Trademark protection and freedom of expression: an inquiry into the conflict between trademark rights and freedom of expression under European, German, and Dutch law

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Citation for published version (APA):
Sakulin, W. (2010). Trademark protection and freedom of expression: an inquiry into the conflict between trademark rights and freedom of expression under European, German, and Dutch law
2 Trademark Rights and their Rationales

2.1 Introduction

This book deals with the conflict between trademark rights and freedom of expression. A resolution of this conflict requires a balancing process, in which the justified interests of the parties concerned are weighed against each other. These justified interests can only be determined if both rights are interpreted in light of their aims and rationales; in the present chapter, I will, therefore, examine trademark rights in light of their rationales. In the subsequent chapter, I will examine freedom of expression in light of its rationales. In particular, whether ‘European trademark rights’, i.e. the national trademark rights harmonised by the European Trademark Directive (‘TMDir’) and the largely identical trademark rights contained in the European Trademark Regulation (‘TMReg’), are justified by these rationales.

The chapter will start out by presenting a bird’s eye view of European trademark law (section 2.2). Subsequently, in section 2.3 I will examine the rationales for trademark rights. In that section, I will first take a look at relevant functions of trademarks that are used in trademark jurisprudence and doctrine to interpret and justify trademark rights, i.e. the source identification function, the product distinction function, the quality or guarantee function and the goodwill and advertising function. I will also look at the role of trademark functions in European trademark law.

Second, I will examine the justification of trademark rights by economic rationales, i.e. search cost rationale and dynamic efficiency rationale, and ethical and fairness-based rationales, such as the Lockeian labour rationale. The discussion of the rationales will show in how far the protection of the individual trademark functions is justified.

In section 2.4, I will assess whether the trademark rights harmonised by the TMDir and granted under the TMReg are justifiable under the rationales for trademark rights. First, I will examine the grant and revocation of European trademark rights (section 2.4.1); thereafter, I will turn to the identity protection and protection against confusing use (section 2.4.2); Then, I will look at the protection of the distinctive character and repute of the trademarks (section 2.4.3); and, finally, I will consider the limitations of trademark rights provided by the TMDir the TMReg as well as the Directive on Comparative Advertising (section 2.4.4).
2.2 A BIRD’S EYE VIEW OF EUROPEAN TRADEMARK LAW

The European Trademark Directive has harmonised to a large extent national trademark law in the Member States of the European Union. In addition, the European Trademark Regulation provides for supra-national trademark rights that are valid throughout the entire E.U. territory. Many of the provisions of the TMDir and TMReg, in particular those relation to the grant and revocation as well as to the scope of rights, are identical. I will therefore refer to both sets of rights jointly as the ‘European trademark rights’ and I will introduce these European trademark rights as well as the European trademark law framework in the sub-sequent paragraphs.

2.2.1 THE EUROPEAN TRADEMARK LAW FRAMEWORK

On the international level, European trademark law must respect important treaties, which set parameters for the substantive provisions relating to the grant of trademark rights, as well as to the scope of such rights. The first of these is the 1886 Paris Convention on the Protection of Industrial Property (‘Paris Convention’), Articles 6 to 7 of which provide *inter alia* for standards relating to the registration of trademarks and for the protection of well-known marks. The European Union is no party to this convention, but all Member States of the European Union have ratified it. Second, in 1994 the Agreement on Trade Related Aspects of Intellectual Property Rights (‘TRIPs’) was adopted under the auspices of the World Trade Organisation (‘WTO’). TRIPs sets rules relating to (the refusal of) registration and minimum rights and provides for the protection of well-known trademarks. The European Union itself as well as all its Member States are bound by this treaty due to their membership of the WTO.

Within the European Union, trademark jurisprudence developed at an early stage, because disparities in national trademark laws have, at times, interfered with the fundamental freedoms of the European common market. The relevant two fundamental freedoms that were affected were the free movement of goods and the freedom to provide services on the internal or common market, as contained in Article 28 and 30 of the Treaty Establishing the European Community (‘EC Treaty’). The main interpretative tool used by the ECJ to interpret the scope of European trademark rights, i.e. the essential

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3 The European Union is a Member of the WTO since 1 January 1995 www.wto.int. In addition to the harmonisation of content of trademark rights trough the Paris Convention and TRIPs, a system for the international registration of trademarks was created with the 1891 the Madrid Agreement. It creates a Union within which it enables right holders to extend trademark rights to the territories of some or all other Member States. The European Union is a Member of this Union. Most EU Member States are equally part of the Union.
4 The first trademark related case was ECJ 23 May 1978 Hoffmann-La Roche.
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function doctrine, stems from the jurisprudence relating to conflicts between national trademark rights and the fundamental freedoms of the internal market.6

During the 1980ies, a process of legislating in the area of trademarks took place. This was done under what is presently Article 94 EC Treaty, which states that the European Council has powers to

“issue directives for the approximation of such laws, regulations, or administrative provisions of the Member States as directly affect the establishment or functioning of the common market”.7

In 1989, the negotiations led to the adoption of Directive 104/89/EEC (the ‘Trademark Directive’ or ‘TMDir’). This directive largely harmonised the national trademark laws of the now 27 Member States8 of the European Union.9

The TMDir does not amount to a fully-fledged single European trademark law. It is rather an instrument of harmonisation, approximating to a large extent the provisions regulating the grant and revocation of national trademark rights, as well as their scope. To that end, the Directive contains mostly mandatory and a few optional provisions. For instance, the optional Article 5.5 TMDir provides that states may allow for the protection of the distinctive character and repute of all trademarks, even those without a reputation, outside the scope of trade. That Article has been implemented in its entirety solely in Benelux law in Article 2.20.1.d of the Benelux-verdrag inzake de intellectuele eigendom (‘BVIE’).

Member States have transposed the TMDir into their national laws, meaning that the trademark rights in question are obtained under national law by registration with the national trademark registers. National courts deal with disputes over trademark rights that are provided by these harmonised national trademark laws. If, in a national trademark dispute, a question arises about the interpretation of provisions stemming from the Trademark Directive, national courts may ask for a preliminary ruling on questions of interpretation to the European Court of Justice; national courts of last instance are under an obligation to refer such questions to the ECJ.10 Interestingly, in the interpretation of the provisions of the TMDir, the ECJ continues to adhere to the interpretative tool developed under its common market jurisprudence prior to the implementation of the TMDir, i.e. the essential function doctrine.

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6 In addition, the ECJ defined the specific object of trademark rights in the internal market, which is to grant trademark right holders “an assortment of rights and powers which are intended to reserve for him the exclusive right to use the distinctive sign and to protect the trade mark against competitors who wish to take advantage of its status and reputation.” ECJ 17 October 1990 HAG II, para. 14; ECJ 10 October 1978 Centrafarm, paras. 10 to 12; ECJ 23 February 1999 BMW, para. 52; AG Colomer 18 January 2001 Merz & Krell (‘Bravo’), para. 32; Beier 1970. This specific object is of specific relevance only to parallel import cases, e.g. Hays 2008, p. 205, and it is far less used in the interpretation of trademark rights under the TMDir and TMReg. Therefore, I will not further elaborate on the specific object of trademark rights.
7 Ibid., Article 94.
8 Note that Belgium, Luxembourg, and The Netherlands have one uniform trademark law, which is codified in the Benelux Convention on Intellectual Property, (herein after ‘BVIE’).
10 Article 234 EC Treaty.
European Council Regulation 40/94/EC (the ‘Trademark Regulation’ or ‘TMReg’) established a Community trademark system. Under this Regulation, Community trademark rights are obtained by a single registration with the Office for the Harmonization of the Internal Market (OHIM) located in Alicante, Spain and the rights are valid throughout the entire EU territory. The TMReg deals with the subject matter of community trademark rights, as well as their scope.

2.2.2 THE GRANT AND REVOCATION OF TRADEMARK RIGHTS

Both the national laws harmonised by the Trademark Directive as well as the Trademarks Regulation grant rights upon registration. National registering authorities set up in each Member State of the European Union register trademarks that are subject to national trademark rights and are limited to the national territory of that Member State. In the case of the Benelux, this is the territory of the Benelux countries, i.e. Belgium, Luxembourg, and the Netherlands. Under the TMReg, registrations take place at OHIM.

In the register, trademarks are registered for specific goods and services, for which the International Agreement of Nice provides a classification. At present, it contains 34 classes of goods and 11 classes of services. Each of these classes contains a list of terms designating goods and services. Trademarks are registered for individual goods or services within one or several classes of goods or services. Many of the grounds for refusal, invalidity, or revocation of trademark registrations are assessed in relation to the concrete goods and services that are mentioned on the application. This concerns in particular the grounds for refusal of distinctive character, descriptiveness, and customariness.

Furthermore, trademark registration under European trademark law is based on an attributive system. Trademarks can be registered even when they have not yet been used in trade and trademark rights over such signs lapse only after five years of non-use. The reasoning behind making registration easier was to make obtaining trademark rights less burdensome. Proving the actual distinctive character of a trademark in trade may be a quite costly affair and it would disadvantage the licensing and merchandising industry, which thrives on trademark rights that are registered before the trademarks are used in trade.

There is no time limit for the duration of the registered rights is established, with the exception of an administrative requirement of periodic renewal of registrations by a

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12 Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks (1957).
13 Article 12.1 TMDir, Article 50.1.a TMReg, § 49.1 MarkenG and 2.26.2.a BVIE. Article 12.1 TMDir states, “if, within a continuous period of five years, the trade mark has not been put to genuine use […] in connection with the goods or services in respect of which it is registered, and there are no proper reasons for non-use.” According to Article 10 TMDir “[t]he following shall also constitute use within the meaning of paragraph 1: (a) use of the trade mark in a form differing in elements which do not alter the distinctive character of the mark in the form in which it was registered; (b) affixing of the trade mark to goods or to the packaging thereof in the Member State concerned solely for export purposes. 3. Use of the trade mark with the consent of the proprietor or by any person who has authority to use a collective mark or a guarantee or certification mark shall be deemed to constitute use by the proprietor.”

‘Defensive marks’, which are designed to circumvent this requirement of genuine use are not accepted under European Law. ECJ 13 September 2007 Il Ponte Finanziaria (‘Bainbridge’). See further section 2.3.2.
payment of fees. Registrations can be revoked, however, if a trademark has not been used for five consecutive years.

The definition subject matter of trademark rights under both the TMDir and TMReg uses a functional approach. Accordingly, a protectable trademark is,

“any sign capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of goods or of their packaging, provided that such signs are capable of distinguishing the goods or services of one undertaking from those of other undertakings”.15

According to this definition, trademarks may consist of words, designs or logos, numbers, shapes, or colours, though this list is not limitative.16

2.2.2.1 Grounds for Refusal of Registration

The registration of trademarks and the grant of a trademark right can be refused on a number of absolute and relative grounds. The relative grounds for refusal protect pre-existing exclusive rights in signs such as other trademarks or trade names, whereas the absolute grounds for refusal protect various types of public interests defined by the ECJ. To a large extent, the latter grounds are the recognition by European trademark law that trademark rights in certain signs may cause problems disproportionate to third party traders. Some of the absolute grounds for refusal deal with the regulation of communication,17 some deal more in general with avoiding competitive disadvantages,18 and again others deal with the protection of the interests of states19 and the protection of public policy.20 Since this book deals solely with issues related to communication, only the absolute grounds for refusal that deal with regulating communication are of interest. These are the grounds for refusal of non-distinctiveness, descriptiveness and customariness.21

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14 § 47 MarkenG, Article 2.9 BVerwG, Article 47 TMReg.
15 Article 2 TMDir and Article 4 TMReg.
16 Trademarks could also consist of sounds (ECJ 27 November 2003 Shield Mark) or smells (ECJ 12 December 2002 Sieckmann). However, the requirement that trademarks must be capable of graphic representation limits significantly the registration of these two types of signs.
17 Articles 3.1.b to d TMDir and 7.b to d TMReg.
18 E.g. Articles 3.1.e TMDir and 7.1.e TMReg, prohibiting the registration of the shapes as trademarks under certain conditions.
19 Articles 3.1.h and 3.2.e TMDir and 7.1.i TMReg, prohibiting the registration of state symbols such as flags.
20 Articles 3.1.f TMDir and 7.1.f TMReg.
21 The origin of the three requirements is found in Article 6quinquies.B.2 of the Paris Convention. It states: “B.— Trademarks covered by this Article may be neither denied registration nor invalidated except in the following cases: 2. when they are devoid of any distinctive character, or consist exclusively of signs or indications which may serve, in trade, to designate the kind, quality, quantity, intended purpose, value, place of origin, of the goods, or the time of production, or have become customary in the current language or in the bona fide and established practices of the trade of the country where protection is claimed” Within the boundaries of this provision Member States of the Paris Union are free to set requirements of registration of trademarks. See also Article 15.1 TRIPS which states “1. Any sign, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings, shall be capable of constituting a trademark. Such signs, in particular words including personal names, letters, numerals, figurative elements and combinations of colours as well as any combination of such signs, shall be eligible for registration as trademarks. Where signs are not inherently capable of distinguishing the relevant goods or services, Members may make registrability depend on distinctiveness acquired through use. Members
First, according to Article 3.1.b TMDir and Article 7.1.b TMReg, the registration of signs devoid of any distinctive character must be refused. This provision is interpreted by the ECJ in the light of the public interest of consumers, which is “manifestly indissociable from the essential function of a trade mark.” The essential function of a trademark is,

“to guarantee the identity of origin of the marked goods or services to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the goods or services from others which have another origin. For the trade mark to be able to fulfil its essential role in the system of undistorted competition which the Treaty seeks to establish and maintain, it must offer a guarantee that all the goods or services bearing it have been manufactured or supplied under the control of a single undertaking which is responsible for their quality.”

Second, pursuant to Articles 3.1.c TMDir and 7.1.c TMReg trademarks may not be registered, if they consist

“exclusively of signs or indications which may serve, in trade, to designate the kind, quality, quantity, intended purpose, value, geographical origin, or the time of production of the goods or of rendering of the service, or other characteristics of the goods.”

For instance, geographical names like Chiemsee – a lake in Bavaria - may not be registered, if they currently or in the future “designate places which are, in the mind of the relevant class of persons [...] associated with the category of goods in question,” e.g. windsurfing equipment or clothing.

The public interest underlying Article 3.1.c TMDir and Article 7.1.c TMReg “requires that the signs and indications descriptive of the categories of goods or services for which registration is sought may be freely used by all.” ‘All’ has to be understood in a competitive context; in the Sat.1 v. OHIM case, Advocate General Jacobs described the rationale of this provision to lie in the following reasoning:

The CFI further held that the essential function enables consumers to, “identify the origin of the goods or services, thus [to] enable[e] the consumer who acquired them to repeat the experience, if it proves to be positive, or to avoid it, if it proves to be negative, on the occasion of a subsequent acquisition.” CFI 5 March 2003 Alcon (‘BSS’), para. 48.

The origin of the ‘essential function doctrine’ is found in ECJ 23 May 1978 Hoffmann-La Roche, para. 7. See also blow Section 2.3.1.5.

21 Article 3.1.b TMDir and 7.1.b TMReg.
22 ECJ 16 September 2004 Sat. I (‘Sat.2’), para. 27; identical ECJ 15 September 2005 BioID AG (‘BioID’), para. 60. “[T]he essential function of a trade mark is to guarantee the identity of the origin of the marked product to the consumer or end-user by enabling him, without any possibility of confusion, to distinguish the product or service from others which have another origin [...] Article 7(1)(b) of the regulation is thus intended to preclude registration of trade marks which are devoid of distinctive character which alone renders them capable of fulfilling that essential function.” ECJ 16 September 2004 Sat. I (‘Sat.2’), para 23.
23 The origin of the ‘essential function doctrine’ is found in ECJ 23 May 1978 Hoffmann-La Roche, para. 7. See also blow Section 2.3.1.5.
25 ECJ 4 May 1999 Windsurfing Chiemsee.
26 Ibid., para. 25, and ECJ 8 April 2003 Linde, para. 73; in the context of Article 7.1.c TMReg, ECJ 23 October 2003 (‘Doublemint’), para. 31.
“To allow one trader to monopolise a term which may serve to designate a product's characteristics would be to accord him an unfair advantage over competitors who have a legitimate interest in being able to use the term descriptively.”

Third, Article 3.1.d TMDir and Article 7.1.d TMReg contain a specific absolute ground for refusal for trademarks, “which consist exclusively of signs or indications which have become customary in the current language or in the bona fide and established practices of the trade.”

An example is the suffix ‘-tex’ for textile products or the word or ‘BSS’ for a balanced salt solution, in particular when the customers of the product are only composed of pharmaceutical professionals. In addition, the ground for refusal of customariness applies to customary features of goods. This ground does, however, not extend to signs which are not customary but merely laudatory, e.g. ‘gold medal’, ‘Bonus’ or ‘Bravo’. Such laudatory signs may sometimes fall foul of the ground for refusal of non-distinctiveness, as they may be too common as to identify the specific source of a particular product or service.

The public interest behind the ground for refusal of customary signs is equal to that underlying Article 3.1.c TMReg and Article 7.1.c TMDir, namely that these signs must be freely used by all traders. Moreover, the ECJ and CFI consider customary signs not to be “capable of distinguishing the services of one undertaking from those of other undertakings,” i.e. they are considered unable to fulfil the essential function of a trademark.

According to Article 3.3 TMDir and 7.3 TMReg, the three grounds for refusal mentioned above may be set aside if it can be shown that a non-distinctive, descriptive, or customary sign has actually acquired a distinctive character:

“A trade mark shall not be refused registration or be declared invalid in accordance with paragraph 1 (b), (c) or (d) if, before the date of application for registration and following the use which has been made of it, it has acquired a distinctive character. Any Member State may in addition provide that this provision shall also apply where the distinctive character was acquired after the date of application for registration or after the date of registration.”

27 AG 11 March 2004 Sat.1 (‘Sat.2’), para 22. AG Jacobs further stated that “Such reasoning can be transposed to Article 7(1)(d) and (e), respectively for terms which have become customary for a product and for shapes which are in some way closely bound up with its nature”, making reference to ECJ 18 June 2002 Philips, paras. 78 to 80.
28 CFI 5 March 2003 Alcon v. OHIM (‘BSS’), para 44.
29 ECJ 4 October 2001 Merz & Krell (‘Bravo’), para. 41. “It is immaterial, when that provision is applied, whether the signs or indications in question describe the properties or characteristics of those goods or services.”
30 ECJ 16 September 2004 Sat.1 (‘Sat.2’), paras. 21 and 23.
31 ECJ 4 October 2001 Merz & Krell (‘Bravo’), para. 37; CFI 5 March 2003 Alcon (‘BSS’), para. 40; CFI 16 March 2006 (‘WEISSE SEITEN’), para. 52.
32 Identical provisions are contained in § 8.3 MarkenG. The BVIE does not contain a separate provision on acquired distinctiveness. However, since a trademark may only be registered once a ground for refusal no longer exists, the registration system under the BVIE recognises the same rule on acquired distinctiveness. See also Article 2.28.2 BVIE.
If a significant number of consumers has come to recognise a non-distinctive sign like ‘Have a break…’ as a distinctive trademark (e.g. for chocolate bars), the sign may be registered. This provision on acquired distinctiveness recognises that the meaning of signs can change over time and that a trademark can become distinctive.

2.2.2.2 Revocation of Registration

The reverse effect of acquiring distinctiveness is that a registered trademark over time becomes a customary or generic designation for a product. For instance, ‘aspirin’ is a trademark of Bayer, but in some countries it is considered a customary or generic term for any kind of painkiller containing acetylsalicylic acid. In this context, Article 12.2 TMDir and Article 51.1.b TMReg state that a trademark may be revoked:

“if, […] in consequence of acts or inactivity of the proprietor, it has become the common name in the trade for a product or service in respect of which it is registered”

This provision is an important recognition of the fact that trademarks may lose their distinctiveness and may gain a new meaning that needs to become accessible for third party traders.

2.2.3 The Scope of Trademark Rights

The scope of European trademark rights is determined by Article 5 TMDir and Article 9 TMReg. First, Article 5.1.a and b TMDir and Article 9.1.a and b TMReg protect the identity of all trademarks and they protect trademarks against confusing third party use. Second, Article 5.2 TMDir and 9.1.c TMReg protect trademarks ‘with a reputation’ against third party use that takes unfair advantage of or harms the distinctive character or repute of those trademarks. Third, Article 5.5 TMDir provides Member States with the option to protect all trademarks against third party use that takes unfair advantage of or harms the distinctive character or repute. That last, quite far-reaching, provision has only been implemented in the BVIE.35

2.2.3.1 Identity Protection and Protection against Confusing Use

Articles 5.1 TMDir and 9.1.a and b TMReg grant trademark right holders two rights to prohibit the use of trademarks by third parties:

The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:

(a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered;

(b) any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the

33 ECJ 5 July 2005 (‘Have a Break…’), paras. 26 to 29.
34 E.g. in the United States the trademark Aspirin was declared a common name in trade. District Court, S.D. New York 14 April 1921 Bayer (‘Aspirin’).
35 Article 2.20.1.d BVIE.
sign, there exists a likelihood of confusion on the part of the public; the likelihood of confusion includes the likelihood of association between the sign and the trademark.

I will refer to the protection granted by Article 5.1.a TMDir as ‘identity protection’. It is an ‘absolute’ protection, which entitles a right holder to prohibit use of an identical sign in relation to identical goods or services without further proof of confusion or any other form of harm. I will refer to the protection in Article 5.1.b TMDir as ‘protection against confusion’. It extends to the use of similar signs on similar goods or services. In contrast to Article 5.1.a TMDir, this provision requires proof of a likelihood of confusion.

a. ‘Identity Protection’ under Article 5.1.a TMDir

Since Article 5.1.a TMDir is phrased in absolute terms, lacking criteria of the sort of harm of third party use that may be prohibited. As a result, the scope of the provision is mainly determined by the interpretation of the criterion of ‘use in relation to goods and services’. This criterion has been interpreted by the ECJ with reference to the essential function of a trademark, which is,

“to guarantee the identity of origin of the marked goods or services to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the goods or services from others which have another origin.”

The criterion of ‘use in relation to identical goods or services’ encompasses not only the typical case of trademark ‘piracy’, i.e. just use on identical goods or services, but also extends to use of a trademark in comparative advertising, use of a trademark registered for automobiles in relation to use for car repair services by a non-licensed dealer, use of the logo of a football club on unlicensed merchandise, and use of an automobile trademark registered for toys on unlicensed toy replicas.

Although the prohibition is absolute, a national court may, as a matter of fact, establish that the relevant public does not perceive the use of an identical sign as an indication that products origin from the trademark right holder or an undertaking economically linked to it. This means that if consumers do not recognise a trademark as an indication of origin, but rather as an ornamental feature (e.g. the automobile trademark on an exact toy replica) Article 5.1.a TMDir creates a rebuttable presumption of infringement.

While in most cases the ECJ defines the scope of Article 5.1.a TMDir in relation to the essential function, it has indicated in its l’Oréal decision that Article 5.1.a TMDir will

36 Confusion under this provision is largely presupposed and does not need to be proven. This right does, however, have wider scope than a mere prohibition of confusing use. E.g. when read in conjunction with Article 7.1 TMDir, it also implicates the right to prohibit trademark use in relation to goods or services produced by the right holder that have been put on the Community market for the first time without his consent. In such a situation, consumers may not be confused about the product source or the product characteristics at all.

37 For an elaborate discussion of the essential function see below section 2.3.1.5. ECJ 12 November 2002 Arsenal Football Club, paras. 43 to 48; see further ECJ 23 May 1978 Hoffmann-La Roche, para. 7 and ECJ 18 June 2002 Philips, para. 30.

