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The Trademark Paradox

Trademarks and Their Conflicting Legal
and Commercial Boundaries

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**Schriften zum Medien-, Urheber-
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Hrsg. v. Georgios Gounalakis

“...the creation or recognition by courts of a new private right may work serious injury to the general public, unless the boundaries of the right are definitely established and wisely guarded.”¹

*Justice Brandeis*²

0. Introduction

0.1 The Trademark Paradox

It would be almost impossible to imagine a world without trademarks. From the moment we wake up (turning off the Sony alarm clock, showering under the Hansgrohe shower head, getting into our BMW to drive to work, stopping for a Starbucks coffee, turning on our Dell computer, opening up our Microsoft office programs, searching for something on Google, making a call on our Samsung smartphone, checking emails on our Blackberry, quenching our thirst with a Coca-Cola, or buying a book on Amazon) until the end of the day (when we can finally enjoy a glass of Veuve Cliquot with friends), we interact – whether consciously or unconsciously – with a constant parade of trademarks, each vying for our attention and selection.

Trademarks play a fundamental role in our everyday lives as consumers as well as in the market in general. They help us distinguish the products we like and avoid those that we don't, acting as a short-hand signal to give us certainty of what product we have chosen. They give us information about the source, manufacturer, or quality of the products we are purchasing, allowing us to make such choices quickly and efficiently. They allow companies to differentiate their products from those of their competitors, and to invest in and build brand (i.e., customer) loyalty, without fear of free-riding by competitors.

This paper examines the legal and commercial paradox we face with respect to trademarks. Trademarks are the essence of competition – in fact, they signal competition – since without competition there would be no need to distinguish

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- 1 *International News Service v. Associated Press*, 248 U.S. 215, 262–63 (1918) (Brandeis, J., dissenting).
 - 2 Associate Justice Louis Dembitz Brandeis was appointed to the U.S. Supreme Court by President Wilson. He took his judicial oath on 5 June 1916 and retired on 13 February 1939. *U.S. Supreme Court: Members of the Supreme Court*.

between the goods of one company from those of another. Robust trademark laws prevent unfairness between (or free riding by) competitors, ensuring protection of the business goodwill represented by a mark. They diminish customer confusion and deception. They make “communication” between seller and buyer simple. Trademarks are “an essential element in the system of undistorted competition”,³ acting as “aids to the exchange of commodities ... considered ... vitally important to the protection of commerce”.⁴

However, the significant legal expansions in trademark protection coupled with the aggressive commercial strategies used by trademark owners – although made within the framework of *promoting* competition by combating free rider problems – have served to *restrict* competition by erecting overly-protectionist and often insurmountable barriers to market entry. The paradox lies in how we have dealt with this conflict: in our insatiable quest to promote competition, we have granted, and continue to grant, trademark owners new private rights and expanded claims without ensuring adequate boundaries of such rights, which has resulted, paradoxically, in a stifling of competition. We have failed to balance the private interests (increased protection of the investments made in the business goodwill of a trademark) with the public interests (ensuring robust market competition without restraints or barriers to trade).

In this regard, Justice Brandeis’ admonition, made almost a century ago in *International News Service v. Associated Press*, is well worth remembering:

“... with the increasing complexity of society, the public interest tends to become omnipresent; and the problems presented by new demands for justice cease to be simple. Then the creation or recognition by courts of a new private right may work serious injury to the general public, *unless the boundaries of the right are definitely established and wisely guarded.*”⁵

3 Case C-10/89, *SA CNL-SUCAL NV v HAG GF AG*, 17 October 1990 [1990] ECR I-3711 (*HAG II*), para. 13.

4 In the *Trade-Mark Cases*, the Supreme Court noted that the use of trademarks “as aids to the exchange of commodities in the great markets of the world is so generally recognized, and they are considered ... vitally important to the protection of commerce”. *United States v. Steffens*, *United States v. Wittmann*, and *United States v. Johnson* (collectively, the *Trade-Mark Cases*) 100 U.S. 82 (17 November 1879).

