MODERN CONCEPTS OF TRADEMARK PROTECTION AND THEIR APPLICATION TO INTERNET USES

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INTRODUCTION

The names that companies select for their goods and services have for many years formed essential business assets. Trademarks, the words and symbols by which companies distinguish their products, are indispensable element of modern market economy and serve several important trade functions. Most obviously, companies employ trademarks to differentiate their products from those of another manufactures, thus facilitating consumer identification. Where, as is often the case today, consumers do not know or even do not care about the exact origin of goods or services bearing a particular trademark, trademarks serve as a guarantors of consistent quality. Finally, trademarks facilitate the development of companies’ brand, anchoring the often intangible brand images cultivated through persuasive advertising. As one scholar said in respect to advertising function of trademark: “[A trademark] is a narrow bridge over which all the traffic powered by [product] advertising must pass. . . . With time, the symbol comes to be more than a conduit through which the persuasive power of advertising is transmitted, and acquires a potency, a 'commercial magnetism,' of its own.”¹

Taken together, all these functions of trademarks elevate trademarks above physical assets and other forms of intellectual property as the most valuable assets of many companies. Put simply, “a trademark is that which makes tomorrow's business something more than an accident.”²

Yet, trademarks are often as fragile as they are important. The role they play in the competitive market economy makes them attractive targets of infringement by often unscrupulous businesses. By selecting a mark for a product or service identical or similar to one already employed by another company, such businesses seek to confuse consumers and either divert sales away from the senior user or take unfair advantages from the goodwill that the senior user has developed in the mark.³

¹ See Ralph S. Brown, Jr., Advertising and the Public Interest: Legal Protection of Trade Symbols, 57 Yale L.J. 1165, 1187 (1948).
³ Ibid.
As the scope of protection granted to trademarks proprietors is conditioned upon the understanding and recognition of the mark’s functions the importance of this research is uncontestable.

Originally trademark protection was reduced to the defense of indication of origin function on a basis of the consumer confusion as to the source of goods. However as stated the value and significance of trademarks has evolved beyond the mere indication of origin of a product, which in its turn conditioned the need of acknowledgment and provision of legal protection to non-origin trademark function.

In the light of the above mentioned the subject of this thesis, which is the modern concepts of trademark protection and their application to Internet uses with emphasis on trademark function as a decisive factor for determination of the scope of trademark protection, presents the issue of considerable importance.

The author will compare two positions concerning trademark functions presented by the United States and European Union as the most developed systems of trademark protection and make conclusions.

This paper falls a part in four interconnected parts, it starts by describing of US approach to the perception of trademarks’ function by legislature and courts as well as to the rights of trademarks’ holders deriving from the above perception.

The next part of this work will deal with the Modern European concepts of Trademark protection where the author will follow the development of trademark functions from indication of origin to advertising one. Special attention will be paid to the Trademark Directive the provisions of which in respect to the scope of protection to be granted to trademarks’ proprietors is not very clear in its language, which in its turn has created a situation of legal uncertainty. This will bring us to the Arsenal case, the landmark case reflecting the European Court of Justice attitude towards trademark functions. This judgment received a lot of publicity, good and bad and the author will make an overall analysis of it, pointing out its critical points.

In the last part an overview of the possible application of the concepts of trademark protection to Internet uses will be given. This part will also compare US and EU approaches the above issue.
The author will come to the conclusion of the necessity to extend trademark protection so that non-origin functions of trademarks will be granted protection which could be done only through explicit recognition of the additional trademark functions by both legislature and courts.

1. MODERN US CONCEPTS OF TRADEMARK PROTECTION

1.1. US APPROACH TO TRADEMARK’S FUNCTIONS

A trademark is generally defined as a symbol used by a manufacturer or merchant to identify his or her goods from those produced or sold by another. As the definition suggests, manufacturers originally utilized trademarks solely for the function of identifying to the consumer the origin of goods.

Trademarks originally functioned to designate the source of origin of a product. Trademarks over time started to connote the quality of the product to which they were affixed. Trademarks also began to embody and symbolize the goodwill that a trademark proprietor has established for the trademarked product. Additionally trademarks have developed an advertising function. Initially, the primary purpose behind modern trademark law was to protect a trademark's ability to designate the source of origin of a product. Courts and legislature originally offered legal protection to trademark proprietors against infringers who used identical or similar trademarks on similar goods provided that a consumer was likely to be confused as to the origin of goods.

However the functions of a trademark have expanded over time and currently trademarks function as designators of source of origin, guarantors of the quality of the trademarked goods, embodiments of the trademark proprietor's goodwill, and as advertising medium. These changes in the commercial significance of trademarks have influenced the views of courts, legislators, and legal

4 See Lanham Act § 45, 15 U.S.C. § 1127 (stating that trademark consists of “any word, name, symbol, or device, or any combination thereof-(1) used by a person... to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others.”).

5 Lanham Act §§ 2 (d) 32, 15 U.S.C. § 1052 (discussing trademark protection against confusion afforded by United States). The Lanham Act states that: Any person who shall, without the consent of the registrant- (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive... shall be liable in a civil action by the registrant for the remedies... provided.
scholars\textsuperscript{6}. Nonetheless little uniformity of opinion as to trademark functions exists among these groups, which in its turn creates very unstable situation for trademark proprietors as if a trademark does not perform a function recognized, for example, by the courts, it may lose its legal protection. Thus the functions attributed to trademarks determine the scope of trademark proprietor’s rights. The above once again indicates the importance of the issue to be considered in this paper.

Now we proceed with examination of the trademark functions’ development of in the United States of America.

\textbf{a) Designation of Source of Origin}

As United States instituted comprehensive statutory protection for trademarks only in 1946, the concept of trademark protection was initially created by the courts.

American courts have traditionally viewed the trademark's function as one of identifying the physical source of trademarked products. In the 1916 case of Hanover Star Milling Co. v. Metcalf, the United States Supreme Court held that “the primary and proper function of a trade-mark is to identify the origin or ownership of the article to which it is affixed.”\textsuperscript{7} In 1871 the Court, in Canal Co. v. Clark, had stated that a “trade-mark must either by itself, or by association, point distinctively to the origin or ownership of the article to which it is applied”\textsuperscript{8}. A few years later in Manufacturing Co. v. Trainer, the Court followed Canal Co. and held that when a mark functions to indicate origin, “the symbol or device . . . becomes a sign to the public of the origin of the goods to which it is attached, and an assurance that they are the genuine article of the original producer”\textsuperscript{9}. Thus, trademarks in the nineteenth- and early twentieth-century functioned only to indicate the physical source of the product.


\textsuperscript{7} Hanover Star Milling Co. v. Metcalf, 240 U.S. 403 (1916), at 412.

\textsuperscript{8} Canal Co. v. Clark 80 U.S. (13 Wall.) 311 (1871) at 323.

\textsuperscript{9} Manufacturing Co. v. Trainer 101 U.S. 51 (1879), at 53.
This “physical source” theory of trademark function was the basis for protecting trademark from use by one other than its proprietor. ⁷ As the Supreme Court reasoned in Lawrence Manufacturing Co. v. Tennessee Manufacturing Co.: “…once a trademark, either by itself or by association, is a commonly understood reference to the origin of the article, the manufacturer of the article is injured whenever another adopts the same name or device for similar articles”¹¹.

The original Lanham Act indirectly preserved this early view of trademark function. Section 32(1) of the original Act required that actionable trademark infringement be “likely to cause confusion, or to cause mistake, or to deceive purchasers as to the source of origin of such goods or services”¹². Section 45 of the present Act provides that “any course of conduct of the registrant” that “causes the mark to lose its significance as an indication of origin” shall result in a mark losing the protection of the Act. Section 43(a) also implicitly retains the source theory by prohibiting the application of “a false designation of origin” to any goods moving in interstate commerce.

b) The sponsorship function

Despite the apparent statutory approval of the origin theory of trademark function, and judicial recognition of the approach in infringement cases¹³, the theory has come under heavy attack. The requirement that a trademark denote physical origin was impractical, even in the nineteenth century, and was often ignored. A slow change in judicial approach and substantive changes in the Lanham Act have turned the emphasis of the origin function from physical source of production to source of sponsorship.

In Holt¹⁴, for example, Holt & Co. contested the use of its trademark “La Favorita” by a competitive enterprise. Although the trademark did not indicate the physical source of the product - Holt & Co. did not actually produce or manufacture the flour upon which it had placed its mark for twenty years - the United States Supreme Court found that the mark was protected under common

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¹³ See, e.g., Anti-Monopoly, Inc. v. General Mills Fun Group, 611 F.2d 296, 301 (9th Cir.1979) (“It is the source-denoting function which trademark laws protect, and nothing more.”); Anti-Monopoly, Inc. v. General Mills Fun Group, 515 F.Supp. 448, 452 (N.D.Cal.1981) (“Primary significance' is to denote source or producer”).
¹⁴ Holt. 128 U.S. 514 (1888).
law. The Court held that the trademark evidenced the “skill, knowledge and judgment” of the company in selecting the flour, and that the mark was “possessed of a merit rendered definite by Holt & Co.'s examination and of a uniformity rendered certain by their selection”.  

Similarly, in Walter Baker & Co. v. Slack\(^\text{16}\), a competitor of Walter Baker & Co. attempted to sell chocolate under the “Baker” trademark, “Baker's Chocolate”. The United States Court of Appeals for the Seventh Circuit held that even if the defendant-competitor were to otherwise identify its chocolate as made by another manufacturer, the marketing of the cocoa under the “Baker” mark would still constitute unfair competition. The court noted that a consumer who chooses a product by trademark will generally not stop to think whether the physical source of two products bearing identical marks is the same.\(^\text{17}\) Thus, simply telling a consumer that two items have different physical origins would not prevent the use of another's trademark from constituting infringement.

In E.F. Prichard Co. v. Consumers Brewing Co. The United States Court of Appeals for the Sixth Circuit in Prichard stated, “It is sufficient, as regards, the claim of ownership in the trade-mark, that the goods are manufactured for the claimant, or that they pass through his hands in the course of trade and that he gives to them the benefits of his name and business style”.\(^\text{18}\)

These cases illustrate the change in the emphasis of the source theory from physical origin to sponsorship of a marked product. In the modern marketplace, the consumer neither knows nor cares whether the proprietor of a mark is actually making the product, or whether it is being produced under his supervision. Under the modified source theory of trademark function - the “sponsorship theory” - the trademark denotes that the goods to which it is attached emanate from the same manufacturer, or have reached the consumer through the same channels as particular other goods

\(^{15}\) Holt. 128 U.S. 514 (1888), at 520.
\(^{16}\) Walter Baker & Co., Ltd. v. Slack, 130 F. 514 (7th Cir.1904).
\(^{17}\) The court stated:
“We may safely take it for granted that not one in a thousand knowing of or desiring to purchase “Baker's Cocoa” or “Baker's Chocolate” know of Walter Baker & Co., Limited. The name “Baker” is identified with the product, and known, in connection with the product of the appellant, as a badge and guaranty of excellence. To sanction the sale of the spurious article as “Baker's Chocolate” or “Baker's Cocoa”, even if accompanied with the statement that it was manufactured by William Henry Baker and not by the old manufacturer, Walter Baker & Co., Limited, would not inform the purchaser that it was a different article, or other than the article known to the trade and to the world as “Baker's Chocolate” and “Baker's Cocoa”, and the identity of the name is the more subtle in the deception”. Ibid. at 518-19.

\(^{18}\) E.F. Prichard Co. v. Consumers Brewing Co.,136 F.2d 512 (6th Cir.1943) at 519.
that have brought the consumer satisfaction before. This sponsorship theory of trademark function clearly replaced the physical source theory in the twentieth century\textsuperscript{19}.

c) The quality or guarantee function

Although trademarks were traditionally viewed as an indicator of the product's origin, there was always some acknowledgement that marks also reflected quality of goods. By reflecting quality, trademarks allow consumers to maintain an expectation that the trademarked goods they purchase will meet the same quality level as those they previously bought. This quality connoting function of a trademark further acts as a form of guarantee that the purchaser will receive the same degree of satisfaction from the trademarked good as they have from previous purchases of similarly trademarked goods.\textsuperscript{20}

The recognition of quality function goes back to 1879 when the Supreme Court in Manufacturing Co. v. Trainer recognized that a trademark functions as both a guarantee of quality and an indicator of source.\textsuperscript{21} Later in Manhattan Medicine Co. v. Wood, the Court also remarked that a “trademark is both a sign of the quality of the article and an assurance to the public that it is the genuine product of the trademark owner's manufacture”.\textsuperscript{22} This quality function did not serve as a guarantee of the highest quality, but instead promised consistency among similarly marked goods.

Subsequent cases began to juggle the source and quality theories of the trademark function in an effort to find a balance between the two. In the 1946 case of Avrick v. Rockmont Envelope Co., the United States Court of Appeals for the Tenth Circuit observed that “although the primary purpose of a trade-mark is to indicate the origin, manufacture and ownership of the article in the mind of the purchasing public, it is usually associated with the quality of the product which it

\textsuperscript{19} Patricia Kimball Fletcher. Joint Registration of Trademarks and the Economic Value of a Trademark System // University of Miami Law Review, January 1982. WESTLAW
\textsuperscript{21} The Court stated that every one is at liberty to affix to a product of his own manufacture any symbol or device, not previously appropriated, which will distinguish it from articles of the same general nature manufactured or sold by others, and thus secure to himself the benefits of increased sale by reason of any peculiar excellence he may have given to it. Manufacturing Co. v. Trainer, 101 U.S. 51, 53 (1879).
\textsuperscript{22} Manhattan Medicine Co. v. Wood,108 U.S. 218 (1883), at 222-23.
symbolizes.” By 1968 the Trademark Trial and Appeal Board acknowledged that the chief function of a trademark is a kind of “warranty” to purchasers that they will receive, when they purchase goods bearing the mark, goods of the same character and source, anonymous as it may be, as other goods previously purchased bearing the mark that have already given the purchaser satisfaction.

