Determining the Scope of Trademark Rights by Recourse to Value Judgements Related to the Effectiveness of Competition - The Demise of the Trademark-Use Requirement and the Functional Analysis of Trademark Law

Apostolos Chronopoulos
Apostolos Chronopoulos*

Determining the Scope of Trademark Rights by Recourse to Value Judgements Related to the Effectiveness of Competition – The Demise of the Trademark-Use Requirement and the Functional Analysis of Trademark Law**

This paper examines the doctrinal implications of the principle of complementarity between intellectual property rights and competition law in the field of trademarks. The systematic adherence of trademark rights to the wider set of norms regulating the competitive process implies that their teleology should take into consideration value judgements related to the effectiveness of competition. Neither the limiting concept of trademark use nor the legal recognition of some “economic trademark functions” is apt to fulfil this legal task. It is therefore submitted that the normative valuations flowing out of competition law should be implemented through a purposive interpretation of the legal terms contained in trademark provisions. The relevant legal issues are examined comparatively taking into consideration EU, German and US approaches.

I. Introduction

The way a trademark is being used by market operators or third parties in non-commercial contexts is a matter of fact, upon which the legal order attaches certain legal results. The factual phenomenon of trademark use may take so many forms of appearance, that it cannot be linked to a single legal consequence. Thus, different types of trademark use lead to different legal results.¹ The adaptation of a sign and its use in connection with specific goods placed on the market creates in the US jurisdiction a common law trademark right for example.² Registration-based systems of trademark protection demand on the other hand that such use has to occur within a specific period of time after registration, otherwise the exclusive right created by the decision of the administrative authority could not be maintained.³

¹ LL.M. (Lond.); LL.M. Eur. (Munich).
² The paper arose out of the author’s Ph.D. research on the interrelationship between trademark and competition law at the Max Planck Institute for Intellectual Property and Competition Law (Munich). The author is thankful to Prof. Dr. Annette Kur for her helpful comments and suggestions, while he assumes full responsibility for any shortcomings.
³ For an extensive analysis of the relevant casuistry, see PHILLIPS & SIMON (eds.), “Trade Mark Use” (2005).
³ Sec. 26 in combination with Sec. 49 of the German Act on the Protection of Marks and Other Designations of 1994 (Markengesetz).
foundation of trademark rights in such systems may also rest upon the use of a sign in such a manner that a significant part of the consuming public has already come to recognize it as an indication of commercial origin associated with a single undertaking.\(^4\) The inclusion of trademarks in advertising campaigns increases their market recognition and ultimately expands their scope.\(^5\) Additionally, the public interest in an undistorted competition depends gravely on consumers' possibility to use trademarks. The legal protection of the origin-function aims to assist consumers in exercising their personal autonomy\(^6\) by allowing them to make informed buying choices and by punishing the marketing of low-quality products.\(^7\) Beyond this collective public use, trademarks are often used by third parties individually for various competitive (e.g. production of promotional goods) or other social (e.g. parodic) purposes. The present article focuses on the legitimacy of such third-party uses of another's trademark and examines the advisability of their integration into the exclusive legal position of the right holder in the light of values appertaining to a system of effective competition, namely a competitive process that delivers socially desirable outcomes.\(^8\)

Case law and commentary often attempt to address this legal issue by constructing broad categories of infringing acts based on the way the trademark in suit has been used by the alleged infringer. One theory categorically dismisses the use of another's trademark as a source designator for one's own products or services as potentially infringing. To be successful in a trademark suit, the claimant should firstly establish that the colliding sign is being used as a trademark (trademark-use requirement). Under a more expansive approach, the prohibitive authority of the right holder should be able to extend to every use likely to impair the so-called economic trademark functions of investment and advertising (multifunctional analysis of the trademark-use concept). The first notion builds upon the leitmotiv of free – but not necessarily effective – competition and therefore seeks to confine the legal exclusivity to the protection of the origin function so as to minimize its exclusionary effect to the greatest extent possible, while the second is concerned with the legitimate business interests of the right holder vested in the trademark as a property right. The paper continues by presenting the legal fundamentals and the normative content of both doctrines (Part II). It expresses scepticism whether the teleology of both theories is adequate to balance the conflicting competitive interests incidental to trademark disputes. For that reason it proposes to link the decisions regarding the optimal scope of trademark

\(^4\) Sec. 4(2) Markengesetz.
\(^8\) On the concept of effective competition, see generally BISHOP & WALKER, "The Economics of EC Competition Law", 15 et seq. (2010).
rights to valuations flowing out of the norms regulating the competitive process. This proposition is then exemplified in cases related to merchandising (Part III), scale model toys (Part IV), trademark uses in the internet (Part V) and to conflicts between trademarks and trade names (Part VI). The paper concludes (Part VII) that neither the trademark-use theory nor the functional analysis of trademark law could effectively implement the principle of complementarity between IP rights and competition law in the field of trademarks.

II. Normative Content and Dogmatic Underpinnings of the Trademark-Use Requirement for Establishing Trademark Infringement

A. Definition of the Trademark-Use Requirement

In Europe the issue of whether third-party use of a trademark is potentially infringing is often decided by taking recourse to a rather simple and rigid rule: only if a third party uses the claimant’s trademark as a source identification instrument for his own goods or services, namely “as a trademark”, does the court proceed to the diagnosis of a likelihood of confusion or protect economic trademark functions other than the one related to the capacity of a mark to connote commercial source. The legal argumentation rests upon Art. 5(1)(a) and (b) Trade Mark Directive (TMD), pursuant to which the trademark owner can prevent by means of the owner’s exclusive right specific third party uses of a sign in relation to the goods or services of the latter that take place “in the course of trade”.

---

9 Case law adopting a multifunctional analysis of the trademark-use requirement forms the exception; see infra under II.B.

10 Adam Opel AG v. Autec AG, Case C-48/05, (2007) ECR I-1017, points 24–25; Anheuser-Busch Inc. v. Budejovicky Budvar, národní podnik, Case C-245/02, (2004) ECR I-10989, point 60; O2 Holdings Ltd. v. Hutchison 3G UK Ltd., 2008 ECR I-4231, point 57. The case law is not totally consistent though. In Bayerische Motorenwerke AG (BMW) and BMW Nederland BV v. Deenen, Case C-63/97, (1999) ECR I-905, the ECJ opined that an independent provider of automobile services was indeed using the marks of the car manufacturer as trademarks when indicating that its services are specialized on the products of the right holder, even if the alleged infringer was not using the trademark in suit as a source identifier for its own products. However, the ECJ itself has regarded that case as specific and exceptional in Adam Opel AG v. Autec AG, Case C-48/05, 2007 ECR I-1017, points 26–28. The advertiser who uses a foreign trademark so as to compare its goods and services with those of the right holder has been held to be using this trademark for identifying its own products by reference to those of its competitor, O2 Holdings Ltd. v. Hutchison 3G UK Ltd., (2008) ECR I-4231, points 35–36. For an in depth analysis of the ECJ case law, see Kur, “Confusion Over Use? Die Benutzung ‘als Marke’ im Lichte der EnGH-Rechtsprechung”, GRUR Int. 2008, 1–12.

In US trademark law the existence of such a trademark-use requirement for establishing trademark liability is doubted. A possible legal basis for it could be found in the sections of the Lanham Act imposing liability for trademark infringement. Pursuant to Sec. 32(1)(a) Lanham Act the owner of a federally registered trademark can restrain third parties from using the mark “in commerce” and “in connection with the sale, offering for sale, distribution, or advertising of any goods or services”, if such use is likely to cause confusion, cause mistake, or deceive. Section 43(a) Lanham Act describes the acts liable to infringe common law trademarks as uses “in commerce” of a senior mark “on or in connection with any goods or services, or any container for goods” that cause confusion as to the source of the alleged infringer’s goods or create the impression of the latter being somehow affiliated with the right holder. The provisions regulating trademark infringement should, according to the argument, be read in conjunction with Sec. 45 Lanham Act where the Congress provides some authentic interpretation of the statute by defining some of its legal terms, including the phrase “use in commerce”.12 Therein it is stated that a trademark shall be deemed to be “used in commerce” when it is placed on the branded goods, their containers or on displays associated with them. Service marks are used in commerce when displayed in advertising. The provision has been interpreted widely in the context of trademark right establishment so that trademark acquisition at common law does not strictly require the affixation of the mark. In fact, any use of the mark inviting consumers to associate the mark with the goods or services of the user and to rely upon it for information about the source or affiliation of those products can create property rights on a trademark.13 Those subscribing to the trademark-use theory argue that the phrase “use in commerce” should be defined in exactly the same way for the purposes of determining infringing acts, as there is nothing in the statutory language suggesting that the definition set out in Sec. 45 Lanham Act was intended to apply solely in connection with the acquisition of trademark rights.14 In any event, they claim that the language of Secs. 32(1)(a) and 43(a) Lanham Act requiring an infringing use to be in connection with any goods or services and their marketing, should be construed as imposing such a broadly understood affixation requirement so that the trademark exclusivity can turn against confusing uses only when the third party is using the mark to identify his own goods or services (trademark-use).15 It has been namely put forward that there was a long common law tradition of imposing an affixation requirement for affirming infringement liability, which was incorporated into the Lanham Act, as the federal legislature did not somehow indicate any

15 Ibid.
intention of eliminating it. Affixation or trademark-use should thus remain a prerequisite for a successful trademark suit. Ultimately, the argumentation invokes case law subsequent to the enactment of the Lanham Act following that approach.