38 ECJ 12 June 2008 O2.

39 ECJ 23 February 1999 BMW.

40 ECJ 12 November 2002 Arsenal Football Club.

41 Ibid., para. 57.


43 Ibid.
also protect the advertising function or investment function of trademarks, implying that trademarks are protected outside cases of confusing use also when merely their distinctive character or repute is affected.\footnote{ECJ 18 June 2009 l’Oréal et al. v. Bellure et. al., para. 65; ECJ 25 January 2007 Adam Opel, para 21, speaking of “the functions of trademarks”; ECJ 12 November 2002 Arsenal Football Club, para. 46 to 50.}

\textbf{b. Protection against Confusion under Article 5.1.b TMDir}

Article 5.1.b TMDir provides the right to prohibit third party use of an identical or similar sign in relation to identical or similar goods or services if that use causes a likelihood of confusion. The likelihood of confusion must be proven by a plaintiff. It requires courts to engage in a comprehensive analysis of many factors, such as the distinctive character of a trademark, the similarity between the trademark and the sign used by the third party and the similarity between the goods and services at stake.

A likelihood of confusion may consist of different types of confusion. First, this may be ‘direct confusion’, i.e. confusion as to the trademark itself or the goods and services that they are affixed to.\footnote{T. Cohen Jehoram, Van Nispen & Huydecoper 2008, p. 327.} Second, it may be ‘indirect confusion’, i.e. confusion whereby a consumer recognises a difference in the sign or the products but will assume that the goods originate from undertakings that have an economic relationship,\footnote{ECJ 11 November 1997 Puma v. Sabel, para. 16 “where the public makes a connection between the proprietors of the sign and those of the mark and confuses them.”; ECJ 29 September 1998 Canon, para. 29.} i.e. “where the public makes a connection between the proprietors of the sign and those of the mark and confuses them.” In the \textit{Canon v. MGM} decision, the ECJ gave a more lengthy definition of such confusion, holding that

“the risk that the public might believe that the goods or services in question come from the same undertaking or, as the case may be, from economically-linked undertakings, constitutes a likelihood of confusion within the meaning of Article 4(1)(b) of the Directive.”\footnote{ECJ 29 September 1998 Canon, para. 29; In this context, it must be pointed out that Article 4 TMDir allows trademark rights holders to oppose the registration of a trademark that would cause such a likelihood of confusion. The ECJ interprets Article 4 and Article 4 TMDir in a unitary manner.}

Third, the ECJ has implicitly acceptance of the prohibition of post-sale confusion in its \textit{Arsenal v. Reed} decision.\footnote{ECJ 12 November 2002 Arsenal Football Club.} Post-sale confusion occurs not with original consumers, but with a later ‘audience’. When a person purchases unlicensed merchandise, he or she will often not be confused about the origin or quality of the goods as e.g. significant differences in prices between a licensed and non-licensed merchandise may prove sufficient to avoid a likelihood of confusion. However, according to the theory other people, who see this person wearing or carrying the goods after the purchase may get confused about the source of the goods. If the merchandise is of inferior quality, the theory states that these other people may be confused as they may associate the inferior quality with the trademark. Consequently, there is a supposed need for a prohibition of such third party use.

\footnote{ECJ 18 June 2009 l’Oréal et al. v. Bellure et. al., para. 65; ECJ 25 January 2007 Adam Opel, para 21, speaking of “the functions of trademarks”; ECJ 12 November 2002 Arsenal Football Club, para. 46 to 50.}
2.2.3.2 Protection of the Distinctive Character and Repute

The distinctive character and repute of ‘trademarks with a reputation’ receives additional protection under Articles 5.2 TMDir and 9.1.c TMReg, as well as under Article 5.5 TMDir. That last provision shall be discussed separately, as it provides for a larger scope than Article 5.2 TMDir.

Article 5.2 TMDir is an optional provision, which has been implemented by all Member States:

“Any Member State may also provide that the proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade any sign which is identical with, or similar to, the trade mark in relation to goods or services which are not similar to those for which the trade mark is registered, where the latter has a reputation in the Member State and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.”

The protection of Article 5.2 TMDir extends to third party use outside of direct competition between identical or similar goods and services to the use of similar signs on dissimilar goods and services. Right holders may prohibit others from (i) taking unfair advantage of the distinctive character or repute of their trademarks (or free-riding); (ii) from causing detriment to the distinctive character of the trademark (or blurring); and (iii) from causing detriment to the repute of the trademark (or tarnishment), if such use is made without due cause.

a. Use In Relation to Goods and Services

Equal to Article 5.1 TMDir the requirement of ‘use in relation to goods and services’ plays an important role in determining the scope of Article 5.2 TMDir. In the Adidas v. Fitnessworld decision, the ECJ established that Article 5.2 TMDir does not require the existence of a likelihood of confusion, or that the essential function of a trademark be affected by the third party use. Rather it is sufficient that the relevant public establishes a link between the trademark and the sign used by the third party, as,

“[t]he infringements referred to in Article 5(2) of the Directive, where they occur, are the consequence of a certain degree of similarity between the mark and the sign, by virtue of which the relevant section of the public makes a connection between the sign and the mark, that is to say, establishes a link between them even though it does not confuse them.”

The meaning of ‘connection’ or ‘link’ in the Adidas judgement must be understood as being the same as ‘bringing to mind’ or ‘association’. According to the AG, these terms

\footnote{ECJ 23 October 2003 Adidas v. Fitnessworld, ECJ 9 January 2003 Davidoff.}
\footnote{ECJ 23 October 2003 Adidas v. Fitnessworld, para. 29.}
\footnote{Earlier this was already mentioned in ECJ 22 June 2000 Adidas v. Marca I, para. 36; later it was confirmed in ECJ 25 January 2007 Adam Opel.}
\footnote{ECJ 23 October 2003 Adidas v. Fitnessworld, para. 27.
“all imply a mental process above the threshold of consciousness, something more than a vague, ephemeral, indefinable feeling or subliminal influence.”

b. Free–Riding, Blurring, and Tarnishment

The prohibition of ‘taking advantage of the distinctive character or repute’ of a trademark with a reputation

“covers, in particular, cases where, by reason of a transfer of the image of the mark or of the characteristics which it projects to the goods identified by the identical or similar sign, there is clear exploitation on the coat-tails of the mark with a reputation.”

A stereotypical example of such free-riding is the use of the trademark Rolls Royce in a whisky commercial. In such a case, the whisky producer will try to exploit the reputation of the Rolls Royce trademark in order to give his product the aura of exclusiveness or style.

According to the ECJ, blurring or detriment to the distinctive character of the earlier mark occurs in cases where

“[a] mark’s ability to identify the goods or services for which it is registered and used as coming from the proprietor of that mark is weakened, since use of the later mark leads to dispersion of the identity and hold upon the public mind of the earlier mark.”

According to AG Jacobs, this is the case when a trademark is “no longer capable of arousing immediate association with the goods for which it is registered and used.”

The theory underlying the prohibition of blurring is that if other traders were allowed to use e.g. the Rolls-Royce trademark on BBQs, razors, or chocolate nuts, the distinctive character of the trademark would rapidly deteriorate; it would be ‘gradually whittled away’. In addition, it is argued that blurring harms consumers, who in the long run may not be able to use the Rolls-Royce trademark as source identifier for luxury cars. According to Frank Schechter, one of the prominent proponents of the protection of famous trademarks against blurring, “if you allow Rolls Royce restaurants and Rolls Royce cafeterias, and Rolls Royce pants, and Rolls Royce candy, in 10 years you will not have the Rolls Royce mark any more.”

In most cases of actionable blurring, a third party uses a registered trademark as an identifier of origin. In the Rolls Royce example, the third party uses the sign Rolls Royce as a trademark for BBQ’s. The definition of blurring has however expanded beyond such use. As discussed above, since the Adidas v. Fitnessworld judgement actionable use

54 AG Sharpston 26 June 2008 Intel, para. 46.
56 BGH 9 December 1992 ‘Rolls-Royce’.
57 ECJ 27 November 2008 Intel, para. 76.
58 AG Jacobs 10 July 2003 Adidas v. Fitnessworld, para. 37. “The essence of dilution in this classic sense is that the blurring of the distinctiveness of the mark means that it is no longer capable of arousing immediate association with the goods for which it is registered and used.”
59 Schechter 1927, p. 825. See also Senftleben 2009.
60 AG Jacobs 10 July 2003 Adidas v. Fitnessworld, para. 37, making reference to Schechter 1927.
under Article 5.2 TMDir is use that creates a link or an association. Consequently, also the definition of blurring has been enlarged. It now may encompass use other than as a source identifier, such as use of trademarks in (commercial) parodies, critical use, or use as a descriptive term.

Damage to the repute of a trademark is referred to as tarnishment. The repute of a trademark consists of its fame or image. It is referred to as the advertising power, power of attraction, appeal, or incentive to purchase encompassed by a trademark. Thomasberger defines repute as all positive expectations that a consumer combines with a product and which induce him to purchase a product. According to German doctrine, repute can be inferred from high turnover, importance of the company, high quality of the products or services, longstanding tradition, exclusivity, or prestige.

The prohibition of tarnishment is, in some respects, similar to the prohibition of indirect confusion. This is the case when tarnishment is caused by the use of trademarks on inferior goods, e.g. spare parts or replacement parts. In that case, harm would only result if consumers believed that the trademark right holder has endorsed the goods. In addition to situations of indirect confusion,

“tarnishment of the mark, describes the situation where the goods for which the infringing sign is used appeal to the public's senses in such a way that the trade mark's power of attraction is affected.”

For instance, the ECJ found that in a case, which concerns prestigious, luxury goods

“[a] reseller must not act unfairly in relation to the legitimate interests of [a] trade mark owner. He must therefore endeavour to prevent his advertising from affecting the value of the trade mark by detracting from the allure and prestigious image of the goods in question and from their aura of luxury.”

c. Article 5.5 TMDir

In addition to Article 5.2 TMDir, Article 5.5 TMDir makes it optional for Member States to protect the distinctive character and repute of all trademarks, i.e. even those

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62 Thomasberger 1993, p. 164. “Unter einem „guten Ruf“ ist alles zu verstehen, was der Verbraucher an positiven Erwartungen mit dem entsprechend gekennzeichneten Produkt verbindet und was ihn bewegt, diese zu kaufen. Träger des guten Ruf, der sich auf sachliche und emotionelle Bewertungen stützen kann, ist in erster Linie die Kennzeichnung des Produkts (die Marke).”
63 Ströbele & Hacker 2006, § 14, no. 177.
64 AG Jacobs 10 July 2003 Adidas v. Fitnessworld, para 38, making reference to BenCJ 1 March 1975 (‘Claeryn/Klarein’). That case concerned the identically pronounced marks ‘Claeryn’ for a Dutch gin and ‘Klarein’ for a liquid detergent. The BenCJ found that the similarity between the two marks might cause consumers to think of detergent when drinking ‘Claeryn’ gin. Consequently, the use of the word ‘Klarein’ was held to cause damage to and thus to infringe the ‘Claeryn’ mark.”
65 ECJ 4 November 1997 Dior v. Evora, para. 45. In this case, a Dutch budget drugstore had advertised for the resale of Dior perfumes in a print folder, which listed many perfumes side by side and especially pointed out that the perfumes were particularly cheap. Dior complained against this advertisement under Article 7.2 TMDir, which makes an exception to the rule of exhaustion, i.e. that trademark right holder can invoke Article 5.1.a TMDir only for the case that goods are put on the market for the first time, amongst others for a case of tarnishment.
without a reputation, against third party use even outside of trade, when such use amounts to free-riding, blurring, and tarnishment.

“Paragraphs 1 to 4 shall not affect provisions in any Member State relating to the protection against the use of a sign other than for the purposes of distinguishing goods or services, where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.”

Article 5.5. TMDir has solely been adopted in Benelux trademark law in Article 2.20.1.d BVIE. It provides for extremely broad protection because it applies outside the scope of trade and when trademarks are used “other than for the purposes of distinguishing goods or services.”

2.2.4 LIMITATIONS OF TRADEMARK RIGHTS

Article 6 TMDir contains two important limitations to the scope of trademark rights, i.e. it allows for descriptive use and for referential use.\(^{66}\) Descriptive use under Article 6.1.b TMDir is permitted, if trademarks are used as,

“indications concerning the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of goods or of rendering of the service, or other characteristics of goods or services.”

Referential use under Article 6.1.c TMDir is permitted,

“where it is necessary to indicate the intended purpose of a product or service, in particular as accessories or spare parts.” In both cases the third party use must be “in accordance with the honest practices of trade”

Comparative advertising is allowed under Directive 2006/114/EC, which is applied concurrently to the TMDir. Third party use of a trademark in comparative advertising is allowed if the requirements of the Comparative Advertising Directive are fulfilled, which means that this Directive acts as a limitation to Article 5 TMDir.\(^{67}\) In relation to trademark use, a number of these criteria are highly relevant, i.e. that the advertisement must not be confusing, that it must not discredit or denigrate a trademark, that it must not take unfair advantage of the reputation of a trademark and that it must not present the goods as an imitation.\(^{68}\) The ECJ interprets these criteria in the CompAdvDir and in the TMDir Directive in a uniform manner.

Finally, Articles 5.2 TMDir and 5.5 TMDir, both contain the criterion of unfairness and ‘without due cause’ which are used as limitations or provisions under which interests are balanced. Since Article 6 TMDir and the criteria of unfairness and due cause exist side by side, their respective position to each other needs clarification. According to

\(^{66}\) I will not elaborate on Article 7 TMDir, which provides for the rule of exhaustion, i.e. that “[a] trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent.”

\(^{67}\) ECJ 12 June 2008 O2; ECJ 18 June 2009 l’Oréal, para. 53 and 54. Previously, German courts had placed comparative advertising as falling outside the ambit of trademark law. Fezer 2001, p. 860; Ströbele & Hacker 2006, § 2 no. 47. Under Benelux jurisprudence, trademark use in comparative advertising was seen as falling under Article 2.20.1.d BVIE, the implementation of Article 5.5 TMDir

\(^{68}\) Article 4 of Directive 2006/114/EC.
German jurisprudence, Article 6 TMDir takes no separate role next to the provisions of unfairness and due cause, meaning that the criteria of Article 6 TMDir and those of the CompAdvDir are imported into the balancing process under the criteria of unfairness and due cause. I will adhere to this interpretation of the BGH and it will further elaborate on the interpretation of the criteria of unfairness and due cause in section 2.4.4.

2.3 RATIONALES FOR GRANTING TRADEMARK RIGHTS

Property rights, including exclusive trademark rights, are not self-explanatory. From a perspective of distributive justice, they are in constant need of justification, because they create negative effects on third parties by empowering “individuals to make decisions about the use of scarce resource in a way that is not necessarily sensitive to others' needs or the public good.” In the field of communication by signs, be it economic, cultural, political or social life, we have to face the fact that such communication is mutual interdependence as the meanings of such signs are the result of convention or of a process involving interaction between (active and passive) users of a sign.

Property rights must thus be justified by one or several rationales. In my opinion, such rationales must contain a number of minimum properties: (i) they should provide a specific reason that justifies the right and from which (ii) one must be able to deduce some indications as to the subject matter of the right, its scope, and its limitations.

The numerous theories that explain or justify private property rights and satisfy these criteria, can, for the most part, be divided into two main groups. First, utilitarian or consequentialist theories stress the beneficial (economic) consequences of granting property rights. Such positive effects may lie in achieving efficient exploitation of resources. In the case of trademark rights, the relevant theories are economic rationales, which argue that trademark rights should be granted for reasons of economic efficiency, as they improve the communication between producers and consumers and they provide incentives to traders to invest in their products.

Second, a number of theories focus on the moral or ethical entitlement of the individual right holder to hold a property right against the backdrop of a society in which individuals are bound by a social contract to respect each other’s rights and freedoms. An entitlement to a property right may be found in the labour that an individual invested in a product, or possibly in the mere fact that that individual has produced something of value. For instance, Lockeian labour theory states that it would be unjust if value that has been created through the labour of one producer may be appropriated by another.

Trademark jurisprudence and doctrine do not always take such a principled approach when justifying trademark rights. Courts and scholars frequently justify the grant and scope of trademark rights by pointing to certain functions that trademarks fulfil in trade and by deducing the need for legal protection directly from these function. Amongst

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69 BGH 17 June 1999 (‘Big Pack’).
70 Waldron 2004; see further Ellickson et al. eds. 1995, p. 99.
71 See the discussion on the idiosyncrasy of signs in section 1.2.1.
72 For an overview see Waldron 2004; Ellickson et al. eds. 1995.
others, these functions are the source identification function, the product distinction function, the quality or guarantee function, and the advertising and goodwill function.

Legal doctrine in Germany refers to a multifunctionality of trademark functions that are protected by the German Markengesetz. Dutch legal doctrine refers to the source identification function, quality function, advertising function, and goodwill function. United States doctrine refers to the source identification function, the quality function, and the advertising function.

European Court of Justice in its jurisprudence frequently refers to the ‘essential function’ of trademarks, being a conglomerate of trademark functions that are particularly relevant in the European internal market. Due to the far-reaching harmonisation of European trademark rights, the essential function doctrine developed by the ECJ has also become a main tool in the interpretation of trademark rights by national courts.

In my opinion, justifying trademark rights solely by referring to trademark functions is problematic. As a matter of principle, the normative consideration about what should or ought to be protected cannot be derived directly from an empirical is, such as the function fulfilled a trademark in trade. Trademark rights can only be properly justified if they meet the criteria set by utilitarian or ethical or fairness based rationales, meaning that the legal protection of some functions may be justifiable, whereas the protection of other functions may not (as it may overly impair the rights and interests of third parties).

In analysing the justifications of trademark rights (section 2.3.1), I will start from the functions approach taken in jurisprudence and legal doctrine. I will describe the source identification function, the product distinction function, the quality or guarantee function, the goodwill and advertising functions as well as the essential function that is used in the jurisprudence of the ECJ. Subsequently, I will examine whether and to what extent economic rationales or ethical and fairness based rationales justify trademark rights that protect these functions (sections 2.3.2 and 2.3.3). Finally, I will address the fact that human rights or constitutional rights that protect property, i.e. Article 1 of the 1st Additional Protocol of the ECHR and Article 14 of the German Grundgesetz, do not provide a separate rationale of property rights.

In the discussion, I will distinguish between two abstract types of trademark rights. First, I will refer to trademark rights that protect trademarks against confusion; they protect the source identification function, the product distinction function and the quality or guarantee function. Since they are less burdensome to the freedom of others, the requirements for the justification of these rights may be less stringent.

Second, I will refer to trademark rights that protect trademarks against free-riding, blurring, or tarnishment, which protect the goodwill or advertising function. Since the scope of the latter sort of rights is much broader, a stronger justification is required.

The two types of rights are normative constructs, which serve to illustrate a clear difference in the need for justification. The division also relates to the varying scope of rights granted under European trademark law. The former rights relate to the protection

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73 Fezer distinguishes the following trademark functions: the distinction function as basic function; the origin function; the trust-, guarantee-, and quality function; the advertising function; the communication function; and the sale- and codification function. He also mentions a name function, consumer protection function, and identification function. Fezer 2001, Einl. No. 30 to 34, 39.


TRADEMARK RIGHTS AND THEIR RATIONALES

granted under Articles 5.1 TMDir and 7.1 a and b TMReg and the latter rights relate to
the protection granted under Article 5.2 and 5.5 TMDir as well as Article 7.1.c TMReg.

In the discussion in section 2.3, I will thus not examine the actual positive rights
contained in the TMDir and TMReg; rather I analyse the rationales for the protection of
the two abstract types of rights. In section 2.4, I will apply the results of section 2.3 to the
positive rights stipulated under European trademark law.

2.3.1 TRADEMARK FUNCTIONS IN TRADE

In section 1.2, I differentiated between two basic trademark functions, the identifier
function and the communicator function. In this section, I will split these two functions
into four different functions that trademarks perform in trade. These are, first, the source
identification function, second, the product differentiation function and, third, the quality
or guarantee function, all of which fall under the indicator function discussed above.
Fourth, this is the goodwill and advertising function, which falls under to the
 communicator function discussed in the introduction.

2.3.1.1 Source Identification Function

The source identification function refers to the ability or function of trademarks to
identify the source of a product or service.77 Already in Roman times, trade symbols were
used to indicate the origin of goods.78 The legal protection of this function became
particular important with the rise of industrial production, following which producers
were separated from consumers by distribution chains entails a multitude of traders. In
these distribution chains, producers were unable to exercise control in a manner that
would ensure that no third party uses their trademarks to sell their own goods. With this
lack of factual control, legal control against such a diversion of trade became a very
important concern of producers. Trademark laws recognised the need to protect the
source identification function by ensuring that producers could indicate to consumers that
they, and no one else, had produced certain goods. This was mainly done by prohibiting
confusing use of trademarks.

While initially, trademark rights protected the link between product and a specific
local source,79 legal doctrine, and occasionally jurisprudence, recognised that consumers
might not know or care too much about the specific local source of goods, as they would
rather seek to identify particular goods because of their specific characteristics.80
Therefore, trademark rights now are seen as protecting the link between a constant source
of production be it that the particular local source is unknown to consumers.81

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81 For instance, § 45 of the United States Lanham Act recognises that a trademark may be any sign, which a
right holder has the intention to use in order to “to identify and distinguish his or her goods, including a
unique product, from those manufactured or sold by others and to indicate the source of the goods, even if
that source is unknown.”
2.3.1.2 **Product Distinction Function**

The product distinction function is congruent with the source identification function, but it focuses on the perspective of consumers, for whom trademarks are relevant mostly because they enable them to distinguish products from each other. By knowing that ‘Nokia’ stands for telephones produced by, or under licence of Nokia, consumers are able to distinguish phones that bear the Nokia trademark from other mobile telephones.

A good example of the importance of this distinction function is the use of trademarks on bulk products. Until the 19th century, grocers offered goods like oats or soap in bulk. As the products were in principle interchangeable, consumers could not distinguish them according to different producers. Only when producers started to package their goods and to use trademarks like ‘Quaker’ Oats could consumers distinguish various types of oats from different sources. Producers of bulk products, using their source identification function, could start to compete in consumer markets.82

The product distinction function and its ‘flip side’ the source identification function are thus of major importance to economic competition because they enormously simplify economic decision-making.

In addition to distinction *per se*, the distinction function enables consumers to associate product characteristics with a trademark. This is especially relevant with regard to repetitive purchases of goods, where trademarks allow consumers to make use of prior experience with the same goods in subsequent purchases. The Coca Cola trademark, for instance, enables consumers to re-purchase Coca Cola or to avoid purchasing it because of prior experience with the soft drink.

German doctrine views the distinction function to be the primary function of trademarks.83 It stresses that trademarks individualise goods and services and thereby take them out of the anonymity of commerce. European trademark law incorporates the distinction function as an integral part of the subject matter definition of trademark rights under the European Trademark Directive and the European Trademark Regulation. Article 2 TMDir defines the signs, of which a trademark may consist, as:

> “Any sign capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of goods or of their packaging, provided that such signs are capable of distinguishing the goods or services of one undertaking from those of other undertakings.”84

Trademarks that are not capable of distinguishing a good or service may not be registered.