As Frank Schechter indicated in its early work trademarks imprinted “upon the public mind an anonymous and impersonal guaranty of satisfaction, creating a desire for further satisfactions.”

Thus the courts gradually recognized the trademark's primary role as an indicator of constant quality; its secondary role being an indicator of the source or sponsorship of a product.

The Lanham Act indirectly affirms the guarantee or quality assurance function of trademarks by imposing on a trademark licensor an obligation to exercise control over both the quality of the goods produced by his licensees. Without this requirement, the right of a trademark proprietor to license his mark separately from the business in connection with which it has been exploited would create the danger that goods bearing the same trademark might be of different qualities. Thus the Act imposes an affirmative duty on the trademark licensor to guarantee consistent quality, allowing a business practice which, in its turn, directly contravenes the strict source theory of trademark function. Without recognition of guarantee of quality function of trademark modern franchising and licensing would be considerably limited under the strict source theory because franchisees and licensees could not sell products and services which did not actually originate with the trademark proprietor.

Thus both statutory norms and courts recognize the quality function of trademarks, which in its turn meets a legitimate need of the modern commercial community.

d) The advertising function

Beyond its sponsorship and quality functions, a trademark has evolved into an advertising medium.

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In regards to advertising, Frank Schechter described trademarks as the most effective vehicle available by which companies can establish product acceptance and encourage consumer loyalty.\(^{27}\) Trademarks serve as advertising agents because, similar to advertisements, trademarks convey information and persuade consumers to purchase goods bearing certain trademark.

Although the quality function may be of primary significance to the consumer, the modern trademark proprietors rely heavily on a trademark's inherent commercial promotional value, which allows for the creation and maintenance of consumer demand for a product.

Justice Frankfurter, in Mishawaka Rubber & Woolen Manufacturing Co. v. S.S. Kresge Co., commented:

“...the protection of trade-marks is the law's recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them. A trade-mark is a merchandising short-cut which induces a purchaser to select what he wants, or what he has been led to believe he wants. The owner of a mark exploits this human propensity by making every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol. Whatever the means employed, the aim is the same - to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trademark owner has something of value.”\(^{28}\)

The effort that a trademark proprietor adds to the trademark through advertising and production of quality products creates goodwill, which the public associates with the trademark. Goodwill essentially is the value of the name and symbol recognition that is created in the trademark as a result of the trademark proprietors’ use, advertising, and sales.\(^{29}\) The goodwill aspect of a trademark benefits the trademark proprietor by allowing consumer reliance on the trademark's reputation, its quality connotation, in making their purchases. Goodwill, additionally, generates

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\(^{29}\) See Seigrun D. Kane, Trademark Law: A Practitioner's Guide 8, 11 (2d ed. 1991) (defining goodwill as value of trademark that accrues from use, advertising, and sales which involve trademark).
buyer interest in trademarked goods, encouraging a purchaser to return to, and purchase again, a good with which the purchaser is familiar.\footnote{William T. Vuk. Protecting Baywatch and Wagamama: Why the European Union Should Revise the 1989 Trademark Directive to Mandate Dilution Protection for Trademarks // Fordham International Law Journal, March, 1998. WESTLAW}

However trademarks are as brittle as they are important. The ever-growing significance of trademarks in the competitive market economy makes them attractive targets for so called “free riders”, which may attempt to gain an advantage from another's trademark without paying anything for this advantage. Thus in Kenner Parker Toys, Inc. v. Rose Art Indus\footnote{Kenner Parker Toys, Inc. v. Rose Art Indus., 963 F.2d 350, 353 (Fed. Cir. 1992).} the Court stated that competitors realized economic advantage of entering established market and free-riding on competitor's advertising and trademark by selling similar product with similar trademark. The free-rider attempts “to tread closely on the heels of [a] very successful trademark” in trying to become associated with the established trademark so that the sale of the free-rider's products will increase without having to build up their own goodwill. At almost no cost, the free-riding competitor is able to capture some of the goodwill which belongs to the original trademark because some consumers will be confused as to the source of origin of goods mistakenly believing that the free-rider's sign and the original trademark are the same.\footnote{William M. Landes & Richard A. Posner, Trademark Law: An Economic Perspective, 30 J.L. & Econ. 265, 270 (1987). at 272.}

Nevertheless in such cases the goodwill is not damaged exclusively by uses of the trademark which cause confusion, it also can be damaged in uses that do not confuse the consumer. Examples of this type of damaging use are parodies involving a trademark and production of non-similar products of bad quality. These types of uses detract from the consumer's attitudes towards the trademark, but in no way confuse the consumer as to the source of origin. The confusion doctrine, therefore, does not offer a method of protecting trademarks from these damaging uses and another source of protection is required.\footnote{William T. Vuk. Protecting Baywatch and Wagamama: Why the European Union Should Revise the 1989 Trademark Directive to Mandate Dilution Protection for Trademarks // Fordham International Law Journal, March, 1998. WESTLAW}
Trying to offer trademarks an additional level of protection the United States in 1995 passed legislation which granted marks’ proprietors right against the uses that dilute the distinctive nature of the trademark.\(^{34}\)

The dilution doctrine provides that trademarks may suffer a second type of damage, separate from confusion as to source of origin that diminishes the trademark's ability to function as a recognition agent.\(^{35}\) Unlike damage due to confusion, damage due to dilution does not lessen a consumer's ability to determine the source of a good's origin. Dilution instead weakens the strength of the trademark by dispersing the trademark's identity, thereby, causing a loss of the trademark's ability to denote the good. The damage due to confusion is immediate, while damage due to dilution has been described as similar to an infection that slowly destroys the value of a trademark.\(^{36}\) Furthermore, protecting trademarks from confusion applies only to uses on identical or similar goods, while protecting trademarks from dilution extends the protection afforded a trademark to situations involving uses on non-similar goods.

As Schechter pointed out dilution protection of trademarks was necessary to provide adequate and thorough protection of a trademark by preserving the uniqueness or singularity of a trademark. He also asserted that the aspect of a trademark's uniqueness was important because in a free-market economy trademarks serve primarily as marketing tools and only secondarily as identifiers of source.\(^{37}\)

U.S. Courts have advanced several theories as to how dilution damages a trademark. The primary theories, blurring and tarnishment, were the first theories of dilution U.S. courts articulated and courts often refer to them in cases involving dilution. U.S. courts, later, annunciated the periphery theories, genericization and disparagement.


\(^{35}\) See Polaroid Corp. v. Polaraid, Inc., 319 F.2d 830, 836 (7th Cir. 1963) (defining dilution as diminishment in public's perception of trademark's ability to signify something unique, singular, or particular); see also Ethan Horowitz & Eric A. Prager, What Is Dilution and How Is it Proved? Complexities of Question Discussed, Some Useful Answers Provided, N.Y.L.J., Dec. 2, 1996, at S7 (defining dilution as “the diminishment over time of the capacity of a distinctive trademark to identify the source of goods bearing that [trademark]”).


**Blurring**

Legal scholars have referred to blurring as one of the traditional or classic methods of dilution. The use of an exact or similar trademark on a dissimilar product blurs a trademark by lessening the distinctiveness of a senior trademark. The blurring theory provides that a consumer knows that the original or senior trademark proprietor did not produce the goods, but upon viewing the second or junior user's trademark on the non-competitive goods, the consumer has a mental association with the senior trademark. If this association continues, it will eventually blur the senior trademark because the letter will no longer remind the purchaser of the unique association of the trademark with the senior user's product. The most obvious situation in which such use can occur is when a famous trademark is used on totally unrelated goods, and the public, though not confused, will make a link with the famous mark, which results in the diminishment of that mark's uniqueness.\(^{38}\) Going back to Schechter's: “if you allow Rolls Royce restaurants, and Rolls Royce cafeterias, and Rolls Royce pants, and Rolls Royce candy, in ten years you will not have the Rolls Royce mark any more.”\(^{39}\) In other words blurring is related to the degradation of a trademark's power to distinguish, the impairment of the trademark's power to build a unique link in the mind of the consumer.

The new Federal Trademark Dilution Act also refers to blurring and defines it as “the lessening of a capacity of a famous mark to identify and distinguish goods and services.”\(^{40}\)

**Tarnishment**

While the theory of dilution by blurring protects the distinctiveness of a trademark, the tarnishment theory attempts to protect the quality associations that consumers have for the trademark. Tarnishment occurs when a junior trademark holder either uses a senior trademark in an

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unwholesome or unsavory context or discolors the distinctiveness of a senior trademark by associating it with undesirable or inferior-quality products.\textsuperscript{41} Again the public will not be confused, but through the link made between the junior mark and a senior famous trademark the reputation of the latter will be harmed. Tarnishment generally occurs if a famous trademark or similar mark is used in relation to inferior products or in an unwholesome context, where such use without the trademark proprietor's consent will evoke negative associations with the famous mark in the minds of consumers.\textsuperscript{42} This association diminishes a senior trademark's reputation because customers will associate the lack of quality of the junior user's products with the senior user's unrelated products.

Although tarnishment has been at the basis of many injunctions for dilution, it is not explicitly stated as a form of dilution in the Federal Trademark Dilution Act. Nevertheless, there is general consensus that the Act also includes tarnishment.

\textbf{Disparagement}

Trademark disparagement occurs when a junior user alters a senior user's mark so as to mock or denigrate it. One example of this type of dilution is when an advertiser mocks at a widely recognized mark of a competing or noncompeting product, to promote his own product rather than to parody or provide a social comment.\textsuperscript{43}

\textbf{Genericization}

Trademark genericization is a form of dilution that occurs when a competitor uses a trademark in a way that encourages the public to view the mark as a product type and not a source

\textsuperscript{41} See e.g. Hormel Foods Corp. v. Jim Henson Prods. Inc., 73 F.3d 497, 507 (2d Cir. 1996) (stating that dilution by tarnishment occurs when trademark owner's trademark is "linked to products of shoddy quality, or is portrayed in an unwholesome or unsavory context").

\textsuperscript{42} The most obvious form of use that tarnishes the reputation of a senior famous mark is use in parody, and most cases concerned with the concept are examples of parodic use. Examples are the use of the slogan "Enjoy Cocaine" on t-shirts, a pornographic movie featuring actresses dressed in Dallas Cowboy Cheerleaders uniforms and use of a replica American Express credit card hiding a condom and abusing the famous slogan "Don't leave home without it". Sabine Casparie-Kerdel.Dilution Disguised: Has the Concept of Trademark Dilution Made Its Way into the Laws of Europe // European Intellectual Property Review. 2001, 23(4), 185-195.

The damage inherent in this type of dilution is that the trademark proprietor will lose his rights to protection of the trademark because when a trademark becomes generic the trademark’s proprietor is deprived of any legal protection and any competitor may use his trademark.\(^4^5\) Generally, dilution by genericism can only occur in a few situations, namely the use of the trademark in advertising and the use of the trademark in a literary work\(^4^6\).

Now that the conditions for an action of trademark dilution have been identified, it is also worth noting the restrictions.

First of all, the action is only available for proprietors of famous marks. General criteria for determining whether a mark is famous have been laid out in the Federal Trademark Dilution Act, but to decide whether a specific trademark meets these criteria in practice is open to interpretation by the courts. A trademark’s inherent or acquired distinctiveness is one of the criteria to take into account when considering whether the mark is famous, but it is not mentioned as a requirement on its own.

However, it is generally understood that to be capable of being diluted, a mark must have a degree of distinctiveness and strength beyond that needed to serve as a trademark. Obviously, it will be easier for an inherently distinctive mark to acquire the required fame and uniqueness in the market, but less distinctive marks have been granted protection under dilution, if, under the remaining criteria of the Act, they have acquired distinctiveness in the marketplace through use.\(^4^7\) Moreover a mark’s fame must extend throughout a substantial proportion of the United States.

A further restriction is that section 43 (c) expressly excludes fair use of a famous mark in commercial advertising or promotion to identify the goods or services of a competitor; non-commercial uses and all forms of news reporting and news commentary.

\(^4^4\) See e.g. Kellogg Co. v. National Biscuit Co., 305 U.S. 111, 116 (1938) (finding that trademark Shredded Wheat had become generic and, thus, no longer deserved trademark protection). Genericide of a trademark occurs when the trademark no longer identifies a unique source of a good, and instead becomes the name for the good. Id.

\(^4^5\) See: Vincent N. Palladino, Trade Dress After Two Pesos, 84 Trademark Rep. 408, 415 (1994) (noting that competitors and general public have right to utilize trademarks which become generic).


\(^4^7\) An example is American Express Company v. CFK Inc. 947 F. Supp 310, 41 U.S.P.Q. 2d 1756 (E.D. Mich. 1996), where the slogan “Don't leave home without me” was held to be sufficiently famous to be eligible for protection under the Federal Trademark Dilution Act.
Finally, it is important to note that in legal doctrine, dilution has always been clearly distinguished from traditional infringement based on customer confusion as to the origin of goods.\(^{48}\) The purpose of traditional trademark infringement is to protect the public from wrong consumer choices and to protect the trademark proprietor from loss of business to competitors. Dilution, in its turn, aims to protect the trademark, by preserving the distinctive nature and commercial goodwill of the mark itself.\(^{49}\) Thus protection against traditional infringement was designed to protect indication of origin function of trademark, while dilution addresses additional non-original functions of trademark, thus reflecting the growth of trademark significance in the modern market.

In sum US law and courts recognize non-origin function of trademark. Though dilution concept reflected in the Lanham Act and deliberated by courts shows the recognition of non-origin trademark functions and as a consequence extend the scope of protection to be granted to trademarks, it concerns only famous trademarks, leaving the proprietors of all others trademarks with a few possibilities to protect their investments and goodwill embodied in trademarks, as they the scope of their protection is limited to oppositional rights against traditional infringement based on consumers’ confusion.

2. MODERN EUROPEAN CONCEPTS OF TRADEMARK PROTECTION

2.1. The development of the legal significance of trademark

As was noted above trademarks perform various functions, the most undisputable and well established of which is identifying the source of goods bearing the trademark.