B. Trademark-Use as a Means of Balancing Conflicting Interests in Competition

Already from its inception the legal concept of trademark-use had the meaning of delimiting the trademark monopoly and balancing the competitive interests of right holders, competitors and consumers. At that time legal method in the US deployed a formalistic way of ascertaining the law by referring to various categorical constructions. Trademarks were subsumed under the category of property, which was then understood as a limitless, absolute right of the owner to proceed with the object of property as he sees fit. Trademark protection entailed therefore the danger of creating language monopolies on words belonging to the public domain. The reaction of a legal order disregarding monopolies in view of the newly established freedom of trade was to allow the acquisition of trademark rights only with regard to coined word marks (technical trademarks). Such state of law was, however, unsatisfactory. When identifying the commercial origin of their goods, traders have an interest to make use of the meaning conveyed by words of common vocabulary for advertising purposes (suggestive marks). Furthermore, words of common vocabulary are often perceived by consumers as having developed a semantic content secondary to their original meaning by designating a single undertaking as the source of the products associated with such a mark. Their protection was therefore not only necessitated by considerations of public policy against consumer deception but was equally driven by the idea of protecting the right holder’s goodwill and his capacity to choose the trademark he considered as potentially effective. It was therefore necessary to leave the formalistic approach behind and by deploying functional legal thinking providing a solution

17 Id. 386.
18 Cf. for example Interactive Products Corp. v. a2z Mobile Office Solutions, Inc., 326 F.3d 687, 695 (6th Cir. 2003); 1-800 Contacts, Inc. v. WhenU.Com, Inc. and Vision Direct, Inc., 414 F.3d 400, 412 (2nd Cir. 2005).
21 Cf. also v. Gamm, “Warenzeichenrechts”, § 16 point 1, at 415 (1963), describing the trademark-use doctrine as implementing a balance between the interests of the right holder, competitors and the consuming public regarding the authority to use a sign; LANGE, “Marken- und Kennzeichenrecht”, § 7 point 1816, at 492 (2006).
that could effectuate a fair balance of equally legitimate competitive interests. The result was to reserve for the right holder the trademark use of word-marks and allow competitors and the consuming public to freely use trademarked words as part of the common vocabulary for descriptive or other expressive purposes.23 Such a system of balancing incongruous competitive interests and preventing language monopolies is provided in Art. 3(1)(c) and (d) combined with Art. 6(1)(b) and (c) of the TMD. Similarly the Lanham Act bars the federal registrability of descriptive terms in Sec. 2(e)(1) and exempts descriptive uses of the mark by third parties in Sec. 33(b)(4).

The exclusion of descriptive or other referential uses from legal exclusivity is simply a concretization of the concept of trademark-use though. The doctrine expresses a wider principle of avoiding undue restrictions of competition attributed to overly broad trademark rights by confining their scope in the protection of the origin function.24 The exclusive right on a mark should therefore be not a right in gross but simply a right to prevent interference with its function in identifying the products or services of the right holder as emanating from a single commercial source.25 The legal notion of trademark-use is additionally considered as a limiting principle aiming at aligning trademark law with its economic search-cost rationale.26 In Europe, where there is a long tradition of analysing trademark law issues by distinguishing among various trademark functions, the doctrine has been largely founded upon the theory that it is only the origin function which is legally recognized. The so-called advertising or investment trademark functions are not, according to this theory, protectable in their own right. Their protection is simply a concomitant of the legal recognition of the origin function. The primacy of the origin function has been vindicated by reference to the primary goal of trademark laws to protect the public from confusion as to the commercial source of marketed products or services and the nature of trademarks as source designators.27 The trademark-use requirement expresses essentially a competition policy decision to restrict the expansion of the exclusive right and prescribes the limits of protection of the other trademark functions within the confusion-based system of trademark protection.28

28 Cf. Baumbach & Hefermehl, supra note 27, intro, point 23, at 32.
C. Multifunctional Interpretation of the Trademark-Use Requirement

An ascending theory in European trademark law posits that all third-party uses likely to affect the economic functions of a trademark should be considered as potentially infringing. The argument rests upon the modern conceptualization of trademarks as marketing instruments conveying an advertising message. The legal recognition of this communication function of trademarks is intended to protect the economic interests of the right holder in securing investment for building up a brand image (investment function). In addition, the right holder should be able to profit from the capacity of the mark to support an advertising campaign or to stimulate demand through the marketing message (advertising function). Consequently, all third-party uses likely to affect some trademark function are potentially infringing (multifunctional interpretation of the trademark-use requirement), especially when the alleged infringer is using the trademark in suit as a means to promote the infringer's own sales. This theory has lately found acceptance in ECJ case law. The Court has emphasized that the TMD offers in Art. 5(1)(a) protection for those so-called economic functions of trademarks by protecting identical junior uses of the mark in suit independent from a finding of likelihood of confusion. For the purpose of applying this provision, every use likely to impair some trademark function should be considered as potentially infringing. The economic trademark functions have also found limited legal recognition in Art. 5(2) TMD, which protects well-known marks from associations caused by identical or similar third-party uses that threaten to impair or take unfair advantage of their distinc-


31 Ibid.

32 The communication function embraces actually all other economic trademark functions.

tiveness or repute. Correspondingly, all uses likely to cause an association to
the well-known trademark in suit qualify as potentially infringing. 34

D. Objections to the Doctrine of Trademark-Use

First of all, the trademark-use doctrine has no firm grounding in the statu-
tory language of either US or European trademark law. 35 This lack of legal
grounding has always been the problem with the trademark-use theory. 36 As
a result, the discussion should focus in its teleological justifications. 37 The
application of the trademark-use theory renders the judgement on the opti-
mal scope of the trademark exclusivity arbitrary since it is restricted to an
ascertainment of whether consumers perceive third-party use as indicating
the allegedly infringing user to be the economic operator assuming product
responsibility through the mark. 38 Dinwoodie and Janis show that limiting
the prohibitive scope of the exclusive right to trademark uses would allow
internet search engine providers to escape liability when using foreign marks
as keywords or metatags. 39 They oppose this legal result arguing that under
some circumstances their activity could cause an information overflow,
which would negatively affect consumer buying-decisions by increasing con-
sumer search costs, a result which actually runs contrary to the motivations
behind the trademark-use doctrine. 40 As part of the wider order of unfair
competition, trademark law should also, according to their view, play a part
in regulating market behaviour in cyberspace. 41 The paper proceeds with

34 Intel Corp. Inc. v. CPM United Kingdom Ltd., (2008) ECR I-8823, points 30–31; cf. also
the analysis of AG Sharpston, (2009) ETMR 233, 238 et seq., which contains a compen-
dious primer on EU dilution law.
92 Iowa L. Rev. 1597 (2007). The authors show the implausibility of arguing the exist-
ence of a trademark-use requirement based on a textualistic interpretation of the Lanham
Act at 1609 et seq. They also effectively set the argument in doubt that the trademark-use
theory has been an established common law principle that has been incorporated in
Lanham Act at 1616 et seq.
36 Cf. Eichhammer, “Die markenmäßige Benutzung”, 31 et seq. (2008), commenting on the
same obfuscation in the Warenzeichengesetz of 1936, the German statute that preceded
the implementation of the TMD.
Rev. 1703, passim (2007). In general, the need for a teleological approach to trademark
law is highlighted by Dinwoodie, “The Death of Ontology – A Teleological Approach to
Trademark Law Provide for Sufficient Self Help and Self Healing Forces?”, in: Gothaere
& Ullrich (eds.), “Intellectual Property, Market Power and the Public Interest” 191, pas-
sim (2008), advocating the need to balance all competitive interests involved in trademark
suits.
39 Id. at 1629.
40 Id. at 1630–1632. Non-trademark uses create, according to the argument, types of confu-
sion that should be actionable.
41 Id. at 1633–1634.
concrete examples indicating that the legal results prompted by the application of the trademark-use doctrine undermine the effectiveness of competition.

III. Trademarks as Property Rights Aimed at Allocating Merchandising Markets

A. Dynamic Competition and Sports Merchandising – The Competitive Interests Involved

The right holder has an economic interest in vertically integrating the marketing of an earned reputation (goodwill) as an intangible value imbued to a wide variety of consumer products bearing his trademark. Merchandising was intended to replace older methods of sport-team financing such as state subsidies, which have in the meantime become obsolete. The nature of competition among sport clubs has changed in the sense that the competitive edge is sought by maximizing economic growth through the mobilization of additional funds. Economic robustness is pivotal for prevalence in competition, as it allows for example the deployment of the best possible staff in all imaginable workstations of the club. While this type of competition promotes the interests of the economically more powerful undertakings, it takes the competitive process to more dynamic levels as the rivalry between overgrown competitors intensifies.\(^\text{42}\) The contemporary professional sports model has contributed by increasing the quality of competition in supranational football tournaments for example.\(^\text{43}\) In some leagues such as Major League Baseball, merchandising revenue accrued totally by all participating teams is strategically divided among them, so as to economically support weaker sport clubs. The deeper cause is to maintain a competitive balance within the tournament and thereby enhance the competitiveness of the jointly marketed product (the league) towards other entertainment products clustering in the same antitrust market. It was mainly on this ground that the US Court of Appeals for the Second Circuit held that the agreement of the Major League Baseball teams to collectively license their trademark rights through an agent and equally divide the accrued revenue did not amount to per se illegitimate price fixing but had a pre-competitive effect overall, if analysed under the antitrust rule of rea-

\(^{42}\) It could not be in abstract argued that monopoly profits are always indispensable for maintaining an effective process of competition. The patentee should not have the possibility to exclude competitive pressure by substitution via its exclusive legal position by arguing that monopoly profits are necessary so as to recoup investment in R&D. For example, cf. DREXL, “Is There a ‘more economic approach’ to Intellectual Property and Competition Law?” in: DREXL (ed.), “Research Handbook on Intellectual Property and Competition Law”, 27, 50–51 (2008). It seems, however, that capitalizing merchandising revenue is an important element of dynamic competition in the respective entertainment markets: cf. ANDREFF, “Team Sports and Finance”, in: ANDREFF & SYMANSKI, (eds.), “Handbook on the Economics of Sport” 689, passim (2006).

\(^{43}\) ANDREFF, supra note 42, at 689–700.
son. It becomes apparent that sport clubs do not simply compete in some pitch but form renowned brands engaging in product-line rivalry. This branding provides them with an incentive to maintain high product quality in all sorts of merchandising products they market. The benefits of this more dynamic form of competition are passed on to consumers and generally outweigh the loss of any static efficiencies related to greater output or lower prices of merchandising products that would have been present if third-party use of the trademark were free from liability.

