

## TRADEMARKS: WHO SHOULD HAVE THE FINAL SAY?

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### INTRODUCTION

Has trademark law given too many rights to the owners of a trademark? Countries around the world are in agreement that pirated goods are damaging to the owner of a trademark, and individuals or corporations should not be allowed to produce items that falsely claim that they are a trademarked item.<sup>1</sup> Governments have come to a general agreement in the Paris Convention that trademarked items can even have protection in a country other than its origin if the mark meets the requirements of that country.<sup>2</sup> Governments do not consider the market of people who want to and knowingly try to buy these counterfeit items. These people do not care whether the item they purchased actually comes from the manufacturer that the trademark signifies.<sup>3</sup> Obviously if the mark in question is identical to a registered mark, the law should provide recourse for the owner of the trademark that is being infringed upon.

However, what about a mark that is extremely similar to a valuable or well known mark, but upon close examination is distinctly different from the more valuable trademark? Who must be able to tell the difference: the lay consumer or someone knowledgeable within a particular consuming demographic? Should we apply Judge Hand's layperson standard?<sup>4</sup> Does the use of the

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<sup>1</sup> See 15 U.S.C. § 1126 (2012). The Paris Convention provides a broad range of coverage against unfair competition.

<sup>2</sup> *Gen. Motors Corp. v. Ignacio Lopez de Arriortua*, 948 F. Supp. 684 (E.D. Mich. 1996).

<sup>3</sup> Gail Tom et al., *Consumer Demand for Counterfeit Goods*, 15 *PSYCHOL. & MKTG.* 405 (1998).

<sup>4</sup> *Peter Pan Fabrics, Inc. v. Martin Weiner Corp.*, 274 F.2d 487, 489 (2d Cir. 1960) (applying a lay person standards as the test for infringement).

Internet impose a duty on anyone to patrol for pirated goods? Who is to bear the burden if a pirated good is bought by mistake? While trademark law is supposed to protect consumers from confusion of the source of a good, has too much power been given to the owner of a trademark?

In this type of situation, Martin Blomqvist purchased a watch from a website based in China while he resided in Denmark. The company, residing in Hong Kong, shipped the watch via postage. The watch was stopped for suspicion of being pirated when the watch was stopped by customs in Denmark. After inspection, Denmark Customs found the watch was indeed pirated using a mark close to the Rolex trademark. Rolex then instructed Danish Customs to destroy the counterfeit watch. However, Blomqvist would not allow for the release of the watch to be destroyed. Blomqvist contended that he purchased the watch legally and should retain possession of the watch.

The resulting lawsuit commenced beginning in the Sø-og Handelsretten (Maritime and Commercial Court of Denmark), where an order was sought by Rolex to fulfill its rights under proper ownership of the trademark. The court granted Rolex's claim that Blomqvist be required to release the watch for destruction. Upon appeal to the Højesteret (Supreme Court of Denmark), a more general review of trademark law was possible. The Højesteret assessed whether any intellectual property right had been infringed in the first place. It looked not at whether Blomqvist violated copyright or trademark law, but at whether the international seller violated copyright or trademark law. Upon review, the Højesteret remanded this case for a ruling upon their interpretation of trademark and copyright law.<sup>5</sup> The case is currently on remand in light of the ECJ's statutory interpretation of trademark law regarding goods crossing international borders.<sup>6</sup>

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<sup>5</sup> Case C-98/13, *Blomqvist v. Rolex SA* (E.C.J. Feb. 6, 2014).

<sup>6</sup> *Id.*

## I. POSSIBLE PROBLEMS

Many issues are raised by this judgment that should be addressed. First, what is the need to even confiscate pirated or illegally copied goods, and if that determination is upon the holder of the trademark, does this give too much power to a trademark? Second, is the possessor of the counterfeit item, or the attempted possessor, the correct person to bear the loss of the item, his or her money, or both?<sup>7</sup> Third, what role should a government play in this scenario? Could a government create a trademark and copyright system that better matches the public's interests without taking away too many benefits of trademark and copyright protection? Should a government do this? Finally, what are the possible consequences upon the consumer from various judgments by the remanded case? How is a consumer supposed to protect his or herself against the government seizing and destroying the item believably legally purchased?

The purpose of trademark law is to give the consuming public confidence when purchasing an item of its true source. In other words, we do not want consumers to worry that they are buying a counterfeit item when they truly want the quality and goodwill behind that good. When other goods enter the marketplace with a similar trademark, they could easily be, and generally in fact are, of lesser quality than an original. It is in the best interest of the public for these pirated items to be removed. Not only could a pirated good be dangerous to the consumer, but it harms the goodwill the original product has built up and in turn harms the value of that product's trademark.

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<sup>7</sup> *Id.* Upon counterfeit goods entering a member state, the goods are deemed to have infringed intellectual property rights.

