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**THE TREND TOWARDS ENHANCING
TRADEMARK OWNERS' RIGHTS—A
COMPARATIVE STUDY OF U.S. AND GERMAN
TRADEMARK LAW**

*Rudolf Rayle**

I. INTRODUCTION

Conventionally trademarks are said to serve primarily as source identifiers. They are the medium through which consumers identify a particular product with a specific source (*i.e.*, serve an identification or origin function). The origin function is therefore claimed to be the main function of trademarks and at first glance the definitions of trademarks in the Lanham Act as well as in the German Trademark Act, seem to confirm this traditional view.¹

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¹ Compare The Lanham Act of 1946 § 45, 15 U.S.C. § 1127 (1994) (The term "trademark" includes any word, name, symbol, or device, or any combination thereof—

(1) used by a person, or

(2) which a person has a bona fide intention to use in commerce and applies to register on the principal register established by this chapter, to identify and

The basic understanding in U.S. law is that protection of trademarks is justified only where marks serve the essential function of preventing customer confusion in the marketplace.² Thus, the source-identifying function gains special importance under U.S. law. Protection is afforded to the owner only concomitant with the protection of consumers and their need to distinguish products. Therefore, protection is limited to those cases where goodwill has been built up, *i.e.*, where marks serve the essential function of distinguishing one market player's products from another's.³ U.S. law, therefore, has been reluctant to confer rights and grant protection to potential trademark owners where it is not in accord with the traditional origin function of trademarks.

The developments over the last few decades, however, have somewhat put to question this traditional understanding. The Trademark Law Revision Act of 1988 (TLRA) and the Federal Trademark Dilution Act of 1995 (FTDA) illustrate the trademark law's struggle with making necessary adjustments, on the one hand, and accepting a deviation from the consumer confusion model, on the other hand. Two recent appellate level decisions by the Fourth Circuit and Second Circuit concerning the interpretation of the

distinguish the service of one person, including a unique service, from the services of others and to indicate the source of the services, even if that source is unknown.), *with Gesetz über den Schutz von Marken und sonstigen Kennzeichen, (Markengesetz) The German Trademark Act of 1995 § 3(1) v. 25.10.1994 (BGBl. I S.3082), as amended, translated in MARTIN AUFENANGER & GERALD BARTH, MARKENGESETZ/THE GERMAN TRADEMARK ACT (1996) [hereinafter German Trademark Act]*

(Any signs, in particular words including personal names, designs, letters, numerals, acoustical signs, three-dimensional configurations including the shape or packaging of a product as well as other get-ups including colours and compositions of colours, which are capable of distinguishing the goods or services of one undertaking from those of other undertakings can be protected as trade marks).

² *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 157, 9 U.S.P.Q.2d (BNA) 1847, 1854-55 (1989)

(The law of unfair competition has its roots in the common-law tort of deceit: its general concern is with protecting consumers from confusion as to source. While that concern may result in the creation of "quasi-property rights" in communicative symbols, the focus is on the protection of consumers, not the protection of producers as an incentive to product innovation);

see Lisa H. Johnston, *Drifting Toward Trademark Rights in Gross*, 85 TRADEMARK REP. 19, 20-21 (1995) (stating that the purchaser's misunderstanding ultimately results in higher costs to the purchaser and seller); J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, § 2:14 (1999) (stating that trademark infringement in the United States is based on the right of the buying public to be free of confusion).

³ MCCARTHY, *supra* note 2, § 2:15.

FTDA illustrate this struggle particularly well. Should a “likelihood of dilution” suffice to trigger the FTDA,⁴ thus enhancing the federal trademark protection scheme dramatically, or does such an interpretation run afoul of the traditional understanding that trademark owners have only a very limited right and nothing close to a property right in gross?⁵

Notwithstanding these concurrent discussions, U.S. trademark law shows a clear trend towards enhancing trademark owners’ rights in deviation from the traditional purposes for trademark protection. This trend complies with the more radical development of German trademark law.

German trademark law today expresses an understanding of the functions of trademarks which deviates from the traditional understanding. The German Trademark Act of 1995⁶ brought considerable changes to German trademark and competition law. While some of these changes were required by the European Union Directive to Approximate the Laws of the Member States Relating to Trademarks,⁷ others go beyond the Directive. The changes reflect decade-long developments in German trademark doctrine.⁸ This modern protection scheme has led German scholars to classify trademarks as “entrepreneurial instruments” which deserve protection merely because they enhance enterprises’ options when doing business.⁹ The German

⁴ *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 223-25, 51 U.S.P.Q.2d (BNA) 1882, 1893-94 (2nd Cir. 1999) (disagreeing with the Fourth Circuit’s interpretation of the FTDA in *Ringling Bros.* According to the Second Circuit requiring “actual dilution” instead of mere “likelihood” is based “on excessive literalism”); see *infra* note 5 (discussing the holdings of *Ringling Bros.* and *Nabisco*).

⁵ Compare *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev.*, 170 F.3d 449, 454, 459 50 U.S.P.Q.2d (BNA) 1065, 1068, 1073 (4th Cir. 1999) (holding that proof of “actual dilution” is required to establish a dilution claim under the FTDA as opposed to mere “likelihood of dilution, referred to as “mental association.” The court vigorously rejected the idea that trademarks are property rights in gross), with *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 223-25. For a discussion of the FTDA, see *infra* § III.C.

⁶ German Trademark Act, *supra* note 1.

⁷ First Council Directive 89/104 of 21 December 1988 to Approximate the Laws of the Member States Relating to Trademarks, 1989 O.J. (L 40) 1 [hereinafter Council Directive] (addressing certain, but not all, aspects of trademark law. It contains compulsory provisions, e.g., those regarding mark protection through registration and rules about those signs which are protectable, and also optional provisions, e.g., those regarding the separability of mark and business establishment).

⁸ See Winfried Tilmann, *Das Neue Markenrecht und die Herkunftsfunktion*, 158 ZEITSCHRIFT FUER DAS GESAMTE HANDELSRECHT UND WIRTSCHAFTSRECHT [ZHR] 371, 381-82 (discussing how the German Trademark Statute that implemented the EU Directive marked the end of an evolution within German Trademark law).

⁹ KARL-HEINZ FEZER, *MARKENRECHT: KOMMENTAR ZUM MARKENGESETZ*, Einl. MarkenG cmt. no. 28 (1999) (“*Schutz einer Unternehmerischen Leistung*”); REINHARD INGERS & CHRISTIAN ROHNKE, *MARKENGESETZ: GESETZ ÜBER DEN SCHUTZ VON MARKEN UND SONSTIGEN KENNZEICHEN*, Einl.

Trademark Act considerably enhances trademark owners' rights in compliance with this modern understanding.

It therefore seems beneficial, to have a closer look at the German law and to emphasize those traits of, and alterations to, German trademark law that call into question the traditional view of trademarks as source identifiers. These traits emphasize the function of trademarks as rights that exist in the interest of the entrepreneur who exploits them.¹⁰ A comparison of the respective rules and their application will make it obvious that U.S. law shows characteristics and developments, which reveal a understanding similar to the one expressed by the German law.¹¹

One of these traits is the accrual of exclusive rights through registration. Following a short review of generally accepted trademark functions in the first part, this article next illustrates that although the respective laws are based on different philosophical underpinnings, the accrual systems in each country do not deviate as dramatically from each other as one might assume. This second section also demonstrates safeguards that are part of the German system and a reaction to justified concerns associated with a mere registration system.

In a third section, the article discusses the separate identity of the mark from the underlying business and, subsequently, the free transferability of marks. Whereas the German law quite openly stipulates such a system of separate identities, U.S. law still rejects this notion. This section also takes a closer look at the degree of adherence to the U.S. traditional view. The comparison will once again lead to the conclusion that the laws' differences as a practical matter, are not as drastic as they appear in theory.

cmt. no. 35 (1998) ("*Instrument des unternehmerischen Handelns*").

¹⁰ The German Trademark Act of 1995 also considerably widened the scope of protectable signs; under the old law only words, pictorial signs and combinations of words and pictorial signs were registrable. The new law allows the registration of all signs that are capable of distinguishing the goods or services of one undertaking from those of other undertakings. See definition of marks in German Trademark Act, *supra* note 1.

¹¹ Although other comparative studies have examined certain aspects of the respective trademark laws, as far as I can see, my approach has not been taken before. See Ludwig Kouker, *Is the Purpose of the Trademark Law Limited only to Protecting Purchasers?—Analysis Under United States and German Trademark Law*, 87 TRADEMARK REP. 151 (1997) (Kouker's discussion is limited to the aspect of post-sale confusion and its implications for the advertising function of trademarks); ROLF ARNADE, *MARKENFÄHIGKEIT VON ZEICHEN NACH DEUTSCHEM UND U.S. AMERIKANISCHEM RECHT* (1991) (Arnade's dissertation compares the protectability of marks in the U.S. and in Germany under the old German trademark law).

Finally, this article examines the scope of protection afforded under the respective laws. The European Union (EU) Directive and the German Trademark Act of 1995 considerably enhance the scope of protection under German law. The exact scope of protection, *i.e.*, the “likelihood of confusion” issue, has not yet been resolved completely under European and German law, but recent European Court of Justice (ECJ) decisions have taken further steps to resolve this issue.¹²

This section begins with the assumption that protection should be more readily available under a system that de-emphasizes the origin function. This article concludes that the laws’ protection schemes—partly due to the idiosyncrasies of European law—do not differ as greatly as assumed. From an U.S. perspective the dilution concept deserves special attention in this context. Notwithstanding a current tendency of some courts to apply a strict standard under the FTDA, U.S. law accepts a notion similar to the one endorsed by German law.

The overall analysis in this article shows that although German and U.S. trademark laws are based on different conceptual understandings, both laws show a similar tendency to emphasize the rights of the respective trademark owners. The German law openly enhances trademark owners’ rights, while U.S. law does so only as a matter of fact.

II. TRADEMARK FUNCTIONS

One cannot deny that the origin function is an inherent characteristic of marks and has always been an important criterion for the determination of the protectability of a mark. However, over time, marks have undergone tremendous changes with regard to the purposes they serve.¹³ As the function and purposes of marks developed, the laws affording protection to these marks adjusted to the new needs.¹⁴

¹² See Case C-251/95, *Sabel BV v. Puma AG & Rudolf Dassler Sport*, 1997 E.C.R. I-6191, [1998] 1 C.M.L.R. 445 (1998) (discussing “likelihood of association” within the meaning of Council Directive, Art. 4(1)(b)); Case C-39/97, *Canon Kabushiki Kaisha v. Metro-Goldwyn-Mayer Inc.*, 1998 E.C.R. I-9507, [1999] 1 C.M.L.R. 77 (1999) (saying that likelihood of confusion must take into account the distinctive character of a mark and discussing whether there can be a likelihood of confusion where the public perception is that the goods have different places of origin).

¹³ See C.D.G. PICKERING, *TRADE MARKS IN THEORY AND PRACTICE* 40 (1998) (noting that in early cases, trademark protection was sought solely for the use of one’s name).

¹⁴ *Id.*

In the times of the Roman Empire, trademarks served mainly as proprietary marks in cases of shipwreck and piracy, and as a device for assisting the illiterate.¹⁵ In the Middle Ages, the use of a trademark was required by the strict order of the craft guilds.¹⁶ During these times, the personal mark identifying an individual, served as a control and liability function concerning the quality of the respective good.¹⁷ On the other hand, production marks identifying the guilds served as instruments to preserve the guilds' monopoly power.¹⁸ With the mass production brought by the Industrial Revolution at the turn of the century, marks became more of a link between the producer and consumer. They enabled manufacturers to build up goodwill.¹⁹ Marks became business assets and today are maybe the most valuable asset on a company's balance sheet.²⁰

Today, generally accepted trademark functions in the U.S. as well as Germany are the origin function, the quality or guarantee function, and the advertising function.²¹ The following overview describes the meanings and implications of these functions as represented by the different laws. It should

¹⁵ *Id.* at 37.

¹⁶ Benjamin G. Paster, Note, *Trademarks—Their Early History*, 59 TRADEMARK REP. 551, 556 (1969); FRANK I. SCHECHTER, *THE HISTORICAL FOUNDATIONS OF THE LAW RELATING TO TRADE-MARKS* 38 (1925).

¹⁷ See Sidney A. Diamond, *The Historical Development of Trademarks*, 73 TRADEMARK REP. 222, 229 (1983) (describing personal marks such as coats of arms); SCHECHTER, *supra* note 16, at x ("Like the finger prints taken today by the police, they established a liability rather than a right").

¹⁸ SCHECHTER, *supra* note 16, at 41-63; Frank I. Schechter, *The Rational of Basis of Trademark Protection*, 40 HARV. L. REV. 813, 814 (1927), reprinted in 60 TRADEMARK REP., 334, 335, 338 (1970); PICKERING, *supra* note 13, at 37-39.

¹⁹ SCHECHTER, *supra* note 16, at 101-45; Schechter, *supra* note 18, at 335-38; PICKERING, *supra* note 13, at 38-39.

