dispute brought before the English court, the court considered whether the agreement between the parties was invalid on grounds of harm to public policy. Here the Court of Appeal found that it was in the interest of everyone, including the public, that the dispute was solved by agreement rather than litigation (please see discussion under [Section 3.2.2. Decisions by National Courts]). This will, however, not be the case in all disputes, as
was also shown in the TIMES MIRROR MAGAZINE v FIELD & STREAM LICENSES case, please see under [Section 3.2.3. United States Case Law], the courts acknowledged that there are situations in which public interest will prevail over contract enforcement. In this specific situation, however, the courts found that the agreement would not lead to such harm to the public interest that the parties should not be held responsible for their contractual commitments. It should be kept in mind though that the US courts play a different role than the OHIM does due to the fact that the US market is less regulated than the EU, and therefore public interest factors do play a larger role in the US courts’ assessments. However, what the parties should bear in mind is that if a dispute arises and it is appealed through the European courts (i.e. the CFI and the ECJ) there will be more focus upon the issue of public interest factors. One of the elements of public interest is consumer confusion, as discussed above, and it is therefore, also in regards to public interest factors in Lavaria and Birks Fabrikker’s best interest to draft an agreement that is not capable of confusing their consumers and that ensures that their trademarks can function as origin indicators, please see [Section 8.3. Appendix 3: Sample Trademark Coexistence Agreement].

Another public interest consideration the parties should keep in mind is that of competition law. In Lavaria and Birks Fabrikker’s case this would especially concern their decision to divide markets between them, and whether the agreement is restraining competition, because courts will override the agreement, even if validly formed, if they find this to be the case. The courts assessments will generally be made in regards to if the agreement results in a virtual monopoly that is hindering competitors from entering the market for similar goods. For Lavaria and Birks Fabrikker it is highly unlikely that the coexistence agreement results in a virtual monopoly since there are several other producers of detergents, and there are also several other words their competitors can use to signify their product efficiently. Furthermore, coexistence agreements do not generally violate competition law. Nonetheless, Lavaria and Birks Fabrikker are advised in any case to

205 Please see [Section 2.4.1.2. Enforcement].
206 See note 198, p. 19.
always have competition law and the public interest in mind when they make an agreement of coexistence.

4.1.3. Mobile Consumers and Coexistence Agreements

In the case study we raised the question of whether the customers of Lavaria can securely rely on the recognition of, and experience with, the trademark they know in the future, even if they are highly mobile.\textsuperscript{207} Albeit the local consumers in Spain only have to relate to the one detergent mark, RIELIS, in the Spanish market, there will still be some consumers that through travel will meet the similar mark RILIS in another geographical market which in turn could cause confusion between the two trademarks. Lavaria should therefore as a starting point, before they sign the agreement, consider the situation with or without the agreement, i.e. how many consumers will benefit from the coexistence agreement and the continued existence of the trademark RIELIS versus how many consumers might potentially be confused by the agreement.

If the parties decide not to coexist potential conflict between the parties might lead to a situation in which:

- Either Lavaria or Birks Fabrikker can no longer use their trademark to sell the detergent in the future due to a court decision; or
- The companies’ reputation might be harmed by an ongoing dispute resulting in reduced sales and lower perceived value of the trademarks.

If, on the other hand, the parties decide to coexist:

- The parties can coexist peacefully and reduce the risk of expensive litigation;
- Lavaria’s customers can continue to enjoy the benefits of recognition and reduced search costs from the trademark RIELIS they know so well;
- Birks Fabrikker’s customers can also enjoy the same benefits from having RILIS on the market.

Similar trademarks can peacefully coexist on the market as long as both companies’ trademarks can convey accurate information about the products they represent. Considering

\textsuperscript{207} This is question 3, which was raised in [Section 1.5. Illustrative Case Study].
the fact that all the Spanish consumers will enjoy benefits from having the continued existence of the trademark RIELIS, while only a small portion of the Spanish consumers, that are mobile, might experience being confused between the two trademarks, it is highly likely that the benefits of having the agreement will outweigh the negative effects it has on the mobile consumers. In fact, most of the Spanish consumers will be protected through the coexistence agreement because it will ensure the continued existence of the trademark RIELIS in the Spanish market, leading to lower search costs and a high level of quality which is adapted to the specific needs of the Spanish consumers. Therefore Lavaria would benefit from coexisting with Birks Fabrikker for now, taking their business plans and ambitions into consideration. Nevertheless, Lavaria and Birks Fabrikker should always keep in mind that with a coexistence agreement they also have responsibilities as in accordance with trademark law to obtain the positive effects their trademarks have in the market. The parties should also keep in mind that maintaining the economic effects of trademarks by reducing search costs and maintaining high quality is essential if they want to enjoy the benefits of higher profits and increased goodwill in the market. If the coexistence agreement between Lavaria and Birks Fabrikker will create or sustain consumer confusion the benefits consumers enjoy will evaporate and the efficiency of trademark protection will be eliminated. However, by reducing search costs and maintaining high quality both the companies’ and the consumers’ interest will be attained.

4.2. Contract Issues in the Case Studies
In addition to making considerations related to trademark issues the parties must also consider a number of contractual issues in order to maximize their benefit from the coexistence agreement.

As explained in [Section 3.2. Trademark Decisions on Coexistence Agreements] different courts’ legal assessment can roughly be divided into three approaches. For Birks Fabrikker and Lavaria to create legal certainty, it is important that they consider how their agreement will be treated in case of a dispute.
The parties must utilize their resources in the most efficient manner possible and this entails making an agreement with the lowest transaction costs and most certainty. The parties must consider how to avoid any breakdown of the contract, which will lead to a legal dispute. In order to make an evaluation of how this can be done, the parties must essentially take a number of factors into consideration. The factors include: validity of the contract according to principles of contract law; which contractual terms that should be included in the agreement and the possible legal assessment of the appropriate legal forum.

4.2.1. Validity of the Contract According to Principles of Contract Law

In [Section 3.1.1. Community Trademark Regulation and Coexistence Agreements] we discussed that the CTMR seems to recognize the fundamental freedom of contracts. Birks Fabrikker and Lavaria should use the freedom of contract to lower transaction costs and create legal certainty by shaping their commercial destiny rather than awaiting the intervention of trademark law. In order to make sure that an enforceable promise (i.e. a contract) exists, the parties must observe the requirements of the legal forum which will, in case of dispute, hear the case. As we saw in [Section 2.4.1.1. Bargain Theory], the requirements that exist according to the common law approach are: offer, acceptance and consideration. Nonetheless, Birks Fabrikker and Lavaria must observe the requirements of forming an agreement that are applicable to the legal system that will hear the case if a dispute arises since there are certain differences depending upon if the legal system is based upon the common law or civil law approach. Making sure that the contract in fact is valid in case of a dispute is important because the cooperation between the parties involves investments in performance and reliance. In the case study Birks Fabrikker is investing great sums of money before rolling out its multi million euro campaign to conquer the European market, and these investments are partially based on the promise by Lavaria not to oppose or seek to cancel the application for a CTM, and thereby preventing the risk of lengthy litigation. Lavaria on its side can rely on the coexistence agreement to safeguard its future investments to maintain and promote their brand RIELIS in the Spanish market.

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208 CTMR Article 17 – Transfer.
209 The EYE CANDY case offers an example of a dispute in which it was claimed that consideration was lacking and therefore the contract was not valid. Ron Cauldwell Jewelry Inc. v Clothetime Clothes Inc. (opposition No. 121,784), discussed in [Section 3.2.3. United States Case Law].
These investments could be wasted resources if Birks Fabrikker does not keep its promise of not entering into Lavaria’s geographic area (i.e. Spain). For these reasons the parties must pay close attention to the contractual terms and legal assessment to obtain the economic benefits of contracts.

4.2.2. Contractual Terms

For several reasons it will be wise for the parties to include a jurisdiction clause in their agreement. First and foremost, in order for the parties to fulfill the requirements of validity of the agreement they must know what these requirements are. This will ensure that the contract is enforceable in this jurisdiction.

As discussed in [Section 2.4.1.2. Enforcement] when courts enforce contracts this involves a number of actions. The court will: decide on contract formation; engage in contract interpretation; decide whether there has been breach; in case of breach, decide on remedies; and finally, decide to override the contract even if it was properly formed, as discussed above. It is important for Birks Fabrikker and Lavaria to take these actions by the court into consideration as it will ensure enforcement, and will in turn induce efficient reliance.

In [Section 2.2.3. What Should the Agreement Include and What Happens Afterwards?] we briefly discussed what elements should be included in an agreement of coexistence. When drafting the agreement the parties must consider transaction costs and for Birks Fabrikker and Lavaria these include negotiating the terms and drafting the contract (ex ante). Birks Fabrikker has already incurred costs searching for potential conflicting marks. The parties must also consider future transaction costs that will occur when enforcing the contract and monitoring performance (ex post). Birks Fabrikker and Lavaria might find that the cost of anticipating future contingencies, bargaining about their resolution, and describing them in the contract can be high. Nonetheless, it is advisable for the parties to include specific terms as this will give them more legal certainty and create reliance.

Birks Fabrikker and Lavaria could benefit from a relational contract with the possibility of renegotiation of the terms. In this way the parties can rely on future modification and
renegotiation in response to any uncertainties and transaction-specific investments. The parties have already agreed on a future date for review of the contract (1\textsuperscript{st} of February 2016). The TIMES MIRROR MAGAZINE v FIELD & STREAM LICENSES case offers an example in which the parties modified the agreement to accommodate changes and problems arising, to avoid litigation. The agreement came about as a resolution to dispute, and was continuously modified by the parties for a period of over 10 years. Though, again Birks Fabrikker and Lavaria must consider that the possibility of renegotiation can impact the incentives to invest in the contractual relationship. Birks Fabrikker is likely to demand more specific terms, that will ensure that its specific investment in expansion is not lost, whereas Lavaria will be better off with a more incomplete contract with better possibility of renegotiation, in case its plans for the future change. This possibility is especially important for Lavaria as the company is restricting itself to a very limited market. In the case study we raised the question of whether Lavaria has thought about the business environment in 10 or 20 years.\footnote{This is question 1, which was raised in [Section 1.5. Illustrative Case Study].} Overall Lavaria has found that it is likely to be in its own best interest to make a coexistence agreement with Birks Fabrikker, to avoid expensive litigation, however, during the negotiation of the terms Lavaria should consider the possibility of future renegotiation as a solution to this issue. Furthermore, at this point the parties are making an agreement based on geographical markets, nonetheless, in the future it is not unlikely that either of the parties will want to diversify its business, and the parties must therefore consider the importance of including certain product classes, or including a term that requires the parties to inform one another and possibly ask for renegotiation of the contract. In the case study we raised a question regarding how much certainty the parties should ask from one another.\footnote{This is question 2, which was raised in [Section 1.5. Illustrative Case Study].} Lavaria has no plans of international expansion because it feels that it has a good grasp on the Spanish market. However, it is exactly this good recognition in the Spanish market that could lead Lavaria into diversification to other household cleaning products, where the brand recognition would be transferred from the detergent. For this reason Lavaria must make sure that Birks Fabrikker does not enter the Spanish market with these products either. Birks Fabrikker on the other hand, should demand certainty that Lavaria will not oppose to registration of a CTM for other closely related products. For
these reasons, to create legal certainty, the parties must include specific terms to remove any uncertainty that will lead to lengthy and expensive litigation, despite the existing contract.