## II. COUNTRY AND CONSUMER INCENTIVES

This however drives up the price of certain consumer goods. Companies such as Rolls Royce, Ferrari, or in the instant case Rolex want this to happen. These companies pride themselves on an exclusive and prestigious image that can only come with very few people using the good or with a very high price tag. This price tag only partially comes from the work and actual quality of the materials put into the goods, and not everyone is willing to pay this vast additional amount for these goods.<sup>8</sup> They simply want to appear to have these goods, to be a part of a particular class. Consumers frequently buy counterfeit goods, most commonly from China and the rest of Asia to achieve this goal.<sup>9</sup> This is not a new phenomenon either. While governments around the world know of this trade happening, they can only stop the import of these goods. In today's world, it is very hard to police individuals from obtaining these items personally and hand delivering them across international borders. That would require extensive time and effort by each country.<sup>10</sup>

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<sup>8</sup> *What's in a Name?*, CANADIAN INTELLECTUAL PROPERTY OFFICE, <http://www.cipo.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/wr00058.html> (last visited Mar. 22, 2014).

<sup>9</sup> OECD 2008; OECD 2009. Within the region of East Asia and the Pacific, the OECD notes potential counterfeit-to-trade percentages of up to five percent for a number of countries, including China, Hong Kong, Malaysia and the Philippines. WCO data indicates that China was the departure country for 596,419,033 of 816,497,720 (or 73%) seized items between 2008 and 2010. WCO data on "country of origin" is not available for this time period. However, it is believed that for most seizures involving China, the nation is both the "country of origin" and the "country of departure." The extent to which this is the case for other nations is not clear. Note that these WCO statistics include counterfeit medicines.

<sup>10</sup> COUNTERFEIT CONSUMER GOODS FROM EAST ASIA TO THE UNITED STATES AND THE EUROPEAN UNION, Palmer and Lee 2010, 124.

Other concerns are much more imperative for countries to concentrate on that have effects upon the safety and wellness of their citizens. Instead, countries may concern themselves with the regulation of trademarks within the medical field regarding non-brand name goods or the regulation of medical goods in general. This is not to say that these counterfeit items are all innocuous. However, a line needs to be drawn. A government should not control every aspect of a person's life. When people want to knowingly buy a counterfeit item, they are essentially taking a risk. This risk may or may not be calculated by the consumer, but nonetheless they have taken a risk. This can be equated to a consumer choosing to eat at an establishment with a C or B health rating. Every food establishment portrays the same general thing: food with some, mediocre in many cases, nutritional value.<sup>11</sup> Restaurants do not come out and say that their food is of less quality and questionable materials, or that less work goes into their products. They all portray that their product will satisfy the consumer who chooses to purchase food at that location.

When it is thought of this way, why should a government seize goods that are, upon examination, clearly different from a true trademarked good? If consumers want to purchase a fake Rolex watch, they should be able to. The line for when a government is allowed to step in and allow an item to be seized or even destroyed should be set where consumers' safety or a nation's safety are threatened. If a consumer wishes to leave his or her country's borders and purchase a counterfeit item, that consumer's government should not have power over the actions performed within the borders of another country. If the owner of a trademark wishes to patrol more stringently for pirated goods they should be able to, but when

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<sup>11</sup> Hans Martin Norberg, *Use of Collective Trademarks in Consumers' Choice of Foods – Preliminary Results*, 10 ØKONOMISK FISKERIFORSKNING 144 (2000), available at <http://www.nofima.no/filearchive/Use%20of%20collective%20trade%20marks%20in%20Consumers%20Choice%20of%20Foods%20-%20Preliminary%20results.pdf>.

consumers willfully purchase counterfeit items, they should be allowed to do so.<sup>12</sup> Unlike the courts decision, if a consumer wants to buy a car kit to build a car identical to a Ferrari such as the case in *Ferrari S.P.A. Esercizio v. Roberts*, he or she should be able but only if the source identifier on the vehicle is not upon inspection very similar or identical to that of the famous mark.<sup>13</sup>

Governments however, have the full right to control those items sold in their marketplaces.<sup>14</sup> For example, a government has the ability to seize goods that are brought into the country for resale. At this point, actions that have taken place in another country have crossed over into occurring within the acting government's borders. In the instant case, the watch was willfully purchased from a Hong Kong corporation, located outside of the boarders of Denmark. The corporation did not bring goods into Denmark for resale, but instead the consumer sought out the good for purchase.<sup>15</sup>

The legal landscape in the instant case is analogous to the possession of counterfeit goods with more dangerous illegal items, only without such harsh penalties. If someone is in possession of controlled substances such as drugs, the law punishes him or her. In essence, owning counterfeit goods is the same. Losing the counterfeit item can be seen as punishment. While possession of drugs carries additional punishment (either fines or jail time), possession of a counterfeit good does not. This is because owning the good that happens to be a counterfeit is in itself not a crime.<sup>16</sup> Owning a watch or clothing or machinery is not illegal per se. However, once the

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<sup>12</sup> Jennifer Saranow Schultz, *The Legality of Buying Knockoffs*, N.Y. TIMES (Oct. 28, 2010), <http://bucks.blogs.nytimes.com/2010/10/28/the-legality-of-buying-knockoffs>.