²⁰ Thomas D. Drescher, *Article and Report: The Transformation and Evolution of Trademarks—From Signals to Symbols of Myth*, 82 TRADEMARK REP. 301, 301-03 (1992). The London based consulting firm, Interbrand, issued its assessment of the world's most valuable marks just recently: Coca-Cola takes the lead with \$84 billion (U.S. dollars), followed by Microsoft and IBM with \$57 billion (U.S. dollars), and \$44 billion (U.S. dollars), respectively. See Gary Finn, *Price is Placed on World's Top Brands*, INDEPENDENT (London), June 23, 1999, at 12 (noting that the Coca-Cola trademark is worth over sixty percent of the value of the company); Richard Tomkins, *What a Good Name Adds Up To*, FIN. TIMES, June 22, 1999, at 15 (discussing the Interbrand assessment); *Coca-Cola bleibt die wertvollste Marke der Welt*, FRANKFURTER ALLGEMEINE ZEITUNG, June 30, 1999, at 25 (discussing the Interbrand assessment); see also Alex Batchelor, *Brands as Financial Assets*, in BRANDS, THE NEW WEALTH CREATORS, 95, 95-103 (Susannah Hart & John Murphy eds., 1998) (describing the value of brands in today's market); Gregory W. Hotaling, *Ideal Standard v. IHT: In The European Union, Must a Company Surrender its National Trademark Rights When it Assigns its Trademark?*, 19 FORDHAM INT'L L.J. 1178, 1196 n.72 (1996) (noting, as an example, that Marlboro's trademark is valued at \$40 billion (U.S. dollars)).

²¹ MCCARTHY, *supra* note 2, §§ 3:4, 3:10, 3:12; Friedrich-Karl Beier, *Die Funktionen der Marke*, in MARKENRECHTLICHE ABHANDLUNGEN, 225, 227 (1986).

help us appreciate the different understanding as expressed by the German law.

A. ORIGIN OR IDENTIFICATION FUNCTION

The source identifying function as expressed in the Lanham Act and the German Trademark Act does not imply that the purchaser must know the identity of the actual producer. "Likelihood of confusion" as a basis for trademark infringement does not require knowledge of the specific company. The association of a product with a single, albeit anonymous source will suffice to indicate the origin of a product.²² Under German law, the source identifying function was frequently subject to attack. The main criticism was that the laws permitting collective marks,²³ marks used by a group of companies belonging to a conglomerate,²⁴ and licensing of marks made the source identifying function appear as little more than verbiage.²⁵ The modern understanding, therefore, is that marks functioning as source identifiers do not necessarily indicate a single source, but in some cases may indicate a group of related sources.²⁶

²² *Shredded Wheat Co. v. Humphrey Cornell Co.*, 250 F. 960, 963 (2nd Cir. 1918) (opinion by Judge Learned Hand); Robert N. Klieger, *Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection*, 58 U. PITT. L. REV. 789, 800 (1997); MCCARTHY, *supra* note 2, § 3:9; Beier, *supra* note 21, at 229.

²³ FEZER, *supra* note 9, § 3 cmt. no. 18; see also Lanham Act § 45, 15 U.S.C. § 1127 (1994) ("The term 'collective mark' means a trademark or service mark - (1) used by the members or a cooperative, an association, or other collective group or organization").

²⁴ FEZER, *supra* note 9, § 3 cmt. nos. 34-35; see also Convention for the Protection of Industrial Property, as revised by Stockholm on 14 July 1967, Art. 5(c)(3) [hereinafter Convention] (stating "concurrent use of the same mark by industrial or commercial establishments considered as co-proprietors of the mark according to the provisions of the domestic law").

²⁵ Beier, *supra* note 21, at 230; see MCCARTHY, *supra* note 2, § 3:9 (stating that courts recognize that consumer differentiation through the use of trademarks is not a precise process).

²⁶ Beier, *supra* note 21, at 230; FEZER, *supra* note 9, Einl. MarkenG cmt. no. 39; Heijo E. Ruijsenaars, *Merchandising von Sportemblemen und Universitätslogos - Ein markenrechtliches Lösungsmodell für Europa?*, 1998 GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT, INTERNATIONALER TEIL [GRUR INT.] 110, 113 (stating that the consumer does not need to identify the mark with a specific producer); MCCARTHY, *supra* note 2, § 3:10 (discussing the quality function of trademarks, which stands alongside the source function).

B. QUALITY OR GUARANTEE FUNCTION

The guarantee function under German law does not imply an enforceable quality standard for consumers. More accurately one should characterize it as a quality function that gives consumers the factual assurance that a product from a certain source will preserve a consistent quality.²⁷ This reveals that the quality function is closely related to the source identifying function which has led German courts to categorize this function as part of the origin function.²⁸ A similar understanding is attributed to the quality function in U.S. law.²⁹ The function's greatest implication is the right of the franchiser or licensor to control the quality of his franchisees or licensees.³⁰ At the same time it serves as a justification for licensing agreements under U.S. trademark law.³¹

C. ADVERTISING FUNCTION

The advertising function indicates that the trademark is a valuable means of advertising and building up brand loyalty.³² Traditionally the advertising function under German trademark doctrine was one of the *de facto* functions for trademarks. Legal protection, however, was afforded only through the Law Against Unfair Trade Practices.³³ The 1995 German Trade Mark Act

²⁷ Beier, *supra* note 21, at 233. In the case of appellations of geographical origins, products using these designations are obliged to meet the pertinent quality standard. See German Trademark Act, *supra* note 1, at § 127 (2); INGERL & ROHNKE, *supra* note 9, Einl. cmt. no. 34 (pointing out that this provision of the German Trademark Act is only applicable in the specific case of designations of geographical origin).

²⁸ Beier, *supra* note 21, at 233 n.21 (Die Qualitätsfunktion der Marke ist also - so die Rechtsprechung des Reichsgerichts und des Bundesgerichtshofs - keine selbständige Funktion der Marke, sondern aus ihrer Herkunftsfunktion abgeleitet). Beier cites Cizano, BGHZ 60, 185 (194) (the Court denied the plaintiff's claim for an injunction on the ground that the defendant did not infringe upon the origin function of trademarks and denied the plaintiff's claim based on the guarantee function because it did not have independent significance in this context).

²⁹ See generally MCCARTHY, *supra* note 2, § 3:10 (discussing the quality function of a U.S. trademark).

³⁰ See *id.* (noting that a licensed mark indicates a unified source of quality control).

³¹ See *id.* at § 3:11 (stating that "it is clear that trademark law permits the licensing of a mark under any circumstances where the licensee or exercises quality control over the goods and services").

³² See MCCARTHY, *supra* note 2, § 3:12 (discussing the advertising function of trademarks); FEZER, *supra* note 9, Einl. MarkenG cmt. no. 33. For example, Rolex spends more than \$15 million (U.S. dollars) a year to promote Rolex watches. *Rolex Watch, U.S.A., Inc. v. Michel Co.*, 179 F.3d 704, 705, 50 U.S.P.Q.2d (BNA) 1939, 1941 (9th Cir. 1999).

³³ Gesetz gegen den unlauteren Wettbewerb [UWG] v. 7.6.1909 (RGBl. S.499), as amended.

integrates the relevant parts of this law, thus the German Trade Mark Act³⁴ protects trademark proprietors against what is comparable to the concept of dilution under U.S. law.³⁵ U.S. law openly reflects the importance of a mark's advertising value or selling power.³⁶ The rationale for dilution protection under U.S. trademark doctrine, accordingly, is based on the need to protect the value of a mark as an advertising device.³⁷

D. THE BROADER GERMAN CONCEPT

A 1979 German Federal Constitutional Court³⁸ decision demonstrated that German trademark law protects more than the aforementioned. While the decision recited the traditional functions of trademarks under German law,³⁹ the Court held, further, that trademark rights—as protected under the, then effective, Trademark Act—were rights protected as property under the

³⁴ [A]ny sign 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 protected, where the trade mark has a reputation in the Federal Republic of Germany 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 which has a reputation."

German Trademark Act, *supra* note 1, § 14(2) no. 3; INGERL & ROHNKE, *supra* note 9, § 2 cmt. no. 1 (discussing the relationship between the old and new German trademark law).

³⁵ See *infra* § III.C. for a broader discussion of the dilution concept.

³⁶ *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 205, 53 U.S.P.Q. (BNA) 323, 324-25 (1942) (Justice Frankfurter stated that "The protection of trade-marks is the law's recognition of the psychological function of symbols. A trade-mark is a merchandising short-cut which induces a purchaser to select what he wants, or what he has been led to believe he wants."). See generally MCCARTHY, *supra* note 2, § 3:12 (noting that trademarks help to sell the advertised goods).

³⁷ See generally Julie Arthur Garcia, *Trademark Dilution: Eliminating Confusion*, 85 TRADEMARK REP. 489, 489-91 (1995) (discussing how state law and common law have filled the gap to provide protection of trademarks even in the absence of customer confusion); Klieger, *supra* note 22, at 804-07 (describing Schechter's rejection of the consumer protection model in favor of the trademark dilution model).

³⁸ The Federal Constitutional Court, *Bundesverfassungsgericht* [BVerfG], is distinguished from the German Supreme Court *Bundesgerichtshof* [BGH]. The Constitutional Court is the exclusive authority on constitutional questions concerning the validity of statutes and other government actions with respect to civil rights including the protection of the right of ownership. The Supreme Court is the final authority in the regular course of legal proceedings and is not entitled to invalidate statutes. In case of doubt, the Supreme Court refers the question of constitutionality of a pertinent statute to the Constitutional Court.

³⁹ *Entscheidungen des Bundesverfassungsgerichts* [BVerfGE] 51, 193 (216) (1979) (listing traditional functions of trademarks); see also BVerfGE 95, 173 (188) (1997) (reiterating previous listings of trademark functions).

Constitution.⁴⁰ The Court emphasized the importance of trademarks as devices to facilitate enterprises in a competitive market.⁴¹ Additionally, it noted that marks do not merely denominate the source of a product, but are an “expression of an entrepreneur’s achievement motivation.”⁴² A later decision confirmed this notion once again.⁴³ Trademarks in Germany are not regarded as inferior to patents and copyrights.⁴⁴ This notion coincides with the significance that the European Court of Justice affords to trademarks.⁴⁵ The Court principally regards protection for marks as equally desirable as protection for other forms of Intellectual Property⁴⁶ because trademarks stimulate the economic advancement by honoring manufacturers who consistently produce quality products. Trademarks are an incentive that motivates entrepreneurs to create new products in the first place.⁴⁷ Thus, before the changes brought by the German Trademark Act even took effect, a strong right existed in the interest of the trademark owner and not merely as a right concomitant with a consumer protection device.

The EU Directive seems to be in accord with the purpose of trademarks as expressed by the German law, *i.e.*, de-emphasizing the traditional source identifying function and emphasizing the trademark owner’s rights.⁴⁸ The

⁴⁰ BVerfGE 51, 193 (193) (1979) (holding “*Das schutzfähig Warenzeichen ist eine durch Art. 14 Abs. 1 Satz 1 geschützte Rechtsposition.*”; *i.e.*, that Article 14 of the Constitution guarantees the integrity of private property. Article 14 is comparable to the Takings Clause in the U.S. Constitution).

⁴¹ BVerfGE 51, 193 (217) (1979).

⁴² BVerfGE 51, 193 (218) (1979) (stating that “*Wer durch ein Warenzeichen auf Besonderheiten seiner betrieblichen Erzeugnisse hinweisen kann, benennt damit nicht lediglich die Herkunft seines Produktes; es ist Ausdruck seines Leistungswillens.*”).

⁴³ BVerfGE 78, 58 (1988) (the Esslinger Neckarhalde II case).

⁴⁴ FEZER, *supra* note 9, Einl. MarkenG cmt. no. 24.

⁴⁵ See Case C-10/89, S.A. CNL-Sucal NV v. HAG GF AG, 1990 E.C.R. I-3711, [1990] 3 C.M.L.R. 571 (1990) (describing the nature and function of trademarks); Karl-Heinz Fezer, *Markenrecht im Aufwind*, in *FESTSCHRIFT FÜR GAEDERTZ* 153, 155-58 (1992) (stating that in the European system trademarks are equal in value to the other intellectual property rights); see also W.R. CORNISH, *INTELLECTUAL PROPERTY: PATENTS, COPYRIGHT, TRADE MARKS AND ALLIED RIGHTS*, 15-01 (1996). But see Case 40/70, Sirena S.R.L. v Eda S.R.L., 1971 E.C.R. 69, [1971] 10 C.M.L.R. 260, 264 (1971) (concerning the relative protections of patents and trademarks); GUY TRITTON, *INTELLECTUAL PROPERTY IN EUROPE*, n.7.049 (1996) (describing the Court’s holding in Sirena).

⁴⁶ Fezer, *supra* note 45, at 155-58.

⁴⁷ Compare FEZER, *supra* note 9, Einl. MarkenG cmt. no. 20, with *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 157 9 U.S.P.Q.2d (BNA) 1847, 1854 (1989) (detailing a different concept expressed by the U.S. Supreme Court).