2.3.1.3 **Quality or Guarantee Function**

It is sometimes argued that trademarks possess a separate quality or guarantee function.85 This function does not guarantee objective quality standards of goods or

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82 Drescher 1992; Schechter 1925, p. 49.
83 Fezer 2001, Einl. no. 30.
84 Art. 2 TMDir, implemented in Art. 2.1 BVIE and § 3 MarkenG; Art. 4 TMReg (underline added WS).
services;86 rather it is based on the assumption that the public exposure of trademarks will cause right holders to produce goods or offer services of consistent quality. If trademarks do not consistently possess certain expected characteristics, consumers will use trademarks to identify these products or services in order to refrain from repurchasing them. For instance, if Masterfoods, the producer of Mars bars, would start selling Mars bars that taste of fish, consumers may be disappointed or repulsed and would stop purchasing Mars bars. The economic pressure created by the consumer expectation is said to induce producers or providers to keep qualities more or less constant. As a result, the trademark is said to guarantee a consistent quality to consumers.87

AG Jacobs, for instance, referred to this function, stating that,

“Trade marks are able to [act as an incentive to keep quality consistent] because they act as a guarantee, to the consumer, that all goods bearing a particular mark have been produced by, or under the control of, the same manufacturer and are therefore likely to be of similar quality. The guarantee of quality offered by a trade mark is not of course absolute, for the manufacturer is at liberty to vary the quality; however, he does so at his own risk and he - not his competitors - will suffer the consequences if he allows the quality to decline. Thus, although trade marks do not provide any form of legal guarantee of quality - the absence of which may have misled some to underestimate their significance - they do in economic terms provide such a guarantee, which is acted upon daily by consumers.”88

As I see it, European trademark law does not specifically protect this function, because it does not require right holders to ensure that goods bearing the same mark will have the same characteristics.89 Still, trademark rights that forestall confusion may have the effect of ensuring constant quality, because they provide incentives to right holders to invest in the quality of the goods or services covered by the trademark and to keep quality constant. This effect is one of the major arguments underlying dynamic efficiency rationale of trademark rights, which will I analyse in more detail below in section 2.3.2.3.

87 Gielen and Wichers-Hoeth also point out that consumers in fact do not expect total consistency in product characteristics, but rather accept that product and service quality can change over time. Gielen & Wichers Hoeth 1992, p. 11.
88 AG Jacobs 13 March 1990 Hag II, para. 18.
89 Before the implementation of the Trademark Directive, German trademark law under the Warenzeichengesetz, for instance, required that a link between the business and the trademark be maintained, which was referred to as “Akzessoritätsprinzip.” It was required that an actual business and products must exist for a trademark to be registered. Fezer 2001, p. 173. As described above in section 2.2.2, under the TMDir and TMReg trademark rights are granted even before trademarks have proven their utility as indicators of product source or product characteristics. Trademarks may also be transferred independently of the undertaking, which is expressly allowed by Article 2.31 BVIE, § 27.1 MarkenG (limited to well-known marks), and Article 19 TMDir. This is an indication that European trademark law does not expressly protect this quality or guarantee function. In comparison, § 10.1 Lanham Act does implicitly protects the quality function. Under this provision, a trademark may not be assigned without goodwill. The rule is meant to ensure continuity of quality and ultimately to forestall consumer deception. Calimann on Unfair Competition, Trademarks & Monopolies 2008, § 20.44.
2.3.1.4 Goodwill and Advertising Function

The goodwill and advertising function of trademarks becomes apparent when trademarks are viewed from the perspective of right holders. Trademarks do not just allow them to convey information about a product or service to consumers, but more importantly, they enable right holders to build up and bundle goodwill (hence goodwill function) and they enable traders to create additional purchasing motivations for their goods or services (hence advertising function).90

Goodwill is an intangible asset that comprises a good name and/or reputation as well as regular customer satisfaction or technical efficiency. For example, the trademark ‘Coca Cola’ carries more goodwill than a private label cola of a supermarket. Goodwill can be seen as the total of customer satisfaction and the prospective consumer’s willingness to buy a trademarked product. Trademarks typically are the carriers of this goodwill.91

The goodwill function is the ability of a trademark to carry and represent a business or its goods and services to the outside world. Goodwill binds consumers to businesses and products and is of key influence on a trader’s position on the market.92 It enables traders to transfer the positive associations connected to one type of products sold under a mark to other (dissimilar) products sold under the same mark, meaning that trademarks can become independent carriers of goodwill.93

The advertising function is the specific ability of trademarks to provide consumers with additional or alternate motivations for purchases, i.e. reasons other than the characteristics of the products or service itself. This function has been described by Frank Schechter in a seminal article in 1928,94 in which he referred to trademarks as ‘silent salesmen’ and stressed that “[t]he fact that through his trademark the manufacturer or importer may reach over the shoulder of the retailer and across the latter’s counter straight to the consumer cannot be over-emphasized.”95

90 A strict separation between these two functions cannot be made. For the purposes of the present research, it is also not necessary to make such a separation.
91 According to United States trademark doctrine, “goodwill is merely a concept, it requires perceptible symbols, e.g., trademarks and trade names, for its survival. Goodwill can no more be separated from a business than reputation from a person. Goodwill is the business as it is viewed by others. If the business is unknown, it has no goodwill as an additional business value.” Callmann on Unfair Competition, Trademarks & Monopolies 2008, § 1:11 (citations omitted).
92 Ibid., § 1:11.
94 Schechter 1925; Schechter 1927. McCarthy explains that currently a trademark is “not merely a symbol of good will but is often the most efficient agent for the very creation of good will and consumer acceptance”.
95 Schechter 1927, p. 818. Schechter used this description to demonstrate the value of a trademark as carrier of goodwill. U.S. Supreme Court 4 May 1942 Mishawaka Rubber. Justice Frankfurter of the United States Supreme Court has eloquently described the workings of the advertising function in the 1942, “If it is true that we live by symbols, it is no less true that we purchase goods by them. A trademark is a merchandising short-cut which induces a purchaser to select what he wants, or what he had been led to believe he wants. The owner of a mark exploits this human propensity by making every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol. Whatever the means employed, the end is the same—to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears.” Altman and Pollak express it in the following manner, “Taste is affected, and even created, by imagination; and the mere fact that an article enjoys a degree of popularity might readily influence a buyer's judgment. Therefore, a trademark is sometimes a more convincing selling point than
The goodwill and advertising function has been recognized by Dutch and German jurisprudence and doctrine. The Benelux Court of Justice protected the goodwill or advertising function to a very large extent. In 1975, in the ‘Claeryn/Klarein’ decision it stated that a trademark can possess powers that induce consumers to purchase (‘kooplustwekkend vermogen’) and that this ability or function of trademarks needs to be protected by trademark law. In its 1977 Capsule decision, the BenCJ held that it belongs to the essential function of a trademark - next to securing a guarantee of origin - to protect the goodwill of the right holder.

The existence of the goodwill and advertising function is also recognized in Dutch doctrine. Gielen and Wichers-Hoeth argued that this function is part of a more general ‘communication function’, which should be protected by trademark law. Pinckaers, Schaap, and Spoer state that the goodwill function is one of the main economic functions of trademarks. It allows trademark right holders to connect advertising and product information to a product and it makes trademarks the carrier of an image. Cohen Jehoram, Nispen, and Huydecoper underline the commercial importance of the goodwill and advertising function and point to the fact that the function is protected by various provisions of Benelux trademark law.

Prior to the implementation of the Trademark Directive in the German Markengesetz in 1995, the German Warenzeichengesetz did not endorse the protection of the goodwill or advertising function. Protection was limited to the source identification and the product distinction functions. The goodwill or advertising function was nevertheless protected outside of trademark law by unfair competition law by means of two separate doctrines, i.e. the protection of distinctive character and repute of particularly well-known trademarks against dilution and of the protection of the repute of well-known trademarks against free-riding.

Bröcher, Hoffmann, and Sabel explain that the goodwill function is protected through the protection of the repute of trademarks with a reputation in Section 14.2.3 of the Markengesetz. According to them, this provision pre-supposes that a right holder has accumulated goodwill under a trademark and that the trademark has gained an intrinsic value (‘Eigenwert’). This value consists of the fact that consumers associate positive meaning with the trademark. Similarly, the German trademark law commentary by Fezer speaks of an advertising function and of the importance of protecting it.

In my opinion, the goodwill and advertising function differs strongly from the three functions discussed above. The source identification, product distinction, and quality or even the quality of the product to which it refers. Frequently there is little, if any, actual difference between competing products, so that competition is between trademarks rather than qualities.” Callmann on Unfair Competition, Trademarks & Monopolies 2008, § 17:4 (citations omitted).

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97 BenCJ 1 March 1975 ‘Claeryn/Klarein’; see also BenCJ 9 June 1984 ‘Tanderil’.
98 BenCJ 9 February 1977 ‘Capsule’.
100 Pinckaers, Schaap & Spoer 2006.
102 The protection against “Rufausbeutung” und “Verwaesserung” was based on the German UWG.
103 Bröcher, Hoffmann & Sabel 2005, p. 41.
104 Fezer 2001, Eml. no. 33.
guarantee functions are of utility to both producers and consumers, meaning their protection can be justified by their general utility. Such general utility is less straightforward in the case of the goodwill and advertising function as the main beneficiaries of this function are the right holders. Therefore, the justification of the protection of this function may have to be based on other rationales than the protection of the first three functions.

2.3.1.5 The Essential Function of Trademarks as viewed by the ECJ

Long before the harmonisation of trademark rights through the TMDir, trademark rights have been the objects of scrutiny by the ECJ because they were, on some occasions, conflicting with Articles 28 and 30 of the EC Treaty. These Articles regulate the free movement of goods and the freedom to provide services, two of the fundamental freedoms of the internal market of the European Union. Disparities in national provisions on trademark rights impaired these two fundamental freedoms.

In the context of its internal market jurisprudence, the ECJ had developed a vision on trademark rights. It held that trademark rights are “an essential element in the system of undistorted competition, which the [EC] Treaty seeks to establish and maintain.” After the entry into force of the TMDir and the TMReg, the ECJ maintained this vision on trademark rights; it kept regarding the contribution of trademark rights to undistorted competition as the ultimate aim of trademark rights. In order to secure this aim, the ECJ uses the essential function doctrine as a tool of interpreting the rights contained in TMDir and the TMReg. According to the ECJ, the essential function serves “to guarantee the identity of origin of the marked goods or services to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the goods or services from others which have another origin. For the trade mark to be able to fulfil its essential role in the system of undistorted competition which the Treaty seeks to establish and maintain, it must offer a guarantee that all the goods or services bearing it have been manufactured or supplied under the control of a single undertaking which is responsible for their quality.”

This doctrine describes the role of trademarks in the internal market as seen from the viewpoint of consumer and it is a conglomerate of the trademark functions, which have been described above, i.e. it refers to the source identification, product distinction and quality functions. The CFI, in dealing with conflicts arising from the registration of

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105 See above section 2.2.1.
106 E.g. ECJ 23 May 1978 Hoffmann-La Roche, para 7.
107 In addition, the ECJ defined the specific object of trademark rights in the internal market, which is to grant trademark right holders “an assortment of rights and powers which are intended to reserve for him the exclusive right to use the distinctive sign and to protect the trade mark against competitors who wish to take advantage of its status and reputation.” ECJ 17 October 1990 HAG II, para. 14; ECJ 10 October 1978 Centraiform, paras. 10 to 12; ECJ 23 February 1999 BMW, para. 52; AG Colomer 18 January 2001 Merz & Krell (‘Bravo’), para. 32; Beier 1970. This specific object is of specific relevance only to parallel import cases, e.g. Hays 2008, p. 205, and it is far less used in the interpretation of trademark rights under the TMDir and TMReg. Therefore, I will not further elaborate on the specific object of trademark rights.
Community trademarks, stresses in particular the role of the product distinction function.110 The goodwill and advertising function forms no part of this essential function.

The essential function doctrine plays a crucial role in the interpretation of the scope of trademark rights and the conditions of registration.111 Through the extensive use in the interpretation of the TMDir and TMReg, this doctrine has become part of the body of Community and national trademark law.112

As I see it, there exists a problem with the use of this essential function doctrine, as it may not provide a convincing justification for the protection of trademarks, i.e. the essential function doctrine solely describes the effect of the function but does not clarify the normative reason for protection. The ECJ has, as of yet, not defined with sufficient clarity the exact nature of the rationale to protect the essential function of trademarks, which results in difficulties to determine the exact scope of trademark rights. There is for instance room for an argument as the one raised by AG Colomer in the Arsenal case:

“A distinctive sign can indicate at the same time trade origin, the reputation of its proprietor and the quality of the goods it represents, but there is nothing to prevent the consumer, unaware of who manufactures the goods or provides the services which bear the trade mark, from acquiring them because he perceives the mark as an emblem of prestige or a guarantee of quality. When I regard the current functioning of the market and the behaviour of the average consumer, I see no reason whatever not to protect those other functions of the trade mark and to safeguard only the function of indicating the trade origin of the goods and services.”113

Moreover, the ECJ found in its l’Oréal diction that also the other functions of trademarks – i.e. communication, investment or advertising – would merit protection under Article 5.1.a TMDir without giving any consideration to the fact that the protection of these other functions would require an entirely different basis of justification.114

While it may be true that trademarks indicate not just trade origin, but also prestige, the important point here is that the ECJ in its essential function doctrine fails to articulate ‘the reason’ why the essential function or the other functions of trademarks should or should not be protected.

In my opinion, only a doctrine that incorporates such a reason or rationale can provide the crucial instrument to interpret the scope of trademark rights. In the following two sections, I shall thus take a closer look at the economic and ethical or fairness based rationales underlying the protection of trademark rights.

110 According to the CFI, the essential function is in particular, “that of identifying the origin of the goods or services, thus enabling the consumer who acquired them to repeat the experience, if it proves to be positive, or to avoid it, if it proves to be negative, on the occasion of a subsequent acquisition.” CFI 5 March 2003 Alcon (‘BSS’), para. 48.
111 ECJ 17 October 1990 HAG II, para. 14. According to the ECJ, “in order to determine the exact scope of this right exclusively conferred on the owner of the trade mark, regard must be had to the essential function of the trade mark.”
113 AG Colomer 13 June 2002 Arsenal Football Club, para 47.
CHAPTER 2

2.3.2 ECONOMIC RATIONALES

After having discussed those trademark functions that play an important role in trade, I will now examine rationales that explain why particular functions should be protected and particular rights should be granted. As indicated above, I will differentiate between two abstract types of trademark rights, i.e. rights that protect trademarks against confusion and rights that protect trademarks against free-riding, blurring, and tarnishment. The former rights protect the source identification, product distinction, and quality or guarantee function. The latter rights protect the goodwill or advertising function.

I will first explain the background of economic rationales for trademark rights and then I will discuss the search cost and dynamic efficiency rationale. Both of these rationales clearly justify trademark rights that protect trademarks against confusion, which protect the source identification, product distinction and quality or guarantee function. Since the protection of the goodwill and advertising function through rights that protect the distinctive character and repute of trademarks restrict third party use much further, and do thus need stronger justification, I will separately analyse this protection in section 2.2.2.3.

2.3.2.1 Background

The most appropriate rationale for the justification of trademark rights is based on an economic cost/benefit analysis, which views trademark rights as tools that regulate market communication.115 This economic rationale of trademark rights is part of a welfare economic assessment, which deals with normative public policy questions related to the economy.116 Economics in general and welfare economics in particular are grounded in classic utilitarian theory,117 which, in simplified terms, states that the merit of all economic decisions, and in the case of this research all rules and policies, must be judged solely by their utility or consequences (hence the name ‘utilitarianism’ or ‘consequentialism’). Rules that are adopted can be justified if they serve the maximisation of the general good.118

One of the guiding principles of the specific economic variety of utilitarianism is the idea of an invisible hand that leads free markets to achieve congruence between self-interest of an individual and the interest of others.119 This idea goes back to Adam Smith, and in a reformulated manner means that,

"[a] person will be led by self-interest to put his or her resources to use there wherever they earn most. But to earn, you must produce something others want to

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117 The main proponents of this theory were Jeremy Bentham and John Stuart Mill. Bentham 1789; Mill 1861. See also Sinnott-Armstong 2003.


buy. Consequently seeking your own advantage automatically leads you to produce goods or services that suit consumer’s desires.120

It is assumed that markets, on which free competition reigns, will achieve an optimum between supply and demand. Prices will be kept at an optimal level while producers are still granted a reasonable profit. In addition, free competition will produce higher efficiency and lower costs than situations of monopoly production or a government controlled economy.

This is of course a simplistic picture as major economic crises have demonstrated that the idea of complete laissez faire economic policy is not sustainable and that a certain level of public control over markets is necessary. Nevertheless, the conviction that free competition is one of the most beneficial manners to regulate markets is still the dominant idea in today’s society.

Scholars of the Chicago school of economics are best known for applying the theories of economic benefits and costs to the law in general and to intellectual property rights in particular.121 In line with that school of thought, trademark rights are seen as important instruments in facilitating market communication and in providing incentives to producers to provide high quality and constant quality goods and services. Accordingly, trademark rights should be granted if the benefits of granting a certain type of trademark protection outweigh possible negative consequences or costs.

According to a classification introduced by Calabresi and Melamed, trademark rights are based on a so-called ‘property rule’, meaning that the right holder himself can set the conditions to sell or license the property as he sees fit, since he holds an exclusive right, which he can transfer or license to his discretion.122 Granting a right under property rule is beneficial, because it enhances legal certainty and it makes rights fully transferable. While the property rule is thus an efficient instrument for the regulation of trade on free markets, its drawback is that by its very nature it will exclude others from using the same goods, resources, or as in the case of trademarks, certain types of uses of signs. If these types of uses of signs are scarce or uniquely important to others, the grant of an exclusive right based on a property rule may entail significant costs for the excluded third parties.

122 Calabresi & Melamed 1972. According to Calabresi and Melamed there are three types of property like entitlements that can be differentiated, i.e. a ‘property rule’, a ‘liability rule’, and an ‘inalienability rule’. Under the liability rule, others than the owner are free to use the property upon the condition that they pay an objectively determined compensation for it. The value of the compensation and therefore the economic value of the property is determined by some organ of the state. Under the liability rule, exclusivity of the owner over the property is decreased because he can neither determine the value of the property, nor can he exclude others from using it. The liability rule reduces the negative effects of exclusion of the property rule. However, lacking clear-cut ownership, transferability is hampered. Thus, liability rules do not set favourable conditions for a free trade in the goods at stake. They would require a centralised authority that would determine prices. Were this centralised authority to regulate production, it would need to make value judgements on what to produce an in what quantity. However, centralised systems have proven to be inefficient. In intellectual property law, we find liability rules in e.g. compulsory licences of patents in times of emergency. Under the inalienability rule, a transfer of the property is not permitted. Not even between a willing buyer and a willing seller. These rules “not only ‘protect’ the entitlement; they may also be viewed as limiting or regulating the grant of the entitlement itself.” The idea of inalienability is strongly present in natural law property theories, which would not allow the sale personal freedom or bodily integrity e.g. the sale of body parts. Moral rights of authors and performing artists are based upon an inalienability rule.
In order to find the economic optimum between benefits and costs, the grant and scope of property or exclusive rights should therefore be limited by a welfarist principle like the principle of Pareto optimality, which states that an intervention in free markets, such as the grant of trademark rights and their specific scope, is only justified if it makes at least one person better off and no one worse off.

2.3.2.2 Lowered Search-Costs and Dynamic Efficiency

The economic theories of trademark rights view trademarks as remedies for market failure, which occur due to monopoly structures, due to problems such as overuse of scarce resources, due to free-riding, or due to information asymmetries. Search cost rationale views trademark rights as a means to reduce the market failure of asymmetric information, thereby focussing on the benefits of trademark rights to consumers. Dynamic efficiency rationale views trademark rights as a means to counteract the market failure connected to free-riding, thereby focussing on the appropriate remuneration of producers and traders.

The underlying concern of search cost theory is that economic equilibrium in a freely competitive situation can only be achieved if market participants can make decisions based on perfect information. Such perfect information must be quantitatively and qualitatively sufficient, readily available, efficiently structured and reliable.

In real life, however, a situation of perfect information is unattainable. To start with, it would take considerable amount of time to achieve a situation of perfect information. Furthermore, producers will often know much more about their products than their consumers and may not be inclined to tell everything they know to their customers. The result is a situation of asymmetric information, which may result in sub-optimal economic decision-making and ultimately in market failure.

Search cost theory focuses on the fact that reliable trademarks are a significant aid in improving the information situation of consumers. Without reliable trademarks, consumers would be misguided and would have to take considerable risks in searching for the goods they want to purchase, these costs are referred to as ‘search-costs’. Producers, on the other hand, would not be able to inform consumers in a reliable manner.

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123 Pareto 1906.
124 The origin of the term ‘search costs’ is linked to George Stigler’s paper ‘The Economics of information’. Stigler 1961. In this paper, Stigler argued that advertising plays a key role in reducing consumer’s costs (e.g. time and risk) in searching for the products they wanted. The search cost rationale has been equally applied to trademark protection mainly by members of the Chicago school of economics. See e.g. Economides 1988; Carter 1990; Landes & Posner 2003; Lemley 1999; Lemley & Dogan 2004; Litman 1999; Lunney 1999; Dinwoodie 2006.

125 Originally, the term ‘information asymmetry’ was used by Ackerlof in his 1970 paper ‘The Market for Lemons’ Ackerlof 1970, lemons being used cars of bad quality. On the market for used cars, consumers have little possibility of obtaining reliable information on the quality of the car they are about to purchase. They might thus run considerable risks in purchasing used cars. Because of this information asymmetry, prices will converge around a price that accords to the estimated quality of the average used car. This means that the price for a particularly bad car, i.e. a lemon, will be too high, whereas the price of a well maintained and reliable used car will be too low. However, if prices are so unrelated to quality and effort, they will stop working as signals to guide supply and demand. They will for instance cease to provide incentives for selling good quality cars. Therefore, asymmetric information may lead to market failure. Trademarks will not be able to remedy this particularly serious problem of lacking product information about product quality. This is can only be achieved if a seller is made liable for the quality of his or her products and services.
of the qualities of their products. Search cost theory does thus provide a rationale for the protection of the source identification and the product distinction functions.

Trademarks lower the search costs of consumers because they provide them with ready available, extremely efficient, and reliable information. First, trademarks provide the consumer with a reliable indicator of the source of products and services. This allows consumers to differentiate products and services of one party from those of other parties (the product distinction function). In addition, trademarks allow consumers to attach experience characteristics to goods, i.e. experiences that are linked to prior consumption of the same goods.126 With the help of the Coca-Cola trademark consumers can easily use their prior experience with the taste of the beverage in their decision to buy a bottle. Furthermore, trademarks allow consumers to link trademarked products and services to information received via e.g. advertising.

The information benefit of trademarks, which enables the search cost reduction, is, however, non-excludable, meaning that third party traders can easily free-ride on it by marking their own goods and services with the trademarks of others. The incentive to do so may be strong because using another trader’s trademark is always cheaper than taking the effort of actually producing goods that are of similar qualities and then successfully marketing them.

If other traders use signs for their own goods or services that are identical or similar to the trademarks of competitors, consumers may get confused leading to the destruction of the search cost reduction of trademarks. Hence, trademark rights are needed to prohibit a likelihood of consumer confusion and to secure the information benefits.

