

AA Law Forum

Published by John H. Carey II School of Law

AA Law Forum is a joint effort of the faculty and graduates of the John H. Carey II School of Law to enhance studies of English law and comparative law at the Anglo-American University in Prague.

Mission Statement

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Editorial

Dear readers,

It is my pleasure to introduce another issue of the AA Law Forum. This volume was prepared under the leadership of Jennifer Fallon, who led not only the AA Law Forum, but the AAU School of Law, for many successful years. With the publication of this issue, we also wish to thank Jennifer for her constant dedication and commitment to all of the students and faculty at the School of Law, and wish her the very best in her new endeavours. The School of Law and AA Law Forum are where they are today only because of Jennifer's hard work and passion for law and education. Thank you, Jennifer!

Building upon what Jennifer created, the School of Law has recently established the AAU Legal Institute, which will focus on Anglo American and Central European Business Law. As part of this Institute, the AA Law Forum will be given a greater spotlight in AAU's academic research. With this transition, we strive to continue to advance the AA Law Forum as a staple of legal research, not only for issues concerning business law, but for scholarship in many areas.

The AAU Legal Institute's goal is to build bridges between Anglo American and Central European countries, and across their respective common and continental law systems, to facilitate business. These bridges will stand on three pillars: promoting trans-systematic applied research, training a new generation of attorneys to practice across borders, and fostering regional business development through a legal clinic. We are looking forward to the continued success of the AA Law Forum as an integral part of these endeavours.

As we introduce this newest issue of the AA Law Forum, we would like make a call for papers for the next issue, which will be the first issue as part of the AAU Legal Institute. We welcome and encourage submissions from AAU faculty and students, and the greater academic community.

We hope that you gain insight from the following and are inspired to further engage with and support our activities. For more information about the AAU Legal Institute, send an inquiry to [carollann.braum \(at\) aauni.edu](mailto:carollann.braum@aauni.edu). For information about our future mootng events send an inquiry to [mootcourt \(at\) aauni.edu](mailto:mootcourt@aauni.edu). To submit an article for consideration write to [aalawforum \(at\) aauni.edu](mailto:aalawforum@aauni.edu).

With regards,

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Harder Than You Think. Making Directors of Companies Pay for Damages under Czech Law

Massimiliano Pastore

Introduction

This paper explores the civil liability of directors of private companies under Czech law.¹ It analyzes the scenarios where they become personally obliged to compensate shareholders and creditors for financial harm caused by their misfeasance.

I argue that the directors have been, in practice, much less liable in court than what appears in textbooks. The reasons are technical and difficult to convey to non-lawyers. This paper strives to explain them in the simplest possible terms, showing that the courts have been reluctant to impose liability on directors. In some situations, directors have been able to escape liability by merely showing that they had ‘passed the bucket’ to somebody else in their organization.

In part A, I will outline the theory of directors’ civil liability under Czech law enforceable until 31 December 2014. In part B, I will analyze the available court decisions. Part C discusses how the law is likely to work after the enactment of the new legislation in 2014.

¹ In this paper ‘company’ means either *společnost s ručeným omezením* (s.r.o.), *akciová společnost* (a.s.), or both. For the purpose of my analysis, the law is substantially the same.

A. The Theory of Directors’ Liability (Before 2014)

The classic position of Czech law is that a director is liable for any breach of his or her “duties”. It is a straightforward theory. The duties are set forth in the statutes. For example, directors must:

- manage the affairs of the company as a “careful administrator” would
- keep the company accounts in compliance with legal requirements
- maintain confidentiality on the company affairs

When a director commits a breach of one or more duties, he or she becomes legally liable to pay damages. In lawsuits launched against the director, the plaintiff is usually the company, represented by a shareholder. In other situations, the creditors are suing, usually where the company is, or is about to become, insolvent.

The standard of care required is the so-called ‘careful administrator’ (in Czech, *péče řádného hospodáře*). If this standard is satisfied, the director will be excused from liability. The burden of proof is on the defendant: the director must show that his or her conduct has satisfied the standard. There is no test and the point is solved on a case by case basis. According to one precedent, directors must manage the companies with the same degree of care they would have if they were owners.² This

² „Pojem péče řádného hospodáře lze přitom chápat tak, že řádný hospodář činí právní úkony týkající se obchodní

reflects the classic approach of Romanist-inspired legal systems (*diligentia quam in suis*).

The 'careful administrator' serves also as a general clause of liability: instead of establishing the breach of a specific duty, a plaintiff can sue a director accusing that he or she did not conduct himself as a 'careful administrator'. This may imply or not a breach of a specific duty that is expressly set forth in the statutes.

Czech academics and writers never miss the opportunity to stress that directors' liability is *objective*, i.e. strict. It does not need a show of intention, negligence or fault.³ For a director to be liable, the following three elements must be established:

- breach of duty (be it a specific duty or the general obligation to act as a 'careful administrator')
- quantifiable damages
- causal link between the two above

It is no excuse that a director had acted without intention to create harm. This has reinforced the

společnosti odpovědně a svědomitě a stejným způsobem rovněž pečuje o její majetek, jako kdyby šlo o jeho vlastní majetek.“ Nejvyšší soud, 5 Tdo 1224/2006.

³ „Jestliže jednatel poruší své povinnosti vůči společnosti, odpovídá společnosti za škodu tím způsobenou, a to, vzhledem k § 757, podle ustanovení zákoníku o náhradě škody (§ § 373 a násl.), tedy objektivně (bez ohledu na zavinění) a neomezeně: to i tehdy, je-li mezi jednatelem a společností současně pracovněprávní vztah. (ELIÁŠ, Karel. *Jednatel - 2. díl. Právní rozhledy*. 1994, č. 12, s. 432 - 438). „Odpovědnost členů orgánů za porušení zákonem stanovené povinnosti jednat s péčí řádného hospodáře je tak objektivní, což znamená, že předpokladem pro dovození odpovědnosti za škodu na straně člena orgánu vůbec není jeho zavinění.“ (HÁMORSKÁ, Andrea. *Povinnost členů orgánů obchodních korporací jednat s péčí řádného hospodáře po rekodifikaci*. *Obchodněprávní revue*. 2012, č. 9, s. 250 - 256)

impression that directors are subject to a strict regime. However, the reported precedents show that winning damages against directors in Czech courts is much harder than appears in theory.

Under Czech law there is also a separate liability of directors as “guarantors” of the company's debts. This is a slightly different action which was laid down in the sixth comma of Section 194 of the now defunct Czech Commercial Code. For brevity, I will refer to it as the Rule 194-6.

Under this rule, directors become liable for the company's unpaid debts if the creditors have been unable to satisfy their claims, provided that the company is insolvent or “has stopped to make payments”. In other words, the Rule 194-6 would allow creditors to seek damages from the directors whenever it appeared useless to sue the company. The rule says also that the directors' liability is limited to the amount of *damages* (my italics) that have been caused to the company. As I will show below, this qualification has been fatal for plaintiffs, making the rule unworkable in court.

Before moving to analyze the case law, the picture must be completed with a third situation where Czech directors are theoretically obliged to make good the loss suffered by creditors of insolvent companies. This is envisaged in Section 99 of the Insolvency Act: a director becomes liable to creditors for the financial harm these have suffered if there is evidence that he filed for insolvency later than he should have and the creditors were unable to satisfy their claims over the company assets. In this scenario, the director becomes liable for the value of the claim, or the difference between the

claim and the amount that the creditor was able to recover through the insolvency proceedings. Apart from where he was unable to file because of circumstances beyond his control, the director can exculpate himself by showing that filing early would have not made the situation any better for the creditor. Both propositions are broad, suggesting Czech law has a large causeway for creditors who are desirous of reliefs against negligent directors. However, the picture is quite different when one looks at how the courts applied the theory.

B. Court decisions

Above I said the directors must make sure the company's accounts are kept in accordance with legal regulations. If a director is in breach of this duty, the law holds him strictly liable to pay damages. At the trial, the burden of proof is against him.

In fact for many years, all the directors were required to do to shield themselves from liabilities in this area, was one thing and nothing else: to prove that they had hired a licensed accountant.

In a case decided by the Regional Court in Karlovy Vary in 2002, the Czech financial authority fined a private company limited by shares 78.000 Czech crowns after it had detected irregularities in the company's books. The shareholder(s) sued the director. There was indisputable evidence that the company's books were not kept in accordance with applicable regulations. However, the court in Karlovy Vary decided that the director in question was not liable, precisely because he had hired a "duly qualified" accountant that had "the necessary

experience".⁴ The claim against the director was accordingly dismissed.

In a different case, the High Court in Prague dismissed a case against a director who had sold the company's land at one seventh of its market price. The purchaser was a related party and no evaluation of the property was made before completing the transaction, which itself constituted a violation of the Czech Commercial Code.⁵ The court said the director conducted himself as a 'careful administrator' simply because he had hired a lawyer to assist him in selecting the bids.⁶ (The decision was subsequently quashed by the Supreme Court of the Czech Republic).

I call this approach 'pass the bucket': courts satisfying themselves with the evidence that the incriminated director had *passed the bucket* to a qualified advisor.

Thanks to this approach, directors have had an easier life than in other jurisdictions. They could escape liability by delegating their duties to licensed professionals. The law did not require of them to check if the accountants were doing their job properly. The Czech Supreme Court censored the 'pass the bucket' approach in 2012.⁷ Now the

⁴ „Jestliže jednatel společnosti s ručením omezeným zajistil k vedení účetnictví společnosti jinou osobu, je takové zajištění ve smyslu § 135 odst. 1 řádné jen tehdy, jde-li o osobu kvalifikovanou a s potřebnou praxí, splňující ve svém souhrnu veškeré předpoklady k řádnému vedení účetnictví společnosti.“ Usnesení Krajského soudu v Hradci Králové ze dne 13. 11. 2002, sp. zn. 24 Co 247/2002.

⁵ Section 194, sub-section 6, of Act No 513/1991 Coll., the Commercial Code.

⁶ Rozsudek Vrchního soudu v Praze ze dne 31. ledna 2008, č. j. 7 Cmo 122/2007.

⁷ Rozsudek Nejvyššího soudu ze dne 25. 1. 2012, sp. zn. 29 Cdo 134/2011.

law is that directors must “effectively supervise” their advisors and make sure that the documentation passed to the accountants is “complete, accurate and truthful”. The interesting detail here is that, according to the judges of the Supreme Court, the duty to supervise had existed in the case law well before 2012.⁸

There is another issue that has prevented plaintiffs to win damages against directors in Czech courts: they were not able to show *damages*. This is difficult to explain to non-lawyers and would push this article off topic. To simplify, not every loss incurred by shareholders or creditors constitute damages that a court of law can award. Moreover, only the company, not its shareholders, may sue for the financial harm inflicted to the company – this problem is known in other jurisdictions such as England and Wales.

For Czech and most other Continental lawyers, *damages* are available only when the company has wasted expenditures, but also if the net asset value has shrunk, provided that the plaintiff can prove that none of either, or both, would have happened if the director had honored his duties. A causation link must be established.

Rule 194-6, which I have discussed above, should have been a partial exception to the above. It should have made it easier for shareholders and creditors to sue directors. However, a review of the court decisions shows the contrary.

Claims got tangled in the rigid view that this type of liability is a *guarantee* – thus “secondary” in nature

⁸ Rozsudek Nejvyššího soudu 8 Tdo 124/2005.

and subject to the existence of the “primary” liability. It meant the judges believed a director is liable *to creditors* only where the suing creditors can show that he would be liable also towards the *company*.⁹ The Supreme Court blessed this pro-defendant approach in a string of three or four cases.

Moreover, because the rule mentions *damages*, as already alluded above, Czech courts maintained that the plaintiffs would have to prove the existence of damages, in addition to the other elements required by the rule. Misunderstanding the purpose of the rule, they left directors unpunished because the plaintiffs could not show that the company had incurred damages.

In 2007, the Czech Supreme Court reversed a paradoxical decision.¹⁰ After a mutual fund had defaulted on a credit line, the bank terminated the loan and satisfied its claims on the deposits belonging to the investors. The board was sued for mismanagement. The Municipal Court in Prague rejected the claim on the basis that the investment company could not show any damages. On appeal to the High Court in Prague, the judges affirmed holding the view that, in order to claim damages, the company should have first reimbursed the value of the deposits to the damaged investors. Only then it would be in a position to claim and win the same against the board. The company was barred from suing the board on behalf of the investors. However, the company was not solvent and would have not been able to pay anything.

⁹ Rozsudek Nejvyššího soudu 29 Cdo 4824/2007.

¹⁰ Rozsudek Nejvyššího soudu ze dne 23. 10. 2007, sp. zn. 29 Odo 1310/2005.

The Czech Supreme Court reversed the decisions, saying that the purpose of the rule in Section 194 comma 6 of the Commercial Code would be defeated, if it were interpreted so as to require the payment of damages from the company. In other words, Rule 194-6 should apply and the lawsuit must be processed without having to prove damages.

Nonetheless, the difficulties have persisted, as later case law shows.

In November 2012 the Regional Court in Brno denied the liability of two directors as guarantors after their company failed to pay a contractor. The contractor, a singer, had sued the two directors, believing the company was an empty shell. The directors pleaded the company did not suffer any financial harm, because no fees were ever paid to the contractor; the company's financial position was untouched thanks to the directors' conduct. Again, the judges thought it fit to dismiss the case because no damages were shown. The judges of the Supreme Court said both courts' opinions were wrong because they misapplied Rule 194-6.