However it has been acknowledged that a trademark is more than a mere way of indicating the source of goods. With the introduction of mass production systems and with the continuing internationalization of trade, the source of the goods became rarely known to the buying public and as consequence less important to them. Moreover licensing and assignment of trademarks brings

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\(^{48}\) Section 32 (1) (a) of the Lanham Act prohibits use of a trademark likely to cause confusion or mistake or to deceive purchasers as to the source of such goods or services, emphasizing indication of origin function of trademark.

about the situation where trademark X on the determined products may not mean that it is produced by enterprise X, but its brand owner, which may also produce a number of competing brands.

What became important, however, is that trademark indicates that the goods marked with the certain trademark emanate from the same source as other goods bearing the same trademark that have already given the consumer satisfaction. Moreover not only does the trademark perform a quality function by symbolizing a certain quality, but it also has an additional selling function by creating goodwill merely through the unique associations it evokes in the mind of the consumer.50

Thus the value and significance of trademarks has evolved beyond the mere indication of origin of a product that in its turn challenges the boundaries of trademark protection by requiring of the extension of the scope of trademark protection. The question, however, is whether these additional functions are recognised and as consequence protected within European Union.

In this respect there are two considerably different concepts as to what functions a trademark has to serve and, accordingly, which rights are granted to a trademark proprietor for his mark’s protection.

2.1.1. Indicating the origin of products concept

The traditional approach to trademarks mostly based on the idea that a sign is attached to a product in order to guarantee its origin to consumers, i.e. the undertaking which produced the goods or services and is therefore responsible for their quality.

Accordingly the protection to be granted to a trademark was limited to a protection of that origin function. The proprietor of a mark could only prevent the registration or use of an identical or similar mark when there was the risk that the consumer would think the goods with the mark and the sign had the same source of origin that is they emanated from the same or connected undertakings. The protection of trademarks as indicator of origin is well established and undisputed in the various

Member States. Influential E.U. countries such as the United Kingdom still consider the protection of origin as the main function of trademark law\textsuperscript{51}.

2.1.2. Multi-functional trademark concept

Gradually, this approach was further developed by taking account of the features and needs of modern consumer capitalism. As Schechter showed in a very seminal work, the crucial point about a mark is its selling power.\textsuperscript{52} This idea reflects the changes in commercial practices, such as the dramatic increase in advertising, the rise of self-service shops and the growing amount of purchases made by individual consumers. Hereby a “consumer society” is produced, in which trade marks play an ever-increasing role\textsuperscript{53}. Thus in addition to its indication of origin, the following functions of trademark came to be accepted:

- the advertising function;
- guarantee of quality function;
- embodiment of goodwill function.

Before embarking on the examination of the above trademark functions it is worth noting that the character of the mark changed from the rational and physical to the emotional and psychological. As Gielen summarizes: “The modern approach is that a trademark functions as a means of identification and communication. ... in other words, the trademark is a messenger.”\textsuperscript{54} The aforementioned aspects can therefore not be treated as indicating separate functions. The key feature of the mark is rather its ability to identify the product clearly and thereby to transfer all sorts of rational information and irrational images from the producer to the consumer\textsuperscript{55}.

\textsuperscript{51}See e.g. Wagamama Ltd. v. City Centre Restaurants PLC, [1995] F.S.R. 713, 730 (UK) (finding that inclusion of phrase likelihood of association in 1994 Trademarks Act, section 10(2), does not extend trademark protection to uses that do not result in confusion as to product origin); Baywatch Production Co. Ltd. v. Home Video Channel, [1997] F.S.R. 22, 30 (UK) (stating that trademarks are not granted protection unless likelihood of confusion is present).
Today, it is primarily by advertising that reputations are created and maintained. Trademarks provide an economical and effective means of advertising, and are, therefore very useful for promoting products. A great deal of time and money can be invested into the development of the trademarks. Through advertising trademark can communicate with consumers. It transfers advertising information to them in order to convey desirability of products, thereby acquiring goodwill autonomous of its origin and thus becoming a business asset independent of its source.\(^{56}\)

In this respect it is worth noting that consumers form a mental association between the trademark and the product, not between the trademark and the producer.\(^ {57}\) Therefore this psychological aspect of a consumers association between trademarks and products needs to be protected because once a consumer develops this recognition, the trademark proprietor acquires valuable asset.\(^{58}\)

Additionally, trademarks protect the expectations of consumers with regard to goods because a trademark functions as a guarantee of a certain quality.

Every product has its own qualities which however are not observable before purchase. Such qualities are known only to manufacturer, but no to customers. Most products have one crucial noticeable feature - a trademark.

In the world without trademarks it would be very difficult to make choice between similar products, the quality features of which are unknown to consumer. For example consumer wants to buy a microwave oven. On entering the showroom he sees a display of ovens which differ only in their variety features such as, for instance, is color. The point about variety features is that they are not universally desired; some consumers prefer brown over white. However, all consumers consider quality feature as the most desirable one, for example, mechanical reliability. In these circumstances, only by chance consumer will pick the oven with the desirable unobservable qualities. Further,


manufacturers would produce goods with the cheapest possible unobservable qualities, because high levels of unobserved qualities would not add to a manufacturer's ability to sell at a higher price. But in the world of trademarks each oven is marked with Phillips, Zanussi, Sharp and so forth. Suppose that consumer has either owned a Zanussi oven in the past, or it was recommended to him. Instead of investigating the attributes of several ovens, the only thing he needs is to identify that the oven is bearing the relevant mark. Thus durability, reliability and other desirable characteristics have been compressed into one word: Zanussi. Thus the quality connoting function of a trademark acts as a form of guarantee or warranty that the purchaser will receive the same degree of satisfaction from the trademarked good as they have from prior purchases of similarly trademarked goods.  

Then suppose that the same customer has never owned a microwave oven, but bought a number of other domestic appliances bearing the same mark in the past, all of which have been satisfactory. In this case the mark will again serve as an indicator of a certain level of quality drawing from the direct previous experience of consumers.

Thus the traditional and commonly accepted justification for trademarks, based on the recognition of their quality function, is that they provide incentive to firms to improve and maintain quality at constantly high level, otherwise the mark will act as a repellent. As consequence a firm with a strong trademark would be unwilling to lower the quality of its product because it would suffer a capital loss on its investment in the trademark.

Moreover trademarks allow consumers to associate a given mark with a certain product so that consumer expectation and goodwill can be created. Franzoni defines the term “goodwill” in the following way: “Goodwill is the disposition of consumers to purchase goods or services from a constant source. It is favorable opinion of consumers that induces them to buy goods, either because

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they have an experience with the source or because, even if it is not so, it has their favorable consideration” 61

Thus due to good-will, trademarks today constitute valuable assets for many corporations, which are expressly indicated on corporate balance sheets, and are used as collateral in lending transactions 62.

In sum the development of the understanding of trademark functions went the long way from indicator of goods' source of origin to gradually broaden perception and acceptance of such functions as advertising, embodiment of goodwill and quality function.

It is important to point out that there is no unitary view among legal scholars and judges in respect to trademark functions understanding. Those ones who adhere to traditional approach ague that recognition of non-origin trademark functions would be tantamount to giving unrestricted monopoly to trademark proprietors, which would not be in compliance with the principles of the sound competition 63.

The above argument is not flawless as protecting trademarks from infringing activity which aims at taking unfair advantages form exploiting any of trademarks functions maintains and encourages the policies underlying trademark law. First, such extended protection would offer trademark proprietors a way to protect the goodwill that is generated and surrounds their trademarks. Second, extension of trademarks’ protection does not threaten to interbrand competition, nor does it confer a monopoly onto the trademark proprietor, because a competitor does not require the use of another competitor's trademark to effectively compete. Furthermore, the concept which recognizes

63 See e.g. Wagamama case where the UK Court of Chancery rejected the notion that trademarks now serve as advertising entities. Many critics of dilution agree with this and argue that trademarks only serve the sole function of designating the source of origin of a good. Therefore, they contend that provision of broader protection is not necessary for trademarks because the origination function is not damaged by dilution. Wagamama Ltd. v. City Centre Restaurants PLC, [1995] F.S.R. 713, 730 (UK).
the multiple function of a trademark is the more modern one. It reflects the needs of contemporary market which a trademark has to meet today\textsuperscript{64}.

As consequences the scope of protection needs to be extended. As was previously stated in order to protect a trademark proprietor's interests in the source identifying function of a trademark, governments offered trademarks legal protection against uses that resulted in a likelihood of confusion as to the origin of goods. Taking into consideration the extension of the functional aspect of trademarks and insufficiency of confusion concept to provide adequate level of protection to non-origin functions of trademark it is necessary to start defending trademarks from uses that damage trademarks, but do not cause likelihood of confusion.

2.2. FUNCTION OF A TRADEMARK ACCORDING TO THE EC DIRECTIVE

By adopting the Trademark Directive\textsuperscript{65}, the Commission attempted to harmonize the protection each Member State affords trademarks. Prior to the Trademark Directive, each Member State had its own trademark laws and many Member States provided different protection for trademarks. With the adoption of the Trademark Directive, the Council partially aligned the Member States' policies on the protection Member States should grant trademarks.

It worth noting that the Directive has been heavily influenced by Benelux trademark law. At the time of drafting the Harmonization Directive, the Benelux law was one of the most modern trademark laws in the European Communities and Benelux countries already had the experience of a fully harmonized trademark system. Under these circumstances, there have been assertions that certain parts of the Directive are based on the Uniform Benelux Trademark Law\textsuperscript{66}.

2.3. BENELUX APPROACH

Benelux trademark law acknowledged the significant purpose of a mark as the most important device of competition in internal market, and therefore deviated from the traditional view of a sign as an indicator of origin towards the recognition of the other functions of the mark. As a consequence a broad scope of protection was granted to trademark proprietor.

Under the old Benelux Trademark Act, Article 13A provided two infringement criteria as follows:

“Without prejudice to the possible application of ordinary civil law in matters of civil liability, the proprietor of a mark may, by virtue of his exclusive right, oppose: 1) any use made of the mark or of a similar sign for the goods or services in respect of which the mark is registered, or for similar goods or services; and 2) any other use, in economic intercourse, of the mark or of a similar sign made without a valid reason under circumstances likely to be prejudicial to the proprietor of the mark”.

Thus similarity of the signs in question was sufficient for a claim. In order to determine those cases in which similarity is to be assumed, the Benelux court developed the concept of “likelihood of association.”

Likelihood of association, developed by Benelux case law, is a broader concept than the notion of likelihood of confusion. In Union v. Union Soleure\(^{67}\) the Benelux Court of Justice held that there is resemblance between a mark and a sign when, having regard to all particulars in the case, including the distinctive character of the mark, the mark and the sign, when considered globally, are aurally, visually or conceptually so much alike that this can cause associations between the mark and the sign on the part of the public confronted by them. Similarity means risk of association. A risk of confusion, which is a criterion to decide trademark infringement in most countries, was held irrelevant to prevent the use of a similar sign.

\(^{67}\) Henri Jullien BV v Verschuere Norbert. Case A 82/5, judgment of 20-5-1983, Jurisprudence of the Benelux Court of Justice 1983 (also known as the 'Union/Union Soleure' Case).
In other words likelihood of association deals with cases where a consumer looks at a later mark and automatically link it with an earlier mark. For example, consumers seeing Tiffany ice cream or Rolls Royce lipstick will think of Tiffany jewelry and Rolls Royce car. Such linking will impact consumer choices even though consumer is not confused. However such linking of the sign with diverging associations also undermines value of the mark. Thus, it is important for a trademark proprietor to preserve the unique association that this mark brings about in the consumer's mind.\(^{68}\)

It appears that Benelux law does go further than the trademark laws of other Member States because it protects trademark proprietors against the use of identical or similar signs in circumstances in which the consumer is in no way confused as to the origin of the product and so provides protection also against harm to other trademark functions (harm caused by virtue of what is known as degradation and dilution of trademarks). This approach is well illustrated by the case in the Benelux Court of Claeryn and Klarein\(^{69}\). The case concerned the mark “Claeryn” for a Dutch gin and ‘Klarein’ for a liquid cleaning agent, which are apparently pronounced identically in the Dutch language. In that case the Benelux Court expressed the view that one of the advantages of a trade mark is the capacity to stimulate the desire to buy the kind of goods for which the mark is registered and that that capacity can be adversely affected by use of the mark or a similar sign for non-similar goods. It was of the opinion that that could occur in two different situations: when the blurring of the distinctiveness of the mark means that it is no longer capable of arousing immediate association with the goods for which it is registered and used (which is what is considered under dilution of trademark); or when the goods bearing infringing mark address the public’s feelings in such a way that the trademark’s power of attraction is affected (which is presumably what is meant by the ‘degradation’ of trade marks). Since it was considered that the similarity between the two marks might cause consumers to think of a cleaning agent when drinking ‘Claeryn’ gin, the ‘Klarein’ mark

\(^{68}\) Soyoung Yook. Trademark Dilution in European Union // International Legal Perspectives. Spring 2001. 223

\(^{69}\) Claeryn v. Klarein. Case A 74/1, Benelux Court of Justice 1-3-1975, NJ 1975, 472.
was held to infringe the ‘Claeryn’ mark, even though there was considered to be no risk that consumers would think that the products came from the same source\(^70\).

In sum Benelux developed the analogous concepts of trademark protection as US courts and legislature did, but in contrast to US Benelux did not limit applicability of these concepts only to famous trademarks, which shows that the latter recognizes additional non-origin functions as attributes inhered to all trademarks without any limitations. Such approach in its turn indicates that the goodwill attached to a mark and the image connected with it are taken seriously and protected against all distracting activities.

Now we return to the provisions of Directive and examine them in the light of the purpose of the provisions to be considered. This method of interpretation takes into account the function of a trademark which determines the scope of its protection. The function assigned to a trademark conditions the rights of the trademark proprietor since these rights are an expression of the former. Thus there is a direct interrelation between both which must be borne in mind when exploring the provisions of the Directive.

