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The Rational Basis of Trademark Protection Revisited: Putting the Dilution Doctrine into Context

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Cover Page Footnote

Harvard Law School LL.M. 1999; Vienna University School of Law Dr. Iur. 1997; Vienna University School of Law Mag. Iur. 1996. I would like to thank Prof. William W. Fisher, III, for his helpful comments.

ARTICLES

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Mathias Strasser*

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INTRODUCTION

The adoption of the Federal Trademark Dilution Act¹ (the “FTDA”) in 1995, which incorporated a federal dilution clause into the Lanham Act,² was preceded by a great deal of debate. The question lying at the heart of the discussion was whether the dilution doctrine is consistent with sound trademark policy or whether the far-reaching entitlements that the FTDA affords the owners of famous marks have instead created “dilution” of a kind that Congress may not have envisaged: a blurring of the conceptual boundaries of trademark law.³

It turns out that this question has important implications on a number of trademark doctrines (such as inherent distinctiveness, functionality, and trade dress). This Article’s thesis is that the dilution doctrine and the traditional tests for trademark infringement have the same rational basis – that they may all be coherently explained on the basis of the functional approach. To prove this thesis, I will introduce two concepts: the “communication function” and “intrinsic reputation.” On the basis of these concepts, I will argue that trademarks could not fulfill their economic functions if they were not protected against dilution. Hence, I will conclude that the FTDA should be welcomed and that it should be applied to any name or device that is capable of fulfilling the functions for which we consider trademarks beneficial, be it a word, a symbol,

1. Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, §§ 3(a) & 4, 109 Stat. 985-86 (effective Jan. 16, 1996) (codified as amended at 15 U.S.C. §§ 1125(c), 1127 (1994 & Supp. 1998)).

2. See Trademark Act of 1946 (“Lanham Act”), Pub. L. No. 79-489, 60 Stat. 427 (codified as amended at 15 U.S.C. §§ 1051-1127 (1994 & Supp. 1998)).

3. See, e.g., Jonathan Moskin, *Dilution Law: At a Crossroads? Dilution or Delusion: The Rational Limits of Trademark Protection*, 83 TRADEMARK REP. 122, 125 (1993) (describing the dilution doctrine as a murky theory that courts cannot coherently apply); Kenneth Port, *The “Unnatural” Expansion of Trademark Rights: Is a Federal Dilution Statute Necessary?*, 18 SETON HALL LEGIS. J. 433 (1994) (noting that “[t]here is also no satisfactory theoretical justification supporting a federal dilution cause of action”); Robert N. Klieger, *Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection*, 58 U. PITT. L. REV. 789 (1997); Paul Heald, *Sunbeams Products, Inc. v. The West Bend Co., Exposing the Malign Application of the Federal Dilution Statute to Product Configurations*, 5 J. INTELL. PROP. L. 415 (1998).

or a product configuration.

Part I explores the economic functions that trademarks perform, how they relate to each other and whose interests they serve, arguing first, that trademarks fulfill both a product-identifying function and a communication function, and finally, that some trademarks have an intrinsic reputation. These two concepts suggest a utilitarian justification of the dilution doctrine. Part I also examines the various ways in which the likelihood of confusion test and the dilution doctrine (as well as the so-called identity rule in European trademark regimes) act together to ensure that trademarks can fulfill their economic functions. Part I concludes that the dilution doctrine is as vital to preserving the economic and social benefits that are expected to ensue from trademarks as the traditional tests. Part II examines why the dilution doctrine has sparked so much criticism in academia. My explanation is essentially twofold. First, one's attitude towards the dilution doctrine depends on one's understanding of the functional canon of trademarks. So long as the debate surrounds the issue of trademark functionality, the dilution doctrine will remain controversial. Second, the lack of popularity of the dilution doctrine in the academic world may have to do with the exclusive rights-free competition dichotomy that characterizes intellectual property law in general. Although this dichotomy is sometimes thought to apply to trademarks with particular force, I will argue that it should not.

The questions discussed in this Article are not Lanham Act-specific; they are basic questions every modern trademark regime confronts. As a result, it is interesting to see how other jurisdictions address them. A comparative analysis will also complement the historical context in which the dilution doctrine has evolved in the United States. The idea of protecting trademarks in the absence of a likelihood of confusion on the part of consumers began with an article that Frank Schechter wrote for the *Harvard Law Review* in 1927.⁴ Schechter's views were markedly influenced by

4. See Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813 (1926).

the German trademark law of that period.⁵ As we will see, German trademark law has undergone a number of major changes since 1927, one of the most significant ones involves the impact of European Community (“EC”) law on national law. It may, for this reason alone, be interesting to see how the dilution doctrine, that has remained a debated topic in the United States for almost a century, is construed and applied both in Germany and Europe today.

I. A FUNCTIONAL APPROACH TO THE DILUTION DOCTRINE

A. *What Trademarks Do*

The policy rationales underlying trademark law are manifold and disparate. As one court put it, trademark law is “a peculiarly complex area of the law.”⁶ The modern approach to trademark law is to begin one’s analysis with the economic functions that trademarks perform, and once these functions have been identified, to decide which of them the law should protect in what way.⁷ The term “functional approach” dates back to an article by Felix Cohen written in the heyday of legal realism and in which he attacked, as many realists did, “the classical theological jurisprudence of concepts.”⁸ But Cohen was not opposed to legal concepts as such. Conceptualization is, and remains, an important piece of legal methodology, especially in an area like trademark law, which is interlarded with a number of concepts (such as “confusion,” “dilu-

5. *See id.* at 831 (referring to section 826 of the German Civil Code, which, at the time he wrote his article, was the statutory basis on which German courts afforded trademark owners protection against dilution of their trademarks). Under the influence of EC Council Directive No. 89/104, O.J. L 40/1 (1989), however, it is anticipated that that provision will lose much of its practical import.

6. *HMH Publ’g Co., Inc. v. Brincat*, 504 F.2d 713, 716 (9th Cir. 1974).

7. *See* 1 J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION, §§ 3:1-2 (2d ed. 1984) [hereinafter MCCARTHY]. For Germany, see KARL-HEINZ FEZER, MARKENRECHT [hereinafter FEZER], Einl MarkenG [Introduction], paras. 30–41, which emphasizes that the economic functions that trademarks perform are immediately relevant for interpreting trademark statutes.

8. Felix Cohen, *Transcendental Nonsense and the Functional Approach*, 35 COLUM. L. REV. 809, 821 (1935). The rough equivalent to the functional approach in German law is the “Funktionenlehre.”

tion” and “distinctiveness”) and where these concepts serve the important task of organizing the law. Cohen’s point was rather that concepts should not be treated as ends in themselves. Instead of indulging in circular reasoning, one should examine the economic facts upon which one bases one’s theories. As a result, before criticizing the dilution doctrine, one must analyze and understand the economic functions that trademarks perform.

To take a functional approach to the analysis of the dilution doctrine means to examine the economic functions that trademarks perform and to shape and interpret the law in accordance with these functions. The three jurisdictions examined in this paper all implicitly utilize a functional approach. The most obvious indication of this is that the Lanham Act,⁹ the relevant EC legislation – Council Directive 89/104 (“Trademark Directive”)¹⁰ and Council Regulation 90/94 (“Trademark Regulation”)¹¹ – and the German Trademark Act (“GTA”)¹² all define their respective scopes by reference to what is the most fundamental function served by trademarks: their ability to identify and to distinguish products.¹³

1. The Identifying Function

One important function served by trademarks is the product-identifying function, which is quite different from the source-identifying function that often appears in the courts’ discussion of trademarks.¹⁴ The product-identifying function (or identifying

9. See 15 U.S.C. §§ 1051-1127 (1994 & Supp. 1998).

10. See Council Directive 89/104, O.J. L 40/1-7 (1989) (approximating the laws of the Member States relating to trademarks) [hereinafter Trademark Directive].

11. See Council Regulation No. 40/94, O.J. L 11/1 (1994) [hereinafter Trademark Regulation].

12. See Markengesetz (MarkenG), V.25.10.1994, (BGBl.I S.3082), *corrected in* (BGBl 1995 I S.156) [hereinafter GTA] (trans. in Law on the Reform of Trade Mark Law and on the Incorporation of the First Council Directive of December 21, 1998, to Approximate the Laws of the Member States Relating to Trade Marks, 89/104/EEC, Law on the Protection of Trade Marks and Other Signs (Trade Mark Law) of October 25, 1994, WIPO, 1995). (The GTA replaced the Warenzeichengesetz in its V.02.01.1998 version, BGBl.I S.29, BGBl.III 4, No. 423-1).

13. See discussion *infra* Part I.A.1.

14. See, e.g., I.P. Lund Trading ApS v. Kohler Co., 163 F.3d 27, 35 (1st Cir. 1998)

function) can explain the likelihood of confusion test (as well as, arguably, the identity rule that EC trademark law and the GTA provide), but it cannot justify the dilution doctrine. The latter can only be explained on the basis of the communication function.¹⁵

The identifying function lies at the heart of the functional approach. Its central position is also reflected in the way in which the law defines the concept of “trademark.” Section 45 of the Lanham Act defines trademarks as names, symbols and other devices that are able “to identify . . . goods and distinguish them.”¹⁶ Relevant EC trademark legislation and the GTA contain similar definitions.¹⁷

Usually, the identifying function is described in terms of the benefits conferred on consumers. Consumers like the fact that trademarks identify products because this helps them go back to those products with which they fared well in the past and to distinguish them from those that proved unsatisfactory.¹⁸ Law and economics theorists describe this as the fact that trademarks reduce the search costs of consumers.¹⁹ Two points, however, should be

(noting that “[a] primary purpose of trade dress or trademark protection is to protect that which identifies a product’s source”); *Thomas & Betts Corp. v. Panduit Corp.*, 138 F.3d 277(7th Cir. 1998) (defining “secondary meaning” as source identification rather than product identification); *see also* Case C-10/89, SA CNL-SUCAL NV v. HAG GF AG, 1990 E.C.R. I-3711, 3758, para. 14 [hereinafter *HAG II*]. *But cf.* discussion *infra* Part II.A.2 (arguing that the source-identifying function is but a sub-function of the communication function).

15. *See* discussion *infra* Part I.A.2.

16. Lanham Act § 45, 15 U.S.C. § 1127 (1994 & Supp. 1998). This is also the common law definition of trademark. *See* 1 MCCARTHY, *supra* note 7, § 3:1.

17. *See* Trademark Directive No. 89/104, art. 2, O.J. L 40/1, at 2 (1989); Trademark Regulation No. 40/94, art. 4, O.J. L 11/1, at 3 (1994) (both requiring that trademarks be “capable of distinguishing . . . goods or services.”); *see also* GTA, *supra* note 12, § 3, at 607 (containing similar language).

18. *See* Schechter, *supra* note 4, at 818 (noting that “[t]he true functions of the trademark are . . . to identify a product as satisfactory and thereby to stimulate further purchases by the consuming public”); *see* 1 MCCARTHY, *supra* note 7, § 2:3. *See also* *HAG II*, 1990 E.C.R. at I-3758, para. 13.

19. *See* William Landes & Richard Posner, *The Economics of Trademark Law*, 78 TRADEMARK REP. 267, 270 (1988); Roger Van den Bergh & Michael Lehman, *Informationsökonomie und Verbraucherschutz im Wettbewerbs- und Warenzeichenrecht* [Infor-

borne in mind. On the one hand, the identifying function does not abolish search costs altogether, since in order to identify products that turned out to be satisfactory on previous occasions, consumers first have to find those products, and in order to do that, they have to make repeat purchases. On the other hand, consumers may sometimes be able to obtain all the information they need to make an informed purchasing decision simply by inspecting the products before purchasing them. Where pre-purchase inspections are possible, there is no need to rely on trademarks. If inspection were always possible at zero cost, trademarks would become obsolete.²⁰

Not only does the identifying function reduce consumer search costs, it also mitigates the moral hazard problem that would otherwise exist. That problem may be described as follows: at any given price, rational consumers seek to buy the products of the highest quality available at that price, whereas manufacturers, in an effort to contain cost, try to sell the lowest quality they can. If consumers had no means by which to tell good products from bad ones, they would risk picking the failures. Economists call this the adverse selection problem.

To get rid of this problem, consumers could require manufacturers to make pledges. But the cost of enforcing pledges is high. And so instead of insisting on pledges, consumers would most likely ask for lower prices to offset the risk of making an adverse selection. This, however, would create a dilemma. By refusing to pay prices higher than "X," consumers would put a ceiling on the budget of manufacturers. This, in turn, would make it impossible for manufacturers to come up with fully satisfactory products. But the incentive to cheat on consumers would remain. Therefore, it would not matter how low the market price is; manufacturers

mation Economics and Consumer Protection in Unfair Competition and Trademark Law], GRUR INT. 1992, 588, 589-590.

20. See Roger Meiners & Robert Staaf, *Patents, Copyrights, and Trademarks: Property or Monopoly?*, 13 HARV. J.L. & PUB. POL'Y 911, 931 (1990); see also Phillip Nelson, *Information and Consumer Behavior*, 78 J. POL. ECON. 311 (1970) (distinguishing between search goods and experience goods and discussing the relative importance that information has for purchasers of products that fall within either of these categories).

would always have an incentive to offer consumers products of an even lower quality. Hence, the result would be a vicious circle, by which high-end products would gradually be replaced by products of medium and poor quality until the market would finally be interlarded with “lemons.”²¹ By making products identifiable, trademarks destroy some of the incentive that manufacturers would otherwise have to cheat consumers. The assumption is that once manufacturers realize that underselling each other in terms of value for money does not pay off in the long run, they will engage in competition to the benefit of consumers.²²

In order to achieve the benefits just described, one central condition has to be satisfied. The law has to ensure that manufacturers do not use their trademarks in ways that would make it impossible or difficult for consumers to tell which mark stands for which product.

2. The Communication Function

In addition to the product-identifying function, trademarks also fulfill a communication function, which is key to explaining the dilution doctrine on a utilitarian basis. As we will see, certain elements of the likelihood of confusion test, as it is currently applied, cannot be explained on the basis of the identifying function alone. This shows that courts have long since recognized that trademarks do not only identify products but also communicate with consumers.²³

At the outset, it should be noted that the product-identifying

21. The process of substitution was first described by George Akerlof, *The Market for Lemons: Qualitative Uncertainty and the Market Mechanism*, 84 Q. J. ECON. 488 (1970); see also 1 MCCARTHY, *supra* note 7, § 2:4 (citing to the Craswell Report 7 (1979) (FTC Policy Planning Issues Paper: Trademarks, Consumer Information and Barriers to Competition, FRC Office of Policy Planning)).

22. See *Park ‘N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 193 (1985) (noting that “trademarks desirably promote competition and the maintenance of product quality”); see also LANDES & POSNER, *supra* note 19, at 271; *HAG II*, 1990 E.C.R. at I-3758, para. 13.

23. See 1 MCCARTHY, *supra* note 7, § 3:2 A-B.

function and the communication function are intrinsically tied together. It is not possible to protect one without simultaneously protecting the other. As soon as a trademark identifies a certain category of products, it communicates with consumers by enabling them to associate all the product-related information available with the products that carry the mark.²⁴ The following discussion illustrates how the product-identifying function and the communication function act together to tackle the problems of moral hazard and adverse selection that were introduced in the previous section.