Another Czech Supreme Court case seems to say that even if the management has failed to book substantial part of the company's income, that is not satisfactory evidence that the company has been harmed.¹¹ According to this opinion, damages would exist if the plaintiffs could prove that the company had not *cached* the unreported income. The decision resulted in a claim by a creditor against the directors of an insolvent company being

rejected. Again, the directors were able to escape liability.

In a trial opened in 2011, a property company had to pay larger taxes than it had initially reported after the financial authority challenged the deductibility of certain reconstruction expenses. The accountant had booked them as costs, following instructions from the directors. Lamenting that they were unsubstantiated by documentation, the financial authority reclassified them as non-deductible, making the company liable to pay additional taxes plus penalties. The new management sued the old board, on the grounds that the company would have paid less taxes if the director had done their job properly. At the trial, the judge satisfied herself to establish only two things: (1) that the accountant had a license, and (2) that the previous directors had been supportive by providing all documents. There was little or no inquiry as to the facts that led to the under-reporting of taxes. Dismissing the subsequent appeal by the new board, the High Court in Prague held that taxes can never constitute *damages*. Besides suggesting an anti-plaintiff bias, the decision confirms that the uncertain borders of the notion of damages will continue to shield Czech directors from civil liability.¹²

How did the director's liability towards creditors of insolvent companies score in court? Quite badly. The reported decisions show that most of these

¹¹ Rozsudek Nejvyššího soudu ze dne 19. 6. 2012, sp. zn. 29 Cdo 3542/2011.

¹² Rozsudek Vrchního soudu ze dne 4. 3. 2014, 14Cmo 345/2012.

claims failed for multiple reasons, especially because they were filed too late.¹³

In one case, the liability was denied only because the creditor had not filed any proof of his claim with the insolvency court.¹⁴ The decision is formally correct, since the rule in Section 99 of the Insolvency Act is subject to the creditor having properly filed the proof of his claim.

In a more recent decision, the creditor's claim failed again because the lower courts believed the statute of limitation was only three years. The Supreme Court reversed saying a longer time bar should apply instead.¹⁵

C. Directors' Liability in the New Civil Code: The Song Remains The Same.

I am of the view that there has been no revolution in this area of Czech law on 1 January 2014—when the entirely re-drafted Civil Code and the brand new Act on Corporations entered into force replacing, among other pieces of legislation, the Commercial Code.

The song remains the same: a director is liable if he or she breaches the statutory duties. And the duties too have stayed the same. This general clause is contained in Section 1958 of the new Civil Code.

Rule 194-6 is repeated, in substance, in Section 159, comma 3, of the Civil Code. This rule says that the director should be liable to pay damages

that the creditors were unable to recover from the company.

On a deeper examination, there are some new elements that might make plaintiff's life easier in court.

Section 2913 of the new Civil Code says that damages flowing from contractual breaches can be awarded also to a "party in whose interest the (breached) duty is stipulated" by the law – which, in plain words, could mean creditors and shareholders in a lawsuit launched on the basis that a director has breached one or more duties set forth in a service agreement with the company. This is a new interesting direction where case law could expand. And it is not the only one.

Another novelty which may reverse the pro-defendant approach seen so far in Czech courts is the second sentence in Section 2952 of the Civil Code. This seems to allow the indemnification of costs that have not been paid yet. In other words, a court could now tell directors to pay damages amounting to the liabilities incurred by the company towards third parties because of the misconduct. (Under the traditional approach the company would have to pay the liabilities before being able to recover them from the director.)

The law has become harsher also in that it has introduced disqualification rules against directors of insolvent companies. While this could make the legal environment harsher for directors, it does not necessarily mean that they will have to make the loss good to shareholders and creditors.

¹³ Nejvyšší soud 29 Cdo 1212/2016

¹⁴ Nejvyšší soud, 29 Cdo 4269/2014 ze dne 17.12.2015

¹⁵ Nejvyšší soud, 29 Cdo 1212/2016, [PR 22/2016 str. 795].

The liability of directors as “guarantors” has retained the characteristic of the old law. It is a secondary, not primary, obligation. Commentators insist that the creditors will have to show that the director was, in theory, liable to the company.¹⁶

Until cases become reported, it is always too early to comment how the new legislation will work in practice. Maybe the song will change unexpectedly. But more probably it will remain the same because the theory of damages has not fundamentally changed.

D. Conclusions.

This paper shows that the Czech law of director’s liability is less strict than it appears in the classic textbooks. It also shows that winning lawsuits against malfeasant directors in non-obvious cases is difficult. The landscape of the judicial decisions seems to be pro-defendant rather than pro-plaintiff. Czech judges have made these lawsuits hard to win, sometimes because they got the law wrong.

I do not venture beyond this point. It would be tempting to conclude that the Czech legal system is tolerant of director’s malfeasances. It would be a conclusion based on a flawed argument, though, and it would send a message that I do not intend to

send. For one reported decisions in favor of the directors, there could be hundreds of unreported cases that say the opposite. Nonetheless, the fact that most reported decisions are pro-defendant suggests that the system may be biased against plaintiffs.

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¹⁶ LASÁK, Jan. § 159 [Požadavky na výkon funkce člena voleného orgánu právnické osoby]. In: BÍLKOVÁ, Jana, ČERNÝ, Michal, ČUHELOVÁ, Kateřina, DAVID, Ludvík, DÁVID, Radovan, DOBROVOLNÁ, Eva, FOJTÍK, Lumír, HANDLAR, Jiří, HAVLAN, Petr, HOLEJŠOVSKÝ, Josef, HORECKÝ, Jan, HULMÁK, Milan, HURDÍK, Jan, HRDLIČKA, Miloslav, KOUKAL, Pavel, LASÁK, Jan, LAVICKÝ, Petr, LAZÍKOVÁ, Jarmila, LEBEDA, Martin, PODIVÍNOVÁ, Martina Kuloglija, PONDIKASOVÁ, Tereza, RONOVSÁ, Kateřina, RUBAN, Radek, ŠEVČEK, Marek, TŮMA, Pavel, VÍTEK, Jindřich. *Občanský zákoník I. Obecná část (§ 1–654)*. 1. vydání. Praha: Nakladatelství C. H. Beck, 2014, s. 816. ISBN 978-80-7400-529-9.)

The Ambivalent Nature and Purpose of the Unfair Commercial Practice Directive

*Radka MacGregor Pelikánová,
Jarmila Císařová and Marek Beneš*

Introduction

The existence and undistorted operation of the internal single market is pivotal for the modern European integration and is fully reflected by the EU strategies, such as Europe 2020, as well as policies of EU member states. During the last two decades, there can be detected increasing attention given to the interaction and overlap of various priorities and protections linked to assets and values influencing the EU competition. These include, predominantly, intellectual property, consumer protection and commercial practices. The EU determination to reach a fair and generally recognized balance of these priorities and protections led to the enactment of the Directive 2005/29/EC of 11th May 2005 concerning unfair business-to-consumer commercial practices in the internal market, AKA the Unfair Commercial Practices Directive (“UCPD”) which attempts to harmonize rules for the fight against unfair commercial practices and so to contribute to a high level of consumer protection.

The UCPD is an important EU legislative measure with a direct impact on business as well as consumers. As the deadline for its transposition has expired already, in 2007, we have benefited by

one decade of the experience with the interpretation and application of the UCPD regime on the EU, as well as the national level. Hence, we are able to research, critically scrutinize and assess the probably two most fundamental features of the UCPD, which determine and shape all other aspects of the UCPD – its nature and purpose. In other words, the interpretation and application of basically all provisions of the UCPD and all national laws transposing UCPD are influenced, if not predetermined, by the very nature and purpose of the UCPD. Clearly, the leading EU law interpretation method, the special purposive approaches¹ taking the shape of *sui generis* contextual and teleological approach,² strictly requires both the awareness and appreciation of the purpose and spirit, and so we can correctly interpret a Directive, only if we can first extract its nature and purpose. Plus, a similar conclusion extends as well to other, auxiliary and supportive interpretation methods.

This exploration needs to start with the literate approach and work with the very wording of the UCPD (I), to follow with more or less official European Commission (“Commission”) statements and explanatory notes (II) and with the case law generated by the Court of Justice of the EU (“CJ

¹ HOLLAND, J., WEBB, J. *Learning Legal Rules*. 9th Edition. Oxford, UK: Oxford University Press, 2016, 423 p.

² LENAERTS, K., GUTTIÉREZ-FONS, J. A. *To Say What the Law of the EU Is? Methods of Interpretation and the European Court of Justice*. Academy of European Law, 2013, 9, 1-55.

EU”) (III). Further, the points of view about the nature and purpose of the UCPD from academic literature will be discussed (IV.). This information, along with the ongoing comments and semi-conclusions, will logically culminate in the last part of this article, in its conclusion, where the opinion of the authors, as well as questions and suggestions for further research, will be presented.

I. The UCPD – the positivist perspective via a literate approach on the nature and purpose

Although the very wording of the preamble of the UDCP differs from the quasi similar preambles of both sister Directives, i.e. Directive 84/450 and Directive 2006/114, it does not imply a unique, consistent and indisputable nature and purpose. Point 6 of the UCPD Preamble states “*This Directive therefore approximates the laws of the Member States on unfair commercial practices, including unfair advertising, which directly harm consumers’ economic interests and thereby indirectly harm the economic interests of legitimate competitors. In line with the principle of proportionality, this Directive protects consumers from the consequences of such unfair commercial practices where they are material but recognises that in some cases the impact on consumers may be negligible. It neither covers nor affects the national laws on unfair commercial practices which harm only competitors’ economic interests or which relate to a transaction between traders;...*” This wording strongly suggests that the UCPD is an approximation measure regarding the business to consumers unfair commercial practices, with the

ultimate goal to protect consumers. The following point, point 7 of the UCPD, further specifies that *This Directive addresses commercial practices directly related to influencing consumers’ transactional decisions in relation to products. It does not address commercial practices carried out primarily for other purposes.* With a literate logic, this suggests the UCPD approximates national law in order to achieve a certain level of protection of free consumers transactional will and decisions. If this is accepted, then we are definitely moving from the competition law to consumer protection law, especially norms dealings with contracting by consumers. Indeed, point 10 of the UCPD supports further this orientation by providing that “*The high level of convergence achieved by the approximation of national provisions through this Directive creates a high common level of consumer protection. This Directive establishes a single general prohibition of those unfair commercial practices distorting consumers’ economic behaviour. It also sets rules on aggressive commercial practices, which are currently not regulated at Community level.*” The last sentence indicates a will to opt for the full harmonization nature of the UCPD.

The body of the UCPD should reflect the preamble, but it is highly discussable to what extent it does. In other words, already a cursory overview of a few articles reveals a noticeable lack of consistency. Indeed, Art.1 of the UCPD indicates that “*The purpose of this Directive is to contribute to the proper functioning of the internal market and achieve a high level of consumer protection by approximating the laws, regulations and*

administrative provisions of the Member States on unfair commercial practices harming consumers' economic interests." This wording allows for speculating that the protection of consumers' transactional decisions is not the fundamental purpose of the UCPD after all. Perhaps, it is just the expected consequence generated by the satisfaction of another purpose – the omnipresent protection of the single internal market and the competition in it. If that is accepted, then we need to come back from the consumer protection law dealing with the protection of the consumer contractual will to the competition law per se. In contrast to the inconsistency regarding the purpose, the body of the UCPD and its preamble match better regarding the nature. Art.3 of the UCPD confirms that the UCPD applies to unfair business-to-consumer commercial practices and that the EU does not want to settle for a weak and incomplete harmonization. Even a mechanism how to reach a full harmonization is provided and included is the option of temporary (for 6 years) measures. Art.4 of the UCPD wraps this move to the public law unification by boldly stating that *Member States shall neither restrict the freedom to provide services nor restrict the free movement of goods for reasons falling within the field approximated by this Directive.* Art.5 of the UCPD specifies what is prohibited and what are the criteria, namely it states: "1. *Unfair commercial practices shall be prohibited.* 2. *A commercial practice shall be unfair if: (a) it is contrary to the requirements of professional diligence, and (b) it materially distorts or is likely to materially distort the economic behavior with regard to the product of the*

average consumer whom it reaches or to whom it is addressed, or of the average member of the group when a commercial practice is directed to a particular group of consumers. 3. *Commercial practices which are likely to materially distort the economic behavior only of a clearly identifiable group of consumers who are particularly vulnerable to the practice or the underlying product because of their mental or physical infirmity, age or credulity in a way which the trader could reasonably be expected to foresee, shall be assessed from the perspective of the average member of that group..."*

The following sections describe both forms of these misleading practices, misleading action and misleading omission, and Annex I includes a blacklist of commercial practices proclaimed unfair *per se*. However, the objective-subjective/general-special average consumer test is not further addressed.