B. Implications for Trademark Law – The Enhancement of Legal Exclusivity

The inclusion of the aforementioned decorative use of a trademark into the prohibitive authority of the right holder could also be founded upon the principles developed in legal scholarship governing the extent to which an IP right may extend its monopolistic effect to secondary markets. The relevant criterion requires that the intangible asset created by the right holder in the primary market plays a role in other distinct markets by stimulating demand, then these secondary markets have to be integrated into the legal exclusivity. In the case at hand it is the goodwill of the right holder as a

44 Major League Baseball Properties, Inc. v. Salvino, Inc., 542 F.3d 290 (2nd Cir. 2008). See also American Needle Inc. v. National Football League, et al., 130 S.Ct. 2201, U.S., 2010, confirming that such trademark pools are subjected to rule-of-reason analysis. The European Commission is reluctant to accept the notion of competitive balance as a justification for exempting centralized marketing arrangements under Article 101 (3) AEUV, see generally Kienappel & Stein, “The Application of Articles 81 and 82 EC in the Sport Sector”, Competition Policy Newsletter, 2007 (3), 6, 12. In any event the even the dismissal of the competitive balance justification does not alter the fact that the internalization of merchandising activities is an essential element of dynamic competition in many sport entertainment markets.


46 The Advocate General described this pattern of dynamic competition as characterizing European professional football in Arsenal Football Club Plc v. Matthew Reed, Case C-206/01, Opinion of AG Ruiz-Jarabo Colomer, points 73 et seq. = (2002) ETMR 975, 996 et seq.


48 While it could not be maintained that there exists a separate licensing market for a single trademark in the antitrust sense, the market segments comprising of merchandising products bearing the right holder’s mark are identifiable and their existence prompts the question of their integration into the legal exclusivity. Market definition acquires special meaning for the purposes of defining the exclusionary effect of IP and does not always necessarily follow the antitrust method of demand-side substitutability. Compare the analysis of Kingsbury, “Marker Definition in Intellectual Property Law – Should Intellectual Property Courts Use an Antitrust Approach to Market Definition?”, 8 Marq. Intell. Prop. L. Rev. 63, passim (2004).

sport club that renders the merchandising product marketable. The demand for these products is actually affected by the performance of the right holder in the primary market. The allocation of secondary markets to the trademark owner is also meaningful when it provides additional incentives for him to produce the intangible asset or to further improve its quality. The ability to control revenue generated by products bearing the right holder's trademark provides an additional incentive to engage in branding innovation in the primary market for entertaining products, as in this case the sport club will be able to reap the benefits from generating goodwill by its performance. To the same direction points another subjective criterion, which asks whether the monopolistic profits deriving from the secondary market have been targeted by the right holder when taking entrepreneurial decisions affecting that right holder's performance in the primary market. The prospect of capitalizing on merchandising revenue drives many decisions directly related to market performance, such as player transfers. Moreover, the initial allocation of the use of a trademark for the purpose of marketing merchandising products is crucial for achieving the pre-competitive results associated with the contemporary sports business model. If this type of third-party use were totally free from trademark liability, it could not be seriously expected that the property right would end up through private negotiations to those able to put it to its most efficient use.

The analysis turns now on how trademark doctrine should accommodate the values flowing out of the mandate for an effective competitive process. The essential function of trademarks in competition is the guarantee to consu-

(Cont'd. from page 544)


51 The subjective ex ante approach promotes the implementation of the monopolistic intentions of the right holder and may therefore lead to overprotection in some cases. Cf. Patterson, supra note 48, at 44 et seq. Nevertheless, the ability of the trademark holder to capture merchandising revenue is essential to the effectiveness of competition in these entertainment product markets and as a result the realization of its rent-seeking intention is admissible.

52 According to the Coase Theorem the initial distribution of legal entitlements is consequential in a world without transaction costs because they will in any event end up in the hands of the users who value them most through private bargaining. Cf. Coase, "The Problem of Social Cost", 3 J.L. & Econ. 1 (1960). In some cases the initial allocation of the property right determines its final allocation, and as a result its efficient use. See Long, "Proprietary Rights and Why Initial Allocations Matter", 49 Emory L.J. 823, passim (2000), in relation to patents.

53 Drexel, supra note 42, at 27, 40, 51–53, explains that the complementarity principle mandates the design of IP rights in a manner that promotes dynamic competition. He advances the theory that this legal task can be effectively carried out ex ante if we observe how dynamic competition works in a specific market and draw the conclusion that IP protection is in concreto necessary for preserving the dynamics of the competitive process.
mers that all products bearing the trademark are marketed by a single undertaking responsible for their quality. Thus, trademarks facilitate informed consumer choices by combating confusion as to the commercial source of goods. Without source-identifying signs there is no credible information about product quality in the marketplace. Information economics\textsuperscript{54} tells us that in this case sellers have no incentive to market good quality because they are not going to enjoy any reputational reward as the origin of the products remains unknown (moral hazard).\textsuperscript{55} Buyers' willingness to pay is on the other hand reduced since they are not certain that the quality of the goods to be purchased is adequate. The low market price means basically that only goods of even lower production cost are marketable. In the end the products offered in the market are not desirable at all by consumers (adverse selection)\textsuperscript{56} and as a result the market collapses.\textsuperscript{57}

Independent from such concerns of public interest against confusion, trademark law addresses harms directed against the competitive interests of the right holder. It is only through the exclusive use of a product-identifying sign that a trader is able to acquire and retain goodwill because only in this manner could he establish a communication channel with consumers. In order to be able to build up and maintain a good reputation in the market, the right holder must be protected against misrepresentations made by third parties regarding the source of his own goods. If a third party is, for example, successfully passing lower quality goods as the goods of the right holder by using the same or a similar trademark, then the value of the respective goodwill will diminish. Even if the infringer is marketing goods of equal or superior quality to those of the right holder, trademark law seeks to protect the right of the latter to authentically define the content of the owner's commercial reputation. The ECJ, for example, has clearly expressed this aspect of trademark protection in the past by stating that the right holder should, in a system of undistorted competition, be able to bind customers through the reputation acquired by maintaining good product quality.\textsuperscript{58} The perspective of the right holder has been neglected in recent years and is deemed to be considered simply a reflex of the public interest against consumer confusion as to source. Instead of referring to the right to build a communication channel with customers, the Court refers to trademarks as part of a system of undistorted competition in the sense of instruments that allow consumers confronted with a mark to immediately and with certainty discern the commercial origin of marketed goods.\textsuperscript{59} The focus has been

\textsuperscript{54} See generally PINDYCK & RUBINFELD, “Microeconomics”, at 613 \textit{et seq.} (2005).


\textsuperscript{56} Cf. AERELLOFF, supra note 7, \textit{passim}.

\textsuperscript{57} Cf. CORNISH & LLEWELYN, supra note 30, at 588–589.


\textsuperscript{59} August Storck KG v. Office for the Harmonization in the Internal Market (OHIM) (Trade Marks and Designs), Case C-24/05, (2006) ECR I-5677, point 44.
consequently shifted on decreasing consumer search costs. Simultaneously, producer goodwill is protected since source confusion is avoided. Such construction defines the limits of goodwill protection in trademark law at least when talking about classical confusion-based infringement theories. It is evident from the analysis of merchandising issues that goodwill is an intangible value that not only merits protection from passing-off activity but from free-riding as well in the cases where this would undermine the effectiveness of competition. It is exactly this last aspect, which leads to the characterization of third party use as misappropriation preventable through trademark law.

C. The Implementation of the Misappropriation Theory of US Trademark Law in Merchandising Cases

Illustrative for this legal approach is the ruling of the Fifth Circuit in *Boston Professional Hockey Association, Inc., et al. v. Dallas Cap & Emblem Mfg. Inc.* The teams of the National Hockey League (NHL) filed suit for unauthorized use of their trademarks against a manufacturer of fan products. The sport clubs preferred to collectively license their trademarks to an exclusive licensee instead. The court established factually that the claimant's trademarks are the triggering mechanism for the sale of the retail products since their utility consists exactly in allowing fans to express public allegiance to or identification with a favourite sport club. The trademarks are actually used by the public not as source identifiers but as consuming goods. However, the fundamental element of this product bundle, (e.g., t-shirt plus sport club goodwill), namely the product differentiating intangible value of goodwill has been created by the efforts of the trademark holder. The defendant is making unauthorized use of that value without having contributed to its creation at all. The appropriation of the right holder's goodwill was thus deemed to be unfair even if no likelihood of confusion as to source could be found. Ruling in this manner the court provided for a property-based theory of trademark protection, that seeks to protect business interests that are not interwoven with the public interest against confusion related to

60 Compare the analysis of Richard A. Posner, Circuit Judge in *Ty Inc. v. Ruth Perrymann*, 306 F.3d 509, 510 (7th Cir. 2002); "The fundamental purpose of a trademark is to reduce consumer search costs by providing a concise and unequivocal identifier of the particular source of particular goods."

61 The ECJ has indeed lately taken some steps in expanding the circle of business interests protectable under trademark law by providing protection for the so-called economic trademark functions. Cf. *L'Oréal SA, Lancôme parfums et beauté & Cie SNC, Laboratoire Garnier & Cie v. Bellare NV, Malaika Investments Ltd., Statron International Ltd.*, Case C-487/07, (2010) RPC 1, at point 58, for example. But this approach could not lead to a square balance of the conflicting competitive interests present in a trademark dispute, as we shall see.

62 510 F.2d 1004 (5th Cir. 1975).