If a market is to yield Pareto optimal²⁵ results, the participants in the market must have access to information relating to the relevant products.²⁶ Generally, the more such information is available and the more efficiently trademarks convey that information to consumers, the better. Two types of information may be distinguished: (i) information relating to a product's price; and (ii) information pertaining to its characteristics or quality.

The price of a product is usually not difficult to obtain. The real challenge for consumers is to find out about the product's quality. When consumers buy clothes, for example, they may obtain as much product-related information as they want simply by inspecting the articles before effecting the purchase. In these cases,

24. Because trademarks convey information, they create expectations in the minds of consumers. But these expectations are of a purely factual nature. When consumers purchase the same product over and over again or when a product is advertised in a uniform way, consumers will eventually come to understand the mark as a synonym for the product's characteristics, much like Pavlov's dog learns to identify the sound of the bell with the serving of dog food. This happens irrespective of whether manufacturers are under a legal obligation to satisfy consumer expectations. Therefore, it should be borne in mind that the term "guarantee function" that is often used does not refer to a legal guarantee. See *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 816 F.2d 68 (2d Cir. 1987) *cert. denied*, 484 U.S. 847 (1987) (2d Cir. 1987); see also *HAG II*, 1990 E.C.R. at I-3758, para. 13; FEZER, *supra* note 7, Einl MarkenG [Introduction], para. 32.

25. See *The New Palgrave Dictionary of Economics and the Law* (1998) (Pareto optimality is "... a point from which no move can be made that would increase the welfare of some individuals and make no one worse off").

26. See generally George Stigler, *The Economics of Information*, 69 J. POL. ECON. 213 (1961).

consumers need rely neither on the identifying function nor on the communication function. In most cases, however, pre-purchase inspections are impossible, either as a matter of fact or simply because they are too expensive.²⁷ Moreover, although inspection may be possible, it is not always sufficient. Computers, for instance, may have latent faults that are not readily discernible upon inspection.

One possible strategy to deal with these cases would be to select satisfactory products by trial and error, that is, to purchase a series of products and to avoid those that proved previously unsatisfactory. We all use trial and error when we make purchasing decisions. It usually works because the product-identifying function helps us go back to the products that passed muster on previous occasions.

And yet, if the identifying function were all that we could rely on, we would be poorly equipped. The function requires that we already know which products are satisfactory and which are not. While the identifying function thus eliminates the adverse selection problem for the future, it does not alter the often costly need to find out which products are satisfactory. By the same token, it is quite conceivable that some manufacturers care little whether their customers return to them and may hence deliberately choose to sell lemons. This suggests that while the identifying function mitigates the problem, it falls short of resolving it entirely.

Again, risk discounts would be one possible way out. The problem, however, is that they would trigger a substitution of low-quality products for products of high quality. Moreover, it is doubtful whether risk discounts would be in the interest of consumers. Presumably, many consumers would find it difficult, if not impossible, to value the risk associated with the purchase of a particular product and to calculate an appropriate discount. Instead

27. Imagine, for example, that there are a number of clothes manufacturers and that they reside in disparate locations. In these circumstances, consumers might find it too expensive to inspect enough clothes to make a sensible decision as to which manufacturer offers the best deal. See Nelson, *supra* note 20, at 311.

of making such calculations, most of them would prefer to have a yardstick by which they can tell in advance whether a particular product is a lemon or not. Finally, the cost of picking a failure may sometimes be so high that the impending damage cannot be offset by a discount, however large that discount may be. When one employs the services of a surgeon for a life-saving operation, for example, one has no choice but to trust his or her abilities.

This is the point where the communication function enters the picture. The communication function vastly enhances the pool of information that is available to consumers. It does not create new information, but it enables consumers to take whatever product-related information exists (such as their own experience and the experience of others, word-of-mouth recommendations by friends, and most importantly, commercial advertising) and attribute it to the products carrying the mark.²⁸ With the onset of large-scale advertising and promotional measures, the communication function has gained ever-greater importance.²⁹

This is also where the source theory ultimately belongs. When consumers encounter a new product that carries the same mark as a different type of product that they already know, it is the communication function, not the identifying function, that gives them an idea of what that product is like.³⁰ Courts call this the “source-identifying function.”³¹ But to say that trademarks *identify* the

28. See Ralph Brown, Jr., *Advertising and the Public Interest: Legal Protection of Trade symbols*, 57 YALE L.J. 1165, 1187 (1948) (noting that a trademark is “a narrow bridge over which all the traffic powered by product advertising must pass”).

29. See Klieger, *supra* note 3, at 854 (noting that “[t]he type and amount of information conveyed by trademarks has only increased during the twentieth century”).

30. See 1 McCARTHY, *supra* note 7, §3:2 C; see also John A. Tessensohn, *May You Live in Interesting Times: European Trademark Law in the Wake of Sabel BV v. Puma AG*, 6 J. INTEL. PROP. L. 217, 226-27 (1999).

31. The modern reading of the source theory is that a trademark need not identify a particular manufacturer as the source of the products it carries so long as it is clear that they emanate from the same uniform source, even if that source is unknown to consumers. While this constitutes a departure from the more restrictive reading of the early days, the basic idea has remained the same: according to the source theory, the main function of trademarks is to identify the source or origin of products and not the products themselves. See *Shredded Wheat Co. v. Humphrey Cornell Co.*, 250 F. 960 (2d Cir. 1918).

source of products obscures reality. What trademarks really do is *communicate* to consumers—because a certain product emanates from a certain source, there is a fair chance that it bears all the characteristics that consumers associate with that source. This reformulation is not just splitting hairs. Communicating information relating to a product is different from identifying that product. And once we agree that the reason why consumers care about a product's source is because that kind of information is relevant to their purchasing decision, it is easy to see that they might be interested in *any* kind of information that assists them in making a decision. In reality, therefore, the source-identifying function is but a sub-function of the communication function.

By identifying products and communicating with consumers, trademarks mitigate the problems of moral hazard and adverse selection.³² Any set of trademark entitlements that serves to protect these functions would hence be consistent with the functional approach.

3. Advertising and Intrinsic Reputation

Trademarks are capable of emancipating themselves from the products in connection with which they are used. When that happens to a trademark, it acquires an intrinsic reputation. Rather than serving as an agent for the product carrying it, the trademark evokes expectations that are, to some extent at least, independent of any particular set of products.

The concept of intrinsic reputation is best illustrated by way of an example. Consider the three car brands “Audi,” “Mercedes,” and “Ferrari.” All three are well-known, and yet, not all of them have an intrinsic reputation. “Audi” is an example of a trademark

See also Case C-39/97, Canon Kabushika Kaisha v. Metro-Goldwyn-Mayer Inc., 1997 E.C.R. 37; 1 MCCARTHY, *supra* note 7, § 3:8 (describing the evolution of the source theory in the course of time).

32. *See* 1 MCCARTHY, *supra* note 7, § 2:4 (citing to the Craswell Report 7 (1979) which noted that “[i]f consumers can learn about the quality levels associated with each brand, this gives each manufacturer an incentive to improve the quality of his product as much as consumers are willing to pay for it”).

that arguably has no intrinsic reputation at all. This is not to say that it does not convey information to consumers or that the expectations that it excites in their minds are unfavorable. The point is rather that the expectations it evokes relate to cars – and in particular, to cars that carry the label “Audi.”

At the risk of stating the obvious, compare “Audi” to “Mercedes” and “Ferrari.” Unlike “Audi,” the term “Mercedes” serves not only as a shortcut to “Mercedes” cars. Many consumers understand the term as a synonym for quality as such. Because the mark “Mercedes” is thus separable from the products in connection with which it is usually used, its reputation is intrinsic. Similar considerations apply with regard to the mark “Ferrari” since it, too, evokes expectations that are not exclusively linked to cars. Instead, it signifies such values as sportiness and youth. While the marks “Mercedes” and “Ferrari” are hence similar in that both have an intrinsic reputation, they are different in other respects, and these differences are important. “Mercedes,” as we saw, stands for high quality. Therefore, when it is affixed to products other than cars, it still conveys product-related information. “Ferrari,” by contrast, arouses emotions that are completely unrelated to the physical aspects of any good or service. In case of marks like “Ferrari,” the emancipation of the mark from the product is thus even more complete than for marks like “Mercedes.”³³ Marks

33. Lifestyle trademarks differ from ordinary trademarks in a number of respects. First, they often show network externalities, that is to say, the more well-known a lifestyle trademark is (not necessarily the more people practice that lifestyle), the more attractive it is to consumers. As a result, successful lifestyle trademarks tend to be famous. The opposite need not be true. There are, in fact, numerous trademarks that are famous but do not portray a particular lifestyle (for example, Kodak). Secondly, companies cannot create lifestyle trademarks in the same way as they can create ordinary marks: entering a sign into the federal register or using it in commerce does not as such make it a famous mark. Because lifestyle trademarks are famous, their creation typically requires companies to spend huge amounts of money on advertising. While the economic value of ordinary trademarks is largely a function of the success of the products that are offered under these marks, the value of lifestyle trademarks is therefore much more directly linked to the promotional efforts undertaken by their owners. As a result, courts often use the amount of advertising that a trademark holder has spent on a mark as evidence of whether the mark is famous. *See, e.g., WAWA, Inc. v. Haaf*, 40 U.S.P.Q.2d 1629 (E.D.

like “Ferrari” may be labeled lifestyle trademarks to underscore that when consumers buy a “Ferrari” car or a “Ferrari” T-shirt or any other product bearing the “Ferrari” logo, they do it primarily because of the image of the mark, and not so much because the cars are fast or red or hard to drive, or because the T-shirts are washable at high temperatures.³⁴

Trademarks with an intrinsic reputation such as the “Mercedes” star are generally a boon to consumers for reasons that are similar to those discussed in the context of the communication function: they enhance the amount of information that is available to consumers. For lifestyle trademarks, value is only very loosely, if at all, related to the physical aspects of the products that carry them. The question arises, then, whether lifestyle trademarks are useless, dangerous even, since they provide consumers with information that is too far removed from the product.

On the one hand, because lifestyle trademarks create artificial needs, they induce socially undesirable behavior. Moreover, companies might use them to differentiate their products and to insulate themselves from the pressures of competition.³⁵ On that theory, the law should discourage manufacturers from creating lifestyle trademarks. On the other hand, whether a need is “real” or “artificial” can only be decided with regard to a predefined benchmark. Absent an overriding public interest, the best benchmark is the marketplace and the collective decisions made by the market par-

Pa. 1996), *aff'd without op.*, 116 F.3d 471 (3d Cir. 1997); *Mead Data Cent., Inc. v. Toyota Motor Sales, Inc.*, 702 F. Supp. 1031 (S.D.N.Y. 1988), *rev'd without op.*, 875 F.2d 308, *supp'l op.*, 875 F.2d 1026 (2d Cir. 1989).

34. This is not to say that consumers do not care about the physical characteristics and the quality of “Ferrari” cars, but the relative importance of these factors is minor as compared to the lifestyle image. See Heijo Ruijsenaars, *Die Verwertung des Werbewerts bekannter Marken durch den Markeninhaber* [*The Exploitation by the Trademark Owner of the Advertising Value of Famous Marks*], GRUR INT. 1988, 385, 386.

35. See *Smith v. Chanel, Inc.*, 402 F.2d 562, 567 (9th Cir. 1968) (noting that “[t]o the extent that [non-product related] advertising . . . succeeds, . . . economically irrational elements are introduced into consumer choices; and the trademark owner is insulated from the normal pressures of price and quality competition. In consequence the competitive system fails to perform its function of allocating available resources efficiently.”); see also Klieger, *supra* note 3, at 858.

ticipants. There is no apparent reason why our attitude towards lifestyle trademarks should differ from that toward other products. Though this view is not universally shared,³⁶ it finds support in economic literature, which has shown that there is no clear borderline between informational advertising and persuasive advertising.³⁷ On the one hand, every advertising measure is persuasive since the very purpose of advertising is to persuade consumers to purchase a particular good or service. On the other hand, no matter how persuasive an ad or a commercial may be, it will always contain some information since consumers would otherwise not decide to purchase the advertised product. It is true that in the case of lifestyle trademarks, the information that an ad conveys is unrelated to the physical aspects of a product but instead concerns a certain lifestyle. But this does not disturb our analysis. So long as the information conveyed by the mark is accurate in the sense that it does not misstate verifiable facts, the law should not interfere.

One might even think favorably about lifestyle trademarks, because arguably, they facilitate competition in mature markets. In such markets, of which the tobacco industry provides many examples, there are often no significant potentials for product innovation.³⁸ As a result, the creation and promotion of lifestyle trademarks is one of the last areas in which companies still have the opportunity to compete. This is not to say that companies will

36. See Klieger, *supra* note 3, at 856 (noting that “[m]ost advertising . . . is not informational, but persuasive, and persuasive (or transformational) advertising, directed at creating a brand personality and aimed at the consumer’s heart rather than his mind, plays a more dubious role”).

37. See Philip Nelson, *Advertising as Information*, 82 J. POL. ECON. 729 (1974). Cf. *Federal Trade Comm’n v. Procter & Gamble Co.*, 386 U.S. 568, 603 (1967) (Harlan, J., concurring) (noting that “[u]ndeniably advertising may sometimes be used to create irrational brand preferences and mislead consumers as to the actual differences between products, but it is very difficult to discover at what point advertising ceases to be an aspect of healthy competition. . . . It is the consumer who must make that election through the exercise of his purchasing power.”).

38. See Moskin, *supra* note 3, at 136 (noting with reference to a Wall Street Journal survey that brand loyalty in the tobacco industry is higher than in any other consumer product industry. This makes quality and price competition even more difficult than it is already given the lack of sufficient potentials for product innovation.).

necessarily grasp this opportunity, but its mere existence may make the formation and policing of cartels more difficult than it would be otherwise.³⁹ Of course, competition via lifestyle trademarks does not necessarily lead to better products, and again, the example of the tobacco industry is instructive. Leaving aside non-market factors (such as the threat of class actions seeking punitive damages), tobacco companies have no interest in inducing smokers to switch to cigarettes with lower nicotine content even though we might regard such cigarettes as “undesirable” from society’s point of view. On the contrary, they might be induced to create lifestyle marks that are aimed at making smokers switch to more addictive products. And yet, these criticisms turn against cigarettes, not against lifestyle trademarks. Leaving nicotine aside, one might welcome the competitive opportunities that lifestyle trademarks create.

The bottom-line is that trademarks that have an intrinsic reputation create certain benefits. This is self-evident for marks like “Mercedes,” which confer the benefits upon consumers that were discussed in the previous section. It is less clear for marks like “Ferrari,” which are lifestyle trademarks that do not convey product-related information. The main benefit of the latter is that they might be seen as impeding coordination in mature industries. Obviously, this does not mean that lifestyle trademarks deserve more protection than other kinds of trademarks. It suggests, however, that one should at least avoid condemning them merely because the kind of information they convey to the public is not product-related.