Hence, the UCPD opted for a cross-jurisdictional harmonization, if not unification, of rules against misleading and aggressive practices impairing the consumer's freedom, i.e. to impose the same approach to exaggerating, not telling the truth and defamation as to harassment, intimidation, coercion and undue influence in common law jurisdictions as well as continental jurisdictions. Common law jurisdictions deal with each type of these practices specifically via various torts (defamation, fraudulent misrepresentation, wrongful invasion of privacy, nuisance, trespass, and even battery!),³ while

³ FRANKLIN, Marc A., CARDI, Jonathan W., GREEN, Michael D. *Torts – Gilbert Law Summaries*. 24th Edition. Chicago, IL, US : West, Thomson, 2008, 546 p. and KIONKA, Edward J. *Torts in a nutshell*. 6th Edition. St. Paul, MN, US: West Publishing Co., 2015, 625 p.

continental law jurisdictions include special provisions in various codes (Civil Code, Commercial Code, etc.) and special Acts (Act against unfair competition, Consumer Protection Act, etc.). Each jurisdiction has built its own approach and selected sanctions for such practices, going from various warnings over relative nullity to absolute nullity. However, the UCPD wipes off all of this. The Commission is convinced that this is the right way, and, in order to facilitate it, the Commission keeps a special e-platform (“UCPD Website”),⁴ with its statement and explanatory notes on the UCPD along with databases including EU as well as national level data (“UCPD Database”).⁵ Interestingly, this UCPD Database should be integrated into the e-Justice Portal. Hence, it is highly relevant to explore statements and explanations of the Commission, which are posted on the UCPD Website, especially the UCPD Database, and assess their capacity to overcome issues generated by the “fit-all” UCPD vis-à-vis different jurisdictions.

II. E-platform of the Commission – the inside legislative and executive perspective via a purposive and mischief approach on the nature and purpose of the UCPD

The Commission commences its UCPD Website by stating that “*The [Directive on Unfair Commercial](#)*

⁴ EC. UCPD Website. Available at http://ec.europa.eu/consumers/consumer_rights/unfair-trade/unfair-practices/index_en.htm

⁵ EC. UCPD Website / Database on the Unfair Commercial Practices Directive. Available at <https://webgate.ec.europa.eu/ucpd/public/index.cfm;jsessionid=65A88EDBC0F32861D45A357F8EBF1D64.cfusion13701?event=public.home.show&CFID=256858&CFTOKEN=d9c321469153bf0f-A99AF97E-E50E-130B-C5A7A01499738626>.

Practices was adopted in 2005 to boost consumer confidence and make it easier for businesses (especially small and medium sized (SMEs)) to carry out cross border trading.”⁶ The Commission explicitly points out SMEs, and it appears that the purposive and mischief approach regarding the UCPD targets consumers and SMEs, namely their protection. Well, firstly, it is highly questionable if these two priorities can be fully reconciled (SMEs and consumers can have dramatically different goals) and secondly, and perhaps even more importantly, the body of the UCPD is basically silent about it and only the preamble includes some vague statements on this topic. Hence, it can be implied that the literal and purposive/mischief approaches to UCPD and its interpretation lead to different results. Boldly, their perception of the nature and, even more, of the purpose of the UCPD, differs.

The UCPD Website includes, immediately after the above mentioned introductory statement, its Communication on UCPD labeled COM(2013)138 from 2013 (“Communication”).⁷ The introductory part of the Communication brings important quantitative data, along with rather speculative glosses on the internal single market and strategy Europe 2020, namely that “*Consumer expenditure accounts for 56 % of EU GDP and is essential in meeting the objective of smart, inclusive and sustainable growth. As outlined in the European*

⁶ EC. UCPD Website. Available at http://ec.europa.eu/consumers/consumer_rights/unfair-trade/unfair-practices/index_en.htm

⁷ EC. UCPD Website / Communication. Available at http://ec.europa.eu/justice/consumer-marketing/files/ucpd_communication_en.pdf

Consumer Agenda, stimulating this demand can play a major role in bringing the EU out of the crisis. To make this possible, the potential of the Single Market must be realised. Data show that consumers shopping online across the EU have up to 16 times more products from which to choose, but 60 % of consumers do not yet use this channel. As a result of this reluctance, they do not fully benefit from the variety of choice and price differences available in the Single Market.” In other words, the Communication sees the primary purpose of the UCPD as linked to the Single internal market, and this even perhaps more than to consumers and/or SMEs. However, just a few lines later, the Communication returns to them and focusses on the UCPD “compulsory” nature, i.e. the full harmonization, and the orientation on consumer protection via national states agencies. Namely it provides that “First experience of the Directive's implementation shows that it has considerably improved consumer protection in and across the Member States, while better protecting legitimate businesses from competitors who do not play by the rules. The benefits of the Directive mainly stem from two of its specific features, namely, its horizontal "safety net" character and its combination of principle-based rules with a "Black List" of specific prohibitions of certain unfair practices. The Unfair Commercial Practices Directive's principle-based rules have allowed national authorities to adapt to fast-evolving products, services and sales methods. ...Thanks to the Unfair Commercial Practices Directive, national consumer protection watchdogs have been able to curb and sanction a broad range of unfair business

practices, including misleading environmental claims and aggressive practices.” Allegedly, the only problems represent (i) green claims, i.e. irresponsible use of "eco-friendly", "biodegradable", "sustainable", etc., and (ii) the protection of vulnerable consumers.

Next, the UCPD Website includes the Report of the Commission (COM(2013)139) which offers a first assessment of the application of the UCPD in the Member States, as well as an outline of the actions needed to maximize its benefits (“Report”).⁸ The Report explicitly points out that the nature of the UCPD is full harmonization - horizontal B2C and admits that its transposition was not done duly and timely. Namely, it states “The Directive is horizontal in nature and covers the totality of business-to-consumer ('B2C') transactions whether offline or online, involving both goods and services. Only a few Member States transposed the Directive on time. The last transposition took place at the end of 2009 while the majority of national measures were implemented in the course of 2008 and 2009.¹⁰ Action taken by the Commission before the European Court of Justice resulted in the ECJ issuing judgements against two Member States while other proceedings were closed as a result of subsequent notification of the measures. ... Article 4 of the UCPD, known as the ‘Internal Market clause’, embodies the full harmonisation effect of the Directive and prevents Member States from deviating from its rules. This feature was confirmed by the ECJ in the ‘Total Belgium’ case and in the

⁸ EC. UCPD Website / Report. Available at http://ec.europa.eu/justice/consumer-marketing/files/ucpd_report_en.pdf

context of other preliminary rulings” The last EU member state transposing the UCPD was Spain and the EU member states against which the judgment for the lack of the transposition were issued were Spain and Luxembourg. The *C-261/07* and *C-299/07 Total Belgium* case teaches a lot about the approach to the UCPD and the perception of its nature and purpose by the CJ EU and hence will be discussed later on.

Further, the UCPD Website includes the updated Guidance on the UCPD, which was issued by the Commission in 2016 (“Updated Guidance”).⁹ Interestingly enough, the Guidance starts with a strong disclaimer and re-installation of the case-by-case approach, i.e. “This guidance ... was prepared by the Commission services and does not necessarily reflect the views of the European Commission. It is intended to facilitate the implementation of Directive 2005/29/EC on unfair commercial practices. However, it is itself not legally binding. Any authoritative reading of the law should only be derived from Directive 2005/29/EC itself and other applicable legal acts or principles. Only the Court of Justice of the European Union is competent to authoritatively interpret Union law. The assessment of whether a commercial practice is unfair under the UCPD must, except in the case of the practices listed in Annex I to the Directive, be performed on a case-by-case basis. The power to make this assessment rests with the Member States.” Regarding the nature and purpose of the UCPD, it states “The Directive is horizontal in

nature and protects the economic interests of consumers. Its principle-based provisions address a wide range of practices and are sufficiently broad to catch fast-evolving products, services and sales methods...” Does this mean a departure from the “European single internal market” priority to the economic interests of consumers?

Finally, the UCPD Website includes a legal database about the interpretation and application of the UCPD in the EU, i.e. UCPD Database.¹⁰ The introductory statements to the UCPD Database ambitiously state *“Directive 2005/29/EC on Unfair Commercial Practices lays down harmonised rules for the fight against unfair commercial practices and contributes to a high level of consumer protection. It ensures that consumers are not misled or exposed to aggressive marketing and that any claim made by traders in the EU is clear, accurate and substantiated, enabling consumers to make informed and meaningful choices. The Directive also aims to ensure, promote and protect fair competition in the area of commercial practices.”* Well, the UCPD Database is clearly a useful tool which offers static comparative information about the wording of primary, secondary and supplementary legislation implementing UCPD along with the selection of cases. This is true even at this point, when the UCPD Database is not updated, because it should

⁹ EC. UCPD Website / Updated Guidance. Available at http://ec.europa.eu/justice/consumer-marketing/files/ucp_guidance_en.pdf

¹⁰ EC. UCPD Website / Database on the Unfair Commercial Practices Directive. Available at <https://webgate.ec.europa.eu/ucp/public/index.cfm;jsessionid=65A88EDBC0F32861D45A357F8EBF1D64.cfusion13701?event=public.home.show&CFID=256858&CFTOKEN=d9c321469153bf0f-A99AF97E-E50E-130B-C5A7A01499738626> .

become a part of the e-Justice Portal.¹¹ The UCPD Database includes the UCPD, Guidance and information about the transposition, interpretation and application of the UCPD in EU member states. Considering the issue of the nature and purpose of the UCPD, it is highly relevant to check data provided by the UCPD Database about Art.1 of the UCPD. Surprisingly, there is no data about Guidances or Local implementations and thus the UCPD Database provides in this respect only 2 cases and 18 pieces of legal literature. Both cases are cases of the CJ EU, namely the above already mentioned *C-261/07 and C-299/07 Total Belgium* along with *C-126/11 Inno*. Regarding 18 academic papers, 4 deal with Italy and the Netherlands, 3 deal with the Czech Republic and Germany, 2 with the UK, 1 deals with the EU level and Austria. Undoubtedly, it is highly relevant to explore these (and other) cases and academic papers.

III. CJ EU case law – the judiciary perspective via a teleological approach on the nature and purpose of the UCPD

The leading precedent of the CJ EU about the UCPD is *C-261/07 and C-299/07 Total Belgium*¹² and, as is obvious from the above discussed, the *Total Belgium* case is analyzed, or at least mentioned, basically in all cases and academic papers dealing with the nature and purpose of the UCPD. *Total Belgium* was made based on a preliminary ruling request regarding the following

¹¹ Available at <https://e-justice.europa.eu/home.do>

¹² *C-261/07 and C-299/07 Total Belgium* available at <http://curia.europa.eu/juris/document/document.jsf?text=&docid=78002&pageIndex=0&doclang=en&mode=lst&dir=&occ=first&part=1&cid=697698>

setting. Total Belgium, a subsidiary of the Total group, the primary business of which is the sale of fuel at filling stations, has been offering free breakdown services for a period of three weeks to consumers who are Total Club cardholders with every purchase of at least 25 litres of fuel for a car or at least 10 litres for a motorcycle.

In 2007, VTB, an undertaking which operates in the breakdown-service sector, brought an action before the Rechtbank van koophandel te Antwerpen (Antwerp Commercial Court) (Belgium) by which it sought an order requiring Total Belgium to discontinue that commercial practice on the ground that it constituted, inter alia, a combined offer prohibited by Article 54 of the 1991 Law. The question of law was whether the UCPD precludes national rules which prohibit combined offers per se, i.e. whether national law can prohibit combined offers per se even if they are not included in the Annex I of the UCPD, i.e. they are not prohibited per se by the UCPD and the UCPD submits them to the ordinary approach pursuant Art.5 et foll. of the UCPD. The CJ EU answered by underlining that UCPD (5. and 6. of the Preamble, Art. 1 of the UCPD) “*uniform rules on unfair business-to-consumer commercial practices in order to contribute to the proper functioning of the internal market and to achieve a high level of consumer protection. Thus, the Directive fully harmonises those rules at the Community level. Accordingly, as Article 4 thereof expressly provides ... Member States may not adopt stricter rules than those provided for in the Directive, even in order to achieve a higher level of consumer protection.*” Therefore, national law can neither protect less nor

more consumers and if certain practices should be considered based on circumstance, it cannot be prohibited automatically by any EU member state's law. The *ratio decidendi* states „UCPD must be interpreted as precluding national legislation, such as that at issue in the disputes in the main proceedings, which, with certain exceptions, and without taking account of the specific circumstances, imposes a general prohibition of combined offers made by a vendor to a consumer.” Similar situations about the national law “extension” of the Blacklist (Annex I of the UCPD) were described by the academic press with the same result, i.e. that this is against the UCPD, see the German per se prohibition of unsolicited commercial offers calls to consumers.¹³

This “exact” (no more, no less) harmonization and teleological approach of the CJ EU does not primarily lead to the enhancement of consumer protection, indeed the nature and purpose of the UCPD consists much more in the public order sphere. Indeed, *C-261/07 and C-299/07 Total Belgium* can be considered as the final milestone on the way of the UCPD to its full harmonization recognition and can be perceived as the (so far) last word about the nature of the UCPD – full and B2C harmonization nature, i.e. no more, no less for consumers! Regarding the purpose, *C-261/07 and C-299/07 Total Belgium* does not offer such a conclusive answer. Hence, it is worthy to explore the second most popular CJ EU cases about the

UCPD, i.e. *C-126/11 Inno*.¹⁴ According to the operative part of this order “*Unfair Commercial Practices Directive*’ must be interpreted as precluding a national provision, such as that at issue in the main proceedings, which lays down a general prohibition of announcements of price reductions or announcements suggesting such reductions during the period preceding sales, in so far as that provision pursues objectives relating to consumer protection.” Well, this is highly consistent with the *C-261/07 and C-299/07 Total Belgium* and reconfirms the full and B2C harmonization nature of the UCPD. However, regarding the purpose, the teleological approach of the CJ EU is rather silent, while the literal approach based on the UCPD and purposive and mischief approach of Commission leads to a myriad of possible purposes, often even contradictory. Therefore, the exploration of the academic papers and academic opinions about the nature, and even more the purpose, of the UCPD is highly desirable.