As mentioned earlier, there are two different concepts concerning the functions a trademark has to serve and the rights it gives. The question remains, which of those concepts is followed by the Trademark Directive?

First of all, the wording of the 10th Recital states that the function of trademark is “in particular” to guarantee the trademark as an indication of origin. This indicates that the origin function is not considered to be the sole function of trademark, but rather that the Directive is open for a broader understanding of the trademark's performance.

Secondly, the Directive has been developed to be consistent with the case law of the ECJ, which has repeatedly described the specific subject-matter as guaranteeing to the proprietor of a mark “that he has the exclusive right to use that trademark for the purpose of putting a product on the market for the first time and therefore to protect him against competitors wishing to take

\(^70\) Ibid.

This judgment shows that the ECJ went further than merely giving protection to an indication of origin. Therefore, since the Directive should be in line with that case law, this is strong indicator for a trademark concept which goes beyond the traditional indicating origin function.

Moreover the concept which recognizes the multiple function of a trademark is the more modern one. It reflects an orientation towards the contemporary market situation and the purposes a trademark has actually to serve today. Thus it seems reasonable to presume that any approximation of the laws of the Member States will be forward-looking and therefore be created in line with the more modern notion.\footnote{72}{Annett Wagner. Infringing Trademarks: Function, Association and Confusion of Signs according to the E.C. Trademarks Directive //European Intellectual Property Review, 1999, 21(3), 127-132}

Furthermore the meaning of terms “confusion” and “association” as used by the Directive in the art. 4 (1) (b) and art. 5 (1) (b)\footnote{73}{According to Article 4 of the Directive in relevant part: “...a trade mark shall not be registered or, if registered, shall be liable to be declared invalid:… if because of its identity with, or similarity to, the earlier trade mark and the identity or similarity of the goods or services covered by the trade marks, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association with the earlier trade mark. Art.5 of the Directive says: “... The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:... (b) any sign where, because of its identity with, or similarity to, the trademark and the identity or similarity of the goods or services covered by the trademark and the sign, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trademark”. Council Directive 89/104 of December 21, 1988 to Approximate the Laws of the Member States relating to Trademarks [1989] O.J. L40/1.} needs to be addressed. As already mentioned initially confusion as to the origin comprised the small scope of infringing signs, whereas a likelihood of association covered a much broader scope of infringements. Adhering to these traditional concepts, an inclusion of “likelihood of association” into the “likelihood of confusion” does not make much sense. This would lead to the absurd result that the smaller comprised the broader as a part. Therefore searching for a sensible interpretation, it is obvious that the terms “confusion” and “association” cannot be understood in their original legal context.

According to the usual semantic use of both words confusion is more than mere association, since “association refers to a simple mental connection, whereas confusion means a state of disorder
so that items are indistinguishable and not able to be seen as separate entities.” In his commentary on the German implementation of the Directive, Fezer justifiably indicates that “confusion is false association.” So a proper use of the words cannot intend that association is to be treated equally with confusion.

The ECJ implicitly used this argumentation in the Sabel BV v. Puma AG when it referred to the wording. In that case, Sabel BV applied to register a device mark depicting a bounding cheetah and the word SABEL for leather and imitation leather, products made therefrom and for clothing, as a trademark in Germany. The applications were opposed by Puma AG on the ground that it is the owner of an earlier pictorial mark which shows a bounding puma. The Deutsches Patentamt found that there was no resemblance between the two marks and rejected the opposition. Puma successfully appealed to the Bundespatentgericht (Federal Patents Court). Sabel then appealed to the Bundesgerichtshof for annulment of the the Bundespatentgericht's decision refusing its applications. The Bundesgerichtshof sought guidance from the European Court of Justice on the interpretation of the notion of confusion between trademarks under Article 4(1) (b) of the Trademark Directive. “In its question, the Bundesgerichtshof [essentially asked] whether the criterion of the likelihood of confusion . . . which includes the likelihood of association with the earlier trademark contained in Article 4(1)(b) of the Directive is to be interpreted as meaning that the mere association which the public might make between the two marks, as a result of a resemblance in their semantic content, is a sufficient ground for concluding that there exists a likelihood of confusion within the meaning of that provision”.

The Belgian, Luxembourg and Netherlands governments contended in Sabel that: “Likelihood of association may arise in three sets of circumstances: (i) where the public confused the sign and the mark in question (likelihood of direct confusion) (ii) where the public [made] a connection between the proprietors of the sign and those of the mark and confused them (likelihood

of indirect confusion or association) and (iii) where the public consider[ed] the sign to be similar to the mark and perception of the sign call[ed] to mind the memory of the mark, although the two [were] not confused (likelihood of association in the strict sense).” They also contended that Article 4(1)(b) of the Directive applied in all three cases. However the United Kingdom did not agree on inclusion of the third category.\(^78\)

Puma and France agreed with the governments of the Netherlands, Belgium, Luxembourg. However, Sabel and the European Commission advocated the British point of view. The final decision in the European Court of Justice was in favor of Sabel and thereby indicated that the liberal Benelux law should not be a criterion in interpreting the concept of association in Article 4(1)(b) of the Trademark Directive. The European Court of Justice concluded that the “concept of likelihood of association is not an alternative to that of likelihood of confusion, but serves to define its scope and the terms of the provision itself exclude its application where there is no likelihood of confusion on the part of the public.”\(^79\) Consequently, the mere conceptual association which the public might make between the marks of Sabel and Puma was not in itself sufficient in order to conclude that there was a likelihood of confusion within the meaning of Article 4 (1) (b) of the Directive.

It is worth noting that after adoption of the Directive Benelux\(^80\) remained unambiguous in its support for non-origin association\(^81\). However, the Benelux countries stand alone. The negotiating history of the Directive shows that Benelux countries have been involved in a constant battle with other Member States. The British Government, especially, took the position that the classic confusion rule should apply under the regime of the Directive. Post Directive case law in the United

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\(^80\) In 1992, the new Benelux Trademarks Act was promulgated pursuant to the EC Harmonization Directive, and came into effect on January 1, 1996. Under the new Benelux Trademarks Act, Article 13(A)(1)(C) provides that a mark owner can contest any use in the course of trade, without due cause, made of a mark that has a reputation in the Benelux territory, or of a similar sign, for goods that are not similar to those for which the mark is registered, where use of such sign takes unfair advantage of or is detrimental to the distinctive character or the repute of the mark. Thus the change affecting the Benelux approach to infringement boiled down to adding of a reputation requirement and a description of the type of damage that is protected against, namely uses that damage the distinctive character or the reputation of the trademark. Accordingly, the mark must now have a reputation in order for a dilution suit to be brought under the Benelux Act.

Kingdom is equally clear about the interpretation of the Directive: classic confusion. Both in the
United Kingdom and the Benelux, national courts were so confident that they did not feel the need to
submit a preliminary question to the Court of Justice.\textsuperscript{82} However on November 11, 1997, the Court
of Justice rendered its decision and overruled the arguments of the Benelux delegation. As a
consequence, the Benelux had to review its former case law. The mere association between two
signs is not sufficient any more in establishing infringement between the trademark and a sign; as a
consequence the scope of protection is reduced, which could result in fewer possibilities autonomously to protect the advertisement function.

Nonetheless even though ECJ position in Puma case may seem to be a step back to the
traditional concept of trademark protection covering mainly indication of origin function of
trademark or as Kamperman Sanders ironically mentioned in his comment on the Wagamama
decision\textsuperscript{83}, that it is “back to the dark ages of trademark law”, it is not exactly the case, as Court of
Justice did not go too far in determining the scope of protection to be granted to trademark as
Advocate General did. The latter limited likelihood of confusion exclusively to the origin of the
goods.\textsuperscript{84} It looks like the ECJ refuses to limit the requirement of confusion as to the origin but
deliberately gives a leeway for the recognition of confusion as to other aspects as well. Otherwise it
would be contrary to the spirit and wording of the Trademark Directive.\textsuperscript{85}

In summary it is necessary to stress that the provisions of Directive should be interpreted in
the light of the function of a trademark since it determines the rights of a proprietor and, accordingly,
the conditions of its infringement. As shown above the Directive recognizes that the guarantee of

\textsuperscript{82} Gert-Jan Van de Kamp. Protection of Trademarks: the New Regime - Beyond Origin // European Intellectual

\textsuperscript{83} Anselm Kamperman Sanders, “The Wagamama Decision: Back to the Dark Ages of Trademark Law” //

\textsuperscript{84} A. G. came to the following conclusion: “Taking account of the language, the purpose and the context of the
Directive, therefore, I consider that, while the likelihood of association with an earlier mark is a factor to be taken
into account, registration of a mark cannot be opposed unless it is established that there is a genuine and properly
substantiated likelihood of confusion about the origin of the goods or services in question”. European Court of
E.T.M.R. 1 (1997) at 64.

\textsuperscript{85} Annett Wagner. Infringing Trademarks: Function, Association and Confusion of Signs according to the E.C.
origin is only one of several functions of trademarks, thus reflecting a broader understanding of trademark rights. Hence the provisions protecting a trademark proprietor against the use of identical or similar signs are to be interpreted in a way which best protects the additional functions of trademark.

The likelihood of confusion is to be understood as referring to the all aspects of trademark performance including, but not limited to its role as indicator of source of origin as it does not seem possible to protect only single aspects of the overall performance of the trademark, for example the indication of origin, since all of them are directly related to this key function.

A mere association between two marks might affect their purpose as a means of competition, of communication and of reputation. Therefore it is not necessary that the consumer worries about the origin of the marked products; it does not even need to think about it. Any confusion which detracts from any function of the mark and therefore can jeopardize its role as a silent communicator between producer and consumer is sufficient for granting protection to its proprietor. This interpretation shows the full effect of a trademark as a valuable item in itself.

However in the light of the ESJ decision in Sabel it is advisable to reformulate the provisions of the directive by providing the equal standing to both “likelihood of association” and “likelihood of confusion” in order to avoid uncertainty with its interpretation.

In conclusion it remains to emphasize that limiting the function of trademark solely to the origin of goods is not adequate and appropriate to meet the challenges of highly competitive modern market. Trademark serves to the purpose of communication with consumer and as consequence constitutes considerable value for the producer. Hence it deserves more extensive protection against every possible detracting activity.

2.4. DEVELOPMENT OF TRADEMARK FUNCTION THROUGH CASE LAW

In order to understand the EC's stance with regard to the issue of trademark’s functions and to assess it critically, it is important to address the case law of European Community, mainly decisions
of European Court of Justice (ECJ). Therefore we will follow the evolution of trademark function understanding through the case law.

ECJ dealing with intellectual property cases has focused on protecting the specific subject matter. However while the Court has applied the concept of specific subject matter to all types of intellectual property cases\(^{86}\), two ECJ decisions rendered in 1978 revealed that trademarks required further analysis. In both Hoffman LaRoche v. Centrafarm\(^{87}\) and Centrafarm v. AHP\(^{88}\), the Court, after reciting the specific subject matter of a trademark, stated that the scope of the proprietor's trademark right must be further defined by its essential function\(^{89}\).

In Hoffman LaRoche, the Court upheld Hoffman LaRoche's right under Article 36 of Treaty Establishing the European Community\(^{90}\) to exert German trademark law where Centrafarm had purchased Hoffman LaRoche's valium pills in England and repackaged them with both the Hoffman and Centrafarm marks for sale in Germany. Centrafarm, which practiced parallel trade in pharmaceutical products, imported Hoffman LaRoche's products into Germany with the Hoffman LaRoche trademark and the words “Marketed by Centrafarm GmbH” on the outside of the package. Hoffman LaRoche, which was marketing its product in Germany as well as England, obtained an injunction from the local German court to block Centrafarm's imports. Upon appeal by Centrafarm and reference to the ECJ, the Court considered whether Hoffman LaRoche's use of German

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In Centrafarm v. Winthrop the Court defined the specific subject matter of trademarks as follows: [T]he guarantee that the owner of the trade mark has the exclusive right to use that trade mark, for the purpose of putting products protected by the trade mark into circulation for the first time, [thereby] protect[ing] him against competitors wishing to take advantage of the status and reputation of the trade mark by selling products illegally bearing that trade mark. Id. at 1194, P9, [[[1974] 2 C.M.L.R. at 508.


trademark law to block Centrafarm's imports was within the specific subject matter of its trademark rights. The Court ruled that, given a trademark's essential function, Hoffmann LaRoche was entitled to block Centrafarm's repackaged imports. The court's reason was that the consumer was not adequately informed about the origin of the product and guaranteed of its condition. Thus, the court focused not only on the intellectual property holder's rights but also on the consumer's interest in being able to identify the origin of the product. In respect to the trademark function the Court declared that the essential function was “to guarantee the identity of the origin of the trademarked product to the consumer or ultimate user by enabling him without any possibility of confusion to distinguish that product from products which have another origin.”

The ECJ also analyzed the essential function of trademarks in Centrafarm v. AHP. The issue was whether AHP's use of slightly different trademarks, along with slightly different flavors, for its pharmaceutical products in the United Kingdom and the Netherlands constituted a disguised restriction on trade in violation of the relevant provisions of EC Treaty. Centrafarm had bought AHP's products, labeled “Serinid D”, on the British market, and repackaged them with the “Seresta” mark. Centrafarm then sold the repackaged products in the Netherlands, where AHP was already circulating its product under the “Seresta” label. Centrafarm, as plaintiff, claimed that AHP could not benefit from Dutch trademark law because its use of different marks and different flavors for its products violated Articles 30 through 36 of EC Treaty. The Court, however, held that a manufacturer may use different marks for the same product in different Member States, provided that the manufacturer is not engaging in a disguised restriction on parallel trade between Member States. In coming to its conclusion, the Court stated that the essential function of a trademark, to guarantee to consumers the origin of the marked product, allows a trademark proprietor to use national trademark laws to prevent a third party from deceiving consumers by changing the proprietor's mark.