⁴⁸ The source identifying function has implications regarding the exhaustion of trademark rights. See *INGERL & ROHNKE*, *supra* note 9, Einl. cmt. no. 34; *Tilmann*, *supra* note 8, at 385. The explanatory statement of the German Parliament regarding the new Trademark Act explicitly refers to the change in exhaustion theory as one of the examples of a new understanding of trademark functions.

tenth recital in the preamble of the Directive states that the function of marks is "in particular,"⁴⁹ i.e., not exclusively, "to guarantee the trademark as an indication of origin."⁵⁰ Articles 4(4) and 5(2) of the EU Directive make optional the prescription of trademark protection for non-competing goods.⁵¹ The EU Directive does not proscribe free transferability of marks and does not contain provisions that regulate the possible proprietorship of marks. Member States therefore are free to provide for separability of the mark from the business establishment.⁵²

Judgments of the European Court of Justice to some extent back up this understanding.⁵³ Although the European Court of Justice has frequently emphasized the source identifying function as the main function of trademarks,⁵⁴ it has also explained,

Bundestagsdrucksache 12/6581 v. 14.01.1994, Begründung zum Markengesetz, 53, 83 [hereinafter BT-Drucks., Begründung zum Markengesetz] (providing the reasoning for the German Trademark Act). The German Trademark Act, *supra* note 1, in § 24 provides for exhaustion if a product was put into the market in Germany or one of the Member States of the EU with the consent of the trademark proprietor. The old law did not contain such a provision. Courts, however, held that exhaustion derived from the origin function of trademarks. Once a product entered the market with the consent of the mark's owner, this function was exhausted. The old law was not limited to the area of the EU, but rather provided for international exhaustion; see Maja, BGHZ 41, 84 (stating "weltweite Erschöpfung," which means worldwide exhaustion); Case C-355/96, Silhouette International Schmied GmbH & Co, KG v. Hartlauer Handelsgesellschaft mbH, 1998 E.C.R. I-4799 [1998] 2 C.M.L.R. 953 (1998) (holding that Member States are barred from providing for worldwide exhaustion by Council Directive Art. 7). This ruling could, be interpreted as weakening the source identifying function. If one accepts the argument that exhaustion and source function interact in the way German courts used to, the conclusion that the new law de-emphasizes this function, insofar as it provides only for EU-wide exhaustion, has some validity. However, scholars have pointed out that the origin function is not the exclusive rationale for an exhaustion provision. See Tilmann, *supra* note 8, at 385 (containing information on how European market concerns deserve just as much consideration); cf. Fezer, *supra* note 45, at 161-63 (stating that although exhaustion enhances trademark owners' rights, exhaustion restrictions do not *per se* reflect the idea of enhanced rights versus origin function). Therefore this Article will not examine this problem any further.

⁴⁹ The German translation reads "*insbesondere*"; see Case C-251/95, Sabel BV v. Puma AG & Rudolf Dassler Sport, 1997 E.C.R. I-6191, [1998] 1 C.M.L.R. 445, para. 32 n.14 (1998) (pointing out that the English text was worded less appropriately than other language versions).

⁵⁰ Tilmann, *supra* note 8, at 383 n.39; Ruijsenaars, *supra* note 26, at 112.

⁵¹ See *infra* §§ III.C.12.-13. for a discussion of non-competing goods and the dilution concept.

⁵² FEZER, *supra* note 9, § 7 cmt. no. 4; see Tilmann, *supra* note 8, at 387 (noting that the separation of the mark from the business establishment in German has contributed significantly to the abolishment of the source identifying function).

⁵³ See, e.g., Vito Mangini, *Die Marke: Niedergang der Herkunftsfunktion?*, GRUR INT. 462, 466 (1996) (noting that the emphasis on the source identifying function on the EU level can be reconciled with the Member States' impairment of the source identification function).

⁵⁴ See Case 102/77, Hoffmann-La Roche & Co. AG and Hoffmann-La v. Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH, 1978 E.C.R. 1139, 1175-77, [1978] 3 C.M.L.R. 217, 232 para. 7 (1978) (describing various countries' case law and the Court's holdings in relation).

In relation to trademarks, the specific subject-matter of the industrial property is the guarantee that the owner of the trademark has the exclusive right to use that trademark, for the purpose of putting products protected by the trademark into circulation for the first time, and is therefore intended to protect him against competitors wishing to take advantage of the status and reputation of the trademark by selling products illegally bearing that trademark.⁵⁵

This definition does not even mention the source identifying function.⁵⁶ Some authors, however, claim that the Court of Justice has stressed the origin function rather than de-emphasized it.⁵⁷ In sum, it is safe to conclude, there is a development under European law that tends to enhance trademark owner's rights.⁵⁸

United States law, however, in theory still adheres to the notion that trademarks serve exclusively to prevent confusion among the consuming public. Thus, the principle that trademarks exist only in connection with the good will of a business is axiomatic to U.S. trademark law.⁵⁹ Trademark rights are therefore categorized as a special kind of property that has no existence apart from the good will of the product or service that it symbolizes. Although trademarks are regarded as primarily beneficial, an

⁵⁵ See Case C-251/95, *Sabel BV v. Puma AG & Rudolf Dassler Sport*, 1997 E.C.R. I-6191, [1998] 1 C.M.L.R. 445, para. 32 (1998) (describing further authority by Advocate General Jacobs); see also Case 102/77, *Hoffmann-La Roche & Co. AG, and Hoffman-La Roche AG v. Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, 1978 E.C.R. 1139, 1176, [1978] 3 C.M.L.R. 217, 232 (1978) (containing further analysis by the Advocate General of tendencies of German Law to rule that a trademark right cannot be relied upon in some third party intervention cases).

⁵⁶ Tilmann, *supra* note 8, at 382.

⁵⁷ *INGERL & ROHNKE*, *supra* note 9, Einl. cmt. no. 36; Mangini, *supra* note 53, at 462-66 (arriving at this conclusion by juxtaposing, Case 40/70, *Sirena S.R.L. v. Eda S.R.L.*, 1971 E.C.R. 69, [1971] 10 C.M.L.R. 260 (1971) and Case 192/73, *Van Zuyler Freies v. HAG AG*, 1974 E.C.R. 731, [1974] 2 C.M.L.R. 127 (1974), on the one hand, with Case C-9/93, *IHT Internationale Heiztechnik v. Ideal Standard*, 1999 E.C.R. I-2789 [1994] 3 C.M.L.R. 857 (1994) and *S.A. CNL-Sucal NV v. HAG OF AG*, 1990 E.C.R. I-3711, [1990] 3 C.M.L.R. 571 (1990), on the other hand, and also mentioning the tendency of national laws to de-emphasize the origin function).

⁵⁸ Mangini, *supra* note 53, at 466-67.

⁵⁹ *Sugar Busters LLC v. Brennan*, 177 F.3d 258, 265 (5th Cir. 1999) (stating that "[a] trademark is merely a symbol of goodwill and has no independent significance apart from the goodwill that it symbolizes"); *MCCARTHY*, *supra* note 2, § 18:2 (stating that "[g]ood will and its trademark symbol are as inseparable as Siamese Twins who cannot be separated without death to both").

understanding shared by the Supreme Court,⁶⁰ they are not qualified as property rights "in gross" or at "large."⁶¹ The Fourth Circuit, in March 1999, rejected the proposal that trademarks create property rights in gross even for famous marks protected under the Federal Trademark Dilution Act (FTDA).⁶² Judge Posner has altogether refused to describe the rights conferred by trademarks as "property."⁶³ The implication of such a distinction is that "property rights in gross" suggest the existence of a strong right in a trademark. Mere "property rights," on the other hand, suggest a more restricted right that is bound to use and the underlying good will. As McCarthy puts it, "the 'property' in a trademark is the right to prevent confusion."⁶⁴

What is striking about these differences in the understanding of the nature of trademarks is not so much that German law considers trademark rights to be property rights and that U.S. law is somewhat reluctant to do so. The implications of such a categorization remain unclear because they depend on what the nature of a property right really implies.⁶⁵ Trademark protection, however, is not driven by the theoretical underpinnings of what property is,

⁶⁰ *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 193, 224 U.S.P.Q.(BNA) 327, 329 (1985).

⁶¹ The asserted doctrine is based upon the fundamental error of supposing that a trademark right is a right in gross or at large, like a statutory copyright or a patent for an invention, to either of which, in truth, it has little or no analogy. There is no such thing as property in a trade-mark except as a right appurtenant to an established business or trade in connection with which the mark is employed. The law of trademarks is but a part of the broader law of unfair competition; the right to a particular mark grows out of its use, not its mere adoption; its function is simply to designate the goods as the product of a particular trader and to protect his good will against the sale of another's product as his; and it is not the subject of property except in connection with an existing business.

United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 97 (1918) (citations omitted).

⁶² *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev.*, 170 F.3d 449, 458, 50 U.S.P.Q.2d (BNA) 1065, 1072 (4th Cir. 1999) (holding that proof of "actual dilution" is required to establish a dilution claim under the FTDA as opposed to mere "likelihood of dilution"); for a discussion of the FTDA see *infra* § III.C.10.

⁶³ *Illinois High School Ass'n. v. GTE Vantage Inc.*, 99 F.3d 244, 246, 40 U.S.P.Q.2d (BNA) 1633, 1635 (7th Cir. 1996) ("[w]hat matters is that a trademark is not nearly so secure an entitlement as a property right"); *Libman Co. v. Vining Indus., Inc.*, 69 F.3d 1360, 1361, 36 U.S.P.Q.2d (BNA) 1751, 1752 (7th Cir. 1995) ("A trademark is not a property right, but an identifier").

⁶⁴ MCCARTHY, *supra* note 2, § 2:14.

⁶⁵ Stephen L. Carter, *Does it Matter Whether Intellectual Property is Property?*, 68 *CHI.-KENT L. REV.* 715, 716 (1993) (stating that "[p]roperty, quite famously, is only a legal conclusion").

but rather by the purpose of trademarks.⁶⁶ And with regard to this it becomes quite clear that German law protects trademarks for the sake of the owner because trademarks are considered an essential instrument in marketing, *i.e.*, profitable commodities in their own right. The U.S., on the other hand, grants protection only where the “monopolization” of a word or term is justified because a mark acts as a source identifier and represents a business’ good will, *i.e.*, prevents consumer confusion.⁶⁷

III. COMPARISON

A. ACQUISITION OF RIGHTS: REGISTRATION V. USE

The basic difference between the common law and civil law regarding trademarks is how trademarks originate.⁶⁸ Under common law, trademarks

⁶⁶ See *E. I. Du Pont De Nemours Powder Co. v. Masland*, 244 U.S. 100, 102 (1917) (“The word ‘property’ as applied to trademarks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith”); *Int’l Order of Job’s Daughters v. Lindeburg and Co.*, 633 F.2d 912, 919, 208 U.S.P.Q. (BNA) 718, 725 (9th Cir. 1980) (“[P]roperty right’ or protection accorded a trademark owner can only be understood in the context of trademark law and its purposes”); *Lawyers Title Ins. Co. v. Lawyers Title Ins. Corp.*, 109 F.2d 35, 43, 43 U.S.P.Q. (BNA) 166, 172 (D.C. Cir. 1939) (“Although ‘property’ may be admitted to exist, whether in a trade-mark, a trade name or a corporate name, that is true, broadly speaking, whenever economic interests are protected by legal process, but only to the extent that they are so protected.”).

It must be noted, however, that the property classification can make a difference, as the cases *College Savings Bank* and *Florida Prepaid Postsecondary Education Expense Board* reveal. The Supreme Court, in its June 23, 1999 decision, affirmed the lower courts’ notion that the right to be free from unfair competition was not a property right. The Third Circuit had noted that “because the scope of the allegations in this case is so narrow, we express no opinion as to whether the TCRA may be applied constitutionally in a case involving a trademark infringement or involving a misrepresentation about a competitor’s goods or services.” *College Sav. Bank v. Fla. Prepaid Postsecondary Educ. Expense Bd.*, 131 F.3d 353, 362, 45 U.S.P.Q.2d (BNA) 1001, 1008 (3rd Cir. 1997). The Supreme Court, *in dictum*, stated, “The Lanham Act may well contain provisions that protect constitutionally cognizable property interests—notably, its provisions dealing with infringement of trademarks, which are the ‘property’ of the owner because he can exclude others from using them.” *College Sav. Bank*, 119 S. Ct. at 2224, 51 U.S.P.Q.2d (BNA) at 1068.

⁶⁷ MCCARTHY, *supra* note 2, § 2:15.

⁶⁸ Comparativists frequently argue that the use/registration dichotomy is the greatest impediment to the harmonization of trademark laws; see Kenneth L. Port, *Trademark Harmonization: Norms, Names & Nonsense*, 2 MARQ. INTELL. PROP. L. REV. 33, 37-38 (1998) (discussing the required changes to harmonize the Lanham Act with the Trademark Law Treaty); see also *Crocker Nat’l Bank v. Canadian Imperial Bank of Commerce*, 223 U.S.P.Q. (BNA) 909, 928-29 (T.T.A.B. 1984) (statement by Edward S. Rogers arguing for rights and remedies arising from trademark and unfair competition agreements between United States and foreign nations).

come into existence through use.⁶⁹ The United States' regime, thus, represents a so-called use-based system; whereas, the German system, adopting the civilian law, confers trademark rights upon registration.

Other common law countries have entirely abandoned the use-based system. Developments in England exemplify the deviation from the traditional trademark law system especially well. The United Kingdom now provides for a dual system of protecting trademarks.⁷⁰ It bid the use-based system a partial farewell with the implementation of the Council Directive by enacting the Trade Marks Act of 1994.⁷¹ This Act repealed its predecessor, the Act of 1938, in its entirety.⁷² Moreover, although trademark protection in England derives from the common law, the 1938 Act had granted protection for trademarks based on an intent-to-use a certain mark.⁷³

The U.S. rejected giving up its use-based system when considering the ratification of the Trademark Registration Treaty⁷⁴ (TRT) because it believed that adhering to the agreement would constitute a deviation from the common law of trademarks.⁷⁵

⁶⁹ D.R. SHANAHAN, *AUSTRALIAN LAW OF TRADE MARKS AND PASSING OFF* 16 (1990).

⁷⁰ RUTH ANNAND & HELEN NORMAN, *BLACKSTONE'S GUIDE TO THE TRADE MARKS ACT 1994*, at 16 (1994); see United Kingdom Trade Marks Act 1994 § 2 (1994 ch. 26).

⁷¹ ANNAND & NORMAN, *supra* 70, ("... United Kingdom trademark law provides a dual system of protecting trademarks. The owner of a mark can choose either to register it, or to leave it unregistered and rely on the law of passing off to stop anyone who uses the same or similar mark in the course of trade.")

⁷² *Id.*

⁷³ Canada adopted an intent-to-use system in 1954, and Australia converted to such a system in 1955.