5 *International News Service v. Associated Press*, 248 U.S. 215, 262–263 (1918) (Brandeis, J., dissenting) (emphasis mine). In this landmark case, the U.S. Supreme Court upheld an injunction prohibiting the International News Service from publishing news gathered and published by the Associated Press. In the case, the Court struggled to distinguish between interference with business practices versus interference with intellectual property rights. Although the Court upheld the common law rule that there

(a) The Problem: Where are we?

Long before they were defined or protected as trademarks, trade names, service marks, logos, or brands, identifying marks were put on a variety of items – including pottery, bricks, tiles, swords, cloth, books, wine, bread, medicines, gold, silver, and pewter – in order to signal ownership, source, or quality.⁶

In today's modern and global marketplace, however, trademarks no longer function as mere ownership marks, source identifiers, or assurances of quality. Trademarks today are classified among the most important competitive business assets a company may own.⁷ They are big business, high value, aggressively protected, commercial assets. They are used to communicate the persona of a business to consumers worldwide and deemed an essential part of a comprehensive global business strategy.⁸ In essence, they are bearers of information, signals of investment, and tools of influence, identity, and trust. Where rhetoric has been called the “art of persuasion”, trademarks could be called the “symbols of persuasion” to gain customer loyalty and thus secure market share.

is no copyright in facts, they instead found a limited “quasi-property” right in the economic value of the news when it was first published. The Court found the actions by International News Services as a misappropriation of such right, thus expanding the common law doctrine of misappropriation through the tort of unfair competition (weaving property and unfair competition principles together). In Justice Brandeis' famously vigorous and long dissent – the dissent runs 19 pages, whereas the majority opinion is only 8 pages long – Brandeis objected primarily to two aspects of the majority position. First, he seriously questioned the Court's recognition of a property right in news, finding it unbounded and giving rights in almost endeavour. Second, Brandeis found the Court had ignored the public's interest in the dissemination of news, an omission he found deeply disturbing. For a review of the majority opinion, as well as Justice Holmes' separate opinion and Justice Brandeis' dissent (that both raise serious questions as to the necessity and wisdom of recognizing property rights in news), see *Samuelson: Information as Property*, pp. 391–395.

- 6 Many scholars have traced the use of distinguishing marks from antiquity to present day. See, for example, *Rogers: Some Historical Matter Concerning Trade-Marks*; *Schechter: Historical Foundations*; *Ruston: On the Origin of Trademarks*; *Paster: Trademarks – Their Early History*; *Diamond: The Historical Development of Trademarks*; *McClure: Trademarks and Unfair Competition*; *Port: The Illegitimacy of Trademark Incontestability*; *McKenna: The Normative Foundations of Trademark Law*; *Fezer: Markenrecht, Geschichte des Markenrechts*, paras. 2–17; and *Cornish/Llewelyn/Aplin: Intellectual Property*.
- 7 They have been called “essential business assets”. *Klieger: Trademark Dilution*, p. 790. See also *Drescher: The Transformation and Evolution of Trademarks*.
- 8 *Klett/Sonntag/Wilske: Intellectual Property Law in Germany*, p. xxviii.

As the commercial significance and financial value of trademarks have increased, so too the instances for abuse. There is the traditional abuse by competitors wanting to “free ride” on the success of a well-known trademark – i.e., to ride on the coat-tails of a well-known trademark in order to benefit from the power of attraction, the reputation, and the prestige of such mark, without paying the requisite financial compensation – by passing off their goods as those of the famous mark. There is also related “copycat confusion” or “ambush marketing”.⁹ Solving the “free rider”, passing-off, and ambushing problem has prompted much of the expansion in modern trademark law.

As trademarks’ power to persuade has grown (to increase product sales and gain market share), so too have the efforts by trademark owners to aggressively seek and claim expanded legal protection to keep such market value, whether in the courts or through effective bullying tactics outside of the courtroom. This too can be a form of abuse, resulting in expansive, and arguably excessive, rights. Dominant trademark owners today have broad rights that ensure their trademarks – along with an expansive swath of goodwill associated with those trademarks and the business enterprise – are not sullied (tarnished), imitated, or even tangentially referenced.