<sup>13</sup> *Ferrari S.P.A.. Esercizio v. Roberts*, 944 F.2d 1235

<sup>14</sup> COUNTERFEIT CONSUMER GOODS FROM EAST ASIA TO THE UNITED STATES AND THE EUROPEAN UNION, 122.

<sup>15</sup> Case C-98/13, *Blomqvist v. Rolex SA* (E.C.J. Feb. 6, 2014).

<sup>16</sup> Schultz, *supra* note 12.

owner of the trademark requests that this property be confiscated, the government is making owning these things illegal.<sup>17</sup> Just as with drug trafficking, countries patrol for counterfeit goods. At issue in this paper and in this case are goods that have not been trafficked into a particular country for resale, but instead that have been purchased in another country via the Internet. A very simple solution would be for payment to be held in escrow by a government or international organization for an international purchase until the subject item has passed through customs and approved as legitimate.

### III. CURRENT SITUATION

Under current trademark law, after a government seizes and destroys a counterfeit good, there is no recourse for a consumer against an international seller. Even if jurisdiction were proper for a lawsuit to be brought within the home country of the product there would be no redress. What remedies would be available to a consumer for a seller who only operates in a particular country via the Internet? With the exception of particular international treaties, there is no way to force a seller to come into a particular foreign country and respond to a lawsuit. Why should the consumer fall victim to this seller?<sup>18</sup> A seller's website may be taken down, but that does not prevent the seller from creating a new website and continuing their sales in a country.

Instead of a government allowing the seizure and destruction of an item, the company holding a valid trademark in the good should be the party that bears the burden. This burden is not to go after the consumer buying the goods but instead the counterfeit seller. Whereas the consumer generally will not have the ability to go

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<sup>17</sup> OECD, THE ECONOMIC IMPACT OF COUNTERFEITING AND PIRACY: EXECUTIVE SUMMARY (2007), *available at* <http://www.oecd.org/industry/ind/38707619.pdf> [hereinafter OECD, ECONOMIC IMPACT].

<sup>18</sup> *Id.*

to the counterfeit seller's country and bring suit there, the proper owner of the mark will have this ability. If the owner of a mark is looking for protection in that country to begin with, they will be able to bring suit in that country as well. The owner of the mark is looking for protection just as much as a consumer wants his or her government to have trademark laws in place to protect them in the marketplace.<sup>19</sup> In this sense, it is the obligation of the trademark owner to go after the infringing user, even if that user is in a foreign country. International trademark law should not require the infringing item to be destroyed, causing loss to the consumer.<sup>20</sup> There is proven harm to the trademark owner: the harm to their goodwill and reputation. There is no proven harm to the consumer at the hands of the infringing seller, especially towards a consumer who seeks out purchase of an infringing item.

However, the trademark owner would argue that the very existence of the counterfeit good deflates the value of their trademark and of their goods. When these goods are in the marketplace consumers will think that a particular brand or good is of a lesser quality than those true authentic goods produced by the trademark owner. Therefore it should be destroyed. Countering back, the consumer will argue if the marks are distinctly different then it should not matter. Courts have allowed cases of initial confusion when upon further review clarification of two goods can be determined.<sup>21</sup> If the law is about protection, equality, and fairness as it holds out to be, the law needs not take from one side and provide no redress at the dictation by a third party.

There is no willful requirement within international trademark laws where the consumer must purchase the item willfully and in some cases improperly. In only two countries – France and

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<sup>19</sup> *Id.*

<sup>20</sup> Case C-98/13, Blomqvist. Trademark owners are allowed to order the destruction of counterfeit goods held by customs.

<sup>21</sup> *Gibson Guitar Corp. v. Paul Reed Smith Guitars, LP*, 423 F.3d 539 (6th Cir. 2005).

Italy – is the purchase of counterfeit goods even a finable offense.<sup>22</sup> Governments have placed the burden to make sure an item is legitimate upon the consumer. If sellers are willing to infringe on a copyright upon the item itself, what is to prevent them from also doing so on their website?<sup>23</sup> If a government is to continue to place this burden on the consumer, then the government should be required to police electronically in addition to any other current measures to protect its consumers. In this proposed scenario, if consumers attempt to circumvent the measures taken by the government, they should rightfully so bear the burden of losing the item if realized. In a sense, a willfulness requirement to some degree should be included within trademark law. There should be a presumption that the infringing act was willfully undertaken, and the burden of proof to overcome should be high. This would better protect a consumer from unintentional loss.