IV. Academia and its perspective on the nature and purpose of the UCPD

The emergence of the UCPD received diverse reactions by academia. Certain authors have welcomed the UCPD as an important step on the way to a harmonized EU law on unfair commercial practices¹⁵ and have shown their determination to

¹³ ENGELS, Stefan, BRUNN, Beatrice. Ist § 7 II Nr. 2 UWG europarechtswidrig? [Is § 7 II No. 2 UWG (the the German Unfair Competition Act) compliant with European law?] *Gewerblicher Rechtsschutz und Urheberrecht (GRUR)*, 2010, 886-890.

¹⁴ *C-126/11 Inno* available at <http://curia.europa.eu/juris/liste.jsf?language=en&jur=C.T.F&num=C-126/11&td=ALL>

¹⁵ AUGENHOFER, Sussane. Ein „Flickenteppich“ oder doch der „große Wurf“? – Überlegungen zur RL über unlautere Geschäftspraktiken [A rag rug or the great success? - Notes on the new Unfair Commercial Practices Directive *Zeitschrift für*

cooperate in the identification of its nature and purpose. Other authors have expressed rather their skepticism or even have totally ignored or rejected the UCPD.

Regarding the nature of the UCPD, academia has very quickly reached a consensus that the UCPD is a complete harmonization instrument¹⁶ designed for B2C situations. Naturally, this consent was facilitated by the case law of the CJ EU as well as explanatory statements issued by Commission, see above.

Regarding the main purpose of the UCPD, a myriad of academic, professional and even laic opinions regarding the main purpose of UCPD has been presented and published. One stream has recognized that consumer protection as the leitmotif of the UCPD while another stream has pointed to the Internal single markets and its freedoms, to which one of the pre-requirements of such movements is the trust of consumers in the fairness of commercial practices.¹⁷ Even additional streams can be identified – either totally rejecting all these purposes and coming with different ones or embracing the idea suggested by the UCPD and Commission, i.e. that after all the UCPD can

perfectly hit the dual purpose - the protection of the internal market and consumer protection.¹⁸

The above mentioned UCPD Database¹⁹ is an interesting resource in this respect and offers 18 academic articles about the UCPD purpose and similar issues, and some of them provide a well-founded criticism. This criticism can be general²⁰ as well as particular, such as, for example, about the fact that despite all “pro-consumers and pro-consumers’ protection”, the UCPD might weaken their position and protection and impose an (in)appropriate model of a European consumer.²¹

The multitude of opinion streams within academia witnesses the inconsistency of the UCPD in regards to its main purpose, of the Commission with its explanatory notes and of the CJ EU with its case law. Often, it is argued that all the mentioned purposes are interrelated and can be achieved simultaneously; see above, but not solid evidence or final arguments for it are presented.

This unsatisfactory situation regarding the identification of the main purpose is discussed in

Europarecht?] *Zeitschrift für Rechtsvergleichung, Internationales Privatrecht und Europarecht*, [Internationales Privatrecht und Rechtsvergleichung] 2005, 30, 204-214.

¹⁶ STUYCK, Jules. Réflexions sur une meilleure intégration du droit de la concurrence et du droit des pratiques commerciales déloyales. *Revue internationale de droit économique*, 2011, 4, 455-479.

¹⁷ ČECH, Petr. Nedotažená revoluce v právní úpravě nekalých obchodních praktik [Insufficiently finalised revolution in the legal regulation of unfair commercial practices]. *Právní zpravodaj*, 2008, 3, 1.

¹⁸ BROEKMAN, M.F.H. De Richtlijn Oneerlijke Handelspraktijken [The UCP Directive] *Tijdschrift voor Consumentenrecht en handelspraktijken*, 2005 ,5, 175-186.

¹⁹ EC. UCPD Website / Database on the Unfair Commercial Practices Directive. Available at <https://webgate.ec.europa.eu/ucp/public/index.cfm;jsessionid=65A88EDBC0F32861D45A357F8EBF1D64.cfusion13701?event=public.home.show&CFID=256858&CFTOKEN=d9c321469153bf0f-A99AF97E-E50E-130B-C5A7A01499738626> .

²⁰ HÜLLE, Tomáš. Transpozice směrnice 2005/29/ES o nekalých obchodních praktikách vůči spotřebitelům do českého právního řádu [The UCP Directive and its transposition in Czech Law]. *PrF MU Master Thesis*, 2009, 135 p. Available at https://is.muni.cz/th/134706/pravf_m/

²¹ HAJN, Petr. Oslovená ochrana spotřebitelů? K aktuálnímu výkladu směrnice o nekalých obchodních praktikách [Weakened consumer protection? The current interpretation of the UCP Directive]. *iPravnik.cz/ Obchodněprávní revue*, 2009, 2.

the academic press along with comments that, despite all the EU's endeavors, including the full harmonization of the protection against unfair commercial practices, the state of law regarding misleading commercial practices, especially confusing marketing, has not become clearer²² and perhaps even not more effectively and efficiently synchronically implemented.²³ The CJ EU and the Commission do not ignore this criticism and admit the ongoing existence of certain problems which were supposed to be resolved by the UCPD, and this especially considering the purpose of the UCPD. These problems include e.g., e-business, especially misleading e-advertising, for vulnerable consumers.²⁴

Since the underlying concepts, employed criteria, suggested priorities and ultimate goals of the protection against unfair commercial practices are far from being consistently, similarly and even compatibly perceived and applied across the EU member states, the doubts about the main purpose of the UCPD are serious. These doubts inherently impact the interpretation, application an even

²² TRZASKOWSKI, Jan. Behavioural Economics, Neuroscience, and the Unfair Commercial Practises Directive. *Journal of Consumer Policy*, 2011, 34, 377-392.

²³ ČECH, Petr. Nedotažená revoluce v právní úpravě nekalých obchodních praktik [Insufficiently finalised revolution in the legal regulation of unfair commercial practices]. *Právní zpravodaj*, 2008, 3, 1.

²⁴ European Commission. *UCPD – EC Guidance.*, Last updated October 1st, 2015. Available from Internet at <https://webgate.ec.europa.eu/ucp/public/index.cfm?event=public.guidance.show> and https://webgate.ec.europa.eu/ucp/public/index.cfm?event=public.guidance.browse&elemID=74#article_62 and European Commission. *COM(2013)138 final. Communication from the Commission On the application of the Unfair Commercial Practices Directive – Achieving a high level of consumer protection Building trust in Internal Market*, Brussels, 14.3.2013a. Available at http://ec.europa.eu/justice/consumer-marketing/files/ucpd_communication_en.pdf

enforcement of the UCPD and transposition national Acts in the EU member states. The Commission, CJ EU and even academia are aware about it and attempt to over-bridge it. Well, they succeeded regarding the nature of the UCPD, but so far definitely not about the purpose of the UCPD.

Conclusion

The post-crisis EU in the second decade of the 21st century must be responsive,²⁵ consistent, transparent, effective and efficient in order to overcome its (alleged) legitimacy deficit. The legislative action of the EU needs to respect principles and mechanisms set by the TEU and TFEU, such as conferral, proportionality, and subsidiarity. Undoubtedly, the modern European integration relies on the Single internal market with its freedoms and thus unfair commercial practices on this market are of a concern. This concern has grown over time and ultimately made the EU enact the UCPD. Over time, the Commission, CJ EU and academia have reached a consensus about the full harmonization and B2C nature of the UCPD. However, no such consensus has been achieved regarding its main purpose. Since the leading interpretation approaches and methods employed on EU law and on EU member states law transposing the EU law rely on the purpose, the uncertainty and inconsistency of the main purpose of the UCPD has at least the potential to impair the

²⁵ ŠMEJKAL, Václav. Social or Highly Competitive Europe? EU Law Solution to Conflict of Social Security and Competition Law. *The Lawyer Quarterly*, 2016, 1, 18-27.

interpretation, application and enforcement of relevant provisions.

The EU wants and needs a deeper and fairer internal market and does not hesitate to make it its priority in 2017,²⁶ but the problem is that the UCPD addresses issues belonging in several legal branches – business law, competition (antimonopoly and antitrust) law, unfair competition law, consumer protection law, intellectual property law – shaped particularly in each EU member state and reflecting the differences between the common law and continental law traditions. The teleological method of interpretation, which plays a key role in interpretation and application of the EU law for many reasons, including the fact that Treaties, such as TEU and TFEU, are imbued with teleology,²⁷ fails vis-à-vis the UCPD, because its purpose is unclear. Hence, there are dramatic differences in the approach and regulation of unfair commercial practices across the national laws of the EU member states and these differences should be overcome via a full harmonization instrument which has an unknown main purpose and thus is unclear itself.

The EU is occasionally presented as disunited and confused about its goals,²⁸ and the misleading perception of the purpose of the protection against

misleading commercial contributes to it. It should be appreciated that the certainty was reached regarding the nature of the UCPD, but this does not suffice *per se*. A consensus regarding the main purpose of the UCPD is indispensable and it is up to the Commission, the CJ EU and courts in the EU as well as academia to resolve this puzzle. A starting point of this way should be to state honestly and concretely what is the most important single priority and who or what is the primary addressee of it. This needs courage, integrity and determination to plainly state it. The next step should be an open discussion about all states' priorities and purposes in relation to unfair commercial practices. The final step should be to accept the leading purposes coming from this discussion and make it truly the main purpose of the UCPD, and this without artificially suggesting that this purpose would automatically lead to another purpose. Such a main purpose would reflect the legitimacy requirements and might benefit by general public endorsement, hence making the UCPD not only easier to be interpreted, but as well applied and enforced. However, there is a catch – such a purpose might be something else than what is currently presented or assumed to be the most important by the Commission, CJ EU and perhaps even academia. Well, does the EU want it and, if so, can it pass this test?

Acknowledgement

This contribution was supported by GA ČR No. 17-11867S „Comparison of the interaction between the law against unfair competition and intellectual

²⁶ EC. European Commission – Priorities. Available at https://ec.europa.eu/commission/priorities/internal-market_en

²⁷ LENAERTS, Koen, GUTIÉRREZ-FONS, José A. *To Say What the Law of the EU Is: Methods of Interpretation and the European Court of Justice*. EUI Working Papers, AEL, 2013, 9. Available at http://cadmus.eui.eu/bitstream/handle/1814/28339/AEL_2013_09_DL.pdf?sequence=1

²⁸ COLLINS, Hugh. Harmonisation by example. *European laws against unfair commercial practices*. *Modern Law Review*, 2010, 73(1): 89-118.

property law, and its consequences in the central European context.”

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Retroactive Penalisation, The Rule of Law, Due Process and whether an Immoral Law is not a Law

David Langwallner

A Disquisition both Experiential and Theoretical

I have for a variety of reasons become very interested in the question of whether an immoral law is or is not a law, the retroactivity of laws and its interaction with questions of legality and that amorphous expression difficult to define but important to clutch onto The Rule of Law.

I think at the outset of this paper I should explain why this is the case. So let us commence this paper dealing with relatively hard jurisprudential content with some experiential though still theoretical observations which have one way or another have led to this paper.

It is important to stress that practical trench warfare as a litigator as well as academic experience has heightened my sensitivity to this topic. In fact it is also important to mention at the outset that I singularly distrust theoretical observations in this particular part of legal philosophy without the benefit of practical experience. The intersection between law and morality is a part of jurisprudence that field experience can sharpen. I equally distrust lawyers or decision makers making decisions without some sense of moral compass.

Why This Paper?

First, as a law teacher, I have been lecturing Jurisprudence for over 16 years and in that context

the relationship between law and morality is a central question and a crucial question as old as Sophocles "Antigone" is whether an immoral law is a law.

Thus in that play, the Rosetta stone of modern natural law, the eponymous heroine Antigone observes to the harsh positivist King of Thebes Creon who will not allow her brother who has fought against him to be buried properly in violation of the principles of the natural law that:

"Yes; for it was not Zeus that had published me that edict; not such are the laws set among men by the justice who dwells with the gods below; nor deemed I that thy decrees were of such force, that a mortal could override the unwritten and unfailing statutes of heaven. For their life is not of to-day or yesterday, but from all time, and no man knows when they were first put forth..."¹

Thus Antigone accuses your law Creon is not a law as it is immoral or an immoral law is not a law.

This question divides down the middle the natural lawyers (not all but most) from the positivists. In essence many natural lawyers argue that ultimately when a law forfeits any semblance of morality then it ceases to be a law. A positivist as is Creon in the play insists on the strict enforcement black letter law. The rule of the king as sovereign and writ of justice.

¹ Sophocles, *Antigone*. Cambridge University Press (2003).