⁷⁴ The Trademark Registration Treaty (TRT), adopted in 1973 in Vienna, went into force in 1980 with the accession of the former U.S.S.R. and four African countries. Its purpose was to offer an alternative to the Madrid Agreement, which was the first international agreement to include a broad international registration system enabling the filing of a single registration application with the International Bureau in Geneva. The TRT required each nation to suspend, for a period of three years, any domestic requirements for use of the mark, but at the same time permitted an intent-to-use requirement. Although the U.S. never ratified the treaty, the agreement has some significance because it triggered an intent-to-use discussion in the United States. See Marshall A. Leaffer, *The New World of International Trademark Law*, 2 *MARQ. INTELL. PROP. L. REV.* 1, 14-15 (1998) (discussing the reluctance of the United States to join the TRT in light of the use requirement).

⁷⁵ See generally Oliver P. Howes, Jr., *The Case Against Intention To Use*, 51 *TRADEMARK REP.* 242 (1961) (arguing that intention to use trademark rights would subvert vast amounts of common law doctrine in the United States); but see Philip T. Dalsimer, *Proposed Intention To Use Legislation: Intention To Use-A Proposal (Pro)*, 53 *TRADEMARK REP.* 975 (1963) (arguing that the United States' use requirement is antiquated and out of line with modern business practices).

1. *Origins—In Germany.* Although registration of trademarks was a common phenomenon in the Middle Ages,⁷⁶ the purpose of registration was not so much the protection of the marks themselves but rather the need to trace back certain products to their respective manufacturers.⁷⁷ After the French Revolution, the natural law movement proclaimed that the owner of a mark should be entitled to government protection through registration.⁷⁸ In Germany, these ideas were first adopted in those areas which formerly had been occupied by the French; in the middle of the nineteenth century, they became part of the scientific discussion of whether trademarks could actually be regarded as intellectual property.⁷⁹ France served as a model, on the one hand, and as a medium of contrast on the other hand.⁸⁰ In 1869, the advent of the Law Governing Trade and Industry⁸¹ brought the right to carry on a business or trade, and it seemed consistent with this idea to have government guarantee the protection of one's business mark.⁸² Thus, the first law protecting trademarks in the German Empire⁸³ provided for registration⁸⁴ without any prior examination. In addition, the use of a mark was not a prerequisite for registration and did not become such under the 1938 Act or its successor, the German Trademark Act of 1995.

The origins of the registration feature in Germany show that ever since the inception of statutory trademark protection in Germany, the main goal has been to grant and guarantee a right.

2. *Origins—In the United States.* United States trademark law, on the other hand, originates in the common law of passing off (palming off).⁸⁵ This is a tort and also, a part of unfair competition law which prohibits anyone from passing off another's goods as one's own.⁸⁶ The trade identity

⁷⁶ SCHECHTER, *supra* note 16, at 26-27 (discussing registration in German "*Handelsbuch*" and English "trade records").

⁷⁷ See Diamond, *supra* note 17, at 229-37 (stating that trademark's primary purpose was to fix the blame for inferior workmanship); SCHECHTER, *supra* note 16, at 19 (noting that the purpose of the trademark was to identify the origin or ownership of the goods).

⁷⁸ Schechter, *supra* note 16, at 19.

⁷⁹ *Id.*

⁸⁰ Elmar Wadle, *Der Einfluß Frankreichs auf die Entwicklung Gewerblicher Schutzrechte in Deutschland*, in GEDÄCHTNISSCHRIFT FÜR LEONTIN-JEAN CONSTANTINESCO 871, 872 (1983).

⁸¹ *Gewerbeordnung*

⁸² FEZER, *supra* note 9, Einl. MarkenG cmt. no. 2.

⁸³ Gesetz über den Markenschutz, v. 30.11.1874 (RGBl S.143).

⁸⁴ Marks were registered in the so-called *Handelsregister*.

⁸⁵ MCCARTHY, *supra* note 2, § 5:02.

⁸⁶ *Id.*

laws in England were mainly concerned with confusion as to the source of the goods or services. The case most frequently cited on the origins of trademark protection in the United States and the U.K. is *Southern v. How* decided in 1618.⁸⁷ This case did not involve an infringement suit where a trademark owner was suing a competitor, but rather it concerned a suit by a customer based on a counterfeit sale of jewels.⁸⁸ However, it quotes an earlier case, from the late 16th century which has been identified as *Sandforths's Case*.⁸⁹ *Sandforth* involved a clothier's claim against a competitor who was allegedly selling cloth under the plaintiff's initial letters that did not reach the high quality standards for which the plaintiff's cloth was known.⁹⁰ The Court acknowledged the clothier's rights against trademark piracy and unfair competition in the marketplace.⁹¹

Confusion was only possible where marks were actually used.⁹² Thus, the common law countries protected trademarks on the basis of use and, therefore, were referred to as use-based protection systems.

Registration of trademarks as a means of government protection, however, was also considered a necessity in England and colonial America.⁹³ It is reported that in 1772 George Washington insisted that a court grant him the name "G. Washington" for his brand of flour.⁹⁴ Furthermore, in 1791 Thomas Jefferson, as Secretary of State, suggested that securing exclusive marks for manufacturers would have a positive effect in the market place.⁹⁵

⁸⁷ SCHECHTER, *supra* note 16, at 123-24.

⁸⁸ SCHECHTER, *supra* note 16, at 6-10.

⁸⁹ Keith M. Stolte, *How Early Did Anglo-American Trademark Law Begin? An Answer to Schechter's Conundrum*, 88 TRADEMARK REP. 564, 564 (1998).

⁹⁰ Whether the case actually involved the clothier's claim against his competitor or the purchaser's claim against the seller of the inferior goods seemed unclear due to contradicting reports of *Southern v. How*; however, Stolte, now claims that the former indeed was the case. *Id.* at 585-88.

⁹¹ Although the details of the case remain unclear, this much of the decision by the Court seems to be a reliable assessment. *Id.* at 588-93.

⁹² MCCARTHY, *supra* note 2, § 16:1.

⁹³ SCHECHTER, *supra* note 16, at 140 (claiming that the main reason for establishing registration was to enable U.S. manufacturers to obtain the advantages of reciprocal statutes in foreign countries).

⁹⁴ See Beverly W. Pattishall, *Two Hundred Years of American Trademark Law*, 68 TRADEMARK REP. 121, 121 (1978) (referring to Thomas Grubisich, *Washington's Flour*, CHICAGO SUN-TIMES, Apr. 23, 1976, at 46, col. 1.).

⁹⁵ Pattishall, *supra* note 94, at 122 (In his claim for trademark protection Jefferson stated, "And that this may be done by permitting the owner of every manufactory to enter in the record of the court of the district wherein his manufactory is, the name with which he chooses to mark or designate his wares [...]").

The first statute providing for the registration of marks in the U.S. was established in 1870 but was held unconstitutional in 1879.⁹⁶ This result was due to the unique federal structure of the United States. Article I, section 8 of the U.S. Constitution grants the federal Congress certain powers covering intellectual property, none of which is to regulate trademark law. The federal regulation of trademark law is based on the Interstate Commerce Clause.⁹⁷ The Supreme Court struck down the first federal trademark act because the registration was not specifically bound to use and therefore did not fall within the Commerce Clause Power of Congress.⁹⁸ In 1879, the Supreme Court rejected the idea that the Patents and Copyrights Clause⁹⁹ was applicable to trademarks.¹⁰⁰

The restrictions of the Commerce Clause, thus, have to be kept in mind when assessing trademark protection in the U.S. Interstate commerce is established through use.¹⁰¹ Therefore, the first concern with a registration system in the U.S. is a constitutional concern.¹⁰² Today, it seems likely that this constitutional concern could be overcome. In 1984, the Trademark Trial and Appeals Board (T.T.A.B.) in *Crocker National Bank v. Canadian Imperial Bank of Commerce* held that a registration of a mark in a foreign country is sufficient to establish trademark rights in the U.S. because such

⁹⁶ *In re Trade-Mark Cases*, 100 U.S. 82 (1879).

⁹⁷ U.S. CONST. art. I, § 8, cl. 3 reads, "[The Congress shall have power][t]o regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes."

⁹⁸ *Trade-Mark Cases*, 100 U.S. at 97-98. The Court stated common law protection could only be overcome if Congress based the federal law on the Commerce Clause; the Court argued, "The remedies provided by the act when the right of the owner of the registered trade-mark is infringed, are not confined to the case of a trade-mark used in foreign or inter-state commerce." *Id.*

⁹⁹ U.S. CONST. art. I, § 8, cl. 8.

¹⁰⁰ *Compare Trade-Mark Cases*, 100 U.S. at 94 (noting that the Patents & Copyrights Clause does not relate to trademarks), with AUSTRAL. CONST. pt. 5, § 51 (xviii) (authorizing Parliament "to make laws for the peace, order, and good government of the Commonwealth with respect to[...]copyrights, patents of inventions and designs, and trade marks").

¹⁰¹ Lanham Act § 1, 15 U.S.C. § 1051 (a) (1994) ("The owner of a trade-mark used in commerce may apply to register his or her trade-mark under this chapter on the principal register [...]"); Lanham Act § 45, 15 U.S.C.A. § 1127 (1994) ("The word 'commerce' means all commerce which may lawfully be regulated by Congress."). One author suggests a rigid distinction between "use in trade," which is the substantive law requirement and "use in commerce," which refers to the jurisdictional question and has constitutional implications. Michael H. Davis, *Death of a Salesman's Doctrine: A Critical Look at Trademark Use*, 19 GA. L. REV. 233, 247-50 (1985).

¹⁰² See generally Kenneth R. Pierce, *The Trademark Law Revision Act: Origins of the Use Requirement and an Overview of the New Federal Trademark Law*, 64 FLA. B.J. 35 (May 1990) (evaluating the history of the U.S. trademark system and the constitutional provisions underlying trademark protection).

a regulation is based on Congress' Treaty Power.¹⁰³ The court cited a report which had earlier examined Congress' power to regulate trademarks with regard to international agreements.¹⁰⁴ The constitutional restraint of federalism, therefore, is not an insurmountable obstacle to the U.S. bidding farewell to its use-based system.¹⁰⁵ Furthermore, not only has commerce itself undergone tremendous changes since the *Trademark-Cases* decision, but the same is true for the Supreme Court's interpretation of the Commerce Clause and its adherence to legislative actions.¹⁰⁶ This aspect, however, will not be explored further for the purposes of this paper.

The subsequent U.S. trademark statute of 1881 took the interstate commerce notion into account. Similarly, in England registration of trademarks as a protection device began in 1875.¹⁰⁷ Registration in this statute, as well, was bound to the use of the mark. Thus, the common law tradition was upheld in the early English statute as well as in the first valid federal trademark statute in the United States.

In 1988, the U.S. finally converted to an intent to use (ITU) protection system¹⁰⁸ with the enactment of the Trademark Law Revision Act.¹⁰⁹ Prior to this statute, the U.S. was the only country, with the exception of the

¹⁰³ *Crocker Nat'l Bank v. Can. Imperial Bank of Commerce*, 223 U.S.P.Q. (BNA) 909 (T.T.A.B. 1984).

¹⁰⁴ William Page Montgomery & Roger A. Reed, *Constitutionality Report on Proposed Trademark Registration Treaty*, 63 TRADEMARK REP. 575, 580-82 (1973) (stating that "under common law the property interest in a trademark, which gives the owner the exclusive right to use the mark, is based on the owner's use of the mark in connection with a trade or business. The modification of this common law property right is a power vested solely in the states. Nevertheless, it seems clear that the federal treaty power makes it possible to adopt an international agreement which alters the local law of trademark ownership.").

¹⁰⁵ The Supreme Court left this question open in *Trademark-Cases*, 100 U.S. at 99 (stating "[i]n what we have here said we wish to be understood as leaving untouched the whole question of the treaty-making power over trade-marks, and of the duty of Congress to pass any laws necessary to carry treaties into effect.").

¹⁰⁶ Bruce R. Parker, "Intent To Use": *On the Road Toward Adoption of a Registration-Based System of Trademark Protection*, 79 TRADEMARK REP. 319, 330 (1989), (stating "[g]iven the Supreme Court's liberal view of 'substantial impact' and its deference to Commerce Clause-based legislation that satisfies the 'rational basis' test, it seems likely that Congress could devise preemptive legislation that would withstand constitutional scrutiny."). Parker refers to Charles James Vinicombe, *The Constitutionality of An Intent To Use Amendment to the Lamham Act*, 78 TRADEMARK REP. 361 (1988) and holds Vinicombe's intent-to-use rationale equally applicable to a federal preemptive statute. *Id.* at 330 nn.34-35.

¹⁰⁷ T.A. BLANCO WHITE & ROBIN JACOB, *KERLY'S LAW OF TRADE MARKS AND TRADE NAMES* 1 (12th ed. 1986).

¹⁰⁸ See *infra* text accompanying notes 158-71 for a discussion of the ITU protection system.

¹⁰⁹ Leaffer, *supra* note 74, at 7.

Phillippines, to require use as a prerequisite for the protection of trademarks.¹¹⁰

3. *The Registration System in Germany.* Today the German Trademark Act of 1995, § 4 "Accrual of Trade Mark Protection," stipulates:

Trademark protection shall accrue

from the registration of a sign as a trade mark in the Register kept at the Patent Office, from the use of a sign in the course of trade, provided that the sign has acquired prominence as a trademark among the trade circles concerned, or from the fact that a trademark is well-known within the meaning of Article 6bis of the Paris Convention on the protection of Industrial Property (Paris Convention).¹¹¹

Therefore, there are two instances where trademark rights in Germany can be conferred by use. This is true for well-known marks,¹¹² and where the mark has obtained prominence as a trademark. The latter confers protection to a limited area, *i.e.*, the area where such prominence has been obtained. However, in Germany, trademarks are typically conferred by registration. A successful registration yields a presumption of proprietorship.¹¹³

Registration in Germany is a fairly straightforward process. The application must include a reproduction of the trademark, a list of the goods (or services¹¹⁴) for which registration is applied,¹¹⁵ and information to help establish the applicant's identity. The registration of a mark is not unduly

¹¹⁰ Robert J. Eck, *Statement of the United States Trademark Association in Support of S. 1883 (DeConcini) The Trademark Law Revision Act*, 78 TRADEMARK REP. 382, 387 (1988); Pierce, *supra* note 102, at n.3.