Seen from the perspective of right holders, trademark protection also produces an efficiency enhancing effect, which is related to dynamic efficiency rationale.127 This rationale departs from the idea that producers should be able to recoup their costs, because if they were unable to do so, there would be no incentive for them to invest in the quality of goods and services.128 For example, trader A, who produces a high quality instant coffee under the trademark X can charge a higher price than trader B who produces lower quality instant coffee

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127 This rationale is part of the public goods rationale, which is the most commonly used economic rationale in support of intellectual property rights. It is a theory of production of intellectual goods linked to the public good characteristics, i.e. non-excludability and non-rivalry, of intellectual products. Non-rivalry means that the consumption by one consumer of the good does not affect the consideration of the same good by another. If one person reads a text, millions of others can still read the same text. Confusing use of trademarks or use that affects the distinctiveness or repute is rivalrous however. Hence, trademarks are at best qualified as impure public goods. Non-excludability means that people cannot physically be excluded from using the good. A piece of land can be fenced off and a house can be locked; a work of authorship can however in most cases not be equally secured and trademarks are equally non-excludable. Consequently, public goods theory has been applied to trademark rights. See further Barnes 2006; Economides 1988; Landes & Posner 2003, p. 12; Teijl & Holzhauer 1991, p. 29.
128 The United States Restatement 3rd of Unfair Competition states, “[i]n the absence of effective trademark protection, individual sellers gain little from improvements in product quality or service since they cannot easily recapture the benefits of a favorable consumer response. The protection of trademarks thus encourages investment in quality and service by securing to the trademark owner the benefits of a favorable reputation. Nonprofit enterprises such as charitable, educational, governmental, fraternal, and religious organizations have analogous interests in protecting their good will, and the designations adopted by such enterprises to identify their goods or services are similarly eligible for protection as trademarks.”
under the brand Y. If Trader B were allowed to use trademark X, consumers could no longer differentiate between the products. Trader A would consequently have little incentive to produce high quality coffee. If, as a result of such free-riding, producers are unable to get the proper remuneration for their trademarked goods, they may not take the effort to produce goods of high quality, or differentiated goods for that matter, in the first place. Rather, they may be satisfied with producing goods of average quality and average properties. In this situation, trademark rights that secure the link between traders and their goods or services can provide an economic incentive to right holders to produce diverse and high quality goods, i.e. these rights secure dynamic efficiency.129

As this dynamic efficiency rationale is also used in relation to other intellectual property rights, such as copyrights and patent rights, I deem it necessary to stress that in relation to trademark rights the incentives provided are not incentives to produce trademarks, but rather incentives that stimulate aspects of the trade in the underlying goods or services.130 Put differently, trademark rights are granted not in order to produce new words, but in order to secure orderly and efficient economic competition, by offering right holders a means to identify their products or services.131 The rationale is limited to the protection of the source identification and quality and guarantee functions and dynamic efficiency is secured if the protection takes the form of a prohibition of confusing third party use.

In sum, both search cost rationale and dynamic efficiency rationale clearly indicate that the source identification, product distinction and quality or guarantee functions should be protected. Trademark rights that forestall confusion can play an important role in securing the workings of these functions.

In the context of this research, the most important point of the economic rationales is that the efficiency benefits of trademark rights, i.e. the search cost reduction and the dynamic efficiency, must be set off against the costs that trademark rights impose on third parties and on society as a whole as welfare economics would endorse trademark rights only in so far as the benefits of granting them outweigh the costs. Such costs of trademark rights can be transaction costs, costs of policing, and costs related to exclusion.

First, transaction costs are the costs of economic exchanges, such as the sale of trademarked goods. Search costs are part of transaction costs of such economic transactions,132 meaning that trademark protection against confusion actually lowers the overall transaction costs. Hence, trademark rights have a positive effect on overall transaction costs.

Second, the costs of policing, i.e. the costs involved in enforcing the rights, can be decreased significantly by a well-kept and accessible trademark register. Such a register

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129 The assumption that exclusive rights will efficiently address the problem of underproduction and allocative efficiency provides the most common rationale for the protection of information goods. At the same time, this assumption can be disputed. As Aldred points out, this assumption is based on one theorem of game theory, which assumes that traders will use trademark rights in order to invest in long-term gains, i.e. keeping quality constant for a long time. However, game theory knows also other theorems explaining that traders could, for instance, lower quality in order to gain short-term benefits. Aldred 2008, p. 270.

130 In this respect, the rationale differs from that of other intellectual property rights. The economic rationale for copyright and patent rights seeks to provide incentives for the protection of e.g. works of authorship and inventions per se.


132 Mackaay diss. 1980, p. 56.
enables other parties to identify with ease the trademarks that are used by other parties and to refrain from using them. In addition, trademark rights ensure that costs of actual policing are borne by the right holders themselves, who can, in many cases, recoup their costs from infringers. This makes policing more efficient than if a costly central policing authority is involved.

The third, and most problematic costs are the costs of exclusion. The definition of the subject matter and scope of trademark rights is of crucial influence on these costs. If the subject matter definition of trademarks is too broad, third parties may be hampered in their ability to compete. This would be the case if trademarks were to be registered in relation to signs that are descriptive of product qualities or that are generic. Take for instance the word ‘sweet’ in relation to fruit. If that word were to be registered as a trademark for fruit, no other trader would be able to communicate to consumers that his fruit are sweet. This would decrease their ability to inform consumers, and it would thus decrease their ability to compete. Consequently, there is a need to keep signs distinctive and to keep descriptive as well as generic meanings of signs free for all to use.

Care must also be taken that certain beneficial uses of trademarks by their parties are not prohibited, such as the use of trademarks on replacement or spare parts, on the Internet or in comparative advertising that helps consumers to identify the purpose or destination of goods. Allowing trademark right holders to prohibit such uses may have negative effects for third party traders that are not outweighed by any search cost reduction or dynamic efficiency benefits.

Finally, one must also consider that, both, search cost rationale and dynamic efficiency rationale discussed here justify trademark rights only vis-à-vis other traders. These theories are not geared towards assessing the costs and benefits of other, social, uses of trademarks.

2.3.2.3 Protection of the Goodwill and Advertising Function

So far, we have seen that economic rationales clearly justify the grant of trademark rights that protect the source identification, product distinction and quality or guarantee functions. It is, however, less clear whether economic rationales may also justify trademark rights that protect the goodwill and advertising function of trademarks. As already hinted at above, there is a difference in utility between, on the one hand, the source identification, product distinction, and quality or guarantee functions, and, on the other hand, the goodwill and advertising function. While the first three functions are clearly beneficial to consumers, meaning that they benefit society at large, the main utility of the advertising function seems to be confined to the right holder himself as he alone reaps the benefits of this function and the benefits to consumers do not feature in that function. Some authors even argue that the goodwill and advertising function, along with many forms of advertising in general, rather produce negative effects on economic efficiency and on society at large.

The protection of the goodwill and advertising function usually takes the form of the protection of the distinctive character and repute of a trademark against taking (unfair) advantage or against harm in the form of blurring or tarnishment. Seen from the

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133 See section 2.3.1.4.
134 On negative economic effects see Brown 1948; Ramello & Silva 2006; Papandreou 1956; Schmalensee 1974; Schmalensee 1978. On negative social effects see e.g. Klein 2000; Werner & Weiss 2006.
perspective of the economic rationales, the question remains whether these forms of protection enhance overall economic efficiency and outweigh economic costs. Therefore, I will consider these forms of protection in light of search cost rationale, dynamic efficiency rationale and in light of possible negative effects.

a. Lowered Search Costs

Search cost theory justifies the grant of trademark rights against confusing use because of the benefits in search cost reduction to consumers. In order to justify the protection of the goodwill and advertising function it would have to be shown that the protection leads to additional search cost reduction and that, in the absence of protection, such additional effects would be lost.

The protection of the distinctive character or repute of trademarks in addition to their source identification function may serve to lower search costs if it created network effects meaning that the more people use a certain good, the more the utility of that good increases. Usually, network effects are found in a network, e.g. the telephone network (the more people use such a network, the higher its overall utility will be).

A similar argument could be applied to trademarks with regard to the goodwill entailed in a highly distinctive character or high reputation. The fact that a trademark is carrying a lot of goodwill may imply proof of the fact that the goods covered by it are of high quality. Consequently, consumers may be able to simply rely on the fact that a highly distinctive character and repute implies high quality, which mean a reduction of their search costs.135

In my opinion, most of such network effects, if they indeed exist, are already secured by the protection of trademarks against confusion. In particular, this is the case when indirect confusion is prohibited, i.e. those cases in which a consumer is confused about the fact that a trader has sponsored or endorsed a product, leading him to infer that the right holder would bear responsibility for the process of production or for the trade. By forestalling such confusion, network effects would be sufficiently protected.136

The justification of a protection against blurring can pose a problem. According to the theory of blurring, the distinctive character of a trademark may be harmed in the long run if its use on a non-similar products (and absent any confusion) would be permitted. The actual harm does not lie in the first use but in the fact that many subsequent traders may use e.g. the Rolls-Royce trademark on other goods and services like BBQs or matchboxes. Over time, this kind of use could eradicate the distinctive character of the trademark, and if that were the case search costs would be negatively affected.

There is however a caveat to this theory. The causal link between the first use, i.e. the use to be prohibited, and the eventual harm, i.e. the total loss of distinctiveness, is very remote, as it may take many of such uses for the harm to occur. This is why blurring is also referred to as ‘death by a thousand cuts’. Some authors claim that the link between

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135 Lunney makes this argument in relation to the social function of brands. She point out that the use of popular brands can result in acceptance in social groups. Lunney 1999, p. 429

136 The protection against indirect confusion may however go further than to capture such effects. Schackert for instance argues that this form of protection is unrelated to the protection of the information status of the consumer, but that it is essentially a form of protection against (pure) free-riding. Schackert 2001, p. 318.
the first use and the harm does not exist at all.\textsuperscript{137} The existence of that causal link between use and negative effect is however an essential link in justifying a prohibition of blurring.

From an economic viewpoint it is not efficient to wait until the damage is done, as a total loss of distinctiveness is likely to be irreversible. It is however also inefficient to prohibit third party uses without being certain that they are harmful. Hence, in my opinion, it is only justified to prohibit those uses that will contribute to blurring with a high certainty, which implies a clear-cut definition of the harm to be forestalled and a high threshold of proof.

Finally, search cost theory may not provide a justification for an additional protection of trademarks against tarnishment. Another user who tarnishes a trademark, by creating negative associations in the minds of potential consumers, may only interfere with search costs, if those associations are patently untrue, confusing, or misleading and if they have a causal effect on later purchasing decisions. E.g. negative associations created by using trademarks on unrelated inferior goods may increase search costs as they may falsely influence consumer’s information about the quality of the original trademarked goods. Such increased search costs may however already be forestalled to a substantial degree by the prohibition of indirect confusion, i.e. where consumers believe that a trademarked good or services belong to the economic sphere of responsibility of the right holder.

Conversely, truthful criticism or commentary that negatively effects the repute of a trademark may, have a positive impact on search costs as it may inform consumers about true facts that they could deem relevant to their purchasing decisions.

\textbf{b. Dynamic Efficiency}

The goodwill and advertising function is the result of investment in building up “commercial magnetism,” and other traders may ‘free-ride’ on this commercial magnetism. One may consider this unfair, but from the viewpoint of dynamic efficiency only two questions are of importance. First, does the goodwill and advertising function contribute to overall efficiency? Second, would the absence of legal protection lead to the destruction of efficiency benefits?

As I explained above, dynamic efficiency rationale is concerned with the protection of the trade that underlies the trademark, i.e. incentives are granted to a right holder to induce him to invest in the quality of his goods or services.

In my opinion, it is questionable whether the grant of an additional incentive to capitalise on the investment in distinctive character and repute of trademarks, i.e. a protection against free-riding, blurring, and tarnishment, would enhance overall efficiency. In particular, it may be questioned whether the grant of incentives to capitalize on the advertising value is more efficient than allowing free utilisation of that value by others. Scott \textit{et al.} question for instance whether it is efficient to use trademark rights to

\textsuperscript{137} Tushnet 2008. In comparison, between 2003 and 2006 such an ‘actual dilution’ requirement existed under federal U.S. law, dilution in that case referring to blurring. In 2003, the U.S. Supreme Court held that right holders were obliged to prove ‘actual dilution’ (U.S. Supreme Court 4 March 2003 Maseley v. Victoria’s Secret). The 2006 Trademark Revision Act re-introduced the requirement of proof of a likelihood of dilution by. (Trademark Dilution Revision Act 2006, H.R.683) Between 2003 and 2006, almost no infringement claim of dilution was successfully established. Almost no right holder succeeded in meeting the burden of proof. McCarthy 2008, § 24:112.
enforce a monopoly on the production of merchandise of e.g. a sports team in cases when there is no confusion.\textsuperscript{138} It may be more efficient if other entrepreneurs could freely exploit the advertising value of the trademarks in question, as that would lead to a greater diversity of goods and services, while not depriving the right holder of the necessary incentives to induce him to invest in the quality of the goods.

In this respect even, the existence of harm caused by free-riding, absent confusion, has been doubted. Landes and Posner for instance argue that free-riding may, in many cases, not cause any economic harm to right holders.\textsuperscript{139} If ‘pure dilution’, as they call it, is seen as taking unfair advantage of a certain value than the question must be posed, whether gains that are supposedly taken advantage of could have been made by a right holder himself in the first place. Landes and Posner argue that e.g. a peanut vendor calling his nuts Rolls Royce would do so because he wants to confer upon his nuts a sort of prestige. This would give him an advantage but, as Landes and Posner argue, it would not deprive Rolls-Royce of any value. The crucial point is that the peanut vendor might just as well use the prestige of any other famous trademark. In fact, Rolls Royce would be unable to gain any licensing revenues of its name as the competition between the prestigious Rolls-Royce trademark and other prestigious trademarks would be so vast that competition would drive license fees almost to zero. Since Rolls Royce could thus not achieve any commercial gain by trying to license the prestige of its trademark to vendors of totally unrelated products or services, one may consider that no unfair advantage has been taken.

In relation to the prohibition of blurring the considerations of the previous section apply \textit{mutatis mutandis}. Total loss of distinctiveness means loss of the dynamic efficiency effect of trademarks, hence a prohibition of blurring may be justified, but only if the harm is properly defined and when only those uses are prohibited that will contribute to blurring with a high certainty.

Tarnishment, e.g. by using trademarks on inferior goods, may well be harmful to dynamic efficiency. However, also in this respect I think that most of the efficiency decreasing effects of such tarnishment will already be forestalled by a prohibition of indirect confusion. In sum, dynamic efficiency rationale seems to provide little justification for a separate protection of the goodwill and advertising function.

c. \textit{Trademarks as Psychological Commodities}

The goodwill and advertising function of trademarks may also be seen as a consumable good in itself as consumers may sometimes select trademarked goods primarily because they entail a certain commercial magnetism, style, or prestige. According to some authors, this magnetism is built up by perception or persuasive advertising. According to a definition given by Economides,

\begin{quote}
“[i]n perception advertising a desired mental image is added to the physical commodity. The consumer buys the advertised mental image together with the physical commodity, and in his mind the commodity bought contains both. The perceived features are consumed like all other features of the commodity.”\textsuperscript{140}
\end{quote}

\textsuperscript{138} Scott \textit{et al.} 2008, p. 297.
\textsuperscript{139} Landes & Posner 2003, p. 208.
\textsuperscript{140} Economides 1988, p. 533.
In behavioural science, models have been developed that explain this psychological commodity value of trademarks. The image-congruence hypothesis, for instance, states that the image of trademarks may significantly influence purchasing decisions because persons strive to achieve congruence between their self-image and image of the self as viewed by others. Consumers will therefore often buy trademarked goods that fit a desired self-image, like youth, or sex appeal. Trademarked goods are often purchased for reasons of self-realisation through the internalisation or consumption of the portrayed values and images.

This may be evidence of the fact that some trademarks have themselves become a type of commodities that are somewhat detached from the underlying goods and services. As such, trademarks fulfil needs that are unrelated to the needs that are satisfied by underlying goods or services, as they consist of a psychological and possibly sociological nature (such as feel-good, status indication, or indication of membership in a group). In this sense, the goodwill and advertising function may constitute an additional commodity value.

If the advertising power of trademarks is indeed seen as separate commodity value, then the question arises whether such value should be protected by trademark law. Dynamic efficiency rationale seems to indicate that a ‘producer’ of this emotional commodity should be adequately compensated; however, I think that this argument does not fit the pattern of trademark law, for at least two reasons.

First, the dynamic efficiency argument, even when it is used in relation to the goodwill and advertising function of trademarks, always presupposes that incentives are provided to stimulate the investment in the quality of goods or services. The argument that trademark law would provide such incentives in order to stimulate the production of trademarks as psychological commodities is alien to the legal debate about trademarks. Neither existing trademark law nor literature considers that trademark law is supposed to provide incentives to produce trademarks as psychological commodities.

Second, while copyright law and patent law do indeed provide incentives to produce works of authorship or to stimulate invention, they contain specific threshold requirements with regard to the ‘quality’ or ‘novelty’ of the commodities. In contrast, trademark law does not know any such criterion that could limit appropriately the scope of a right to protect the psychological commodity value. Therefore, in my opinion, trademark rights to protect the goodwill and advertising function cannot be justified with the argument that some trademarks have become psychological commodities.

d. ‘Perception Advertising’ and Negative Effects on Rationality

Economic rationales require that consumers base their purchasing behaviour on purely rational decisions. However, perception advertising, which may be used to build up the goodwill and advertising function, may stimulate irrational consumer behaviour. By
playing on consumers’ desires and psychological needs, it may distract consumers from focussing on the real qualities of goods and services, meaning that it may create inertia and adverse selection in consumers.  

As a result of such inertia, consumers may be willing to pay a premium for brand medicine even though generic substitutes are available. For instance, many consumers prefer Bayer Aspirin even though almost identical and much cheaper aspirin sold under other trademarks is available. Another example may be consumer preference for certain brands of bottled mineral water over tap water in Italy, even in regions, where local tap water exceeds the quality of the bottled water.  

It has been argued in particular by scholars in the United States that as a consequence of inertia and adverse selection, trademarks may become too powerful and that they would grant a right holder a virtual monopoly in a market. This ‘monopoly power’ would encourage welfare decreasing effects such as rent-seeking behaviour, social waste, and barriers to market entry.  

Rent seeking is a behaviour whereby an undertaking seeks to gain rent, i.e. pure profit, by extracting profit from others that is not compensated by any value, e.g. an undertaking using its advertising investments in trademarks to gain higher prices without having to invest in the improvement of the quality of the underlying product. Consequently, consumers would pay higher than optimal prices for these goods.  

On a macro level, significant investment in the creation of advertising power instead of investment in innovation or product quality can be seen as a misallocation of resources. This misallocation caused by trademark protection has also been referred to as social waste.  

Finally, inertia and the resulting monopoly power may create barriers to market entry for potential competitors. If consumers rather stick to the brand they know than switch to the products of new market entrants, whose products are identical or better in quality and are offered for a lower price, the advertising power of a trademark may have created barriers to market entry.  

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146 Already in 1948, Ralph Brown criticised this phenomenon: “Among the many illusions which advertising can fashion are those of lavishness, refinement, security, and romance. Suppose the monetary cost of compounding a perfume is trivial; of what moment is this if the ads promise, and the buyer believes, that romance, even seduction, will follow its use? The economist, whose dour lexicon defines as irrational any market behavior not dictated by a logical pecuniary calculus, may think it irrational to buy illusions; but there is a degree of that kind of irrationality even in economic man; and consuming man is full of it.” Brown 1948, p. 1181.  

147 Ramello & Silva 2006, p. 958, “In Italy, the quality of tap water is good, in fact often better than that of bottled mineral water. And yet, the consumption of mineral water, whose price is enormously higher than that of tap water, prevails, with the market dominated by a few brands with a strong presence on the advertising markets.” Papandreou 1956; Lunney 1999; disputing this argument Schmalensee 1974; Schmalensee 1978; Economides 1988.  

148 Landes and Posner state, “Economic rent is a return over and above the cost of generating the return; it is pure profit, and so worth incurring costs to obtain, even if the costs exceed the social benefit from the undertaking, as they will often do.” Landes & Posner 2003, p. 17.  

150 Brown 1948, p. 1169.  

151 This argument was raised by Papandreou in 1956 and is connected to Chamberlin’s theory of monopolistic competition. Papandreou, in line with Barnes and the other critics of the negative consequences of perception advertising and connected trademark protection, argued that persuasive use of trademarks alters consumers’ tastes and influences their choices. It could therefore not only produce social waste, but it could violate antitrust rules, because it inhibits entry and access of new competitors Papandreou 1956. Chamberlin argued that even in a monopolistic market competition could be functioning well, if (a) there are many
In rebuttal to the charges of monopoly power, it may be contended that no decision-making process is 100% rational. Even if consumers’ decisions are influenced by emotions and desires, one could claim that consumers make their decisions as sovereign and autonomous individuals, since they choose to purchase the desired mental image. Their decisions should thus not be called irrational because they are based on free choice and, as such, the free will of consumers should be respected.\footnote{Lemley 1999, p. 1692, “My preference for Diet Coke over Diet Pepsi or any other cola drink may be an irrational one, induced by childhood memories of teaching the world to sing or some similar promotional effort. But in a free market economy, perhaps the choice should be mine to make, for good or ill.” See also Economides 1988, p. 535.}

In my opinion, this argument of free choice misses an important point, which has already been made by Ralph Brown in 1948. The kind of rational decision-making that underlies the economic rationale of trademark rights, does at least presuppose \textit{adequate knowledge of alternatives}.\footnote{Brown 1948, p. 1182.} If trademarks really ameliorate the information asymmetry between producers and consumers, they must provide consumers with a means to make informed choices between alternative products. A goodwill and advertising function, which stimulates inert behaviour towards alternatives, may leave room for free choice (i.e. it does not totally constrain the choices of consumers),\footnote{Brown 1948, p. 1181 “The taint of irrationality may be dispelled by asserting flatly that the utility of a good, that is, its capacity to satisfy wants, is measured exactly by what people will pay for it. If, as is undeniably the case, consumers will pay more for an advertised brand than for its unheralded duplicate, then consumers must get more satisfaction out of the advertised brand. The nature of the satisfaction is of concern only to the moralist. Though this argument can easily be pushed to absurdity—suppose it was to the interest of the advertisers to consume half the national product in persuasion?—it seems plausible if it is based on the dogma of consumer autonomy. Then anyone who questions the untrammeled use of influence by the seller and its uncoerced acceptance by the buyer is at best a Puritan, at worst a Fascist. The debate seems to end in a defense of freedom, for the advertiser as well as for the consumer.”} it may, however, obstruct rational decision making, which can only be based on adequate knowledge of alternatives.\footnote{Economides 1988, p. 532 to 535.}

Perception advertising, along with the stimulation of the creation of advertising power of trademarks, has also been criticised from a social and cultural perspective. \textit{Galbraith} has claimed that perception advertising produces an overly materialistic society.\footnote{Galbraith 1958.} The advertising power contained in trademarks and the protection granted under trademark law may also interfere with cultural dialogue and cultural development,\footnote{Coombe 1991; Coombe 1998; Ramsay 1996, p. 53; Criticism also revolves around the allegation that the advertising carried by the advertising function of trademarks may interfere with cultural production. In the wake of extracting advertising revenues out of ever-new markets, cultural production may have been usurped by production for marketing purposes. Such cultural marketing may marginalise the traditional forms of cultural production. Dreyfuss 1996, p. 145, “Similarly, there are now movies created principally producers and many consumers in a given market; (b) consumers have clearly defined preferences and sellers attempt to differentiate their products from those of their competitors; the goods and services are heterogeneous, usually (though not always) intrinsically so; (c) there are few barriers to entry and exit; and (d) producers have a degree of control over price. Chamberlin 1933. Schmalensee pointed out that advertising and persuasive trademark use may indeed lead to brand loyalty and may cause inertia in buyers, but that this would not lead to monopoly power and barriers to entry. Barriers to entry would rather be the result of alternate causes such as inefficient capital markets. Schmalensee 1974, Schmalensee 1978. See also the \textit{Rea-Lemon} litigation before the United States Federal Trade Commission (FTC). In re Borde, 406 Patent, Trademark & Copyright J. (BNA) D1 (30 November 1978). McClure 1996, p. 19; and further Economides 1988; Wiggins & Raboy 1996; Lunney 1999.}
democratic governance\textsuperscript{158} by allowing major companies to become so powerful, that they can behave antisocially while still maintaining a positive image vis-à-vis consumers.

In sum, which I am aware that the economic and non-economic criticism should be taken with a grain of salt, I think that the provision of incentives to trademark right holders to invest in perception advertising will harm economic efficiency. Consequently, trademark rights must not be structured in a manner to allow a right holder to provide incentives to invest in advertising rather than in innovation and they must not allow a right holder to prohibit the spread of information about alternative products.