39. See PHILIP AREEDA & LOUIS KAPLOW, *ANTITRUST ANALYSIS*, at 259 (5th ed. 1997) (noting that non-price competition, including “effective advertising,” may make coordination impossible since “[t]o hold price above competitive levels creates a powerful incentive for each oligopolist to win increased business by any means that does not threaten the price structure. . . . [B]ecause there is always the possibility that a rival might make such a move, each oligopolist may feel compelled to continue planning for new advertising campaigns or style changes in order to be able to respond quickly when necessary.”). *Id.*

B. *Trademark functions and the applicable law*

The traditional test for infringement in the trademark laws of the United States, the EC and Germany is the likelihood of confusion test. This test essentially asks whether the allegedly infringing trademark is so similar to an existing mark that, given the similarity of the products in connection with which the two marks are used, there is a likelihood that consumers might get confused.⁴⁰ EC trademark law and the GTA, however, provide a special rule for those cases in which a junior user adopts a mark that is identical with a senior mark and uses it in connection with exactly the same set of products.⁴¹ While the Lanham Act subjects this fact pattern to the likelihood of confusion inquiry,⁴² the European approach in these cases affords the trademark owner absolute protection.⁴³ As we will see, this identity rule is interesting in light of the functional approach. Finally, there is the dilution doctrine, which exists in all three jurisdictions. The dilution doctrine applies only to famous marks and even when there is not the slightest likelihood of confusion.⁴⁴

In each of the currently fifteen Member States of the EC, European and national trademark law coexists. In case of a conflict between the two, the former automatically takes precedence over the latter.⁴⁵ The centerpiece of EC trademark law is the Trademark

40. See *Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 492, 495 (2d Cir. 1961) (listing the factors for the likelihood of confusion test as: the strength of his mark, the degree of similarity between the two marks, the proximity of products, the likelihood that the prior owner will bridge the gap, actual confusion, the reciprocal defendant's good faith in adopting its own mark, the quality of defendant's product, and the sophistication of the buyers).

41. See Trademark Directive No. 89/104, art. 4(1)(a), O.J. L 40/1, at 3 (1989) (The identity rule of Article 4 of the Trademark Directive states: "A trade mark shall not be registered or, if registered, shall be liable to be declared invalid: (a) if it is identical with an earlier trade mark, and the goods or services for which the trade mark is applied for or is registered are identical with goods or services for which an earlier trade mark is protected . . .").

42. 15 U.S.C. § 1114 (1994).

43. See discussion *infra* Part I.B.1.

44. 15 U.S.C. 1127(c) (1994 & Supp. 1999).

45. See Trademark Regulation No. 40/94, O.J. L 11/1 (1994).

Regulation, which was adopted in 1993 and entered into force in 1994.⁴⁶ Under the Trademark Regulation, companies may obtain protection throughout the EC by registering their marks with the Office for Harmonization in the Internal Market.⁴⁷ Companies thereby avoid the lengthy and expensive process of obtaining individual registrations in each of the Member States.⁴⁸ Given this advantage, the general expectation is that the Trademark Regulation will eventually become the principal source of trademark protection in Europe.⁴⁹ Meanwhile, however, national trademark laws of the Member States continue to apply.⁵⁰ Early on in the history of the EC, it became clear that the patchwork of existing national trademark regimes conflicted with the European vision of a single market. The EC's response to this problem was twofold. First, the European Court of Justice ruled that it is illegal for companies to use their national trademark rights to block parallel imports, as this would allow price discrimination between Member States.⁵¹ Moreover, in 1988, the EC adopted the Trademark Directive.⁵² The Directive, which entered into force in 1989, had the aim of harmonizing the national trademark laws of the Member States.⁵³

46. *See id.*

47. This follows from the principle of supremacy of Community law that the European Court developed in Case 6/64, *Costa v. E.N.E.L.*, 1964 E.C.R. 585. Because that principle has no temporal limits, article 106 of the Trademark Regulation provides that the Regulation does not affect existing trademark rights under the laws of the Member States. *See* Trademark Regulation No. 40/94, art. 106, O.J. L 11/1, at 27 (1994).

48. *See* Trademark Regulation No. 40/94, O.J. L 11/1 (1994).

49. *See, e.g.*, Thomas C. Vinje, *Recent Developments in European Intellectual Property Law: How Will They Affect You and When?*, 13 J.L. & COM. 301 (1994); Baila H. Celedonia, *The Impact of European Integration on Intellectual Properties Symposium Commentary*, 18 BROOK. J. INT'L L. 751 (1992).

50. *See* Trademark Regulation No. 40/94, O.J. L 11/1 (1994).

51. *See, e.g.*, Case 16/74 *Centrafarm BV v. Winthrop BV*, 1974 E.C.R. 1183, 1195 (noting that trademarks might be used "to partition off national markets and thereby restrict trade between Member States, in a situation where no such restriction was necessary to guarantee the essence of the exclusive right flowing from the trade mark"); Case 3/78 *Centrafarm BV v. Am. Home Prods. Corp.*, 1979 E.C.R. 1823; Case 102/77 *Hoffmann-La Roche & Co. AG v. Centrafarm Vertriebsgesellschaft* 1978 E.C.R. 1139.

52. *See* Trademark Directive No. 89/104, O.J. L 40/1 (1989).

53. Directives are the legal instruments that the EC usually uses to harmonize the laws of the Member States. *See* Treaty Establishing the European Community, Feb. 7,

Germany implemented the Directive in 1994 by enacting the GTA.⁵⁴ Because the GTA is based on the Trademark Directive, its provisions are similar to those contained in the Directive.⁵⁵ Therefore, to avoid repetition, this Article focuses on the GTA and refers to the Trademark Regulation and Trademark Directive only in those cases where they deviate significantly from the GTA.

1. Same Mark, Same Product: The Identity Case

The Trademark Directive, Trademark Regulation, and GTA contain special provisions for the identity case. They afford trademark owners an absolute right to prohibit third parties from using signs that are identical on products that are exactly alike.⁵⁶ The practical result is that a trademark owner who seeks redress for infringement in the identity case need not show a likelihood of confusion.⁵⁷ In contrast, the Lanham Act treats situations where identical marks are used on identical products in the same way as when similar marks are used in connection with similar products.⁵⁸

1992, art. 189, [hereinafter EC Treaty], incorporating changes made by Treaty on European Union, Feb. 7, 1992, O.J. C 224/1 (1992) [hereinafter TEU]. Art. 189(3) of the EC Treaty states that “[a] directive shall be binding, as to the result to be achieved, upon each member state to which it is addressed; but shall leave to the national authorities the choice of form and methods.” See EC Treaty, art. 189(3), O.J. C 224/1, at 65 (1992).

54. See GTA, *supra* note 12, at 601.

55. The provisions of the Trademark Directive are also very similar to those contained in the Trademark Regulation. This is merely a result of the fact that the two were prepared and adopted by the same legislative bodies, albeit in different procedures. See Trademark Directive No. 89/104, O.J. L 40/1 (1989); Trademark Regulation No. 40/94, O.J. L 11/1 (1994).

56. See Trademark Directive No. 89/104, art. 5(1)(a), O.J. L 40/1, at 4 (1989); Trademark Regulation No. 40/94, art. 9(1)(a), O.J. L 11/1, at 5 (1994); GTA, *supra* note 12, § 14(1)(1), at 612. The fact that an identical mark is already used on an identical set of products is also a ground for registration refusal or invalidity. See Trademark Directive No. 89/104, art. 4(1)(a), O.J. L 40/1, at 3 (1989); Trademark Regulation No. 40/94, art. 8(1)(a), O.J. L 11/1, at 4 (1994).

57. See FEZER, *supra* note 7, § 14, para. 74; Rolf Sack, ‘Doppelidentität’ und ‘gedankliches Inverbindungsbringen’ im neuen deutschen und europäischen Recht [‘Double Identity’ and ‘Mental Association’ under the New German and European Law], GRUR 1996, 663, 664.

58. 15 U.S.C. § 1114(1)(a) (for registered trademarks); 15 U.S.C. § 1125(a) (for unregistered marks) (1994 & Supp. 1998).

Article 16 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS Agreement”) takes an intermediate position. While it subjects all infringement cases to the likelihood of confusion test (similar to the Lanham Act), it presupposes a likelihood of confusion in the identity case (similar to the GTA).⁵⁹

In many cases, the various tests will yield the same results simply because the likelihood of confusion among consumers is particularly strong when two manufacturers use the same trademark on identical products. And yet, there are cases in which the difference matters.

One category concerns cases involving product piracy. Consider, for instance, software piracy. Because digital copies of a program are indistinguishable from their original, rational consumers will be indifferent as to which one of the two they purchase. In fact, leaving the threat of criminal prosecution aside, they might prefer the copy since it is usually less expensive. Under the likelihood of confusion test, the best that the producer of the original could do to establish trademark infringement is argue that even though the actual purchasers of the copies may be aware of what they are doing, there is still a risk of post-sale confusion of potential consumers.⁶⁰ To establish post-sale confusion, however, is not only a burdensome exercise, it is not even certain whether it would reach software piracy cases at all. Instances in which courts find

59. See Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, art. 16(1), Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 33 I.L.M. 1197 (1994) [hereinafter TRIPS Agreement]. Article 16(1) of the TRIPS Agreement provides:

The owner of a registered trademark shall have the exclusive right to prevent all third parties not having the owner’s consent from using in the course of trade identical or similar signs for goods or services which are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion. In case of the use of an identical sign for identical goods or services, a likelihood of confusion shall be presumed.

Id.

60. See *Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-Le Coultre Watches, Inc.*, 221 F.2d 464 (2d Cir. 1955), *cert. denied*, 350 U.S. 832 (1955) (discussing the concept of “post-sale confusion”).

post-sale confusion typically involve products that are visible to the public during their ordinary usage.⁶¹ The use of software, however, normally does not occur in public. As a result, the outcome of a piracy case under the likelihood of confusion test is doubtful.⁶² Under a rule of absolute protection, however, all that the software producer would have to do is show that the copy and the original are identical and that they are distributed under the same mark.⁶³

Another category of cases in which the identity rule may lead to different results than the likelihood of confusion test is export trademarks. The Austrian “Bayer” case of the mid-1980s is instructive.⁶⁴ In Austria, Bayer enjoyed trademark protection for its mark “Baygon” in connection with insecticides. A third party made insecticides using the mark “Baygon” without Bayer’s consent. But instead of selling its insecticides in Austria, it exported them to Saudi-Arabia. The Austrian Supreme Court denied infringement on the ground that there was no likelihood of confusion among domestic customers.⁶⁵ At the time, Austrian trademark law did not provide an identity rule but only a likelihood of confusion test. Under the identity rule, the fact that the “Baygon” trademark was used on the same products would have been sufficient to find infringement.

61. See *Levi Strauss & Co. v. Blue Bell, Inc.*, 632 F.2d 817, 822 (9th Cir. 1980) (“Wrangler’s use of its projecting label is likely to cause confusion among prospective purchasers who carry even an imperfect recollection of Strauss’s mark and who observe Wrangler’s projecting label after the point of sale.”); see also *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867 (2d Cir. 1986); *Rolex Watch U.S.A., Inc. v. Canner*, 645 F. Supp. 484 (S.D. Fla. 1986).

62. Without a showing of likelihood of confusion, the special anti-counterfeiting provisions of the Lanham Act are inapplicable as well. See Lanham Act § 34(d)(1)(B), 15 U.S.C. § 1116(d)(1)(B) (1994 & Supp. 1998) (“[T]he term ‘counterfeit mark’ means . . . any spurious mark . . . the use of which is likely to cause confusion, to cause mistake, or to deceive”); see also Trademark Counterfeiting Act, 18 U.S.C. § 2320(d)(1)(A)(iii) (1994 & Supp. 1998) (providing a comparable scope).

63. This is not to say that trademark law should protect software as intellectual property. But it should protect the ability of the trademark to identify the software and to communicate to consumers that it was made by a certain manufacturer.

64. See Austrian Supreme Court, ÖBL 1987, 41.

65. See *id.*

The question remains whether the identity rule is desirable from a policy perspective. The answer is given by the functional approach. When different manufacturers use the same trademark on products that look exactly alike, the mark is deprived of its ability to identify products in an unambiguous manner. This is especially true when the products are of a disparate quality, in which case the mark's ability to communicate is impaired as well. Hence, the use of the same trademark on the same set of products completely destroys the mark's ability to identify and to communicate. In a case such as this where the intrusion on the functionality of a trademark is so manifest and so complete, there appears to be no reason why its owner should be required to demonstrate confusion among consumers or even a likelihood that such confusion might occur. Instead, the functional approach suggests that in these cases, infringement should follow as a matter of law from the mere fact that a twin copy of an existing mark is used in connection with products that fall within the same category.⁶⁶

Since the functional approach applies on both sides of the Atlantic, similar conclusions hold true with respect to the domestic situation. The only difference is that instead of making a distinction between the identity case and the use of similar marks on similar products, section 43(a) of the Lanham Act subjects both cases to the likelihood of confusion test.⁶⁷ Although courts may have wanted to develop a special rule for the identity case, they have not had the opportunity to do so. As "few would be stupid enough to make exact copies of another's mark or symbol,"⁶⁸ such cases have not presented themselves. Hence, the lack of precedent on this matter should not be regarded as conclusive. If anything, the few decisions that are available indicate an awareness that the identity case does differ from cases involving the use of similar marks on similar products and that the likelihood of confusion test is not particularly helpful in these circumstances.⁶⁹

66. See FEZER, *supra* note 7, § 14, para. 72.

67. See 15 U.S.C. § 1125(a).

68. *Baker v. Master Printers Union*, 34 F. Supp. 808, 811 (D.N.J. 1940).

69. See, e.g., *Omega Importing Corp. v. Petri-Kine Camera Co.*, 451 F.2d 1190,

This is not to suggest that the Lanham Act should be amended. However, it is useful to bear in mind that the Lanham Act is a codification of the common law on trademarks, and as such, it is open to judicial refinements. As the Supreme Court noted in a decision long before the adoption of the Lanham Act, exact likeness is not “necessary” to establish trademark infringement.⁷⁰ The Court’s statement seems to suggest that exact likeness is something more than a likelihood of confusion.⁷¹ This statement should be read as implying that where the trademark owner succeeds in proving exact likeness, the issue of likelihood of confusion is irrelevant.

2. Likelihood of Confusion

If the junior mark is merely similar to the senior mark or the products on which the marks are used are not exactly alike, the remedies available in the various jurisdictions appear to be uniform. The Lanham Act, the Trademark Regulation, the Trademark Directive, and the GTA all require that the trademark owner prove a likelihood of confusion among consumers.⁷² This prong of the infringement test is critical, since it serves as a bridge between the identity case, in which the same mark is used in connection with identical products, and the dilution doctrine, which applies even in

1195 (2d Cir. 1971) (recognizing, where defendant and plaintiff both sold cameras under an identical trademark, that “purchaser inspection would be of doubtful value” and that there was a “high probability of confusion,” but declining to grant plaintiff absolute protection); *see also* National Bd. of YMCA v. Flint YMCA, 764 F.2d 199, 202 (6th Cir. 1985) (Kennedy, J., dissenting) (noting that “cases involving use of the identical symbol are different from ordinary trademark cases which ‘are predicated on the complaint that the defendant employed a trademark so *similar* to that of the plaintiff that the public will mistake the defendant’s products for those of the plaintiff,” and arguing that, for purposes of a preliminary injunction, the likelihood of confusion should be presumed) (emphasis in original).