63 Id. 1011 *in fine*.

64 Id. 1011.
commercial origin.\textsuperscript{65} The property theoretic approach is effectuated by considering likelihood of association that would eventually lead to goodwill appropriation as an actionable type of confusion within the meaning of Sec. 43(a) Lanham Act (subliminal confusion doctrine\textsuperscript{66}). Although the court did not explicitly refer to the doctrine, its argumentation indicates clearly that it used this concept to expand the scope of claimant's trademark right. The finding of an infringement was based upon the fact that consumers would associate the merchandising products to the claimant's goodwill as a result of the third-party use.\textsuperscript{67} The likelihood of such an association would suffice as a temporary state of confusion to satisfy the confusion requirement of Sec. 43(a) Lanham Act according to the opinion of the court.

Even though the Fifth Circuit did not explicitly engage in a rule-of-reason analysis, the judgement emphasized that the expansion of the property right beyond actionable source confusion is not simply intended to favour the right holder.\textsuperscript{68} The public is also better off indeed if the right holder, through a stronger protection of his trademark, captures merchandising revenue, because this would facilitate dynamic competition between sport clubs and competing entertainment products as already analysed. Hereby the court indicates that trademarks can be protected as property without need to found the expanded legal position on a public interest against confusion as to source, if this would create consumer benefits, which would overcompensate such an increase of the monopolistic elements in competition.\textsuperscript{69} This reasoning should be the modern meaning of the notion that trademarks are nothing but a part of unfair competition. The scope of the property right depends upon the balance of colliding interests in competition. In sum: there are constellations where the effectiveness of competition mandates the expansion of trademark protection beyond the confusion as to source paradigm.

D. The European Perspective as Exemplified in the Arsenal Litigation

The same legal issue has been litigated in Europe as Mathew Reed, a seller of unofficial football merchandise, was sued for infringing trademarks controlled by Arsenal F.C. after using them without authorization as elements for his own goods. No confusion regarding the source of the infringing

\textsuperscript{65} Ibid.
\textsuperscript{68} Id. 1011.
\textsuperscript{69} Ibid. "Although our decision here may slightly tilt the trademark laws from the purpose of protecting the public to the protection of business interests of the plaintiffs, we think that the two become so intermeshed when viewed against the backdrop of the common law of unfair competition that both the public and the plaintiffs are better served by granting the relief sought by plaintiffs."
products was present at the point of sale, as the alleged infringer had put up a sign in his outlet stating clearly he was using the Arsenal logos to embellish his products without making any implication of affiliation or other commercial relationship with another undertaking producing official merchandise. In contrast to US trademark law, where the expansion of legal exclusivity for the sake of protecting legitimate business interests and of enhancing the dynamics of competition which technically takes place through the invocation of a misappropriation theory, the TMD offers the possibility to achieve the same legal result by explicitly providing in Art. 5(1)(a) that identical use is actionable even without proof of likelihood of confusion. The Lanham Act does not contain any provision of that ilk and gives authority to the trademark holder to prohibit unauthorized uses of the holder’s sign that cause actual confusion in the marketplace. Opposed to that, Art. 5(1)(a) is intended to support the legitimate business interests of trademark holders, the protection of which is important for the effectiveness of competition, whereby the gnomon of protectability also embraces other competitive parameters than market transparency, for instance trademark piracy.

The teleological imposition of a trademark-use requirement on the provision's normative content has, as already mentioned, the purpose of keeping the scope of the trademark monopoly narrow. It was under this perspective that Laddie J. sitting for the High Court of Justice addressed the facts of the Arsenal case. According to his view Mr. Reed did not use the foreign logos in relation to his products in a way that designated manufacturing or merchandising origin. The public would also not perceive the use of those marks on an item of clothing as indicating trade origin. The issue of whether infringing use had to be use in a trademark sense remained however according to Laddie J. unclear, and therefore he referred the matter to the ECJ for clarification. Interestingly enough, the ECJ emphasized in the substantive part of its ruling that the interest position of the right holder as proprietor of the trademark is the yardstick for determining the scope of the exclusive right. The Court seems at this point to adopt an approach of considering trademarks as property in gross, since it states that the right holder can by means of exclusive right prohibit third-party uses of the mark that will in fact affect or are liable to affect one of the functions of the mark. Read in its abstraction this statement could support a claimant’s argument that the use of the property right as part of football memorabilia is an infringing one because it impairs on the advertising value of the mark by free-riding on it.

71 Id. point 42 = (2001) ETMR 860, 876.
72 Ibid.
73 Id. point 63, 69–70 = (2001) ETMR 860, 882–884.
75 Ibid.
The Court has however qualified this broad formulation by stating later on in the same judgement that the breadth of the right holder's exclusivity is dictated by the essential trademark function of origin. The argument is derived from the notion that the legal nature of a trademark is to guarantee the identity of origin of the marked goods or services to the consumer by enabling that customer, without any possibility of confusion, to distinguish the goods or services from others, which have another origin. Only when the trademark fulfils this function would its right holder be able to capture customers through the quality of the holder's products. The undistorted operation of the origin function allows the right holder to create and commercially exploit goodwill. This is, according to the Court, the interest of the right holder that the TMD protects. In other words: the Court does not recognize that other competitive interests such as those related to merchandising rights are relevant for the determination of a trademark's scope. In favour of this interpretative approach, the Court argues that the intent of the European legislator as expressed in the preamble of the Directive is to exclude distortions of competition arising out of disparities between the trademark laws of the Member States. The origin function is thus the common denominator of trademark protection in Europe so as to avoid impediments of the free movement of goods and the freedom to provide services. The primacy of the origin function could also, according to the argumentation of the ECJ, be found on Art. 2 of the Directive, which states that graphically representable signs can only be registered as long as they are capable of distinguishing the goods or services of one undertaking from those of other undertakings. The Court considered thus the absolute protection against identical use provided in Art. 5(1)(a) TMD as an implementation of the origin function.

Concluding that the legal test for discerning an infringing third-party use is the impairment of the origin function, the ECJ ruled that in the case at hand it could not be excluded that customers, who come across the goods after they have been sold in the outlet of Mr. Reed and taken away from the point of sale, interpret the signs as designating Arsenal F.C. as the undertaking of


77 Id. point 47.
78 Id. point 50.
79 Id. point 46.
80 Id. point 49.
origin of the goods. Confronted with the question of the legitimacy of the enhancement of the right holder’s legal position, the ECJ did not conduct an analysis of the competitive interests involved in merchandising cases. The only interest of the right holder that the origin function can protect is the guaranty that all products bearing the right holder’s mark would be associated by consumers with a specific undertaking which should be held responsible for their quality. The interest protectable under the auspices of the origin function is thus the ability to create goodwill and autonomously define its content. The Court followed an approach according to which the expansion of the business interests protected by trademark law can only be justified if it goes in tandem with protecting public interests against confusion. It said basically that a merchandising right could only be founded upon the proof of likelihood of post-sale confusion. Instead of dealing directly with the problem of whether the right holder can enjoy competitive advantages other than those related to the origin function, the Court sought to define the scope of the property right by defining an actionable form of confusion.

This approach is problematic as it fails to balance all colliding competitive interests involved. The decision of whether the merchandising-market-segment related to the right holder’s product line has to be internalized through trademark exclusivity becomes arbitrary, since the result depends solely on public perception. Most importantly, the notion that the contours of the trademark monopoly result from the perception of the consumer as to the product-identifying nature of defendant’s use of the mark disregards the need dictated by the complementarity principle to base decisions regarding the scope of IP rights on the way they affect competition. The “essential function” doctrine has consequently a stultifying effect on the development of trademark law.

The opinion of Advocate General Ruiz-Jarabo Colomer was more to the point. He focused on the fact that the third party is commercially exploiting a trademark without being the right holder. According to his view the core issue was the illegitimate character of the free-ride taken upon the goodwill of the claimant’s mark. Given the finding of a trademark misap-

81 Id. points 56–57.
83 Arsenal Football Club Plc v. Matthew Reed, Case C-206/01, Opinion of AG Ruiz-Jarabo Colomer, point 69 = (2002) ETMR 975.
84 Id. at 995–996: “The debate must be moved to a different ground. Given that, where there is identity, the consumer purchases the goods because they bear the sign, the base from which the answer to the High Court must be provided is that of the person exploiting it without being the proprietor. It is not the reason for which a person buys goods or uses services that I must examine but the reason which has led the person who is not the proprietor of the trademark to place the goods on the market or to provide the service using the same distinctive sign. If, regardless of the reason which motivates him, he

(Contd. on page 552)
propriation, it was immaterial whether the third party was using Arsenal's logos as source identifications or not.\textsuperscript{85} Similar legal reasoning has been deployed by the English Court of Appeal when the legal dispute reached its jurisdiction after the ECJ had remanded the case to the national court.\textsuperscript{86} Delivering the opinion for the Court, Aldous L.J. pointed out that Mr. Reed's actions indicate his wish to take unfair advantage of the reputation of the trademark by selling products illegally bearing the mark.\textsuperscript{87} Although none of the rulings provides an explicit rule-of-reason analysis of the pre-competitive virtues of prohibiting free-riding in the specific case, they both proceed in the right direction as they recognize that the scope of a trademark right might be expanded beyond the level necessary to eliminate consumer confusion as to the commercial source, provided there is a pre-competitive justification for it. They are furthermore in line with the judgement of the Fifth Circuit in \textit{Boston Professional Hockey} as they do consider the aspect of misappropriation crucial, when the sign is the triggering mechanism for the sale of the trademarked goods.

The obvious impulse against free-riding contained in the opinions of AG Ruiz-Jarabo Coromer and Aldous L.J. can be said to have found acceptance in subsequent ECJ case law that propagates a more vigorous protection of the so-called advertising function of trademarks. In the \textit{Loreal} case the ECJ ruled that a right holder can prevent the use of the trademark pursuant to Art. 5(1)(a) TMD in the context of comparative advertising if the advertising function incorporated in it is impaired without need to prove likelihood of confusion as to source.\textsuperscript{88} Furthermore, AG Polaires Maduro has ascribed the expanded scope of strong trademarks on the legal basis of Art. 5(1)(b) TMD to the need of protecting investment efforts of the right holder materialized in advertising value.\textsuperscript{89} This type of trademark protection has been traditionally possible through the provisions regulating the protection of famous trademarks. The protection of the advertising value inherent to a trademark is actually sporadic and trichotomised in the system established by the trademark directive.\textsuperscript{90} It would therefore amount to a systemic contradiction if it could be argued that the advertising function does deserve independent protection but deny it in the case of merchandising because the public might not perceive the third party use of the trademark as indicating commercial

(Contd. from page 551)

attempts to exploit commercially, then he can be said to be using it 'as a trademark' and
the proprietor will be entitled to object, within the limits and to the extent allowed under
Article 5 of the Directive."
origin. The imposition of a trademark-use requirement in this sense would practically deny the possibility of protecting advertising value by means of Art. 5(1)(a) TMD, which is in fact opposing the ruling of the ECJ in the L'Oreal case on the independent protection of the advertising function of trademarks.