Many others agree with our fictional heroine. For The Roman Orator, Statesman and Part Time Natural Lawyer Cicero, positive laws that contravened the natural law could be struck down. Cicero indicated that a legislature which determined that theft or adultery were lawful would be not be making laws, but rather acting as a band of robbers. It is also apparently the case that, from Cicero's perspective, an unjust law is not a law:

*"From this point of view it can be readily understood that those who formulated wicked and unjust statutes for nations, thereby breaking their promises and agreements, put into effect anything but laws."*²

Origen is one of the very first Christian natural lawyers to indicate that an immoral law is not a law. Most famous of all early Christian thinkers, St Augustine of Hippo said "lex iniusta non est lex" (an unjust law is not a law).³

Gratian, later in the middle ages, further maintained that any positive law if contrary to the natural law is null and void.⁴

Even a procedural natural lawyer like Fuller accepts that an immoral law is not a law and put it thus:

"[T]here is nothing shocking in saying that a dictatorship which clothes itself with a tinsel of legal form can so far depart from the morality of order, from the inner morality of law itself that it ceases to

*be a legal system. When a system calling itself law is predicated upon a general disregard by judges of the terms of the laws they purport to enforce, when this system habitually cures its legal irregularities, even the grossest, by retroactive statutes, when it has only to resort to forays of terror in the streets, which no one dares challenge, in order to escape even those scant restraints imposed by the pretence of legality—when all these things have become true of a dictatorship, it is not hard for me, at least, to deny to it the name of law."*⁵

However, natural lawyers are not univocal, John Finnis points out that Aquinas never endorsed St Augustine's famous injunction. Edward Damich also argues that Aquinas uses the Latin word "*videtur*" in his crucial passages which translates, in context, as "*seems to be*" a law.⁶ Thus the sense conveyed by both writers is that Aquinas never endorsed the position that an immoral law is not a law.

However, conversely others, such as Colin Harte,⁷ have argued that Aquinas only means that the authorities are treating it as if it were a law, or that the word *videtur* is not translated as seems but; is seen, is taught, is evident. Thus, the translation of Aquinas's views is that an unjust law is **not** really a law.⁸

Much depends in context as to what Aquinas means by corruption or perversion of law? Does

² Cicero, *De Legibus*. Harvard University Press (1928).

³ And thus is intrinsic to the debate as to whether an immoral law is a law. As we shall see, neither Aquinas nor Finnis is committed to the position that an immoral law is not a law.

⁴ Gratian, *Decretum*. (1140).

⁵ Lon L. Fuller, *Positivism and Fidelity to Law—A Reply to Professor Hart*. 71 Harvard Law Review 630, 660.

⁶ *Essence of Law According to Aquinas*. American Journal of Jurisprudence Vol. 30 ISS 1. Article 4.at p 91.

⁷ *Changing Unjust Laws Justly*. Catholic University of America Press (2005).

⁸ Emphasis added.

the phrases corruption or perversion of law mean that he recognises that they are still laws or that their fundamental character is so distorted that they are no longer laws in the true sense of the term?⁹

Finnis of course also contends that an immoral law is still a law, though not in the focal sense of the term, and argues that there is an obligation to obey an immoral law if the consequences of disobedience would be to cause social unrest a Christian authoritarian view similar to Aquinas.

In contrast as we shall explore in detail later a positivist like Hart argues that the solution is not to call the law a non law on the basis of morality for that is to confuse legality with morality but to utilise the principle of retroactivity and to declare the law invalid from now retroactively.

So the choices confronted with an immoral law are to strike it down as if it had never been or what seems to me amounting to the same thing to declare it retroactively over-turned presumably on the basis of immorality. But as will become clearer in the final section of this paper I have problems with all of this.

In any event the solutions with respect to the obliteration of an unjust law retroactively are either retroactive criminalisation from a positivistic sense or the declaration of the law as non law on moral criteria.

The above disquisition shows in substance how they amount to the same thing in practical terms

and how both camps view this as desirable. Though I share that sentiment in principle I have manifold doubts in practice.

Questions of Retroactive Justice and Criminalisation

In jurisprudential terms the last century saw a considerable revival in relation to natural law thinking and the rights of man now with recrudescence of right wing extremism decidedly under threat. The effect at the time of the World Wars, the horrors of the Holocaust, the aftermath of colonialism, the nuclear age, economic instability and scientific doubt all cumulatively led to the emergence of human rights from 1945 onwards which I think has morphed into a form of secular religion.

A crucial juristic figure was the German Law Professor Gustav Radbruch (1878-1949), both a law professor and government minister during the Weimar Republic. It is often argued that his earlier writings were positivistic. In 1932 he was a relativist in terms of the question as to whether or not moral standards existed in law. He wrote that a judge had an obligation to uphold an unjust law. However, after the Second World War he changed his mind.

In the famous Radbruch's Formula (*Radbruchsche Formel*) he argued that where statute law was incompatible with positivist law to an intolerable degree, and where it negated the principle of equality which is central to justice, it could be disregarded. In 1946 he wrote:

"[P]reference is given to the positive law, duly enacted and secured by state power as it is, even

⁹ John Finnis, *Natural Law and Natural Rights*. Oxford University Press (1980).

*where it is unjust and fails to benefit the people unless its conflict with justice reaches so intolerable a level that a statute becomes in effect false law and must therefore yield to justice ... where there is not even an attempt at justice, where equality the core of justice is deliberately betrayed in the issuance of positive law then the statute is not merely false law it lacks completely the very nature of law.*¹⁰

Radbruch suggested that where there is intolerability and betrayal by government, the statute ceases to be valid law and must yield to justice. It was clear for Radbruch that this sense of justice (*Gerechtigkeit*) was linked to human rights. Thus in *Fünf Minuten Rechtsphilosophie* he argued for “justice as moral equality as applying same measure to all or guaranteeing human rights to all.”

As Hart indicates:

“His considered reflections led him to the doctrine that the fundamental principles of humanitarian morality were part of the very concept of Recht or legality and that no positive enactment or statute, however clearly it was expressed and however clearly it conformed with the formal criteria of validity of a legal system, could be valid if it contravened basic principles of morality.”¹¹

Radbruch had a broad conception of such fundamental laws. He contended that there was a law which was above statute “however one may like to describe it: the law of God, the law of nature,

the law of reason.”¹² Such a law rendered invalid positive laws that did not conform to justice; he argued that Nazi laws did not “partake of the character of law at all; they were not just wrong law, but were not law of any kind.”¹³

It is important to note that the Radbruch’s view was followed in various German cases after the War.

Further, in the 1992 cases of the former East German Border Guards *Streletz, Kessler and Krenz*, the guards were convicted of offences despite section 27/2 of the East German Border Act that indicated that the protection of the border outweighed the right to life. The German Federal Constitutional Court indicated that:

“[A] justification available at the time of the act can be disregarded due to its violation of superior law if it shows an evident and gross violation of basic principles of justice and humanity ... The contradiction of the positive law to justice must be of such unbearable proportions that the law must yield to justice as incorrect law.”¹⁴

All of this led in the 1950’s to the Hart Fuller debate.

Hart, the positivist deals with the “grudge informer” Nazi cases mentioned above in *Positivism and the Separation of Law and Morals*. He argues that the Nazi laws under which the individuals who informed sought protection were legally valid - if, of course, morally reprehensible. Hart argues that positivism

¹⁰ Gustav Radbruch, *Gesetzliches Unrecht und Ubergesetzliches Recht*. Berliner Wissenschafts Verlag (2002).

¹¹ H. L. A. Hart, *Essays in Jurisprudence and Philosophy*. Oxford University Press, p. 74.

¹² Gustav Radbruch, *Gesetzliches Unrecht und Ubergesetzliches Recht*. Berliner Wissenschafts Verlag (2002).

¹³ *Ibid.*

¹⁴ *Streletz, Kessler and Krenz v. Germany* (Applications Nos. 34044/96, 35532/97 and 44801/98), Judgment of the European Court of Human Rights 22nd March 2001.

confronts people with the main issue rather than confusing the issue:

That law is the law. Is it so evil that you intend to disobey and suffer the consequences?

This, Hart indicates is:

"... a moral question which everyone can understand and it makes an immediate and obvious claim to moral attention. If, on the other hand, we formulate our objection as an assertion that these evil things are not law, here is an assertion that many people do not believe, and if they are disposed to consider it at all, it would seem to raise a whole host of philosophical issues before it can be accepted."¹⁵

Hart further argues that resistance to tyranny would not be discouraged by a positivist disposition to maintain a clear separation between law and morality, and he accuses Radbruch of naivety for his view that:

"[I]nsensitiveness to the demands of morality and subservience to state power in a people like the Germans should have arisen from the belief that law might be law though it failed to conform with the minimum requirements of morality."¹⁶

Further, Hart notes that positivist attitudes elsewhere have gone hand in glove with the most enlightened attitudes and he argues that:

"[S]urely the truly liberal answer to any sinister use of the slogan "law is law" or of the distinction between law and morals is, "Very well, but that does not conclude the question. Law is not morality; do not let it supplant morality."¹⁷

According to Lacey, in series of contributions to celebrate the 50th anniversary of the Hart Fuller dialogue:

"[I]n Hart's view, it is not merely that a positivist attitude is consistent with resistance to tyranny but further that the concomitant disposition, particular to liberal citizenship, to reserve judgment about the law's moral claim to obedience best equips a society to resist the domination of political tyranny and abuses of legal power."¹⁸

Further, According to Dyzenhaus:

"Everything Radbruch says, according to Hart, depends on an "enormous overvaluation of ... the bare fact that a rule may be said to be a valid rule of law, as if this, once declared, [were] conclusive of the final moral question: 'Ought this rule of law to be obeyed?'" ... Instead, one should adopt the "truly liberal answer" and not let the fact that X is the law determine the issue of whether X should be obeyed."¹⁹

In his famous *The Concept of Law*, Hart restates his argument for the separation of law and morality

¹⁵ (1958) 71 HLR 593 at p. 620.

¹⁶ Ibid. Quoted in Lacey, "Philosophy, Political Morality and History: Explaining the enduring resonance of the Hart Fuller Debate" in a symposium in the 2008 New York University Law Review to commemorate the 50th anniversary of the debate.)

¹⁷ Ibid.

¹⁸ Lacey, "Philosophy, Political Morality and History: Explaining the enduring resonance of the Hart Fuller Debate" in a symposium in the 2008 New York University Law Review to commemorate the 50th anniversary of the debate.)

¹⁹ Dyzenhaus, "The Grudge Informer Case Revisited" 83 NYUL Review 1000.)

and, in a passionate plea for the value of positivism, argues:

*“What surely is most needed in order to make men clear sighted in confronting the official abuse of power, is that they should preserve the sense that the certification of something as legally valid is not conclusive of the question of obedience, and that, however great the aura of majesty or authority which the official system may have, its demands must in the end be submitted to moral scrutiny.”*²⁰

The value of Hart’s honesty or candour is mentioned by several writers. Lacey writes:

*“According to Hart, it is morally preferable - not least in the sense of its being more honest - to look clearly at the variety of reasons bearing on an ethically problematic decision rather than to close off debate by arguing that something never was the law because it ought not to have been the law.”*²¹

Further, according to Dyzenhaus, Hart, in his 1958 writings, urges the legislature to admit, in the spirit of candour, that the law is law but that it is too unjust to be obeyed. However, in 1961, in response to Fuller and the writings of Pappé, Hart changes his position and argues that now a judge may have a choice about obeying an unjust law. To Dyzenhaus, the final Hartean position is not that different from that of Radbruch. For Radbruch, a judge has a legal obligation to invalidate an unjust

law; for Hart, he has a moral obligation to refuse to apply it.²²

Zipursky argues that practical positivism (which he suggests Hart favours) advocates recognising the values of candour, clarity and transparency in legal interpretation that, collectively, could be termed veracity. The lawyer should provide a description of what the law is and not what it ought to be.

Zipursky contrasts practical positivism with practical perfectionism, which he chastises:

*“If positivism has a tendency to lead to constricted thinking, practical perfectionism in lawyers leads to mischievous and promiscuous thought.”*²³

Fuller, in his initial response to Hart, introduces his response to Hart in arguing for the importance of fidelity in the law:²⁴

“It is now explicitly acknowledged on both sides that one of the chief issues is how we can best define and serve the ideal of fidelity to law. Law, as something deserving loyalty, must represent a human achievement; it cannot be a simple fiat of power or a repetitive pattern discernible in the behavior of state officials. The respect we owe to human laws must surely be something different from the respect we accord to the law of gravitation. If laws, even bad laws, have a claim to our respect, then law must represent some general direction of human effort that we can understand and describe, and that we can approve in principle

²⁰ H. L. A. Hart, *The Concept of Law*. Oxford University Press (2012) p. 205-206.

²¹ Lacey, “Philosophy, Political Morality and History: Explaining the enduring resonance of the Hart Fuller Debate” in a symposium in the 2008 New York University Law Review to commemorate the 50th anniversary of the debate.

²² Dyzenhaus. “The Grudge Informer Case Revisited” 83 NYUL Review 1000.

²³ Zipursky, “Practical Positivism Versus Practical Perfectionism”. New York University Law Review (2008).

²⁴ Though it might be doubted that fidelity in the law as a theme was evident in Hart’s writing.

*even at the moment when it seems to us to miss its mark. If, as I believe, it is a cardinal virtue of Professor Hart's argument that it brings into the dispute the issue of fidelity to law, its chief defect, if I may say so, lies in a failure to perceive and accept the implications that this enlargement of the frame of argument necessarily entails.*²⁵

Fuller, in supporting Radbruch, argues that the German courts were correct in striking down the Nazi laws and argues that a legal system must have certain characteristics if it is to command the fidelity of a right-thinking person. Foremost among those characteristics is the inner morality of the law and, in addition, that the law provides coherence, logic and order.²⁶

Fuller, in the context of the *Inner Morality of Law*, argues that Nazi law did not have coherence and goodness and instances the use of retroactive legislation, such as the Rohm purge of 1934, which retroactively validated the murder of 70 people. Further, for Fuller, the Nazi laws were deeply immoral for a variety of procedural reasons. In particular; they were not published,²⁷ they were vague and they could not be interpreted in a congruent fashion.