\textbf{2.3.2.4 Interim Conclusion}

In this sub-section, I examined economic rationales for the protection of trademark rights. I distinguished between two abstract types of rights, i.e. trademark rights that protect against confusion, and trademark rights that protect against free-riding, blurring, and tarnishment. The former rights protect the source identification, product distinction, and quality or guarantee function. The latter rights protect the goodwill or advertising function.

First, the analysis showed that search cost rationale delivers a clear justification for the protection of the product distinction function and the quality function. Dynamic efficiency rationale justified the protection of the source identification function. By inducing trademark right holders to provide high quality goods or services, it would be overall beneficial to society.

A more ambiguous picture emerged when economic arguments for the protection of the type of right that protects the goodwill and advertising function. I concluded that, while a prohibition of blurring may in some cases be efficiency enhancing, most of the potential economic benefits of in search-cost reduction (e.g. network effects) are already secured by the prohibition of confusing use. Furthermore, I considered the argument that dynamic efficiency rationale may imply that a potential psychological commodity value of trademarks that would be contained in the advertising function should be protected. However, I concluded that this argument is unconvincing, as unlike copyright and patent law, trademark law is not designed to stimulate the production of commodities.

Moreover, I examined criticism of the economic and social impact of the protection of the advertising function. This criticism is linked to the assertion that the advertising function of trademarks allows traders to capitalise on perception advertising, which may decrease economic efficiency. In concluded that trademark protection must not be crafted in a manner that encourages perception advertising and that trademark rights must not allow a right holder to prohibit the spread of information about alternative products.

Overall, I think that, if trademark protection is granted in manner that is not justified by economic rationales, it will be most important to craft exceptions and limitations that adequately minimise problems with regard to economic efficiency\textsuperscript{159}

\textsuperscript{158} Klein 2000; Werner & Weiss 2006; see above section 1.2.4.

\textsuperscript{159} Bröcher, Hoffmann & Sabel 2005, p. 60, "Der mit der Marke maßgeblich bewirkte Schutz der Investitionen muss dazu führen, dass bei der Anwendung des Markenrechts stets die Wettbewerbsverträglichkeit des
2.3.3 **ETHICAL AND FAIRNESS BASED RATIONALES**

The normative character of fairness-based rationales differs from that provided by economic theories. Under economic theories, the right holder is provided with a right as an *incentive* to forestall market failures, while the aim is to further or maximise the positive effects to society at large. In contrast, ethical and fairness based rationales focus on the *entitlement* of right holders, aiming at granting rights to those right holders that *deserve* protection, against the backdrop of a society, in which individuals are bound by a social contract to respect each others rights and freedoms.

I will discuss two types of ethical rationales for trademark rights, i.e. unfair competition related rationales and Lockeian labour rationale. The former rationales would infer a right from principles underlying unfair competition law, while the latter rationales infer an entitlement from the fact that a person has invested labour in the creation of a good. I will assess if these theories provide a rationale for the protection of the various functions of trademarks. Were it is appropriate I will address differences and commonalities between the ethical rationales and the economic rationales.

I will not consider all ethical or fairness-based arguments. For instance, at least one author has sought a rationale of trademark rights in an extended argument of freedom of expression, i.e. in *a right not to be associated* with unwanted associations.\(^{160}\) This rationale is linked to jurisprudence of the United States Supreme Court, which found that the First Amendment of the United State’s Constitution covers a right not to be forced to speak.\(^{161}\) In my opinion, it is conceptually wrong to deduce a trademark right from freedom of expression. Freedom of expression provides the right holder with a *freedom* and such a freedom can never be extended to a right to prohibit third parties (!) to speak.

Moreover, I want to point out that the right to property contained in Article 1 of the 1\(^{st}\) Additional Protocol to the ECHR as well as in Article 14 of the German Grundgesetz, do not provide a rationale that would justify the protection of trademark rights. In some cases, Article 1 1\(^{st}\) AP ECHR and Article 14 GG are used in weighing trademark rights against freedom of expression. However, these rights solely provide protection to *already existing* property rights and entitlements, protecting them primarily against arbitrary deprivation.

2.3.3.1 **Unfair Competition and the Underlying Principles of Truth and Unjust Enrichment**

More than other types of intellectual property law, trademark law has developed in close relationship with unfair competition law. While both protect trademarks against certain behaviour of third parties, they differ in the type of protection. Unfair competition law operates with objective norms that seek to protect the interests of all parties concerned, whereas trademark law grants subjective rights that protect the interests of the right holders. Nonetheless, the underlying rationales for protection seem closely related.

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\(^{160}\) Spence 2008.

In European trademark law this is evidenced by the fact that certain provisions the TMDir and TMReg that speak of taking unfair advantage or of honest practices in trade, which is interpreted as a duty to act fairly,\(^{162}\) demonstrating thus that trademark law and unfair competition law stem from the same family. In addition, the right to prohibit others to use trademarks in a confusing manner finds a pendant in a general rule of unfair competition against confusing use. Therefore, general principles underlying unfair competition may provide rationales for the protection of trademark rights.

The overreaching premise upon which unfair competition law is based is that an economy, in which the individual entrepreneurs enjoy freedom of competition, is most beneficial to society.\(^{163}\) Unfair competition law is needed because parties in competition with each other may engage in behaviour that affects each other negatively. Freedom of competition requires that not all negative effects of competitive behaviour must be prohibited. For instance, gains in market share of a market entrant who sells high quality products leading to losses in market share of a producer producing low quality goods is a normal and even desired part of free competition. Harmful behaviour should thus only be prohibited above a certain threshold of unfairness. Unfair competition norms thus ensure that competition, while being free, remains fair.\(^{164}\)

Two underlying normative principles of unfair competition law may provide a rationale for the protection of the source identification, product distinction functions of trademarks: (a) the principle of truthfulness and (b) the principle that unjust enrichment must be prohibited.

\subsection{Truthfulness}

The principle of truthfulness may provide a rationale for the protection of the source identification and product distinction functions through the protection against confusion.\(^{165}\) If trademark rights were to protect truthfulness, one should demand that they must forestall deception about the origins of products or services. Such deception may arise from the fact that one trader uses another trader’s trademark in a confusing manner and that he thereby ‘deceives’ the public about the real origin of a product. Such

\(^{162}\) See below sections 2.4.4 and 5.5.2.


Freedom of competition is the guiding principle according to both, utilitarian reasoning and a rationale that focuses on the self-determination of humans. In the latter sense, freedom of competition is a sub-form of a general freedom of action, which is the most fundamental liberal concept. For instance, the link between freedom of action and freedom of competition is quite clearly incorporated in the German Grundgesetz. Freedom of competition is subsumed under the constitutionally protected freedom of action of Article 2.1 GG. In addition, it is protected by the provision on “Berufsfreiheit” or freedom of business of Article 12.1 GG. The German State must, for instance, guarantee individual undertakings equal chances in competition and it must protect them against arbitrary changes of influences of competition. A company may however not invoke constitutional rights to claim the protection of a certain preferential position on a market. Harte-Bavendamm & Henning-Bodewig 2004, p. 354 and 355.

\(^{164}\) Verkade 1986, p. 1.

\(^{165}\) This principle has been mentioned by Aalberse. In his opinion, truthfulness is an important principle in unfair competition law. The roots of this principle lie in the fact that humans are social beings and that as such, they are obliged to speak the truth. Aalberse 1898, Pfeffer 1938, p. 13, links this principle to utilitarian reasoning. See also Verkade 1986, p. 59 and Bröcher, Hoffmann & Sabel 2005, p. 53.
a right would then protect the public’s entitlement to be told the truth and not to be deceived, which is in line with the product distinction and quality or guarantee functions. In addition, such a right would protect a trademark right holder’s entitlement that the identity of his goods is not misrepresented, thereby protecting the source identification function.

From the perspective of consumers, one problem is that a justification under a rationale for trademark rights based on the principle of truthfulness requires that trademark rights focus on forestalling untrue third party use. This is the case when they forestall misleading use, but not necessarily when they forestall confusing use, the difference being that in the case of a prohibition of misleading conduct, the law assesses whether the purchasing decisions of consumers are affected in elements that are deemed essential as misleading use confuses consumers about an element of their purchasing decision “to a level that the may feel deceived once they realise the confusion”. Protection against a mere likelihood of confusion, as granted by trademark rights, is not concerned with the question whether the effect of confusion has an essential influence on consumer’s purchasing decisions. Consequently trademark rights go further than what could be justified by a rationale based on the principle of truthfulness.

From the perspective of producers, the principle of truthfulness may justify the protection of the source identification function against misrepresentation. This would mean that trademark rights are granted in order to allow right holders to prohibit third parties to behave untruthful by creating confusion about the origin of his goods. In this context, the argument raised above can apply as well, meaning that the prohibition of confusion reaches further than the prohibition of providing ‘untrue’ information.

A further consideration is that the protection against confusion in trademark law does not consider the knowledge or state of mind of the third party user. One could argue that, misrepresenting the signs of a right holder may only be unfair or unethical if the untrue act occurred consciously. In contrast, trademarks are protected against confusion regardless of awareness or intent to confuse of the third party. The protection will be granted even in cases, in which the third party user had no knowledge of the other sign at all.

In my opinion, a prohibition of misrepresentation, if it is deduced from a higher norm of truthfulness, would have to be connected to criteria such as awareness, knowledge, or intent of the third party. The act of representation implies a form of consciousness just as the act of misrepresentation would imply consciousness of the identity of the other.

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166 E.g. Hughes 1988, p. 354, stating that in the United States, “[t]rademarks are frequently justified, in the words of one commentator, by the ‘consumer’s right to be told the truth.” […] A real consumer’s right to the facts would be protected by truth-in-advertising or misrepresentation laws, not by trademark.”

167 Verkade 1981, p. 402, did not make this argument in relation to a norm of truthfulness. He rather pointed out that confusion protection could not be directly related to the protection of consumers’ interests.

168 According to Verkade, this means that trademark rights are not directly aimed at protecting consumer’s interests. Ibid., p. 402. In relation to the role of consumers and consumer interests in trademark law see Kabel 2005b. For an argument of a restructured trademark right, that entails a higher degree of consumer protection see Kamperman Sanders 1993, p. 406.

169 Note however that the common law tort of passing off considers misrepresentation to entail unintentional misrepresentation leading to diversion of goodwill. In my opinion, such a form of misrepresentation cannot be connected to a higher form of truthfulness. See Bently & Sherman 2004, p. 707.
In sum, it seems that the protection against confusion goes further than what would be justified by a higher norm of truthfulness. This protection does not seek to safeguard an ethical standard of ‘truth’ in the market place. It rather enforces an economic standard of a certain level of market transparency as described by search cost rationale. Therefore, I think that search cost theory is the more appropriate rationale to justify trademark rights against confusion, because it is specifically concerned with forestalling the market failure of asymmetric information.\footnote{Pfeffer for instance stated that the principle of truthfulness should not be seen as the result of a social duty. He rather connected it to utilitarian, i.e. welfare maximising, reasoning. Pfeffer 1938, p. 13.}

\subsection*{Unjust Enrichment as a Principle}

The \textit{principle} of unjust enrichment, i.e. that a person should not enrich himself at the expense of another, is a general principle underlying many provisions of civil law.\footnote{Engelen, van 1994, p. 173. The origins of this norm can be linked to statements by Pomponius on Roman law as well ‘restitutio’ as a part of medieval law. Kamperman Sanders 1997, p. 121. According to Kamperman Sanders, another possible source, the corrective justice principle established by Aristotle, cannot serve as a basis for unjust enrichment, because it does not define the wrong (at p. 123). He sums up the moral argument underlying unjust enrichment and ‘restitutio’ in the following terms: “To enrich oneself at the expense of another is considered to be sinful. The recipient can redeem himself by restoring the natural order to what it was before by giving back what he has gained and thus rectifying his wrongdoing, resulting in absolution” (at p. 124).} In many civil codes, unjust enrichment is an \textit{action} of last resort (\footnote{Art. 6:212 Burgerlijk Wetboek; Meijer (diss.) 2007; Sections 812 to 822 Bürgerliches Gesetzbuch.}), which can only be invoked if no contractual or statutory provision is applicable.\footnote{Bodenhausen 1937, p. 25; see also Engelen, van 1994, p. 173; Verkade 1986, p. 56.} It applies if one party is enriched, another party is impoverished, and a causal link can be laid between enrichment and impoverishment.

In a competitive situation, the underlying principle could mean that everybody should succeed based on his own efforts and not by exploiting the efforts of others. In Dutch intellectual property discourse, De Savornin Lohman linked this principle to the grant of patent rights;\footnote{De Savornin Lohman 1862.} Bodenhausen argued that the principle plays an important role in identifying unfairness in slavish imitation.\footnote{Bodenhausen 1937, p. 25; see also Engelen, van 1994, p. 173; Verkade 1986, p. 56.} Van Engelen argued that a general right to the protection of the exploitation of concrete immaterial efforts, including trademarks, could be based on this principle of unjust enrichment.\footnote{Engelen, van 1994, p. 171.} German unfair competition law knows e.g. the "ergänzende Leistungsschutz," which prohibits the exploitation of the efforts of others, but only in special circumstances outside of those specified by intellectual property laws.\footnote{§ 4.9 Gesetz gegen de unlauteren Wettbewerb; Harte-Bavendamm & Henning-Bodewig 2004, § 14, nr. 9.}

If the principle of unjust enrichment is used to justify the protection of the source identification function, the object of protection would not be the trademark itself, but rather the effort that has been invested in the production and marketing of the underlying goods or services.\footnote{For instance, the German Warenzeichengesetz was based on the notion that trademark and the protected achievement were separate from each other. Thomasberger 1993, p. 175.} The trademark right is the means by which it can be ensured that the right holder receives the remuneration that he ‘deserves’. In this sense, the protection would differ form dynamic efficiency rationale, pursuant to which it is in society’s interest to provide a right holder with incentives.
However, in my view, there is a fundamental problem with using the principle of unjust enrichment as a rationale for trademark rights. As I have explained above, what one would require as a minimum quality of a rationale for trademark rights is that it provides a specific reason, which justifies the right. From that reason or rationale, one should be able to deduce some indications as to the shape of the right, its scope, and its limitations. The principle of unjust enrichment does not in any way address these points as it fails to define what is unjust and it fails to explain normative nature of the wrong.

As we have seen above, the guiding principle of unfair competition law is that of freedom of competition. Competitive activity does not take place in isolation. Rather, entrepreneurs are, in principle, free to exploit and build upon the efforts of others. Competition is thus only unfair above a certain level of unfairness. Likewise, there is no general rule in society that all advantage that people take from one another is wrong and should be compensated. Instead, markets and societies as a whole are built upon mutual dependence. As Gordon expresses it:

“If even intentional interdependence were to trigger liability automatically, it is little exaggeration to suggest that we would all spend our days in court …”

Consequently, the principle of unjust enrichment cannot be taken to mean that every act of enrichment based on the efforts of another would automatically be unjust, because the principles of freedom of information and free competition must retain priority over the principle of unjust enrichment.

In my opinion, also a greater focus on freedom of competition does not render the principle of unjust enrichment a suitable rationale for trademark rights. It does not compensate for the lack of indications as to e.g. the question whether trademark rights should prohibit mere confusion or whether they should only prohibit misleading use.

In order to provide a convincing rationale, unjust enrichment is thus in need of additional criteria that clarify which behaviour must be deemed unfair. Van Engelen, for instance, locates unfairness in the exploitation by third parties of concrete immaterial objects, stating that confusing use of trademarks is unjust because it enables the third party user to exploit the concrete immaterial efforts that another trader made in order to create a market for his products. In his view, the unfairness lies in the fact that the third party user be able to offer his goods cheaper as he can exploit the marketing efforts of the trademark right holder without having to invest in marketing. The lack of exclusive rights could shift the competitive balance so much to the disadvantage of the right holder that exclusivity in the exploitation of the trademark would be warranted.

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178 See p. 38.
179 In similar vain Schackert 2001, p. 349; Pfeffer 1938, p. 289. Engelen, van 1994, p. 173, notes that a principle such as unjust enrichment cannot be used to deduce from it all details of the scope of a right. It merely provides general instructions or guidelines on the nature of a right. As I stated above, a rationale for the protection of an exclusive right should deliver more than the most basic guidelines, and, in addition, I think that the principle of unjust enrichment does not even provide useful guidelines.
182 In that sense confusing use cannot be termed ‘unjust per se’; it rather is a technical legal criterion that defines a certain threshold, above which prohibition is warranted Verkade 1981, p. 408; Engelen, van 1994, p. 176.
183 See e.g. Kamperman Sanders 1997, p. 152.
184 Engelen, van 1994, p. 176 and 177.
As I understand it, this argument is very similar to that underlying the dynamic efficiency rationale as it contains the requirement for adequate compensation and the aim of forestalling a competitive misbalance. However, there is a difference between these two theories. Economic theory confines itself to stating that it is in the public interest to grant rights as incentives to traders so that they can recoup their costs and that such incentives must go no further than necessary to remove the underlying market failure. In contrast, a principle of unjust enrichment would imply that the right holder is ethically entitled to be protected.

In this respect, it is important to stress the crucial difference between ethical and utilitarian rationales. As Waldron points out, there lies a danger of a logical fallacy (affirming the consequent) in deducing an ethical entitlement from economic reasoning. In referring to copyright, he describes the fallacy in the following manner,

“[f]rom the innocuous premise: (1) If someone is morally deserving, then it is appropriate to reward him; we fallaciously infer: (2) If it is appropriate to reward someone, then that person must be morally deserving. And from (2) together with: (3) It is appropriate to reward authors; we can infer: (4) Authors are morally deserving. Now someone may object that the move from (1) to (2) is not fallacious inasmuch as the very term "reward" connotes the idea of moral desert. But just try substituting for "reward" one of the earlier terms in the series--"benefit" or "incentive"--and the fallacy is once again transparent.”

Waldron thus stresses that economic rationales justify the grant of rights as incentives because society fares well by granting these rights; they do not pronounce on the individual entitlement of the right holder. The crucial point is that the conversion of a right justified by an economic rationale into an ethical entitlement bears the risk of overemphasising the rights and underemphasising limitations that must be respected according to economic theory.

In sum, I think that unjust enrichment, as an ethical principle, cannot deliver a rationale for an exclusive right. It does not provide normative criteria that explain the basis of the right nor does it provide any indication as to the appropriate scope. In searching to identify the normative character of unjust enrichment, some authors seem to

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185 Waldron 1993, p. 852. Waldron gives the example of the politician who is elected into the parliament of the capital. Society would want him to return to his electoral circuit regularly to keep in touch with his electorate. Knowing that the politician will not do this unless he is paid a first-class plane ticket, such a plane ticket is provided to him. Society has an interest in providing this ticket, but it would be absurd to argue that the politician deserved it.

186 An illustration of such a mix of ethical and economic rationales is the description of the rationale for trademark rights by, Advocate General Jacobs in the HAG II case, “Like patents, trade marks find their justification in a harmonious dovetailing between public and private interests. Whereas patents reward the creativity of the inventor and thus stimulate scientific progress, trade marks reward the manufacturer who consistently produces high-quality goods and they thus stimulate economic progress. Without trade mark protection there would be little incentive for manufacturers to develop new products or to maintain the quality of existing ones.” AG Jacobs 13 March 1990 Hag II, para. 18

187 This is not to say that unjust enrichment has no place in the law. Lawyers of all times have felt that enrichment is unjust in certain circumstances. Besides the obvious need for restitution in the case of a breach of contract or a breach of an existing legal norm, a residual category of enrichment cases may be rightly considered unfair if the enrichment is e.g. generally accepted principles of morals.
borrow criteria from utilitarian and economic reasoning.\textsuperscript{188} I argued that these criteria should not be moulded into ethical entitlements, but should rather be kept within their appropriate economic setting.

### 2.3.3.2 An Extended Version of Lockeian Labour Rationale

One of the most prominent ethical or fairness-based justifications for private property rights is the labour theory articulated by John Locke. His theory geared towards property rights in physical objects, which reduces its suitability as a rationale for trademark rights, but I will argue that it may still be applied to the protection of trademarks when used in a slightly extended form.\textsuperscript{189} One of the convincing features of Locke’s theory is that it is grounded in a larger framework of justice, which means that the theory not only explains the basis for a property right, but it also clearly specifies limits of ownership. As such, it shows that the entitlement of the property owner is limited by the entitlement of others to keep their freedom of action. In my opinion, this clear and inherent link between entitlement and limitation makes Locke’s theory preferable to a rationale based purely on the principle of unjust enrichment.

In Locke’s theory, every human in a state of nature owns himself and is owner over his capacity of labour. Everyone who mixes his labour with an object from the commons,\textsuperscript{190} deserves the fruits of that labour as his labour makes these goods from the commons enjoyable for human beings and therefore creates a surplus value. Consequently, the labourer deserves ownership over the fruits of his labour. A key condition is thus that the labour that gives rise to the property right must create a surplus. It must thus not be destructive, aimless, or negligible.\textsuperscript{191}

One argument against applying Lockeian labour theory to trademark rights is that the efforts that are protected by trademark rights (i.e. the efforts put in the underlying trade) regularly do not consist just of personal labour, but they also entail plain investment.\textsuperscript{192} This raises the question whether the bond between man, his labour and the object, which is a key element in the theory, is not broken to an extent that the theory would be inapplicable.\textsuperscript{193}

\textsuperscript{188} According to Pfeffer, enrichment is unjustified when it enables the user to compete if he otherwise could not compete in an economically responsible manner. Pfeffer 1938, p. 291. Kamperman Sanders argues that, “the need for coherence in the legal system requires that these rules of economic efficiency be translated in common ethical norms of business conduct.” Kamperman Sanders 1998, p. 233.

\textsuperscript{189} For instance, Schackert applies Locke’s theory to trademark rights. Schackert 2001, p. 333. This opinion may not be widely shared. Verkade for instance rejects the application of labour theory to patent rights, which are much more clearly the produce of labour than trademark rights. He sees patent right purely as an instrument to stimulate innovation, thus as founded upon purely utilitarian and economic considerations. Verkade 1987, p. 273.

\textsuperscript{190} The term “Commons” was originally designating common land.

\textsuperscript{191} Gordon 1993, p. 1547. In Gordon’s interpretation, labour should entail some purposeful effort or some “infusion of personality”.

\textsuperscript{192} In addition to the point raised here, it is worthwhile to note that Locke’s theory has been invoked in copyright discourse in order to justify the automatic grant of rights without the need to fulfill certain formalities (e.g. Imperial Court of Paris, 8 December 1853.). Trademark rights are of course registered rights, which means that they are not granted automatically but by a dedicated authority.

\textsuperscript{193} E.g. Scott et al. 2008. I think that personality theories of property rights, as the one articulated by Hegel (Hegel 1821, § 41; see above FN 165), are inapplicable for exactly this reason. These theories may justify the protection of certain types of works of authorship, which represent an extension of the personality of the
Locke justifies the grant of property rights through a string of logical deductions. Man owns himself thus he owns his capacity of labour. By extension, he is entitled to ownership over objects of the commons, which he has mixed with his labour. The theory does not address the question whether mere investment would be sufficient to create an entitlement as it is concerned with manual labour.

Despite this problem, I think that an extended form of Lockeian labour theory can still provide a rationale for trademark rights. The decisive point is that the rationale specifies a reason for protection (labour or investment) and it specifies the limits of protection.

That being said, Lockeian labour rationale will not provide a justification for the protection against confusion as it is not linked to the existence of labour or investment at all. The only condition for this protection is that trademarks are distinctive and that they are registered. The rationale may, however, be used to justify the protection of the goodwill and advertising function.

a. Protection of the Advertising Function

A lot of work and investment may be put into making a trademark a valuable symbol that represents to the consumer positive associations or feel-good. Trademarks, as advertising agents, play a very important role for many businesses, which can use the image, personality, or psychological power of trademarks in order to differentiate their products from those of others. Trademark rights that protect the goodwill and advertising function may be seen as a reward for this labour and investment.