Preventing anticompetitive trademark misappropriation in a case such as Arsenal is straightforward when the right holder has already registered the relevant mark for merchandising products, since the TMD expressly forbids the identical junior use of a mark. However, in a system of trademark protection that is integrated into the superordinate group of norms regulating the competitive process, the legal result affecting market performance should not be plainly dependent on whether the right holder has registered the mark on the goods the right holder is intending to use as merchandising instruments. Sometimes this is not predictable. The question therefore is whether Art. 5(1)(b) TMD could provide trademark protection against misappropriative association just like 43(a) Lanham Act under the theory developed by the Second Circuit in Boston Professional Hockey. Such a teleological interpretation is within the textual limits of the statute. The proprietor shall be, pursuant to 5(1)(b) TMD, entitled to prohibit the junior use of a sign colliding with the proprietor's mark which causes confusion to the public, including "the likelihood of association between the sign and the trade mark". The ECJ denied to provide goodwill protection from misappropriative association in Sabel BV v. Puma AG, Rudolf Dassler Sport.\(^91\) The Court opined that the likelihood of association is not a separate ground for establishing infringement liability in trademark cases but simply an element of the respective cause of action, which in any event rests upon confusion as to commercial source. It did not accordingly regard the likelihood of association as an actionable type of consumer confusion.\(^92\) This holding about the normative scope of the trademark exclusivity seems to create a parapony within the complex of trademark causes of action prescribed in Art. 5(1) and (2) TMD since the Court considered the origin function as decisive for the application of Art. 5(1)(b) TMD and therefore neglected the protection of other trademark functions.\(^93\) The protection of the right holder against goodwill misappropriation arising from associations caused by the third-party use of signs colliding is moreover not foreign to European trademark theory. Prior to the implementation of the TMD, Art. 13A(2) of the Uniform Benelux Law on Trademarks provided that the right holder had an authority

\(^{91}\) Case C-251/95, [1997] ECR I-6191.

\(^{92}\) Id. at point 18.

to prohibit third-party uses that without due cause harmed the proprietor’s interest position. Case law has interpreted this provision as protecting all economic trademark functions from associations with colliding junior signs. When value judgements related to effective competition indicate that the goodwill incorporated into a trademark should be appropriated by third parties, the protection from misappropriative associations is the proper legal tool to implement this competitive mandate.

Our previous analysis indicates that the assessment regarding the legitimacy of free-riding on goodwill attached to a trademark should be influenced by parameters related to the effectiveness of competition. This proposition concretizes the meaning of the principle that trademarks are nothing but a part of unfair competition laws. The actual systemic integration of trademark rights into the set of norms regulating competition cannot take place if we simply construct their protection in accordance with their functions in the marketplace. That would amount to pure legal realism without a solid underlying normative concept. Such an approach cannot entail a careful balance of all conflicting competitive interests present in a trademark dispute, and it would necessarily lead to arbitrary or formalistic results. Regarding the advertising function as protectable in itself, for example, it would lead to the result that the claimant would always win merchandising cases. The rule-of-reason analysis presented above indicates though that this should not always be the case. The main problem of the functional analysis of trademarks is that it does not encourage an in concreto balance of competitive interests but it rather promotes the interests of right holders, while it does not provide us with any guidance about the exact limits of such protection. Some proponents of the trademark-use theory argue that its application is pre-competitive because it reduces the scope of the trademark monopoly to a minimum. The economically legitimate merchandising interests of the right holder find, according to this view, adequate consideration in the dilution statutes. However, the high threshold of reputation/famous-

97 AG Poiares Maduro expressed such scepticism towards the economic trademark functions in his opinion in Google France Sarl v. Louis Vuitton Malletier SA, Case C-236/08, (2010) ETMR 503, 529, point 102.
ness required to fall within their field of application means that in the end only few right holders possessing trademarks of considerable reputation would be in a position to claim merchandising rights enforceable through trademark law. Such delimitation of a trademark’s scope is motivated by the leitmotiv of a competitive process, which is at the greatest extent possible free from monopolistic burdens attributed to property rights. There are instances though, where satisfactory market performance depends on more dynamic forms of competition, which presuppose the existence of merchandising rights. Relegating the question of their legitimacy to the stringent criteria of dilution provisions would exclude the possibility of deciding on the trademark’s scope after assessing the possible effect of protection on competition. Conclusively, it seems that there would be many constellations where trademark law would have to support pre-competitive merchandising rights.

IV. Trademark Rights for Scale Model Toys

A. Analysis of the Competitive Interests Involved

Contrary to the evaluation made in the context of sports merchandising, the decorative use of another’s trademark for the purpose of marketing scale model toys should be permissible. There is no sign of any direct linkage of the revenue generated in such markets with the existence of dynamic competition in the automobile industry for example. Neither does it seem that the monopolization of the respective market segments is vital to strategic decisions affecting market performance in the primary market. Overall, it appears that the static benefits of competitive pressure in the secondary market would lead to lower prices, greater output and product variety with regard to scale model toys. A pre-competitive justification that would speak for an expansion of trademark scope to this specific type of use is missing.

B. Assessing Competitive Concerns When Applying Trademark Doctrine

A set of facts corresponding to such competitive circumstances was addressed by the ECJ after Adam Opel sought to prevent an independent toy manufacturer from using its trademarked “Blitz” Logo, which had been registered for motor vehicles and toys. The Court insisted that the finding of an infringing use pursuant to 5(1)(a) TMD requires a showing that the sign at speech as used by the defendant performs a trademark function in the eyes of the average consumer.99 Due to the long tradition of marketing scale models in Germany, the latter would not perceive third-party use of this trademark in scale model toys as indicating source of origin.100 Even though the application of the trademark-use theory had effectively delimited the scope of the exclusive legal position in the specific case, the decision of the ECJ does not make good law as it transsubstantiated the legal problem by

100 Nürnberg Court of Appeals, GRUR-RR 2008, 393, 395–396.
relegating it to an issue of fact. The implementation of the competitive mandate through trademark law is rendered arbitrary as the legal result depends solely on consumer perception of the third-party use. The trademark-use concept is not apt for determining the scope of the exclusive right when it comes to issues related to the effect of protection on competition.¹⁰¹ That is why US case law refrains from invoking the trademark-use concept in comparable cases and falls back on the more flexible doctrine of functionality so as to address competitive concerns. The doctrine principally addresses adverse effects of overbroad trade dress protection.¹⁰² However, the doctrine has been applied as a bar to allegedly anticompetitive trademark enforcement in merchandising cases¹⁰³ or in order to avoid the monopolization of words which are essential to competitors from a marketing point of view.¹⁰⁴ which shows that functionality develops gradually to an all-around defence aiming at preventing trademarks from adversely affecting competition. The T.T.A.B. refused a publisher of comic books the registration of drawings depicting some of the fictitious characters involved in its stories as trademarks. They were held as commercially functional because they were indispensable elements of the commercial appeal of the respective toy dolls.¹⁰⁵ The decision is in line with the Supreme Court ruling in Trafficix, where it was affirmed that aesthetically pleasing trade dress might be held de jure functional due to its competitive need.¹⁰⁶ The need of competitors to use another's trademark so as to produce scale model toys deserves legal protection not in its own right but because it promotes the effectiveness of competition in the specific case. With regard to scale model toys, the competitive process is deemed to be effective if it is capable of producing static efficiencies. Compared to the functionality doctrine, the notion of trademark use is a rather formalistic criterion of framing the legal exclusivity. On the contrary, the functionality defence is able to implement an effects-based approach when ascertaining the anticompetitive character of trademark claims. Although the merits of legal certainty should not be in any event

---


¹⁰⁶ Trafficix Devices, Inc. v. Marketing Displays, Inc., 532 US 23, 33 (2001). The T.T.A.B. case was actually reversed on the false ground that the functionality doctrine refers exclusively to utilitarian or mechanical functionality, In re DC Comics, 689 F.2d 1042, 1045 (C.C.P.A. 1982). In Warner Bros. Inc. v. Gay Toys, Inc., 724 F.2d 327 (2nd Cir. 1983), the Court similarly rejected the doctrine of aesthetic functionality. Both opinions have been overruled by Trafficix.
downgraded, there is a gradually increasing tendency in competition law theory to evaluate the competitive conduct of undertakings by focusing on actual or potential effects on competition while taking into account parameters such as consumer harm or anticompetitive market foreclosure. This is mainly because the effects-based approach can better serve the purpose of avoiding the discouragement of pre-competitive conduct in competition (false positives). The same approach should be followed with regard to the doctrines safeguarding the pre-competitive interest in IP law.¹⁰⁷ In Europe the concern about an anticompetitive monopolization of the secondary market for scale model toys can be addressed through a purposive interpretation of the normative likelihood of confusion concept. The confusion created by the toy manufacturer using the foreign trademarks has to be tolerated because in a specific case keeping the secondary market open for new entrants overcompensates on balance the welfare losses accruing as a result of the accompanying increase of consumer search costs.¹⁰⁸

IV. Trademark Use on the Internet

The breakout of electronic commerce created a whole new field of application for trademark law, as the legality of third-party use of a foreign trademark had hence to be ascertained in the light of the particularities of cyberspace. One of the most common practices has been to manipulate the results of internet searches by inserting another’s trademark into the source code of one’s own commercial website (metataging). The ultimate aim is to make one’s own product equally or even more easily accessible to the consumer who is conducting market research in the internet or is shopping online. Trademarks can also be used as pre-identified keywords, to which advertisements are linked either in a list at the margin of the search page or as pop-ups (keyword advertising).