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It is worth noting that two years earlier, in Terrapin v. Terranova\(^93\), the ECJ had noted that the basic function of a trademark was to guarantee to consumers that a product has a certain origin. The concept of essential function, therefore, was not completely new in the ECJ's decisions of Hoffmann-LaRoche and Centrafarm v. AHP. Id. Both Hoffmann-LaRoche and Centrafarm v. AHP did represent, however, the first time that the ECJ expressly stated that the scope of a trademark proprietor's rights must be further defined by the trademark's essential function. Thus ECJ created a link between trademark function and trademark proprietor’s rights.

In Ideal Standard\(^94\) the Court continued to rely exclusively on trademark’s essential function but at the same time made an attempt to address another trademark function, in particular guarantee of quality one.

In short the facts of the case are the following: American Standard, a manufacturer of heating equipment and sanitary ware, was a U.S.-based company with international subsidiaries situated in various nations, including France and Germany. The German subsidiary, Ideal Standard GmbH (“IS GmbH”), owned the trademark “Ideal Standard” in Germany. Since 1976, IS GmbH dealt in sanitary ware only, due to American Standard's decision to end its operations in heating equipment. American Standard's French subsidiary, Ideal Standard SA (“ISSA”), first registered the Ideal Standard trademark in 1949, for both sanitary ware and heating installations in France. As its parent began to close down its heating equipment operations in 1975, ISSA turned over its manufacturing and marketing activities in heating equipment to SGF, a French company with which it had no economic links. In 1984, as a result of SGF’s desire to market its heating installation products under the Ideal Standard name, ISSA assigned its trademark for heating equipment to SGF. Subsequently, SGF, a part of the French holding company Nord Est, assigned the trademark to Compagnie Internationale de Chauffage (“CICH”), another entity within the Nord Est group. Meanwhile, IS SA retained the mark for sanitary ware. CICH began producing heating installations in France under the Ideal Standard trademark. Although CICH never sold this equipment in France, beginning in 1988 it

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sold the equipment in Germany through its German subsidiary, IHT Internationale Heiztechnik GmbH ("IHT"). As a result, two Ideal Standard marks were being used in Germany. First, American Standard's German subsidiary, IS GmbH, sold sanitary ware under the "Ideal Standard" name. Second, IHT sold heating installations under the same label. IS GmbH brought an action for trademark infringement against IHT before Germany's local court. The plaintiff sought an injunction against IHT, prohibiting IHT from marketing heating equipment bearing the Ideal Standard mark in Germany. IS GmbH contended that IHT's Ideal Standard heating equipment would create a risk of confusion with the identically marked sanitary ware sold by IS GmbH. The German court held that IHT had infringed IS GmbH's trademark rights. IHT appealed to a higher German court, which referred the question to the ECJ\(^5\).

First it should be noted that the Court emphasized again, citing Hag II\(^6\), that the scope of the proprietor's exclusive trademark right must be determined with regard to the mark's essential function, which is guarantee of the source of marked products\(^7\). The Court stated that deferring to the Free Movement of Goods principle would undermine this essential function. Consumers would no longer be able to identify with certainty the origin or quality of trademarked goods. Moreover, the trademark proprietor could be held accountable for the poor quality of the goods for which it was not responsible. This is because the original trademark proprietor had no means of controlling the goods carrying the assigned trademark. Thus the Court subordinated the free movement of goods principle to the essential function of the trademark allowing consumers to identify the origin or quality of

\(^{5}\) The question was posed to the ECJ as follows: “Does it constitute an unlawful restriction of intra-Community trade, within the meaning of Articles 30 and 36 of the Treaty, for an undertaking carrying on business in Member State A which is a subsidiary of a manufacturer of heating equipment based in Member State B to be prohibited from using as a trademark the name 'Ideal Standard' on the grounds of risk of confusion with a mark having the same origin, where the name 'Ideal Standard' is lawfully used by the manufacturer in its home country by virtue of a trademark registered there which it has acquired by private contract and which was originally the property of a company affiliated to the undertaking which is opposing, in Member State A, the importation of goods marked 'Ideal Standard'?”. IHT Internationale Heiztechnik GmbH v. Ideal Standard GmbH (Case C-9/93) [1994] 1 E.C.R. I-2789, [1994] 3 C.M.L.R. 857, ECJ at 903.

\(^{6}\) See Hag II where the court stated: “[f]or the trademark to be able to fulfill [its] 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.” Hag II, [1990] E.C.R. at I-3758, P 13, [1990] 3 C.M.L.R. at 608.

trademarked goods. And the decisive factor in the Court's view was the right holder's ability to control production and quality of the products.\textsuperscript{98}

With the control standard, the Court explicitly emphasized the proprietor's need to maintain the quality of goods linked with his trademark, and by taking into consideration consumer's need to depend on the quality that a mark represents implicitly recognized the guarantee of quality function of trademark.\textsuperscript{99} Thus, the court's decision benefits consumers by protecting their expectations of quality and incidentally, benefits proprietors of trademarks by allowing them to restrain parallel trade.\textsuperscript{100}

Nevertheless though the Court stressed the importance of the mark as the guarantor of certain quality of goods it continued to use a narrow definition of trademarks function. The definition set forth in these cases recognizes only the risk of consumer confusion about the origin of products. This approach fails to adequately address other trademark policy concerns, in particular, consumer confusion with regard to the quality of products.\textsuperscript{101}

Interestingly, the Court in the subsequent repackaging cases\textsuperscript{102} apparently recognized that trademark rights protect goodwill embodied in it, independent of the source guarantee. The Court held that the parallel importer's use of packaging materials that damaged the trademark's reputation permitted the trademark holder to oppose parallel imports of the repackaged products.\textsuperscript{103} It is significant that though in explaining these additional rights of trademark holder the Court did not

\textsuperscript{98} Ibid.
\textsuperscript{102} See. e.g. Paranova, [1996] E.C.R. at I-3457; Eurim-Pharm, [1996] E.C.R. at I-3603. The issues raised before the Court were to a large extent similar in all cases. Eurim Pharm, Paranova are companies specializing in parallel imports of pharmaceutical products. They bought pharmaceutical products in low price countries such as Spain, Portugal, France, Greece, and the United Kingdom, repackaged them in one form or another and imported the new packages into Denmark and Germany. The repackaging included sometimes only putting blister strips into new external packaging, replacing parts of the original package such as a spray, or cutting original blister strips to create a package with a number of tablets that was marketable in the Member State of import. In almost all cases, the parallel importer also added information in the language of the Member State of import.
\textsuperscript{103} Paranova, [1997] 1 C.M.L.R. at 1216-17, P 67; Eurim-Pharm,[1997] 1 C.M.L.R. at 1237 P 58.
refer to the “essential function”, it, nevertheless, did not consider that the trademark holder's right would require an expansion of the Court's own “essential function” doctrine.\textsuperscript{104}

The liberal position taken by the Court and its inclination towards recognition of the non-origin functions of trademark seems to continue in its later decisions. Thus in Dior v. Evora case\textsuperscript{105}, the Court of Justice addresses another aspect of trademark performance - its advertisement function. Dior France (“Dior SA”) is the exclusive proprietor of several trademarks for luxurious perfumes, such as Poison, Fahrenheit and Dune. Dior Netherlands (“Dior BV”) is the sole representative in the Netherlands of Dior SA and makes use of a system of selective distribution. Evora, not an official retailer, acquired the Dior products through parallel imports. Evora, via its Kruidvat drugstore chain (which is known for their low prices), advertised these Dior products by displaying the outer package, including the above-mentioned trademarks, in its publicity material (i.e. advertising leaflets for the Christmas sale). The plaintiffs, Dior SA and Dior BV, claimed that Kruidvat's use harmed the prestige and image of the Dior marks. The Supreme Court of the Netherlands therefore referred the following question to the Court of Justice for consideration, including:

Can there be said to be “legitimate reasons” for the proprietor of the trademark to oppose subsequent commercialisation of the goods, within the meaning of Article 7 (2)\textsuperscript{106} of the Directive where, the advertising function of the trademark is endangered by the fact that, as result of the manner in which the reseller uses the mark in order to attract public attention in that way, he damages the luxurious and prestigious image of the trademark? Or where as result of the way in which the reseller advertises the goods, the “mental” condition of the goods - that is to say, their allure, prestigious image and aura of luxury resulting from the manner in which the trademark proprietor has chosen to present and advertise the goods using his trademark rights - is altered or impaired?

\textsuperscript{104} Paranova, [1997] 1 C.M.L.R. at 1217-18, PP 75-76.
\textsuperscript{106} According to the art. 7 (2) of the Directive proprietor of the trademark may invoke protection when there exist legitimate reasons for him to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.
Preliminary question quoted above can be narrowed down to the question whether the legitimate reasons as mentioned in Article 7 offer protection to the advertisement function of a trademark, inter alia, by preventing damages to its prestigious image. Similarly to the question of the German Supreme Court in Sabel v. Puma, it is a question as to the scope of protection of trademarks. There is nevertheless a significant difference between the two cases. Sabel v. Puma concerns the right of the trademark proprietor to prevent a third party, not having his consent, from using the trademark or a similar sign in relation to his own goods. While Dior v. Evora concerns the right of the trademark proprietor to prevent the use by a third party of the trademark for products which are brought into circulation by the trademark proprietor or with his consent.

On November 4, 1997 the Court of Justice decided on the preliminary questions. The Court emphasized that damage done to the reputation of the trademark might, in principle, be a legitimate reason within the meaning of Article 7 of the Directive. Therefore the reseller must not act unfairly in relation to the legitimate interest of the trademark proprietor in being protected against use of his trademark by this reseller for advertising in a manner which could damage the reputation of the trademark. However, the fact that a reseller who habitually markets articles of the same kind, but not necessarily of the same quality, uses for trademarked goods modes of advertising which are customary in his trade sector, even if they are not the same as those used by the trademark proprietor himself or his approved retailers, does not constitute a legitimate reason within the meaning of Article 7(2) of the Directive, unless it is established that, given the specific circumstances of the case, the use of the trademark in the reseller's advertising seriously damages the reputation of the trademark. According to the Court, such (serious) damage could occur if the reseller did not take care to avoid putting the trademark in a context which might seriously detract from the image which the trademark proprietor has succeeded in creating around his trademark.\[107]\n
Thus the Court by allowing trademark proprietors to oppose the use of their trademarks by resellers in a way which could harm the advertisement function of their trademarks, made one more

step towards legal recognition of the other trademark functions as a ground for the extension of trademark proprietor right protection. However, in light of the fact that trademark holder has to establish that the use of the reseller seriously damages the reputation of his trademark, there is little chance of the trademark proprietor having a legitimate reason.

Nevertheless in Canon v. MGM\textsuperscript{108} the Court again returned to the traditional concept of trademark protection based on the “essential” function of the mark. MGM applied in Germany for registration of the trademark Cannon to be used for films recorded on video tape cassettes and for the production, distribution, and projection of films for cinemas and television organizations. This was opposed by Canon, Japan, on the ground that this sign infringed its earlier trademark Canon registered in Germany in respect, inter alia, video recorders.

In deciding the scope of similarity of the trademarks and goods to which they were attached under Article 4(1) (b) of the Directive, German court referred the following question to the Court of Justice for preliminary ruling:

May reputation of the trademark be regarded as sufficient to give rise to the likelihood of confusion even if the public attributes the goods to the different places of origin?

Recalling its statements of the Puma case, the ECJ stressed the interdependence between, on the one hand, the similarity of the trademarks and, on the other hand, the products concerned, and, furthermore, the distinctive character or the reputation a mark possesses on the market. So it reached the conclusion that “the distinctive character of the earlier trademark, and in particular its reputation, must be taken into account when determining whether the similarity between the goods or services covered by the two trademarks is sufficient to give rise to the likelihood of confusion”.\textsuperscript{109}

The second problem was the question whether a likelihood of confusion is excluded when the public perception is that the goods or services concerned have different places of origin. This point became essential to the German court since according to its information the public generally holds that video film cassettes and recording and reproduction devices for video tapes do not come from

the same manufacturer. In its answer, the ECJ pointed to the guarantee of origin being the essential function of the trademark. The Court made conclusion that the origin was the essential precondition of any successful opposition procedure. It also stated that “there can be no such likelihood [of confusion] where it does not appear that the public could believe that the goods or services come from the same undertaking or ... from economically linked undertakings.”

Thus the ECJ in Canon v. MGM after a long line of liberal decisions which showed that the ECJ acknowledged the ever-growing importance of a mark in the competitive market economies by granting more extensive protection to the trademark proprietor based on non-origin trademark functions, now turned back to protect only the “essential” and “primary” guarantee of origin function.

2.4.1. Arsenal -case as a landmark case in trademark function evolution

The Facts of Arsenal

The facts of Arsenal case were the following:

Arsenal FC is a well-known football club in the English Premier League. In 1989 Arsenal FC had the words Arsenal and Arsenal Gunners and the cannon and shield emblems registered as trademarks for a class of goods comprising articles of outer clothing, articles of sports clothing and footwear. Arsenal FC designs and supplies its own products or has them made and supplied by its network of approved resellers.

Mr. Reed is an Arsenal fan who has been selling unofficial Arsenal memorabilia and souvenirs for over 30 years. Mr. Reed sold products – in particular, scarves and other articles of clothing – which were identical with those marketed by Arsenal bearing identical signs to those registered as trademarks by the club in 1989. Most of his products did not originate from Arsenal or its licensees and this was indicated in the Mr. Reed’s stall with large signs. Mr. Reed advertised his unofficial products as such. He actually displayed a warning that his merchandise did not imply any

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110 Ibid. at 30.
relationship with the manufacturers or distributors of Arsenal official products, which were instead distinguished with official tags.\textsuperscript{111}

In 1991 and 1995 Arsenal had those unofficial products confiscated. Later, the club brought an action against Mr. Reed for both passing off\textsuperscript{112} and trademark infringement.

The English High Court of Justice dismissed the first action, on the ground that there was no evidence of the fact that consumers perceived the products in question as originating from Arsenal or as being sold with its consent. Moreover Mr. Justice Laddie pointed out that there would be no confusion in the minds of the purchasing public that the unofficial items on the stall originated from the football club or were licensed by or commercially associated with it; this was in part because of the large disclaimer on Mr. Reed's stall. In any event, the court held that the buying public were not interested in the origin of the items, but merely wished to wear the appropriate Arsenal badges to show their support for the team.