Fuller argues that, without an inner morality of law, no legal system exists and that the Nazi system lacked the *sine qua non* of a legal system order and that a citizen only owes fidelity to the law and a corresponding duty to obey the law where the

features that make up the inner morality are present.

According to Dyzenhaus, the essence of Fuller thus is an awareness of the inner morality of the law and the purposes of the law:

*"For Fuller, in other words, the question of the appropriate interpretive stance of judges is one that can only be answered at the fundamental level. Judges must come to conclusions about the appropriate meaning of particular laws in light of their purposes; this requires attention to other relevant law and ultimately to the purposes of the legal order, including the principles of legality. Hence, Fuller claims that in interpretation, the judge cannot understand his duty to determine what law is other than in terms of what law ought to be."*²⁸

According to Waldron²⁹ there is much of value in Fuller's theory of legality not least in the suggestion that proper procedural rules promote substantive legality.

Waldron posits a conclusion that the combination of the principle that there is some criterial connection between legality and law and that principles of legality do have moral significance challenges the separability thesis and implies that:

*"[S]ome aspects of what it takes to be a law do have moral significance."*³⁰

In conclusion, it might be added that both Hart and Fuller, in the Nazi case, supported a retroactive

²⁵ L. Fuller, "Positivism and Fidelity to Law: A reply to Professor Hart" (1958) 71 Harvard Law Review 630.

²⁶ Ibid.

²⁷ Such as the infamous final solution endorsed in the Wannsee conference of 1942.

²⁸ Dyzenhaus, "The Grudge Informer Case Revisited" 83 NYUL Review 1000.

²⁹ "Positivism and Legality: Hart's Equivocal Response to Fuller" New York University Law Journal (2008).

³⁰ Ibid.

statute making illegal what was legal. Albeit the sense is for both I think that this should only be exceptionally utilized and in extreme cases where the moral answer is clear. Thus again the positivist and the natural lawyer converge. Retroactivity acceptable for specific reasons. But is the moral answer ever completely clear and for that matter are those involved in retroactive judging entitled in principle as opposed to empowered in practice to engage in judging of this nature. Who are they to judge and is their blood on their hands also?

The Difficulties of Retroactive Justice

In this respect there is a fascinating film documentary by Errol Morris about Robert McNamara called *"The Fog of War."*³¹ McNamara the Secretary of State for Johnson and Kennedy and a man of many private accomplishments is gazing back on his career through a glass darkly (1 Corinthians 13:12) and reflecting. In his direct and often pointed observations to camera he points out that as an assistant to the American General Curtis Le May he was responsible for the carpet bombing of Tokyo with all the attendant physical destruction of life and in point of fact an act of genocide. He also self reflexively notes that if the US had lost the Second World War he could have been prosecuted for war crimes. In point of fact he ultimately concedes he was a war criminal but he won. So the winner is never prosecuted or to quote that still wonderful pop band ABBA *"The Winner Takes it All."*³²

In fact who is or is not a war criminal or who is or is not prosecuted is often based on victory not morality and victory is not of course necessarily the victory of the morally just.

The late great Christopher Hitchens, never a stranger to controversy or contrarian positions, once wrote a remarkable polemic about one of the ultimate winners in life called "The Trial of Henry Kissinger"³³ which ultimately morphed into an equally compelling documentary, which he co-scripted. The essence of the accusation by Hitchens was that Kissinger was guilty as any common war criminal of crimes against humanity and in evidence Hitchens proffered such various misdeeds as his inculcation in the murder of Salvador Allende, his sponsoring of the carpet bombing of Cambodia and his and Gerald Ford's oblique tolerance and perhaps approval of the genocide in Indonesia and that was only part of it.

At the time I do recollect the book had an incendiary effect but the allegations were not immediately transferred into concrete legal action. Ultimately of course Mr. Kissinger had to leave France with unseemly haste with an arrest warrant pending and return to the safe refuge of the US where he is a staple of talk shows, the idol of Fox news and a totemic visionary of Realpolitik. Such is the shadow existence of a global potentate but such is also the victory of power and influence against retroactive justice and for that matter the victory of immorality. Kissinger is too powerful and too protected to be prosecuted retroactively or at all. Kissinger won.

³¹ Morris (2004).

³² Abba Gold (Polydor)| 2002.

³³ Verso Books (2001).

So the winners are not prosecuted and at times sit in judgment on those who are. So the ultimate question then is who are they to judge? Why should they be allowed to judge or should they have a degree of circumspection and modesty about the process of judging when there is blood on their hands. Thus before they judge they should deeply inspect themselves, their competence to judge and what they have done in the name of

whatever. God, the State, Victory. Of course they usually do not. The self delusions of robed immunity.

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The Global Good Present and Perhaps Even Better Future of Color Trademarks

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Introduction

On the global as well as national and regional levels, the effective and efficient labeling, referencing and marketing of products, regardless whether goods or services, is indispensable for a sustainable business development and success. At the same time, it is well established that trademarks are an outstanding tool in this respect, because they are identifiers and information assets¹ with a potentially global effect. The use of an identical trademark for target markets in a global environment is more effective and efficient and ultimately more distribution flexible than the use of a different trademark for each target country. However, firstly, due to the extent and density of conventional trademark registrations, such as word or figurative trademarks, it is highly challenging to find a word or figurative sign which has not yet been registered in any jurisdiction of potential markets. Secondly, word and figurative signs can be perceived dramatically differently in target countries, e.g. in one country and language attractive word and figurative signs can have negative or even pejorative or vulgar meanings in another country and language. Thirdly, different public policy and distinctiveness requirements can easily lead to a situation when one word or

figurative sign can be admissible in one jurisdiction and not in another. In such a context, a so far underexplored but still very viable option is to consider non conventional trademarks, i.e. not traditional “signs” able to perform the myriad of functions of a trademark at least as good as conventional trademarks.

Hence, it is instrumental to comparatively research and analyze one of the non conventional trademark types, to wit, color, in selected jurisdictions reflecting the transatlantic business. In addition, these jurisdictions have different law traditions, particularly the United States of America and the United Kingdom follow Common Law, while the Czech Republic and the Russian Federation belong to the Continental Law family and the EU is balancing between these two families.

All considered countries are Contracting Members of the Paris Convention which was adopted in 1883 and grants the same level of protection to all Contracting and non-Contracting nationals. It also contains provisions concerning the essential requirements to a sign in order that it may constitute a trademark, specifically distinguishing capability of a sign is an indisputable demand and this work shows how the issue of distinctiveness is raised in each country, especially in relations to non conventional signs. However, the Paris Convention only partially harmonizes national laws and is not responsible for registration requirements in Contracting Members and these regulations are

¹ LONG, Doris Estelle. Rebooting trademarks for the twenty-first century. *University of Louisville Law Review*, 2011, 49(4): 519-554.

determined by domestic law. The primary purpose of the convention is equity of countries but not the regulation proceedings.² The Madrid System seems to be an appropriate solution for trademark applicants as it actually regulates trademark registration and provides a broad scope of legal protection in 98 states including the considered countries. However, before obtaining an international registration in accordance with the Madrid System, a mark must be registered in the Office of origin or at least an application for registration must be filed. Moreover, an international application is examined by the designated Contracting Country as an application was submitted there directly. Consequently, an applied international mark can be refused protection on absolute or relative grounds.³ Therefore, national requirements for a trademark cannot be bypassed.

Each country has its own view on a trademark and requires obeying domestic laws in order that an applicant can enjoy legal protection. In all discussed jurisdictions, undertakings are looking increasingly for new ways of promoting their business identity and this leads to a growth of registration of non traditional signs such as colors, as well as sounds and smell holograms, shapes, tastes, etc. These are important elements which can help in brand promotion in creating strong

² Summary of the Paris Convention for the Protection of Industrial Property (1883), Retrieved from http://www.wipo.int/treaties/en/ip/paris/summary_paris.html on 15th May 2017.

³ The Madrid System for the International Registration of Marks. Objectives, Main Features, Advantages, Retrieved from http://www.wipo.int/edocs/pubdocs/en/wipo_pub_418_2016.pdf on 15th May 2017.

associations and feelings among customers and, therefore, may provide an advantage in a market. Hence, this work comparatively assess the registrability of colors in selected countries.

I. Colors in the USA – yes, since color is a symbol able to acquire a second meaning

In the USA, the Supreme Court in 1995 decided in *Qualitex Co. v. Jacobson Products Co.*⁴ The Court decided that the color in that precedent is a “symbol” and therefore can be registered as a trademark if it meets the requirements of the Lanham Act,⁵ demonstrates the lack of functionality and obtained a secondary meaning in the market.⁶ Hence, in order to register this non conventional sign in the USA, the distinctiveness must be established.

There are five categories of distinctiveness and a color sign is not considered as inherently distinctive due to its nature in the USA, but it can be registered if evidence about a secondary meaning is provided. One of the demonstrating cases in the USA regarding the providing of an evidence of acquired distinctiveness was *Owens-Corning Fiberglass Corporation* in 1992.⁷ Owens-Corning Fiberglass Corp., a manufacturer of fibrous glass, applied for registration of the color pink as the trademark in 1980, as an evidence of acquired

⁴ US Supreme Court, *Qualitex Co. v. Jacobson Products Co.*, 514 U.S. 159 (1995). March 28, 1995.

⁵ 15 U.S.C. 1051-1127 Lanham Act.

⁶ U.S. Supreme Court *Qualitex Co. v. Jacobson Products Co.* (1995), No. 93-1577, Argued: January 9, 1995, Decided: March 28, 1995, Retrieved from <https://www.law.cornell.edu/supct/html/93-1577.ZO.html> on 15th May 2017.

⁷ U.S. Court of Appeals for the Federal Circuit, *In Re Owens-corning Fiberglas Corporation*, 774 F.2d 1116 (Fed. Cir. 1985)

distinctiveness the company provided official information about marketing expenditures in the amount of 42 million dollars in a period from 1972 to 1981, publications in media and surveys of customers which revealed the high level of consumers' recognition of the applied sign. However, the Examiner of the United States Patent and Trademark Office ("USPTO") found the evidence insufficient and inferred that the color alone cannot be registered as a trademark.⁸ The company challenged it and the court applied the five-part test to decide about the registrability of the color, i.e. whether (i) the color was functional, (ii) was solely ornamental, (iii) was a part of an arbitrary, distinctive design, (iv) the color had a secondary meaning and (v) it did not override the federal policy. Based on the Lanham Act, and after denying the shade confusion theory, the court concluded that the color could be trademarked if it acquired a secondary meaning for customers and if the color did not constitute a competitive necessity in the market.⁹

Naturally, the USPTO can register a color trademark only for certain requested goods and services. In addition, a consecutive line of applications and cases suggests that a trademark registration of a color sign for services is more

complicated than for goods, because if an applicant is willing to register a color as a trademark for services, he has to prove not only the distinctiveness but as well how the particular color is correlated with provided services. For example, the company United Parcel Service (UPS) wanted to register the color brown as a trademark for their delivery services and alleged that they had used the claimed color on a wide range of items, including vehicles, watches, pens, uniforms and other things. The USPTO refused this application based on the lack of acquired distinctiveness and then UPS provided strong corroboration of obtained distinguishing capability through customer surveys showing that consumers really did associate the color brown with UPS. However, a strong association was revealed only with uniforms and vehicles. Consequently, the UPS company confined the list and requested the registration of the brown color only for vehicles and uniforms and registered the color trademark.¹⁰

II. Colors in the UK – fine balancing and hard to get color trademarks

In the United Kingdom, the Trade Marks Act 1994¹¹ does not expressly state that a color sign can or cannot constitute a trademark. The first section merely claims that signs which constitute a trademark must differentiate it from other marks, thus the difficulty while obtaining a registration of a nonconventional mark is that an applicant must

⁸ HUBBARD, Janet. Think Pink! Color Can Be A Trademark, *Washington and Lee Law Review*, 1986, 43(4, Article 11): 1438-1454. Retrieved from <http://scholarlycommons.law.wlu.edu/cgi/viewcontent.cgi?article=2896&context=wlulr> on 15th May 2017.

⁹ CARRAWAY, Christopher J. Color as a trademark under the Lanham Act: Confusion in the circuits and the need for uniformity. *Law and Contemporary Problems*, 1994, 57(4):243-274. Retrieved from http://www.jstor.org/stable/1192064?seq=1#page_scan_tab_contents on 15th May 2017.

¹⁰ STOCKELL, Catherine H., HICKEY, Erin M. Are Colors for You? A Primer on Protecting Colors as Marks in the United States, *INTA Bulletin.*, 2009, 64(21). Retrieved from http://www.fr.com/files/Uploads/bios/Hickey_Erin/Are_Colors_For_You.pdf on 15th May 2017.

¹¹ 1994 Chapter 26 Trade Marks Act.

prove its distinctiveness.¹² The distinctiveness may be inherent if a sign is unique due to its nature. Practically, in relations of color signs, the UKIPO does not recognize the inherent distinctiveness of a color alone. But still, the combination of colors may be considered as inherently distinctive, but each case is observed individually while taking into account all factors.¹³ In addition, an individual color or a combination of colors can be registered if they have acquired a distinctive character through usage.¹⁴ It is crucial to mention, at this point, that the UK requires that its applicants have a mark in commercial use not less than for five years. Registration of the color sign alone with a *bona fide* intention to use it is impossible due to the nature of the UK legislation. However, registration of the combination of colors with an intent-to-use is theoretically possible.