It is highly unlikely that such uses will cause confusion as to source. The actual allegation of the right holder turning against metataging is that the senior user is unfairly taking advantage of the distinctive character of the mark by using it in order to divert consumers’ initial interest from the claimant’s products to the defendant’s competing goods. In European trademark law the right holder can defend this competitive interest based on Art. 5(1)(a) TMD, which can give the proprietor authority to prohibit third-party uses even if the specific facts of the case give no indication that there exists a likelihood of consumer confusion as to source. It could be argued that the right holder has created an intangible reputational value

¹⁰⁸ See infra VLB. for a more detailed analysis on the purposive interpretation of the legal term of “likelihood of confusion”.
which is not only revenue-generating but strengthens that right holder’s position with regard to a specific parameter of competition, namely the ability to attract consumers’ initial interest during the formation of buying decisions (initial interest confusion doctrine).\textsuperscript{109} The internalization of this trademark function would supposedly increase incentives for branding activity. There is no doubt that such third-party use increase search costs in the internet as it makes it more complex for consumers to find the product they were originally seeking. It intercepts the communication channel between trader and customer based on the information encoded in the trademark. However, consumer welfare is increased because third-party use appends informational value that can be utilized by consumers.\textsuperscript{110} Metatagging and keyword advertising can actually be in principle considered as pre-competitive comparative advertising. The free riding on the distinctive character of a sign has to be conceptualized in such cases as a positive trademark externality.\textsuperscript{111} If now we interpret Art. 5(1)(a) TMD as widely as imposing a trademark-use requirement banning every use that is capable of impairing some function of the right holder’s trademark, including the investment or advertising function (multifunctional interpretation), then we will stumble upon an anticompetitive result: the claimant will be in a position to forbid third-party use as taking advantage of the identification function of the trademark to promote the defendant’s own goods.\textsuperscript{112} This is another indication that falling back on a “functional analysis” of trademarks is not the proper analytical concept for aligning these IP rights with competition law.\textsuperscript{113}

Although these internet-related uses of a trademark are invisible to the consumer and, as a result, the latter cannot actively form a personal perception of the sign’s function, case law has recognized that metatagging constitutes a use of the sign in suit “as a trademark.” This is because the sign is used by the third party in such a manner that it performs the function of a trademark, since it directs the internet user to the goods or services of the

\textsuperscript{109} In US trademark law right holders have invoked the initial interest confusion doctrine so as to prohibit third party use of their mark as metatag. See for instance, \textit{Brookfield Communications, Inc. v. West Coast Entertainment Corp.}, 174 F.3d 1036, 1062 \textit{et seq.} (9th Cir. 1999).

\textsuperscript{110} Cf. \textsc{Goldman, “Deregulating Relevancy in Internet Trademark Law”}, 54 Emory L.J. 507, 557 (2005).

\textsuperscript{111} Cf. \textsc{Barnes, “Trademark Externalities”}, 10 Yale J.L. & Tech. 1, 32–36 (2007).

\textsuperscript{112} For an example of how such an argument could be presented, see Hamburg District Court, Case 315 0 25/99, \textit{Estée Lauder Cosmetics Ltd.}, \\Clinique Laboratories, Inc., \textit{Origins Natural Resources Inc. and Estée Lauder Cosmetics GmbH & Co. OHGb v. Fragrance Counter Inc. and Excite Inc.}, (2000) ETMR 843, 860; cf. also Braunschweig Court of Appeals, GRUR-RR 2007, 71, 72.

\textsuperscript{113} Compare the critical stance of \textsc{Viehoff, “Markenrecht und Google AdWords – Ist die Werbeaufmerksamkeit der Marke die Lösung?”}, GRUR-Praxis 2009, 28 and \textsc{Ohy}, “Keyword Advertising or Why the ECJ’s Approach to Trade Mark Infringement Does Not Function”, 41 IIC 879 (2010).
defendant. However, the senior use as a metatag would hardly ever be considered as amounting to infringement, because the representative average consumer is aware of the operation of search engines and does not make any assumptions relating to commercial origin of products based on the presentation line of the results of an internet search. With regard to Adwords the ECJ followed a multifunctional analysis of the trademark-use requirement. It simply inquired into the effect of the third-party use on each trademark function, addressing thus directly the interest position of the right holder. Keyword advertising would only impair the origin function of the claimant’s trademark if the advertising message is not clear enough to exclude the possibility of the average consumer gaining the impression that the junior user is somehow economically affiliated to the right holder. The ECJ sees no interference with the advertising function of the trademark in suit, since the alleged infringer is not manipulating the results of the search engine and is therefore not impairing the ability of the right holder to advertise its products through the internet. Nonetheless, the Court did not make use of the “functional trademark analysis” in a consequent manner as it omitted to take into account the free-riding taken by the third party on the investment function of the trademark in suit. Furthermore, the Court seems to understand the advertising function very narrowly, without considering it as embracing the trademark’s commercial attractiveness or repute, which can be impaired or unfairly taken advantage of. While the legal result is rightful in practice, these observations show that the concept of protecting the economic function of trademarks cannot in itself provide legal solutions, which are satisfactory from the perspective of effective competition. Had the Court attempted to provide full protection of the economic trademark function at speech, the pre-competitive effect of keyword advertising would have been eradicated.

The use of another’s trademark would often be a part of a wider series of strategic internet sales, whose legality is governed by antitrust law. Suppose, for example, that an exclusive distributor of the right holder is using the trademark on the internet for approaching customers situated in the geographical area allocated to another distributor belonging to the same contractual scheme of vertical integration. The restraint of the intra-brand competition imposed by the exclusive dealership in certain geographical areas has


116 The liability of internet service providers is not examined here.

117 Ibid. points 82–90.

118 Id. points 97–98.
often been held pre-competitive in the US under the antitrust rule of reason. The insulation of individual retailers from intra-brand price competition is intended to provide them with a serious incentive for promoting the brand commercialized by the right holder.\textsuperscript{119} The exclusive allocation of geographical areas to individual retailers gives an undertaking the opportunity to expand its trade by seeking the most capable and aggressive promoters of its own brand.\textsuperscript{120} Competition is thereby being intensified at the inter-brand level.\textsuperscript{121} Internet sales undermine the pre-competitive potential of exclusive distributorship when the seller is seeking to free-ride on the customer services offered by an intra-brand competitor in its “brick and mortar” outlet and could therefore be prohibited pursuant Sec. 1 of the Sherman Act. In contrast, EC competition law is more permissive towards internet-selling in this respect. The maintenance of an online outlet amounts to a “passive sale” within the meaning of Art. 4(b)(i) Reg. 330/2010 and is therefore in principle exempted from liability.\textsuperscript{122} The different legal treatment resulting from the application of 101 Treaty on the Functioning of the European Union (TFEU) could be explained by the purpose of this provision to promote the workability of the internal market by permitting consumers to take advantage of price differentials observed in various geographical areas of the EU. However, it is still possible that the circumstances of a specific internet sale give rise to anticompetitive effects. An example would be a distributor-agency using the trademark of its principal as a metatag in a manner that seeks to directly approach the customer group allocated to a different distributor of the same network and manipulating search results on the internet so that the intruding distributor can present himself as the primary commercial source for that market segment. Competitive conduct of this type is more likely to adversely affect competition overall. The Commission Guidelines consider these forms of internet selling and advertising as active sales.\textsuperscript{123}

It is the anticompetitive effect of the third party use of the trademark that speaks for its legal condemnation. It is not the impairment of some trademark function or the consumer perception regarding its source-identifying role. This normative valuation can be implemented through the absolute protection granted by Art. 5(1)(a) TMD as a matter of purposive interpretation. There is no Lanham Act provision to the same legal effect. A more expansive approach on trademark protection should be possible however at the level of state common law.

\textsuperscript{120} Ibid.
\textsuperscript{122} European Commission, “Guidelines on Vertical Restraints”, para. (51) and (52).
\textsuperscript{123} Id. para. (53).
V. Junior Use of a Trademark as a Trade Name

A. Analysis of the Conflicting Competitive Interests

Compared to the classic trademark infringement scenario between two colliding signs, the competitive situation exhibits its own specifics when the junior party uses the claimant’s mark as a trade name.\(^{124}\) If the defendant loses the legal dispute, then he is obliged to change his trade name. The economic consequences of the legal result can be much more onerous than in the case where the defendant has to abandon a trademark. The goodwill that attaches upon a company name usually reflects efforts to build up a good reputation that reach back to the moment of formation of a corporate entity. It represents the company’s market performance throughout a longer period of time. On the other hand, a trademark could simply symbolize the goodwill of a single brand or a product line offered by one firm, whose commercial activity covers many economic sectors. As an undertaking is developing in the market place, products or services may be altered or replaced. Trademarks may therefore come and go but trade names remain principally in tact as long as the undertaking deploying them continues to be operable. If the junior used is compelled to change his trade name, then he has to forego the economic value of the existing reputational benefits associated with his commercial identification. He must also endure the costs of starting all over again to generate goodwill under a new trade name, if he wishes to stay in the same business. The adoption of a new company name entails costs that are not present when a defendant is legally coerced to change a trademark. Not only should he pay damages or have profits made under the infringing name skinned, but he should also alter its business papers and advertising campaign. Apart from that, the defeated party to the dispute has to bear the cost of informing existing customers of the continuation of his trading activity under a new trade name. The defendant’s position deserves special understanding if, at the time of the adoption of the trade name, he had already conducted a reasonably diligent search, which did not however reveal that some of its elements might collide with a senior trademark.