¹¹¹ German Trademark Act, *supra* note 1, at § 4.

¹¹² Art. 6bis of the Paris Convention (as revised at Stockholm on July 14, 1967) requires Member Countries to protect well-known or famous marks; the goal of the protection is to fight trademark pirates who register a mark in a foreign country where it has not yet been registered by the legitimate owner. The scope of protection differs in each country. MCCARTHY, *supra* note 2, §§ 29:61, 29:62.

¹¹³ German Trademark Act, *supra* note 1, § 28 (1).

¹¹⁴ This paper refers to trademarks only and not service marks, but generally there is no difference in the practical application. Further, this paper is only concerned with wordmarks and does not address the specific problems of trade dress.

¹¹⁵ German Trademark Act, *supra* note 1, § 32 (2).

expensive.¹¹⁶ Priority is established by the date of filing the application with the Patent and Trademark Office.¹¹⁷ However, a priority claim, can also be established prior to filing an application, such as through an exhibition at a trade fair.¹¹⁸

According to the Patent and Trademark Office, a mark will generally be registered within a time period of three months if the application is free of fault.¹¹⁹ One can take advantage of an expedited examination for an extra fee.¹²⁰ The reason for the fairly fast conclusion of the registration procedure lies in the German Patent and Trademark Office's relatively scarce examination.

The German Patent and Trademark Office examines only the requirements for application, whether the sign or term is protectable, and if any so-called absolute bars to protection exist which would hinder registration.¹²¹ For example, registration will not occur if the sign sought to be protected is not capable of distinguishing the goods or services of one undertaking from those of other undertakings.¹²²

The absolute bars to registration are listed in § 8 of the German Trademark Act.¹²³ Marks which are devoid of any distinctive character, merely descriptive, or generic, will be denied registration, according to this

¹¹⁶ German Trademark Act, *supra* note 1, § 32 (4); compare Gesetz über die Gebühren des Patentamtes und des Patentgerichts (Patentgebührengesetz—PatGebG) § 1 and Patentgebührenverzeichnis (PatGebZV) No. 131100 and 131150 (charging 500.- German Marks for three classes and 150.- German Marks for each additional class) with U.S. Patent and Trademark Office, (last modified Feb. 22, 1999) <<http://www.uspto.gov/web/offices/ac/qs/ope/fee1999.htm#tmfee>> (charging \$245 (U.S. dollars) per class for trademark processing fees).

¹¹⁷ German Trademark Act, *supra* note 1, § 33(2).

¹¹⁸ German Trademark Act, *supra* note 1, § 35. Another possibility is a foreign priority under the Paris Convention. German Trademark Act, *supra* note 1, § 34.

¹¹⁹ Deutsches Patent- und Markenamt [German Patent and Trademark Office] (visited Aug. 15, 1999) <http://www.deutsches-patentamt.de/einsteig/einst_ark.htm>.

¹²⁰ German Trademark Act, *supra* note 1, § 38; FEZER, *supra* note 9, § 38 cmt. no. 2. Such an expedited procedure might gain importance for international applications filed under the Madrid Agreement which requires a home registration before an international application may be filed. On the other hand, the Madrid Agreement, Art. 4 (2) incorporates the Paris Convention (as revised at Stockholm on July 14, 1967), Art. 4 (c)(1) six-month priority period. Adherence to this priority period would have put U.S. applicants at a disadvantage because the U.S. registration process tends to take longer than most other countries' process periods. See Harriet R. Freeman, *Reshaping Trademark Protection in Today's Global Village: Looking Beyond GATT's Uruguay Round Toward Global Trademark Harmonization and Centralization*, 1 ILSA J. INT'L & COMP. L. 67, 77 (1995); Leaffer, *supra* note 74, at 13.

¹²¹ German Trademark Act, *supra* note 1, §§ 36, 37.

¹²² German Trademark Act, *supra* note 1.

¹²³ German Trademark Act, *supra* note 1, § 8.

provision.¹²⁴ The factors listed in § 8 of the German Trademark Act are comparable to those stipulated in § 2 of the Lanham Act.¹²⁵ Interestingly, though, § 8 of the German law does not contain a provision that resembles Lanham Act § 2 (d)(1), *i.e.*, the German Patent and Trademark Office will only examine whether a conflict exists with “well-known” marks, as described in Paris Convention Art. 6bis(1).¹²⁶ It will not examine whether an identical mark exists or is in use and might cause consumer confusion because it is the trademark owner’s responsibility to check the German Patent and Trademark Office’s publications¹²⁷ to find out whether a mark resembling his or her own has been registered. If such a mark has been registered, the trademark owner may file an opposition to the affected registration.¹²⁸ Note that the first German law relating to trademarks had contained no prior examination at all.¹²⁹ The subsequent law, adopted in 1894,¹³⁰ however, brought a tardy prior examination. Under this statute the Patent Office of the German Empire would examine whether the particular mark was distinctive. Additionally, it would inform owners of potentially conflicting marks with respect to filing an opposition.¹³¹ The Trademark Law of 1938 brought a comprehensive reform and contained a provision that the proven use of the same mark by another person was an absolute bar to registration. After 1945, as a practical matter, it was impossible to keep up this examination process because a lot of documents relating to trademarks

¹²⁴ Distinctiveness refers to the specific mark in relation to the specific goods or services. The question of whether a sign can serve as a mark examines the mark in the abstract, *i.e.*, “isolated from the goods or services for which protection is sought.” See FEZER, *supra* note 9, § 3 cmt. nos. 203-05 for distinction between specific and abstract distinctiveness.

¹²⁵ Lanham Act § 2, 15 U.S.C. § 1052 (1994).

¹²⁶ German Trademark Act, *supra* note 1, § 10 (1).

¹²⁷ According to the German Trademark Act every registration must be published. German Trademark Act, *supra* note 1, § 42 lit. 2. Section 65 (1) 1, in conjunction with § 21 of the Statutory Order Regarding Trademarks [*Markenrechtsverordnung*] stipulate the details of the compulsory publication.

¹²⁸ See German Trademark Act, *supra* note 1, § 42 (stating that the proprietor of a trademark with a prior in time rank may raise opposition to the registration within three months from the date of publication. Section 9 lists the main grounds for opposition, *i.e.*, the so-called “relative bars to registration.”).

¹²⁹ OTTO-FRIEDRICH FRHR. V. GAMM, WARENZEICHENGESETZ, Einf. cmt. no. 3 (1965); see *supra* text accompanying notes 81-83 (noting that no examination was considered necessary under the first German trademark law).

¹³⁰ Reichsgesetz zum Schutz der Warenbezeichnungen, v. 12.05.1894 (RGBl S. 441).

¹³¹ V. GAMM, *supra* note 129, Einf. cmt. nos. 6, 18. v. Gamm points out that a prior examination, in any case would have been impracticable because of the decentralized registration system.

had been destroyed in the Patent Office during the Second World War.¹³² The EU Directive gives members leeway in how to conduct their examination procedure.¹³³ The German Trademark Act adopted the historically "tried and tested" system.¹³⁴

Theoretically, in Germany unrelated businesses might use similar or even identical trademarks, even if these uses cause confusion among consumers.¹³⁵ At first glance § 8 (2), No.4,¹³⁶ which stipulates a bar to registration for deceptive marks, might be understood as a safeguard for such a situation. Although its goal is to protect consumers, it is only pertinent in those cases where the mark itself has a deceptive character, *i.e.*, with regard to the content of the mark.¹³⁷ In addition, the Patent and Trademark Office will only refuse registration where the likelihood to deceive is evident.¹³⁸ Note though, the owner of a prior right may take steps to protect this right, such as filing an opposition and/or an infringement suit.¹³⁹

German registration is designed to further business interests and encourage business endeavors. The registration is designed to be a simple undertaking favoring businesses and their respective interests. The registration system reflects an understanding of marks as not merely source identifiers but as devices that enhance a business' scope of action.

4. *Use-based System in the United States.* As noted above, trademark rights in common law countries traditionally were acquired through adoption and use. U.S. courts have frequently held that trademark rights are not established by the mere adoption of a mark but rather through use of the adopted mark.¹⁴⁰

¹³² *Id.* § 5 n.2; FEZER, *supra* note 9, § 42 cmt. no.1.

¹³³ EU Directive, Art. 4, offers the option either to not register conflicting marks or to hold them liable to be declared invalid.

¹³⁴ See German Trademark Act, *supra* note 1, §§ 8-9 (which do not provide for the German Patent and Trademark Office to examine whether identical or similar marks exist, but rather leave it to the owner of such a potentially conflicting mark to file an opposition); FEZER, *supra* note 9, § 42 cmt. no.1 (for this proposition).

¹³⁵ As a practical matter, an opposition will be filed if the mark is actually in use.

¹³⁶ See German Trademark Act, *supra* note 1, § 8 (2) No.4 (stating "which are of such a nature as to deceive the public, especially as to the kind, quality or geographical origin of the goods or services.").

¹³⁷ FEZER, *supra* note 9, § 8 cmt. no. 300 (point out that this requirement might be fulfilled in cases where consumers associate a particular quality standard with a certain mark).

¹³⁸ German Trademark Act, *supra* note 1, § 73 (3).

¹³⁹ German Trademark Act, *supra* note 1, §§ 42, 14-19.

¹⁴⁰ *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97-98 (1918); *Blue Bell, Inc. v. Farah Mfg. Co., Inc.*, 508 F.2d 1260, 1265-66 (5th Cir. 1975); *Faciane v. Starner*, 230 F.2d 732, 738 (5th Cir. 1956). Regarding the so-called maxim of "no trade no trademark," see generally Tammy J. Snyder, *Trademark*

The existence of trademark rights depends on state common law and not on federal statutory law.¹⁴¹ The Lanham Act enables a federal registration of these rights. The registration itself does not create trademark rights, but rather grants certain advantages.¹⁴² The rights themselves are conferred by common law, *i.e.*, by the use of a mark in a certain area.¹⁴³

Therefore, protection exists as soon as someone begins using a specific mark for a certain product. By placing "TM"¹⁴⁴ on the product, the user indicates that he or she claims to have a trademark right in the mark used. However, the use of "TM" does not confer trademark rights. These rights are conferred by actual use. Although the use of the sign is not mandatory, it is a good practice in the United States.

Today, however, the U.S. system is no longer based entirely on use. The courts and the legislature have fostered disregard for the distinction between use and registration ever since the first trademark acts were enacted by Congress in 1881 and 1905.¹⁴⁵ Some deviations can be found in the Lanham Act itself. Others derive from a lenient application of the Lanham Act by the courts.¹⁴⁶

Law Revision Act of 1988 and the Gatekeeper Role of the PTO: Heading Abuse off at the Pass, 68 WASH. U. L.Q. 753 (1990).

¹⁴¹ Additionally, state registrations are possible in all states, the District of Columbia and Puerto Rico. They are, however, of little practical significance as they generally do not provide the registrant with statewide protection, *see* Mark S. Lee, *Trademark Essentials*, SC47 A.L.I. A.B.A. 1, 14-15 (1998).

¹⁴² The Patent and Trademark Office, *FAQ about Trademarks* (last modified Feb. 11, 1999) <<http://www.uspto.gov/web/offices/tac/tmfaq.htm>> points out,

What are the benefits of federal trademark registration?

1. Constructive notice nationwide of the trademark owner's claim.
2. Evidence of ownership of the trademark.
3. Jurisdiction of federal courts may be invoked.
4. Registration can be used as a basis for obtaining registration in foreign countries.
5. Registration may be filed with U.S. Customs Service to prevent importation of infringing foreign goods.

¹⁴³ MCCARTHY, *supra* note 2, § 19:3. However, federal registration does confer substantive rights. *Id.* § 19:8.

¹⁴⁴ Additionally "SM" is used in conjunction with service marks and "®" refers to registered marks. Lanham Act § 29, § 15 U.S.C. § 1111 (1994). While such indicators are not required under German law, they are sometimes used as a deterrent or for advertising functions. INGERL & ROHNKE, *supra* note 9, § 26 *cmr.* no. 14.

¹⁴⁵ *See infra* § III.A.4.e. (discussing priority and use).

¹⁴⁶ Robert C. Cudek, *TRT Impact on United States Statutory and Common Law*, 63 TRADEMARK REP. 501 (1973).

These changes reflect the need to make protection easier for businesses. Therefore, they represent a similar understanding of trademark functions as that expressed by the German law.

a. Lanham Act Deviations. First, the Lanham Act does confer rights on a registrant. If a party extends the use of a federally registered mark to an area where she formerly did not do business, she will prevail in litigation against anyone who began using the mark in that area after federal registration occurred.¹⁴⁷ The Lanham Act not only establishes rights through federal registration instead of common law use, but it also expresses a clear need to protect businesses even when good will has not yet been established.

The Lanham Act § 8 (b)¹⁴⁸ allows the filing of an affidavit of excused non-use. This filing allows a trademark owner to obtain trademark rights under special circumstances even though a mark has not been used.¹⁴⁹

In addition, the Lanham Act, § 44 allows U.S. registration based upon foreign registration in the absence of use of the mark in either the U.S. or its home country.¹⁵⁰ All that is required is foreign registration. Section 44 was introduced into U.S. law to achieve reciprocity with Member Countries of the advantages of the Paris Convention for the benefit of U.S. businesses in the Member Countries.¹⁵¹ Thus, this provision expresses an understanding that marks are an essential planning device for businesses and should be protected in the interest of business enterprises.