The UK follows the *Libertel*¹⁵ and *Sieckmann*¹⁶ criteria about the need of a graphic presentation, i.e. a color designation must be represented by an image, lines or characters. Moreover, a graphic representation must be clear, objective and precise; self-contained and intelligible for those who are examining the mark. Regarding graphic representation of the color sign, it doesn't seem

problematic as it can be easily represented by an image.

The *Cadbury* case¹⁷ demonstrates the restrictive interpretation vis-à-vis color trademark applications in the UK. The Cadbury Co. applied for registration of the color purple (Pantone 2685C) which was applied for "the whole visible surface, or being the predominant color applied to the whole visible surface, of the packaging of the goods."¹⁸ After the application was published the Nestle company opposed it. One of the reasons was the vagueness of the statement "being the predominant". The Court also concluded that this word combination can be rather ambiguous, perhaps with the meaning "as applied to the whole visible surface, or to more than 50% of the area of the visible surface." The problem was with the word "predominant" because it may mean that there could be other colors which are not mentioned in the description and therefore are not represented. Furthermore, the court found that the submitted description was not precise and specific and in the case of successful registration it could obtain an unfair advantage in the market. Hence, despite the proven acquired distinctiveness and other submitted evidence, Cadbury was still refused registration. The *Cadbury* case leads to a triad of conclusions. Firstly, a single color can be registered as a trademark, because, if Nestle did

¹² UK Trade Marks Act 1994, Provision 3.

¹³ ABNETT, Richard, MUTIMEAR Jane, VOWINCKEL, Kathrin. Conditions for registration and scope of protection of non-conventional trademarks, *Report Q181*. Retrieved from <http://aiippi.org/wp-content/uploads/committees/181/GR181uk.pdf> on 15th May 2017.

¹⁴ UK Trade Marks Act 1994, Provision 3.

¹⁵ ECJ, *C-104/01 Libertel Groep BV and Benelux-Merkenbureau*.

¹⁶ ECJ, *C-273/00, Ralf Sieckmann and Deutsches Patent-und Markenamt*.

¹⁷ UK Supreme Court, *Société des Produits Nestlé S.A. v. Cadbury UK Ltd*, [2013] EWCA Civ 1174.

¹⁸ OSBORNE, Dawn, EVANS, Sarah: United Kingdom: Court of Appeal Deems Cadbury's Application for Purple Too Vague, *INTABulletin* 2013, 68(21). Retrieved from <http://www.inta.org/INTABulletin/Pages/UNITEDKINGDOMCourtOfAppealDeemsCadburysApplication-forPurpleTooVague.aspx> on 15th May 2017.

not oppose Cadbury's application, the color sign would have been registered.¹⁹ Secondly, the acquired distinctiveness, graphic representation of the mark and commercial use, along with the compliance with the public policy, do not satisfy per se all registration requirements. Thirdly, applicants should avoid any statements that could be interpreted in a vague manner.

In sum, the UK law is rather demanding regarding color trademark registrations and does not recognize colors as inherently distinctive. Consequently, an applicant must provide evidence that an applied mark (i) obtained distinguishing capability through use, (ii) can be represented graphically and (iii) is "sufficiently precise" and not overlapping with another color trademark.

III. Colors in the CZ – from case law to the statutory admission of color trademarks

In the Czech Republic a color can be registered as a trademark. It is stated in the Article 1 of the Act on Trademarks No. 441/2003 Coll. of 3 December 2003 that any sign can be a trademark if it can be represented graphically and particularly colors, see *"Under the terms of this Act, a trade mark may consist of any sign capable of being represented graphically, particularly words, including personal names, colors, designs, letters, numerals, the shape of goods or their packaging, provided that such sign is capable of distinguishing goods or services of one undertaking from those of another undertaking."*

¹⁹ OSBORNE, Dawn, EVANS, Sarah. United Kingdom: Court of Appeal Deems Cadbury's Application for Purple Too Vague, INTABulletin, 2013, 68(21).

It is an advantage for applicants who are willing to register a color because the permission to do so is expressly stated in the Czech Act. As a matter, a color trademark registration was even achieved based on the precedent-setting case "Milka – lilac color" (Pantone E 176-4 to E 176-3), of Kraft Food under the old law, which was still silent about color, see 644464 (WIPO-CZ, i.e. international) and 31336 (EU TM).²⁰ Interestingly the WIPO file arrived in 1996 and it took an administrative and court proceeding of almost seven years to get a legal protection for it in the Czech Republic, i.e. until 2002.

Naturally, each sign must be distinctive in order to be registered as a trademark and this distinctiveness may be acquired through use.²¹ The IPO of the Czech Republic also accepts that the combination of colors can be inherently distinctive. There was a practice when combinations of colors were considered as inherently distinctive and were registered without providing evidence of usage in the market.²² However, as it is shown from the practice, the color alone cannot be inherently distinctive and registration is possible on the grounds of acquired distinguishing capability of a mark through use.

As of the present time, there are not many companies which have been successful in registering a single trademark. Among them, an

²⁰ Official website of the Czech IPO, Retrieved from https://isdv.upv.cz/webapp/webapp.ozs.det?pozsk=193323&pln=cs&s_naze=&s_sezn=%20&s_majs= on 15th May 2017.

²¹ Act No. 441/2003 Coll. of 3 December 2003, Chapter I: General Provisions, Article 5.

²² Report Q181 in the name of the Czech Group, Conditions for registration and scope of protection of non-conventional trademarks, question 3.4.

eminent telecommunications company, Vodafone, applied in 2004 and obtained the registration of the color red for their services (Pantone 485 C) in 2009.²³ This is one of the biggest telecommunication undertakings in the territory of the Czech Republic. For that reason, providing the evidence of acquired distinctiveness was not challenging for the company because the color red is a dominative one in their commercial activities. It is used on their cards, furniture, designs, billboards, advertising, etc. Consequently, customers have a strong association between the color red and the company and its products. Another undertaking which successfully registered a single color trademark was also a telecommunications company, Deutsche Telekom, which is quite widespread and is well known under "T-Mobile". It applied for, in 2009, and obtained the registration of the color magenta (RAL 4010 Telemagenta) for its services in 2011.²⁴ The evidence of acquired distinctiveness was also indisputable as the color is prevailing in the company's business operations and advertising. Since it took Kraft Foods seven years (1996-2002) and Vodafone four years (2004-2009) to obtain a color trademark, and less than two years for Deutsche Telekom (2009-2011), it might be suggested that over time single color registrations might be perceived as more and smoothly acceptable in the Czech Republic. In addition, there is the option to go for an EU trademark.²⁵

Naturally, the proof of distinctiveness is critical. It is very crucial that a color sign has a strong association with the applied for goods and services provided by the particular applicant, i.e. not with the entire industry. For example, the company AAA radiotaxi s.r.o. was rejected in the registration of the color trademark for its services. It wanted to register the color yellow for its taxi services and claimed that this yellow color acquired distinctiveness in a relevant market. However, before the company appeared in the Czech market, there existed approximately 1200 taxi cars with a similar color. Indeed, yellow for taxis was generic already in America for over 100 years, the Yellow Cab Co. was founded in Chicago in 1910 and has been a dominant player in America for decades. Consequently, yellow as a taxi sign became recognized as a generic taxi color by customers before the application was submitted.²⁶ Hence, yellow or any of its shades cannot be registered as a color trademark for taxi services, i.e. it is generic. Furthermore, this color is not durable on the car. The coating on a car, regardless of its material, can be changed under different unregulated conditions, like weather, temperature, and others. Consequently, in different weather conditions and the level of the car's cleanliness the color can be perceived differently by consumers. Hence, it may lead to confusion of customers.

²³ Registration No 304707.

²⁴ Registration No 316059

²⁵ CHLOUPEK, Vojtech. Color and other non traditional marks in the Czech Republic, 27th June, 2011, Retrieved from

<http://www.lexology.com/library/detail.aspx?g=b75abc05-05e8-472b-9a6d-cabefec8d4e5> on 15th May 2017.

²⁶ Case 9 A 62/2010 - 49, AAA radiotaxi s.r.o. Vs. Úřad průmyslového vlastnictví

IV. Colors in the EU - towards admitting color trademarks and new pro-reform trends

The EU law on trademarks has two branches – regulations deal with EU trademarks and directives deal with the harmonization and approximation of national laws on trademarks. According to the *Libertel* case a color can be a trademark if it satisfies three main conditions: it must be a sign, it must set apart the goods of one company from others and it must be capable of being represented graphically.²⁷ In addition, the graphic representation must satisfy *Sieckmann* criteria, it must be clear, precise, durable, objective, etc.

The interpretation of the EU law on trademarks is linked to the internal single market and to the perception of distinctiveness by the EU population at large. That is why the EUIPO is very demanding in regards to distinctiveness in order to avoid a legitimate color monopoly in the market. Thus, e.g., the company “Orion” was refused registration of the dark blue color for their chocolate products, despite the fact that this company is very successful in the Czech Market and 94% of respondents had a strong association of that color with products of the applying company. At the EU level, this shade of color was found not specific enough in the relevant market (EU market). In addition, it was stated that a dark blue color is common in association with milk chocolate, as green is associated with chocolate with nuts and red is a signal that chocolate is dark. Finally, the company used different shades of dark

blue in commercials and on packaging, consequently acquired distinctiveness is also questionable.²⁸ Hence, before applying for the color trademark in the EUIPO the applicant must be sure that his color is not common in perception. In these matters, Czech law and the EU law have the same opinion. Also, an applicant should be accurate with shades, only one color shade must be used in business operations in order that he can lodge a claim for acquired distinctiveness.

A color alone cannot be considered as inherently distinctive and its registration is possible only with a demonstration of an acquired distinctiveness among customers, while a color combination can be inherently distinctive. However, it is crucial for applicants that the more colors the mark contains the less distinctive it is because it is not easy for customers to remember and represent them all in the right sequence.²⁹

However, the new EU reform brings dramatic changes in the registration of trademarks and particularly colors, which are explicitly admitted. Namely, pursuant to Art.4 of Regulation

²⁷ ECJ, *C-104/01 Libertel Groep BV and Benelux-Merkenbureau*. Retrieved from <http://curia.europa.eu/juris/document/document.jsf?text=&docid=48237&pageIndex=0&doclang=EN&mode=lst&dir=&occ=first&part=1&cid=156632> on 15th May 2017.

²⁸ CHLOUPEK, Vojtech. Color and other non traditional marks in the Czech Republic, 27th June, 2011, Retrieved from <http://www.lexology.com/library/detail.aspx?g=b75abc05-05e8-472b-9a6d-cabefec8d4e5> on 15th May 2017.

²⁹ Guidelines for Examination in the Office, Part B, Examination, 1 February, 2017, p. 7, Retrieved from https://euipo.europa.eu/tunnel-web/secure/webdav/guest/document_library/contentPdfs/law_and_practice/trade_marks_practice_manual/WP_1_2017/Part-B/04-part_b_examination_section_4_absolute_grounds_for_refusal/part_B_examination_section_4_chapter_3_Non-Distinctive_tm/part_B_examination_section_4_chapter_3_No-n-Distinctive_tm_en.pdf on 15th May 2017.

2015/2424³⁰ amending Regulation 207/2009 “An EU trade mark may consist of any signs, in particular words, including personal names, or designs, letters, numerals, colors, the shape of goods or of the packaging of goods, or sounds, provided that such signs are capable of: (a) distinguishing the goods or services of one undertaking from those of other undertakings; and (b) being represented on the Register of European Union trade marks, (“the Register”), in a manner which enables the competent authorities and the public to determine the clear and precise subject matter of the protection afforded to its proprietor. Similarly, pursuant to Art.3 of Directive 2015/2436 to approximate TM laws³¹ “A trade mark may consist of any signs, in particular words, including personal names, or designs, letters, numerals, colors, the shape of goods or of the packaging of goods, or sounds, provided that such signs are capable of: (a) distinguishing the goods or services of one undertaking from those of other undertakings; and (b) being represented on the register in a manner which enables the competent authorities and the public to determine the clear and precise subject matter of the protection afforded to its proprietor.”

Beginning in 2016, it is impossible to register a color sign as a trademark if it comes from the nature of the product or indicates its characteristics. The case law does not exist in this regard,

³⁰ Regulation (EU) 2015/2424 of the European Parliament and of the Council of 16 December 2015, Official Journal of the European Union, L 341/21.

³¹ Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States relating to trade marks, Official Journal of the European Union L 336/1.

however, it could be assumed that green for bio products is not registrable; or colors which represent the flavor of products, etc. Also, the color which indicates the function of applied products is also refused in registration. Moreover, colors which present an aesthetic function are not registrable in the EUIPO. This new amendment implemented the EU version of the US functionality doctrine and it remains to be seen in the future how it could be applied concerning color signs. Hence, the biggest challenge to obtain registration of the EU trademark, similarly to the Czech trademark, is to establish the distinctiveness. This requirement is justified because there is not a wide spectrum of colors with which ordinary customers are able to differentiate. Consequently, distinctiveness has an essential function in order to avoid color monopolization in the market. Basically, no color is distinctive per se and thus the acquired distinguishing capability must always be proven out, while arguably a combination of colors can be considered as inherently distinctive. Furthermore, the new trademark reform prohibits registration of signs which contain any characteristics indicating any function of goods, including decorative features. Despite the fact, that there are no cases with an application of this amendment, it can be assumed that it will narrow the number of applicants for color trademarks and increase the amount of rejections in the EUIPO.