As regards infringement, the court similarly concluded that the ARSENAL name and badge did not function as trademarks in the traditional sense because the Arsenal marks did not tell people where the goods originated from. Rather, the Arsenal marks served merely as “badges of support, loyalty or affiliation”.\textsuperscript{113} It then turned to the wider issue of whether only trademark use could infringe as a matter of principle and expressed fears concerning the potential width of the monopoly a trademark might create if non-trademark use violated the law.\textsuperscript{114} Doubting whether or not such use of a sign in the course of trade could constitute trademark infringement, the High Court referred following questions to the ECJ for a preliminary ruling:

\begin{itemize}
\item \textsuperscript{111} “…there was a large sign with the following text: The word or logo(s) on the goods offered for sale, are used solely to adorn the product and does not imply or indicate any affiliation or relationship with the manufacturers or distributors of any other product, only goods with official Arsenal merchandise tags are official Arsenal merchandise”.// Arsenal Football Club Plc v Reed (C206/01) [2002] E.C.R. I-0000, at 17.
\item \textsuperscript{112} “…conduct on the part of a third party which is misleading in such a way that a large number of persons believe or are led to believe that articles sold by the third party are those of the claimant or are sold with his authorization have a commercial association with him…”// Arsenal Football Club Plc v Reed (C206/01) [2002] E.C.R. I-0000, at 19.
\item \textsuperscript{113} Arsenal Football Club Plc v Reed (C206/01) [2002] E.C.R. I-0000, at 22.
\end{itemize}
1. Where a third party uses in the course of trade a sign identical with that trademark in relation to goods which are identical with those for which the trademark is registered and the third party has no defense to infringement by virtue of Article 5(1) of Directive does the third party have a defense to infringement on the ground that the use complained of does not indicate trade origin (i.e. a connection in the course of trade between the goods and the trademark proprietor)?

2. Is the fact that the use in question would be perceived as a badge of support, loyalty or affiliation to the trademark proprietor a sufficient connection?

Thus the crucial issue ISJ had to answer was whether non-trademark use could amount to infringement of registered trademark.

The Opinion of Advocate-General

Advocate General Ruiz-Jarabo Colomer delivered his opinion on June 13, 2002. Advocate General Colomer chose to answer the questions referred to ECJ first by asking what trademark use was “as such”. The answer lay in examining the function of trademarks. According to the Advocate General, it is “simplistic reductionism to limit the function of the trademark to an indication of trade origin. Experience teaches that, in most cases, the user is unaware of who produces the goods he consumes. The trademark acquires a life of its own, making a statement ... about quality, reputation and even, in certain cases, a way of seeing life”.

Ultimately, the system of trademark registration was designed to ensure a system of genuine competition within the EC. In order to achieve this goal, trademarks functioned “to distinguish the goods and services of undertakings from those of other undertakings with the purpose of guaranteeing to the user or the consumer the identity of their respective origins.” But, according to the Advocate General, a distinctive sign may identify not only origin, but “quality, reputation, the

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115 Article 5(1) of the Directive provides: ‘The registered trademark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade: (a) any sign which is identical with the trademark in relation to goods or services which are identical with those for which the trademark is registered; (b) any sign where, because of its identity with, or similarity to, the trademark and the identity or similarity of the goods or services covered by the trademark and the sign, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trademark.’

116 Arsenal Football Club Plc v Reed (C206/01) [2002] E.C.R. I-0000 at para. 27.

117 Arsenal v. Reed, cited supra, Opinion of Advocate General Ruiz-Jarabo Colomer, para. 46.

118 Arsenal v. Reed, cited supra, Opinion of Advocate General Ruiz-Jarabo Colomer, para. 42
renown of the producer”, or it may be used for “advertising purposes in order to inform and persuade the consumer.” Thus distinctive signs may carry a wide variety of meanings for consumers and as consequence all of these uses are deemed to be uses of the trademark, as such, which the proprietor was entitled to prevent when carried on by others in the course of trade.

Hence Advocate General’s concept of “use as a trademark” was a wide one and included uses of a sign which were “capable of giving a misleading indication as to ... origin, provenance, quality or reputation” of goods. If the goods were acquired or used because they incorporated the trademark, infringing use was established. As to the wording ‘course of trade’ Advocate pointed out that it must be linked to a kind of use, which “occurs in the world of business, in trade, the subject of which is, precisely, the distribution of goods and services in the market [. . .].” The AG concluded very straightforwardly that no matter what the reason which motivates the person using the identical sign is, if this person exploits such sign commercially, then its use can be defined as a trademark use.

As mentioned above the arguments of the Advocate General reflected his broader view of the functions of trademarks beyond its role as an indicator of origin. According to the Advocate General, consumers may well acquire goods because they perceived the mark as an emblem of prestige, rather than because of its message about the trade origin. There is no reason to safeguard only the function of indicating the origin of goods and services and neglect the other functions of trademark. Otherwise anyone who uses another's trademark may claim in defence to the proprietor's objection that his use of it does not indicate the origin of the goods or of the services or give rise to confusion.
over their quality and reputation and therefore does not constitute the violation of proprietor’s rights.\textsuperscript{126}

Then the Advocate General turns to the second question before the court: when does use by a third party of a registered mark constitute “non-trade use” or “use unrelated to the functions proper to trademarks”? Use as a mark is any use that “expresses” a connection between the goods, the sign and its proprietor. The nature of the connection is irrelevant. According to the Advocate General:

“Given the functions of those distinctive signs and the objective pursued by the Directive, the decisive factor is not the feelings which the consumer who buys the goods which the trademark represents, or even the third party using it, harbour towards the registered proprietor, but the fact that they are acquired because, by bearing the sign, the goods identify the product with the trademark - irrespective of what the consumer thinks of the mark - or even, as the case may be, with the proprietor.”\textsuperscript{127}

Or to put it more bluntly, “the reasons on which the consumer bases his choice are irrelevant. The decisive factor is that the persons for whom those articles are intended acquires or uses them because they bear the distinctive sign”. In short, for the purposes of resolving present dispute, it is of no relevance whether a football fan buys the shirt of a particular team, bearing the relevant trademark, because it is his favorite club and he wants to wear the shirt or because, since he is a fan of the rival team, his intention is to destroy it. The crucial point is that he has decided to purchase it because the article is identified with the trademark and, through it, with its proprietor, that is to say with the team\textsuperscript{128}. Hence use expressing, “support, loyalty or affiliation to the proprietor of the trademark constitutes, in principle, use as a trademark.” \textsuperscript{129} From the point of view of the trademark functions it is irrelevant what exactly function of trademark is affected by infringing use


\textsuperscript{127} Arsenal v. Reed, cited supra, Opinion of Advocate General Ruiz-Jarabo Colomer, para. 67.

\textsuperscript{128} Ibid. para 68

\textsuperscript{129} Ibid para 64
of the similar sign: function of the indicating of origin of goods or guarantee of quality or advertising function of trademark, as all of them needs to be protected by the law.

**The judgment of the ECJ**

On November 12, 2002 ECJ delivered its judgment on the case. The reasoning of the ECJ was firmly grounded on the concept of trademark function and trademark use in Community law.

The Court began by reformulating in para. 42 of the judgment the questions asked by the High Court, stating that it was necessary to decide “whether Art.5(1)(a) of the Directive entitles the trademark proprietor to prohibit any use by a third party ... or whether that right of prohibition presupposes the existence of a specific interest of the proprietor as trademark proprietor, in that use of the sign in question by a third party must affect or be liable to affect one of the functions of the mark.” It then proceeded to answer this question in three stages, first by looking at the reasons for trademark protection, then established the legal consequences of these reasons, and finally turned to the circumstances of the present case.

Preliminary, the Court pointed out that, under Article 5 (1) of the Directive, the registered trademark conferred exclusive rights on its proprietor which give them a right to prevent third parties, acting without the proprietor’s consent, from using in the course of trade any sign, identical with a trademark, in relation to goods or services which were also identical with those for which the trademark was registered.

The Court then noted that “trademark rights constitute an essential element in the system of undistorted competition”130, in which producers must be able to attract and keep their customers by high quality of goods. It then proceeded by defining the essential function of trademarks, which is “to guarantee the identity of origin of the marked goods or services to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the goods or services from others which have another origin.”131 In order to perform this role a trademark in the system of undistorted competition, the two following requirements must be fulfilled. First, the trademark need to guarantee

130 Arsenal Football Club Plc v Reed (C206/01) [2002] E.C.R. I-0000 at 47.
131 Ibid. at 48.
that all products bearing a certain mark have been manufactured and supplied under the control of a single undertaking liable for their. Secondly, the trademark proprietor must be protected against "competitors wishing to take unfair advantage of the status and reputation of the trademark by selling products illegally bearing it." 132

Next, the Court considered consequences of its discussion of the functions of trademarks. The legal protection under the art. 5(1) (a) was given “to enable the trademark proprietor to protect his specific interest as a proprietor, that is, to ensure that the trademark can fulfill its functions.” 133 Therefore, the protection was reserved only to those situations where “a third party use of the sign affects or is liable to affect the function of the trademark, in particular its essential function of guaranteeing to consumers the origin of the goods.” 134 The use of a trademark that could not affect the proprietor's interests, having regard to its functions, could not be prohibited. According to the ECJ uses for purely descriptive purposes should be protected under Article 5(1) of the Directive because they do not affect any of the interests of the proprietor off the mark (the court used as an example Höltelhoff 135 case, where the use of a sign for purely descriptive purposes did not constitute a trademark infringement).

Finally, the Court turned to the case at hand. It pointed out that the Arsenal trademarks were used in the context of sales to customers (were commercially exploited) and not purely descriptively. Moreover the use of the signs created an impression that there was “a material link in the course of trade between the goods concerned and the trademark proprietor.” 136 According to the Court, the fact that Mr. Reed displayed a notice on the stall stating that the products were not official Arsenal merchandise did not affect this conclusion as there was a clear possibility that some consumers, in

132 Ibid. at 50.
133 Ibid. at 51.
134 Ibid.
135 Case C-2/00 Höltelhoff [2002] ECR I-4187. The facts of this case were as follows. Mr Höltelhoff was a dealer in precious stones. He used some trademarks registered in Germany in respect of diamonds in the course of oral negotiations with a lady running a jewellery business. The ECJ held that the interests of the trademark proprietor were not affected in a situation in which a third party referred orally to such trademark when offering his goods for sale if he made it clear that he did not produce such goods and if the mark was not perceived in trade, whether at a first stage or a second one, as indicating origin.
136 Arsenal Football Club Plc v Reed (C206/01) [2002] E.C.R. I-0000 at 56
particular if they come across the goods after they have been sold by Mr. Reed and taken away from
the stall where the notice appears, may interpret Arsenal sign as indicating trade origin of the goods.
Further, there was no guarantee that all the goods bearing the trademarks had been manufactured and
supplied under the control of a single undertaking, and indeed on the facts Arsenal had not had such
control. In these circumstances, the Court said, “the use of a sign which is identical to the trademark
in issue ... is liable to jeopardise the guarantee of origin which constitutes the essential function of
the mark” and it was immaterial that the sign was perceived as “a badge of support for or loyalty or
affiliation to the proprietor of the mark.”

Consequently, the Court gave the answer to the questions of the High Court by stating that in
the case of use of an identical sign for identical goods in the course of trade, the trademark proprietor
was entitled, in circumstances such as those in the present case, to prevent such use.

**Analysis of the judgment**

The reference made to the Court of Justice provided an excellent opportunity for clarifying
the law in particular an ambiguity in the wording of the Directive: “using in the course of trade any
... sign” neither of which expressly require “use” to be in the trademark sense. The equivocal
reference to “use” in both the Directive has led to much academic and judicial debate as to which
interpretation-the narrow “trademark use” (use that indicates source of product’s origin), or the
wider “any use” construction (use which can affect any trademark functions) is correct.

The clarification that the Advocate General and the Court of Justice sought to give coincides
in the results - infringing use must be trademark use that is it must indicate origin of goods, and
Arsenal should win the case. In arriving at fist conclusion, both the Court and the Advocate General
attach importance to the fact that protection of trademarks aims at guaranteeing the sound
competition in the internal market and that this protection should not go further than trademark
functions require.

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137 Ibid. at 61.
The way in which the Advocate General and the Court arrive at the second result - Arsenal winning the case - differs considerably. Both agree that the relevant question to ask is whether the use made by Mr. Reed endangers the trademark functions of Arsenal's trademarks. The Advocate General adheres to the broad interpretation of trademark functions and arrives at the conclusion that they are jeopardized whenever a third party commercially exploits the mark, which must be considered to be reserved only for trademark proprietor, as such illegal trademark use seeks to take the economic advantages that the trademark proprietor is supposed to have envisaged through registration of the mark.

The ECJ endorsed the view that the main function of trademarks was to act as a guarantee of origin. The court made no direct comment on the considerably more generous views of the Advocate General as to the possible functions of the registered mark. At first sight it might appear striking that the Court defined the essential function of trademarks so much more narrowly than the Advocate General, who had argued that it was “[s]implistic reductionism to limit the function of the trademark to an indication of trade origin.” However, on a closer reading it appears that the Court just saw the origin function as the most important of the various functions, not the only one, as shown by the numerous references to the trademark “functions” in the plural the Court made in the judgment. Nevertheless even though the Court talks about the functions of a trademark in plural, which may indicate the shift in the Court’s view towards recognition of broader concept of trademark functions, it eventually focuses at the classical one, indication of origin, as the one at stake in the present case.