¹⁴⁷ Stephen L. Carter, Comment, *The Trouble With Trademark*, 99 YALE L.J. 759, 768 (1990).

¹⁴⁸ Lanham Act § 8 (b), 15 U.S.C. § 1058 (a) (1994).

¹⁴⁹ See Cudek, *supra* note 146, at 507 (describing the requirements and effects of the filing).

¹⁵⁰ See MCCARTHY, *supra* note 2, § 29:14 for the history of the rule as to whether Lanham Act § 44 applicants must prove use.

¹⁵¹ The Paris Convention for the Protection of Industrial Property, with its minimum standard requirements, was the first attempt to grant international protection for trademarks. It was adopted by eleven countries on March 20, 1883. These countries were: Belgium, Brazil, France, Guatemala, Italy, the Netherlands, Portugal, El Salvador, Switzerland, Serbia, and Spain. The United States joined in 1887 and Germany followed in 1901. Today, 140 countries form the Paris Union, including all the members of the European Union. See MCCARTHY, *supra* note 2, § 29:22 (discussing the Paris Convention member states); FEZER, *supra* note 9, at 1795-1801 (providing an overview of parties to the Treaty and time of accession); see also GRUR Int. 1999, 427, 427-34 (for an overview). The main regulations of the Paris Convention and its revisions are "national treatment," "convention priority," and "protection of famous marks." The Convention also ensures a certain minimum level of protection for marks of citizens of Member States. See MCCARTHY, *supra* note 2, § 29:25 (stating that the Convention members promise to give all foreign member citizens the same protection as that given to their own citizens); see also, FEZER, *supra* note 9, Int. MarkenR cmt. no. 3 (outlining the various revision phases concerning the original convention).

b. Token Use. In applying the Lanham Act use requirement, courts accepted so-called “token use” as sufficient use to trigger protection under the federal statute.¹⁵² Token use is a minimal use, an initial commercial transaction, which does not put the product into full distribution.¹⁵³ Under the “token use” doctrine, a single or very limited sale or shipment of the product bearing the mark will allow the prospective trademark owner to obtain registration.¹⁵⁴ Thus, a single shipment,¹⁵⁵ the sending of a single product sample,¹⁵⁶ or even a commercial transaction between the corporate owner of a mark and a member of its board of directors¹⁵⁷ have sufficed to establish “use in commerce” for registration purposes.

c. Trademark Law Revision Act. The “token use” doctrine was abandoned with the introduction of the Trademark Law Revision Act of 1988 (TLRA).¹⁵⁸ The TLRA, however, does not follow the common law

¹⁵² MCCARTHY, *supra* note 2, § 19:5; Davis, *supra* note 101, at 251-59; see Cudek, *supra* note 146, at 506 (describing the concept as “a phenomenon both castigated as evidence of the current hypocrisy and deviation from strict Common Law principles concerning acquisition of rights, and defended as merely a reflection of commercial reality which probably dictates that initial trademark use be token.”).

¹⁵³ Willis Raymond Davis, Jr., *Intent-To-Use Applications For Trademark Registration*, 35 WAYNE L. REV. 1135 (1989); DONALD S. CHISUM, UNDERSTANDING INTELLECTUAL PROPERTY LAW, § 5D[1][a] (1st ed. 1992).

¹⁵⁴ Frank Z. Hellwig, *The Trademark Law Revision Act of 1988: The 100th Congress Leaves Its Mark*, 79 TRADEMARK REP. 287 (1989); Snyder, *supra* note 140, at 759-60.

¹⁵⁵ Fort Howard Paper Co. v. Kimberly-Clark Corp., 390 F.2d 1015, 1017, 157 U.S.P.Q.(BNA) 55, 57 (C.C.P.A. 1968).

¹⁵⁶ Bertolli USA, Inc. v. Filippo Bertolli Fine Foods, Ltd., 662 F. Supp. 203, 6 U.S.P.Q.2d (BNA) 1043 (S.D.N.Y. 1987).

¹⁵⁷ Int'l Telephone & Telegraph Corp. v. Int'l Mobile Machines Corp., 800 F.2d 1118, 1120, 231 U.S.P.Q.(BNA) 142, 143 (Fed. Cir. 1986).

¹⁵⁸ Carter, *supra* note 147, at 768; Allard Enters., Inc. v. Advanced Programming Resources, Inc., 146 F.3d 350, 357, 46 U.S.P.Q.2d (BNA) 1865, 7 (6th Cir. 1998) (stating that the TLRA redefined the term “use in commerce” to eliminate ‘token use’ as a basis for registration); Lanham Act § 45, 15 U.S.C. § 1127 (1994) reads:

The term ‘use in commerce’ means the bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark. For purposes of this chapter, a mark shall be deemed to be in use in commerce—

(1) on goods when—

(A) it is placed in any manner on the goods or their containers or the displays associated therewith or on the tags or labels affixed thereto, or if the nature of the goods makes such placement impracticable, then on documents associated with the goods or their sale, and

(B) the goods are sold or transported in commerce, and

(2) on services when it is used or displayed in the sale or advertising of services and the services are rendered in commerce, or the services are rendered in more than one State or in the United States and a foreign country and the person rendering the services is engaged in commerce in connection with the services.

notion of trademark use. Instead, it represents the most obvious deviation from the common law understanding by creating an Intent-To-Use (ITU) registration option. ITU was introduced because of the insistence by U.S. businesses, which claimed the use requirement had a chilling effect on them.¹⁵⁹ When developing a mark, *i.e.*, investing money in a new product, businesses feared conflicts with a prior user who had established its rights before the investing businesses could establish any rights.¹⁶⁰

The TLRA made it possible to file an ITU application, even though the mark had not been used in commerce, based on a bona fide intent use it. If the protection requirements are satisfied, the PTO issues a "Notice of Allowance." Although no trademark rights are conferred at this stage, the filing of the ITU—contingent on the subsequent registration—acts as a "constructive use." The filing means that a priority date has been established; thus it is as if the mark had actually been used.¹⁶¹ However, the applicant must establish use within the six-month period following the Notice of Allowance. If use is not possible during that time, the applicant can file a written request for an extension for an additional six-months. Further six-month interval extensions, for a period of up to three years from the date of the Notice of Allowance, are possible. However, these extensions require a showing of "good cause."¹⁶² The PTO will accept a showing of ongoing efforts to make use of the mark, or alternatively, a satisfactory explanation for the failure to make such efforts.¹⁶³ The standards for showing either of these justifications are rather lenient. With regard to the first acceptable "good cause," general statements as to the efforts will suffice; proof of these efforts need not be furnished. An example of the required explanation of failure to make efforts to use the mark is the applicant's intent to use the mark on packaging, even though this packaging has not yet been developed. This explanation has been accepted by the PTO.¹⁶⁴ In fact,

¹⁵⁹ PHILLIP H. SMITH, *INTENT-TO-USE TRADEMARK PRACTICE*, 1-4 (1992).

¹⁶⁰ *Id.* at 2; Pierce, *supra* note 102, at 38 ("A pre-filing use standard is unrealistic. It is the requirement in our trademark law that most perplexes American businesses. Bringing a brand to market is costly in time, effort and money. To make one incur such costs before some assurance it may register or retain the brand is logistically perverse.")

¹⁶¹ Lanham Act § 7 (c), 15 U.S.C. § 1057 (c) (1994); Henry W. Leeds, *Intent To Use—Its Time Has Come*, 79 *TRADEMARK REP.* 269, 278-79 (1989).

¹⁶² MCCARTHY, *supra* note 2, § 19:25.

¹⁶³ *TRADEMARK MANUAL OF EXAMINING PROCEDURE* § 903.02(a); 37 C.F.R. § 2.89(d)(2) (1999); MCCARTHY, *supra* note 2, § 19:25.

¹⁶⁴ *In re Alco Indus. Inc.*, 34 U.S.P.Q.2d (BNA) 1799, 1800 (Comm'r Patents & Trademarks 1995).

generally, the PTO will not scrutinize the applicant's explanations. However, false statements, make the mark subject to challenges of the mark's validity.¹⁶⁵ In addition the applicant must verify his information by affidavit or a dedication form.¹⁶⁶ Companies are even able to file ITU applications for a number of marks although they are ultimately planning on using only one of these marks.¹⁶⁷ The PTO only issues a trademark registration once the applicant has filed a "statement of use" and has shown that the mark has actually been used. Although the ITU system does not confer any actual *de jure* trademark rights, it does so *de facto* through the constructive use effect.¹⁶⁸

Interestingly, the discussion of whether the U.S. should adopt an ITU system was triggered by the International Trademark Association (INTA)¹⁶⁹ whose organizational goal is to promote the role of trademarks worldwide. The TLRA was finally adopted in the interest of businesses that needed to bare their business plan and make commercially sound decisions on the availability of a certain trademark.¹⁷⁰ The goals of the TLRA indubitably reveal the changing notion towards protection in the interest of

¹⁶⁵ MCCARTHY, *supra* note 2, § 19:25.

¹⁶⁶ *Id.*

¹⁶⁷ Leeds, *supra* note 161, at 272; Carter, *supra* note 147, at 781 n.89.

¹⁶⁸ In addition, ITU can lead to retroactive application of the incontestability provisions. Under the Lanham Act, registered marks become incontestable after having been registered for five years, but this is true only within limits. 15 U.S.C. §§ 1065, 1115(b) (1994).

¹⁶⁹ Formerly known as the United States Trademark Association (USTA).

¹⁷⁰ See *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 783-84, 23 U.S.P.Q.2d (BNA) 1081, 1090 (1992) (stating that "the legislative history of the 1988 amendments reaffirms Congress' goals of protecting both businesses and consumers with the Lanham Act"); *Id.* at n.19 (quoting S.Rep. No. 100-515, p. 4 (1988):

[t]rademark protection is important to both consumers and producers. Trademark law protects the public by making consumers confident that they can identify brands they prefer and can purchase those brands without being confused or misled. Trademark laws also protects [sic] trademark owners. When the owner of a trademark has spent considerable time and money bringing a product to the marketplace, trademark law protects the producer from pirates and counterfeiters.);

The United States Trademark Association Trademark Review Commission Report and Recommendations to USTA President and Board of Directors, 77 TRADEMARK REP. 375, 392-93 (1987)

(A pre-filing use standard is unrealistic. It is the requirement in our trademark law that most perplexes American business. Bringing a brand to market is costly in time, effort and money. To make one incur such costs before some assurance it may register or retain the brand is logistically perverse. This is the main reason for token use applications. To the extent they are being filed and upheld, we now have, in effect, an intent-to-use system.)

entrepreneurs.¹⁷¹ They therefore express the same functional understanding of trademarks as German law.

d. Ownership and Use. The treatment of ownership of trademarks in the courts reveals that courts do not rigorously enforce the concept of prior use if the interests of certain businesses require a deviation from conventional principles. In determining the ownership of a trademark, courts often look at the agreements of the parties involved rather than at the perception of the consuming public.¹⁷² Traditionally the question whether the landlord or the tenant owns the mark of a hotel depends entirely on who used the mark and built up the good will in the mark. Applying the traditional understanding of marks as source-identifying and consumer-confusion preventing devices would lead to the conclusion that the owner of the mark will generally be the tenant who offers the hotel services. The mark is used in connection with the tenant's services and not in connection with the landlord's rental business. Courts, however, have acknowledged the landlord's obvious interest in exploiting a mark that the tenants are using.¹⁷³ Rather than emphasizing the use of the mark, courts tend to adhere to the contractual provisions between landlord and tenant.¹⁷⁴ The landlord's use of the mark in connection with the management of the building is sufficient to establish ownership.¹⁷⁵ These decisions reflect an understanding that whoever has the commercial interest in the mark, rather than whoever uses the mark as a source identifying device, should be entitled to exploit it.

¹⁷¹ See Todd B. Carver, *What Is the Impact of the Trademark Law Revision Act of 1988?*, 16 U. DAYTON L. REV. 129, 136-37 (1990) (noting that the goals of TLRA include "reduc[ing] the advantage foreign citizens enjoy in obtaining United States trademark rights [. . .], mak[ing] the trademark system more equitable for all trademark owners [. . .], enhanc[ing] the climate for investment by eliminating unnecessary and costly uncertainty [. . .], [and] creat[ing] commercially-sound procedures for establishing trademark rights without altering the fundamental principals of [American] trademark law.") (quoting Pub. L. No. 100-667, 102 Stat. 3936 (codified at 15 U.S.C. §§ 1051-1127 (1988))).

¹⁷² See *Norden Restaurant Corp. v. Sons of the Revolution*, 415 N.E.2d 956, 210 U.S.P.Q.(BNA) 944 (N.Y. 1980) (the case involved the famous building of "Fraunces Tavern" in Manhattan. The Court rejected the tenant's argument that his family had used the mark for over forty years, but instead emphasized the provisions of the lease.); *O'Grady v. McDonald*, 66 A. 175, 176 (N.J. Ch. 1907) (emphasizing the significance of the tenant-landlord relationship).

¹⁷³ See MCCARTHY, *supra* note 2, § 16:38 (citing various cases where landlord was given ownership of the trademark).

¹⁷⁴ See *supra* note 172 (discussing such cases).

¹⁷⁵ *Plitt Theatres, Inc. v. Am. Nat'l. Bank and Trust Co.*, 697 F. Supp. 1031, 1035, 9 U.S.P.Q.2d (BNA) 1226, 1230 (N.D. Ill. 1988).