4.2.3. The Legal Assessment

At the OHIM there is not a clear line of precedence as to how coexistence agreements are treated and how the parties can expect the agreements to influence the legal assessment by the courts if a dispute should arise. The OHIM has put forward several arguments as to why it is not obliged to, or capable of, taking underlying coexistence agreements into consideration in trademark disputes. Please see [Section 3.2.1.1. OHIM Arguments]. However, the parties might still benefit from observing recent case law from the OHIM to gain an understanding of any pitfalls and practice that can be expected. Nonetheless, as discussed in [Section 3.1.1. Community Trademark Regulation and Coexistence Agreements], the Opposition Guidelines have in fact been changed to include certain exceptions to the prior practice of complete non-recognition of coexistence agreements. Agreements can now be taken into consideration if there is no dispute about its meaning OR if there is a national decision on the agreement.

In the OMEGA case the Board of Appeal and the CFI both stated that they did not include the underlying agreement between the parties in their assessment of the case because it was not clear and unambiguous. Nonetheless, the CFI did in fact comment on the terms of the agreement though still stating that the agreement was unclear and irrelevant for the assessment of likelihood of confusion. Birks Fabrikker and Lavaria will benefit from making a clear and unambiguous agreement in several ways. Firstly, there is less likelihood of an actual dispute arising based on the agreement. Secondly, the agreement can be taken into consideration if there is no dispute as to its meaning. In the COMPAIR case the office stated that the agreement could not be taken into consideration because it is private and the OHIM therefore does not have competences to rule on it. The office explained that the agreement should be brought before the German court for interpretation. The importance of the national ruling was further emphasized in the Le MERIDIEN case where the Second Board of Appeal pointed out that the parties must be able to rely on the office to suspend
proceedings while a national ruling on interpretation of the coexistence agreement is obtained. For Birks Fabrikker and Lavaria the national court that might rule on the validity and breach of the agreement, in case a dispute should arise, can become highly relevant for the outcome of the case at EU level. It is important for the parties to choose a jurisdiction clause that will ensure recognition and enforcement of the agreement. This stresses the importance of the parties including a jurisdiction clause in their agreement, as mentioned above. The OHIM is clearly showing its desire to somehow include coexistence agreements in its assessment, but the Office is lacking the jurisdictional competences to interpret the agreements. And at this point in time it is hard to know when the OHIM considers an agreement clear, meaning that a national decision is not necessary. Furthermore, Folliard-Monguiral suggests that parties seeking opposition or action of invalidity should obtain a national ruling on interpretation of the agreement prior to bringing proceedings before the OHIM, please see [Section 3.2.1.4. The OHIM and Jurisdictional Competence]. Even though one cannot rely on the case law from the OHIM as precedence, there seems to be clear evidence to show that national decision on the coexistence agreement will be important for the parties, also in CTM disputes. Even so, in the SKY case the OHIM gave serious thought to a 20 year old agreement, yet contrary to the prior findings of the French court, the OHIM did not find the agreement to be relevant to the opposition proceedings since it did not specifically include the wordmark SKY. This shows that the OHIM will not in all cases follow the interpretation on coexistence agreements that are given by national courts, and thereby it does create some confusion as to the fact that the OHIM has indicated that it wishes to rely on national rulings.

It is uplifting for Birks Fabrikker and Lavaria to know that most national courts seem to be willing to consider and evaluate agreements. As discussed in [Section 3.2.2. Decisions by National Courts] the national courts recognize that it is in the interest of everybody, including the public, to enforce contracts of coexistence, and hold the parties to their promise.

In this section we have discussed various issues that the parties must consider when drafting a coexistence agreement. Based on our findings from applying theory to the case
study, we have drafted a sample agreement as an illustration of the important elements we believe should be included to obtain peaceful and successful coexistence of trademarks in the EU (please find the sample agreement between Lavaria and Birks Fabrikker in [Section 8.3. Appendix 3: Sample Trademark Coexistence Agreement]).

4.3. Applying Game Theory to the Case Study
In this section we will illustrate how the coexistence agreement between Lavaria and Birks Fabrikker can be represented by using game theory to predict what the other party’s strategy will be.

4.3.1. Cooperative Game
Our intention is to apply game theory to the case study to illustrate how the decisions taken by each of the companies influence the other company’s decision making. The question Lavaria and Birks Fabrikker should ask themselves is: “if I believe that my competitor is rational and act to maximize his own payoff, how should I take his behavior into account when making my decisions?”

As we recall from [Section 2.1.1. Applying Economics to Law], according to economic theory individuals are rational. Because the parties are negotiating a binding agreement of coexistence they are, according to game theory, playing a cooperative game in order to plan joint strategies. In this type of game, if the parties can agree upon a binding agreement on division of markets where they can use their respective trademarks, they can ensure peaceful coexistence of their marks and thereby reduce the risk of expensive litigation, thus ending up at a cooperative outcome that makes both parties better off. The most important aspect of strategic decision making is to understand the opponents point of view, and (assuming that the opponent is rational) deducing the likely responses to your own actions.

However, this is not an easy task in practice. From Lavaria’s point of view the question will be if Birks Fabrikker will respect the agreement and thereby not start to sell its detergent in the Spanish market after receiving a CTM. Birks

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213 When we refer to ‘cooperation’ we mean entering into the agreement AND respecting its terms afterwards.
214 See note 212, p. 475.
Fabrikker on the other hand, will have to consider if Lavaria will respect the agreement made and not oppose their registration of RILIS as a CTM, or in the future apply for a cancellation decision, or the like, to the contrary of what has been agreed.

4.3.2. Nash Equilibrium

None of the parties have a dominant strategy in the game because, as explained in [Section 2.1.3. Game Theory and Law and Economics], a dominant strategy is the optimal move for one player to make no matter what the other player chooses to do. In Lavaria and Birks Fabrikker’s case both parties actions are dependent upon what the other party does. If for example Birks Fabrikker enters the Spanish market with its trademark RILIS to the contrary of what has been agreed between the parties, then Lavaria’s most probable strategy would be to make a cancellation application, or the like, at the OHIM regarding Birks Fabrikker’s CTM (a registration in which Lavaria, according to the agreement, has consented to). In such a situation it will not be rational for Lavaria not to act, because if Birks Fabrikker enters the Spanish market with RILIS there is a high probability that the Spanish consumers will be confused between the two marks and consequently this could lead to lower perceived value of Lavaria’s trademarked detergent RIELIS.215 This would be the case if the Spanish consumers believe they are buying RIELIS, and then are disappointed about the result and quality of the detergent because their expectations are not fulfilled, and as a result they decide to switch to another brand altogether.

The equilibrium solution for the “game” between Lavaria and Birks Fabrikker (i.e. the coexistence agreement: negotiation and later interaction under the agreement) is not a stable equilibrium as the parties do not have dominant strategies. In this sort of situation one could apply the Nash equilibrium concept because it is a more general equilibrium solution. As we recall from [Section 2.1.3. Game Theory and Law and Economics], a Nash equilibrium is a set of strategies (or actions) in which each player is doing the best it can given the actions of its opponent. A Nash equilibrium is stable in that each player has no

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215 As we are assuming that the Spanish consumers will perceive Lavaria’s brand RIELIS as better quality because it is tailor made to fit the preferences of the Spanish people.
incentive to deviate from its Nash strategy. Lavaria and Birks Fabrikker have chosen to enter into a coexistence agreement in which Lavaria will only operate in Spain with its trademark RIELIS and Birks Fabrikker may expand as it pleases with its trademark RILIS for now, because both parties gain from this solution by being able to follow their preferred strategy and reducing the risk of expensive litigation, this leaves both the parties to follow the strategy of their choice.

Table 1

<table>
<thead>
<tr>
<th>Birks Fabrikker</th>
<th>Lavaria</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No agreement (1)/ Make agreement and subsequently breach it (2)</td>
<td>Sq. 1</td>
<td>2,2</td>
<td></td>
</tr>
<tr>
<td>Make agreement and respect it (3)/ Make agreement and respect it (4)</td>
<td>Sq. 2</td>
<td>5,0</td>
<td></td>
</tr>
<tr>
<td>Make agreement and respect it (3)/ Make agreement and respect it (4)</td>
<td>Sq. 3</td>
<td>0,5</td>
<td></td>
</tr>
<tr>
<td>Make agreement and respect it (4)</td>
<td>Sq. 4</td>
<td>10,10</td>
<td></td>
</tr>
</tbody>
</table>

The payoff matrix above, Table 1, represents a simplified example of such a game. The outcomes can be explained in the following way:

**Square 1:** Lavaria and Birks Fabrikker choose to not enter into an agreement.

- Here both the parties achieve expected returns of 2. This gain of 2, as opposed to gaining 0, is due to the fact that there might still be a few benefits in not cooperating. These benefits include: No transaction costs incurred due to negotiations and drafting...