Indeed, the Court was mostly repeating its earlier dicta from the free movement cases such as HAG II and Hoffmann-La Roche. It identified the essential function of the mark as guaranteeing the origin of the goods to end-users by offering a guarantee that all the goods and services bearing the mark had been manufactured or supplied under the control of a single undertaking which was

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139 Arsenal v. Reed, cited supra, Opinion of Advocate General Ruiz-Jarabo Colomer para. 46.
140 See. e.g. Arsenal Football Club Plc v Reed (C206/01) [2002] E.C.R. I-0000 at 42, 50, 51, 54.
Thus, according to the ECJ, proprietors will be protected against competitors wishing to take advantage of the reputation and status of their mark, by “illegally” selling products bearing it, only if such infringing activity affects or is liable to affect the functions of the trademark, in particular that of guaranteeing to consumers the origin of the goods.\textsuperscript{143}

Though such a finding is substantially correct, it appears, however, that guidance from ECJ to the national court could have been better provided.

More precisely, the first question (whether there can be defence from infringement on the ground that the use complained of does not indicate trade origin) should have been answered in the affirmative. The Court could have then addressed other functions of trademarks as suggested by Advocate general, in particular referred to advertising and embodiment of goodwill functions. It could also clarify that all trademark functions deserve equal protection and: i) are an objective notions, independent of subjective perceptions (such as, for example, loyalty and support); ii) are infringed whenever a third party uses the identical sign to sell products illegally bearing such sign; iii) it should also be presumed that all actual and potential consumers would not be able to distinguish the origin of the goods marketed with the same sign.

Before going to the next chapter devoted to the application of trademark concepts to Internet uses we would like stress the following:

Trademarks, throughout their evolution, have taken on additional functions which require additional protection outside that afforded by the confusion doctrine. The Benelux countries before the adoption of the Directive responded to this new requirement, adopting protection for trademarks against uses which dilute the trademark's distinctiveness, thus recognizing additional non-origin functions of trademark. Initially, it appeared that the European Union also responded to these changes and included notion of likelihood of association as a requirement for the provision of trademark’s protection to the art. 5 (b) of the Directive. However as was shown above European Court of Justice rejected the concept of likelihood of confusion as the sole ground for trademarks’

\textsuperscript{142} Arsenal Football Club Plc v Reed (C206/01) [2002] E.C.R. I-0000 at 48-49.

\textsuperscript{143} Ibid. at 42.
protection, thus returning to the traditional concept of consumer confusion, which in its turn does not reflect the changes in the perception of trademark’s function.

United state in its turn developed concept of trademark dilution, which takes into account non-origin trademark functions, thus trying to meet demands of modern economy and provide extensive protection to trademark proprietors and consumers. However this well established concept concerns only proprietors of famous trademarks, thus rejecting the fact that all other trademarks can perform functions beyond origin one.

Thus in order to properly offer trademarks total protection, legislature and courts should recognize non-origin trademarks functions and provide them broader protection which would no be limited to the defence of origin function.
3. APPLICATION OF THE TRADEMARK CONCEPTS TO THE INTERNET USES

3.1. US approach

In light of ever-increasing role of the Internet as the marketplace it is important to address the issues of applicability of modern concepts of trademark protection discussed earlier to the Internet uses.

It is worth directing first the notion of the Internet. The Internet can be considered as a global network of interconnected computers that enables many millions of people to communicate with one another and to access vast amounts of information from around the world.

The World Wide Web, a collection of information resources contained in documents located on individual computers around the world, is the most widely used and fastest-growing part of the Internet. With a computer that is connected to the Internet, a computer user can access computer code and information that is stored on the Internet in repositories called “servers”. Much of the information stored in servers on the Internet can be viewed by a computer user in the form of “web pages”, which are collections of pictures and information, retrieved from the Internet, and assembled on the user’s computer screen. “Websites” are collections of web pages that are organized and linked together to allow a computer user to move from one web page to another easily.144

Each website has a corresponding “domain name” - an identifier. Domain names consist of a hierarchically structured character string of numbers that function as an Internet address. They are the equivalent of telephone numbers or addresses. Since numbers are more difficult to remember, alphabetical domain names were developed to make the “addresses” easier for humans to remember and use when communicating on the Internet. Such names are often catchy words or well known names of individuals or companies, for example, “ronaldreagan.com” or “ibm.com.”145

144 Deborah F. Buckman, J.D. Lanham Act Trademark Infringement Actions in Internet and Website Context // American Law Reports ALR Federal 17. WESTLAW.
A specific website is most easily located by entering its domain name into a computer's web browser, after which the corresponding website's “homepage” will appear on the computer screen.

The primary reason trademarks and domain names come into conflict is that they are both used to identify individuals, companies, or other entities. For obvious reasons, companies prefer to have an Internet domain name that either includes or corresponds with their trademark. Internet domain names, on the other hand, are unique. Only one entity can own a particular name. Thus the Internet allows for only one user per name. Conflicts are bound to occur when there are multiple demands for the same domain name.\footnote{Susan Thomas Johnson. Internet Domain Name and Trademark Disputes: Shifting Paradigms in Intellectual Property//Arizona Board of Regents; 2001}

It is worth noting that with the growth of the commercial function of the Internet the number of legal disputes has arisen because many private citizens and companies have rushed to get a spot in the cyberworld in order to exploit the potential of on-line commerce. These “exploiters” of the Internet range from those who speculate on the phenomenon by “grabbing” domain names and trying to trade on their value, to those who try to use others' trademarks for political, social, or religious goals, and those who explicitly use the Internet to infringe the rights of legitimate trademark proprietors in a traditional way, by using the same trademark and selling the same or similar products or services in the electronic context. According to traditional trademark principles, arguably, only the last category should be punished.\footnote{Giorgio Nicolo Vergani. Electronic Commerce and Trademarks in the United States: Domain Names, Trademarks and the “Use in Commerce Requirement” on the Internet. // European Intellectual Property Review, 1999, 21(9), 450-463.} However as previously shown there are two basic purposes for trademark law. One is to protect the public so that it may be confident that in buying a product bearing a familiar trademark, it will get the product of the same quality, which is usually associated with that trademark. The second is to protect a trademark holder's goodwill by prohibiting its misappropriation on other products or services by pirates and cheats. In order to fullfil these two purposes the US law and courts have gradually expanded the scope of protection granted to trademark proprietors.
The US law and courts traditionally provide three primary recourses against the unauthorized use of a trademark in a domain name.

First, the holder may have a claim of trademark infringement under Lanham Act. Second, the holder may have a claim of trademark dilution under Federal trademark Dilution Act. Third, the holder may have a claim under the Anticybersquatting Consumer Protection Act (ACPA).\(^{148}\)

Now we will dwell on each of the above ways of protecting trademarks against the unauthorized use of a trademark in a domain names.

The Lanham Act protects registered and unregistered trademarks from uses that are likely to cause confusion. The Act also confers the right to trademark proprietors to prevent others from using their distinctive mark or symbol on their products or services. An infringement consists of any commercial use of a word or symbol associated with goods or services which presents the word or symbol in a manner that is likely to mislead or confuse consumers regarding its source.\(^{149}\)

As Learned Hand defined it: “The law of unfair trade comes down to nearly this. . .that one merchant shall not divert customers from another by representing what he sells as emanating from the second.”\(^{150}\)

Domain name present a special problem under Lanham Act because they are used for both technical purpose to designate a set of computer on the Internet, and for trademark purposes to identify an entity which offers goods or services on the Internet. When domain names are used only to indicate the address on the Internet, the domain name does not perform trademark function. Domain names can function as trademarks and therefore infringe trademarks proprietors’ rights.


The statute reads in pertinent part:

(1)Any person who shall, without the consent of the registrant (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or

(b) reproduce, counterfeit, copy or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, sign, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or do deceive, shall be liable in a civil action by the registrant....

\(^{150}\) See: Yale Electric Corp. v. Robertson, 26 F.2d 721, 973 (2d Cir. 1928).
However in order to use of the domain name constitutes infringement under Lanham act it must be used to identify the source of goods and as a consequence create likelihood of confusion in respect of origin of goods. Therefore mere registration of the conflicting domain name is not regarded as a use violating trademark’s rights, but only as means of designation of host computer on the Internet.  

Thus in order to declare the use of domain name infringing trademark rights something more than mere registration is required.

In Planned Parenthood v. Bucci the plaintiff, Planned Parenthood, a non-profit, reproductive health care organization that owns the trademark Planned Parenthood, sued the defendant Bucci, who registered the domain name <plannedparenthood.com> and used it as an address of a web page promoting his book on abortion. The court issued the preliminary injunction sought by the plaintiff.

Defendant doing business as Catholic Radio admitted that he used the domain name hoping that people looking for Planned Parenthood's web site would find his instead. He argued that mere registration without more active commerce was not a commercial use of the mark as required by the Lanham Act. The court found, however, that the defendant did “more than merely register a domain name; he created a home page using plaintiff's mark as its Internet address, conveying the impression to Internet users that plaintiff is the sponsor of defendant's web site.”

Bucci's use constituted the use of the plaintiff’s trademark “as a domain name to identify his web site” in a manner that confused Internet users as to the origin or sponsorship of the goods offered, thus jeopardizing trademark’s origin function. Moreover court held that defendant’s use was commercial one because of his book promotion and because his actions were designed to, and in fact did, harm the plaintiff commercially. Thus the court concluded that defendant's activity is

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153 Ibid. at 1433.
154 Ibid. at 1436-37.
155 Ibid. at 1437.
156 Ibid. at 1440.
subject to the provisions of the Lanham Act and granted the preliminary injunction sought by Planned Parenthood.

In sum in order to protect trademark against unauthorized uses in the Internet under Lanham Act a holder have to prove another’s commercial use of the mark creates a likelihood of confusion among consumers with respect to the source of the goods or services in question.

Where it is difficult to prove likelihood of confusion under the Lanham Act, the Federal Trademark Dilution Act (FTDA) can provide relief for dilution of famous marks. The theory of dilution is that a famous mark can lose its distinctive quality if used improperly. Under the FTDA, a proprietor of a trademark can obtain relief against another’s unauthorized use of the mark, when:

he owns a “famous” mark that is mark with “geographic fame [which] must extend through a substantial portion of the U.S.”\(^{157}\); the defendant makes a commercial use of a mark or trademark;

the defendant's use began after the mark had become famous; and the use dilutes the mark by tarnishing it or blurring its distinctiveness.\(^{158}\)

The landmark case of domain name diluting trademark is the case involving the famous motion picture corporation Panavision and an individual named Toeppen\(^{159}\).

The dispute involved the proprietor of the trademarks Panavision and Panaflex, Panavision International, and a notorious cybersquatter, Mr Toeppen, who “steals” valuable trademarks, establishes domain names on the Internet using these trademarks, then sells the domain name to the rightful trademark proprietor. The Court of Appeals found that Toeppen's domain names diluted Panavision's trademarks.

In this case, one can see a clear new conception of the use in commerce, completely separate from the association of the trademark with goods and services, which is traditionally encompassed

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by the Lanham Act, a conception that gives increasing value to the trademark itself, and protects the goodwill included in the mark per se.\textsuperscript{160}

In Panavision court, in a landmark statement, stated that registering the trademark as a domain name and trading it is “use in commerce” for the purposes of Trademark Dilution Act and therefore punishable as such.

Toeppen use made a commercial use of the Panavision trademarks. It does not matter that he did or did not attach the marks to a product. Toeppen's commercial use was his attempt to sell the trademarks themselves. Court held that Toeppen traded on the value of Panavision's marks. So long as he held the Internet registrations, he curtailed Panavision's exploitation of the value of its trademarks on the Internet, a value which Toeppen then used when he attempted to sell the Panavision.com domain name to Panavision.\textsuperscript{161}

In a nearly identical case involving Toeppen and Intermatic Inc.\textsuperscript{162}, an Illinois federal District Court held that Toeppen's conduct violated the Federal Trademark Dilution Act. There, Intermatic sued Toeppen for registering its trademark on the Internet as Toeppen's domain name, <intermatic.com>. It was “conceded that one of Toeppen's intended uses for registering the Intermatic mark was to eventually sell it back to Intermatic or to some other party.” The court found that “Toeppen's intention to arbitrage the intermatic.com domain name constitute[d] a commercial use.”\textsuperscript{163}

Thus even though Toeppen never used the name “PanaVision” in connection with the sale of any goods and services, his registration of that name and his efforts to resell the name to Panavision

\textsuperscript{162} Intermatic v. Toeppen, 947 F. Supp. 1227, 1239 (N.D. Ill. 1996). The fact of the case are the following: the defendant, Dennis Toeppen, had registered more than 200 domain names, including such famous names as "deltaairlines.com," "crateandbarrel.com," and "ramadainn.com," with the obvious intention of selling these names to the companies that owned the trademarks. Toeppen argued that he could not be subject to liability under the Lanham Act, because he had not used the Intermatic mark in commerce. Yet the court found for the plaintiff, stating that "Toeppen's desire to resell the domain name is sufficient to meet the 'commercial use' requirement of the Lanham Act. " The court distinguished between the legality and the morality of Toeppen's conduct. As there was no evidence of willful intent to dilute Intermatic's mark, Intermatic received only an injunction against Toeppen, but not damages.
was adjudged commercial use and therefore prohibited under the Federal Trademark Dilution Act of 1995.

It is important to note that though trademark infringement and dilution remain essential as legal concepts under which trademark proprietors rights are protected against illegal use of the sign in the domain names they can, however, allow some cybersquatters avoid liability. For trademark proprietor to prevail on infringement concept, use in commerce and consumer confusion must be shown, which in its turn may hurdle trademark proprietor. For instance, one who registers desired by the trademark proprietor does not want to sell it to him or otherwise use in commerce will likely to escape liability, even if domain name is identical or similar to the mark. While dilution claims do not require showing likelihood of confusion, these claims are only available to those trademark proprietors who can prove that their trademarks are famous.\(^{164}\)

As one scholar commented:

“The prototypical cybersquatter does not use the reserved domain name the courts have has its mark before the public, so there is no traditional dilution by blurring or tarnishment. Thus, the courts have had to create a wholly new category of “dilution” in order to find a legal weapon to combat this new and different form of reprehensible commercial activity. But this legal tool only protects “famous” marks, requiring that the courts expand and devalue the category of “famous” marks in order to combat cybersquatting.”\(^{165}\)

To address these problems the Congress enacted the Anticybersquatting Consumer Protection Act\(^{166}\) (ACPA), which provides clarity in the law for trademark proprietors by prohibiting the bad-faith and abusive registration of distinctive marks as Internet domain names with the intent to profit from the goodwill associated with such marks.