Courts have also held that the name of a hotel attaches to and remains with the location, rather than with the particular proprietor.¹⁷⁶ Such a notion does not take into account that different owners might promote different quality standards. Although others have every incentive to uphold the quality standard that has been associated with a particular place, courts do not analyze whether a particular owner will uphold that standard. Thus, the location rationale constitutes a deviation from the consumer protection notion by emphasizing the landlord's interests.

The discrepancy is even more apparent in cases where an advertising agency is retained to create a mark.¹⁷⁷ The advertising agency does not use the mark on the goods for which it was created. The Federal Circuit, however, has held that the mark created by the agency does not merely designate the goods it was created for, but also is a source identifier for the agency's services, thus making the agency the legitimate trademark owner.¹⁷⁸ This decision takes into account a common business practice. It does not fit, however, with the traditional use requirement.

If there is no common control, joint ownership runs afoul of the consumer protection policy, *i.e.*, the source identification function. The T.T.A.B. has relied entirely on parties' agreements,¹⁷⁹ thus elevating the trademark owner's rights over the need for consumer protection. Especially critical is the case of dissolution of joint ownership of marks. From the consumer confusion standpoint, it is unthinkable to sanction a separation of the mark upon dissolution. However, courts have accepted such a separation by granting each partner his or her share.¹⁸⁰ Dividing ownership rights upon dissolution of a partnership, marriage, or joint venture contradicts the

¹⁷⁶ *Freeland v. Burdick*, 204 S.W. 1123, 1124 (Mo. App. 1918); *Stogop Realty Co. v. Marie Antoinette Hotel Co.*, 217 A.D. 555, 562 (N.Y. App. Div. 1926) (noting that "[i]t has been decided that the name established for a hotel is a trade-mark in which the proprietor has a valuable interest which a court will protect.").

¹⁷⁷ See MCCARTHY, *supra* note 2, § 16:39 (noting that advertising agencies, in some instances may acquire ownership rights in trademarks used to promote customer products).

¹⁷⁸ *In re Adver. & Mktg. Dev., Inc.*, 821 F.2d 614, 620, 2 U.S.P.Q.2d (BNA) 2010, 2014 (Fed. Cir. 1987).

¹⁷⁹ *In re Diamond Walnut Growers, Inc., and Sunsweet Growers Inc.*, 204 U.S.P.Q. (BNA) 507, 509-10 (T.T.A.B. 1979) (focused on contractual relationship because parties had strong interest to uphold reputation).

¹⁸⁰ See MCCARTHY, *supra* note 2, § 16:43 (citing various cases where rights were shared); *Oklahoma Beverage Co. v. Dr. Pepper Love Bottling Co.*, 565 F.2d 629, 631, 194 U.S.P.Q. (BNA) 184 (10th Cir. 1977) (the court hypothesized such a conclusion, but then found abandonment through nonuse). Courts have generally relied on dicta in *Menendez v. Holt*, 128 U.S. 514 (1888).

understanding of marks as consumer protection devices. Recently courts, however, have not adopted this conclusion and have treated trademarks as indivisible assets.¹⁸¹

Another noteworthy ownership problem arises when entertainment groups dissolve. Some courts focus on whether the group name is personal to the members or not;¹⁸² others grant ownership to the person who controls the quality and style of the group's music.¹⁸³ Courts have taken a variety of different approaches to solve the conflict of multiple ownership interest.¹⁸⁴ The case law generally focuses on the structure of the groups, *i.e.*, partnership or corporation law and only occasionally on consumer perception.¹⁸⁵

By disregarding the consumer confusion policy, courts diminish the traditional understanding of trademark functions and emphasize the parties' need for marks as devices that enhance business perspectives. The question of ownership is pertinent in a distributor and manufacturer relationship. The manufacturer, as well as the distributor, may be the owner of trademarks. It seems that under traditional analysis, the manufacturer who produces the goods should be rewarded with ownership of the mark. However, it is well-established that the distributor of goods may own the

¹⁸¹ See MCCARTHY, *supra* note 2, § 16:44 (citing the modern view of a trademark as being indivisible, in light of the consumer protection policy); *see, e.g.*, *Bell v. Streetwise Records, Ltd.*, 761 F.2d 67, 74, 226 U.S.P.Q.(BNA) 745, 750 (1st Cir. 1985) (where court showed reluctance to divide the rights to a music group's trademark name).

¹⁸² *Fuqua v. Watson*, 107 U.S.P.Q.(BNA) 251, 252 (N.Y. Sup. 1955); *see generally*, *Cheng v. Dispeker*, 35 U.S.P.Q.2d (BNA) 1493, 1496 (S.D.N.Y. 1995) (noting that under both the "control" test, which determines ownership based on who controls the nature or quality of the services, and the "personal" test, which determines ownership based on whether the mark is personal to the performers, the plaintiff performers would lose).

¹⁸³ *Bell v. Streetwise Records*, 640 F. Supp. 575, 580, 231 U.S.P.Q. (BNA) 281 (D. Mass. 1986); *see generally Cheng*, 35 U.S.P.Q.2d (BNA) 1493, 1496 (discussing the "control" test).

¹⁸⁴ See MCCARTHY, *supra* note 2, § 16:45 (discussing the various cases and methods of resolution).

¹⁸⁵ *E.g.*, *Rare Earth, Inc. v. Hoorelbeke*, 401 F. Supp. 26, 187 U.S.P.Q. (BNA) 271 (S.D.N.Y. 1975) (relying on corporation law); *Fuqua*, 107 U.S.P.Q.(BNA) 251 (relying on partnership law). MCCARTHY, *supra* note 2, § 16:45, suggests that one first determine whether the mark is personal to the group; and if the answer is "no" then determine who controls the quality and style of the music. *Cheng*, 35 U.S.P.Q.2d (BNA) 1493 adopted this approach. Performers have pushed for a bill to enhance their rights and allow them to use the names of the groups they made famous, even though the trademark is owned by the record companies. Such a bill has now been introduced as the "Truth in Rock Act," bill H.R. 1125. *See 4/2/1999 PTD d2 Legislation: 'Truth in Rock Act' Targets Imposter Musical Groups; 5/7/1999 PTD d2 Trademarks: Witnesses Back Bill Permitting Challenges to Trademark Registrations Before Board.*

trademark for goods he does not manufacture.¹⁸⁶ Where the distributor, controls to some extent the production, this notion appears to conform with the source identifying function as well as with the quality function of trademarks.¹⁸⁷ Such a control, however, will not be present in the case of promotional items. Nevertheless, the T.T.A.B. has often held that the promoter is entitled to the trademark rights in the marks used on these items.¹⁸⁸ Further, in disputes between manufacturers and distributors, courts generally emphasize the contractual agreements between the parties in determining ownership, rather than the consumer perceptions.¹⁸⁹

e. Priority and Use. Two other concepts give evidence of the practical need to deviate from the strict common law use requirement in certain situations. The first is the challenge courts face regarding the use requirement when an entrepreneur is preparing to do business.¹⁹⁰ Such a case typically involves two companies fighting over a common law priority in a certain mark.¹⁹¹ A strict application of the rule that a mark is merely a symbol of existing goodwill should attach protection only to cases where

¹⁸⁶ See MCCARTHY, *supra* note 2, § 16:46. McCarthy gives the example of Sears, Roebuck & Co., which is the owner of many marks, but does not produce the goods bearing its marks.

¹⁸⁷ Premier Dental Products Co. v. Darby Dental Supply Co., Inc., 794 F.2d 850, 854, 230 U.S.P.Q.(BNA) 233, 235 (3rd Cir. 1986) (noting that [t]he use of a trademark does not necessarily and as a matter of law import that the articles upon which it is used are manufactured by its user. It may be enough that they are manufactured for him, that he controls their production, or even that they pass through his hands in the course of trade, and that he gives to them the benefit of his reputation, or of his name and business style. The decisive question is not who manufactured the article sold under a given trademark, but which business or article is symbolized by it.

See the discussion *infra* § III.B.3., of control required for license agreements; MCCARTHY, *supra* note 2, § 16:46 (discussing "dealer's trademarks" owned by distributors of goods over the manufacturer of those goods).

¹⁸⁸ E.g. Standard Pressed Steel Co. v. Midwest Chrome Process Co., 183 U.S.P.Q.(BNA) 758 (T.T.A.B. 1974); Amica Mutual Insurance Co. v. R. H. Cosmetics Corp., 204 U.S.P.Q.(BNA) 155 (T.T.A.B. 1979); McDonald's Corp. v. McKinley, 13 U.S.P.Q.2d (BNA) 1895 (T.T.A.B. 1989); see MCCARTHY, *supra* note 2, § 16:46 (agreeing that the market mechanism of consumer (dis)satisfaction is a sufficient control guard). *But see* § 18:61 (noting the legal gamble that is taken when the licensor is not given any true control over product quality).

¹⁸⁹ See MCCARTHY, *supra* note 2, § 16:48 (stating that courts generally hold the contract to be determinative as to mark ownership); E. F. Prichard Co. v. Consumers Brewing Co., 136 F.2d 512, 58 U.S.P.Q.(BNA) 362 (6th Cir. 1943) (analyzing the case under contract law and rejecting the applicability of the principles of trademark law).

¹⁹⁰ See MCCARTHY, *supra* note 2, § 16:12 (discussing the traditional rule that the use of a symbol in preliminary steps to establishing a business does not warrant federal registration).

¹⁹¹ This problem is distinguishable from the concept of "token use." The priority and use problem is concerned with the establishment of common law trademark rights, whereas "token use" was construed to allow federal registration.

such goodwill has in fact been established.¹⁹² Thus, if two persons choose the same mark for their future business, whoever uses the mark first should prevail in the race for trademark ownership. This follows the bedrock principle that common law trademarks flow "from the first actual use of a mark in a genuine commercial transaction."¹⁹³ Accordingly, courts have held internal shipments¹⁹⁴ and pre-marketing consultations¹⁹⁵ inadequate to establish prior use. Several cases give evidence that this conventional approach is not applied rigorously, but rather stretched and replaced by equitable concerns and the totality of circumstances.¹⁹⁶

In *George Washington Mint, Inc. v. Washington Mint, Inc.*¹⁹⁷ the District Court for the Southern District of New York granted priority to the plaintiff for being first to solicit and accept orders although the defendant had been the first to actually conduct sales.¹⁹⁸ Similarly, the Ninth Circuit, in *New West Corp. v. NYM Co.*, held that defendant could claim priority due

¹⁹² See MCCARTHY, *supra* note 2, § 16:12 (noting that the traditional rule does not recognize a mark as a symbol of business good will until the business is actually established); *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036, 1051, 50 U.S.P.Q.2d (BNA) 1545, 1555 (9th Cir. 1999) (stating:

The Lanham Act grants trademark protection only to marks that are used to identify and to distinguish goods or services in commerce—which typically occurs when a mark is used in conjunction with the actual sale of goods or services. The purpose of a trademark is to help consumers identify the source, but a mark cannot serve a source-identifying function if the public has never seen the mark and thus is not meritorious of trademark protection until it is used in public in a manner that creates an association among consumers between the mark and the mark's owner.)

¹⁹³ *Allard Enterprises, Inc. v. Advanced Programming Resources, Inc.*, 146 F.3d 350, 358 46 U.S.P.Q.2d (BNA) 1865, 1871 (6th Cir. 1998).

¹⁹⁴ See, e.g., *Blue Bell, Inc. v. Farah Mfg. Co.*, 508 F.2d 1260, 1265, 185 U.S.P.Q. (BNA) 1, 4 (5th Cir. 1975) (finding shipment of product to regional managers inadequate to secure trademark rights); *Zazu Designs v. L'Oreal, S.A.*, 979 F.2d 499, 505, 24 U.S.P.Q.2d (BNA) 1828, 1833 (7th Cir. 1992) (detailing the various pre-marketing maneuvers held insufficient to secure trademark rights).

¹⁹⁵ *Id.* at 505.

¹⁹⁶ See MCCARTHY, *supra* note 2, § 16:13 (quoting the Second Circuit decision of *Chandon Champagne Corp. v. San Marino Wine Corp.*, 335 F.2d 531, 534, 142 U.S.P.Q. (BNA) 239, 242 (2nd Cir. 1964), "the concept of priority in the law of trademarks is applied 'not in its calendar sense' but on the basis of 'the equities involved' "); *New West Corp. v. NYM Co.*, 595 F.2d 1194, 1200, 202 U.S.P.Q. (BNA) 643, 648 (9th Cir. 1979) (stating "the totality of [one's] prior actions, taken together, [can] establish a right to use the trade-mark.").

¹⁹⁷ 349 F. Supp. 255, 176 U.S.P.Q. (BNA) 251 (S.D.N.Y. 1972).

¹⁹⁸ *Id.* at 260 (noting that actual sale was not required; here the plaintiff had begun solicitation with the mark and sample plates at a time that the defendant had been actually using the mark); MCCARTHY, *supra* note 2, § 16:13.

to its promotion and sales solicitation, which took place before defendant issued and sold a "preview edition."¹⁹⁹

Other cases have held that a use of the mark analogous to trademark use—i.e., in a manner intended to create an association in the mind of the relevant purchasing public between the mark, the goods to be offered, and a single source—is sufficient to establish common law use.²⁰⁰ Pre-sale "analogous use" of the mark is established by conduct such as publicity in advertising brochures, catalogs, newspaper ads, and articles in newspapers and trade publications,²⁰¹ or even by the placement of a sign on a construction site.²⁰² "The 'talismanic test' is whether the mark was used 'in a way sufficiently public to identify or distinguish the marked goods in an appropriate segment of the public mind as those of the adopter of the mark.'"²⁰³ Thus, the court in *Housing & Services, Inc. v. Minton*, the case concerning "Minton's Playhouse," held that promotional activities, the erection of a neon sign, plus substantial coverage in the print media were sufficient to establish such prior use.²⁰⁴ Although U.S. law burdens business entrepreneurs with uncertainty as to their ownership status in the pre-sale

¹⁹⁹ *New West Corp.*, 595 F.2d 1194; See MCCARTHY, *supra* note 2, § 16:13 (pointing out that one should add that the plaintiff had rushed the market with its "preview edition" for the sole purpose of preempting defendant's subsequent sales).