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216 See note 212, p. 478.
217 The numbers in the payoff matrix are randomly chosen and are meant to represent relative gain/loss that could be expected in the specific situations of cooperation and non-cooperation in the case of coexistence agreements.
219 As suggested in [Section 6.1. Further Research] a more advanced game could have been developed, and in such a game the expected returns for each party might differ due to the size and market coverage of the company. E.g. Birks Fabrikker might have greater returns from not entering into an agreement because it is highly dependant on its CTM registration in its expansion plans and would possibly benefit more from settling any possible dispute now rather than enter into a long-term relationship with Lavaria.
an agreement, free expansion possibilities, etc. Nonetheless, these benefits are rather uncertain and both parties are faced with the risk of losing in the future if they end up in litigations or insurmountable disagreements which could lead to an unfavorable reputation, or the like, and in turn leading to lower sales etc. Therefore the expected return is set to 2 rather than a higher number.

Square 2 & 3: The parties enter into an agreement of coexistence but then one of the parties chooses to deviate from the agreed terms:

- This would lead to an expected return of $5^{220}$ for the deviating party (respectively Birks Fabrikker in Sq.2 and Lavaria in Sq.3) due to the fact that: if for example Lavaria chooses to follow the agreement and Birks Fabrikker chooses not to follow it (please see Sq.2 in the payoff matrix), and instead enters the Spanish market with its detergent RILIS, then it could gain market shares in the Spanish market and thereby earn higher profits.
- The expected gains for the deviating party would be 5 and not 10 due to the fact that the party has wasted time and resources on making the agreement. In addition the breaching party will also experience risks associated with potential costs from litigations that might follow due to breach of the agreement. In this lies the fact that Lavaria, on its side, would, as explained above, perhaps experience that consumers are confused between the trademarked detergents RIELIS and RILIS, and thus end up loosing customers due to confusion between the two marks because of lower perceived quality of the detergent etc. and therefore bring Birks Fabrikker to court.
- The expected return is 0 for the party that follows the agreement, due to the fact that the party that enters into the agreement and follows it has wasted time and resources on making the agreement that the other party chooses to deviate from. In for example, Lavaria’s case, it might end up loosing market shares in its own market. In addition, due to high litigation costs none of the parties might have enough resources to go to court. This is not an optimal solution.

Square 4: The parties enter into the agreement, and both parties respect it.

\[^{220}\text{In a more advanced game the numbers would reflect the relative benefit of deviating. E.g. Lavaria might benefit more from deviating, as it has restricted itself to operate in one market, whereas Birks Fabrikker would gain less because it already gas the acceptance to expand throughout the rest of the EU market.}\]
Both parties would gain more by entering into an agreement and following it. As a result, the parties will end up in a Nash solution, with expected returns of 10 for both parties, due to the fact that since the parties can prevent harmful litigations, unfavorable reputation and avoid wasted transaction costs in making an agreement, none of the companies have any incentive to deviate from its Nash strategy as they will both have higher expected returns and lower risks, and thus they will end up in a stable equilibrium solution (i.e. Nash equilibrium).

One could also attempt to imagine how this situation would be if we include the assessment by the OHIM as an assumption in the game. Since the OHIM has shown reluctance in looking into coexistence agreements it would be interesting to see how the parties interact with this variable in mind. If the parties choose to enter into an agreement of coexistence, having the OHIM’s past behavior in mind, this might lead to a situation where the parties enter into an agreement and then both parties would have an incentive to breach the agreed terms, and could in bad faith act contrary to the agreement made if this would result in increased expected returns. This situation might happen since they know that it is highly likely that the OHIM will not accept the agreement as evidence in an ongoing dispute, please see [Section 3.2.1.1.1. OHIM Bodies Cannot be Bound by Private Agreements]. As an illustration we can use the example of Lavaria intentionally opposing to the registration of a CTM for Birks Fabrikker’s trademark RILIS, to the contrary of what the parties have agreed, and in turn the OHIM could, either because they interpret the agreement as being ambiguous or in general decides not to look into it, disregard the underlying agreement between the parties. Subsequently, Lavaria might find that it can gain from opposing to the registration of a CTM of RILIS if they decide that they in fact do want to expand within Europe after all because they find that the expected return from this expansion is high.

Nonetheless, as a result both Birks Fabrikker and Lavaria will experience high transaction costs due to breach of the agreement with few offsetting benefits (i.e. if the agreement is followed by the parties, they could save time an money by preventing possible expensive litigations, not experience unfavorable reputation, avoid wasted transaction costs in making the agreement etc.). Moreover, as we illustrated in the payoff matrix above, both parties will in fact benefit from following the agreement and cooperating because it is the optimal
strategy. It is therefore highly likely that the parties (even with the included assumption of the OHIM’s reluctance to look into the agreement) would cooperate in any case and end up in the Nash solution in the lower right corner of the payoff matrix.\textsuperscript{221}

We could also add a further assumption to the game: that the OHIM in fact shows that it will look into coexistence agreements and will include them in its assessment of opposition or cancellation proceedings, or the like. In these cases the parties will have more incentives to follow the agreement because they know that the OHIM will penalize the party that decides to deviate. In such a situation the payoff matrix would change. The upper right corner and lower left corner would then show lower expected returns for the party that chooses not to follow the agreement. In fact one could argue that there are no or very few payoffs the breaching party could gain from not following the agreement because of the expected sanctions. This would, in a perfect world, mean that in any situation both parties entering into a coexistence agreement would do whatever they can to follow the agreement and its terms. In this scenario the OHIM, on its side, could benefit from having a lower number of opposition and cancellation cases, or the like, that are brought before the Office, and in addition, national courts would also benefit from having fewer litigations related to coexistence agreements.

4.3.3. Repeated Games

The world is not static and therefore in the cooperative relationship between Lavaria and Birks Fabrikker it makes more sense to see the companies’ actions as being repeated over and over again and that payoffs will be received over and over again. In repeated games the strategies of each player can become more complex. For example with each repetition of the game illustrated in the payoff matrix above, each company can develop a reputation about its own behavior and it can also study the behavior of its competitor.\textsuperscript{222}

\textsuperscript{221} This may also be the explanation for why the majority of coexistence agreements are never disputed and remain within the private scope, as mentioned in [Section 2.2.1. Background to Trademark Coexistence Agreements].

\textsuperscript{222} See note 212, p. 485.
4.3.3.1. Tit-for-Tat Strategy

If we apply a tit-for-tat type of game to Lavaria and Birks Fabrikker’s coexistence agreement then one can imagine what will happen when either party responds the its opponent’s previous move. What happens when both the parties are cooperating? And what happens when one party is retaliating against the uncooperative party\(^{223}\) and vice versa? In practice any given strategy would work better against some strategies than it would against others, and the objective is to find which strategy that is most robust and would work best on average against all, or almost all other strategies.\(^{224}\) In regards to the coexistence agreement between Lavaria and Birks Fabrikker the best strategy for both parties would be to coexist since they can both operate in the market they prefer and follow the strategy they see best fit, while reducing the risk of litigations, and ensure continued existence of their trademarks RIELIS and RILIS. In this situation both would respect and follow the agreement as long as the other party continues to cooperate in the same manner. Nevertheless, if either Birks Fabrikker or Lavaria decides not to cooperate the cooperating party would consequently choose not to cooperate in the next sequence of the “game”. Drawing on the example given above in [Section 4.3.1. Cooperative Game], if Birks Fabrikker decides to start selling its detergent in Spain despite the agreement made, in an attempt to also gain market shares in Spain to achieve higher profits, Lavaria would retaliate by going to the OHIM and oppose registration of RILIS as a CTM, or apply for a cancellation decision. If the parties on the other hand decide to follow the agreement made they can avoid this type of a situation and instead coexist peacefully in their preferred markets.

In regards to tit-for-tat strategies there are two types of situations that could occur depending on whether the game is infinitely repeated or if it is based on a finite number of repetitions. Since the agreement between Lavaria and Birks Fabrikker does not have an end date, they have merely decided upon a date of review of the agreement which is at the 1\(^{st}\) of February 2016, please see [Section 1.5. Illustrative Case Study], the game can be said to be an infinitely repeated game. This indicates that, since the parties are assumed to be rational,

\(^{223}\) When we refer to the uncooperative party we mean a party that enters into an agreement of coexistence and then chooses not to follow the agreed terms.

\(^{224}\) See note 212, p. 484.
they do not have any incentive to deviate from the agreement and would thereby choose to cooperate and follow the agreement. This can be explained by the fact that because the game is infinitively repeated, the cumulative loss in profits leading from non-cooperation (loss of reputation, risk of litigation, etc.) must outweigh any short-term gain (higher profits in the market they enter) that are accrued by deviating from the agreement. In the case of coexistence agreements the cumulative loss of profit would be higher than the short term gain of deviating, because the agreement allows for the parties to peacefully coexist and secure their investments. Please see [Section 1.5. Illustrative Case Study] in which we explained the parties’ incentives for entering into an agreement of coexistence in the first place.

To sum up our findings we have found that both in a one-period game and under repeated games both the parties have incentives to follow the agreement. In any case the parties would gain more from following the agreement than not following it. This is furthermore in line with contract law principles, which stipulate that if the parties do not gain from an agreement they would not enter into it in the first place.

5. ECONOMIC EFFECTS OF COEXISTENCE AGREEMENTS

5.1. Economic Analysis of Trademark Coexistence Agreements
When using economics to analyze law the underlying assumption is that individuals are rational maximizers. We can therefore expect that economic actors will act in a way that helps them reach their goals. One question that arises in this thesis is whether other affected parties (the consumers (the public)) are hurt by this pursuit of goals by companies entering into coexistence agreements?

Welfare economics entail finding how decisions of several individuals affect the wellbeing of individuals as a group. Consequently we must be aware of which criterion we use to measure efficiency. Please see [Section 2.1.1.1. Welfare Economics].

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225 Ibid.
The Pareto criterion is based on the presumption that an optimal allocation will maximize the well-being of one individual relative to the well-being of others being constant. When the parties enter into an agreement they will only do this if it improves their own well-being (assuming they are rational), i.e. they attempt to maximize their profits. If only the two parties were affected by the agreement this would be a Pareto optimal solution. Nonetheless, this is not the case and the question is: how are the companies taking other affected parties into consideration in their analysis of efficiency? When we use the Pareto criterion as a measurement of social welfare it is difficult to end up with an efficient agreement for all (taking the consumers into consideration), because it means that nobody can be left worse off. As we saw in the case study, Lavaria might be jeopardizing a very small group of highly mobile consumers’ welfare. However, by making a cost-benefit analysis of the overall situation it became clear for the company that a far larger group of consumers could possibly lose from Lavaria not entering into the agreement, and it would be to the benefit of these consumers that Lavaria secures the continued existence of the trademark RIELIS through such an arrangement. Yet, either way this is not a Pareto efficient outcome because someone will be worse off as a result of the agreement. Using the Kaldor-Hicks criterion, on the other hand, would indicate to us whether we are moving towards Pareto efficiency. According to this criterion it becomes clear (drawing on the example of Lavaria from our case study) that if the greater group of consumers in Spain, who would benefit from the agreement, could hypothetically compensate the smaller group of highly mobile consumers then in fact the agreement would result in a Kaldor-Hicks improvement. By looking at the agreement with a cost-benefit analysis in mind we clearly see that the agreement is an efficient solution to the issues that the companies are facing.