The same concerns are valid when both parties to the legal dispute have been using the sign at issue in the course of their business activity within the boundaries of a specific geographical region for a long time, and the conflict of their rights appears at the point where their competitive interests collide in international markets. Such a set of facts arose in the infamous Anheuser-Busch case. The litigation involved a dispute between two breweries regarding the extent to which the use of the term “Budweiser” was restricted by property rights. The word-mark is descriptive, as it is the German synonym for the city České Budějovice in south Bohemia, and it therefore connotes geographical origin of manufacture. The city has a very long tradition of

beer production that goes back to the fourteenth century. Budějovicky Budvar is an undertaking seated there and has sold its own brewed beer under the name “Budweiser” since 1895. Anheuser-Busch, the other party to the dispute, was founded in the US by German immigrants. In 1876 the company succeeded in registering the term at speech as a trademark for its products. As both undertakings were progressing in competition, their competitive interests collided in international export markets. Anheuser-Busch has managed through an effective series of trademark litigation to avail itself of the exclusive use of the term “Budweiser” in 23 out of 27 EU Member States. An effort to apprehend the way in which the assertion of trademark rights affects competition in the concrete case would lead to the following analysis: the claimant seems not to be solely concerned about the confusion that would result from the common use of the term, but simultaneously counts on the fact that the outcome of the litigation will obstruct the defendant’s ability to compete by forcing the latter to incur the economic inconveniences that come along with the necessity to change the trade name. The trademark enforcement actions of Anheuser-Busch could be characterized in antitrust terms as a “raising rival’s costs” strategy, whose anticompetitive nature is founded upon its lack of any social utility, as it does not generate any efficiency passable to consumers.

Let us now have a closer look at the Anheuser-Busch case. The word mark “Budějovicky Budvar” was the dominant element of the labels used by the appellee to market its beer-bottles in Finland. Right below and in considerably smaller typeface one could read the notice “Brewed and Bottled by the brewery Budweiser Budvar national enterprise”. For Anheuser-Busch this amounted to an unauthorized infringing identical use of its registered trademarks. The appellee argued that the use of the sign “Budweiser” was not infringing because it has not been used in order to identify his goods according to their commercial source, rather it was aiming at connoting its trade name. In the absence of a trademark-use, there could be, according to the appellee’s view, no finding of infringement. The ECJ opined that infringement could only be affirmed if it is established that the defendant is using the claimant’s trademark in a manner, which is likely to be interpreted by consumers as designating the undertaking from which its goods originate.

The Court required that the mark should be used in a manner that indicates

125 On the historical background of the Anheuser-Busch litigation, see the illustrative case study of the American University, Washington, DC, at URL: http://www1.american.edu/ ted/budweis.htm#foot5.
129 Id. point 60.
commercial origin. Applying the ruling to the specific facts, it should be ascertained whether the use of the word mark "Budweiser" by the appellee is likely to be understood by the public as designating the undertaking Budweiser Budvar as the commercial origin of the relevant products. Under this test the right holder will most probably prevail in the majority of the cases. In order to balance colliding interests of equal legitimacy, the ECJ has teleologically widened the application field of Art. 6(1)(a) TMD so that not only natural persons but also legal entities would have the possibility to deploy the trademark defence of using their own (trade) name. The defence can only be successfully invoked though, if the third-party use is in accordance with honest practices in industrial or commercial matters as Art. 6(2) TMD provides.

The Court did concretize the circumstances leading to the negation of the defence due to the unfair character of the third-party use: it depends, firstly, on the extent to which the use of the third party's trade name is understood by the relevant public, or at least a significant section of that public, as indicating a link between the third party's goods and the trademark proprietor or a person authorized to use the trademark, and secondly of the extent to which the third party ought to have been aware of that. Another factor to be taken into account when making the assessment is whether the trademark concerned enjoys a certain reputation in the Member State in which it is registered and its protection is sought, from which the third party might profit in selling its goods. In essence the Court opined that the combined application of Art. 5(1)(a) or (b) and Art. 6(1)(a) TMD leads to the conclusion that the possibility to balance the conflicting competitive interests described above by considering a solution of coexistence between the two types of marks is dependent upon the absence of consumer confusion as to commercial source in the marketplace.

B. Purposive Interpretation of the Likelihood of Confusion Standard

There are valid reasons to be sceptical towards the legal argumentation of the ECJ. First of all, its ruling suggests that the finding of a likelihood of confusion is the ultimate determinant for the balance of conflicting competitive interests arising in the context of trademark disputes. Market transparency is neither the sole nor the most important structural element of an effective competition system. Trademark law does not itself seek to create conditions of perfect competition regarding market transparency. It does not seek to eliminate confusion from the marketplace but it rather sets levels of tolerable or intolerable confusion shaping this market imperfection so as to serve the effectiveness of competition. Liability for trademark infringement attaches, for example, if the claimant is able to show that the senior use of its mark is likely to cause confusion as to the source of the products

131 Ibid. point 83.
marketed by the defendant. The reason why there is no burden of showing actual confusion in the marketplace so as to enforce trademark rights is, among other legislative motives, that the difficulty of making a case under such test for the claimant would encourage passing-off activity (false negatives).  

In Europe the level of market transparency implemented through trademark law is defined by restricting the types of actionable confusion to those likely to be suffered by a fictitious average consumer, who is reasonably well informed and reasonably observant and circumspect. This means that confusion as to source is tolerated when suffered by the unwary or even the frivolous consumer. Combating such confusion also does not pay if enforcement costs are taken into consideration. The amount of litigation would have been tremendously increased if it were possible for right holders to enjoin all imaginable constellations of consumer confusion. Furthermore, the scope of trademark exclusivity would be too broad if that were acceptable. That the confusion of consumers less sophisticated than average is irrelevant for the purposes of infringement finding also indicates a feature of trademark law that actively seeks to educate individuals so as to become good consumers. The effectiveness of competition depends not only on the efficiency of undertakings but also on the sophistication of consumers. The referees of the competitive rivalry have to be diligent to some extent so as to be able to fulfil their role.

The degree of confusion adequate to unleash trademark law sanctions is often determined by a competition policy decision to protect the right holder's investment in building up a significant reputation, which is incorporated in a strong trademark. The scope of a trademark right is accordingly expanding in proportion to the level of its awareness by the relevant consuming public. On the other hand, this rule is not decisive if its application leads to an exclusive legal position that unduly restricts competition. In Whirlpool Corporation, Whirlpool Properties Inc., Kitchenaid Europa Inc. v. Kenwood Ltd. for instance the High Court of Justice denied to expand the scope of

135 Proactive trademark law making as analysed by Dinwoodie, “Trademark Law and Social Norms”, at http://www.oiprc.ox.ac.uk/papers/EJWP0207.pdf, could also be effectuated so as to promote the effectiveness of competition.
137 [2008] EWHC 1930 (Ch).
a three-dimensional mark having the form of a mixer based on the high reputation of the trademark, because that would lead to an undesirable monopolization of the market segment for retro-style designed mixers.\textsuperscript{138} Moreover, there are cases where the degree of confusion might indeed be actionable but the legal order decides to tolerate it because that would promote effective competition in the specific case. Jurisdictions such as Germany, for example, where the validity of the trademark cannot be set in doubt during infringement proceedings, do not consider the confusion resulting from copying functional elements of the senior mark as actionable.\textsuperscript{139} In this way the value judgements contained in the functionality provisions ruling the registrability of marks become equally relevant at the infringement stage.

The European legal term "likelihood of confusion" is in conclusion a normative concept, the purposive interpretation of which under the teleological principle of effective competition often dictates that a certain degree of consumer confusion has to be tolerated so as to promote competitive values other than market transparency. It allows therefore the balance of colliding competitive interests that appear in the context of a trademark dispute. In US trademark law confusion is rather an empirical concept and as such cannot be effectively subjected to teleological interpretation in order to take into account the effects of trademark protection on competition. The US approach is to solve this legal problem by creating special defences that can trim the scope of the exclusive right if it turns out \textit{in concreto} that trademark protection restricts competition unduly. An adverse effect of trade dress rights on competition for example can be avoided by the application of the functionality doctrine, which can be invoked as a defence at the infringement stage. The TMD has indeed a provision regarding the limitations imposed on the exclusive rights conferred by a trademark (Art. 6 TMD). These bars to enforcement are only specific regulations of situations where confusion has to be tolerated in order to further legitimate interests of the defendant or wider public interests. Their narrow formulation does not allow much flexibility for balancing market transparency with other competitive concerns in the course of a specific trademark dispute. This legal evaluation can only take place in the course of concretizing the legal term of confusion when referring to a specific set of facts.

Dealing with the legal problems arising out of collisions between senior trademarks and subsequent identical business identifiers, the ECJ recognized the need to ameliorate the priority principle so as to allow a balance of the competitive interests involved in such disputes. Instead of balancing the parameter of consumer confusion with other constituent elements of a system of effective competition within the normative content of Art. 5(1)(a) TMD, the Court preferred to teleologically extend Art. 6(1)(a) TMD so that the exception to protection applies not only to names of physical persons but

\textsuperscript{138} \textit{Id.} at points 70–71.

to trade names as well.\textsuperscript{140} It was not necessary to do so, as the teleological interpretation of the normative concept of confusion would have led to the same result. Furthermore, the historical legislator seems to have intended that the exception would only be applicable for personal names.\textsuperscript{141} But even if we follow the course of solving the legal problem by applying Art. 6(1)(a) TMD, we would not avoid the trademark-use conundrum anyway. The right to use one's own trade name despite the collision with a senior trademark is pursuant to Art. 6(1)(a) and (c) in fine TMD under the reservation of compliance with the honest practices in industrial or commercial matters. The ECJ has not yet provided much guidance for the interpretation of this imprecise legal concept. One possibility would be to regard the trademark-use of a trade name as use that runs contrary to honest business practices. The provision calls for a general balance of interests without establishing trademark-use as the exclusive interpretative yardstick though. In Anheuser-Busch the analysis of the competitive situation shows indeed that none of the parties should relinquish the possibility to use the sign at issue as a commercial source identification. Indirect support for the proposition that the trademark limitations of Art. 6(1)(a) TMD could potentially allow trademark-uses of the signs in suit could be found in the Gerolsteiner case.\textsuperscript{142} There the ECJ opined that the uses excluded from the prohibitive authority of the right holder could still be in accordance with honest business practices even if they cause confusion as to the commercial source. In other words, if the balance of competitive interests mandated by the provision dictates that a confusing third-party use should be allowed, the resulting degree of marketplace confusion as to commercial source has to be tolerated.\textsuperscript{143} A maior ad minus trademark-use does not necessarily violate honest business practices.\textsuperscript{144} Nevertheless, the Court put grave emphasis in Anheuser-Busch on ascertaining whether the trade name is being used in a manner that creates for consumers the impression that there is a link between the third party's goods and the trademark proprietor or a person authorized to use the trademark. Although the Court stated that all relevant factors of the case should be


\textsuperscript{141} It should be noted that, before the interpretation guidance provided by the ECJ, German commentaries on Sec. 23(1) MarkenG, the provision implementing Art. 6(1)(a) TMD, had been narrowly interpreting the limitation as principally concerning the right of natural persons to use their own name. The wording of the statute was not treated as susceptible to expansion further than the point of regarding that trade names consisted of names of natural persons could be considered as names within the meaning of § 23(1) MarkenG. Cf. for example INGERL & ROHNKE, "Markengesetz", § 23, points 10–11, at 684–685 (1998).