This expansive increase in legal rights and commercial power has occurred without corresponding limitations – or defined boundaries – either within the trademark laws themselves or through consistently applied competition or unfair trade practice principles. As a result, instead of functioning as origin, source, or quality identifiers intended *to protect consumers* and thereby ensure a fair and efficient market, trademarks are strategically used by owners *to erect barriers to trade* – against competitors, against foreign market participants, and against other intellectual property owners. Trademark laws have not effectively dealt

9 Ambush marketing is an attempt by a third party to associate itself directly or indirectly with a major event (through association with the event’s trademark or logo) to benefit from the goodwill or prestige of that event without having to pay for that privilege as an official sponsor would do. The effect is that consumers associate the event with non-sponsors, rather than with the official sponsors. There have been many examples of the ambushing of high profile events, in particular of sporting events. Ambushing can take place at the actual event, or months before it, in different locations, media etc. See generally, *Louw: Ambush Marketing & the Mega-Event Monopoly*. For an overview of many well-known cases of ambush marketing, including Michael Jordan at the 1992 Barcelona Olympics, Dutch fans at the 2006 FIFA World Cup in Germany, and Ling Ning at the 2008 Beijing Olympics, see *Sports Career Consulting: Lesson 8.4 – Ambush Marketing*.

with the consequences of having granted expanded rights – they have allowed trademark rights to become “untethered” from their “traditional moorings”.¹⁰ Although competition laws are suitable to address specific practices or prohibit illegal, unfair, or deceptive business practices, they have side-stepped the problems of powerful trademarks stifling competition. In the end, competition laws may not be the most suitable mechanism to align or “fix” the trademark paradox.

(b) The Reasons: How did we get here?

This configuration – of new but improvidently granted rights – is similar to the issues the justices faced in *International News Service*.¹¹ There, the majority held the position that courts can treat “any civil right of a pecuniary nature as a property right” and that “the right to acquire property by honest labor or the conduct of a lawful business is as much entitled to protection as the right to guard property already acquired.”¹²

In his separate opinion,¹³ Justice Holmes¹⁴ began by observing that property rights are creations of law: they do *not* arise automatically from value, even if that value is exchangeable. Instead, they depend on a legal judgment that recognizing a right to exclude is *needed* to protect against unwarranted interferences. Justice Holmes suggested that the majority was wrong in creating a new right to protect interests. Where protection can be afforded *without* granting a right to exclude – *in particular when unfair competition principles can be applied to resolve the dispute* – Holmes felt it unnecessary to create new property rights to resolve the problem.¹⁵

The same can be said of trademarks. In allowing trademark protection to expand – including the introduction of “new” rights to resolve free rider and ambush marketing concerns – we have developed quasi-property rights in the “business persona” imbued in the trademark. We have done so without adequately considering the rationales for such expansion, whether principles already

10 *Travis*: The Battle for Mindshare, para. 7.

11 *International News Service v. Associated Press*, 248 U.S. 215 (1918).

12 *International News Service v. Associated Press*, 248 U.S. 215, 236 (1918). See also *Samuelson*: Information as Property, p. 389.

13 *International News Service v. Associated Press*, 248 U.S. 215, 246 (1918) (Holmes, J., separate opinion, with McKenna, J., concurring).

14 Associate Justice Oliver Wendell Holmes, Jr. was appointed to the U.S. Supreme Court by President Roosevelt. He took his judicial oath on 8 December 1902 and retired on 12 January 1932. *U.S. Supreme Court: Members of the Supreme Court*.

15 *Samuelson*: Information as Property, p. 392.

exist to resolve these problems, or the effects of such expansion on competition and the market.