Maximization of the legal system according to the wealth maximization method is based on the fact that a transaction is desirable if it ends up increasing the sum of wealth for the parties involved. In terms of efficiency we will be arguing for a system that leads to Kaldor-Hicks improvements, indicating that we are moving towards Pareto efficiency, in the form of taking all affected parties into consideration.
5.2. Economic Effects of Coexistence Agreements on Trademarks

In this section we will look into how coexistence agreements impact the effects of trademarks and their value in the market. By using law and economics we will sum up our evaluations of coexistence agreements in a positive analysis and investigate if these agreements in fact are efficient adaptations to the problems facing trademark holders operating at a national level who wants to apply for a CTM, and suddenly find that there is one (or more) similar trademarks that exists in another area in the EU.

5.2.1. Rational Economic Actors

The main and original purpose of protecting trademarks through law is to protect consumers, and as we recall from previous discussions (e.g. please see [Section 2.3.2.1. Infringement and Confusion]), trademark law aims to avoid confusion of consumers. The main question regarding coexistence agreements is if they in fact do lead to consumer confusion and therefore are contrary to the goals of trademark law since, in effect, these agreements allow for similar trademarks to coexist peacefully in the market.

As described above we assume that individuals behave in a rational way. This would indicate that it is highly likely that a rational maximization for the trademark holder entering into a coexistence agreement would be not to undermine the economic effects of trademarks. In this lies the fact that it is in the trademark holder’s main interest to have a strong and recognizable trademark that helps consumers identify the provenance of its products based on the quality they utilize, and not to make agreements that would potentially make consumers see their products as of lesser quality. In addition, great sums of money are usually invested in the trademarked product and the trademark itself in the form of promotion, marketing, product development etc. which induces repeat purchases. The only rational goal of the trademark holder would be to ensure the continued consumer benefits so that he can reap the financial benefits of his hard work. There would be no reason for the parties to enter into an agreement that could diminish the functions of trademarks, as this would not yield a Pareto efficient outcome. A Pareto efficient outcome for the parties would be to draft an agreement of coexistence that makes one party better off
without it making other parties (other affected parties such as consumers) worse off. When the parties draft an agreement it is therefore in their own main interest to maintain the same quality and continued search costs that the product conveys.

5.2.2. Economic Rationales behind Trademark Protection

One of the economic rationales behind trademark protection is to obtain reduction in search costs, which is also a factor that presupposes legal protection of marks, please see [Section 2.3.3.1. Search Costs for Consumers]. When the OHIM assesses trademark cases it does correct in looking into confusion of consumers since it then aims to uphold the economic benefits of trademark law. However, as was shown in the OMEGA case, please see [Section 3.2.1.1.1. OHIM Bodies Cannot be Bound by Private Agreements], when neither the OHIM nor the CFI looked into the underlying agreement which seemed to be valid and legally binding from the outset, and merely focused upon consumer confusion, this is not economically efficient considering the fact that the parties had already incurred *ex ante* transaction costs by drafting an agreement that would eventually benefit both consumers and the companies. When the agreement was dismissed this did in fact compromise economic efficiency, and below we will discuss the importance of enforcement to obtain the economic benefits of contracts. *The question we raise is therefore how can we better ensure a system in which the OHIM looks into coexistence agreements and ensures a more economically efficient assessment of such arrangements?*

There is a need to obtain a balance between freedom of contract and the protection of consumers. Since a trademark is a public right that does have some value to consumers it is correct of the OHIM to assess if these agreements are creating possible consumer confusion. Even though economic actors are assumed to be behaving rationally when one is taking the approach of economics, this will not be the case in all situations, and therefore we do need the OHIM to balance these rights. There is a limit to what the parties can contract out of and public interest factors should therefore be the top priority. We could also draw upon the example of Kaldor-Hicks efficiencies to show that the OHIM should bear in mind the balance between the consumers that will lose from a coexistence agreement (in the case study these are the mobile consumers) versus those who will gain (in
the case study these are the contracting parties and the immobile Spanish consumers). In most cases the economic actors will also have incentives to keep the consumers’ main interest at heart since they do in fact have the power of ensuring the continued existence of the trademarked product. That is, if they wish, consumers can *kill the brand* if they are unsatisfied with the product they buy (i.e. stop buying it).

### 5.2.2.1. Information Asymmetry

Information asymmetry problems are resolved through the use and protection of trademarks since they help identify the origin of goods and, in so doing, say something about the quality they signify. Protection of trademarks also leads to maximization of social welfare since producers have an incentive to invest in quality in order to create repeat purchases, while consumers can enjoy these benefits through reduced search costs and more predictable quality. When trademark holders are entering into coexistence agreements they are in fact striving to maintain the economic effects of trademarks, and might also enhance them, to protect consumers that rely on them when they are purchasing these products. This can be illustrated by looking to the case study under [Section 1.5. Illustrative Case Study] where we explained that Lavaria can ensure continued existence of its trademark and avoid disputes that could hurt its products’ reputation and company image through a coexistence agreement, as well as secure continued existence of its trademark to the benefit of its local consumers that rely on the trademarked product. On the other hand, information asymmetry problems might also arise if coexistence of trademarks causes confusion because there are now two similar trademarks in the market.

### 5.2.2.2. Procedural Costs

As we recall from [Section 2.3.3.3. Costs of Enforcing Trademark Protection], costs of enforcing trademarks are in general quite moderate. However, there are some procedural costs that might occur when trademarks are being enforced. Some of these costs are administrative costs that occur when one is litigating trademark suits. These costs depend upon the frequency of trademark litigation and the average cost of resolving a trademark suit. If we do not accept coexistence agreements it could lead to a vast increase in oppositions and invalidity cases brought before the OHIM and national courts, which in turn would lead to higher administrative costs. If we on the other hand do accept these
agreements to pre-empt trademark law, money and resources could be saved. In this sense it is more economically efficient to allow for coexistence agreements than to invalidate them. The question we therefore raise is why does the OHIM have this non-accepting behavior towards coexistence agreements when the Office can save money and resources in accepting them?

The other types of procedural costs are error costs of over and under-enforcing trademark rights, which are divided into false positive and negative positive error costs. Please see discussion under [Section 2.3.3.3.1. Procedural Costs]. The false positive error costs are costs that might incur if a party obtains a result he should not have had. If coexistence agreements are not accepted by the OHIM, the weaker party in a situation with similar trademarks might not have enough resources to follow through an opposition or the like at the OHIM. If the parties do not enter into an agreement of coexistence because of fear that the OHIM will not accept it as evidence, this could lead to a situation where the more resourceful party might obtain a CTM registration on the wrong foundation. It would make no sense for the parties to enter into an agreement of coexistence if they know that the OHIM will not accept it as evidence in a dispute. If the parties, however, do decide to enter into an agreement of coexistence and one of the parties decides to apply for a CTM, to the contrary of what has been agreed between them, and the OHIM does not look into the agreement in the litigations, this would be an unfair assessment of the case and a party can end up obtaining a result he should not have had in the first place.

The negative positive error costs might occur if the parties do not enter into coexistence agreement at all because they are not accepted by courts, and because of this, a party might fail to obtain the result he should have obtained because of fear of high litigation costs. If we draw upon the example of Lavaria’s situation from the case study, the company might

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226 SMEs might especially be affected by this because they do not have as many financial resources and might not be able to allocate large amounts to expensive legal disputes.

227 As we saw in the discussion under [Section 3.2.1.1.1. OHIM Bodies Cannot be Bound by Private Agreements] this situation is quite similar to the one in the OMEGA case, where Omega SA disregarded the agreement and applied for a CTM for a specific product class without considering the other parties interest in the similar mark. When neither the OHIM nor the CFI looked into the agreement between the parties, at least in terms of bad faith, the end result was of our opinion at not based upon a fair assessment of the case.
have ended up not being able to use its trademark at all if Birks Fabrikker receives a CTM. This is because Lavaria is an SME with limited resources, and therefore might not have enough resources to follow through an opposition at the OHIM, and could thereby lose its right to use its trademark within the EU. However, by allowing for coexistence agreements, the parties can freely agree upon a peaceful coexistence in the market and can thereby save time and money, and not at least savor their reputation, through such an arrangement.

5.2.3. Economics of Language

As we recall from [Section 2.3.3.4.1. Economics of Language and the CTM System], there are reasons to assume that there is a limited numbers of applicable words and phrases that can be used as a CTM due to culture, language barriers etc. If two parties, in good faith, have found a trademark that functions in their market and across borders a coexistence agreement is a good solution for the parties and the consumers. By doing this they can ensure continued existence of the trademarks and maintain the strength of the mark, which subsequently could in the long run be reduced in case of a dispute. Especially SMEs are affected by not having these coexistence agreements recognized because of their lack of financial resources. This can in turn jeopardize the goals of the Internal Market. If we draw upon the case study, both Lavaria and Birks Fabrikker have found a trademark that functions in their own markets, and in Birks Fabrikker’s case also across borders, in which they have invested large sums of money, and if the parties cannot enter into a coexistence agreement it can lead to a situation where one of the companies cannot use its trademark at all. This will not be an economically efficient solution to the challenges they face.

5.2.4. Effects of Coexistence Agreements on Price and Quality

Another important aspect, regarding the economic effects of coexistence agreements, is the impact they have on price and quality of trademarked products. These economic effects are, however, uncertain as will be explained below.