In this context, Frank Schechter articulated the most prominent argument in favour of protecting the goodwill and advertising function of trademarks. He argued that the uniqueness of certain trademarks must be protected against dilution because:

“(i) … the value of the modern trademark lies in its selling power; (2) … this selling power depends for its psychological hold upon the public, not merely upon the merit of the goods upon which it is used, but equally upon its own uniqueness and singularity; (3) … such uniqueness or singularity is vitiated or impaired by its use upon either related or non-related goods; and (4) … the degree of its protection depends in turn upon the extent to which, through the efforts or ingenuity of its owner, it is actually unique and different from other marks.”

Schechter thus advocated an ethical based right to protect the uniqueness of trademarks against deterioration. In his view, right holders are the ones who have created that uniqueness and because they invested their time and money, they deserve protection against dilution.

\[\text{author. An author, who has put all his creativity and thus a part of his personality into e.g. a novel, may deserve a right that protects his personality interest. However, personality theories do not provide a rationale for trademark rights, since they protect value has been created through non-creative labour and ‘mere’ investment.}\]

\[\text{Schechter’s article has been quoted frequently in trademark literature. In the context of European trademark jurisprudence, Advocate General Jacobs referred to this theory in his Adidas v. Fitnessworld opinion. AG Jacobs 10 July 2003 Adidas v. Fitnessworld, para. 37. Equally, AG Sharpston 26 June 2008 Intel, para. 10.}\]

\[\text{Schechter 1927, p. 831.}\]
“the gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use upon non-competing goods.”\(^{196}\)

Schechter’s argument has been invoked by many proponents of the protection of trademarks against dilution, but I think that his argument has sometimes been misunderstood as meaning that a trademark’s advertising value should automatically equal protection. That, of course, would be a fallacious reasoning, as an empirical is does cannot automatically become a normative ought. Schechter made clear, however, that the advertising value to be protected needs to be the consequence of the labour or efforts of the right holder. For instance, he argued that laudatory signs or signs that already carry positive connotations would not qualify for protection. The advertising power of signs like ‘Lion’ or ‘Gold Medal’ cannot be attributed to a right holder alone. Rather, it is inherent in the word itself. Schechter, therefore, argued to deny protection to such trademarks. In sum, I believe that Schechter’s theory and the extended version of Lockean labour theory that I have proposed to be applied to trademarks are compatible with each other.

Seen from the perspective of these theories, trademark rights that protect the goodwill and advertising function can be justified if they apply only to famous trademarks or to trademarks that ‘have a reputation’. The right holder may be entitled to protection of the goodwill and advertising function of these trademarks to the extent that his labour and investment created that function.

Some meanings must however fall outside that entitlement, because they are not attributable to the right holder. I want to mention three types of such meanings.

First, descriptive and generic meanings of such signs would have to fall outside of the entitlement, because these are meanings that have been ‘created’ by the public and not the prospective right holder.

Second, as Schechter argued the fame of a trademark that utilises existing power of attraction of a sign like ‘Gold Medal’ or ‘Lion’ or the name of famous persons may be not clearly attributable to the potential right holder. I think the same must hold true for the already existing meanings of signs of high social, cultural, or political value, such as the names of historic persons.

Third, as I have argued in section 1.2.5, certain trademarks have become identifiers of group identity. It does seem to me however that the fact that a trademark is used as an identifier of group identity cannot be attributed to the right holder. Instead, I think that the group, who has ‘created’ the group identification meaning of the trademark, may be holder of the entitlement. Therefore, that ‘surplus value’ – if it can be referred to as value – should fall to the group.

b. Limitations

In Locke’s labour theory, the entitlement of the labourer is limited by a number of important conditions, which are even more important if Locke’s theory would be expanded in the manner that I have argued above.

The most important condition in regard of trademark rights is the condition that “enough and as good” must be left in the commons for others to use. This condition is

\(^{196}\) Ibid., p. 825.
referred to as the ‘Lockeian provisio’. The provisio is of an egalitarian nature because it seeks to secure an equal opportunity for all to acquire property.

In the case of trademark rights, others are at least two different types of users. First, these are other traders, who want to use the signs in trade in relation to their own goods or services. Trademark rights protecting the distinctive character and repute of trademarks against free-riding may impair the freedom of third parties, as they may prohibit them from ‘breaking through’ this distinctive character in order to promote their own goods or services. The distinctive character of a trademark may stand in the way of competition and a strong protection of the distinctive character may not leave enough and as goods room to communicate for third parties. A prohibition of harm to the distinctive character or repute may however be justified if the harm is defined properly and if prohibitions extend only to harm above a certain level. Such a prohibition is unlikely to take enough and as good from third parties.

Second, also persons who want to use trademarks publicly but not in any competitive or trade related manner, such as parodists, persons voicing criticism, or persons using trademarks in news and commentary must be left with enough and as good. In relation to this group, the provision means that trademark rights should not prohibit uses that, seen from the perspective of that group, would deprive them from opportunities to communicate. Lockeian labour rationale does not specify on the question what is enough and as good for such parties, as it deals with tangible property and not with communication. In my opinion, for an answer to the question of what is enough and as good one would have to turn to theories in the field of communications, such as the theories underlying freedom of expression.

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197 Locke 1689, paras. 27, 28 and 45.

198 Nozick’s developed further on the Lockeian provisio. In his interpretation, the provisio is only satisfied, if the situation of others is not worsened through the appropriation. He assumes that appropriation of property does necessarily produce inequalities, but he states that the situation of those already worse off, must not be worsened. In fact, Nozick’s version of the provisio is very similar to the economic principle of Pareto optimality mentioned above in section 2.3.2.1. That principle stated that intervention in free markets is only justified if it makes at least one person better off and no-one worse off. Nozick 1974, p. 175. As Claeys explains, the understanding during the Nineteenth Century in the United States was that (natural) property rights were limited in a comparable manner. Property rights were understood to, “secure to every owner an ‘equal share of freedom of action’ over her own property. On this understanding, every owner is entitled to some zone of non-interference in which to use her possessions industriously, productively, and consistent with the health, safety, property, and moral needs of her neighbors.” Claeys 2003, p. 1556. See also McKenna 2007, p. 1875.

199 An interesting parallel to this exception can be found in the Article 14 of the German Grundgesetz. Article 14.1 GG states “Property and the right of inheritance shall be guaranteed. Their content and limits shall be defined by the laws.” This right to property is generally accepted to rest at least in part on an ethical justification. Article 14.2 GG however makes this protection subject to the following condition, “Property entails obligations. Its use shall also serve the public good.” This is referred to as the “Sozialbindung” of the right to property. It is the recognition of the fact that property rights may lead to inequality and that they can therefore be constrained in the public interest. See Brünneck 1984; Bröcher, Hoffmann & Sabel 2005, p. 48. In contrast, the right to property contained in Article 1 of the First Additional Protocol to the ECHR and Article 17 of the Charter of Fundamental Rights of the European Union do not grant an entitlement to property, i.e. they do not state that property should be granted. They rather protect the holders of an already existing entitlement against various sorts of arbitrary interferences. VandeLanotte & Haeck 2005, deel 2, vol 2, p. 304.
2.3.3.3 Interim Conclusion

In sum, it emerges that the protection of trademark rights can only be justified to a small extent by ethical rationales. The principle of truth cannot provide a rationale, because it does not fit the structure of trademark rights; a principle of unjust enrichment lacks the normative criteria required by a rationale for property rights.

Lockean labour theory may be applied to trademark rights, be it in an extended form. It cannot be applied to the protection of the source identification function, i.e. the prohibition of confusion, because such a right is granted solely because a trademark is able to distinguish goods and services and is thus unrelated to labour or investment. An extended form of Lockean labour rationale may, however, justify the protection of the distinctive character and repute of trademarks if protection is made contingent upon the work or effort of the right holder. This is the case if only famous or well-known trademarks were protected. Rights covering previously existing meanings, i.e. meanings which cannot be attributed to the right holder (e.g. laudatory or culturally important meanings), could however not be justified. In this context, I concluded that Frank Schechter’s theory of the protection of the distinctive character of trademarks is compatible with an extended version of Lockean labour rationale.

In my opinion, the most important element in Locke’s theory is its specification of the limits of the entitlement. The right granted must leave enough and as good for others to use in the commons. This criterion secures both the needs of competitors as well as those of third parties that use trademarks outside of trade.

This means that trademark rights protecting the distinctive character and repute of trademarks against free-riding may not be justifiable if they overly impair the freedom of third parties, as they may prohibit them from ‘breaking through’ this distinctive character in order to promote their own goods and services.

A prohibition of harm to the distinctive character or repute may be justifiable if the harm is proven and defined properly and if prohibitions are enforceable only above a certain level of harm.

Finally, Lockean labour rationale does not specify on the question what is enough and as good for third parties that want to use trademarks in a non trade related manner such as in parody, criticism or comment, since it deals with right over tangible property and not with communication. I argued that, for an answer to the question of what is enough and as good, one would have to turn to theories in the field of communications, such as the theories underlying freedom of expression.

2.4 Trademark Rights in Light of the Rationales

In the previous section, I have discussed rationales for trademark rights and I have laid a link to differing trademark functions and differing types of protection. In this section, I will take a closer look at the definitions of trademark rights contained in the TMDir and the TMReg, by examining whether these rights can be justified by the rationales.

In section 2.4.1, I will address the grant and revocation of trademark rights, in section 2.4.2 identity protection and the protection against confusion, in section 2.4.3 the protection of distinctive character and repute, and in section 2.4.4 the limitations of trademark rights.
2.4.1 THE GRANT AND REVOCATION OF TRADEMARK RIGHTS

The definition of a trademark as "any sign capable […] capable of distinguishing the goods or services of one undertaking from those of other undertakings" makes clear that the capacity to distinguish is the key requirement of a protectable trademark. This is in line with economic rationales, which require that the trademark must be able to distinguish products and identify their source. This definition of trademarks also shows that no creative effort or investment is required for obtaining a trademark right; registration of a distinctive trademark is sufficient. The protection of trademark rights is therefore unrelated to ethical or fairness based theories such as Lockeian labour theory.

The economic benefits of the registration system provided for by the TMDir and TMReg are quite significant. Registers help to establish legal certainty, because they clarify who holds the right to a certain trademark. Thereby, they act as a signal to other traders that a certain trademark is occupied. In economic terms, trademark registers lower transaction costs and costs of policing. A trademark system without a register could produce significant costs for companies in choosing their trademarks, they might, without being aware of it, chose trademarks that are too close to other existing trademarks and they might therefore run the risk of confusing consumers and being sued for that. For reasons of efficiency, a register may thus be necessary.

However, there may be costs involved in the current registration system, as the registers are based on an attributive system allowing trademarks to be registered before a trademark has actually gained distinctive character for goods or services. This system enables traders to base their business model solely on the licensing of trademarks, e.g. merchandising businesses. Moreover, it allows entities, whose primary activity is not trade related, e.g. political parties, to obtain trademark rights.

Registration of trademarks before actual use in trade may be economically inefficient, especially if certain uniquely important identifiers are ‘blocked’ by registration and consequently cannot be used by third parties.

In my opinion, economic rationales would justify that trademark rights are granted only for trademarks that have proven their distinctive character because it is only then that social benefits do yet. Registration prior to that moment involves costs but no benefits. While the problem is mitigated by the fact that under both the TMDir and TMReg trademark rights are lost by non-use over a period of five consecutive years, I think that the justification for granting trademark rights under the attributive system is weak and that the lack of proper justification must be taken into account when trademark applications are assessed in light of the grounds for refusal.

2.4.1.1 Grounds for Refusal of Registration

Of the many grounds for refusal of registration, which limit the registration of trademarks and substantially aid in reducing the costs of exclusion for third parties, I will
discuss the grounds for refusal of non-distinctive character, descriptiveness and customariness, as they are the most relevant grounds for the later balancing with freedom of expression.

First, Articles 3.1.b TMDir and 7.1.b TMReg prohibit the registration of signs that are devoid of any distinctive character. They are in line with the economic rationales as only distinctive trademarks can help lower search costs or serve as an incentive to promote investment in the quality of goods covered by a trademark. The distinctive character of trademarks is assessed in the abstract, i.e. solely in relation to the goods mentioned on the application and before a sign is used in trade. I think that, it is, therefore, crucial that only clearly distinctive signs are registered. In this respect, it is problematic that the ECJ deems it sufficient that signs with only a \textit{minimal} distinctiveness can be registered.\footnote{ECJ 24 November 2004 Henkel, para. 42; T. Cohen Jehoram, Van Nispen & Huydecoper 2008, p. 175; see below section 4.2.4.} This leniency in the assessment of distinctiveness in favour of prospective right holders may not take sufficient account of the fact that trademark rights are only justified if trademarks are indeed distinctive, i.e. if they produce social benefits.

Second, the ground for refusal of descriptiveness is of key importance because the registration of descriptive signs could deprive other traders of essential means to describe and advertise their products and services. A sign that describes product characteristics provides information about a product to consumers, it lowers search-costs. According to economic theories, descriptive signs should thus remain free for all to use. This concern is reflected in the public interest underlying Article 3.1.c TMDir and Article 7.1.c TMReg, which requires \footnote{ECJ 4 May 1999 \textit{Windsurfing Chiemsee}, para. 25; ECJ 8 April 2003 \textit{Linde.}, para. 73. In the context of Art. 7.1.c TMReg, see ECJ 23 October 2003 (‘Doublemint’), para. 31.}

\textit{“that the signs and indications descriptive of the categories of goods or services for which registration is sought may be freely used by all.”}\footnote{ECJ 23 October 2003 (‘Doublemint’), para. 31.}

Economic efficiency is probably best served if the ground for refusal of descriptiveness is interpreted broadly.\footnote{Descriptiveness under Arts. 3.1.c TMDir and 7.1.c TMReg is however interpreted restrictively. E.g. CFI 12 June 2007 (‘LOKTHREAD’), para. 29, “Consequently, for a sign to fall within the scope of the prohibition in that provision, it must suggest a sufficiently direct and concrete link to the goods or services in question to enable the public concerned immediately, and without further thought, to perceive a description of the goods and services in question or of one of their characteristics.” See below section 4.2.2.1.} In my opinion, next to signs that directly describe goods or services, signs that are \textit{indirectly descriptive} should be kept available. By this, I mean not just those signs that describe directly ‘characteristics of the goods or services’ themselves but also those that describe circumstances surrounding the goods and services, such as the consumers of goods or that may be understood as exclamations of the users, e.g. the sign ‘New Born Baby’ for baby dolls,\footnote{AG Jacobs 19 February 2004 \textit{Zapf Creations} (‘NEW BORN BABY’).} ‘Kinder’ (trans. ‘children’) for chocolate or ‘Lief!’ (transl. ‘Sweet!’) for baby clothing.\footnote{BenCJ 19 January 1981 (‘Kinder’); Hof Den Haag 30 September 2008 (‘Lief!’).} Such signs play an important role in communication about the attributes of products and services. Therefore, it may not be economically efficient to grant trademark rights in these signs.

Signs that merely evoke a meaning, like ‘Roach Motel’ for insect traps\footnote{United States Court of Appeals, Second Circuit 13 December 1978 \textit{American Home} (‘Roach Motel’).} or ‘Genie’ for incense\footnote{United States Court of Appeals, Sixth Circuit 18 November 1982 \textit{Hindu Incense} (‘Genie’).} pose fewer problems since third are less dependent on using signs with
such newly invented meanings. However, since there is a fine line between evocative signs and indirectly descriptive signs, I think that in case of doubt a registering authority should decide not to register a trademark. Only once such a sign has proven its distinctiveness should it be registered.

In respect of the ground for refusal of customariness, identical arguments apply, as in respect of the ground for refusal of descriptiveness.

The three grounds for refusal mentioned above may be set aside if an applicant can prove that a sign has acquired distinctive character. From the perspective of economic rationales, it may be beneficial to register signs once they become distinctive. Care must be taken, however, in determining the distinctiveness and in ensuring that uniquely descriptive signs, like geographical names or customary signs, are not registrable too easily. In line with this consideration, the ECJ requires a high degree of distinctiveness if

“a geographical name is very well known[.] [I]t can acquire distinctive character under Article 3(3) of the Directive only if there has been long-standing and intensive use of the mark by the undertaking applying for registration.”

Furthermore, it is of importance that once an originally descriptive sign is registered, the right granted is limited to the newly developed distinctive meaning. A sign with acquired distinctiveness will normally keep its originally descriptive meaning. The sign “Have a break…” may have become distinctive for chocolate bars, but it still remains part of a sentence that is perfectly descriptive in normal language. In my opinion, it is crucial that, with the exception of other chocolate producers, third parties remain able to use such originally descriptive meaning without threat of legal action.

2.4.1.2 Revocation of Registration

According to the ECJ, the rationale for the loss of rights by revocation in a case that a trademark has become a common name in trade is that trademarks need to be able to perform their essential source identifying function. Signs that have become the common name in trade or generic are deemed to lose

“the capacity to perform the essential function of a trade mark, and in particular that of identifying the origin of the goods or services, thus enabling the consumer who acquired them to repeat the experience, if it proves to be positive, or to avoid it, if it proves to be negative, on the occasion of a subsequent acquisition.”

Trademark registrations are thus revoked in the interests of consumers. Likewise, the interest of competitors to use generic signs is apparent.

The focus of trademark law on the interests of market participants ensures that economic costs are lowered. In order to lower search costs, generic signs must be freely usable by all to indicate generic types of products or services. However, the narrow focus of European trademark law on the role that trademarks play in market communication may not take sufficient account of the fact that trademarks that have been intensely used may also become important for users outside of the market. Trademarks may come to stand for a particular idea or a phenomenon in society, such as the Coca-Cola and the

212 ECJ 4 May 1999 Windsurfing Chiemsee, para. 50.
213 ECJ 7 July 2005 Nestlé v. Mars ("Have a Break").
214 CFI 5 March 2003 Alcon ("BSS"), para. 48.
McDonald’s trademarks that to some signify “American imperialism” or cultural imperialism. It is of course the question whether the scope of trademark rights will extend to such uses of third parties. Under European law, such use may fall under Article 5.2 TMDir, protecting the distinctive character and repute of trademarks. In terms of the limitation contained in Locke’s labour theory, the use of a trademark to refer to such phenomenon should be allowed as in many cases only the exact or trademark is enough and as good and other terms may not appropriately describe the phenomenon.215

In my opinion, as long as that sign, e.g. Coca-Cola, remains distinctive it helps consumers to identify a product. Therefore, a revocation of the right may not be efficient. Still, the new meaning of the sign should be accessible for those who want to use it. This problem of keeping new meanings that have developed outside of market communication available must then be solved with an appropriate exception rather than with revocation.

One problem regarding Article 12.2 TMDir and 51.1.b TMReg remains. The wording “in consequence of acts or inactivity of the proprietor” forces right holders to take action against other traders, and also against those users who use want to refer to a new generic meaning of a sign in e.g. a publication. A person using the word ‘googling’ for Internet searches e.g. in a comment on a partly commercial web-log may well contribute to this trademark becoming generic. It may however not be fair or economically efficient that trademark law induces right holders to take action against such use.

2.4.2  **IDENTITY PROTECTION AND PROTECTION AGAINST CONFUSING USE**

Above, I indicated that the abstract right to protect confusing use of trademarks may be justified by economic rationales. Articles 5.1.a and b TMDir do, however, not entirely fit this type of right as the protection they grant may reach too far. On the one hand, Article 5.1.a TMDir prohibits third party use of identical signs in relation to identical goods or services. On the other hand, Article 5.1.b TMDir prohibits types of confusion, whereby consumers are arguable not confused.

**2.4.2.1  Identity Protection**

Article 5.1.a TMDir protects trademarks against use of identical signs on identical goods or services without proof of confusion or any other form of harm. Confusion may often be a given as the prohibition concerns mainly cases of trademark ‘piracy’, meaning that Article 5.1.a TMDir is to a large extent justified by economic rationales. However, in some respects the prohibition of Article 5.1.a TMDir may extend beyond cases of consumer confusion as the ECJ interprets the criterion of ‘use in relation to goods and services’ contained in Article 5.1.a TMDir broadly.

Normally, this criterion is interpreted in light of the essential function, meaning that protection is limited to cases of direct and indirect confusion. For instance, national courts may, when consumers do not recognise a trademark as an indication of origin, but rather as an ornamental feature (e.g. the automobile trademark on an exact toy replica)216 as a matter of fact, establish that the relevant public does not perceive the sign as an indication that those products come from the car manufacturer or an undertaking.

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215 Hughes 1988, p. 321, “With ideas that become extraordinary, society's increasing dependency on them creates a pressure to remove them from private control.”

216 ECJ 25 January 2007 *Adam Opel*. 
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Economically linked to it. In my opinion, this is in line with search cost and dynamic efficiency rationale.

However, the extension of protection in a manner to entail a prohibition of post-sale confusion, which was implicitly accepted in the ECJ’s Arsenal v. Reed decision, is probably not justifiable by economic rationales. The critical question is whether ‘post-sale confusion’ will indeed influence the later purchasing decisions of that audience in a manner to increase search costs or to decrease dynamic efficiency. If not, then post-sale confusion would be an instrument to secure a more absolute authority of the right holder over the trademark. By forestalling negative associations and securing many of the possible licensing costs, the prohibition of post-sale confusion would be an instrument to safeguard the goodwill and advertising function and investment in a manner that may reach further than search cost reduction and the provision of the necessary incentives. Consequently, a right of that scope would not be justifiable by economic rationales.

In addition, the ECJ has indicated that it will protection under Article 5.1.a TMDir also the other functions of trademarks, such as communication, investment or advertising. This scope of protection can probably not justified by any rationale as Article 5.1.a TMDir contains no threshold requirement of labour or investment that would be required under the extended version of Lockeian labour rationale. Moreover, Article 5.1.a TMDir does not contain any definition of harm or any requirement of proof thereof, which may mean that the scope of protection as proposed by the ECJ may overly impair third parties.

2.4.2.2 Protection against Confusion

Article 5.1.b TMDir entails a prohibition of direct and indirect confusion, i.e. confusion as to an economic affiliation, as well as post-sale confusion.

The reference to a likelihood of association in Article 5.1.b TMDir is no substitute for a likelihood of confusion, but merely supplements the likelihood of confusion analysis. It is in line with economic rationales as it is highly questionable whether a mere likelihood of association would affect consumers’ search costs. It certainly would...

218 ECJ 12 November 2002 Arsenal Football Club.
219 Lunney points out, that in post-sale confusion is in most cases invoked for prestige goods and that in a post-sale scenario, “price and other differences between the prestige good and the imitation almost invariably ensure that actual purchasers are not confused by the imitation’s similar appearance.” Lunney 1999, p. 405.
221 Benelux law before the implementation of the TMDir deemed it sufficient that a likelihood of association existed. Benelux courts after the implementation of the TMDir continued to rely on this criterion. However, the ECJ clarified in its Sabel v. Puma and Adidas v.Marca Mode I decisions that a likelihood of association is no separate prohibition under Article 5.1.b TMDir. ECJ 11 November 1997 Puma v. Sabel, “The criterion of ‘likelihood of confusion which includes the likelihood of association with the earlier mark’ contained in Article 4(1)(b) of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks is to be interpreted as meaning that the mere association which the public might make between two trade marks as a result of their analogous semantic content is not in itself a sufficient ground for concluding that there is a likelihood of confusion within the meaning of that provision.” ECI 22 June 2000 Adidas v. Marca I, “Article 5(1)(b) of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks cannot be interpreted as meaning...[that] the exclusive right enjoyed by the proprietor entitles him to prevent the use of the sign by that third party if the distinctive character of the mark is such that the possibility of such association giving rise to confusion cannot be ruled out.”
222 In this context, it is interesting that under US jurisprudence “calling to mind,” i.e. association, is considered no element in the confusion assessment. It is rather considered an essential factor in distinguishing between
extend the right significantly and would thus increase the costs of exclusion. In fact, association is as much a mental process in distinction as it is in confusion. The criterion of a likelihood of association is thus of no use in determining relevant harm to the distinction or source identification functions.