V. Colors in the Russian Federation – colors trademark doable but only for big players?

In the Russian Federation, according to the Civil Code of the Russian Federation. Section II, Article 1482, a trademark can be a “word, image, 3-

dimensional and other designations or combinations thereof may be registered as trademarks".³² This article shows that Russian Law is condescending in registration regulations and provides latitude in law interpretations. The statement "other designations" is a key statement for registering non traditional signs as trademarks, including colors. However, it gives just an opportunity but does not give a guarantee. For Russian trademark legislation, the distinctiveness of the trademark is an essential requirement in order for it to be registered. The mark may have an inherent distinctiveness or it may acquire a distinguishing capability through use. Russian Federal Service for Intellectual Property ("Rospatent") does not accept inherent distinctiveness in the relation of colors and is persuaded that this sign cannot be an individualizing function of the mark due to its nature. It allows registration of trademarks which contain non distinctive elements, but such elements are unprotected. However, registration may be possible only if a suchlike element is not dominating. Consequently, in a case when an applicant wants to register a color *per se* as a trademark, an application will be rejected based on the dominance of a sign in an applied mark, unless it is established that the color has acquired its distinctiveness through use.³³ An applicant can prove an acquired distinguishing capability via the submission of documents which prove the duration of a mark usage and its intensity; documents

confirming the territory of product realizations and volume of realization of goods which must be marked with a claimed designation; marketing spending, the duration and intensity of marketing company; consumer surveys showing the level of familiarity about the applying company and the sign association with the producer and its products; also social surveys, publications in open media about the products with the claimed designation and other evidence.³⁴ All the evidence is considered in a summary to estimate the validity of the sign to be trademarked. The statement "and other evidence" leaves freedom for the Patent Office not to accept, or consider as insufficient, the provided testimonies and reject its registration. Because the Intellectual Property Law in Russia is still developing, the Code leaves room for interpretation in order to remain flexible while resolving the cases. This "flexibility" can be perceived as both positive and negative by applicants, giving latitude from the angle of what can be registered as a trademark and strict unlimited regulations regarding the evidence of acquired distinguishing capability.

Despite the fact that, in order to obtain a registration of a color sign, an applicant needs to provide strong evidence of an acquired distinctiveness, the popularity of applying and registering of this non conventional sign is growing rapidly. Such huge companies as Sberbank (green - Pantone 349), MTS, a huge telecommunications company (red - Pantone 485) and GazProm (blue - Pantone 300CV) registered their colors as

³² Civil Code of the Russian Federation, Section 4, Article 1482.

³³ Civil Code of the Russian Federation, Section 4, Article 1483.

³⁴ Order of the Ministry of Economic Development of the Russian Federation from July 20, 2015 No. 482, Article 35.

trademarks in the territory of the Russian Federation.³⁵

It took Sberbank three years to obtain registration of green as a trademark. Despite the fact that this bank has been operating in the marketplace since 1841³⁶ and began to use the color green in the 20th century, the distinctiveness of this sign was questioned. When the first application was rejected on the basis of lack of distinguishing capability, Sberbank initiated its detailed research. The company had to prove the active usage of the color (green is used on a great variety of the bank's facilities: furniture, walls, uniform of employees, advertisement, cash machines, etc.), disclose the marketing expenditures, held a public survey (97% of the respondents associated green with Sberbank) and many other procedures.³⁷ When the request for registration with evidence of acquired distinguishing capability was applied again, Sberbank successfully trademarked green for its products. This case shows that the registration of a color sign is a long and complicated process which can take years of work, despite the fact that the time of considering the application is 18 months and two weeks, practice reveals that it can take much longer. Gazprom spent, on registering

procedures, approximately three years and MTS spent two years to register red as a sign. These cases may lead to the assumption that it is more difficult to register a non conventional sign for services than for products.

The Reckitt Benckiser company is famous for its "Vanish" products and was one of the first organizations that registered its color sign as a trademark in the territory of the Russian Federation in 2004. This company provided the evidence of active usage of the color sign during the preceding 20 years in the world and during the last 10 years in Russia. Reckitt Benckiser presented official information about the territorial exploitation of the sign, the market share, sales volume, marketing expenditures, independent public surveys and public polls conducted on behalf of the owner. In addition, they also provided official information about their competitors, basically the competitor's advertisements in which the same color was used. The submitted proof by the company was enough to resolve the case in favor of the applicant and the color pink (Pantone 226C)³⁸ was registered as a trademark for products in a third class (preparations for bleaching, cleaning, and stain removal) in 2006.³⁹

Despite the fact that the Russian trademark law accepts registration of non-traditional signs according to the Article 1482, and particularly

³⁵ FORBES. "Gazprom" and MTS also trademarked their colors after Sberbank, 15th February 2016. Retrieved and translated from <http://www.forbes.ru/news/312787-gazprom-vsled-za-sberbankom-i-mts-zapatentoval-firmennye-tsveta> on 15th May 2017.

³⁶ "Sberbank of Russia", official website, Retrieved from http://www.sberbank.ru/en/about/about_sberbank

³⁷ GORODISSKY&Partners, "Green Services or "Color revolution". G-Newsletters, 2016, 112 (Gorodissky&Partners is juridical firm practicing IPL, provided legal services for Sberbank in applying for registering a green color as a trademark). Retrieved and translated from <http://www.gorodissky.com/publications/newsletters/green-services-or-color-revolution/> on 15th May 2017.

³⁸ The trademark certificate № 310048, The Federal Service on Intellectual Property, Patents and Trademarks, Retrieved from http://www1.fips.ru/fips_serv1/fips_servlet on 15th May 2017.

³⁹ GRINEVA M.A., Protection of non traditional trade marks, The Journal "Patentniy povereniy" (Patent Attorney, 2014, 4, Retrieved and translated from http://www.patentinfo.ru/issue/4p_14.html on 15th May 2017.

colors, it does not recognize color as a distinctive sign, regardless if it is a color alone or a combination of colors. Rospatent does not permit registration of color trademarks without acquired distinguishing capability in any case. Hence, on the grounds of acquired distinctiveness through use, registration is possible, but the limits of the necessary basis of proof are not specified by the Civil Code or any other regulations. The period including the reception, registration, examination and issuing of the trademark certificate is eighteen months, and two weeks may be added on if an applicant needs to submit additional materials for their further validation. Consequently, the registration of a color designation can take a rather lengthy period of time.

According to the case law of the Russian Federation, evidence of acquired distinctiveness should be really comprehensive. As can be seen from the practice of registered color trademarks, only well-known companies with broad commercial operations and extensive awareness in publicity obtained legal protection of such a non conventional sign. This approach is quite natural to the trademark law of Russia. As was considered in the second chapter, the most discerning condition for registration of the trademark is its distinctiveness. Thus, such a demanding attitude to a color sign is justified.

Conclusion

Each considered country has its own requirements for trademark registration. If, concerning traditional trademarks, registration can be more complicated in one country than in another, then, in relation to

non conventional trademarks, the current situation is even more complicated. Nevertheless, the recent evolution in selected jurisdictions in the cross-Atlantic sphere and from common law and continental environments indicate that the combination of colors, and even individual colors, can be established as distinctive and thus able to be registered as a trademark and to obtain full legal protection.

Color is an important and universal element for undertakings that is useful for business promotion, awareness among customers and brand identity. That is why undertakings are striving to protect legally this essential element by trademark registration. It is indisputable that the owner of a color trademark has an advantage in the market and this advantage is magnified if an identical color trademark is protected in all target jurisdictions and markets. At the same time, this leads to a certain monopolization of a shade of color for certain goods or services. Taking into consideration the fact that ordinary consumers do not perceive a wide spectrum of colors, the issue of distinctiveness is raised in each of the considered countries.

A color trademark is not, per se, prohibited in any of the compared jurisdictions, and even the EU law and Czech law explicitly admit the existence of a color trademark. At the same time, a color trademark, as with other trademarks, must satisfy a number of positive and negative requirements, including compliance with public policy and distinctiveness. Well, a color alone is not considered as inherently and per se distinctive in

any of the compared jurisdictions, but in all it is at least theoretically possible to establish the distinctiveness of a color and so allow the registration of such a color trademark. Naturally, this is easier in the case of a color combination or a color + another element combination, e.g. logo country. There are also differences in the intensity of distinctiveness due to the related goods and services. Interestingly, newly certain jurisdictions are at least contemplating the recognition of the inherent distinctiveness of colors combinations.

Each jurisdiction has its own particularities vis-à-vis color trademarks. In common law jurisdictions, a special focus is given to the use in commerce and the functionality doctrine. In continental law jurisdictions, a flexible (no strict rules of evidence) and 'quantity over quality' approach is shared regarding the need of establishing the distinctiveness. The EU law and its interpretation prohibits the registration of signs which indicate the nature of products or represent a value of products. Consequently, it may be assumed that if the color is considered an aesthetic one it can be refused registration, but case law will demonstrate in the future how this amendment could be applied.

All considered countries may be united by the common challenge of distinctiveness while obtaining registration of a color sign. In all countries there were only big companies with active business operations in the market and broad awareness among consumers, which successfully registered a color sign. At the same time, color trademarks are so far the only non conventional trademarks with a viable chance for registration on national and global

markets and generally not strict rules on evidence apply for the establishment of distinctiveness.

Taking into consideration that a color alone is not considered as inherently distinctive in any state, consequently, in order to register this sign an applicant must prove a suchlike mark acquired distinguishing capability through use. The evidence preferably includes marketing activities, advertising, the market share in a relative market, sales volume, surveys and other evidence that can serve to demonstrate active commercial activity in the market and prove that an applied mark creates strong associations among customers with the origin of products or services. In addition, an applicant should be sure that an applied color sign must be used in only one shade, otherwise acquired distinctiveness is questionable. At this point, there should be made an important remark that Czech, Russian and EU IPOs do not establish for companies a required length of time for a commercial activity, but the UK and the US offices demand five years of commercial trademark usage. A color sign may indicate the origin of the products or services, but not any of its characteristics.

Representation of a color sign differs in considered countries. Rospatent requires a sample of an applied color, an indication that a mark consists exclusively of one color or of a combination of colors, and a code in accordance with the internationally recognized system of color identification.⁴⁰ The USPTO requires a drawing of a color with its naming. It is crucial to mention that it

⁴⁰ Order of the Ministry of Economic Development of the Russian Federation from July 20, 2015 No. 482, Article 27, paragraph 3

is required to name a color in ordinary language, regardless of the coloring system and also an applicant must provide a statement where the claimed color appears.⁴¹ The UKIPO requires a wording description of a color with a code according to the internationally recognized system of color identification. It does not require an image of an applied color, however, a representation must satisfy the Sieckmann criteria. The same requirements for graphic representation must be met in the EUIPO. The Czech Republic demands a submission of a color sample and considers internationally recognized codes insufficient.

Naturally, a color sign can be applied individually in each country independently, or it can try to get international registration via the International Bureau through the Office of origin. However, an applicant should remember that designated contracting countries examine an international application as it was applied directly, and can refuse protection in accordance with domestic trademark law. Consequently, an awareness regarding national requirements for trademarks is indispensable anyway.

In sum, in order to register a color as a trademark in all the considered countries, it must be established that this particular color is distinctive, non descriptive, not functional, has a second meaning, is directly and exclusively linked to the

applicant and his goods and services, and is used in commerce, Also, it must be capable of being represented graphically by means of characters, lines or images in a clear and precise way. Since customers do not perceive a wide spectrum of colors, so distinctiveness of an applied color sign is examined very strictly by the Offices. Consequently, an applicant of such a mark should prepare solid evidence of acquired distinguishing capability. It is recommended that businesses consistently use only one shade of a color, otherwise its distinctiveness is questioned. Furthermore, an applied color must be actively used in commerce, in every form which can reach consumers. The burden of proof might be lighter if, instead of a single color, it requests the registration of a combination of colors. Generally, the combination of colors can more easily obtain distinctiveness among customers and can be even better remembered by them.

The density of the conventional trademark registrations, and challenges related to the non-conventional trademark registration, suggests that, despite all the above described challenges and requirements, colors and combinations of colors are very viable options for global trademarks in the 21st century. They can perfectly perform all functions assigned traditionally to trademarks and, due to their legal protection as a trademark, they can thus even become a true piece of property. Well, in closing, we can say that the global future for color trademarks looks bright, doesn't it?!

⁴¹ FROEMMING, John, GROEBL, Marc, LING LI, Chiang, MEHLER, Ulrich, RAIMER, Anna, TAKAHASHI, Michiru. Lending Color to Trademarks: Protection and Enforcement of Color Marks in the U.S., EU, China and Japan. INTABulletin, 70 (12). Retrieved from http://www.inta.org/INTABulletin/Pages/ColorMarks_in_US_EU_China_Japan_7012.aspx on 15th May 2017.

Acknowledgement

This paper is based upon the Master Thesis of Anastasiia Dmitrieva, MA, written and defended in 2017 (advisor of the thesis was JUDr. Radka MacGregor Pelikánová, Ph.D., LL.M., MBA). They both expressed their gratitude to the Anglo-American University, Prague, for the opportunity and resources allowing for researching this highly interesting and novel topic and publishing it.

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AA Law Forum

Published by John H. Carey II School of Law

No. 8, Spring 2018