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228 These effects are discussed by Moss, M. (2005) Trademark “Coexistence” Agreements: Legitimate Contracts or Tools of Consumer Deception, p. 22-23.
In regards to effects on prices, a coexistence agreement which is not restricting the subsequent introduction of products under the specific trademark, might lead to a situation where the parties can save money on marketing expenditures. If one party is using money on advertisement, both can gain from having a higher demand for their products. The effect on consumers from this might be that they experience lower prices since the companies can spend less money on marketing. The coexistence agreement might also lead to increased competition if the two contracting parties operate in the same markets, since the parties can no longer sue for infringement and would have to fight harder for the same consumers. The consumers might then end up paying higher prices for the trademarked products because the parties are spending more money on product differentiation.\textsuperscript{229} Nevertheless, this situation with higher prices might also have occurred without the agreement, since the parties might end up in court litigations, and then impose these costs on consumers. Both of these scenarios presuppose that the parties are operating in the same market, i.e. that there is not a division of geographical markets.\textsuperscript{230}

The other effect that might arise through coexistence of trademarks is in regards to the quality of the trademarked products that are covered by the agreement. On the one side, a party to the coexistence agreement might end up investing less money in quality and instead free-ride on the other party’s good reputation. On the other side, the parties might end up investing more money in the quality of the product in order to differentiate itself from the other, leading to increased competition in the market and better products for the consumers. These mentioned effects on price and quality are nevertheless unpredictable, and will depend upon who the contracting parties are, the type of products they carry etc.\textsuperscript{231}

\textbf{5.3. Efficiency of Contractual Relationships}

In the previous section we described how coexistence agreements impact the effect of trademarks and their value in the market. We assume that the companies that enter into

\textsuperscript{229} The consumers might also experience lower prices as a result of competition. This will happen if the companies start to compete on prices to increase their market share.
\textsuperscript{230} Ibid, p. 22.
\textsuperscript{231} Ibid, p. 22-23.
these agreements are rational maximizers and that they will not act in a way that will undermine the economic effects of trademarks. This indicates that it in fact will be in the interest of the consumers to allow the companies to ensure the continued existence of their trademark through a coexistence agreement. Often these agreements will result in a Kaldor-Hicks improvement since economic actors will have the consumers’ interest in mind when drafting agreements – after all, the faithful consumers are the companies’ biggest asset. We now turn to the economic efficiency of having contractual relationships, and sum up in a positive analysis, the economic effects we have found throughout the thesis.

5.3.1. Coase Theorem and Coexistence Agreements

As we recall from [Section 2.4.1.3. Coase Theorem], in the economic analysis of contract law the Coase Theorem plays a dominant role. In line with the Coase Theorem which prescribes that trade in externalities will lead to an efficient outcome as the right (in property) will flow to the highest value user. In a coexistence agreement the party that values the trademark the most should be able to use it, as this would yield the most efficient outcome. Without transaction costs the parties to a coexistence agreement will allocate the rights and obligations in a Pareto-optimal manner. Though, in the presence of transaction costs, in order for this process of exchange to take place the legal framework (i.e. institutions) must minimize the transaction costs associated with the exchange so that the benefits of entering into the agreement outweigh the costs (including the transaction costs). Observing the use of CTM related coexistence agreements in the EU from an efficiency perspective, we will in this section raise several questions regarding how the OHIM can help minimize the transaction costs related to coexistence agreements.

5.3.2. Economic Implications of Contracts

There are a number of economic implications related to contracts that are encouraging in the further support of the use of coexistence agreements, and they form a good foundation for making suggestions as to how the OHIM can help minimize transaction costs. These were outlined in [Section 2.4.2. Economics of Contracts]. First and foremost, it is presumed that exchange is mutually beneficial. This presumption is in line with the underlying economic assumption that individuals are rational maximizers and hence the contract would
not be entered into if the parties did not gain from it. A coexistence agreement will not be entered into if the benefits of the agreement do not outweigh the costs associated with entering into the agreement.

The question that subsequently arises is whether these agreements are beneficial to the society as a whole as well as it is beneficial to the parties. According to economic theory, if a contract is made and enforced efficiently, the general perception is that these contracts of coexistence are beneficial to the society as a whole, because they will facilitate efficient use of resources. Furthermore, in a legal system, which recognizes the fundamental freedom of contract, a contract is assumed to be enforced. This enforcement should happen because the parties are in the best position to decide what rights and obligations are most beneficial to them. Agreements on trademark coexistence are assumed to be enforced when they are entered into in the first place. Yet the national courts and the OHIM have the difficult task of striking the balance between securing the interests of the consumer that trademark law is essentially designed to protect, and respecting the agreement between the parties, which in economic terms is expected to be an efficient solution to a problem. In finding this balance, is it possible that the OHIM could get inspiration from the experience of other legal systems that have developed a more clear practice in the area of coexistence agreements? Moreover, markets for goods and services are generally efficient (especially if they are competitive) and the goods and services will flow to those who value them most. Contract terms are often shaped by these market forces and therefore efficiently reflect the market equilibrium. The terms of a coexistence agreement will often reflect the value of the marks belonging to the parties subject to the agreement. Some companies invest large sums of money in building a strong mark and will in turn value it highly. Would it not be in the interest of the EU consumers to have a legal framework that encourages investments in trademarks, which in turn will generate economic effects for the consumers of these products? Additionally, it is presumed that real world contracts generally are efficient adaptations to the costs and uncertainties of transacting. Companies can draft their specific terms according to the risk and transaction costs involved. Coexistence agreements are
often formed to lower the risk of expensive litigation\footnote{Please see [Section 2.2.2. When Should A Company Coexist?] for the most common reasons for entering into a coexistence agreement.} by outlining the rights and obligations of the parties. This can in turn lead to complex contracts that are not easily explained, however, they are often efficient adaptation to risk and transaction costs.

5.3.3. Contract Law and Coexistence Agreements

After having established the economic implications of contracts within the context of coexistence agreements above, we now turn to the economic functions of contract law.

As we recall from [Section 2.4.3. Economics of Contract Law], Posner has summarized the economic functions of contract law to be: 1) prevent opportunism; 2) interpolate efficient terms; 3) prevent avoidable mistakes in the contracting process; 4) allocate the risk to the superior risk bearer; and 5) to reduce the costs of resolving contract disputes. Contract law provides incentives for the parties to enter into contracts, and economic efficiency requires enforcing a promise if both parties wanted that enforcement when the contract was made. When a legal system is responsive to these factors and attempt to improve their effects this will lead to Pareto-efficient law, and induce the economic functions of contract law. Is it possible for the OHIM to somehow create these economic effects that will lead to Pareto-efficient law?

Opportunism and post-contractual opportunism must be prevented by ensuring enforcement of coexistence agreements. This will encourage the parties to make reliance investments in the trademark because they have the enforceable promise entailing that they will not be prevented from using their trademark due to opposition or cancellation proceedings (at least from the other party to the agreement). By improving enforcement \textit{ex post} transaction costs will be lowered. Moreover, Pareto efficiency indicates that if one party breaches the agreement the law should make sure that the non-breaching party is not put in a worse position due to this breach, that is, breach should not happen at the expense of the other party. Non-cooperation between the contracting parties could lead to a misallocation of resources if the courts do not consider the agreement, and this uncertainty could
subsequently lead to a situation where contracts are not entered into at all, as the parties do not want to waste resources in negotiation and drafting if they expect the agreement not to be enforced. Nonetheless, the court must balance the costs of inefficient breach against those of excessive performance. Breach will in turn be more efficient than performance when the costs of performing exceed the benefits to all parties. This means that it might not be economically efficient to enforce a coexistence agreement in all circumstances. However, it should be the obligation of the breaching party to compensate the non-breaching party. In a coexistence agreement a monetary compensation could be made in response to a breach of the agreement. For example, in regards to a division in product markets one party could ‘buy’ the right to register its trademark in certain product groups from the other party, even if the initial agreement did not allow for this registration. Furthermore, by providing a proper legal framework, companies wishing to enter into an agreement of coexistence can get guidance that will help them prevent avoidable mistakes. Above we established that contracts are often efficient adaptations to risk and transaction costs and we therefore pose the following question: *in order to facilitate a market driven solution (i.e. an agreement) between the parties of potentially conflicting marks, how can the OHIM improve the legal framework in the future and lower ex ante and ex post transaction costs?*

5.4. Trademark Coexistence Agreements and Efficiency in the EU in the Future

In the previous section we raised a number of questions regarding the effect that coexistence agreements have on trademarks and other affected parties. In this section we will answer these questions on the basis of the positive findings in our thesis. Our focus remains on efficiency, and we believe that there is a need for more efficient use of resources at the EU level in regards to these agreements. In the case study we raised the question as to how can we secure a system in which trademark coexistence agreements are acceptable for both companies and consumers involved, and this section will form the basis for answering that question.233

233 This is question 4, which was raised in [Section 1.5. Illustrative Case Study].
In [Section 5.1. Economic Analysis of Trademark Coexistence Agreements] we raised the question of whether consumers are hurt by companies entering into coexistence agreements, and how the companies are taking other affected parties into consideration when they decide whether an agreement is an efficient solution to trademark issues. By using economic reasoning it becomes clear that companies entering into a coexistence agreement will only do so if it results in a Kaldor-Hicks improvement as it is in their main interest to take consumers into consideration when drafting such agreements. The ultimate goal of the parties will be to reach a Pareto efficient outcome, however, this will be hard as we saw from the case study, where Lavaria had to weigh the benefits of the consumers in the Spanish market with the potential loss of a small group of highly mobile consumers, so in turn, a Kaldor-Hicks improvement will indicate that we are moving towards Pareto efficiency. This led us to the following question, raised in the previous section: would it not be in the interest of the EU consumers to have a legal framework that encourages investments in trademarks, which in turn will generate economic effects for the consumers of these products? Based on our analysis we believe that the answer to this is yes, it would be in the interest of the EU consumers to have stronger trademarks. This answer is based on the arguments outlined below.

By relying on economic arguments we found that the consumers will benefit from coexistence agreements, on an overall scale, because the companies know that it is more economically efficient to uphold the economic effects of trademark protection that consumers enjoy. The companies will therefore tend to closely evaluate how the overall effect of their agreement will be, and this consideration includes the potential consumer confusion that the agreement might bring about.