In the case of indirect confusion, it is hard to determine if third party use is increasing search costs or if merely the commercial aura of a trademark is affected. According to the ECJ, the rationale for the protection against indirect confusion lies in the definition of the essential function of trademarks on the internal market of the European Union. In order to fulfill this function a trademark “must offer a guarantee that all the goods or services bearing it have originated under the control of a single undertaking which is responsible for their quality.” Indirect confusion therefore extends the confusion analysis to a likelihood of confusion about the sphere of perceived responsibility for the production of a product.

In my opinion, the prohibition of indirect confusion may be justifiable by the search cost rationale, if it applies to cases of confusion about product qualities. For example, if a trader in replacement razor heads of inferior quality uses the Gillette logo on the packaging of the razor heads to indicate the destination of the goods, consumers may be confused about an economic affiliation of Gillette and the producer of the replacements. Consequently, they may wrongly believe that the product qualities of the original razor heads and the replacement heads are identical or similar.

However, such a prohibition may also be inefficient because it forces producers to obtain licences for goods that are similar and use similar or identical trademarks as soon as consumers may think that an economic link, authorisation, or endorsement exists, which is the more likely if an undertaking already possesses great economic power. Such an implicit preference for undertakings with economic power may impede competition as it may hinder smaller competitors or newcomers. Therefore, I think that such an extension of the notion of confusion must be counterbalanced by interpreting the existing limitations in such a manner that use of a trademark e.g. as a referential indication on replacement parts or in comparative advertising will not be impaired.

2.4.2.3 Level of Proof for the Protection against Confusion

Viewed from the perspective of the economic rationales, it is important that both in the case of indirect confusion and post-sale confusion the facts of a case are determined with sufficient accuracy and that sufficient proof is required, as it must be ascertained that a prohibited use indeed is armful. According to the ECJ, a likelihood of confusion must be positively assessed and requires proof. This does however not mean that the ECJ would...
encourage national courts to carry out extensive factual enquiries. On the contrary, the ECJ encourages national courts to rely on legal fictions, which decrease judicial costs, but may, in my opinion, negatively affect the accuracy of the analysis.\footnote{226}

In particular the fiction that the more distinctive a mark is, the more readily a likelihood of confusion will be present, may not be in line with economic reality.\footnote{227} It will depend on the type of goods and the type of trademark concerned. In the case of colour schemes on daily grocery products, e.g. the colour schemes of a peanut butter jar, a highly distinctive scheme that is replicated in a very similar manner may be highly confusing to the grocery shopping public. The grocery shopping public may be chronically in a hurry and will thus be less attentive to differences. Trademarks on expensive luxury items may however not be as easily confused with similar trademarks.

This difference in the level of attention of the public is, however, already taken account of in the assessment of the relevant public who consists of ‘average consumers’.\footnote{228} According to the ECJ, national courts must take into account that the level of attention of the average consumer of the consuming public varies according to the product or service concerned,\footnote{229} which, in my opinion, adequately takes account of particular purchasing situations. In contrast, the general rule that assumes a higher likelihood of confusion for more distinctive marks does not seem to be based on any economic necessity. It seems that this fiction may move the likelihood of confusion analysis towards the sphere of protection of the advertising function, which is not justifiable by economic rationales.

\subsection*{2.4.3 Protection of Distinctive Character and Repute}

The main protection of the goodwill and advertising function under the TMDir and TMReg comes from the right to prohibit use that interferes with the distinctive character and repute of trademark. This protection covers the network of positive associations attached to trademarks.

Under Article 5.2 TMDir ‘trademarks with a reputation’ are protected outside of competition against the use of trademarks and similar signs on similar and dissimilar goods and services. Right holders may prohibit others from (i) taking unfair advantage of the distinctive character or repute of their trademarks (or free-riding); (ii) from causing detriment to the distinctive character of the trademark (or blurring); and (iii) from causing detriment to the repute of the trademark (or tarnishment).

The fact that only ‘trademarks with a reputation’ are protected by this provision may indicate that this article provides protection that can be justified by Lockeian labour rationale. However, this depends on the definition of the criterion of ‘reputation’, which I thus will examine in more detail.

The protection against free-riding, blurring, and tarnishment is potentially far-reaching. If the definition of the prohibition is not precise, it may not leave enough and as good for others and it may conflict with the freedom of action and freedom of
competition of others. Therefore, it is in light of the rationales necessary to clearly define the object of protection, i.e. distinctive character and repute, as well as the nature of harm that needs to be prevented.

2.4.3.1 The definition of ‘Reputation’

According to the ECJ, it is the ‘reputation’ or level of knowledge of the public of a trademark, which justifies the enlarged protection under Article 5.2 TMDir. In the words of AG Jacobs:

“It is only where there is a sufficient degree of knowledge of the mark that the public, when confronted by the sign, may possibly make a connection between the two and that the mark may consequently be damaged.”

In order to qualify as a trademark with a reputation, the public’s level of knowledge of a trademark must be sufficiently high. In the Chevy case, the ECJ determined that “a trademark must be known by a significant part of the public concerned by the goods and services it covers.” That condition must be fulfilled in a significant part of a territory of one of the countries covered by the trademark right.

This may indicate that reputation is a sort of achievement for which the right holder is rewarded by the right granted under Article 5.2 TMDir. However, the threshold for reputation may sometimes be satisfied more easily than Lockeian labour rationale would require. According to the ECJ, the degree of reputation to be met cannot be defined by a general percentage of knowledge by the public. In determining this reputation, the ECJ relies almost exclusively on quantitative factors and not on qualitative factors. The quantitative factors are,

“in particular the market share held by the trade mark, the intensity, geographical extent and duration of its use, and the size of the investment made by the undertaking in promoting it.”

The relevant public may also be limited to a specialised public. This means that also marks that simply are known in a niche market do qualify for protection, which raises the question whether protection is not granted too readily.

In contrast to the jurisprudence of the ECJ, the Explanatory Memorandum to the German Markengesetz mentions that next to quantitative elements, courts may also consider qualitative elements in determining reputation. These qualitative criteria may consist of the personality of a trademark, its designs, or its distinctive character. These qualitative elements may be taken in consideration when a trademark enjoys only a low

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230 ECJ 14 September 1999 General Motors v. Yplon (‘Chevy’), para. 23 rephrased by AG Jacobs 10 July 2003 Adidas v. Fitnessworld, para. 43.
231 ECJ 14 September 1999 General Motors v. Yplon (‘Chevy’), para. 31.
232 Ibid., para. 25.
233 Ibid., para. 27.
234 CFI 5 March 2003 Alcon (‘BSS’), see also Hoge Raad 28 January 2005 NastaDutilh v. Lensen Advocaten I. According to that case, the reputation of a logo of a law firm had to be assessed in regard not only of company lawyers, but also clients.
235 ECJ 14 September 1999 General Motors v. Yplon (‘Chevy’), para 24.
degree of quantitative reputation.\textsuperscript{237} German doctrine links the justification of the heightened protection to the presence of these qualitative criteria, arguing that enlarged protection is justified because it protects trademarks that present themselves on markets as "personalities".\textsuperscript{238} Trademarks with a reputation have a heightened influence and a higher value. They represent a certain achievement of a company, which deserves to be protected.

In my opinion, definition of the ECJ and its reliance on quantitative criteria by the ECJ as well as the German definition of reputation do not capture with sufficient precision the labour of investment by the right holder and they do not exclude the protection of reputation that is gained through other factors (e.g. the fame of the sign itself).\textsuperscript{239} From the perspective of Lockeian labour theory, this is problematic as it is one of the critical questions whether the creation of the value can be clearly attributed to the prospective right holder.

Trademarks are signs that are used in the public realm and, as such, they are subject not just influenced by the right holder, but also by others, which means that the value encapsulated in a trademark may not (entirely) be the result of the ‘work’ or efforts of the right holder. It may also be the result of other factors.\textsuperscript{240}

In this respect, Schackert provides the example of the trademark ‘Monica Lewinsky’.\textsuperscript{241} Mrs Lewinsky, an intern in the White House under U.S. President Bill Clinton, gained a ‘reputation’ because she fell in love with the president and had sexual relations with him. This led to a media row and impeachment proceedings against the president. Mrs Lewinsky became instantly ‘famous’. The public’s knowledge about her was not so much fuelled by herself as by Kenneth Starr the public prosecutor and the U.S. and foreign media, as a result of which the name Monica Lewinsky became famous without much effort of Mrs. Lewinsky herself. In Germany, at the time of the scandal a number of ‘Monica Lewinsky’ trademarks had been registered. If a court had accepted that the trademark ‘Monica Lewinsky’ had become a trademark with a reputation, it would have been quite impossible to determine whether that reputation was caused by the right holder or by other influences such as the already existing fame of the name. The same problem arises with regard to trademarks that are made up of the names of famous (deceased) individuals like Da Vinci, Rembrandt, or Van Gogh, as well as with laudatory signs.

Since Article 5.2 TMDir does not clearly distinguish between reputation created by the right holders and reputation created by others (or through other factors), I think that the protection granted under Article 5.2 TMDir cannot be fully justified by Lockeian labour rationale.

\textsuperscript{237} Ibid., p. 828.
\textsuperscript{238} Fezer states that the protection would also serve the interests of consumers in the availability of trademarks as strong communicators. Ibid., p. 827. In my opinion, this argument of consumer benefit can be questioned, since it is not clear whether consumers derive additional benefits from the protection of the distinctiveness or repute of trademarks. In addition, consumers play almost no role what so ever in the determination of infringement under Article 5.2 TMDir. See above section 2.3.2.3.
\textsuperscript{239} According to Fezer, a sufficiently high level of recognition should be present, otherwise the distinction between the protection under Article 5.1 TMDir would not sufficiently differ from that granted under Article 5.2 TMDir. Ibid., p. 827.
\textsuperscript{240} Dreyfuss 1996, p. 140, “Once it is recognized that the power of symbols is not put there solely by their purveyors, there is less of a sense that purveyors somehow deserve all of the benefits that their images confer on society”; Schackert 2001, p. 338; Scott et al. 2008, p. 299; see also Hughes 1999.
\textsuperscript{241} Schackert 2001, p. 340.
2.4.3.2 Use In Relation to Goods and Services

Article 5.2 TMDir applies both to goods and services that are similar and to those that are not similar, i.e. it is not limited to a competitive relationship.\(^{242}\) It is not necessary that there is a likelihood of confusion about origin or about a commercial connection,\(^{243}\) but rather it is sufficient that the relevant public establishes a link between the trademark and the signs used by the third party.\(^{244}\) This link has been interpreted as

“a mental process above the threshold of consciousness, something more than a vague, ephemeral, indefinable feeling or subliminal influence.”\(^{245}\)

According to AG Jacobs, the justification for this interpretation lies in the fact that the trademarks at stake do have a reputation:

“[I]t is only where there is a sufficient degree of knowledge of the mark that the public, when confronted by the sign, may possibly make a connection between the two and that the mark may consequently be damaged.”\(^{246}\)

The extremely far-reaching interpretation of the criterion of ‘use in relation to goods and services’, as any use in relation to goods and services that creates a link or connection, seems to capture every use that engages the web of meanings connected to a trademark. It certainly applies to use on merchandise, referential use, most descriptive use, and comparative advertising. Furthermore, it is not limited to market communication, but may extend to many forms of social, cultural, or political use of trademarks, e.g. use in parody, satire, criticism, or art, provided that such is made in the course of trade and that it harms or takes unfair advantage of the distinctive character or reputation of a trademark.

In my opinion, a prohibition that extends to signs that create merely a ‘link’ or association, needs to entail appropriate definitions of harm, an adequate level of proof of harm and exceptions that ensure that the freedom of action of others is not impaired too drastically, i.e. that enough and as good is left to others.

2.4.3.3 Taking Unfair Advantage

As stated above, the prohibition of ‘taking advantage of the distinctive character or repute’ of a trademark with a reputation covers

“in particular, cases where, by reason of a transfer of the image of the mark or of the characteristics which it projects to the goods identified by the identical or similar sign, there is clear exploitation on the coat-tails of the mark with a reputation.”\(^{247}\)

It is remarkable that the ECJ, in this definition, does not distinguish between taking advantage of the distinctive character and taking advantage of the repute of a

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\(^{243}\) Section 2.2.3.3.; ECJ 22 June 2000 *Adidas v. Marca I*, para. 36; ECJ, 25 January 2007 *Adam Opel*.

\(^{244}\) ECJ 23 October 2003 *Adidas v. Fitnessworld*, para. 27.

\(^{245}\) AG Sharpston, 26 June 2008, *Intel*, para. 46.

\(^{246}\) AG Jacobs 10 July 2003 *Adidas v. Fitnessworld*, para. 49; taken from ECJ 14 September 1999 *General Motors v. Ypon* (‘Chevy’), para. 23, using the word ‘association’ in stead of ‘connection’.

trademark; it rather refers to both forms of taking advantage as free-riding or parasitism.

In my opinion, the very justification of the right to prohibit third parties to take advantage of a trademark rests upon the fact that the trademark right holder has built up a reputation and that third parties take unfair advantage of the particular distinctive character or repute of that trademark. If the particular type of advantage of the distinctive character or repute is not defined sufficient precision, there is a risk that the injustice or unfairness in taking advantage will not be defined properly either leading to protection that is overbroad.

In contrast to the ECJ, German doctrine and jurisprudence differentiates between taking advantage of the repute and taking advantage of distinctive character. As I will show, this differentiation is important.

The repute of a trademark is the positive image and the positive qualities indicated by a trademark. Thomasberger defines repute as all positive expectations that a consumer combines with a product and which induce him to purchase a product. In my opinion, these elements are likely to be the result of efforts of the trademark right holder, meaning that their protection may be justified by Lockeian labour rationale. In addition, the definition allows a court to assess, whether a third party has taken advantage of particular elements of the repute of a trademark, i.e. whether these elements have been transferred another sign. For instance, if a supermarket sells private label goods that imitate the shape, colouring and trademarks of the products of market leaders, a court van assess whether – in the absence of confusion - elements of the repute of the original trademarks have been exploited.

The distinctive character is defined with less precision as the,

'special distinctiveness and advertising power of a trademark, the position in competition, which would justify protection vis-à-vis other than identical and similar products and services.'

This definition has been understood as being equal to the level of attention given by consumers to a trademark, e.g. in German jurisprudence, where taking advantage of the

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248 Ag Jacobs 10 July 2003 Adidas v. Fitnessworld, para. 39; AG Sharpston 26 June 2008 Intel, para. 33.
249 Dutch doctrine does not as clearly distinguish between the two. Gielen defines repute as the advertising power, power of attraction, appeal, or incentive to purchase encompassed by a trademark, which may entail elements that under German doctrine belong to the distinctiveness. Gielen & Wichers Hoeth 1992, p. 511; see also T. Cohen Jehoram, Van Nispen & Huydecoper 2008, p. 351.
250 Thomasberger 1993, p. 164. "Unter einem „guten Ruf“ ist alles zu verstehen, was der Verbraucher an positiven Erwartungen mit dem entsprechend gekennzeichneten Produkt verbindet und was ihn bewegt, diese zu kaufen. Träger des guten Rufs, der sich auf sachliche und emotionelle Bewertung stützen kann, ist in erster Linie die Kennzeichnung des Produkts (die Marke)."
251 See below the discussion in section 5.4.2.1 on ‘imagetransfer’.
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distinctive character is referred to as “Aufmerksamkeitsausbeutung” (transl. ‘taking advantage of the attention’). 255

In my opinion, it is not justifiable under Lockeian labour rationale to protect the mere ‘level of attention’ against the taking of advantage. First, it is uncertain whether this level of attention is likely to be the result of the sole efforts of the right holder, or whether it involves alternate factors. Second, attention is something that lies in the physical realm of consumers and Lockeian labour rationale may not cover a claim to an exclusive right over such attention. 256 Third, there is only a certain, limited level of attention of consumers available on any market. A prohibition of the mere taking of advantage of such attention, without having to prove the taking of advantage of the specific elements of the repute of a trademark, does not ensure that enough and as good is left for third parties. In this context, it is interesting that Fezer, without referring to the rationales of trademark rights, states that only the taking of advantage of the repute can be actionable, while the taking of advantage of the distinctive character is inherent in competition and cannot be subject to a prohibition. 257 I entirely agree with this position.

Forth, and most importantly to this research, the prohibition of taking advantage of distinctive character takes no account whatsoever of the idiosyncratic nature of trademarks. To recall, idiosyncrasy means that a sign can simultaneously have multiple meanings, e.g. a commercial meaning and a cultural, social, or political meaning. The ‘level of attention’ will entail, both, elements of commercial attention and of cultural, societal, or political attention and these elements cannot be adequately separated from each other. 258 It seems unjustified that the latter sorts of attention are subject to an exclusive right. By their very definition, this attention has not been produced by the right holder but rather it represents the public responses to the right holder’s actions in social, cultural, or political realms.

Therefore, a prohibition of taking advantage of the distinctive character of a trademark cannot be justified by Lockeian labour rationale, whereas the prohibition of taking advantage of the repute may be justifiable. In line with this finding, I think that courts should strongly focus on the question whether, as the ECJ stated, advantage is taken “by reason of a transfer of the image of the mark or of the characteristics which it projects to the goods”. 259

255 Ibid., § 14 no. 173.
256 In this respect, an argument raised by Scott et al. is of interest. Scott et al. 2008. They argue that labour theory cannot be applied as a justification for the protection of the advertising function of trademarks, because the labour, which is invested by a right holder, differs from the product that is the object of protection. Locke’s theory of first occupancy states that if labour is mixed with a raw material from the commons the labourer deserves a right in the resulting object or surplus value. In the case of copyrights, that object of the commons may be abstract ideas that are part of the commons and not the concrete ideas in someone’s mind. The resulting object of protection of the trademark rights that protect the goodwill and advertising function is the propensity of consumers to respond in a certain manner to trademarks. The raw material would thus have to be the minds of consumers. The minds of people are however not something that is held in the commons. The point that Scott et al. hint at is that not only may Locke’s theory be inapplicable to the protection of the advertising function – as would it be to any other property right in a commercial image held by the public – but that consumers may even hold a better claim of property to their own propensity to respond in a certain manner. I do believe that the point raised by these authors is important.
257 Fezer 2001, § 14 no. 424; the contrary position is taken by Ströbele & Hacker 2006, § 14 no. 173.
258 E.g. BGH 3 February 2005 (Lila Postkarte).
259 ECJ 18 June 2009 l’Oréal et al. v. Bellure et. al., para. 41.
This image transfer is mostly present when advantage is taken of the repute but is absent when advantage is taken of the level of attention.

As regards the likelihood of harm, the text of Article 5.2 TMDir seems to require a right holder to prove actual harm or actual free-riding. It reads in part “where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.” AG Jacobs underlined in the Chevy case, that a finding of detriment or taking advantage requires a high likelihood of harm.

"It is to be noted in particular that Article 5(2), in contrast to Article 5(1)(b), does not refer to a mere risk or likelihood of its conditions being fulfilled. The wording is more positive: 'takes unfair advantage of, or is detrimental to (emphasis added). Moreover, the taking of unfair advantage or the suffering of detriment must be properly substantiated, that is to say, properly established to the satisfaction of the national court: the national court must be satisfied by evidence of actual detriment, or of unfair advantage."260

Also from the perspective of the rationales, the far-reaching nature of the protection granted by the prohibition of taking advantage implies a requirement of a higher certainty about harm than is the case under Article 5.1 TMDir. I agree with AG Jacobs, as leniency in this respect may extend the rights granted under Article 5.2 TMDir in manner that interferes unduly with the freedom of action of others, as such rights will not leave enough and as good for others.

The definition of unfairness under European law seems also quite imprecise. Considering the rationales for trademark rights, I think that unfairness must be seen as a threshold requirement that needs to be adequately defined.261 One clear position would be to relate unfairness to the loss of revenues or the misappropriation of value. In that case, an absence of loss may mean that the exploitation of a trademark would be fair. European law, however, does not seem to follow the line of thought that unfair advantage would mean the loss of an actual economic opportunity.262 Rather, the ECJ defined unfairness in its l’Oréal decision the in following terms,

"the use of a sign similar to a mark with a reputation, to ride on the coat-tails of that mark in order to benefit from its power of attraction, its reputation and its prestige, and to exploit, without paying any financial compensation and without being required to make efforts of his own in that regard, the marketing effort expended by the proprietor of that mark in order to create and maintain the image of that mark, the advantage resulting from such use must be considered to be an advantage that has been unfairly taken of the distinctive character or the repute of that mark."263

260 AG Jacobs 29 November 2006 General Motors v. Yplon (“Chevy”), para 43.
261 See section 2.3.3.1.
262 Ibid., para. 49. AG Sharpston states in her opinion in Intel v. CPM that “[i]f the later mark is to derive unfair advantage, the associations of the earlier mark must be such as to enhance the performance of the later mark in the use that is made of it.” AG Sharpston 26 June 2008 Intel, para. 66.
263 ECJ 18 June 2009 l’Oréal et al. v. Bellure et. al., para. 49.
I regard this definition as highly problematic. To my mind, the criteria of (1) no compensation, (2) no own effort, and (3) exploitation of the marketing efforts, do not in any substantiated manner define unfairness as a threshold requirement. Criteria (1) and (2) are a basic description of ‘taking advantage’, and criterion (3) (‘marketing efforts’) is solely the basis of either distinctive character or reputation. In fact, this description is void as it adds nothing to the definition of unfairness itself, but rather merely describes the process of taking advantage.

That being said, I think that the use in the l’Oréal case was unfair, but only due to the particular facts of the case, i.e. the sale of smell-alike perfumes, in which,

“the use of packaging and bottles similar to those of the fragrances that are being imitated is intended to take advantage, for promotional purposes, of the distinctive character and the repute of the marks under which those fragrances are marketed.”

Only in this context ‘whole-sale imitation’ can the use of the trademarks by the defendants be seen as unfair and I believe that the interpretation of the ECJ quoted above must be understood in this light. Otherwise, the criterion of unfairness became meaningless as a threshold requirement, implying that any taking of advantage would have to be considered as immediately unfair. Such a far-reaching prohibition would stifle competition and would impair third parties in an unjustified manner.

In sum, I think that, both, the lack of precise definition of the object of protection and that of the threshold requirement of unfairness mean that the protection against taking unfair advantage extends far beyond what could be justified by the rationales. If unjust enrichment rationale did provide a basis for this right, and I have argued above that it does not, then any protection should only be granted when the advantage taken was clearly unfair. Any other sort of advantage would be fair game because it would fall under the freedom of competition. Put differently, a company deserves nothing more with its investments in trademarks than a fair shot at fair but possibly harsh competition. Third party use would thus only have to be prohibited above a certain (clearly defined) threshold of unfairness.

If Lockeian labour theory were the basis of the prohibition of free-riding, the object of protection and the question of what precisely must be taken advantage of needed to be defined with more clarity. Under Lockeian labour rationale, it is the labour and investment entailed in creating the repute or distinctiveness, which would justify protection, and any protection must leave enough and as good for others.

In my opinion, the protection against taking unfair advantage in the TMDir and TMReg reaches further than the justification provided by the rationales. This fact (i.e. that protection may be granted without sufficient underlying justification) must be taken into account when weighing trademark rights against the rights and interests of third parties, such as their freedom of expression.