Finally, the outcome of the following remand in Blomqvist could dictate how European governments deal with counterfeit goods that have been transported across international borders after being purchased on the Internet. The Internet has brought a new aspect to this world, causing problems in jurisdiction as well as other areas of law.<sup>24</sup> No intellectual property regime is perfect, but governments need to strive for the most fair and equitable solution for all parties involved.

#### IV. MOVING FORWARD

The big question going forward is: why should governments even concern themselves with this issue? Governments should monitor the Internet as well as provide for better redress for consumers put into the position as such a position like Blomqvist in the instant case because each transaction for counterfeit goods from an international seller directly effects the government of the

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<sup>22</sup> Schultz, *supra* note 12.

<sup>23</sup> OECD, ECONOMIC IMPACT, *supra* note 17.

<sup>24</sup> *Id.*

purchaser.<sup>25</sup> By stopping access to international purchases of counterfeit or illegal goods, a citizen from the purported purchasing country will in turn have very limited other options to spend this money.<sup>26</sup> The general purpose of the Lanham Act in the first place is the regulation of commerce.<sup>27</sup> The most likely outcome would be to add to their home countries stream of commerce. Every dollar spent in the international marketplace is a dollar not spent in within their economy. While this is not perfect, in theory it would work. With price parity remaining fairly equal between two countries a consumer is not going to look to another country to purchase a good unless it is substantially cheaper then what he or she could purchase in his or her own country.

Additionally, shipping, customs, and insurance charges need to be taken into account.<sup>28</sup> By removing or restricting access to international sites where counterfeit goods are available a government or country removes all of the opportunities that are at a cost beneficial to the consumer. After enough searching a consumer will give up and buy the next best good in his or her own local marketplace because their time has some price as well.<sup>29</sup> Complete restriction of access to these sites is not required either but the fees for goods that do not come from a registered international source or other restrictions could provide the added costs to make these opportunities unattractive to the consumer. Obviously, there will always be outliers and goods this cannot be accomplished on behalf

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<sup>25</sup> INTERNATIONAL TRADEMARK ASSOCIATION, ADDRESSING THE SALE OF COUNTERFEITS ON THE INTERNET (2009), *available at* <http://www.inta.org/Advocacy/Documents/INTA%20Best%20Practices%20for%20Addressing%20the%20Sale%20of%20Counterfeits%20on%20the%20Internet.pdf>.

<sup>26</sup> OECD, ECONOMIC IMPACT, *supra* note 17.

<sup>27</sup> 9A Ariz. Prac., Business Law Deskbook § 20:3 (2013-2014 ed.).

<sup>28</sup> *Id.*

<sup>29</sup> *Id.* Explaining the economic theory behind the regulation of commerce and the marketplace.

of. This is due to the nature or initial price of the legitimate good, however, absolute protection is never possible. A country and government can only hope to achieve substantial benefit from additional measures. Governments are not the only entity that should back additional measures. Trademark owners and producers of goods should also support these measures.<sup>30</sup> While they may lose some rights under the measures in the non-destruction of counterfeit goods that are realized as in the scenario of the current case, they will benefit by additional income from those consumers who are deterred from buying counterfeit goods due to the additional cost or risk involved. Trademark may not be too powerful however there needs to be a shift in the power and recourse available to be more equitable for all parties involved.

#### CONCLUSION

The outcome of *Blomqvist v. Rolex SA* has changed international trademark law. The Court has held that “the rights thus protected may be infringed where, even before their arrival in the territory covered by that protection, goods coming from non-member States are the subject of a commercial act directed at consumers in that territory, such as a sale, offer for sale or advertising.”<sup>31</sup> Most importantly however, is that the Court decided that goods purchased on the Internet are subject to:

The measures to be taken against goods found to have infringed such rights must be interpreted as meaning that the holder of an intellectual property right over goods sold to a person residing in the territory of a Member State through an online sales website in a non-member country enjoys the protection afforded to

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<sup>30</sup> *Id.* Trademark owners want counterfeit goods off the market because this removes any unfair competition within the marketplace.

<sup>31</sup> Case C-98/13, *Blomqvist v. Rolex SA* (E.C.J. Feb. 6, 2014).

that holder by that regulation at the time when those goods enter the territory of that Member State merely by virtue of the acquisition of those goods.”<sup>32</sup>

This outcome is an understandable action, however it must be approached with caution moving forward as to not provide too much power to the owner of a trademark as stated above.

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<sup>32</sup> *Id.* ¶ 6 (interpreting Council Regulation (EC) No. 1383/2003).