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Acquiescence (tolerance) to infringement of Intellectual Property Rights (Q 192)

REPORT OF SWISS GROUP*

I. Study of the substantive law

1. The Groups are invited to indicate if, in their system of national law, rules are provided conferring an effect on the tolerance expressed by the holder of an intellectual property right with regard to a third party who infringes his / her right.

Does this effect of the tolerance apply to all intellectual property rights (patents, models, marks and other distinctive signs) or only to some of them?

The Groups are also invited to give the justifications advanced in their country to introduce this rule of the acquisition of rights by the effect of the tolerance and to define the range of it.

Finally, the last question is to know if rules relating to acquisition of rights by effect of tolerance shall be exactly the same for all intellectual property rights. Do national laws distinguish intellectual property rights subject to registration from the intellectual property rights which are simply conferred by use and not by registration?

Yes, Swiss law provides for such rules, which were developed by the Swiss Federal Court, and the rules apply to all intellectual property rights; regarding distinctive signs, the rules also apply to company names, domain names, and unregistered signs such as tradenames and enseignes.

The core of the justification is the principle of good faith. If the rights owner tolerates infringement, the infringing party may take this, under certain circumstances (to be outlined below), to constitute consent.

In view of the basic rule (*bona fides*) not being tied to a specific intellectual property right or even to intellectual property rights at all, the effect of tolerance is the same for all intellectual property rights.

The effects of tolerance do not affect the right(s) *erga omnes*, they are strictly *inter partes*, and thus have no impact on the registration. It follows that no distinction is made – or needs to be made – between rights subject to registration and other rights.

Following is an outline of the court practice of the Swiss Federal Supreme Court, which is well established and dates back to 1922, BGE 59 II 392, which was a trademark infringement case; the court expressly referred to Article 2 of the Swiss Civil Code (misuse of rights).

- Further similar decisions were BGE 73 II 190 of 1947 (just confirming the court practice in trademark law), BGE 76 II 394 of 1950 (the court denied good faith delay in prosecuting, because the trademark owner had informed his patent attorney about the infringement 4 years before actually lodging action), BGE 79 II 313 of 1953 (company name law; good faith of the infringer denied), and BGE 85 II 129 (copyright law; no decision on tolerance because of procedural reasons; the court said it would have held in favour of the infringer).
- The court practice was summed up and confirmed in BGE 94 II 37 of 1968. The court said that the *inter partes* loss of rights can be assumed only under very special circumstances before prescription has occurred (under Swiss law, prescription periods are usually 5 or 10 years for contractual claims, and 1 year for extra-contractual claims), because it is in the rights owner's free discretion when to exert his rights. Examples of special circumstances mentioned in the decision are (a) tolerance of infringement without protest for a long period of time, (b) the bad faith intention of the

rights owner to worsen the situation of the debtor (in the case of intellectual property rights, of the infringer), or (c) to wait for other reasons in bad faith to insist on his (the rights owner's) rights.

- BGE 109 II 340 of 1983 is one of the leading cases. It concerned company name law. In that decision, the Swiss Federal Supreme Court introduced for the first time the requirement that the infringer has gained a valuable market position (seisin in law; in German, “wertvoller Besitzstand”) by infringing – in good faith – on the rights. The court furthermore introduced for the first time the concept of “should have known” as opposed to actual knowledge, albeit in a special case: employees of the claimant firm had dealt with the infringer firm for almost 9 years. Although claimant's management had not been made aware thereof, the court held that the knowledge of the employees constituted “company knowledge”.
- In BGE 116 II 428 of 1990, the Swiss Federal Supreme Court reaffirmed that as a principle no rights shall be considered to be waived within the prescription period, i.e. that this occurs only if the rights owner delays the enforcement of his rights in bad faith, which latter includes tolerating infringement too long.
- BGE 117 II 575 of 1991 is another leading case, to which the Federal Supreme Court refers in most subsequent decisions. The court practice as established in BGE 109 II 340 was applied to claims arising out of the law on company names and unfair competition. The court stated again that the effects of tolerance will only take place if the delay in enforcement appears as a misuse of rights, and that such misuse must be obvious. The court also referred to an article of Mario Pedrazzini in GRUR Int. 1984, 502–507, “Die Verwirkung im schweizerischen Kennzeichnungsrecht”.