2.4.3.4 Blurring

According to the ECJ, blurring or detriment to the distinctive character, is caused

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“when that mark’s ability to identify the goods or services for which it is registered and used as coming from the proprietor of that mark is weakened, since use of the later mark leads to dispersion of the identity and hold upon the public mind of the earlier mark. That is notably the case when the earlier mark, which used to arouse immediate association with the goods and services for which it is registered, is no longer capable of doing so.”

Similar to the prohibition of free-riding, the protection of ‘immediate associations’ of a trademark with a product and its ‘hold upon the public’s mind’ may not be justifiable under Lockeian labour rationale, as these terms are not sufficiently precise. They do not exclude effects that are not attributable to the right holder.

The prohibition of blurring is not always applied broadly. German courts have required that a there must be proximity between the trademark and the sign or between the goods or services at stake. I think that this requirement may limit the protection to cases whereby the distinctive character of the trademark is clearly affected. In addition, where a sign is not arbitrary, but contains other connotations that a third party may (want to) use, the risk of blurring has been deemed small. If, for example, a sign is descriptive, like the sign Duplo or Allianz, it is much less likely that a third party using that sign would interfere with the particular distinctive character. Therefore, signs with descriptive content have rightly received little protection against blurring.

In my opinion, such a limited interpretation should also apply to trademarks that have gained a new social, cultural or political connotations. According to Lockeian labour theory, both, descriptive meanings as well as social, cultural or political meanings should not belong to the entitlement of a right holder. Take for instance the example of the trademark Barbie, which became highly distinctive through the marketing efforts of Mattel, Inc. Barbie has also come to symbolise cultural or social phenomena such as the ‘blond American bimbo,’ a connotation that is not attributable to Mattel but rather to society at large. The rationales of trademark rights do not seem justify the grant of a right to prohibit a third party from using such connotations, even if these connotations may interfere with the distinctive character of the trademark.


“The essence of dilution in this classic sense is that the blurring of the distinctiveness of the mark means that it is no longer capable of arousing immediate association with the goods for which it is registered and used.”


268 OLG Hamburg 18 September 2003 (Duplo); OLG München 25 November 1999 (‘Die Allianz’), The use of the signs Allianz (transl. alliance) was found not to be descriptive for a hip-hop band.

269 United States Court of Appeals, Ninth Circuit 24 July 2002 Mattel v. MCA, “Barbie has been labeled both the ideal American woman and a bimbo.”

270 In this respect, I do agree with Justin Hughes who argues that if trademarks come to represent extraordinary ideas “society’s increasing dependency on them creates a pressure to remove them from private control.” Hughes 1988, p. 322; see also Kozinski 1993, p. 975, “The point is that any doctrine that gives people property rights in words, symbols, and images that have worked their way into our popular culture must carefully consider the communicative functions those marks serve. The originator of a trademark or logo cannot simply assert, “It’s mine, I own it, and you have to pay for it any time you use it.” Words and images do not worm their way into our discourse by accident; they’re generally thrust there by well-orchestrated campaigns intended to burn them into our collective consciousness. Having embarked on that endeavor, the originator of the symbol necessarily—and justly—must give up some measure of control. The originator must understand that the mark or symbol or image is no longer entirely its own, and that in some sense it also belongs to all those other minds who have received and integrated it. This does not imply a total loss of
In light of Lockeian labour rationale, I do thus think that the prohibition of blurring is only justifiable if it does not cover descriptive meanings and if it is narrowed to cases of proximity between signs. In addition, sufficient proof should be required to verify the risk of detriment to the distinctive character. According to the ECJ,

“a first use of an identical or similar mark may suffice, in some circumstances, to cause actual and present detriment to the distinctive character of the earlier mark or to give rise to a serious likelihood that such detriment will occur in the future.”

But,

“evidence of a change in the economic behaviour of the average consumer of the goods or services for which the earlier mark was registered consequent on the use of the later mark, or a serious likelihood that such a change will occur in the future”

is required.271

There has been opposition to the requirement of proof a change in consumer behaviour from scholars and courts who deem it to strict.272 Indeed, it may be too much of a burden on the right holder to wait until the damage has been done. However, in order not to unduly infringe upon freedom of action of others, it is important to require that a serious likelihood of detriment is shown.273 This may help to limit prohibitions to cases, in which real commercial detriment may be likely.

Finally, also the prohibition of blurring needs to be limited under the criterion of unfairness and due cause, as certain trademark use by third parties that interferes with the ‘hold upon the public’s mind’ may be fully justifiable in economic competition. Comparative advertising and referential use are prime examples of such cases.

2.4.3.5 Tarnishment

Tarnishment under the TMDir and TMReg refers to the harm that is caused,

“when the goods or services for which the identical or similar sign is used by the third party may be perceived by the public in such a way that the trade mark’s power of attraction is reduced. The likelihood of such detriment may arise in particular from the fact that the goods or services offered by the third party possess a characteristic or a quality which is liable to have a negative impact on the image of the mark.”274

For instance, in the case of, prestigious [or] luxury goods,

“the reseller must not act unfairly in relation to the legitimate interests of the trade mark owner. He must therefore endeavour to prevent his advertising from affecting

control, however, only that the public's right to make use of the word or image must be considered in the balance as we decide what rights the owner is entitled to assert.”; Gordon 1992, p. 168, pointing out that “[c]ulture is interdependence, and requiring each act of deliberate dependency to render an accounting would destroy the synergy on which cultural life rests.”

271 ECJ 27 November 2008 Intel, para. 77.
272 Gielen 2009; Quaedvlieg 2009. OLG Köln 6 February 2009 (Deutschland sucht den Superstar).
273 In this respect, Ströbele and Hacker indicate that due to the lowered level of distinctiveness needed to qualify for protection, a stricter burden of proof should be required. Ströbele & Hacker 2006, § 14 no. 174.
the value of the trade mark by detracting from the allure and prestigious image of the goods in question and from their aura of luxury.\footnote{ECJ 4 November 1997 \textit{Dior v. Evora}, para. 45.}

The object of protection is the repute of a trademark, which is defined as ‘power of attraction’, the ‘allure and prestigious image of the goods’ or their ‘aura of luxury’. Detriment is caused if, by use of a trademark in relation to any similar or dissimilar good or service, a link or association in the minds of consumers is made and the power of attraction is affected or detracted from.

Equally to the definition of the subject matter of the prohibition of blurring, it is questionable whether the aura of luxury or power of attraction is solely attributable to the efforts of the right holder. As explained above in relation to the Monica Lewinsky example, the ‘power of attraction’ of a trademark may sometimes be attributable to causes that lie outside the influence of the right holder. Justifying the protection of all elements that belong to the power of attraction of a trademark may thus not be justifiable under Lockeian labour theory.

A further problem is that the prohibition of tarnishment may overly impair the freedom of action of third parties. For instance, even the most neutral form of comparative advertising between luxury goods and the goods of a newcomer can affect the ‘power of attraction’ or ‘aura of luxury’ of a product as it may create unwanted or negative associations. However, it may contravene the freedom of action and freedom of competition to prohibit such advertising. Only if the goods are not comparable or the goods of the third party are really of an inferior quality and the repute of the trademark is harmed by the perceptions of inferior quality, may a prohibition be justifiable.\footnote{E.g. BenCJ 1 March 1975 ‘Claeryn/Klarein’; ECJ 4 November 1997 \textit{Dior v. Evora}.} In my opinion, the definition of the object of protection as ‘power of attraction’ and ‘aura of luxury’ makes too little distinction between these two cases.

Yet, more problematic is the fact that the prohibition of tarnishment makes no clear cut distinction between trademark use in market communication and use in other types or domains of communication, like criticism, social use of use in art. Consequently, Article 5.2 TMDir allows right holders to prohibit third party uses that are at the heart of the protection afforded by other norms such as freedom of expression. I will return to this problem below in section 5.4.3.

\subsection{Article 5.5 TMDir}

Article 5.5 TMDir, as implemented in Article 2.20.1.d BVIE, is extremely far-reaching as it protects trademarks outside of trade and when they are used “other than for the purposes of distinguishing goods or services.” In my opinion, this protection cannot be reconciled with any of the rationales discussed above. Since it extends to other than source identifying use, even when it takes place outside of trade, it seems unrelated to any sort of economic or unfair competition related rationale.\footnote{Different T. Cohen Jehoram, Van Nispen & Huydecoper 2008, p. 366.} Nor can it be based on Lockeian labour rationale because it lacks any labour related threshold requirement (e.g. reputation) that would justify protection. From the perspective of the rationales, the protection granted by Article 5.5 TMDir is therefore not justifiable at all. Moreover,
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because of its far-reaching scope, Article 5.5 TMDir can limit the freedom of action of others quite severely.

Given that Article 5.5 TMDir reaches much further than any rationale would justify, I think that it is essential to take the lack of appropriate justification duly taken into account when weighing the interests of plaintiff and defendant. A strong focus should be laid on limiting the negative consequences on search cost reduction and on the freedom of third parties who use trademarks in a not purely commercial manner.

2.4.4 LIMITATIONS OF TRADEMARK RIGHTS

In line with economic rationales, the prohibitions of Article 5.1 TMDir, are limited by Article 6.1 TMDir, by allowing descriptive uses, referential uses on e.g. spare parts, thereby seeking,

“to reconcile the fundamental interests of trade mark protection with those of free movement of goods and freedom to provide services in the common market in such a way that trade mark rights are able to fulfil their essential role in the system of undistorted competition which the Treaty seeks to establish and maintain.”278

Furthermore, the European Directive on Misleading and Comparative Advertising279 allows for use of trademarks in comparative advertising.

Pursuant to Article 6.1.b TMDir, descriptive use of a trademark must be allowed because other traders will often need to refer to e.g. geographic place names or product characteristics:

“The trade mark shall not entitle the proprietor to prohibit a third party from using, in the course of trade […] (b) indications concerning the kind, quality, quantity, intended purpose, value, geographical origin, the time of production […] provided he uses them in accordance with honest practices in industrial or commercial matters.”

This limitation is related to the ground for refusal of descriptiveness discussed above.280 There, the rationale was that the descriptive meaning of a sign must be kept available for all to use, and that registration of these signs could create an unfair advantage to the competitors. Seen from the perspective of the rationales, this requirement of availability also exists after rights have been granted. Descriptive meanings of signs must be kept available to minimise negative economic effects and to make sure that free competition is not hampered. In addition, search costs can be reduced if 3rd parties are allowed to use signs to describe characteristic of goods and services. In this respect, the ECJ has accepted that the criterion of availability is part of Article 6.1.b TMDir.281

Similarly, referential use of trademarks on spare parts to indicate the destination of those parts and comparative advertising can reduces search costs significantly. Article 6.1.c TMDir, allowing for referential use, may however be too restrictive, as it allows

278 ECJ 23 February 1999 BMW, para. 62.
280 Section 2.4.1.2.
281 Compare ECJ 10 April 2008 Adidas v. Marca II, para. 45 and 46.
such use only if it is necessary. The Comparative Advertising Directive does not contain the requirement of necessity.

Article 6 TMDir allows third party use only where it is in line with the honest practices of trade, meaning that it can be prohibited if amongst others direct or indirect confusion can be shown. Similarly a comparative advertisement which causes confusion is not allowed. This means that there is no limitation to the prohibition of confusing use and that it is thus crucial to define the likelihood of confusion properly. Problems may arise if third party trademark use confuses some consumers, but provides crucial information to others. An example could be a comparative advertisement stating, “If you like product X, you will love product A.” Some consumers may rightly interpret the message to mean that the new product A comes from a different producer, but is very similar to product X. This advertisement thus allows them to use their experience in the selection of the new product A. Other consumers may think that product A has also been manufactured by the company that produced product X. Thus, they may be confused about a commercial relationship.

In such cases, it may be necessary to grant leniency to third party users. The requirement of necessity, and the requirement that the use must be in accordance with honest practices, may induce court to be more restrictive than justified from an economic viewpoint. In my opinion, it would be better, if court, as the CompAdvDir requires, take into account the interest of consumers in receiving information that helps them to take economic decisions.

In the discussion in section 2.4.3, I have shown that the scope of the prohibitions under Article 5.2 TMDir may only partly be justifiable by the rationales. However, the fact that the prohibitions are not justifiable does not render the rationales irrelevant. On the contrary, the rationales clearly establish that the freedom of action and freedom of competition of third parties needs to be respected by trademark rights. This requirement follows straight from one of the underlying concerns in the rationales of property rights, i.e. to achieve or to respect distributive justice. In light of this ultimate aim and in light of the fact that trademark rights cannot be justified properly, the need for appropriate limitations that protect the interests of third parties is even stronger.

Several overlapping limitations exist to Article 5.2 TMDir, i.e. the limitations of Article 6 TMDir and the criteria of unfairness and due cause. According to the BGH, the limitations of Article 6 TMDir take no independent role next to the criteria of unfairness and due cause, but rather must be imported into the assessment of those criteria. The same holds probably true for comparative advertising.

Article 5.2 TMDir entails the criterion ‘unfair’ as well as the criterion ‘due cause’. In the English as well as the Dutch version of Article 5.2 TMDir, ‘unfair’ is used solely in relation to unfair advantage. Interestingly, in the German version of Article 5.2 TMDir

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283 Compare Tushnet 2007, p.749.

284 Directive 2006/114/EC, Preamble paras. 14 and 15, “indispensable, in order to make comparative advertising effective, to identify the goods or services of a competitor, making reference to a trade mark or trade name of which the latter is the proprietor […] Such use of another's trade mark, trade name or other distinguishing marks does not breach this exclusive right in cases where it complies with the conditions laid down by this Directive, the intended target being solely to distinguish between them and thus to highlight differences objectively.” See also Kabel 2006.

285 BGH 17 June 1999 (‘Big Pack’).
the criterion of unfairness takes a more prominent role. It is refers to relation to both taking advantage and to use that is detrimental to the distinctive character and the repute. In the German version unfairness is thus a requirement that needs to be shown in relation to all forms of infringement.

The simultaneous existence of the criteria of unfairness and due cause raises the question whether these criteria would not duplicate the limitation of Article 5.2 TMDir. Obviously, it would be difficult to apply both criteria simultaneously. According to the German commentary by Ströbele and Hacker, unfairness is the criterion to be generally relied upon, whereas due cause plays a subsidiary role.286

In my opinion, the presence of the criterion of unfairness, especially in the German version of the directive, is an indication that Article 5.2 TMDir as a whole is closely related to unfair competition law, meaning that the Article should respect the conditions of unfair competition law, i.e. to maintain free but fair competition. This is important as there is a subtle but not unimportant difference between the criteria of unfairness and due cause. First, from a procedural perspective unfairness needs to be proven by the right holder whereas due cause must be demonstrated by the third party. Due cause is thus a more restrictive criterion. Second, due cause can be interpreted in an extremely limited manner such as to mean that only third party use that is absolutely necessary would be justified.287 Unfairness lies at the other end of the spectrum, requiring only that unfair conduct must be prohibited and all other use should be free.

AG Mengozzi in his opinion in the L’Oréal case proposed to solve the problematic relationship between the criteria of unfairness and due cause by making the criterion of unfairness redundant. According to him,

“the adjective ‘unfair’ comes into play only where due cause for the use of such a sign is relied on and demonstrated[,] […] [W]here it is not submitted or demonstrated that due cause has been shown for the use of that sign (and the simple fact that advantage is taken of the reputation of the mark clearly cannot constitute such due cause), the proprietor of the mark can prohibit such use where it enables the third party to take advantage of the reputation of the mark itself.”288

The ECJ, did not go as far in its l’Oréal decision, but as I described above,289 it failed to define the criterion of unfairness in a manner that could be used as a sufficiently high threshold.290

I think that in the present situation of expansive definitions of rights, missing criteria of harm, and a lack of justification, it is essential that the limitations provided by the criteria of unfairness and due cause are interpreted broadly so as to protect the freedom of action and freedom of competition of third parties. In fact, it may necessary that courts respect the subtle difference between unfairness and due cause and that they prohibit only use that is clearly unfair, thereby giving adequate weight to the interests of consumers and the interests of third parties who use trademarks in social, cultural or political discourse.

286 Ströbele & Hacker 2006, § 14, nr. 183.
287 Some courts have taken to this interpretation. See below section 5.5.1.
288 AG Mengozzi 10 February 2009 l’Oréal et al. v. Bellure et. al., paras. 106 and108.
289 See above section 2.4.3.3.
290 ECJ 18 June 2009 l’Oréal et al. v. Bellure et. al. See above section 2.4.3.3.
2.5 Conclusion

In this chapter, I analysed the rationales for trademark rights and I examined whether the rights harmonised under the TMDir and granted under the TMReg can be justified by these rationales. I departed from the premise that property rights, including trademark rights, are not self-explanatory; rather, they are in constant need of justification, because they place limitations on the freedom of action of others. In particular, I examined what, in view of the need for balancing trademark rights and the justified interests behind them with freedom of expression, the rationales that justify trademark rights are and whether ‘European trademark rights’, i.e. the national trademark rights harmonised by the European Trademark Directive (‘TMDir’) and the largely identical trademark rights contained in the European Trademark Regulation (‘TMReg’), are justified by these rationales.

I started out by analysing the main functions of trademarks, which are used in jurisprudence and literature to justify trademark rights and to interpret their scope, i.e. the source identification, product distinction, quality or guarantee, and the advertising or goodwill function. I argued that the functions themselves could not provide a justification, because the empirical fact that a trademark fulfils a certain function is not sufficient normative reason to justify the grant of an exclusive right that would protect that function. Rather, rationales must be used which justify the grant of rights and which provide indications as to their justifiable scope. I argued that adequate rationales can be found in economic theory, i.e. search cost theory and dynamic efficiency theory, and ethical or fairness based rationales, i.e. unfair competition related rationales and the Lockeian labour rationale.

Economic rationales have a utilitarian character, by justifying rights as tools that serve the aim of maximising the general good. This is usually expressed by a welfarist principle like the principle of Pareto optimality,\(^{291}\) according to which intervention in free markets is only justified, if it makes at least one person better off and no one worse off.

The search cost rationale explains that consumer confusion should be forestalled in order to reduce consumer’s costs in searching for products. This theory provides a rather secure efficiency rationale for the protection of product distinction, and quality or guarantee functions of trademarks. Such protection is achieved by a protection of trademarks against confusion.

The dynamic efficiency rationale indicates that the protection of the source identification function would be overall beneficial to society because it would induce trademark right holders to produce high quality goods. This protection can equally be realised through the protection of trademarks against confusing third party use.

The protection of the goodwill and advertising function seems not entirely justified by economic rationales. Most benefits of the protection of that function are already captured by the protection against confusion. The prohibition of blurring is justified if it is limited to cases of third party use that contribute to the harm with high certainty. I discussed arguments that there are a number of negative economic and non-economic effects that can be caused by perception advertising and concluded that trademark protection must

\(^{291}\) Pareto 1906.
not be crafted in such a way so as to encourage those forms of advertising through. This implies a certain measure of restraint in protecting the advertising function of trademarks.

Ethical and fairness based rationales focus on the entitlement of right holders. They explain that rights should be granted to right holders because they deserve the protection. Unfair competition related rationales connected to the principle of truthfulness, or the principle of unjust enrichment, do not provide an adequate justification of trademark rights. The *Lockean labour rationale*, in an extended form, may provide a justification for the protection of the goodwill and advertising function of famous or well-known trademarks. However, it does not cover an entitlement to the protection of meanings, which cannot be attributed to the right holder, i.e. descriptive meanings or social, cultural or political meanings.

In my opinion, the most important element in the Lockean labour rationale is its specification of the limits of the entitlement, i.e. that the right granted must leave enough and as good for others to use. When applied to trademarks, this condition protects, both, the needs of competitors as well as those of third parties that use trademarks outside of trade.

In section 2.4, I examined the provisions of the TMDir and TMReg in the light of the rationales for trademark rights. Section 2.4.1 on the grant and revocation of trademark rights showed that trademark rights are based on primarily economic considerations. One of the most important conclusions of that section was that trademark rights may not be fully justified by economic rationales, because they are granted before trademarks actually become distinctive in trade. I argued that this lack of justification needs to be taken into account by registering authorities and courts when assessing the grounds for refusal or revocation.

The grounds for refusal and revocation seem to take adequate account of the economic needs of third party traders, i.e. they establish an adequate economic balance. There is however a lack of consideration for the non-economic interests of third parties. The grant of trademark rights over signs of high cultural, social, or political value may need to be weighed against the public interest in keeping these signs free not just for other traders, but also for society at large. I argued that, freedom of expression, expressed in the form of a public interest concern, could help to bridge that gap between the market centred grounds for refusal and revocation and the wider social and political implications of granting trademark rights.

The scope of trademark rights as defined by Article 5.1 TMDir might stretch beyond what can justified by the rationales, as a number of criteria are interpreted broadly. Article 5.1 lacks a criterion that would link the entitlement to the labour invested; therefore, the extended version of the Lockean labour rationale does not apply and only economic rationales can be used to justify the protection.

Under Article 5.1.a TMDir not just confusing use may be actionable but also use that harms the goodwill and advertising function. This is highly problematic, as the provision contains no threshold of reputation and no definition of harm and there are far less limitations that apply. Under Article 5.1.b TMDir a likelihood of confusion may be interpreted too broadly to be in line with economic rationales, as third party use that falls
under concepts such as post-sale confusion is actionable. In addition, the assessment is influenced by legal fictions that favour the protection of distinctive trademarks.

Similarly, the protection granted under Article 5.2 TMDir cannot be fully justified by the extended version of Lockeian labour rationale. The criterion of reputation seems insufficiently precise to function as a threshold requirement, i.e. rights are also granted when the right holder has not himself created the goodwill or advertising value.

In addition, there seems to be a lack of clarity in the definitions of harm. The criteria of taking unfair advantage, detriment to the distinctive character and detriment to the repute are interpreted in an extremely far-reaching manner. The level of proof required for a showing of harm does not always seem sufficiently high and the criteria of unfairness and due cause, which are in principle fairly open, are interpreted narrowly. Article 5.2 TMDir may thus interfere with free competition of third parties in a manner that does not leave enough and as good for them to use. Moreover, Article 5.2 TMDir has the potential to interfere with freedom of expression, because it extends trademark rights far beyond the border of market communication.

The optional Article 5.5 TMDir, which has been implemented only in the Benelux Convention on Intellectual Property, cannot be justified by these rationales at all. This means that there is a particularly great need to interpret the limitations to that provision very broadly.

In the final part of the analysis, I turned to the limitations to Article 5 TMDir and found that they are interpreted too narrowly. A particular problem lies in the fact that the limitation allowing for referential use allows such use only in case of necessity. I argued that this restrictive application will lead to less than optimal search cost reduction and that an approach as found in the ComAdvDir, which instructs courts to take consumer interests into account when interpreting the criteria of the directive, should be followed. In relation to Article 5.2 TMDir, I pointed out that, since the protection stretches further than is justifiable under Lockeian labour rationale, the criteria of unfairness and due cause should be used to counterbalance the impairment of the interests of third parties.

Overall, it became apparent that most criteria of trademark rights are interpreted broadly, whereas the limitations are interpreted narrowly. Furthermore, the scope of national trademark rights harmonised by the TMDir and those rights granted under the TMReg does extend beyond the scope justified by the rationales. In light of the rationales, the interpretation of the rights may have to be reconsidered. A general reconsideration of trademark rights is however not the aim of this research. Rather, the aim is to provide an analysis of the conflict between trademark rights and freedom of expression. In light of that conflict, it is important to note that trademark rights may interfere with free competition, meaning that they might also conflict with freedom of commercial expression. Moreover, the analysis also showed that trademark rights may conflict with the core area of freedom of expression, i.e. social, political, and cultural expression, but that trademark law takes little account of this conflict.

From the perspective of trademark law’s own rationales, as well as from the perspective of freedom of expression, there exists thus a need to adequately balance trademark rights with freedom of expression. In this balancing process, the finding that trademark rights may not be fully justifiable by their own rationales must play an important role.