70. *See* Saxlehner v. Eisner & Mendelson Co., 179 U.S. 19, 33 (1900) (noting that “[i]t is not necessary to constitute an infringement that every word of a trade-mark should be appropriated. It is sufficient that enough be taken to deceive the public in the purchase of a protected article.”).

71. *See id.*

72. *See* 15 U.S.C. § 1125(a)(1)(A); Trademark Directive No. 89/104, art. 4(1)(b), O.J. L 40/1, at 3 (1989); Trademark Regulation No. 40/94 art. 8(1)(b), O.J. L 11/1, at 4 (1994); GTA, *supra* note 12, § 14(2)(2), at 612.

those cases where the products involved are wholly dissimilar.

At first glance, the Lanham Act appears to provide two different likelihood of confusion tests. With regard to unregistered marks, section 43(a) requires the plaintiff to show that the defendant's use of the mark "is likely to cause confusion . . . as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person"⁷³ By contrast, section 32(1)(a), which deals with marks that have been entered into the federal register, merely speaks of confusion without further defining the scope of that concept.⁷⁴

In practice, however, courts apply the same tests under both provisions.⁷⁵ Trademark owners must show that as a result of the allegedly infringing behavior, there is a likelihood that consumers might get confused: (i) as to the source of the products that are sold under the infringing sign; (ii) as to whether the owner of the mark has endorsed or sponsored the products that carry that sign; or (iii) as to whether the owner of the mark and its alleged infringer are affiliated or otherwise linked to each other.⁷⁶

Unlike the Lanham Act, the GTA does not differentiate between registered and unregistered marks.⁷⁷ To establish infringement, section 14 of the GTA simply requires trademark owners to show "a likelihood of confusion, which includes the likelihood of association between the sign and the mark."⁷⁸ The GTA does not define the concept of confusion. In particular, it does not indicate

73. 15 U.S.C. § 1125(a).

74. 15 U.S.C. § 1114(1)(a).

75. See 3 MCCARTHY, *supra* note 7, § 23:76.

76. See *Wendy's Int'l, Inc. v. Big Bite, Inc.*, 576 F. Supp. 816, 821 (S.D. Ohio 1983) (noting that "the 'likelihood of success' requirement is met if it is established that the alleged infringement creates 'a likelihood of confusion' in consumers' minds regarding the source, endorsement, affiliation or sponsorship of a particular product"). See also 3 MCCARTHY, *supra* note 7, § 23:8; 4 MCCARTHY, *supra* note 7, § 24:6.

77. See GTA, § 14, *supra* note 12, at 612.

78. GTA, § 14(2)(2), *supra* note 12, at 612. The GTA translation follows the English version of article 5(1)(b) of the Trademark Directive. See Trademark Directive No. 89/104, art. 5(1)(b), O.J. L 40/1, at 4 (1989).

whether that concept covers confusion as to affiliation and as to whether the owner of the mark and the alleged infringer are economically or otherwise linked to each other. Much is therefore left to courts⁷⁹ and scholars, both of which play an important role in interpreting the GTA. In response to a question posed by the German Supreme Court, the European Court recently clarified that the concept of confusion has to be given broad scope.⁸⁰ The German Supreme Court recently followed that decision.⁸¹ The interpretation that German courts give to the concept of confusion largely parallels domestic law.⁸² To establish infringement, a trademark owner has to show a danger that consumers might mistake the identity of the trademarked product or its source, or erroneously associate the owner with the allegedly infringing sign.⁸³ The relevant provisions of EC trademark law are again similar to those contained in the GTA.⁸⁴

If the law aims to ensure that trademarks can identify products and communicate product-related information to consumers, it would seem to be enough to afford them absolute protection in the identity case. This is exactly what the GTA does and what domes-

79. The courts that are competent to interpret the GTA are the German courts. Indirectly, however, the European Court's case law bears on the interpretation of the GTA as well. As we saw earlier, the GTA is based on the Trademark Directive. As a result, German courts are under an obligation to interpret the GTA in accordance with the Trademark Directive. This way, the European Court's interpretation of the Trademark Directive becomes relevant for the GTA.

80. See Case C-39/97, *Canon Kabushika Kaisha v. Metro-Goldwyn-Mayer Inc.*, 1997 E.C.R. 39 (“[t]here may be a likelihood of confusion . . . where the public perception is that the goods or services have different places of production”).

81. See GRUR 1999, 245; see also MARKENR 1999, 93; FEZER, *supra* note 7, § 14, paras. 341 & 345.

82. See 15 U.S.C. 1125(a) (for unregistered trademarks); see also *Wendy's Int'l* 576 F. Supp. at 816.

83. See FEZER, *supra* note 7, § 14, paras. 128-143.

84. Article 5(1)(b) of the Trademark Directive affords trademark owners protection whenever “there exists a likelihood of confusion on the part of the public . . . which includes the likelihood of association between the sign and the trade mark.” Trademark Directive No. 89/104, art. 5(1)(b), O.J. L 40/1, at 4 (1989). Article 9(1)(b) of the Trademark Regulation contains a virtually identical provision. See Trademark Regulation No. 40/94, art. 9(1)(b), O.J. L 11/1, at 5 (1994).

tic courts should do. In practice, however, identification and communication occur in the minds of consumers, and the way in which consumers perceive a trademark is influenced by a variety of factors, such as the extent to which there are other marks out there that look similar or that are used on similar products.⁸⁵ When two marks are totally different or, while similar, are used in connection with different kinds of products, we may assume that there is a fair chance that consumers will make the right association. But the more similarities the marks share and the more similar the products are, the harder it gets for consumers to retain a clear mind. The more similarities exist, the greater the impediment to the marks' ability to identify products and to communicate with consumers.⁸⁶ From the perspective of the functional approach, this is the problem that the likelihood of confusion test seeks to resolve.

Therefore, from the perspective of the functional approach and without regard to the black-letter law, confusion has to be understood as a state of mind in which consumers either mistake two trademarks or erroneously attribute a feature of one mark to products sold under another in a manner that impairs either the mark's identifying function or its ability to serve as a means of communication.⁸⁷ Accordingly, one may distinguish two types of confusion: one relating to the identifying function and the other to the communication function. A trademark's ability to identify products is impaired when it is so similar to the infringing sign that a reasonable consumer would fail to recognize that the two identify

85. See *Polaroid*, 287 F.2d at 495.

86. Conceivably, there is a point at which the risk of confusion becomes so great that the economic benefits that we expect to ensue from the use of trademarks are reversed. Assume, for example, that two manufacturers used trademarks that looked virtually identical and affixed them to similar products. Assume further that the products, even though of similar appearance, were nevertheless of a very different quality. If a regular purchaser of the high-quality product, unaware of the lemon, relied faithfully on the mark and nevertheless picked the lemon, its search costs would be greater than if it had inspected the products in the first place.

87. This means that for dogmatic purposes, the concept of "confusion" has to be treated as a term of art that derives its scope and content from the functional approach. See FEZER, *supra* note 7, § 14, para. 104. As a result, the issue of likelihood of confusion should be treated as a question of law with all the consequences that this entails.

different products. This “confusion in the narrower sense” emphasizes that in these cases, consumers get confused in the ordinary sense of the word: they mistake one mark for another.

The other kind of confusion, which one might call “confusion in the wider sense,” concerns cases in which the infringing sign impairs the mark’s ability to communicate. This occurs when consumers erroneously attribute the information that the mark conveys to the products sold under the infringing sign.

Consider a trademark that designates a popular brand of energy drinks. Imagine that somebody else uses a mark that looks confusingly similar to advertise a sports event, a beach volleyball tournament, for example. In this case, the mark’s ability to identify energy drinks is not impaired. So long as the soft drink producer does not organize sports events and the promoter of the tournament does not engage in the business of selling soft drinks, consumers can easily tell one from the other. In this situation, there is no danger of confusion in the narrower sense. The mark’s identifying function is not at stake. Depending on the circumstances, however, the mark’s ability to communicate with consumers may well be affected. For one thing, it is quite conceivable that the volleyball tournament benefits from the goodwill of the energy drink brand. If that were the case, then part of the communicative stream that runs from the manufacturer of the energy drinks to its consumers would be redirected to the promoter of the volleyball tournament. Hence, there would be an “association,” as the GTA calls it,⁸⁸ or confusion in the wider sense. The mark’s communication function would suffer. Moreover, since communication is a bi-directional process, the way in which the promoter of the sports event organizes the tournament might have repercussions on the feelings and expectations that consumers have towards the energy drink. If, for example, the energy drink were known for high quality and a refreshing effect on athletes, and the teams participating in the tournament turned out to be mediocre, consumers would be faced with incongruous messages. The presence of conflicting

88. See GTA, § 14(2)(2), *supra* note 12, at 612.

messages might impede the trademark's ability to convince consumers to purchase the energy drink.

Against the background of this discussion, it appears that the various instances of confusion that courts have recognized in their case law neatly fit into the two categories developed above: confusion in the narrower sense and confusion in the wider sense. In those cases in which courts are worried that consumers might be unable to identify a product by its trademark, it is the product-identifying function that is at stake. In our terminology, there is a risk of confusion in the narrower sense. Those cases, however, where courts have found a likelihood of confusion as to source, or, more recently, as to affiliation, endorsement and sponsorship, all involve some kind of confusion in the wider sense. In these cases, the mark's ability to communicate is what threatens to be impaired. The fact that courts found it necessary over time to expand the concept of "source" seems to show that they are becoming increasingly aware of the fact that trademarks serve as means of communication, and that, as a matter of policy, the communication function ought to be protected.

EC and German trademark law hint that the likelihood of confusion test does more than merely prevent confusion in the narrower sense. Section 14 of the GTA,⁸⁹ following Article 5(1)(b) of the Trademark Directive, states that the concept of "likelihood of confusion" goes beyond those cases in which there is a likelihood of confusion in the narrower sense by providing that the likelihood of confusion "includes the likelihood of association."⁹⁰ This concept is similar to confusion in the wider sense.⁹¹

89. See GTA, § 14 (2)(2), *supra* note 12, at 612.

90. *Id.*

91. This formulation gave rise to a great deal of confusion in Germany since it was recognized early on that the concept of "confusion," when interpreted literally, is narrower than the concept of "association." Accordingly, the question was raised of how the likelihood of confusion could ever include the likelihood of association. The courts' position in that debate was that association without confusion is impossible. Scholars were divided. See Sack, *supra* note 57, at 664. On the basis of the legislative materials Sack argues for a wide understanding of the concept of "confusion." See also FEZER, *supra* note 7, § 14, paras. 83-84 (reaching the same conclusion by arguing that the concept of

Finally, the distinction between confusion in the narrower sense and confusion in the wider sense is also helpful in explaining why strong marks are often afforded a greater degree of protection than weak ones.⁹² At first glance, this unwritten rule looks like a paradox, since intuitively we might think that the risk of confusion should be lower, not higher, the more distinctive and famous a mark is. In light of the functional approach, however, this is not a paradox at all. On the one hand, more distinctive marks are generally less likely to be subject to confusion in the narrower sense. A person leaving a bar at curfew is less likely to mistake his hat for a hat belonging to somebody else when that hat is highly distinctive. On the other hand, the risk of confusion in the wider sense is greater in the case of strong marks than in the case of weak marks, since this kind of confusion does not require that consumers err about the identity of the trademarked products. It is enough if they attribute some of the information that is communicated by the mark to products sold under the infringing sign. Obviously, the stronger a mark, the more information the public associates with it, and the greater therefore the risk that when somebody else uses the same mark, consumers will mistakenly attribute some of the information to the infringing sign.⁹³

In sum, the likelihood of confusion test and the way in which it is interpreted by the courts is consistent with the functional approach. Moreover, the scope that courts give to the concept of “confusion” shows that they recognize that trademarks not only identify products but that they also communicate with consumers.

“confusion” is a term of art the scope of which is not necessarily identical with the usual meaning of the term “confusion”).

92. See, e.g., *Kenner Parker Toys, Inc. v. Rose Art Indus., Inc.*, 963 F.2d 350 *cert. denied*, 506 U.S. 862 (1992); see also FEZER, *supra* note 7, § 14, paras. 271-274.

93. See Moskin, *supra* note 3, at 135 (quoting some empirical research in support of the proposition that the more products a mark is used on, the more difficult it is for consumers to make the correct association, but emphasizing that more such proof will be required before the dilution doctrine may be applied “with greater confidence”).

3. Dilution

The dilution doctrine, the principal focus of this Article, is clearly the most far-reaching prong of the infringement test and at the same time, the most recent addition to it.⁹⁴ The first part of the ensuing discussion will explore the history of the dilution doctrine. The second part will compare the differences in the dilution doctrines of the United States, the EC and Germany.

a. History of the Dilution Doctrine

The term “dilution” goes back to an article that Frank Schechter wrote for the Harvard Law Review in 1927.⁹⁵ Schechter in turn borrowed the term from German courts, which, at the time he wrote his article, afforded trademark owners protection against “Verwässerung” (“dilution”) of their marks.⁹⁶ When Schechter wrote his article, the German dilution doctrine was already well in place, and it is interesting to see both how it had developed up to then and how it developed in subsequent years.⁹⁷ Initially, the Supreme Court of the German Empire granted anti-dilution protection

94. The FTDA, which codified the dilution doctrine at the federal level, was enacted in 1996. *See* Federal Trademark Dilution Act, 15 U.S.C. § 1125 (1994 & Supp. 1998). The EC was a few steps ahead. In 1994, it adopted the Trademark Regulation, which provides anti-dilution protection for Community trademarks. *See* Trademark Regulation No. 40/94, O.J. L 11/1 (1994). The Trademark Directive of 1989, in article 5(2) contains a model anti-dilution provision as well. Unlike most of the directive’s provisions, however, article 5(2) is optional: the Member States of the EC may (but need not) adopt it in their national laws. Germany implemented the Trademark Directive in 1994 by adopting the GTA. *See* Trademark Directive No. 89/104, art. 5(2), O.J. L 40/1, at 4 (1989).

95. *See* Schechter, *supra* note 4, at 832; *see also* 4 MCCARTHY, *supra* note 7, § 24:66.

96. *See* Schechter, *supra* note 4, at 832 (quoting a decision by a German federal court, which held that “complainant has ‘the utmost interest in seeing that its mark is not diluted [verwässert]: it would lose in selling power if everyone used it as the designation of his goods’”).