\textsuperscript{143} Ibid. Notably, the recourse to general principles of unfair competition was considered as necessary, point 26.

\textsuperscript{144} EICHHAMMER, supra note 36, at 151–152.
relevant for the necessary balance of interests, it seems that the result depends to great extent on the finding of consumer confusion, something that entails the danger of reaching anticompetitive outcomes by excluding solutions of coexistence between colliding marks.

To make the balance between market transparency and other elements of effective competition within the trademark dispute possible, we must consider Art. 5(1)(a) TMD in the context of protecting traders and the public from consumer confusion as to the source of commercial origin. The prohibition of identical uses aims to protect both from confusion and misappropriation. The provision should not be applied to the case at hand under the prism of protecting goodwill misappropriation since the defendant does not seek to take advantage of the reputation created by the plaintiff but rather to compete on the merits in the same geographical market. The legal problem confronted is whether the confusion arising from the coexistence of the colliding marks has to be tolerated so as to promote other more significant elements of an effective competition system. As already noted, consumer welfare would be reduced if competition between the two brands ceases to exist.

The issue of consumer confusion can also be analysed as a conflict of interest between different groups of consumers. Even if the average consumer is confused as to the commercial source of goods marketed under the sign “Budweiser”, since the sign is being not exclusively used by a single undertaking, those consumers who are more sophisticated when it comes to beer consumption will be able to tell the difference between the two brands, as they would be aware of the historical background of both breweries and thus able to discern between the two brands on the grounds of commercial origin. The normative model of an average consumer informs us whether the degree of confusion released in the market by the senior user is such that trademark law has to intervene so as to restore market transparency. However, this is not the end of the legal evaluation since overriding competition-related values might mandate that this level of confusion should not be actionable. The interests of above-average sophisticated beer consumers prevail in this case because they go in tandem with the legitimate interests of the defendant and the general interests of the public in an effective competition as described above. The confusion experienced by groups of less-sophisticated consumers will, as market imperfection, subsequently be remedied since the legal situation of common use of the term “Budweiser” will, according to the extrapolation principle, educate consumers to discern the difference between the two different sources of competing products.


146 The dynamic interpretation of the imprecise legal concept of the likelihood of confusion has been proposed in German theory for situations, where economic analysis suggests that coexistence of trademarks is the optimal solution. Cf. WINTER, “Modifizierte Kollisionslösungen im deutschen Warenzeichenrecht zur Vermeidung wirtschaftlich nicht erforderlicher Verbindungsrechten”, GRUR 1977, 467, 474-476.
information spread around the market from already misled or more sophisticated consumers will gradually restore market transparency while avoiding a possible distortion of competition that would take place in the event of a successful suit by the claimant. Conclusively, the purposive interpretation of the normative confusion requirement in European trademark law dictates that in this specific case, average consumer confusion should not be actionable.

In US trademark law however, the empirical nature of the confusion concept does not allow much room for a purposive interpretation. The legal problem can be dealt with by developing a respective trademark fair use defence that would allow the coexistence of both signs notwithstanding the presence of some level of confusion in the marketplace. The Supreme Court recognized in *KP Permanent Make-Up, Inc. v. Lasting Impressions I, Inc.*[147] that case law might weight the rationale against consumer confusion with other concerns of public interest such as values related to the effectiveness of competition, when determining the scope of trademark rights.[148] The Court opined in this case that the defendant invoking a descriptive fair use defence pursuant to Sec. 33(b)(4) Lanham Act does not have any burden to negate any likelihood that the his use will cause source confusion. The ruling emphasizes that in any event the common law tolerates some possibility of consumer confusion in order to prevent anticompetitive trademark protection.[149] It is observed that while European trademark law seeks to optimally design the scope of the legal exclusivity,[150] the US counterpart crafts strong rights and equally strong defences to avoid undesirable restrictions of competition.

The idea of allowing colliding trademarks to coexist and tolerating the resulting confusion for the sake of other competitive values of overriding significance is gradually winning ground in contract[151] and antitrust law. The business justification underlying this legal stance is directly related to the effectiveness of competition. Without the solution of coexistence at least one of the parties would have been coerced into changing its trademark and losing the goodwill it has already generated, thereby incurring significant

150 Cf. FEZER, supra note 11, §14 points 48–50, at 890.
sunk costs let alone the costs of litigation. Furthermore, parties would be less hesitant to invest in their trademarks and expand their activity to other geographical areas or business sectors where a colliding trademark exists. For these reasons, such agreements usually survive competition law scrutiny under Art. 101 AEUV, unless there is a serious danger of confusion (a threshold of confusion which is higher than the one associated with the reactions of the average consumer) or unless the specific agreement serves the purpose of partitioning the common market or to share a large proportion of it. 152 The approach of the Commission is to allow the parties to agree on trademark coexistence if reasonable measures to avoid confusion are taken. 153 Competition-law principles indicate that in a case such as Anheuser-Busch trademark coexistence 154 better serves the effectiveness of competition than the activation of the right holder's authority of exclusion. 155 Privately negotiated trademark sharing could not always be expected though, 156 as the claimant would be inclined to assert right holder authority in a predatory manner identical to the situation in the Anheuser-Busch litigation. It is therefore necessary to make the parameters related to the effectiveness of competition relevant for the decision on the exclusive right's optimal scope through purposive interpretation. 157

VI. Conclusion

Neither the trademark-use doctrine nor the analysis of the economic trademark functions are capable of effectively balancing the colliding competitive interests involved in a trademark dispute. Imposing a trademark-use requirement would in many cases limit the scope of the property right, although its expansion would in the specific case better serve the effectiveness of competition. Relying exclusively on consumer perception in order to define trade-


153 See 9 IIC 287 (1978) for a short presentation of the cases setting the relevant principles.

154 Cf. Muchlinski, “A Case of Czech Beer – Competition and Competitiveness in the Transitional Economies”, 1996 MLR 658, 669-670, adding further competitive parameters and arguing that a coexistence solution in the Anheuser-Busch case is preferable so as to allow a smaller undertaking active in a transitional economy to effectively compete with its internationally established competitor; Knaak, “Zur Wirksamkeit und Kündbarkeit von zeichenrechtlichen Abgrenzungsvereinbarungen” 1981 GRUR 386, 387, fn. 6, argues that coexistence agreements are especially useful in cases where the parties to the dispute share a common background that initiated them both to use the sign at issue.

155 Winter, supra note 146; Kur & Schvosbo, “Expropriation or Fair Game for All? The Gradual Dismantling of the IP Exclusivity Paradigm”. Both highlight the need to ameliorate legal exclusivity, where this is necessary for achieving equitable legal results, at URL: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1508330.


157 Cf also Winter, supra note 146.
mark scope entails the danger of arbitrariness for the legal result. The
“functional analysis” of trademarks has undoubtedly helped us understand
how these exclusive rights may affect competition, but it does not amount to
a normative concept able to implement competition-related values judg-
ments. Furthermore, it entails the risk of overprotecting trademarks. The
most sensible and legally sound manner to deal with trademark law issues
featuring competitive parameters other than consumer confusion would be
to reconsider the normative implications of the principle that trademarks are
systematically adhered to the wider and superordinate group of norms
regulating the competitive process. As the integration of trademarks into the
competitive order is a legal necessity flowing out of the fact that they are
used for competitive purposes, it becomes apparent that the balance of
various competitive interests, whose collision is incidental to the exercise of
a specific trademark right, cannot properly take place unless value judge-
ments inherent to competition laws are taken into consideration as norma-
tively binding.

Yo Sop Choi*

The Per Se Rule on Minimum Resale Price
Maintenance in Korea – A Time to Change**

The issue of whether minimum resale price maintenance is problematic has
long been disputed, based on diverse economic theories. Currently, the
academic and practical issue of balancing positive and negative effects by
resale price maintenance has increased the demand for revolutionary regula-
tions worldwide, especially since the abolition of the per se rule by the
Leegin judgment in the US. Competition laws and policies on resale price
maintenance around the world obviously come in diverse forms, since com-
petition policy-makers do not unanimously express one opinion from their
different cultural, economic, and jurisprudential backgrounds. Despite
agreeing to the reason for various approaches to resale price maintenance in
each competition regime, it is true that a mere legal reasoning or defective
economic theory often results in harm to competition. It is thus not an easy

555, passim.

* Ph.D. in Law (University of Glasgow); Researcher, The Law Research Institute of Han-
kuk University of Foreign Studies, Seoul.

** The author is grateful to Professor Mark Furse, Professor Hwang Lee, and two anonym-
ous commentators for their invaluable suggestions on earlier drafts. Of course, respon-
sibility for any errors and omissions rests solely with the author. English translations of
the Korean works in brackets [...] are unofficial.