New was, however, that the court held that, as general principle, the effects of tolerance could take place not only where the rights owner knows of the infringement, but also where he should know, i.e. where he could have known if he had reasonably monitored the market. In other words, the court stated that a rights owner acts carelessly if he just lets things happen, and consequently is misusing his rights when he starts to enforce them only at a late point in time.

There are two conditions which must be met in order for the effects of tolerance taking place although the rights owner is not actually aware of the infringement:

- Firstly, the infringer must believe, in good faith, that the rights owner would object the infringement, i.e. the infringer must in good faith assume that the rights owner has noticed the infringement and tolerates it.
- Secondly, the infringer must have built a market position (seisin in law: in German, “Besitzstand”), by infringing the rights, so that it would appear unfair to request him to renounce this.
- In decision 4C.247/1996 of 1998 (trademark law, published in sic! 1999, 132–135, “Audi I”) the Federal Supreme Court confirmed that a rights owner must reasonably monitor the market and thus confirmed BGE 117 II 575.
- This court practice was confirmed in several subsequent decisions: in BGE 127 III 357 of 2001 (contractual claims), in decision 4C.369/2001 of 2002 (trademark and company name claims), in decision 4C.9/2002 of 2002 (domain name claims, i.e. trademark law, personal name law, unfair competition law), and in decision 4C.175/ 2002 of 2002 (trademark law).
- In BGE 130 III 113 (trademark law) the Swiss Federal Supreme Court made it clear that the effects of tolerance do not affect the right per se (in the instance, the registered trademark), but concern only the relation between the rights owner and the infringer, i.e. the effects are strictly inter partes.

2. The acquisition of the rights by tolerance remains subjected to conditions relating in particular to the duration of this tolerance and the attitude expressed by the third party which exploits without authorization a prior intellectual property right. The Groups are thus invited to indicate which the necessary duration is so that the tolerance can confer a right to a third party and deprive the holder of the intellectual property right of the possibility of acting against this third party.

And the question is also of knowing which the starting point of this duration is and which is the act that the holder of the right must achieve to interrupt it.

Thus the Groups are invited to answer the question of knowing which the requirements are so that the tolerance is regarded as interrupted: is it necessary to initiate a legal procedure or is it enough to protest, for example by a letter, against the presumed infringement?

There is no fixed period of time for the effects of tolerance to take place, because the effects of tolerance depend on the principle of good faith and specifically on the principle that misuse of rights shall not be enforced. Furthermore, the infringer must have obtained a valuable market position. All of this must, and will, be determined on a case by case basis.

As a rule of thumb, a delay of two years may be assumed to be still within safe limits, while a delay of 4 or more years makes the rights prone to forfeiture unless the rights owner has specific good faith reasons to wait. A leading Swiss author points out that this is not consistent with the European Directive 89/104/EEC of 21 December 1988, but that to date no decisions about this issue have become known. It should be stressed, though, that the above rule of thumb may not be relied upon. In two Swiss Federal Court decisions (4C.124/1997 and 43C.371/2005) the court held for forfeiture after only 11/2 and 2 years, respectively.

The starting point in time is, in general, when the rights owner knows about the infringement, or should know about it. If the rights owner had good reasons not to act during a certain period, then this period may be deducted from the overall period of time.

To prevent the effects of tolerance, the rights owner must stop his tolerance, i.e. must take steps against the infringer to stop the infringement.

To protest against the infringement is a valid first step that destroys the infringer's good faith, at least for a certain period of time. It is, however, not sufficient to just protest. If the infringer does not cease, legal procedure must be initiated without undue delay, because else the infringer will have reason, in good faith, to assume that the rights owner shall not enforce his rights.