After clarifying these initial questions we subsequently asked how we can better ensure a system in which the OHIM looks into contracts and guarantees a more economically efficient assessment of such arrangements. This question is related to the previous practice of the OHIM, i.e. not looking into agreements in many cases. The OHIM opposition guidelines, as of 2007, now mentions coexistence agreements, however, case law shows
inconsistency in their evaluation. In order to reach economic efficiency in the future the OHIM should take economic arguments into consideration if it attempts to modify this system in the future. The OHIM has recently showed a more including attitude in regards to these agreements, respectively in the SKY and Le MERIDIEN cases, an attitude in we hope will follow through in the future.

It seems clear to us that the OHIM can save money and resources for all parties involved by accepting coexistence agreements and we therefore raised the question of why the OHIM has this non-accepting behavior towards these agreements. This question is related to administrative costs which in turn might increase by having non-acceptance of coexistence agreements, since it could lead to more opposition and invalidity cases. The OHIM has on several occasions explained that it does not have jurisdiction to rule on the validity of such agreements, and we recognize this as a limitation of the Office. Furthermore, we do recognize that in some cases the OHIM does not have the relevant skills to interpret coexistence agreements because the terms are unclear and ambiguous. Nevertheless, in other cases, when the agreements are in fact clear and unambiguous, there is no reason as to why the OHIM should not look into them when we look at it from an efficiency perspective. This is an issue that is highly important in securing the smooth functioning of the Internal Market, which largely consists of SMEs, which due to their low financial capacity can only afford to incur low transaction costs.

The OHIM needs to find a balance between securing the interests of the consumers while respecting the agreement between the parties, if it in fact results in a Kaldor-Hicks improvement. We asked the question of whether the OHIM could gain inspiration from other legal systems in finding this balance and generating the most efficient outcome. After investigating US case law, it becomes clear that they have a different approach than the OHIM. US courts have a more efficiency driven system, in which contracts are viewed as efficient adaptations to risk and uncertainty, and respected on their terms. Yet the US courts uphold the economic effects of trademark protection (e.g. lowered consumer search costs) by always having public interest factors as a first priority in their evaluation. We do, however, recognize that these courts have different jurisdictional competences, as well as
the US market tends to be less regulated than the EU market. Nevertheless, the OHIM could learn from the US courts in terms of having a more efficiency driven approach by at least looking into unambiguous and clear agreements as a general rule.

Contract law has an important function in obtaining economic efficiency, and to achieve Pareto efficient law the legal system must be responsive to Pareto efficiency. The OHIM can ensure some of the economic effects of contracts which would lead to a Pareto improvement. Firstly, the OHIM must guarantee enforcement of coexistence agreements. This will help prevent opportunism and hereby encourage the companies to invest in strong trademarks (which in turn will benefit the consumers). In regards to this the OHIM needs to have clearer guidelines as to how enforcement can be ensured so the parties can take this into consideration when drafting agreements. We further raised the question as to how the legal system can be improved in the future to facilitate a market driven solution and lower \textit{ex ante} and \textit{ex post} transaction costs. At the moment parties to a coexistence agreement can attempt to prevent avoidable mistakes in the contracting process, however, it can be hard for the parties, especially for companies with less financial capacity and poor legal counsel, to know exactly how to do this.\footnote{We made the sample contract to give some guidance in this area. Please see [Section 8.3. Appendix 3: Sample Trademark Coexistence Agreement].} In [Section 4. APPLYING THEORY TO THE CASE STUDIES] we gave the companies in the case study practical advice in drafting agreements in the EU within the present legal framework. This advice was based on the underlying theory and the legal framework, including the CTMR and case law in the area of coexistence agreements. The advice emphasized some of the precautions that companies can take to ensure that their agreements will in fact be assessed if a dispute should arise. However, more concrete legislation in this area will be beneficial in several ways. We propose that a regulation on trademark coexistence agreements would help the parties subject to such agreements to be more capable in preventing avoidable mistakes in the contracting process. This would allow them to know how the agreements will be interpreted, which in turn would also lower \textit{ex ante} transaction costs as the regulation could be a reference point in the negotiation and drafting process. \textit{Ex post} transaction costs would also be lowered as the regulation would help reduce the costs of contract disputes. This is
due to the fact that the OHIM would be more competent to interpret the underlying contract, and therefore lengthy litigation through national courts, required by the OHIM, would not be necessary. By weighing the costs of making a regulation of trademark coexistence agreements versus not having this regulation at all, we find that the potential long-term benefits of having a regulation would outweigh the short-term costs of making it. It would be beneficial to the companies in the EU and other companies that apply for CTMs, as well as it would save the Office costs in terms of administrative costs and error costs, and might also help reduce the number of opposition and invalidity cases.

As we recall from [Section 2.1.1. Applying Economics to Law] legal rules will induce behavior in the sense that if there is a change in the rule of law this would automatically alter the relative prices attached to human behavior. With a regulation on trademark coexistence agreements the economic actors will adapt to these rules and a new market equilibrium will occur. When guidance is given as to the drafting of agreements, and enforcement is secured through a regulation, this means that the parties will save transaction costs when entering into these agreements and this will in turn increase the demand for such agreements leading to a new equilibrium solution.

Furthermore, we propose that the OHIM should introduce a registration system for coexistence agreements within the EU. At the moment the number of trademark coexistence agreements is unknown as they remain private in their scope, and the number of cases that come under legal scrutiny is by far not representative for the total number of agreements that exist in the EU. Thus, by having a registration system for coexistence agreements it will make it easier for the OHIM to keep track of what is happening in the market, and also make it easier for the OHIM to evaluate the effects of these agreements. In addition a registration system will also help decrease *ex post* transaction costs as there will no longer be a dispute as to whether a coexistence agreement has been properly formed. This could for example be secured by having a system in which the agreement can only be registered if it fulfills certain formal requirements. In turn, the issues in future disputes would more likely be whether the agreement has been breached, rather than whether the agreement was properly formed in the first place. We do realize that costs will arise in
terms of creating and operating a registration system for coexistence agreements. However, by looking at the long term benefits (as stipulated above) versus the costs that would arise in connection with having the system, it still seems beneficial to introduce such a system.

6. CONCLUSION
Firstly, in this thesis we set out to investigate the possible effects of, and rationales for, trademark coexistence agreements in the EU. We found that the rationales for entering into a coexistence agreement often relate to the basic economic assumption that individuals are rational maximizers. This means that EU companies will try to maximize the benefit they can gain from their trademark despite the fact that a similar trademark might exist in another region of the EU. The rationale for entering into these agreements is that if the two trademarks can peacefully coexist in the market, then the most economically efficient solution, which will lead to a Kaldor-Hicks improvement, will be that the trademarks continue to exist and serve the consumers as they did before the agreement was entered into. To sum up, the main effects that coexistence agreements have for the companies involved are:

- Securing continued existence of its precious trademark in the respective market;
- Preventing (or settling) expensive litigation;
- Shaping its own commercial destiny by avoiding intervention of trademark law.

However, the companies are not the only affected parties to coexistence agreements – one should also consider public interest factors concerning the consumers. We established in this thesis that the Kaldor-Hicks criterion is the proper efficiency criterion to use when evaluating coexistence agreements, this in turn means that we should consider the overall effects of the agreement and see whether society as a whole benefit from it. As demonstrated by our case study it is highly likely that a coexistence agreement will result in a Kaldor-Hicks improvement. Furthermore, in line with the assumption that companies are rational maximizers, we can draw the conclusion that they will not act in a way that will undermine the economic effects of trademark protection. This means that coexistence agreements in fact often are entered into to maintain the positive economic effects of the existing trademark, and therefore the companies will avoid any deception or confusion of
the consumers. There is some indication that coexistence agreements could lead to lower prices and increased quality due to savings in marketing expenditures (if the companies are operating the same market). Nonetheless, these effects are somewhat unpredictable. Companies will have an interest in upholding the economic effects of trademarks and the consumers can therefore expect that coexistence agreements will affect them in the following way:

- They can continue to rely on the trademark they know;
- They will experience low search costs (because the existence of the precious trademark is secured);
- It is possible that they will experience lower prices and increased quality of the products.

For the abovementioned reasons it is not economically efficient for the OHIM not to ensure enforcement of agreements that result in a Kaldor-Hicks improvement, especially considering the fact that the companies have already incurred \( \text{ex ante} \) transaction costs.

Coexistence agreements might lead to the following effects for the OHIM:

- Invalidating coexistence agreements could lead to increased error costs (i.e. false positive and negative positive), which especially affect SMEs.
- By accepting coexistence agreements the OHIM would experience a decrease in administrative costs (i.e. among other, costs in litigating trademark suits).
- If coexistence agreements are not considered this could lead to an increase in opposition and invalidity cases brought before the OHIM and national courts, and would also in turn hurt consumers that rely on the trademarks.

After examining how the current legal framework within the EU, namely national and Community rights, treat coexistence agreements, we found a number of factors that the companies to such agreements and the OHIM should be aware of. In the current legal framework there is little guidance to the companies entering in to such agreement. We have therefore developed a sample coexistence agreement that reflect these findings, please see [Section 8.3. Appendix 3: Sample Trademark Coexistence Agreement]. The sample trademark coexistence agreement sums up the findings we have made regarding formality of the agreement (e.g. necessity of jurisdiction clause and clarity of the agreement). Based on the results we found in this area we can in short advice the parties the following:
• A CTM will only be beneficial if you operate in more than a few Member States, due to the costs (i.e. application fee and legal counsel) and increased chance of conflict from having a CTM rather than protection under the national system.

• We have established that the parties to a coexistence agreement (regarding a CTM) will benefit from observing the CTMR and Opposition Guidelines to understand how their agreement will be considered in the future.
  - We found that an agreement of coexistence will in fact be considered at the Opposition Division if there is no dispute about its meaning or, in the case if the agreement is ambiguous and unclear, if there is a national decision on its meaning.

• To ensure validity of the agreement the parties must especially pay attention consumer confusion, hereunder public interest factors during the negotiations and drafting. Close attention should also be given to competition law.

• The parties must make sure that the agreement reflects the ambitions and aspirations of both companies, to ensure that the agreement will not break down in the future.
  - To do this it is advisable that each company makes a cost/benefit analysis of how the consumers are affected by having the agreement or not having it.

• Finally, at the moment, to obtain most legal certainty the parties are advised to consider the possibility of licensing as an alternative to a coexistence agreement, as there are clear rules about this (Article 22 CTMR).