From a legal rationale perspective, trademark protection was never intended to reward *owners* for an invention or artistic work,¹⁶ which is traditionally the reason justifying the exclusive rights granted to patent and copyright owners. Instead, trademark law was – and still fundamentally is – based on principles of unfair competition¹⁷ – i.e., it was developed in order to protect *consumers* from confusion. Patents and copyrights protect inventions and writings, allowing owners to prevent others from making, selling, using, or exploiting that invention or writing. A trademark merely allows to owner to bar others from use of that mark, but does not allow an owner to bar others from making a similar product. The relevant analysis in any trademark infringement (or unfair competition) action is whether the defendant’s mark is likely to cause consumer confusion, mistake, or deception.¹⁸ Initially, the scope of such consumer confusion was narrow: the laws and the courts only permitted trademark infringement between direct competitors in an industry.¹⁹ Today, the standards for infringement are far broader, covering not only “actual” confusion, but a likelihood of confusion, whether in a competing market or *even markets not yet entered into*.

Furthermore, since trademarks can, in theory, be protected indefinitely, the traditional trade-off underlying patent and copyright protection – the short-term grant of exclusive rights in exchange for the long-term contributions to the public domain – does not apply to trademarks. The expanded rights granted to trademarks thus have a far more appreciable, and lasting, effect.

16 Although the rights granted trademark owners do in essence “reward” owners who have invested in producing a quality product, the protection is fundamentally intended to protect against consumer confusion by guaranteeing the origin of the goods and their quality.

17 “The law of trade-marks is but a part of the broader law of unfair competition.” *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918).

18 The Lanham Act defines infringement as any “use in commerce ... likely to cause confusion, or to cause mistake, or to deceive.” 15 U.S.C. § 1114(1)(a). The basic inquiry is the same whether an action is brought as a trademark infringement or unfair competition action. “Both the traditional common law and statutory regimes view the issue of consumer confusion as the *sine qua non* of infringement.” *Denicola: Trademarks as Speech*, p. 162.

19 *Klieger: Trademark Dilution*, fn 29, citing *Schechter: The Rational Basis of Trademark Protection*, pp. 820–822.

Finally, trademark rights – similar to other intellectual property rights – are inherently territorial and national by nature.²⁰ Given the expanding uses of trademarks worldwide, crossing territorial boundaries where the laws may be different has added yet another layer to the complexity. Today, the top global brands are just that: global. They are known worldwide by name or by logo. They act as international “ambassadors” across languages, cultures and laws. Divergent national legal rights are coming more and more into conflict, testing both national laws’ and businesses’ ability to deal with conflicting laws, policies and trends. Particularly in the EU, trademarks’ inherently exclusive and territorial nature have been seen as impediments to the creation of a single market.

Because of these fundamental differences in rationale, scope, and duration, as well as the tension between territorial protection and international use and reputation, it has been difficult to apply general intellectual property rationales (which were developed primarily with patents and copyrights in mind) or competition law principles and restrictions to trademark use.²¹ These differences highlight the different interests (from the perspective of trademark owners) and challenges (from the perspective of law makers) that we face with respect to trademarks.

(c) The Consequences: Where are we headed?

Although courts today understand and recognize the value of trademarks,²² there is no systematic or consistent application of legal restrictions dealing with them.

20 Although a number of international treaties and European directives and regulations have sought to harmonize the various national laws relevant to the protection of intellectual property, with harmonization of trademark rights being the most successful to date, “the protection of intellectual property remains to a large extent characterized by national idiosyncrasies”. *Klett/Sonntag/Wilske: Intellectual Property Law in Germany*, p. xxviii. See *infra*, § 3.3(b) for a discussion of the EU trademark harmonization efforts.

21 For example, it would be very awkward to apply the compulsory license requirements under EU competition law on a dominant trademark owner. How would trademark “A” be licensed for use by the owner of trademark “B” who is having difficulty entering the market? Furthermore, how is dominance calculated for the trademark “market”? Is it the single trademarked product or the enterprise value of the trademark owner (which led to its dominance)?