97. *See* Michael Lehman, *Die wettbewerbswidrige Ausnutzung und Beeinträchtigung des guten Rufs bekannter Marken, Namen und Herkunftsangaben [The Unfair Exploitation and Tarnishment of Famous Marks, Names and Signs of Origin]*, GRUR INT. 1986, 6, 8 (discussing in more detail the development of the German dilution doctrine); *see also* FEZER, *supra* note 7, § 14, paras. 410-412; Baumbach & Hefermehl, WARENZEICHENGESETZ, § 31, paras. 190 et seq.

on the basis of section 1 of the German Unfair Competition Act (“UCA”).⁹⁸ Section 1 of the UCA prohibits actions in the context of business dealings that are taken for competitive purposes and that violate public morals.⁹⁹ It is generally accepted that this provision makes exploiting the reputation of a competitor’s trademark illegal.¹⁰⁰ For the prohibition to apply, however, the trademark owner has to show that the infringer acts “for purposes of competition.”¹⁰¹ For a long time, courts interpreted that proviso as demanding that the products made by the trademark owner and those made by the infringer would be substitutable.¹⁰² As a result, the scope of section 1 of the UCA was de facto limited to cases where the infringer made products that were in direct competition with those manufactured by the trademark owner. This meant that no relief was available in those circumstances in which the likelihood of confusion test did not operate, and in which section 1 of the UCA would thus have made most of a difference. Later on, courts based similar decisions on section 823 in connection with section 1004 of the German Civil Code (“GCC”).¹⁰³ These provisions are general tort law and are interpreted as protecting a businessperson’s right to his business. Unlike section 1 of the UCA, they do not require a competitive relationship. Such was basically the state of German anti-dilution law as it stood when Schechter wrote his article. In subsequent years, the German Supreme Court relaxed the substitutability test it had applied under section 1 of the UCA.¹⁰⁴ It is now enough if the infringer asserts that his products are equal to those of the trademark owner and thereby seeks to exploit the reputation of the latter’s mark for its own advantage, irre-

98. See, e.g., RGZ 170, 137; see also German Unfair Competition Act, V.7.6.1909 (RGBL.I S.499) BGBl. III 4 No. 43-1 [hereinafter UCA].

99. See UCA, *supra* note 98, at § 1, at 499.

100. See RGZ 170, 137 (as an early example of an anti-dilution decision based on section 1 of the UCA); see also GRUR 1959, 25; BGHZ 86, 90; BGHZ 91, 465; BGHZ 91, 609; BGHZ 93, 96; GRUR 1987, 711 (for more recent examples).

101. UCA, *supra* note 98, §1, at 499.

102. See, e.g., GRUR 1959, 25.

103. See §§ 823 and 1004 Nr. 1 BGB.

104. See BGHZ 86, 90; BGHZ 93, 96; GRUR 1987, 711.

spective of whether the two products are in competition with each other.¹⁰⁵ This change in case law made it easier for trademark owners to bring dilution claims on the basis of section 1 of the UCA. Following the enactment of the GTA in 1994, which contains an express anti-dilution provision, however, the importance of section 1 of the UCA, as well as of section 823 in connection with section 1004 of the GCC are expected to decline.¹⁰⁶

In the United States, seventy years passed before Schechter's proposal to protect trademarks against dilution materialized at the federal level in the FTDA, in a somewhat modified and restricted form.¹⁰⁷ The FTDA modifies the 1946 original version of the Lanham Act, which did not afford trademarks protection against dilution. Prior to the FTDA, several attempts to incorporate a dilution clause into the Lanham Act were made, but had failed.¹⁰⁸ As early as 1947, however, states began to adopt their own anti-dilution statutes.¹⁰⁹

In its post-FTDA version, section 43(c)(1) of the Lanham Act provides that "[t]he owner of a famous mark shall be entitled . . . to an injunction against another person's commercial use in com-

105. See, e.g., BGHZ 86, 90, (95).

106. See FEZER, *supra* note 7, § 14, para. 441; see also GRUR 1994, 495; GRUR 1995, 57 (providing examples of cases in which courts based their decisions on section 14 of the GTA).

107. See 15 U.S.C. §§ 1125(c), 1127 (1994 & Supp. 1998).

108. The last attempt to amend the Lanham Act, prior to the adoption of the FTDA in 1995, was made as part of the Trademark Law Revision Act of 1988. See H.R. 5372, 100th Cong. (1988). See generally Jerome Gilson, *Dilution Law: At a Crossroads? A Federal Dilution Statute? Is It Time?*, 83 TRADEMARK REP. 107, 114 (1993) (describing the path the dilution doctrine took into the FTDA and explaining that the reason why it did not make it into the Act was not because it was controversial but "for political, horse-trading reasons").

109. The first state anti-dilution statute was adopted in Massachusetts. See 1947 Mass. Acts 300, *repealed by* 1973 Mass. Acts, ch. 897 § 2, replaced by 1975 Mass. Gen. Laws, ch. 110B § 12. The FTDA does not preempt state anti-dilution statutes. See H.R. Rep. No. 104-374, at 4 (1995). It provides, however, that federal registration of a trademark "shall be a complete bar to an action . . . that is brought . . . under the common law or a statute of a State and that seeks to prevent dilution of the distinctiveness of a mark, label, or form of advertisement." Lanham Act § 43(c), 15 U.S.C. § 1125(c)(3). See 4 MCCARTHY, *supra* note 7, §§ 24:77-24:82 (reviewing the state anti-dilution statutes).

merce of a mark . . . if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark.”¹¹⁰ Section 45 of the Lanham Act defines the term “dilution” as “the lessening of the capacity of a famous mark to identify and distinguish goods, regardless of the presence or absence of competition between the owner of the famous mark and other parties, or likelihood of confusion, mistake, or deception.”¹¹¹ Among the factors that the law considers relevant to the inquiry into whether a mark is famous or not are “the degree of inherent or acquired distinctiveness of the mark” and “the duration and extent of advertising and publicity of the mark.”¹¹²

In contrast to section 45 of the Lanham Act,¹¹³ section 14(2)(3) of the GTA does not mention the term “dilution.”¹¹⁴ In substance, however, it is clear that the entitlements that it affords trademark owners are aimed at protecting them against dilution.¹¹⁵ The provisions of the Trademark Directive¹¹⁶ and the Trademark Regulation¹¹⁷ are virtually identical to those contained in the GTA.

b. Comparing US, EC and German Dilution Doctrines

While all three jurisdictions contain provisions that are aimed at preventing dilution, they sound quite different. Section 43(c) of the Lanham Act applies to “famous” marks.¹¹⁸ Article 5(2) of the

110. 15 U.S.C. § 1125(c)(1) (1994 & Supp. 1998).

111. 15 U.S.C. § 1127 (1994 & Supp. 1998).

112. *See* WAWA, Inc. v. Haaf, 40 U.S.P.Q.2d 1629 (E.D. Pa. 1996), *aff'd* without op., 116 F.3d 471 (3d Cir. 1997); *Panavision Int'l L.P. v. Toepfen*, 945 F. Supp. 1296 (C.D. Cal. 1996) (examining how a famous mark is advertised).

113. *See* 15 U.S.C. § 1127 (1994 & Supp. 1998).

114. *See* GTA, *supra* note 12, § 14(2)(3), at 612.

115. *See id.* (seeking “to prevent all third parties . . . from using in the course of trade any sign which is identical with, or similar to, the trademark in relation to goods or services which are not similar to those for which the trademark is registered, where the latter has a domestic reputation and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trademark”).

116. *See* Trademark Directive No. 89/104, art. 5(2), O.J. L 40/1, at 4 (1989).

117. *See* Trademark Regulation No. 40/94, art. 9, O.J. L 11/1, at 5 (1994).

118. *See* 15 U.S.C. § 1125(c) (1994 & Supp. 1998).

Trademark Directive requires that a mark, in order to be eligible for protection, have a “domestic reputation.”¹¹⁹ This difference in language should not be overestimated, however, since section 14(2)(3) of the GTA,¹²⁰ which implements the Trademark Directive, speaks of famous marks.¹²¹ In substance, the dilution doctrine is therefore restricted to famous marks.

But what makes a mark famous? In answering this question, one should bear in mind that the concept of “fame” is a term of art. Accordingly, it derives its scope from the law. Section 43(c) of the Lanham Act provides a list of factors that courts are required to take into account in deciding whether a mark is famous.¹²² Interestingly, the provision speaks of factors that determine whether a mark is “*distinctive* and famous”, which suggests that the fame of a mark is linked to its distinctiveness.¹²³ The exact nature of that link, however, is problematic. In the view of a well-known commentator, the Act’s dual mentioning of the words “distinctive” and “famous” reflects a drafting error, which should simply be ignored.¹²⁴ He argues that since the FTDA mentions the terms “dis-

119. Trademark Directive No. 89/104, art. 5(2), O.J. L 40/1, at 4 (1989).

120. See GTA, *supra* note 12, § 14(2)(3), at 612.

121. See *id.*

122. 15 U.S.C. § 1125(c) (1994 & Supp. 1998).

In determining whether a mark is distinctive and famous, a court may consider factors such as, but not limited to: (A) the degree of inherent or acquired distinctiveness of the mark; (B) the duration and extent of use of the mark in connection with the goods or services with which the mark is used; (C) the duration and extent of advertising and publicity of the mark; (D) the geographical extent of the trading area in which the mark is used; (E) the channels of trade for the goods and services for which the mark is used; (F) the degree of recognition of the mark in the trading areas and channels of trade used by the marks’ owner and the person against whom the injunction is sought; (G) the nature and extent of use of the same or similar marks by third parties; and (H) whether the mark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register.

Id.

123. 15 U.S.C. § 1125(c) (emphasis added); see also *Mead Data Cent., Inc. v. Toyota Motor Sales, Inc.*, 875 F.2d 1026, 1032 (2d Cir. 1989) (Sweet, J., concurring) (noting, long before the FTDA was enacted, that “an extremely strong mark” is one that is “truly of distinctive quality”).

124. See 4 MCCARTHY, *supra* note 7, § 24:91 (McCarthy derives his conclusion from the fact that the term “distinctive” was first mentioned in the 1987 Trademark Re-

inctiveness” and “fame” in one breath, it regards them as synonyms.¹²⁵ Moreover, according to that commentator, the requirement of “distinctiveness” is redundant since, in order to be eligible for protection, trademarks have to be distinctive anyway (either inherently so or through acquisition of secondary meaning).¹²⁶

Closer examination reveals, however, that the concept of “distinctiveness,” far from being redundant, may actually lie at the heart of the dilution doctrine. Section 43(c) of the Lanham Act not only mentions the term “distinctive” when it introduces the list of relevant factors, it also states that one such factor is “the degree of inherent or acquired distinctiveness of the mark.”¹²⁷ Indeed, the degree of distinctiveness is the first factor that is listed, which suggests that the drafters of the FTDA considered it especially relevant to the question of whether a mark is famous or not.¹²⁸ Moreover, implicit in section 43(c) of the Lanham Act is the assumption that the distinctiveness of a mark is variable.¹²⁹ The fact, therefore, that every trademark has to be distinctive to a certain extent in order to qualify for protection does not preclude that some marks are more distinctive than others and that the more distinctive ones may

view Commission Report, which reflected the goal that dilution protection should be confined to marks “which are both distinctive, as established by federal registration at a minimum, and famous, as established by separate evidence.”). *See also* Report of the Trademark Review Commission, 77 TRADEMARK REP. 375, 459 (1987). According to McCarthy, however, when Congress amended the proposal and dropped the requirement of federal registration in 1995, it failed to drop the term “distinctive.” *See* 4 MCCARTHY, *supra* note 7, § 24:91.

125. *See* 4 MCCARTHY, *supra* note 7, § 24:91.

126. *See* 4 MCCARTHY, *supra* note 7, §§ 24:91-92. *But see* Clinique Lab. v. Dep Corp., 945 F. Supp. 547, 551 (S.D.N.Y. 1996) (equating distinctiveness (in this case arbitrariness) and fame. “Both the CLINIQUE and CLINIQUE & C marks are arbitrary designations that provide no description of the products to which each relate. Clinique’s marks are therefore strong.”).

127. 15 U.S.C. § 1125(c) (1994 & Supp. 1998).

128. *But see* 4 MCCARTHY, *supra* note 7, § 24:92 (arguing that, on the basis of existing state anti-dilution laws, the term “degree of ‘distinctiveness’ here is used only as a synonym for the degree of ‘fame’ needed for the mark to qualify for the special protections of section 43(c)”).

129. 15 U.S.C. § 1125(c) (1994 & Supp. 1998).

merit a higher degree of protection.¹³⁰

That the concept of “distinctiveness” is in fact key to understanding the dilution doctrine becomes clear when we take a closer look at the harm which the dilution doctrine seeks to prevent. Section 45 of the Lanham Act prohibits the “dilution of the *distinctive* quality of the mark,” and defines dilution as “the lessening of the capacity of a famous mark to identify and distinguish goods.”¹³¹ The distinctiveness of the famous mark is thus the object of protection. Similarly, section 14(2)(3) of the GTA forbids any use of a sign that “takes unfair advantage of, or is detrimental to, the *distinctive* character or the repute of the trademark.”¹³² It appears, therefore, that the reduction of the distinctive quality of a famous trademark is a core case of dilution, both under the Lanham Act and for purposes of the GTA. But we also see that while the Lanham Act restricts the scope of the doctrine to this case, the GTA goes further. It prohibits not only the *reduction* of the distinctive character of a famous mark but also its *exploitation*.¹³³ A utilitarian explanation of the dilution doctrine based on the functional approach addresses why the law prohibits this reduction and exploitation.

c. Dilution from a Utilitarian Perspective

As famous marks are usually much more distinctive than ordinary marks (simply because the more well-known a mark is, the more it stands out of the anonymity of the market), the risk that their product-identifying function might be impaired is virtually non-existent. Presumably, therefore, this function does not provide a promising starting point for explaining why famous marks should

130. See *I.P. Lund Trading ApS v. Kohler Co.*, 163 F.3d 27, 33 (1st Cir. 1998) (noting that “[u]nder the FTDA, . . . a party who wishes to establish fame of the trade dress for which protection is sought bears a significantly greater burden than the burden of establishing distinctiveness for infringement purposes”).

131. 15 U.S.C. § 1127 (1994 & Supp. 1998) (emphasis added).

132. GTA, *supra* note 12, § 14(2)(3), at 612 (emphasis added).

133. See GTA, *supra* note 12, § 15(3), at 613.

be afforded legal protection against dilution.¹³⁴

Different considerations, however, apply with respect to the communication function. On the one hand, famous marks are exposed to the usual risk of confusion in the wider sense (as to source, affiliation, endorsement or sponsorship).¹³⁵ These risks are adequately handled by the likelihood of confusion test, and there is no need to protect them against dilution. On the other hand, however, the communication function of famous marks holds itself open to a further point of attack – one that the concept of confusion does not capture. Marks that are well-known, unique and distinctive are in a far better position to catch the attention of consumers than ordinary signs.¹³⁶ This ability to arouse attention is independent of the marks' reputation. To illustrate this point, consider a hypothetical case where a company decided to produce lipsticks and sell them under the name "Audi." Let us further assume, in accordance with the relevant tests, that there is no risk of confusion – neither in the narrower nor in the wider sense—simply because it seems unlikely that a consumer of average sophistication seeing the "Audi" lipstick would assume that they are connected with the

134. I will not attempt to explain the dilution doctrine on the basis of the product-identifying function. It should be noted, however, that such an explanation might well be possible in light of cases that suggest that in certain circumstances, the use of a famous mark by a third party may destroy its ability to identify. Such is the case, for example, of Internet domain names, which used to be issued on a first-come, first-served basis. *See, e.g., Panavision Int'l*, 945 F. Supp. at 1304 (noting that "[a]s a result of the current state of Internet technology, Toeppen was able not merely 'to lessen[] the capacity of a famous mark to identify and distinguish goods or services,' 15 U.S.C. § 1127, but to eliminate the capacity of the Panavision marks to identify and distinguish Panavision's goods and services on the Internet").

135. *See* discussion *supra* Part I.B.2 (recognizing that courts view this risk as greater for famous marks than for ordinary marks. There is a sliding scale on which strong marks receive more protection than weak ones, and famous marks lie on the top end of that scale.).