After looking into how coexistence agreements impact the effect of trademarks and their value in the market, we find that these agreements enhance and secure the beneficial economic effects of trademarks, and as mentioned above, are often efficient adaptations to the risks and uncertainties that companies face, hereby resulting in a Kaldor-Hicks improvement which indicates that we are moving towards Pareto efficiency. Based on this finding we go on to suggest the following to the OHIM:

• The OHIM must develop more clear lines and predictability in their evaluation of coexistence agreements, and give companies guidance as to how they should draft agreements in a manner that will be considered unambiguous and clear at the OHIM if a dispute arises on a later stage. This will lower the ex ante transaction costs for the companies.
• For agreements to be economically efficient, enforcement must be ensured.
  - Proper enforcement plays a number of economic roles and encourages the parties to make reliance investments in the trademarks – which will mean stronger trademarks and more positive effects for the consumers.

• After investigating US case law we found that the OHIM might benefit from getting inspiration from the US courts’ more efficiency driven approach.

In order to develop a more efficient system in regards to coexistence agreements we propose that a piece of legislation in this area is necessary. A trademark coexistence agreement regulation would provide proper guidance to the parties, to ensure that they avoid preventable mistakes when negotiating and drafting agreements and it will also create a uniform and predictable evaluation of the agreements. This would benefit the companies, consumers and the OHIM alike. Furthermore, a registration system of coexistence agreements could be the first step towards an actual regulation in the area. Providing a system of registration would mean that the OHIM will be able to observe how many and what these agreements cover, as well as it could provide a tool for ensuring that they are properly drafted. This could be done by having formal requirements in order for the agreements to be registered, which in turn would give the parties the guarantee that the OHIM considers the agreement validly formed, and that it thereby ensures enforcement.

In any case, we do recognize that an EC Regulation is a long and bureaucratic process and can drag on for years to come. It might also result in breakdown of negotiations and no agreement at all. However, we do believe that since the EU Member States have agreed upon a CTM system, this indicates that they are willing to counteract problems relating to such a system. Nonetheless, we also acknowledge that Member States in general are hesitant to harmonize laws relating to contractual issues.

6.1. Further Research
We have used game theory to demonstrate the considerations that parties to a coexistence agreements have. Our ‘game’ gave an obvious and expected outcome. We therefore suggest that a more advanced evaluation of how game theory can be used could be developed in the future. A more advanced game could be developed taking more factors into consideration
(e.g. power balance between the parties, incentives to breach, negotiation of agreements and so on).

We have given suggestions based on how to achieve economic efficiency, however, as a complement to this thesis further research in the area of the OHIM’s jurisdiction and competences would be interesting, and necessary. The OHIM has given a number of reasons as to why it does not have competence to evaluate coexistence agreements, but we did not look further into this area, besides outlining its arguments. Furthermore, we suggest that a further legal study into the area of coexistence agreements is needed as we have mainly focused upon finding the economic rationales behind coexistence agreements, nonetheless we understand that there are great challenges related to Member States’ sovereignty in relation to contractual issues, as well as the Member States each rely on their own legal traditions which might pose some problems in this area.
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7.5. Legal Texts

CTMR: Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark


8. APPENDICES

8.1. Appendix 1: Community Trademark Statistics


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8.2. Appendix 2: Community Trademark Regulation Articles

Article 4

Signs of which a Community trade mark may consist

A Community trade mark may consist of any signs capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of goods or of their packaging, provided that such signs are capable of distinguishing the goods or services of one undertaking from those of other undertakings.

Article 5

Persons who can be proprietors of Community trade marks

1. The following natural or legal persons, including authorities established under public law, may be proprietors of Community trade marks:

(a) nationals of the Member States; or

(b) nationals of other States which are parties to the Paris Convention for the protection of industrial property, hereinafter referred to as 'the Paris Convention'; or

(c) nationals of States which are not parties to the Paris Convention who are domiciled or have their seat or who have real and effective industrial or commercial establishments within the territory of the Community or of a State which is party to the Paris Convention; or

(d) nationals, other than those referred to under subparagraph (c), of any State which is not party to the Paris Convention and which, according to published findings, accords to nationals of all the Member States the same protection for trade marks as it accords to its own nationals and, if nationals of the Member States are required to prove registration in the country of origin, recognizes the registration of Community trade marks as such proof.

2. With respect to the application of paragraph 1, stateless persons as defined by Article 1 of the Convention relating to the Status of Stateless Persons signed at New York on 28 September 1954, and refugees as defined by Article 1 of the Convention relating to the Status of Refugees signed at Geneva on 28 July 1951 and modified by the Protocol relating to the Status of Refugees signed at New York on 31 January 1967, shall be regarded as nationals of the country in which they have their habitual residence.

3. Persons who are nationals of a State covered by paragraph 1 (d) must prove that the trade mark for which an application for a Community trade mark has been submitted is
registered in the State of origin, unless, according to published findings, the trade marks
of nationals of the Member States are registered in the State of origin in question without
proof of prior registration as a Community trade mark or as a national trade mark in a
Member State.

Article 6

Means whereby a Community trade mark is obtained

A Community trade mark shall be obtained by registration.

Article 7

Absolute grounds for refusal

1. The following shall not be registered:

(a) signs which do not conform to the requirements of Article 4;

(b) trade marks which are devoid of any distinctive character;

(c) trade marks which consist exclusively of signs or indications which may serve, in trade,
to designate the kind, quality, quantity, intended purpose, value, geographical origin or
the time of production of the goods or of rendering of the service, or other characteristics
of the goods or service;

(d) trade marks which consist exclusively of signs or indications which have become
customary in the current language or in the bona fide and established practices of the
trade;

(e) signs which consist exclusively of:

(i) the shape which results from the nature of the goods themselves; or

(ii) the shape of goods which is necessary to obtain a technical result; or

(iii) the shape which gives substantial value to the goods;

(f) trade marks which are contrary to public policy or to accepted principles of morality;

(g) trade marks which are of such a nature as to deceive the public, for instance as to the
nature, quality or geographical origin of the goods or service;
(h) trade marks which have not been authorized by the competent authorities and are to be refused pursuant to Article 6ter of the Paris Convention;

(i) trade marks which include badges, emblems or escutcheons other than those covered by Article 6ter of the Paris Convention and which are of particular public interest, unless the consent of the appropriate authorities to their registration has been given.

2. Paragraph 1 shall apply notwithstanding that the grounds of non-registrability obtain in only part of the Community.

3. Paragraph 1 (b), (c) and (d) shall not apply if the trade mark has become distinctive in relation to the goods or services for which registration is requested in consequence of the use which has been made of it.

**Article 8**

Relative grounds for refusal

1. Upon opposition by the proprietor of an earlier trade mark, the trade mark applied for shall not be registered:

   (a) if it is identical with the earlier trade mark and the goods or services for which registration is applied for are identical with the goods or services for which the earlier trade mark is protected;

   (b) if because of its identity with or similarity to the earlier trade mark and the identity or similarity of the goods or services covered by the trade marks there exists a likelihood of confusion on the part of the public in the territory in which the earlier trade mark is protected; the likelihood of confusion includes the likelihood of association with the earlier trade mark.

2. For the purposes of paragraph 1, 'Earlier trade marks' means:

   (a) trade marks of the following kinds with a date of application for registration which is earlier than the date of application for registration of the Community trade mark, taking account, where appropriate, of the priorities claimed in respect of those trade marks:

   (i) Community trade marks;

   (ii) trade marks registered in a Member State, or, in the case of Belgium, the Netherlands or Luxembourg, at the Benelux Trade Mark Office;

   (iii) trade marks registered under international arrangements which have effect in a Member State;
(b) applications for the trade marks referred to in subparagraph (a), subject to their registration;

(c) trade marks which, on the date of application for registration of the Community trade mark, or, where appropriate, of the priority claimed in respect of the application for registration of the Community trade mark, are well known in a Member State, in the sense in which the words 'well known' are used in Article 6 bis of the Paris Convention.

3. Upon opposition by the proprietor of the trade mark, a trade mark shall not be registered where an agent or representative of the proprietor of the trade mark applies for registration thereof in his own name without the proprietor's consent, unless the agent or representative justifies his action.

4. Upon opposition by the proprietor of a non-registered trade mark or of another sign used in the course of trade of more than mere local significance, the trade mark applied for shall not be registered where and to the extent that, pursuant to the law of the Member State governing that sign,

(a) rights to that sign were acquired prior to the date of application for registration of the Community trade mark, or the date of the priority claimed for the application for registration of the Community trade mark;

(b) that sign confers on its proprietor the right to prohibit the use of a subsequent trade mark.

5. Furthermore, upon opposition by the proprietor of an earlier trade mark within the meaning of paragraph 2, the trade mark applied for shall not be registered where it is identical with or similar to the earlier trade mark and is to be registered for goods or services which are not similar to those for which the earlier trade mark is registered, where in the case of an earlier Community trade mark the trade mark has a reputation in the Community and, in the case of an earlier national trade mark, the trade mark has a reputation in the Member State concerned and where the use without due cause of the trade mark applied for would take unfair advantage of, or be detrimental to, the distinctive character or the repute of the earlier trade mark.

Article 17

Transfer

1. A Community trade mark may be transferred, separately from any transfer of the undertaking, in respect of some or all of the goods or services for which it is registered.

2. A transfer of the whole of the undertaking shall include the transfer of the Community trade mark except where, in accordance with the law governing the transfer, there is
agreement to the contrary or circumstances clearly dictate otherwise. This provision shall apply to the contractual obligation to transfer the undertaking.

3. Without prejudice to paragraph 2, an assignment of the Community trade mark shall be made in writing and shall require the signature of the parties to the contract, except when it is a result of a judgment; otherwise it shall be void.

4. Where it is clear from the transfer documents that because of the transfer the Community trade mark is likely to mislead the public concerning the nature, quality or geographical origin of the goods or services in respect of which it is registered, the Office shall not register the transfer unless the successor agrees to limit registration of the Community trade mark to goods or services in respect of which it is not likely to mislead.

5. On request of one of the parties a transfer shall be entered in the Register and published.

6. As long as the transfer has not been entered in the Register, the successor in title may not invoke the rights arising from the registration of the Community trade mark.

7. Where there are time limits to be observed vis-à-vis the Office, the successor in title may make the corresponding statements to the Office once the request for registration of the transfer has been received by the Office.