3. The tolerance supposes that the holder of the former right knows the existence of the infringement to his right and accepts it in an intentional way. The question arises then of knowing which is the degree of knowledge of the acts of infringement which the holder of the former right must have to be considered as having accepted the litigious exploitation.

Can this knowledge be supposed or must it be proven in a positive way?

Swiss court practice requires the rights owner to reasonably monitor the market. The exact level of such monitoring is not defined. Scrupulous canvassing is not required, but passive waiting until an infringement is brought to one's attention is not enough. If, by reasonably watching the market, the rights owner would become aware of the infringement, he risks forfeiture of his rights just like he would upon actual knowledge (see BGE 117 II 575).

Swiss law stipulates that the burden of proof lies with the one who claims a right (Article 8 of the Swiss Civil Code). In a case of tolerance, it may be said that the rights owner claims his rights, while the infringer claims a "right" to continue the infringement, i.e. to carry on with a per se illegal situation because the rights owner has forfeited his rights against him. Several decisions of the Federal Supreme Court have stated that in such a situation the burden of proof is upon the infringer (e.g. BGE 66 II 146 of 1940). Recent decisions (see BGE 128 III 271 of 2002, BGE 130 III 321 of 2004) have confirmed that the rights owner must prove his right, and the infringer the forfeiture of such right. The Swiss Group is not aware of specific published court practice where the question of the burden of proof mattered in cases of acquiescence; as far as the published cases go, infringement was regularly evidenced without a doubt.

The published court practice shows, however, that the above rule is not strictly followed in court. Because BGE 117 II 575 of 1991 established that the rights owner must reasonably monitor the market, the courts seem to assume that he should have noticed the infringement anyway; it follows that then the rights owner must show that he could not notice the infringement despite appropriate monitoring, which results in a de facto reversal of the burden of proof. It will however still be upon the infringer to show that he built a valuable market position.

The infringer does not need to bring direct evidence for the right owner's knowledge of negligent ignorance. It suffices for the infringer to bring forward circumstantial evidence convincing the court that knowledge did or should exist.

4. In the same way, the Groups are invited to indicate what are the requirements, which the third party exploiting the prior intellectual property right without the authorization of its holder, must meet.

Does this exploitation have to be carried out in good faith?

And according to which criteria jurisprudence and the national law define this good faith?

The Groups are also invited to indicate if the third party who exploits prior intellectual property rights without authorization must be in the ignorance of the existence of this right to be considered as having acted in good faith or if the knowledge of the former right does not exclude the good faith.

Yes, the infringer must act in good faith. While the infringement may well start in bad faith, the effects of acquiescence shall not take place unless the infringer subsequently, for some time, in good faith assumes that the rights owner is aware of the infringement, and knowingly tolerates it (*bona fides superveniens*).

There are no specific defined criteria for good faith. The Federal Supreme Court applies a long standing practice regarding Article 2 Swiss Civil Code, which includes the basic principle of good faith and the resulting principle that a misuse of rights is not enforceable.

In a strict sense, the infringer's knowledge about his infringement does not exclude good faith, because the question is whether he believes in good faith that his infringement is being tolerated. Insofar as the infringer is sure to infringe an existing and valid right, the requirements for good faith are increased, however.

There are four criteria for a successful plea of acquiescence, as developed by the Swiss courts, namely (i) the infringer has in good faith exploited the right in question, (ii) the rights owner for some time tolerated the infringement knowingly or should have known about it, (iii) the infringement lasted for some time, and (iv) the infringer has acquired over time a valuable market position (*seisin in law*; in German "Besitzstand").

5. The Groups should also indicate if their legal system provides other conditions (as for example the value or the geographical extent of the infringing activity) which the exploitation of the second right by the third party shall meet in order to may call upon the benefit of the tolerance of this right by the holder of the former right.