136. In my opinion, this is what Schechter had in mind when he said that "the more distinctive the mark, the more effective is its selling power." *See* Schechter, *supra* note 4, at 819. Schechter's use of the word "selling power" has often been misunderstood as a synonym for "goodwill." Arguably, however, given the context in which he made that statement, it seems as if what Schechter really meant was not a mark's goodwill but its ability to attract attention among consumers.

“Audi” car company. The lipstick manufacturer could therefore not create and benefit from the belief that its products are somehow affiliated with the car company (whatever benefits this might entail). Moreover, the mark “Audi” has no intrinsic reputation,¹³⁷ and so the lipstick producer could not capitalize on that either. Nevertheless, its decision to use the mark “Audi” instead of creating one of its own might be advantageous. The attention of the average consumer is more likely to be caught by a famous mark such as “Audi” than by a commonplace sign. In taking advantage of this fact, the lipstick producer would *exploit* the distinctiveness of that mark. At the same time, as a result of the fact that the same mark would now be used by two companies, the uniqueness of the mark would be *reduced*.

The question is whether the law should protect the ability of famous marks to arouse attention. I argue that it should, and not just because it is unfair to take what belongs to someone else, but also for utilitarian reasons. When a mark is famous, this usually means that the products in connection with which it is used enjoy widespread popularity among consumers.¹³⁸ Hence, one might, in order to induce manufacturers to make such popular products, give them the carrot of anti-dilution protection. There is no danger of overprotection since the dilution doctrine does not kick in until after a mark has become famous. No manufacturer can therefore claim the benefits of the dilution doctrine before its products and the mark under which it holds them out in commerce have achieved the requisite popularity. This constitutes a significance difference to copyright law, which is based on a similar idea but which is far more generous. Copyright law does not demand that a work of art have an artistic value in order to be protected.¹³⁹ The

137. See discussion *supra* Part II.A.3.

138. See *Sykes Lab., Inc. v. Calvin*, 610 F. Supp. 849, 858 (C.D. Cal. 1985) (“The dilution doctrine is only available to protective distinctive marks as exemplified by such famous names as ‘Tiffany,’ ‘Polaroid,’ ‘Rolls Royce,’ and ‘Kodak’”).

139. 17 U.S.C. § 102 (“Copyright protection subsists, in accordance with this title, in *original* works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device”) (emphasis added); Feist

extremely diminished originality standard in copyright law¹⁴⁰ presents a much lower hurdle than the “fame” requirement of the dilution doctrine.¹⁴¹

The incentive-based argument is particularly apt to justify the distinctiveness prong of the dilution doctrine, that is, those cases in which the infringer either reduces or exploits the distinctive character of a famous mark (as opposed to its reputation). Courts and commentators traditionally refer to this kind of dilution as “dilution by blurring.”¹⁴² The FTDA itself does not use the term “blurring.”¹⁴³ The legislative materials that led to its adoption, however, leave no doubt that Congress intended the Act “to encompass all forms of dilution recognized by the courts, including dilution by blurring”¹⁴⁴ German scholars refer to the phenomenon as “Verwässerung” (dilution) of a mark.¹⁴⁵ The impairment of a mark’s distinctiveness is also what Schechter appears to have understood by “dilution.”¹⁴⁶

Pub., Inc. v. Rural Telephone Service Co. Inc., 499 U.S. 340 (1991) (stating that “the constitutional requirement necessitates independent creation plus a modicum of creativity”); *see also* Lee v. A.R.T. Co., 125 F.3d 580 (1997).

140. *See id.*

141. 15 U.S.C. § 1125(c) (listing factors to determine a mark’s distinctiveness & fame); *see also infra* text accompanying note 127; McCarthy, *supra* note 7, § 24:91-92.

142. The term “blurring” appears to have its roots in state anti-dilution statutes and the case law of state courts, which afforded trademark owners protection against dilution. The ways in which the concept of “dilution by blurring” is defined varies. *See, e.g.,* Deere & Co. v. MTD Prods., 41 F.3d 39, 43 (2d Cir. 1994) (requiring that “defendant use[] or modify[] the plaintiff’s trademark to identify the defendant’s goods and services, raising the possibility that the mark will lose its ability to serve as a unique identifier of the plaintiff’s product” (emphasis in original) (internal footnote omitted)).

143. Section 45 of the Lanham Act merely speaks of the “dilution of the distinctive quality of the mark.” *See* 15 U.S.C. § 1127 (1994 & Supp. 1998).

144. H.R. 374, 104th Cong. (1st Sess. 1995). Cases in which courts have applied the concept of “blurring” after the FTDA was enacted include: *Intermatic Inc. v. Toepen*, 947 F. Supp. 1227 (N.D. Ill. 1996); *Panavision Int’l*, 945 F. Supp. at 1296; *Clinique Lab. v. Dep Corp.*, 945 F. Supp. 547, (S.D.N.Y. 1996).

145. *See Fezer, supra* note 7, § 14, para. 427.

146. The author’s original definition sounds a little bit different. *See Schechter, supra* note 4, at 825 (defining dilution as “the gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use upon non-competing goods”). Section 45 of the Federal Trade Dissolution Act is more concise,

The other prong of the dilution doctrine, which seeks to protect a famous mark's reputation, is dilution by tarnishment, or "Ru-fausbeutung," as German courts and scholars call it.¹⁴⁷ Again, the FTDA itself does not use that term but the legislative materials make it clear that tarnishing behavior falls within the scope of the Act.¹⁴⁸ Dilution by tarnishment is claimed (and often found) in cases where a sign that looks similar to a famous mark is used in a context that is unfavorable to that mark.¹⁴⁹ One way of justifying the tarnishment doctrine is with the utilitarian approach, which argues that affording the owners of famous marks protection against tarnishment, which is an entitlement that is not available to the owners of ordinary marks, gives manufacturers an extra incentive to make their products popular and their trademarks famous.¹⁵⁰

For the many famous marks that have an "intrinsic reputation," however, the tarnishment doctrine may be justified on yet another ground. As we saw in our discussion of the functional approach, some famous marks have a reputation that is completely independent of the products in connection with which they are used. We called this reputation "intrinsic" because it is inseparably linked to the respective mark, following that mark everywhere, regardless of the associated product. Because the reputation of such marks is in-

defining the requisite behavior as the "dilution of the distinctive quality of the mark." See 15 U.S.C. § 1125 (c) (1994 & Supp. 1998). Nevertheless, the concept is blurred, and sometimes, courts go back to Schechter's formulation. See, e.g., *Panavision Int'l*, 945 F. Supp. at 1296.

147. See FEZER, *supra* note 7, § 14, paras. 425-26; see also GRUR 1983, 247; BGH 1985, 550 (for cases involving dilution by tarnishment).

148. See H.R. 374, 104th Cong. (1st Sess. 1995).

149. See *Hormel Foods Corp. v. Jim Henson Prods.*, 73 F.3d 497 (2d Cir. 1996) (dismissing plaintiff's claim that the use of its "SPAM" trademark for luncheon meats to identify a Muppets show character might create the image of evil in porcine form). Those cases in which courts have found dilution often involve vastly inferior products or sexual and otherwise obscene material. See, e.g., *Hasbro Inc. v. Internet Entertainment Group*, 40 U.S.P.Q.2d 1479 (W.D. Wash. 1996) (finding dilution of the mark "Candyland" by use of "candyland.com" as a domain name to identify a sexually explicit Internet site).

150. See generally, Simone A. Rose, *Will Atlas Shrug? Dilution Protection for "Famous" Trademarks: Anti-Competitive "Monopoly" or Earned "Property" Right?*, 47 FLA. L. REV. 653, 708-09 (1995).

trinsic and hence independent of the products and manufacturers to which they belong, third parties may exploit them even in cases where there is no likelihood of confusion in the narrower or in the wider sense.

The policy question that this raises is whether the law should prevent such parasitic behavior. If our ultimate aim is to reduce the problems of adverse selection and moral hazard, then we have to forbid the unauthorized use of marks that have an intrinsic reputation. To see why, consider the example of a manufacturer of climbing ropes who uses the “Mercedes” star to advertise its products. Even if consumers do not think that the ropes are affiliated with the car manufacturer – and given the remoteness of the products, there is no reason why they should – they might still be deceived. As the reputation of the mark “Mercedes” is intrinsic, consumers understand it as a sign of quality, irrespective of the context in which it is used. Hence, if the climbing ropes turned out to be of a vastly inferior quality, the effects on consumers would be disastrous – and not just in terms of safety. They would find themselves deceived by the mark, and the problems of moral hazard and adverse selection would blossom as if trademarks had never existed.

In summary, there appear to be two separate reasons to think favorably about the dilution doctrine. On the one hand, it affords manufacturers an extra incentive to provide consumers with satisfactory products. On the other hand, it complements the likelihood of confusion test for those marks that have an intrinsic reputation, thereby reducing the problems of adverse selection and moral hazard. As a result, it appears that the dilution doctrine is as consistent with the functional approach as the identity rule and the likelihood of confusion test. More importantly, all three prongs have the same rational basis.

II. DOMESTICATING THE DILUTION DOCTRINE

When the FTDA was enacted, the concern was raised that the entitlements that it affords trademark owners might be inconsistent with what used to be regarded as the rational basis of trademark

protection: the prevention of confusion among consumers.¹⁵¹ One reason why the dilution doctrine is sometimes perceived as inconsistent with traditional trademark policy appears to be that there is no consensus as to which economic functions trademarks perform and how the law should protect them. The other reason is an irrational tendency to be more critical of trademarks than of other kinds of intellectual property, resulting in suspicion when the law affords trademark owners new sets of entitlements, especially when they are as extensive as those contained in the FTDA.

A. *Do Trademarks Prevent Deceptive Conduct?*

One court observed that the central issue is “not whether people will confuse the marks but whether the marks will confuse people.”¹⁵² This view neatly summarizes what is sometimes called the “consumer protection model.”¹⁵³

1. The Consumer Protection Model

The problem with this model is that it attributes to the concept of “likelihood of confusion” a meaning that it does not have, and in doing so, it misperceives, in a fundamental way, the rational basis of trademark protection. It creates the impression that trademark law was primarily aimed at protecting consumers against deception by manufacturers.¹⁵⁴

151. See articles cited, *supra* note 3.

152. *In re West Point–Pepperell, Inc.*, 468 F.2d 200, 201 (C.C.P.A. 1972). See also Schechter, *supra* note 4, at 819 (noting that “[t]he protection of trademarks originated as a police measure to prevent ‘the grievous deceit of the people’ by the sale of defective goods”).

153. Harriette Dorsen, *Satiric Appropriation and the Law of Libel, Trademark, and Copyright: Remedies Without Wrongs*, 65 B.U. L. REV. 923, 940 (noting that “[t]he goal of the [Lanham Act] is not to protect the business enterprise’s trademark from encroachment, but to protect consumers from confusion as to goods and services by maintaining the distinctions and identifications of brand names” (internal footnotes omitted)); Klieger, *supra* note 3, at 866 (citing with approval John Wolff, *Non-Competing Goods in Trademark Law*, 37 COLUM. L. REV. 582, 584 (1937) (“[D]eception of the public is not merely a test of trademark infringement but is a ground for trademark protection and a basis for . . . relief”)) (emphasis in original).

154. The fact that § 43(a) of the Lanham Act prohibits the confusing use of trade-

If the main function of trademarks were to prevent the deception of consumers by manufacturers, the law would have to prevent third parties from using trademarks in ways that would create a likelihood of confusion (since conduct that causes confusion is deceptive). The dilution doctrine, however, which is not aimed at protecting consumers against deceptive conduct, would not be supported by this rationale.

The problem with the consumer protection model is that the assumptions upon which it is based are flawed. As discussed in Part I, the economic functions of trademarks are to reduce consumer search costs and to resolve the problems of adverse selection and moral hazard – not just to deter deceptive conduct.¹⁵⁵ Trademarks do deter deception (by ensuring that manufacturers cannot get away with selling consumers lemons over an extended period), but this is only one of several ways in which they mitigate the looming issues of adverse selection and moral hazard.

Moreover, several examples in currently applicable law refute the proposition that the driving force behind trademark law as it stands today is the prevention of deceit. One such example is the rule of absolute protection that the GTA provides for the identity case.¹⁵⁶ The GTA imposes a flat prohibition on the use of identical marks in connection with identical products, regardless of whether there exists a likelihood of confusion. Were the GTA only concerned with the prevention of confusion, there would be no need for the identity rule, simply because the likelihood of confusion is particularly high in the identity case. The fact that such a rule exists means that the GTA is not just concerned with deterring deceptive behavior but that it does more.

Furthermore, if the deterrence of deceptive behavior were a chief concern of trademark law, one would expect to find the law interlarded with quality control mechanisms. Currently, however,

marks and the “false or misleading description of fact, or false or misleading representation of fact” in one breath may have nourished this understanding. 15 U.S.C. § 1125(a) (1994 & Supp. 1998).

155. See discussion *supra* Part I.A.

156. See discussion *supra* Part I.B.1.

such mechanisms exist only in the area of licensing and assignment. When a trademark owner licenses its mark, courts require the licensor to ensure that the licensee keep up a uniform level of quality.¹⁵⁷ The anti-assignment in gross rule, which makes it illegal for trademark owners to assign their marks to a third party without also assigning the goodwill of its business, might equally be understood as a quality control provision. In all other cases, however, the trademark owner remains free to change its quality rules at any time without even notifying its customers in advance. In Germany, moreover, and to a certain extent in the EC generally, these rules have either been drastically restricted in scope or have been completely abandoned. Similar trends exist domestically.¹⁵⁸

Against this background, then, courts are accurate when they say that trademark law “serves to guarantee the quality of the trademarked product.”¹⁵⁹ Trademark law certainly guarantees uniform product quality in the sense that it creates a framework that induces manufacturers to make satisfactory products. But it does not impose an affirmative duty upon them to adopt a certain level of quality or even to keep that level up over time.¹⁶⁰

157. *See* *Taco Cabana Int’l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1121 (5th Cir. 1991), *cert. granted*, in part, 502 U.S. 1071 *aff’d*, 505 U.S. 763 (1992) (explaining that “[t]he purpose of the quality-control requirement is to prevent the public deception that would ensue from variant quality standards under the same mark or dress”).

158. *But see* Noah D. Genel, *Keep It Real: A Call For a Broader Quality Control Requirement in Trademark Law*, 8 FORDHAM INTELL. PROP., MEDIA & ENT. L.J. 269 (1997) (arguing that trademark law should be used to ensure that manufacturers maintain uniform product quality over time, on which consumers can rely).

159. *Original Appalachian Artworks*, 816 F.2d at 75 (Cardamone, J., concurring).