22 “Trade mark rights are, it should be noted, an essential element in the system of undistorted competition which the Treaty seeks to establish and maintain. Under such a system, an undertaking must be in a position to keep its customers by virtue of the quality of its products and services, something which is possible only if there are

To date, neither intellectual property laws nor competition rules have developed a mature or coherent legal regime to manage the ways in which trademarks are used in our modern, global market place. Depending on the current political situation, the economic marketplace, and even the country registering the trademarks, the laws and policies applied to trademark use and protection have experienced pendulum swings of either unabated rights or micro-managing.

Currently, the competition rules and legal guidance either ignore trademarks from discussions of intellectual property (e.g., they are specifically excluded from both the U.S. and the EU competition guidelines on the licensing intellectual property) or approach them from an irrelevant or impractical point of view (e.g., the EU guidelines refer to their “ancillary” relationship to other intellectual property rights). Trademark owners – and in particular dominant trademark owners – have taken advantage of this imbalance and have, through aggressive litigation and bullying business tactics, incrementally pushed out the contours of trademark protection, in some cases created *new* rights, to expand the scope of trademark rights. What we have failed to do with such increased private right, in Justice Brandeis’ words, is “prescribe limitations and rules for its enjoyment; and also to provide administrative machinery for enforcing the rules.”²³

(d) The Future: What alternatives do we have?

This paper will first highlight some of the legal and commercial conflicts we face with respect to trademarks and their modern system of protection. It will then conclude by suggesting principles and guidelines to resolve the imbalance.

Trademarks are a vital part of our lives – for businesses, for consumers, and for competitors. The fundamental principles underlying trademark protection still apply today, adapted and augmented as needed in our modern society. Although courts and policy makers have allowed imprudent expansion of private trademark rights, there are sufficient public interest principles and guidelines available to rebalance such imprudent expansion. The principles underlying trademark laws are good; they simply need some good “gardening” – i.e., pruning of the

distinctive marks which enable customers to identify those products and services. For the trade mark to be able to fulfil this role, it must offer a guarantee that all goods bearing it have been produced under the control of a single undertaking which is accountable for their quality.” Case C-10/89, *SA CNL-SUCAL NV v HAG GF AG*, 17 October 1990 [1990] ECR I-3711, para. 13 (*HAG II*).

23 *International News Service v. Associated Press*, 248 U.S. 215, 262–263 (1918) (Brandeis, J., dissenting).

excess and establishment of well-defined borders – when being applied by courts and national authorities. Furthermore, in the spirit of Justice Holmes’ suggestion, there are existing unfair competition laws in place which can be applied to resolve the dispute. By pruning the trademark expansion and re-applying unfair competition principles, we could abate the pendulum swings of over- and under-exuberance, resulting in a more measured and consistent approach to trademark use, protection, and exploitation, benefiting businesses, consumers, and the market.

0.2 Scope & Overview

(a) Trademarks & Society

Chapter 1 begins with a review of the historical functions and foundations of trademarks, and examines the contours of trademark law which continue to be revised in response to business and social demands. Chapters 2 and 3 look at the legal frameworks in which trademark rights were developed in the U.S. (Chapter 2) and the EU (Chapter 3), reviewing the fundamentals which govern their rights today.

These three chapters demonstrate that the function of trademarks in our society today has evolved significantly from an original means of source identification intended to prevent consumer confusion and minimize consumer search costs to a profitable and commercially powerful means by which companies communicate a wealth of information regarding their business as an enterprise (and not just the product they are selling). Trademarks today are big money, big business, competitive assets.

(b) Trademarks & Competition

With any exercise (and certainly with any expansion) of rights, concerns regarding the anti-competitive effects of such rights are raised. Even if additional rights are granted under the rationale of *promoting* competition, such expanded rights can serve to *restrict* competition. As a result, although trademarks act as important aids to competition (by prohibiting free-riding) and benefit consumers (by decreasing confusion and preventing fraudulent trade practices), their commercial dominance in the global market today, coupled with the expanding legal protections afforded under current laws, can have the effect of restraining free and fair trade.

Competition laws seek to minimize or prohibit anti-competitive effects which arise from the acquisition, exploitation, or enforcement of power in the market.

