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Swiss IP News We provide you with updates on new decisions, the relevant legislative process and other trends in the fields of intellectual property and unfair competition law from a Swiss perspective.

OTTO'S vs. OTTO – When Does Acquired Distinctiveness under Unfair Competition Law Prevail over Trademark Protection?



By **Michael Isler**
Dr. iur., Attorney at Law
Partner
Telephone +41 58 658 55 15
michael.isler@walderwyss.com



and **Christine Leuch**
lic. iur., LL.M., Attorney at Law
Managing Associate
Telephone +41 58 658 55 36
christine.leuch@walderwyss.com

On 16 September 2016, an affiliate of Otto Group (“Otto Group”), a large online distributor headquartered in Germany, informed the Swiss discount retailer OTTO'S AG (“OTTO'S”) of its intention to enter the Swiss market under its brand “OTTO”. OTTO'S objected to such plans, arguing that the presence of an “OTTO” online store on the Swiss market would create confusion with its similar and well-known brand “OTTO'S”. After negotiations failed, OTTO'S instituted legal proceedings against two Otto Group companies before the Cantonal Court of Lucerne and sought to prohibit their market entry. Otto Group enjoyed trademark protection for “OTTO Versand” and “OTTO” in Switzerland since 1979 and 1994 respectively, whilst OTTO'S started to protect its brand as a trademark only in 1998. However, the claimant argued that its brand would prevail by virtue of unfair competition law. In its ruling dated 26 October 2020 (4A_152/2020), the Federal Supreme Court eventually found for the claimant after three and a half years of proceedings.

Procedural background

The Cantonal Court seized by OTTO'S in first instance granted injunctive relief but dismissed the action on the merits in February 2020. It did not examine the risk of confusion, reasoning that the market channels served by the parties were different. Whilst OTTO'S primarily operated “brick-and-mortar” retail stores and only 2–4% of its annual sales were generated online, Otto Group would exclusively serve the online distribution channel. Since OTTO'S had failed to

demonstrate prior use and acquired distinctiveness specifically in the online channel, the claim was dismissed. This first judgement was annulled by the Federal Supreme Court on 23 May 2019 (4A_22/2019) and remanded to the Cantonal Court for proper examination of the risk of confusion, considering that any such risk of confusion should be assessed on the basis of the overall perception by the relevant market circles, which would be segmented along distribution channels only in exceptional circumstances. In its revised decision the Cantonal Court ruled in favor of the claimant. This was confirmed by the Federal Supreme Court on appeal of Otto Group.

The case is interesting mainly for two reasons: Firstly, the Federal Supreme Court clarified the effect of the Treaty between Switzerland and Germany of 1892 regarding the mutual protection of patents, designs and trademarks (the “Treaty”). Secondly it endorsed its long-standing practice that the exclusive right granted by virtue of trademark protection and the prohibition of creating a risk of confusion on the market under unfair competition law afforded equivalent remedies that need to be appraised each on its respective prerequisites and independently from each other, without any priority order.

Effect of the Treaty between Switzerland and Germany of 1892

The action was special because the claimant was not able to assert earlier trademark rights in Switzerland. Under

normal circumstances, the case would have been a simple affair. Otto Group enjoyed earlier trademark rights, but had failed to genuinely use its trademarks on Swiss territory since their registration. Consequently, the marks would have been cancellable for non-use during more than five years pursuant to article 12 para. 1 of the Swiss Federal Trademark Act ("FTA"). However, article 5 of the Treaty between Switzerland and Germany of 1892 regarding the mutual protection of patents, designs and trademarks (the "Treaty") stipulates that the use of a trademark in Germany is sufficient to maintain trademark protection in Switzerland (and vice versa). The defendants' Swiss trademarks were therefore still deemed valid and enforceable, despite their non-use. Hence, the claimant had to base its action for injunction on article 3 para. 1(d) of the Swiss Federal Act against Unfair Competition ("UCA"), according to which any measures that are likely to cause confusion with the goods, works, services or business operations of another party are considered an act of unfair competition.

Otto Group submitted that deemed use under the invoked Treaty provision would simulate actual use of the trademarks on Swiss territory. If this was indeed the case, the defendants' trademarks would not only enjoy register priority, but also priority of actual use and therefore be fully enforceable even in the realm of unfair competition law. This broad interpretation was not supported by the Federal Supreme Court: it stated that the Treaty must be construed narrowly in the sense that the use of the trademark in one country would only suspend the grace period for use (i.e. the five years according to article 12 para. 1 FTA) in the other country, but otherwise not have any spill-over effect on the market environment. Hence, Otto Group was left with only "naked" trademark registrations to be weighed against the actual market presence of the "OTTO'S" brand, that profited from a market lead of 40 years.

Relation between trademark and unfair competition law

The lack of pertinence of the Treaty in the present case and the ensuing prior use of the claimant's distinctive similar sign on the market would not automatically lead to a prevalence of the remedy under unfair competition law. In order for the action to succeed, the following conditions must be satisfied, in addition:

- i. Acquisition of a market position worthy of protection: OTTO'S was aware of the earlier trademark rights of Otto Group. The use of a distinctive sign in bad faith would normally not entitle to the acquisition of a market presence prevailing over trademark protection. However, in the case at hand, Otto Group in 2020 opposed to the registration of one of the trademarks by OTTO'S, but later unconditionally withdrew the opposition. This resulted in acquiescence of the continuous use of the conflicting signs by Otto Group and consequently in a good faith establishment of OTTO'S prevalent market position.
- ii. Risk of confusion: in contrast to the assessment of the likelihood of confusion in company name or trademark law, where only the respective signs or register entries are decisive, in unfair competition cases the entire circumstances must be taken into account, i.e. not only the registered signs, but also their actual use in commerce. In this respect, it was established that the "OTTO'S" brand was exceptionally well-known in Switzerland. The relevant market circles would therefore tend to misattribute the sign "OTTO". The weak market position of "OTTO'S" in online sales did not harm, given that the online and offline distribution channels would be so much intertwined in the perception of the public.

- iii. Balancing of interests: where two parties assert a right to prohibit the other party to use a confusingly similar sign under different titles, there is no priority of one right over the other per se. Rather the interests of the parties are to be weighed against each other. However, as a general rule, the existence of a sign which enjoys priority in actual use and which has acquired distinctiveness over time justifies imposing restrictions on the late coming competitor with regard to the use of such sign. This principle helped the claimant, who had been building up its market reputation over 40 years.

No room for co-existence

In its concluding remarks, the Federal Supreme Court did not follow defendants' arguments that the signs could co-exist in different market segments. Since both trademark law and unfair competition law would have their individual and independent scope of application, there may be cases where trademarks must give way to protection derived from article 3 para. 1(d) UCA. The cocktail composed of narrow interpretation of the German-Swiss Treaty, acquiescence of use of claimant's brand by the defendants over a long time and claimant's strong market position did, in the courts' opinion, not allow room for co-existence.

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