160. Incidentally, it should be noted that if trademark law were chiefly concerned with guaranteeing a certain level of quality, it would probably look very different from the currently applicable law. It might, for instance, treat trademarks as certificates. Under such a system, every manufacturer whose products comply with a predefined standard would be permitted to use a certain mark that would certify that its products conform to the standard. Consumer search costs would be even lower than they are under the current system, since consumers would have absolute certainty that all products offered under a particular mark share certain predefined characteristics. There would be no adverse selection problem since consumers could tell the products that comply with the standard from those that do not, and, as a result, there would be no moral hazard problem, either. If it turned out that such a system would be too complex to administer, we would at least expect to find manufacturers under a duty to maintain a uniform level of quality

A comparison with the law of unfair competition, in which trademark law has its roots, suggests that trademark law appears never to have been confined to the narrow task of deterring manufacturers from deceiving consumers.¹⁶¹ In both areas, it is said, the keystone of infringement is the concept of “likelihood of confusion.” It seems that what characterizes unfair behavior is that it usually deceives or confuses consumers.¹⁶² But that equation is by no means absolute. In some instances, courts have qualified behavior as unfair even though it did not cause the slightest confusion.¹⁶³ It seems, therefore, that conduct that gives rise to a likelihood of confusion is just one, albeit a prominent, example of unfair behavior. When one applies that insight to trademark law by assuming that “unfairness” is the unspoken normative yardstick and that confusion and deception are just legal shortcuts,¹⁶⁴ the dilution doctrine becomes less exotic. After all, few would deny that the exploitation of a famous mark’s ability to arouse attention or the

over time or to notify their customers of changes. Moreover, we might expect that third parties whose products are of exactly the same quality as those made by the trademark owner would be allowed to use the same mark. The fact that none of this is presently the case suggests that the rational basis of trademark protection, as it stands today, is not just to prevent deception.

161. See, e.g., *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 413 (1916) (noting that “the common law of trademarks is but a part of the broader law of unfair competition”); see also *Two Pesos*, 505 U.S. at 776 (Stevens, J. concurring) (providing an insightful description of how the two parts of the law developed in relation to each other). For Germany, see Supreme Court of the German Reich, RGZ 97, 90; RGZ 111, 192; RGZ 120, 330.

162. See 1 MCCARTHY, *supra* note 7, § 1:10 (listing, non-exhaustively, instances in which courts have found unfair competition. The list includes: trademark infringement, use of confusingly similar business names, simulation of trade dress, false representations and false advertising, palming off, sending bad faith cease and desist letters to plaintiff’s customers. As these examples suggest, unfair competition often involves deception and/or the creation of confusion among the relevant set of consumers.). See also *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 157 (1989) (noting that “[t]he law of unfair competition has its roots in the common-law tort of deceit: its general concern is with protecting consumers from confusion as to source”) (emphasis in original).

163. See 1 MCCARTHY, *supra* note 7, § 1:10.

164. Cf. S.46 Rep. No. 79-1333, at 4 (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274, 1275 (stating that “[u]nfair competition is the genus of which trade-mark infringement is one of the species; . . . All trade-mark cases are cases of unfair competition and involve the same legal wrong”).

appropriation of its intrinsic repute is not in some sense unfair.

That notions of “fairness” play an important role in trademark law is further suggested by the fact that EC trademark law and the GTA both define the requisite behavior that leads to “dilution” as the use of a mark that “takes *unfair* advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.”¹⁶⁵

In summary, therefore, it appears that even in the absence of the dilution doctrine, trademark law would do more than merely deter manufacturers from deceiving consumers. Trademark law protects all the various functions that trademarks fulfill. As a result, the fact that the dilution doctrine has nothing to do with the prevention of deceit does not as such make it incompatible with the rationale upon which trademark law has always been based.

2. The Source Theory

Courts often assume, without much discussion, that the primary economic function of trademarks is to identify the source of a product.¹⁶⁶ This view is shared by many commentators,¹⁶⁷ and is compatible with the statutory language on both sides of the Atlantic. The Lanham Act, for example, defines a trademark as “any word, name, symbol, or device . . . used by a person . . . to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.”¹⁶⁸ The GTA and rele-

165. GTA, § 14(2)(3), *supra* note 12, at 612 (emphasis added); Trademark Directive No. 89/104, art. 5(2), O.J. L 40/1, at 4 (1989); Trademark Regulation No. 40/94, art. 9(1)(c), O.J. L 11/1, at 5 (1994).

166. *See, e.g., I.P. Lund Trading ApS*, 163 F.3d at 35 (noting that “[a] primary purpose of trade dress or trademark protection is to protect that which identifies a product’s source”).

167. *See, e.g., 1 MCCARTHY*, *supra* note 7, §3:9 n.4 (stating that “there is no doubt that identification of source remains one of the primary functions of trademarks.”); *see also* Sean K. Murphy, *When “March Madness” Came Back to Chicago*, 1998 WIS. L. REV. 1337, 1340 (1998) (“The primary function of a trademark is to identify goods and services with a particular source”).

168. 15 U.S.C. § 1127.

vant EC legislation contain similar sounding provisions.¹⁶⁹

If the unambiguous identification of source were an end in itself, it would not be necessary, nor even desirable, to protect trademarks against dilution. It is relatively plain to see how an overemphasis of the source-identifying function might make one skeptical of the dilution doctrine.

But to dogmatize the source-identifying function would mean to do the exact opposite of what Cohen advocated in his article on the functional approach.¹⁷⁰ The economic functions that trademarks perform can only be identified by examining what they do. And as we have seen in Part I, trademarks appear to do more than just identify the source of the products to which they are affixed. They are full-fledged means of communication, and in the same sense as they convey information relating to source, they disseminate other kinds of information.

B. *Trademarks and Intellectual Property Theory*

Trademarks do not neatly fit into the scheme of intellectual property theory as it applies to patent and copyright law. This difficulty might account for some of the criticism that the dilution doctrine has faced.

Modern economies, such as those of the US and the EC, are often mixed in the sense that they combine a free market with a certain amount of state intervention. The assumption is that while the free interplay of supply and demand will by and large lead to an efficient, and presumably, desirable allocation of resources, it may at times be necessary for the state to step in, either to remedy market failures or to promote non-economic values that the market mechanism itself neglects. Intellectual property laws interfere with

169. See GTA, § 3, *supra* note 12, at 607; Trademark Directive No. 89/104, art. 2, O.J. L 40/1, at 2 (1989); Trademark Regulation No. 40/94, art. 4, O.J. L 11/1, at 3 (1994). *But see* the Preamble of the Trademark Directive, which notes that the source-identifying function is only one of the functions served by trademarks (noting that trademarks serve “in particular” to identify the source of products).

170. See Cohen, *supra* note 8, at 821.

the idea of a free market by affording their beneficiaries the right to prevent (or at least to restrict) third parties from using their respective subject-matter: patented inventions, copyrighted works of art, and trademarks. As such, they are at odds with the ideal of a marketplace in which intellectual resources are free and businesses compete for their most efficient usage.¹⁷¹ Therefore, intellectual property laws are generally thought to require a special justification. Among the many ways in which such laws may be justified, two main types of theories may be distinguished. One is the “just-desert” theory, which is based on the notion that there exist non-economic values that demand that intellectual creations be afforded protection. The other type is the “utilitarian theory,” which essentially argues that in the absence of legal protection, the market itself would fail to induce the creation of a sufficient amount of intellectual products.

The just-desert theory comes in a variety of forms.¹⁷² Its basic idea is that as a matter of fairness, those who create something that benefits society should receive a reward for their efforts.¹⁷³ For patent and copyright law, it thus offers an intriguing justification. The notion of “just desert” is so deeply rooted in the values of our society that, regardless of whatever utilitarian reasons there may be to afford creators exclusive rights in what they devise — reasons that are completely independent of any moral considerations — it is

171. See *International News Serv. v. Associated Press*, 248 U.S. 215, 250 (1918) (Brandeis, J., dissenting) (noting that “[t]he general rule of law is, that the noblest of human productions — knowledge, truths ascertained, conceptions, and ideas — become, after voluntary communication to others, free as the air to common use”); see also *American Safety Table Co. v. Schreiber*, 269 F.2d 255, 272 (2d Cir. 1959) (observing that “imitation is the life blood of competition”).

172. See Wendy Gordon, *On Owning Information: Intellectual Property and the Restitutory Impulse*, 78 VA. L. REV. 149 (1992); Justin Hughes, *The Philosophy of Intellectual Property*, 77 GEO. L.J. 287 (1988). The “just-desert” theory is often based on the Locke’s theory of property. See John Locke, *TWO TREATISES OF GOVERNMENT* (Peter Laslett ed., Cambridge University Press 1960).

173. See Port, *supra* note 3, at 473 (providing a concise summary of Locke’s just-desert theory, and noting that “the normative aspect of Locke’s theory is that property should be granted to the one who exerted labor upon the thing and to reward that person, thereby encouraging work and disclosure so that all can put the idea to use”).

hard to deny that it acts at least as a catalyst to how we think about patent and copyright law.¹⁷⁴ Trademarks are much harder to explain on just-desert notions since anyone can come up with a trademark and use it in commerce (provided that he or she is able to run a business).¹⁷⁵ As a result, trademarks do not benefit from our goodwill, at least not to the same extent as patents and copyrights. Nevertheless, there have been attempts to fit them into the tight corset of “just-desert.”¹⁷⁶ Not surprisingly, these attempts yield artificial results. This might explain why some courts and commentators are intuitively more skeptical of the dilution doctrine than of comparable extensions of patent or copyright law (such as the fourteen year-term for design patents).¹⁷⁷

The other main branch of intellectual property theory is the utilitarian theory. This theory is less moralistic, and presumably,

174. See, e.g., *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979) (intermingling just-desert considerations with other theories: “First, patent law seeks to foster and reward invention . . .” (emphasis added)).

175. See Port, *supra* note 3, at 487 (noting that the just-desert theory is particularly unsuitable to justify the dilution doctrine since the trademark owner “has not exerted any work upon the mark as used on non-competing and non-confusing goods or services”).

176. See, e.g., Case C-10/89, *HAG II* 1990 E.C.R. at I-3732, para. 18 (observing that, in Europe, “[w]hereas patents reward the creativity of the inventor . . ., trade marks reward the manufacturer who consistently produces high-quality goods and they thus stimulate economic progress”). Yet, the kind of “reward” that a trademark provides is very different from the reward that a patent or a copyright confers. The former is a reward for making products of satisfactory quality whereas the latter rewards time, effort and ingenuity spent by an individual for the benefit of the public at large. See also Moskin, *supra* note 3, at 130 (noting that there is “something fundamentally unfair about the defendant’s unauthorized use of plaintiff’s famous brand name” without, however, being able to express the unfair quality of the evil behavior in words).

177. See, e.g., Case 40/70, *Sirena v. EDA* 1971 E.C.R. 69, 87 (noting that “[b]oth from the economic and from the human point of view the interests protected by patent legislation merit greater respect than those protected by trade-marks From the human point of view, the debt which society owes to the ‘inventor’ of the name ‘Prep Good Morning,’ [a brand of shaving cream,] is certainly not of the same nature, to say the least, as that which humanity owes to the discoverer of penicillin.”) (Opinion of Advocate General Dutheillet de Lamothe). The European Court echoed the Advocate General’s argument in its decision: “[A] trade-mark right is distinguishable . . . from other rights of industrial and commercial property, inasmuch as the interests protected by the latter are usually more important, and merit a higher degree of protection, than the interests protected by an ordinary trademark.” *Id.* at 82.

therefore, less subjective. Phrased in utilitarian language, the problem that patent and copyright law seek to address is the following: in the absence of legal protection, nobody (except maybe for a handful of humble idealists) would find it viable to search for inventions or to create works of art. Third parties could easily reproduce intellectual property creations at a fraction of the cost that it would take to devise the product. The result would be an undersupply both of inventions and of works of art. Patent law and copyright law resolve this problem by protecting creators against potential free-riders. In giving them the carrot of monopoly profits, the law induces them to engage in creative activity. The downside is that in doing so the law prevents competition in the exploitation of intellectual products, once they have been conceived. Patents and copyrights are hence similar to alcohol: while they can do wonders when applied in small quantities, large dosages may have the opposite effect. Many provisions of the Patent Act¹⁷⁸ and the Copyright Act¹⁷⁹ may be understood as an attempt to adjust these inherently conflicting goals.¹⁸⁰

Patent, copyright and trademark law all may be explained on a utilitarian basis. While the *quid pro quo* that characterizes the former is obvious (if you are sufficiently creative, then we will give you exclusive rights, so you can earn money), it does not easily translate into trademark law.¹⁸¹ The functional approach, as we have seen, is far more complex. Courts sometimes neglect these

178. See Patent Act of 1952, Pub. L. 82-593, 66 Stat. 792 (codified as amended at 35 U.S.C. §§ 102, 103 (1994 & Supp. 1998)).

179. See Copyright Act of 1976, Pub. L. 94-553, 90 Stat. 2541 (codified as amended at 17 U.S.C. §§ 101-1010 (1994 & Supp. 1998)).

180. See *Bonito Boats*, 489 U.S. at 150-51 (noting that “[t]he federal patent system . . . embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years”). Examples of this balancing act are the various threshold requirements (such as novelty and nonobviousness in patent law and originality in copyright law) and the fact that the term of protection is limited in time.

181. The creation of trademarks does not suffer from the same discrepancy between the cost of creation and the cost of reproduction that characterizes inventions and works of art and that creates the undersupply in these two areas.

differences and try to apply the same utilitarian principles to trademark law as they apply to patent and copyright law. The futility of these attempts may have reinforced their skepticism towards the dilution doctrine.

C. *Competition Concerns*

An important set of concerns that has been raised against the dilution doctrine is that trademarks restrain competition and that the dilution doctrine, as it affords trademark owners far-reaching entitlements, is particularly anti-competitive.¹⁸² While, these concerns provide enough material for an independent paper, I will briefly address them here.

Even though the dilution doctrine may have certain anti-competitive effects, it remains a worthwhile doctrine. The dilution doctrine,¹⁸³ like trademark law in general,¹⁸⁴ increases the amount of information available to consumers and thereby enhances competition. These pro-competitive effects outweigh the anti-competitive effects mentioned above.

One often-expressed concern is that trademark protection might potentially lead to a situation of scarcity in which the number of signs that are suitable as trademarks might become so limited that it would be difficult for new market entrants to find enough suitable signs. This would suggest that we should prefer narrow entitlements to broad ones. The scarcity concern, however, while legitimate, does not refute the dilution doctrine. Indeed, the dilution doctrine appears to pose less of a threat to the availability of trademarks than one might initially think. The pool of potential trademarks is virtually unlimited, especially in the realm of arbitrary and fanciful words and symbols. Furthermore, there is no evidence that fanciful marks might be less suitable for the purpose

182. Given the restricted scope of trademark entitlements, the issue was merely of academic interest for a long period of time. The dilution doctrine, however, with its far broader protection, gave a new impetus to the discussion.

183. See 15 U.S.C. § 1125(c) (1994 & Supp. 1998).

184. See discussion *infra* Part I.

of identifying products and communicating with consumers than suggestive marks or descriptive marks that have acquired secondary meaning.¹⁸⁵ As regards those trademarks for which the scarcity argument has some force (such as suggestive marks), there are a number of doctrines that make it unlikely that a situation of scarcity might arise in practice. Examples of such doctrines include “distinctiveness,” “functionality,” “fair use” and “genericity.” Finally, even if we thought that trademark law did not go far enough to dispel the scarcity concern, this should not change our attitude towards the dilution doctrine. The scope of the aforesaid safeguards is independent of whether the law affords trademark owners narrow entitlements, such as it did in the past, or broad ones, such as those introduced by the FTDA. Although one may have to redefine the scope of these safeguards, the dilution doctrine should not be abandoned.