Under the ACPA, a cause of action for cybersquatting lies where: (1) plaintiff's mark is “distinctive” or “famous” at the time of registration of the domain name; (2) the cybersquatter's

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\(^{165}\) Ibid. p. 124.

domain name is (a) identical or confusingly similar to a distinctive mark, or (b) identical, confusingly similar to, or dilutive of a famous mark; and (3) the cybersquatter acted with a "bad faith intent to profit" from the mark. 167

What is most striking about this statute is that it does not condition a cause of action on trademark infringement or dilution; it is enough that the domain name be identical or confusingly similar in appearance to a distinctive trademark. Further, unlike the Trademark Dilution Act, the ACPA does not require that a mark be famous to receive protection against dilution. No less important, the ACPA does not require formal commercial use of the trademark-domain name, but instead targets cybersquatters who merely register domain names, as well as cybersquatters who traffic in (i.e., sell, purchase, loan, pledge, license) or otherwise use domain names. By proscribing the bad faith registration of domain names, the ACPA prevents cybersquatters from exploiting the settlement value of cases against trademark holders wishing to avoid the expense of litigation. 168

Accordingly in Sporty's Farm v. Sportsman's Mkt 169 there was established three-prong test for the determination of violation of trademark's rights under ACPA:

The court must first determine whether a mark is “distinctive” or “famous” by weighing the non-exclusive criteria enumerated in the FTDA for assaying trademark dilution. In this connection, court noted that distinctiveness and fame are separate concepts. 170 A mark may be distinctive because of its inherent qualities, but not famous. Conversely, a non-distinctive mark may become famous by virtue of acquiring secondary meaning.

Second, a court must decide if the domain name and trademark at issue are identical, confusingly similar and/or dilutive. 171 When examining a domain name, the court need not consider

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167 15 U.S.C. §1125 (d), which provides that "[a] person shall be liable in a civil action by the owner of a mark ... if ... that person (i) has a bad faith intent to profit from that mark ... and (ii) registers, traffics in, or uses a domain name that--(I) in the case of a mark that is distinctive at the time of registration of the domain name, is identical or confusingly similar to that mark; (II) in the case of a famous mark that is famous at the time of registration of the domain name, is identical, confusingly similar to, or dilutive of that mark".


170 Ibid. at 497.

171 Ibid.
slight differences in punctuation, spacing or capitalization, because the strict format of domain names does not accommodate such stylistic variations.

Third, a court must determine whether the cybersquatter acted with a “bad faith intent to profit” from use of the trademark holder's mark. The only way for a cybersquatter to escape liability is to show that he “believed and had reasonable grounds to believe that the use of the domain name was a fair use or otherwise lawful.”

If the three foregoing elements of the ACPA are satisfied, a court may order general injunctive relief, including the forfeiture, cancellation or transfer of the domain name to the trademark proprietor, even if the domain name was registered prior to the enactment of the ACPA.

In sum, if an offending domain name is commercially used to identify products and services in commerce, the doctrines of trademark dilution and infringement will apply. Otherwise, the ACPA governs use of the domain name and will interdict only those domain names registered in bad faith, regardless of whether the domain name tends to dilute or create confusion as to the source or sponsorship of the corresponding trademark. Thus while trademark infringement concept aims to protect designation of origin function of trademarks, dilution theory targets to defend non-origin functions of famous trademarks. At the same time the Anticybersquatting Consumer Protection Act extended “dilution” concept to non-famous trademark’s holders, which may serve as a sign of

172 The ACPA lists non-exclusive factors that may be considered in determining bad faith, including, but not limited to (1) the trademark or other intellectual property rights, if any, in the domain name; (2) the extent to which the domain name consists of the legal name of the person or a name that is otherwise commonly used to identify that person; (3) the person's prior use, if any, of the domain name in connection with the bona fide offering of any goods or services; (4) the person's bona fide noncommercial or fair use of the mark in a site accessible under the domain name; (5) the person's intent to divert consumers from the mark owner's online location to a site accessible under the domain name that could harm the goodwill represented by the mark, either for commercial gain or with the intent to tarnish or disparage the mark, by creating a likelihood of confusion as to the source, sponsorship, affiliation, or endorsement of the site; (6) the person's offer to transfer, sell, or otherwise assign the domain name to the mark owner or any third party for financial gain without having used, or having an intent to use, the domain name in the bona fide offering of any goods or services, or the person's prior conduct indicating a pattern of such conduct; (7) the person's provision of material and misleading false contact information when applying for the registration of the domain name, the person's intentional failure to maintain accurate contact information, or the person's prior conduct indicating a pattern of such conduct; (8) the person's registration or acquisition of multiple domain names which the person knows are identical or confusingly similar to marks of others that are distinctive at the time of registration of such domain names, or dilutive of famous marks of others that are famous at the time of registration of such domain names, without regard to the goods or services of the parties; and (9) the extent to which the mark incorporated in the person's domain name registration is or is not distinctive and famous. See 15 U.S.C. §1125(d)(1)(B).
gradual recognition of additional non-origin trade function not limited to famous trademarks exclusively.

3.2. European approach

When comparing jurisdiction in the different Member States of the past years, one can globally state that courts in various EU countries have rendered fairly similar decisions in domain name related disputes.

First of all there appears to be a common understanding that trademark law is applicable to those disputes, that the use of a domain name which corresponds to a protected sign can constitute a trademark infringement. The Directive does not contain special provisions in respect to domain name disputes. Therefore the same norms are applicable to cyberworld.

Especially in clear “Cybersquatting”-cases decisions have become rather predictable in the EU. Although some legal questions have been decided differently in various Member States the final result is always similar: at least injunctive relief has been granted to the plaintiffs.

In cases which do not concern obviously abusive registrations e.g. when both parties are having a legitimate interest in the name, some common trends can be detected.  

The registration and use of a domain name identical or confusingly similar to a registered trademark can constitute an infringement under certain circumstances. In any event a trademark is infringed if the gods or services offered on the domain name homepage are identical or similar to those for which trademark is registered.

If domain name is only registered without being used, the question is whether the mere registration represents infringement. The problem which arises in this respect is that it is not foreseeable whether a domain name will ever be used in a trade and for which goods it will be used. A domain name which is only registered does not imply similarity of goods and as consequence consumer confusion as to the origin of goods required for trademark infringement.

Nevertheless some courts confirmed infringements of prior trademark rights on the ground that mere registration of the domain name can create a risk of its subsequent usage in respect of the similar goods thus causing likelihood of confusion among customers.

Thus the central question in any infringement case is whether there is a substantial likelihood of consumer confusion due to the similarity between the mark and the domain name. However cyber squatting is a form of speculation where a domain name is registered with the intention of selling the same. The hallmark of cybersquatters is that they do not use the names, i.e. domain names are not a part of a commercial product or service offering that might confuse or deceive customers or undermine the distinctiveness of a mark. Therefore, the most important criteria for determining trademark infringement, likelihood of confusion, is completely absent in the case of cyber squatting, as no one can be confused by a blank screen.

At the same time no trademark rights is infringed if a domain name is used exclusively for private or purely descriptive purposes as requirement of acting in trade or business is not met. In case of trademark with reputation domain name owner can be sued on the basis of whether unfair competition rules or legal norms concerning extended protection of such marks.175

In overall courts throughout Europe, like those in the United States, have typically found that the use of a domain name that is identical or substantially similar to a trademark constitutes trademark infringement if used in connection with the sale of competing products or services and will permit the trademark holder to obtain injunctive relief.

However, European courts do not agree on whether the act of registering a domain name without having an active web site or offering the domain for sale constitutes trademark infringement. Relevant cases include British Telecommunications plc. v. One In A Million Ltd176, where the British Court of Appeal found that the act of registering well-known names and trademarks constituted grounds for trademark infringement, even though the domains were inactive and the registrant did not offer to sell the domain names.

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In this case a number of domain names including marksandspencer.com and britishtelecommunication.net were registered by One in a Million. The case was decided primarily by looking to the law of passing off, and by some extension of existing principles, the court determined that by registering the domain names the defendants had created instruments of deception. Thus the domain names had to be handed back to the trademark proprietors. In dealing with section 10(3)\textsuperscript{177} of Trademarks Act English court seems to have considered that the domain name itself was the trademark, observing that the domain names were registered to take advantage of the distinctive character and reputation of the marks, which was both unfair and detrimental. Section 10(3) was therefore infringed. The court made clear its dislike of these practices. But in the cursory examination of trademark law has left a number of questions unanswered.

Thus, in the UK, the proprietors of the marks with reputation can take action against a cybersquatter as soon as it knows that the registration of an infringing domain has taken place. On the other hand, in the Danish “Beologic” case\textsuperscript{178}, the Municipal Court of Copenhagen found that the mere registration of domain names or the offer to resell them did not violate trademark law, since the defendant was not “doing business” under the marks. The court, however, find, that the defendant violated the Marketing Act, which forbids “unfair marketing” and common law conversion.

In conclusion it worth noting that although most courts in the EU will protect trademark proprietors from cybersquatters, it is still the same requirements which are needed to be met, in particular likelihood of confusion, in order to obtain protection. Thus it is worth to formulate a specific and detailed provisions in Trademarks Directive on the subject i.e. domain names. In this respect it is advisable to use positive experience of Anticybersquatting Consumer Protection Act of the United States.

\textsuperscript{177} According to the art. 10 (3): “A person infringes a registered trade mark if he uses in the course of trade a sign which-(a) is identical with or similar to the trade mark, and (b) is used in relation to goods or services which are not similar to those for which the trade mark is registered, where the trade mark has a reputation in the United Kingdom and the use of the sign, being without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark. Law on the Protection of Trade Marks and Other Signs (Trade Mark Law) of October 25, 1994, as last amended by the Law of July 16, 1998.

\textsuperscript{178} In re Beologic, Municipal Court of Copenhagen, 2 December 1997.
CONCLUSION

Trademark is a system by which consumers may choose between readily identifiable and distinguishable goods based on the reputation of a manufacturing company. Modern economy requires trademark protection being an indispensable component of business activities, as it provides the necessary incentive to a business to maintain quality standards in order to preserve the value of their trademark. Because of this considerable value, there is a need to afford trademarks the greatest protection possible.

Apparently the discussing whether to extend trademark’s protection by encompassing additional non-origin functions or maintain traditional view by protecting exclusively indicating the origin function of the mark depends a lot on what side the one is on.

As was shown above legal systems have taken up different positions between the poles of restricted and extended protection. Jurisdictions under British influence, and to some extent those in the USA, have tended to the caution. On the other hand Continental jurisdictions, in particular Benelux countries, have gone a considerable way towards eradicating competitive behavior which undercuts a market position built through the advertising of brands, whatever form that behavior takes.179

The main critics of acknowledgement of non-origin trademark functions are wary that if trademark proprietors are offered extended protection (from “dilution”) that they will receive a monopoly in the language composing the trademark. They believe that any and all trademark proprietors will be granted exclusive use of their trademark. These critics believe that expansion of acknowledged trademark functions would significantly increase trademark rights and create a new broad monopoly, which would be contrary to the principles of the sound competition.180

180 See e.g.: Wagamama case, where the UK Court of Chancery rejected the notion that trademarks now serve as advertising entities. Many critics of dilution agree with this and argue that trademarks only serve the sole function of designating the source of origin of a good. Therefore, they contend that dilution protection is not necessary for trademarks because the origination function is not damaged by dilution. Wagamama Ltd. v. City Centre Restaurants PLC, [1995] F.S.R. 713, 730 (UK).
However protecting trademarks from actions which jeopardize any of its functions maintains and encourages the policies underlying trademark law. First, such extended protection would offer trademark proprietors a way to protect the goodwill that is generated and surrounds their trademarks.\textsuperscript{181} The maintenance of this goodwill is critical to the success of the trademarked product. Also, this type of protection further prevents “free-riders” from utilizing the success and investment of others. Second, extension of trademarks’ protection does not thwart or prevent competition, nor does it confer a monopoly onto the trademark proprietor. This is the case because a competitor does not require the use of another competitor's trademark to effectively compete. Legal scholars, furthermore, have stated that protecting trademarks from dilution actually enhances, instead of hampers, competition\textsuperscript{182}. Furthermore, as has been shown above, the concept which recognizes the multiple function of a trademark is the more modern one. It reflects the needs of contemporary market which a trademark has to meet today.

In sum it is worth emphasizing that the value of trademarks to producers and other trademark proprietors lies in the functions, which trademarks are serving in the modern markets. are not limited to origin function exclusively. However without the safeguard of law offered to all trademark functions (not only to traditional (origin) one), the utility of these functions loses its effectiveness and attractiveness both for consumers and the producers. A producer who properly maintains quality and service standards for its mark will be able to take advantage of the economic benefits resulting from the maxim of a consumer’s willingness to pay higher prices for the assurances that come with a familiar and reputable mark. This economic benefit, however, again depends completely on the protection offered to a mark holder from the “free riding” of competitors and other profit-seekers aiming to dilute, infringe upon, or otherwise

\textsuperscript{181} See: Mishawaka case where the court noted that trademarks were merchandising short-cuts that conveyed advertising information to consumers in order to convey desirability of products. Mishawaka, 316 U.S. at 205.

\textsuperscript{182} See: Simone A. Rose, Will Atlas Shrug? Dilution Protection for “Famous” Trademarks: Anti-competitive “Monopoly” or Earned “Property” Right?, 47 Fla. L. Rev. 653, 707-08 (1995)(agreeing with scholars who have stated that protecting trademarks from dilution actually contributes to competitive economic environment and does not promote anti-competitive monopolies).
benefit from another’s trademark. Without this protection, the incentive for developing a valuable trademark in the first place dissipates.\textsuperscript{183}

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