8. All documents which require notification to the proprietor of the Community trade mark in accordance with Article 77 shall be addressed to the person registered as proprietor.

**Article 22**

Licensing

1. A Community trade mark may be licensed for some or all of the goods or services for which it is registered and for the whole or part of the Community. A licence may be exclusive or non-exclusive.

2. The proprietor of a Community trade mark may invoke the rights conferred by that trade mark against a licensee who contravenes any provision in his licensing contract with regard to its duration, the form covered by the registration in which the trade mark may be used, the scope of the goods or services for which the licence is granted, the territory in which the trade mark may be affixed, or the quality of the goods manufactured or of the services provided by the licensee.

3. Without prejudice to the provisions of the licensing contract, the licensee may bring proceedings for infringement of a Community trade mark only if its proprietor consents
thereto. However, the holder of an exclusive licence may bring such proceedings if the proprietor of the trade mark, after formal notice, does not himself bring infringement proceedings within an appropriate period.

4. A licensee shall, for the purpose of obtaining compensation for damage suffered by him, be entitled to intervene in infringement proceedings brought by the proprietor of the Community trade mark.

5. On request of one of the parties the grant or transfer of a licence in respect of a Community trade mark shall be entered in the Register and published.

Article 51

Absolute grounds for invalidity

1. A Community trade mark shall be declared invalid on application to the Office or on the basis of a counterclaim in infringement proceedings,

(a) where the Community trade mark has been registered in breach of the provisions of Article 5 or of Article 7;

(b) where the applicant was acting in bad faith when he filed the application for the trade mark.

2. Where the Community trade mark has been registered in breach of the provisions of Article 7 (1) (b), (c) or (d), it may nevertheless not be declared invalid if, in consequence of the use which has been made of it, it has after registration acquired a distinctive character in relation to the goods or services for which it is registered.

3. Where the ground for invalidity exists in respect of only some of the goods or services for which the Community trade mark is registered, the trade mark shall be declared invalid as regards those goods or services only.

Article 52

Relative grounds for invalidity

1. A Community trade mark shall be declared invalid on application to the Office or on the basis of a counterclaim in infringement proceedings:

(a) where there is an earlier trade mark as referred to in Article 8 (2) and the conditions set out in paragraph 1 or paragraph 5 of that Article are fulfilled;
(b) where there is a trade mark as referred to in Article 8 (3) and the conditions set out in that paragraph are fulfilled;

(c) where there is an earlier right as referred to in Article 8 (4) and the conditions set out in that paragraph are fulfilled.

2. A Community trade mark shall also be declared invalid on application to the Office or on the basis of a counterclaim in infringement proceedings where the use of such trade mark may be prohibited pursuant to the national law governing the protection of any other earlier right as in particular:

(a) a right to a name;

(b) a right of personal portrayal;

(c) a copyright;

(d) an industrial property right.

3. A Community trade mark may not be declared invalid where the proprietor of a right referred to in paragraphs 1 or 2 consents expressly to the registration of the Community trade mark before submission of the application for a declaration of invalidity or the counterclaim.

4. Where the proprietor of one of the rights referred to in paragraphs 1 or 2 has previously applied for a declaration that a Community trade mark is invalid or made a counterclaim in infringement proceedings, he may not submit a new application for a declaration of invalidity or lodge a counterclaim on the basis of another of the said rights which he could have invoked in support of his first application or counterclaim.

5. Article 51 (3) shall apply.

**Article 53**

Limitation in consequence of acquiescence

1. Where the proprietor of a Community trade mark has acquiesced, for a period of five successive years, in the use of a later Community trade mark in the Community while being aware of such use, he shall no longer be entitled on the basis of the earlier trade mark either to apply for a declaration that the later trade mark is invalid or to oppose the use of the later trade mark in respect of the goods or services for which the later trade mark has been used, unless registration of the later Community trade mark was applied for in bad faith.
2. Where the proprietor of an earlier national trade mark as referred to in Article 8 (2) or of another earlier sign referred to in Article 8 (4) has acquiesced, for a period of five successive years, in the use of a later Community trade mark in the Member State in which the earlier trade mark or the other earlier sign is protected while being aware of such use, he shall no longer be entitled on the basis of the earlier trade mark or of the other earlier sign either to apply for a declaration that the later trade mark is invalid or to oppose the use of the later trade mark in respect of the goods or services for which the later trade mark has been used, unless registration of the later Community trade mark was applied for in bad faith.

3. In the cases referred to in paragraphs 1 and 2, the proprietor of a later Community trade mark shall not be entitled to oppose the use of the earlier right, even though that right may no longer be invoked against the later Community trade mark.
8.3. Appendix 3: Sample Trademark Coexistence Agreement

This agreement is a sample to demonstrate the areas that we have investigated and found to be important to consider in a trademark coexistence agreement within the context we are writing this thesis in. We acknowledge that other legal details might be equally important, and therefore do not propose this as a final contract, rather a guidance to some areas that are important.
An agreement of coexistence of trademarks is hereby established between:

**LAVARIA S.L., Spain**

and

**BIRKS FABRIKKER A/S, Denmark**

*Recital*
The parties have agreed as of the 5th of March 2009 to have freely negotiated this agreement of coexistence which is mutually beneficial for the parties, and which reflects the aspirations and ambitions of the contracting parties. The parties furthermore undertake to continue good cooperation through which it is understood that both parties and the public will benefit.

Lavaria and Birks Fabrikker desire to assure peaceful coexistence of their respective exclusive use rights in and to the Marks, as referred to in Article 1, within the European Union in accordance to the terms set forth herein.

**Agreement:**

**Article 1:**

*Trademark Rights*
- The trademarks to be covered by the present agreement are:

  1) Lavaria’s trademark “RIELIS” and the use of the company name “LAVARIA S.L.” including any similar name.
  2) Birks Fabrikker’s trademark “RILIS” and the use of the company name “BIRKS FABRIKKER A/S” including any similar name.

**Article 1(1):**

*Domain Names*
- It is agreed that the holder of the trademark has the right to the use of the trademark, respectively “RIELIS” and “RILIS”, in a domain name.

**Article 2:**

*Consent to Coexist*
- Lavaria hereby acknowledges that Birks Fabrikker have the right to use and exploit the rights in the trademarks, as defined in Article 1(2), throughout Europe for now, as in accordance with the terms and conditions set forth herein. Lavaria shall not
object to, oppose or otherwise seek to limit in any way Birks Fabrikker’s application for a CTM or any other exercise of the Trademark Rights within product class 3 for laundry use, nor shall Lavaria use or exploit Birks Fabrikker’s Trademark Rights in any manner perpetually.

- Birks Fabrikker hereby acknowledges and agrees that Lavaria shall have the right to use and exploit the rights in the trademarks, as defined in Article 1(2), within Spain perpetually, as in accordance with the terms and conditions set forth herein. Birks Fabrikker shall not object to, oppose or otherwise seek to limit in any way Birks Fabrikker’s exercise of the Trademark Rights within product class 3 for laundry use, nor shall Birks Fabrikker use or exploit Lavaria Trademark Rights in any manner perpetually.\textsuperscript{236}

\textbf{Article 3: Product Classes}

- The following product class is \textbf{subject to Article 2} of the present agreement:
  - Class 3 – Detergent for laundry use

The parties undertake to inform one another of any application for a CTM within any product class and with potential emphasis on the following product classes (potential products). Application for a CTM will give rise to the possibility of renegotiating the agreement. The parties furthermore preserve the possibility of cooperation in production and marketing of the products if it is to be the benefit of both parties.

- Potential products:
  - Class 3 – Other use of detergent (besides laundry)
    - Washing-up detergent.
    - Fabric softener.
    - Stain control.
  - Class 7 – Dispensers related to liquid detergent.
  - Class 9 – Automated laundry detergent dispensers.
  - Class 18 – Bags for holding laundry.
  - Class 21:
    - Other dispenser for detergents.
    - Laundry baskets.
  - Class 22:
    - Canvas laundry bags.

\textsuperscript{236} Inspiration for these clauses is from: http://agreements.realdealdocs.com/Trademark-Concurrent-Use-Agreement/TRADMARK-CO-EXISTENCE-AGREEMENT-854404/ (Retrieved: 12th of May 2009).
Article 4:
Duration of the Agreement

- The agreement is valid as of this date, 5th of March 2009, and will remain valid until the 1st of February 2016, unless renegotiation is invoked based on Article 8 – Renegotiation.

Article 5:
Jurisdiction and Applicable Law

- Any dispute arising out of or in connection with this contract, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration under Danish law, which Rules are deemed to be incorporated by reference into this clause. The number of arbitrators shall be one. The seat, or legal place, of arbitration shall be Denmark. The language to be used in the arbitral proceedings shall be English. The governing law of the contract shall be the substantive law of Denmark.237

Article 6:
Notifications and Cooperation

- The parties agree to notify each other of any changes in their business which might impact the other party to the agreement. Furthermore, do the parties agree to cooperate and act in good faith.

Terms that we find relevant to include, however, because it is hard to foresee how they will function in practice, further expert advice is needed in their drafting.

Article 7:
Consumer Confusion

- The parties recognize that it is to the benefit of their respective businesses, and the consumers, that there is no confusion of the trademarks in the EU market and undertake to ensure that any advertisements and / or promotion will not create any consumer confusion at any time. By confusion the parties rely on the definition of confusion found in the applicable law.

• Given the disparate channels of trade, different targeted consumers, and dissimilar focus of the parties goods and services, the parties have determined that their respective use of the Marks are not likely to cause confusion, mistake, or deception to the source of each of the parties’ goods and services.  

• The parties agree that in the event that any confusion arises, they will cooperate and find ways to eliminate or minimize confusion, without the obligation for either party to cease or further restrict their respective uses of the Marks.

Article 8: Renegotiation
- The parties agree that any changes in the present circumstances, hereunder diversification of products, application for CTM in other product classes or fundamental changes in the market conditions either of the parties can request renegotiation of the agreement within the time-span of 1st of March 2010 until the 1st of February 2016. In regards to any reliance investments made by the other party, that will be lost as a direct consequence of renegotiation, compensation is mandatory.
- This article is meant to offer the opportunity for the parties to adjust their relationship so that both parties will continue to benefit from the agreement. This means that the article cannot be invoked in an arbitrary manner.

238 Inspiration for this clause is from:

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