The exercise of intellectual property rights – including trademarks – are certainly not immune from the scrutiny of competition laws. Chapters 4 – 6 thus explore the collision of intellectual property and competition laws in order to review how the granting of exclusive rights under intellectual property laws directly or indirectly conflicts with the restrictions on monopoly and monopolistic behaviour underlying competition rules.

Chapter 4 sets out the overall issues and challenges of the collision. Chapter 5 (for the U.S.) and Chapter 6 (for the EU) analyze how competition laws have been applied to the obtainment, grant, acquisition, and exercise of intellectual property rights – in particular with respect to trademarks – to determine whether the application of competition laws to the exercise of trademark rights has been successful to combat the anti-competitive effects of trademark use and protection. Chapters 5 and 6 also acknowledge the political and social frameworks which shaped the development of antitrust and competition laws, and looked at how such laws have been and are applied to promote and maintain “fair” market competition by regulating anti-competitive conduct.

(c) Conflicting Commercial & Legal Boundaries

With this background of trademarks, competition, and the collision of intellectual property rights and competition restrictions, Chapters 7 and 8 highlight the commercial and legal challenges courts, legislatures, and regulatory authorities are faced with when analyzing the competitive and anti-competitive effects of trademark use, protection, and exploitation. Trademarks are pro-competitive, essential to fair and efficient competition. Chapters 7 and 8 make the observation, however, that the expanding legal protection afforded trademarks coupled with the aggressive commercial strategies used by trademark owners – made under the guise of *promoting* competition – has served to *restrict* competition.

Chapter 8 takes the position that neither the trademark rules nor the competition rules adequately address these issues. Although developments and changes in law are *vital* to adapt our laws to a mature and modern society, what is problematic is our failure to establish (and “wisely” guard, in Justice Brandeis’ words) the boundaries of such developments or to address the anti-competitive effects of such changes. Chapter 8 posits that both intellectual property law and competition laws need to recognize the position of trademarks and address these issues accordingly, but that neither can do the work intended of the other. In fact, there are other well-established mechanisms available which might be better suited than competition rules to regulate the anti-competitive effects of trademark. This observation will lay the groundwork for Chapter 9 – “Striking a Balance”.

(d) Striking a Balance

Recognizing the growing anti-competitive effects of trademarks (through the strong brand personalities they exude) and trademark law (through the expanded legal protection trademarks have been afforded) is one thing; determining what, if anything, can be done about such effects is quite another. Any solution needs to *balance* the pro-competitive functions of trademarks with the anti-competitive effects of their protection in order to achieve some reasonable measure of “workable competition”²⁴

A balanced approach – in the words of Samuelson – “is not a decision between ... extremes”. Instead, solutions can be found in “the degree to which public policy should do less or more to modify the operation of particular private economic activities.” Chapter 9 identifies two pragmatic principles which can be applied to “do less or more”. These relate to (i) the nature and functions of trademark and trademark laws, and (ii) the legislative and judicial framework which informs and protects the same. These principles are based on well-developed (but now somewhat marginalized) doctrines and balance competing private and public interests (from the perspectives of trademarks owners, competitors, competition authorities, legislatures) to ensure efficient working of our modern, competitive economy.

The Conclusion summarizes the issues and the key lessons learned in 10 theses.

0.3 Sources, Citations & Legal Framework

(a) Sources & Citations

Primary source material comes from U.S., German, and EU founding documents (e.g., the U.S. Constitution, the German Basic Law – the *Grundgesetz*, and the EU treaties), along with material from U.S., English, German, and EU courts, legislative authorities, and other regulatory bodies. Secondary literature comes primarily from sources in the U.S., England, and Germany.

As has been sagely observed: “There are two golden rules for the citation of legal authorities. One is consistency. The other is consideration for the reader.”²⁵ I have adopted somewhat of a hybrid style of legal citation to enable both a U.S.

24 *Samuelson*: Problems of Economic Organization, p. 74.

25 *Meredith/Nolan*: Oxford University Standard for the Citation of Legal Authorities (OSCOLA).