Another question relates to the conditions that have to be fulfilled by the use of the intellectual property rights which are subject to tolerance.

Do national laws provide conditions of this use relating to its importance, duration or its continuous nature?

All elements of the effects of tolerance (which amount to kind of "permitted infringement") are dependent on good faith. It may well be that the effects of tolerance are constrained to a specific market or geographic area, etc.

The main conditions, from the infringer's perspective, are good faith regarding the tolerance by the rights owner and the build-up of a valuable market position, see BGE 117 II 575.

In Switzerland, the effects of tolerance are not specified in a law, but are a result of court practice applying the rules of good faith and the resulting principle that the misuse of rights is unenforceable (Article 2 of the Swiss Civil Code). There are no specified fixed conditions relating to the importance, duration or continuous nature of the infringement, and neither of the tolerance.

6. If the system of the national law provides the acquisitive effect of the tolerance, the question arises of knowing what are the consequences from the point of view of the rights of the third party who benefits from this tolerance.

First of all, the question arises of knowing if this third party can only continue the same exploitation as that which profited from the tolerance from the holder of the former right or, if on the contrary, he can modify the nature as well as the extent of the exploitation which he undertook.

The Groups are thus invited to indicate if, in their country, the jurisprudence and the legal provisions limit the exploitation of the former right by the third party to the possibility of continuing it under the precise conditions of the operation taking benefit of the tolerance (as well from the point of view of the form, the sign, the model or the product being the subject of a patent as territorial and economic extent of this exploitation).

In addition, the question arises of knowing if the intellectual property right profiting from the tolerance (mark or another distinctive sign, model or invention) can be transferred to another third party and if this third party also profits from the tolerance which its predecessor did take advantage.

Thus, the question is to know if the tolerance has an effect limited to the person who profited from it by the holder of the former right or if it is attached to the sign, model or invention, which was used, independently of the person who carries out this exploitation.

The Groups should expose the solutions adopted on this subject by their national laws.

The only «right» which the infringer acquires is the right to continue with the (alleged or assumed) infringement to the extent good faith permits him to plea for forfeiture. This plea does not affect the intellectual property right, but concerns only the legal relationship between the rights owner and the infringer. In legal terms, the infringer does not acquire a right, but a plea against the rights owner's infringement claims.

It follows that the infringer is not free to modify or extend his use of the infringed intellectual property right beyond the valuable market position. Any enlargement of the geographical, material and personal scope of use is subject to the same conditions for forfeiture. The infringer may as well lose this right (i.e., his plea) if he discontinues such use partially or wholly, depending again on the same principles.

No court practice is known about the possibility of transferring the "right to infringe". It would seem, however, and some authors take the position, that such transfer is possible as long as the extent of "permitted infringement" is exactly the same, because a plea as such can hardly be transferred. The plea is a result of the specific circumstances, and as a consequence depends on those.

The effects of tolerance are not attached to the right, but result in a specific legal relationship between the rights owner and the infringer. As just outlined in the foregoing subsection, according to some authors the resulting plea of the infringer shall be available to a third party as well, provided all other circumstances remain the same.

7. In the same context the question of the exhaustion of the right intervenes. Indeed, if the products or the signs profiting from the tolerance are put on the market, the question of the freedom of circulation of these goods arises since they hardly can be regarded a priori as commercialized with the authorization of the holder of the former right.

It thus should be known if the tolerance is limited to the acts of the exploitation achieved by the person who profits from it initially or if it also extends its effects to the third parties which bought products, in particular for their export abroad.

If the rights owner tolerates that infringing goods are put on a specific market by the infringer, he loses his rights exactly regarding this specific market. This should not be seen as a question of exhaustion under Swiss law, because it does not affect the right per se, but is only an inter partes relationship between rights owner and infringer.