A related concern has been raised in the area of trade dress law.¹⁸⁶ Over the years, courts have included product configurations in their definition of the concept of “trade dress.”¹⁸⁷ Only

185. Suffice it to point out that multinational enterprises often use one single trademark all over the world even when that mark has a concrete meaning in some countries but not in others (for example, the word, and thus the mark “Mitsubishi” means “three diamonds” in Japanese, whereas in English or German, it has no particular meaning). If the mark’s meaning, its appearance or its sound had any measurable effect on the popularity of the products that carry it, clearly, we would expect the success of these enterprises to vary between different countries and cultures. In practice, this is not the case. The fact that many trademarks (including “Mitsubishi”) are used on a worldwide basis suggests that the aesthetic value and its concrete meaning do not have a significant impact on its competitive value.

186. See, e.g., *Fun-Damental Too, Ltd., v. Gemmy Indus. Corp.*, 111 F.3d 993, 999 (2d Cir. 1997) (defining trade dress as “the design and appearance of the product together with all the elements making up the overall image that serves to identify the product presented to the consumer”).

187. For a brief history of how trademark law developed over time to encompass trade dress and to extend to product configurations, see *Two Pesos*, 505 U.S. 763 (1992) (applying the Lanham Act to trade dress); *Stuart Hall Co. v. Ampad Corp.*, 51 F.3d 780, 787 (8th Cir. 1995) (explaining that the trade dress that was at issue in *Two Pesos* – the décor of a Mexican restaurant – was “as akin to product configuration as to packaging” and that, as a result, “*Two Pesos* [rested] on a presumption that ‘trade dress’ is a single concept that encompasses both product configuration and packaging”); *Duraco Prod. v. Joy Plastic Enters.*, 40 F.3d 1431, 1724 (3d Cir. 1994) (discussing how the traditional

three months after the FTDA had been signed into law, a court indicated that as a result, the FTDA, too, would apply to product configurations.¹⁸⁸ Shortly thereafter, however, the question became controversial.¹⁸⁹ The core issue is whether the dilution doctrine, when applied to product configurations, would give rise to conflicts with the patent system.¹⁹⁰ If manufacturers could obtain quasi-patents on the basis of the Lanham Act, they could bypass the stringent threshold requirements of the Patent Act.¹⁹¹ Moreover, not only would it be easier for them to obtain protection, such protection would also last longer; while patents are limited in time, trademark protection lasts forever.

Another related problem is that the Lanham Act is based on the Commerce Clause of the Constitution,¹⁹² whereas other intellectual property statutes, such as the Patent Act¹⁹³ and the Copyright Act,¹⁹⁴ are based on the Patent and Copyright clause of the Constitution.¹⁹⁵ Unlike the former, the latter demands that the entitle-

threshold criteria should apply to product configurations); *see also Two Pesos*, 505 U.S. at 776 (Stevens, J. concurring) (discussing how trade dress law has developed over time).

188. *See Sunbeam Prods. v. West Bend Co.*, 39 U.S.P.Q.2d (BNA) 1545 (S.D. Miss. 1996), *aff'd*, 123 F.3d 246 (5th Cir. 1997); *cert. denied*, 523 U.S. 1118 (1998).

189. *Compare, Clinique Lab. v. Dep Corp.*, 945 F. Supp. at 561 (S.D.N.Y. 1996) (noting that nothing in the language of Section 43(c) bars its application to trade dress, and such application is consistent with the United States Supreme Court's opinion in *Two Pesos*, 505 U.S. at 773), *with I.P. Lund Trading ApS*, 163 F.3d at 27 (observing that "it is possible that Congress did not really envision protection for product design from dilution by a competing product under the FTDA, but the language it used does not permit us to exclude such protection categorically and rare cases can be imagined").

190. *See generally* Theodore H. Davis, Jr., *Management and Protection of Brand Equity in Product Configurations*, 1998 U. ILL. L. REV. 59; *see also* Heald, *supra* note 3, at 424. It should be noted that overlaps between trademark and patent law would not as such be a problem. *See, e.g., Kohler Co. v. Moen Inc.*, 12 F.3d 632, 638 (7th Cir. 1993). Problems would arise only if it turned out that, as a result of these overlaps, the balance between exclusive rights and competition that patent law seeks to achieve would be jeopardized.

191. *See* 35 U.S.C. §§ 102-103 (1994 & Supp. 1998) (these include, in particular, novelty and nonobviousness).

192. *See* U.S. CONST. Art. I, sec. 8, cl. 8.

193. *See* 35 U.S.C. §§ 1-376 (1994 & Supp. 1998).

194. *See* 17 U.S.C. §§ 101-1010 (1994 & Supp. 1998).

195. *See* U.S. CONST. Art. I, sec. 8, cl. 8; David Lange, *The Intellectual Property*

ments that the law affords beneficiaries be limited in time. Hence, if companies could use trademarks as “back-door patents,” this would create a number of intriguing constitutional issues.¹⁹⁶

A detailed discussion of these issues would, unfortunately, go beyond the scope of this Article. However, it should be noted that the courts’ practice of treating product configurations as trade dress, subject to certain conditions, is relatively uncontested.¹⁹⁷ If product configurations fall within the scope of the Lanham Act, it is unclear why the FTDA, which forms an integral part of the Lanham Act, should not apply equally.¹⁹⁸ The opposite view argues that Congress merely intended to “federalize” the anti-dilution laws that existed at the state level and that these state laws generally do not apply to product configurations.¹⁹⁹ It turns out, however, that the various state laws are anything but uniform.²⁰⁰

Clause in Contemporary Trademark Law: An Appreciation of Two Recent Essays and Some Thoughts About Why We Ought To Care, 59 SPG LAW & CONTEMP. PROBS. 213 (1996).

196. See *I.P. Lund Trading ApS*, 163 F.3d 27. But see *San Francisco Arts & Athletics, Inc. v. United States Olympic Comm.*, 483 U.S. 522, 539 (1987) (indicating, prior to the enactment of the FTDA, that Congress could adopt an anti-dilution statute without getting into constitutional troubles). Incidentally, it should be noted that courts have held comparable state statutes preempted by the Intellectual Property Clause. See also *In Escada AG v. Limited, Inc.*, 810 F. Supp. 571 (S.D.N.Y. 1993) (holding a New York anti-dilution statute preempted because it did not require the plaintiff to establish a likelihood of confusion); *Bonito Boats*, 489 U.S. 141 (holding a Florida statute that prohibited the molding and copying of boat hulls preempted for similar reasons).

197. It is also consistent with the functional approach and the open-ended language in which the Lanham Act defines the concept of “trademark”. See 15 U.S.C. § 1127 (defining “any word, name, symbol, or device, or any combination thereof”); see also *Two Pesos*, 505 U.S. at 773 (noting that “§ 43(a) provides no basis for distinguishing between trademark and trade dress”).

198. Cf. *Two Pesos*, 505 U.S. at 770, in which the court reasons similarly: “There is no persuasive reason to apply to trade dress a general requirement of secondary meaning which is at odds with the principles generally applicable to infringement suits under § 43(a).”

199. See Heald, *supra* note 3, at 419. But see Eric Prager, *The Federal Trademark Dilution Act of 1995: Substantial likelihood of confusion*, FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 121, 127 (1996).

200. See Kimbley Muller, *Dilution Law: At A Crossroads? A Position Of Advocacy In Support Of Adoption Of A Preemptive Federal Antidilution Statute*, 83 TRADEMARK REP. 175, 187 (1993) (lamenting “the development of twenty-five individual different

In certain respects, the Lanham Act takes a decidedly different approach from the way these laws have been drafted and are applied.²⁰¹ These factors erode the aforesaid argument. Finally, the Trademark Regulation, the Trademark Directive and the GTA clearly give the concept of “trademark” an extensive interpretation, affording words, symbols and other types of trademarks equal protection. In particular, each of them provides, without qualification, that their substantive provisions shall apply to “the shape of goods or of their packaging.”²⁰²

While the courts’ practice is consistent with trademark law, it appears to be compatible with patent law as well. The reason it seems unlikely that trademark law in general, and the dilution doctrine in particular, could ever transgress into the realm of patent law is because of the “functionality” doctrine.²⁰³ Under that doctrine, courts deny trademark protection to trade dress (and thus also to product configurations) when the aspect for which protection is sought concerns a functional aspect of a product. The scope of the doctrine varies by circuit, but the basic idea remains the same. In one case in which a court denied trade dress protection to a product configuration on functionality grounds, it did so expressly in view of the fact that the product configuration was a significant part of an invention protected by a patent.²⁰⁴ EC and German trademark law arrive at similar results by denying protection to devices that “consist exclusively of . . . the shape which results from the nature of the goods themselves, or the shape of goods which is necessary to obtain a technical result, or the shape which gives substantial

antidilution laws”).

201. See Moskin, *supra* note 3, at 128 (quoting a number of decisions that show that state courts granting anti-dilution protection often require a showing of likelihood of confusion, which is no requirement under the provisions of the Lanham Act).

202. See Trademark Regulation No. 40/94, art. 4, O.J. L 11/1, at 3 (1994); Trademark Directive No. 89/104, art. 2, O.J. L 40/1, at 2 (1989); GTA, § 3(1), *supra* note 12, at 607.

203. Some courts apply an “aesthetic functionality” doctrine as well in order to avoid conflicts with design patents.

204. See *Vornado Air Circulation Sys. v. Duracraft Corp.*, 58 F.3d 1498, 1510 (10th Cir. 1995).

value to the goods.”²⁰⁵ The functionality doctrine, when properly applied, avoids conflicts between the Lanham Act and the patent system.²⁰⁶ In Judge Posner’s words: “provided that a defense of functionality is recognized, there is no conflict [between trademark law and] federal patent law.”²⁰⁷ Although Posner made this statement before the FTDA was signed into law, the subsequent enactment of the statute ought to have no impact on the continued validity of his argument. The way in which the functionality doctrine avoids conflicts with the patent system is not by restricting *trademark entitlements* but by restricting the *scope of trademark law* (by excluding the functional features of a product from the realm of trademark protection). The FTDA merely introduced a new set of entitlements but it did not alter the scope of the Lanham Act or affect the way the functionality doctrine works. Therefore, it does not disturb the balance between trademark law and patent law. Interestingly, the Supreme Court once recognized, albeit under a different set of laws, that Congress has discretion as to whether it wants to afford signs—in this case the “Olympic” symbols—protection only against confusion or also against a dilution of their distinctiveness.²⁰⁸

A final reason why one might worry about the dilution doctrine is the fact that trademark protection creates artificial barriers to

205. See Trademark Regulation No. 40/94, art. 7(1)(e), O.J. L 11/1, at 4 (1994); Trademark Directive No. 89/104, art. 3(1)(3), O.J. L 40/1, at 3 (1989); GTA, § 3(2), *supra* note 12, at 607.

206. Cf. *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 164 (1995) (noting that “[t]he functionality doctrine prevents trademark law, which seeks to promote competition by protecting a firm’s reputation, from instead inhibiting legitimate competition by allowing a producer to control a useful product feature”).

207. See *W.T. Rogers Co. v. Keene*, 778 F.2d 334, 337 (7th Cir. 1985). See also *Two Pesos*, 505 U.S. at 775 (dismissing similar concerns for competition as “not persuasive . . . [since o]nly nonfunctional, distinctive trade dress is protected under § 43(a)”).

208. See *San Francisco Arts & Athletics*, 483 U.S. at 539 (“[a]lthough the Lanham Act protects only against confusing uses, Congress’ judgment respecting a certain word is not so limited. Congress reasonably could conclude that most commercial uses of the Olympic words and symbols are likely to be confusing. It also could determine that unauthorized uses, even if not confusing, nevertheless may harm the [United States Olympic Committee] by lessening the distinctiveness and thus the commercial value of the marks”).

market entry. The dilution doctrine, as a particularly broad set of entitlements, might be seen as unduly reinforcing these barriers.²⁰⁹ The principal impediment that trademark protection creates is that in order to enter a new market, a company first has to overcome consumers' loyalty to the existing brands. As the FTC noted in its Craswell Report, however, this loyalty merely reflects consumer satisfaction and as such is not worrisome.²¹⁰ Whatever the merits of the barrier of entry argument, it is inapt to criticize the dilution doctrine. Those brands that make it hard for new companies to enter the market are those that would be in direct competition with the new products. Hence, the only way to remove this barrier would be to allow the new entrant to capitalize on the goodwill of the established brand. Such behavior, while it would clearly infringe the identity rule and the likelihood of confusion test, would leave the dilution doctrine unaffected.²¹¹ In summary, therefore, to abolish the entry barriers created by trademarks, one would have to get rid of the traditional tests for trademark infringement, but not the dilution doctrine.

The discussion in the preceding sections suggests that there may be several reasons why the dilution doctrine has had such a hard stand in the United States. First, one's attitude towards the doctrine depends on one's understanding of the functional approach. My own understanding is that the main economic functions performed by trademarks are to identify products and to communicate with consumers. On the basis of this understanding, I have offered a utilitarian explanation of the dilution doctrine and

209. See Klieger, *supra* note 3, at 856. It should be noted, however, that the question is contested – even among economists. See generally J. Thomas McCarthy, *Compulsory Licensing Of A Trademark: Remedy Or Penalty*, 67 TRADEMARK REP. 197, 244 (1977); see also 1 MCCARTHY, § 2:12, (providing a comprehensive list of resources).

210. “If consumers prefer not to purchase [the brands of new entrants], it can be argued that nothing would be gained by their entry.” 1 MCCARTHY, *supra* note 7, § 2:4 (citing to the Craswell Report 7 (1979)).

211. See *L.L. Bean, Inc. v. Drake Publishers, Inc.*, 811 F.2d 26, 30 (1st Cir. 1987) (noting that “[t]he overriding purpose of anti-dilution statutes is to prohibit a merchant of noncompetitive goods from selling its products by trading on the goodwill and reputation of another's mark”).

of how it fits in with the traditional concepts of infringement. Often, however, trademarks are understood as devices whose primary purpose is to ensure that manufacturers do not confuse consumers or who identify the source of the products in connection with which they are used. The fact that either of these goals could be achieved without protecting famous marks against dilution may account for some of the skepticism towards the dilution doctrine. Moreover, as we have seen, the dilution doctrine does not easily square with the traditional theories used to explain the need for patent and copyright law.

CONCLUSION

It appears that the FTDA has altered the landscape of trademark law by introducing new sets of trademark entitlements for famous marks, but it has not fundamentally changed the rational basis of trademark protection. In Part I, I developed a functional approach to the dilution doctrine and concluded that that doctrine rests on the same premises as the likelihood of confusion test and the identity rule as found in Europe. In Part II, I analyzed several reasons why some commentators have nevertheless been skeptical of the FTDA.

Given the global trend to adopt anti-dilution statutes, it is likely that the FTDA is here to stay. Therefore, it will be necessary to come to terms with it, and rather than argue that there should not be a dilution doctrine,²¹² one should examine it dogmatically and try to fit it in with existing trademark doctrines.

212. See Moskin, *supra* note 3, at 122 (calling the dilution doctrine a phenomenon that “has proven wholly resistant [sic!] to analysis”) (emphasis added)).