Whether such products can freely circulate or not depends on the specific elements of each individual case. If the rights owner tolerated infringement within a certain area such as the EEA, he foregoes his rights for the EEA. Acquiescence in a certain EEA country and the resulting valuable market position does obviously not automatically entail acquiescence and market position in other countries.

8. The acquisition of rights by the effect of tolerance raises also the question of the final and irrevocable character of this acquisition.

One can indeed wonder about the question of knowing if it is not possible to call into question the effects of the tolerance for example by a regulation which would organize the coexistence of the two rights.

The Groups are thus invited to indicate if such a regulation is possible in their national systems and how can it be organized.

The right to continue what per se is an infringement is not acquired finally and irrevocably. Just as the plea was acquired under principles of good faith, it may be lost again under the same principles.

Any attempt to set up a regulation about the effects of tolerance and coexistence would either necessarily just repeat the principle of good faith, or would forego the flexibility and fairness of that principle.

Under Swiss law, any such regulation would basically mean to amend Article 2 of the Swiss Civil Code. This has been done in other legal areas, by introducing specific rules, e.g. for rental agreements and in competition law. Currently, however, there are no plans to implement any such amendments and/or the specific EU Directive's rules. The current situation is believed to be satisfactory.

9. Lastly, the Groups are invited to give their appreciation on the operation of the mechanism of the acquisition of the rights by the effect of the tolerance in their country.

And the Groups are also invited to indicate if the rules as they exist in their country, can be used as a basis for a possible international harmonization.

The rules governing the effects of tolerance in Switzerland have advantages and drawbacks. The governing principle of good faith allows for decisions which are fair and justly reflect the circumstances. The drawback is that neither the rights owner nor the infringer have an easy way to establish the effects of their behaviour.

The principle of good faith may probably be said to be universal. Bona fides was a principle in Roman law already, as was the *exceptio doli generalis*. Under Swiss law, the principle of good faith is understood to be truly fundamental to its legal system.

II. Proposals for the harmonization

1. First of all the Groups should formulate an opinion as for the rights of the intellectual property which could be struck by the effect of the tolerance of infringement.

Does this tolerance have to take effect with regard to all the intellectual property rights or only for some of them (for example for the distinctive signs)?

If one accepts that the underlying principle is that of good faith, then it is universal and will and should concern all intellectual property rights including distinctive signs such as company names or domain names and non-registered distinctive signs. As outlined above, under Swiss law acquiescence affects all rights, not just intellectual property rights.

The Swiss Group is of the opinion that tolerance should take effect with regard to all intellectual property rights including distinctive signs such as company names and domain names and non-registered distinctive signs.

2. The Groups are also invited to give their opinion as for the nature of the tolerance if it were to be the subject of an international harmonization: is it limited to be a means of defence in the event of infringement proceeding or confers it a right pertaining to the person second in date?

Under the system of Swiss law, no right can be enforced in violation of the principle of good faith (Article 2 of the Swiss Civil Code). It follows that basically the effect of tolerance is the limitation – strictly inter partes – of the right owner's right to prevent infringement.

In terms of law, the infringer does not acquire a right properly speaking, but a plea. The Swiss Group thinks that this should be maintained also in the event of harmonization.

3. The Groups are also invited to formulate suggestions as for the conditions (such as: duration, extent and the knowledge of the infringement by the holder of the former right, etc.) which the tolerance should fulfill to produce the legal effects in the event of a possible international harmonization of the intellectual property rights.

In Switzerland, harmonization in the area of intellectual property would create a different legal situation for intellectual property rights including distinctive signs on the one hand, and the effects of tolerance in all other legal areas on the other hand, where the court practice applies as well, as outlined above. While the Swiss Group believes that there is no justification for such differences, it should also be stressed that at least currently Switzerland sees no need for amendments in intellectual property law, and neither for harmonization.

4. Finally the Groups can formulate any additional opinion as for the possible international harmonization of the rules of the intellectual property rights about the conditions and effects of the acquisition of the rights by the effect of the tolerance.

The Swiss Group has no further comments.

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