²⁰⁰ *T.A.B. Systems v. Pactel Teletrac*, 77 F.3d 1372, 1374, 37 U.S.P.Q.2d (BNA) 1879, 1881 (Fed. Cir. 1996) (involving the opposition to the registration of the mark "TELETRAK"; the issue was whether the opposing party, Pactel Teletrac, had used the mark analogous to service mark use prior to the applicant's, T.A.B.'s, claimed priority date); *American Stock Exc., Inc. v. American Express Co.*, 207 U.S.P.Q. (BNA) 356, 363 (T.T.A.B. 1980) ("[I]t is settled that use of a mark in a manner analogous to trademark use, such as use in advertising, use as a grade mark, use as a salient or distinguishing feature of a trade name, use of an acronym or of the initial letters of a corporate, etc., may be considered in computing the length of use for determining ownership of a mark.").

²⁰¹ *T.A.B. Systems*, 77 F.3d at 1375.

²⁰² *Liqwacon Corp. v. Browning-Ferris Indus., Inc.*, 203 U.S.P.Q. (BNA) 305, 309 (T.T.A.B. 1979); see *Housing & Serv., Inc. v. Minton*, No. 97 Civ. 2725 (SHS), 1997 WL 349949 (S.D.N.Y. June 24, 1997). This case involved the plaintiff's efforts to reopen the famous jazz club "Minton's Playhouse" in Harlem New York. The issue was whether the plaintiff had demonstrated a bona fide commercial use of the mark prior to any such use by defendant, Kevin Minton, the nephew of the founder of the original "Minton's Playhouse." The court held that the plaintiff's promotional activities established sufficient use for purposes of an injunction against defendant.

²⁰³ *Housing & Services, Inc.*, 1997 WL 349949, at *4.

²⁰⁴ *Id.*

phase,²⁰⁵ court rulings express an understanding that deviates from the traditional understanding of the role of trademarks.

Another legal concept grants ownership rights to the interested party solely on the grounds that the public has come to associate the mark with the owner, although the party has not used the mark itself.²⁰⁶ This deviation, however, although de-emphasizing the use requirement, does not de-emphasize the consumer confusion policy. On the contrary, it stresses

²⁰⁵ See *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036, 1052, 50 U.S.P.Q.2d (BNA) 1545, 1555-56 (9th Cir. 1999) (use of "moviebuff.com" in e-mail correspondence with lawyers and customers did not establish priority as this was not "[u]se in a way sufficiently public to identify or distinguish the marked goods in an appropriate segment of the public mind as those of the adopter of the mark."); *Allard Enter., Inc. v. Advanced Programming Resources, Inc.*, 146 F.3d 350, 46 U.S.P.Q.2d (BNA) 1865 (6th Cir. 1998) (defendant's word of mouth or relationship marketing could be considered genuine use of the mark in commerce); *Circuit City Stores, Inc. v. CarMax, Inc.*, 165 F.3d 1047, 49 U.S.P.Q.2d (BNA) 1507 (6th Cir. 1999) (the use of the trade name in radio advertisements did not demonstrate the consistent and continuous use necessary to establish a senior right); *Buti v. Perosa, S.R.L.*, 139 F.3d 98, 45 U.S.P.Q.2d (BNA) 1985 (2nd Cir. 1998) (mere advertising for a promotion of a mark is insufficient to constitute use of the mark in commerce within the meaning of the Lanham Act).

²⁰⁶ See *Univ. Book Store v. Univ. of Wisconsin Bd. of Regents*, 33 U.S.P.Q.2d (BNA) 1385, 1392 n.21 (T.T.A.B. 1994) (involving a dispute between the University of Wisconsin and the University Book Store, which opposed the University's registration of various badger marks). In this case, the court disposed of the argument that the University was not the first to adopt and use the marks by stating, "an entity may have 'a protectable property right in [a] term even if the company itself has made no use of the term' provided that the public has come to associate the term with the entity or its goods or services." *Id.* See *American Stock Exch., Inc. v. Am. Express Co.*, 207 U.S.P.Q. (BNA) 356, 364 (T.T.A.B. 1980) (in assessing priority of use of the term "AMEX" between American Express and the American Stock Exchange, the court noted that

where the public has come to associate a term with a particular company and/or its goods or services as a result, for example, of use of the term in the trade and by the news media, that company has a protectable property right in the term even if the company itself has made no use of the term);

Coca-Cola Co. v. Busch, 44 F. Supp. 405, 52 U.S.P.Q. (BNA) 377 (E.D.Pa. 1942) (granting Coca-Cola the ownership right in "Coke" although the company itself had never used the mark on its product); *National Cable Television Ass'n v. Am. Cinema Editors, Inc.*, 937 F.2d 1572, 1577-78, 19 U.S.P.Q.2d (BNA) 1424, 1428 (Fed. Cir. 1991) (in assessing whether sufficient use of the mark "ACE" had been made, the court stated that "[s]uch public use by others inures to the claimant's benefit and, where this occurs, public use can reasonably be deemed use 'by' that party in the sense of a use on its behalf"); *Harley-Davidson, Inc. v. Grottanelli*, 164 F.3d 806, 812, 49 U.S.P.Q.2d (BNA) 1458, 1462 (2nd Cir. 1999) (involving the term "Hog" for motorcycles, the Second Circuit rejected the argument that Harley-Davidson could claim proprietary rights in the term because " 'hog' was a generic term in the language as applied to large motorcycles before the public (or at least some segments of it) began using the word to refer to Harley-Davidson motorcycles"); see also *National Cable Television Ass'n.*, 937 F.2d at 1578 (finding that "[p]rior public identification of petitioner with the name ACE for awards from use analogous to service mark usage is sufficient ground for cancellation"); *T.A.B. Systems v. Pactel Teletrac*, 77 F.3d 1372, 1375, 37 U.S.P.Q.2d (BNA) 1879, 1881-82 (Fed. Cir. 1996) (stating that the concepts do overlap as far as the potential mark owner's use and public's perception lead to the conclusion of ownership).

consumer perceptions by granting ownership merely because of public associations. Judge Posner's ruling in *Illinois High School Ass'n v. GTE Vantage*²⁰⁷ however, seems to run afoul of the consumer protection policy by implying that the plaintiff, as well as the defendant, is entitled to use the term "March Madness" to designate each party's respective services.²⁰⁸ Posner held that although the term "March Madness" originated with the Illinois High School Association's annual state high school basketball tournament, the public associated it with the National Collegiate Athletic Association's men's basketball tournament. Although he did not address the scope of the parties' respective rights, he did allow "dual use" or concurrent use by both parties.²⁰⁹ Such a "dual use" concept effectively weakens the consumer confusion rationale because it implies that a mark is used by more than one unrelated entity.²¹⁰

f. Trademark Law Treaty. My final point regarding the deviations allowed by U.S. law relates to the Trademark Law Treaty (TLT). Although the adoption of the TLT²¹¹ supposedly required only minor adjustments to U.S. trademark law,²¹² some requirements of the TLT seem to de-emphasize

²⁰⁷ 99 F.3d 244, 40 U.S.P.Q.2d (BNA) 1633 (7th Cir. 1996).

²⁰⁸ See Joseph E. Washington, *The Impact of Public and Media Use On Trademark Rights: An Analysis of Illinois High School Ass'n v. GTE Vantage Inc. and "dual-use" Terms*, 48 CATH. U. L. REV. 605, 607-12 (1999) (discussing *Illinois High School Ass'n*).

²⁰⁹ *Id.* at 609-10.

²¹⁰ *Id.*

²¹¹ Work on the Trademark Law Treaty (TLT) began in 1987 under the supervision of the World Intellectual Property Organization (WIPO). Although the project originally aimed at harmonizing procedural as well as substantive trademark protection requirements, this ambitious goal had to be adjusted in the course of the negotiations. When the TLT subsequently opened for signature in 1994, its proclaimed aim was to make national and regional trademark registration systems more user friendly. World Intellectual Property Organization, *Trademark Law Treaty ("TLT") 1994* (visited Aug. 16, 1999) <<http://www.wipo.org/eng/main.htm>>. This goal is accomplished through a list of maximum formal requirements that may be imposed on applicants and another list of prohibited formal requirements. See Leaffer, *supra* note 74, at 20-21 (describing the formal requirements); FEZER, *supra* note 9, Int. MarkenR. cmt. nos. 13-14 (describing the formal requirements). The TLT, furthermore, contains provisions regarding formalities in the post-registration stage and when renewals are sought. WIPO, *Trademark Law Treaty ("TLT") 1994* (visited August 16, 1999) <<http://www.wipo.org/eng/main.htm>>; See Leaffer, *supra* note 74, at 21. In December of 1998, 22 countries were party to the treaty. See WIPO, *Contracting Parties of Treaties Administered by WIPO*, (visited August 16, 1999) <<http://www.wipo.org/eng/main.htm>> for the status of ratification and accession on July 13, 1999. The U.S. signed the Trademark Law Treaty Implementation Act into law on October 30, 1998; this act implements U.S. accession to the TLT. 11/12/1998 PTD d3, *Legislation: Trademark Law Treaty Bill Receives President's Signature*.

²¹² 6/11/1999 PTD d3, *Trademarks: Hearing Considers Rule Amendment Proposal for Trademark Law Treaty Implementation*; 11/12/1998 PTD d3, *Legislation: Trademark Law Treaty Bill Receives President's Signature*; 10/1/1998 PTD d2, *Legislation: Senate Passes Trademark Treaty Act with Technical Amendments*

the use requirement.²¹³ Generally, registered trademarks are of infinite duration if the trademark owner initiates the required renewal procedure.²¹⁴ The obvious purpose of the renewal requirement is to eliminate “deadwood” from the register.²¹⁵ TLT article 13 prohibits requiring the proof of use, *i.e.*, an affidavit of use, which used to be a prerequisite for the renewal of a registration in the U.S.²¹⁶ The U.S., however, did not eliminate this “affidavit of use” requirement altogether. U.S. law requires trademark owners to file an “affidavit of continued use” during the fifth year of registration.²¹⁷ The TLT does not formally prevent contracting parties from imposing such a requirement. Its proscription extends only to a renewal procedure after ten years of registration. Thus, the Trademark Law Treaty Implementation Act formally complies with the TLT’s proscription by eliminating the “affidavit of use” requirement for the renewal of registrations.²¹⁸ At the same time, however, this Act imposes a new “affidavit of use” requirement after ten years of registration as part of a general periodic filing scheme.²¹⁹ Thus, the requirement of eliminating proof of use as a condition of renewal is circumvented without formally violating the TLT²²⁰ and without deviating from the use requirement.

A look at the TLT discloses another provision that seems to weaken the notion of use as a prerequisite to protection. Article 3(7)(ii) of the TLT prohibits countries from requiring applicants to prove the existence of a business establishment before the respective Trademark Offices grant a registration.²²¹ The Lanham Act does not explicitly require the existence of

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²¹³ Port, *supra* note 68, at 38-40.

²¹⁴ *E.g.*, Lanham Act §§ 8, 9, 15 U.S.C. §§ 1058, 1059 (1998) (amended by Pub. L. No. 106-113, 113 Stat. 1501 (1999)); German Trademark Act § 47; UK Trade Marks Act of 1994 §§ 42, 43; FEZER, *supra* note 9, § 47 cmt. no. 1. TRIPS Art. 18 requires a minimum duration of seven years.

²¹⁵ MCCARTHY, *supra* note 2, § 19:142.

²¹⁶ *Id.* at § 19:142.1.

²¹⁷ Lanham Act § 8, 15 U.S.C. § 1058 (1998) (amended by Pub. L. No. 106-113, 1313 Stat. 1501).

²¹⁸ Lanham Act § 9, 15 U.S.C. § 1059 (1998) (amended by Pub. L. No. 106-113, 113 Stat. 1501 (1999)).

²¹⁹ Lanham Act § 8 (a)(3), 15 U.S.C. § 1058(a)(3) (1998) (amended by Pub. L. No. 106-113, 113 Stat. 1501 (1999)); MCCARTHY, *supra* note 2, § 19:142.1.

²²⁰ MCCARTHY, *supra* note 2, § 19:142.1; Port, *supra* note 68, at 41.

²²¹ TLT Art. 3(7), in relevant part reads,

No Contracting Party may demand that requirements other than those referred to in paragraphs (1) to (4) and (6) be complied with in respect of the application. In particular, the following must not be required in respect of the application throughout its pendency:

[. . .] (ii) an indication of the applicant’s carrying on of an industrial or commercial

a business establishment. However, U.S. trademark law requires use or intent-to-use as a prerequisite to receiving trademark rights, both of which are permissible requirements under the TLT.²²² The use/ITU requirement undermines the possibility of separability of the business establishment from the mark. The existence of a business establishment is inherent to commercial use. Requiring that a mark be used before it is protected is tantamount to requiring the existence of a business establishment.²²³

Notwithstanding this conclusion, the relevant provision of the TLT expresses a notion corresponding to the German understanding of a trademark as a right existing in the interest of the respective owner. This notion corresponds with the overall aim of the TLT, which is to facilitate registration by making the process more user friendly.²²⁴

Although the changes required for U.S. law by the TLT might have been minor and without practical effect, the U.S.'s adherence to the treaty is a sign of a shift from treating trademarks as consumer protection devices to treating trademarks as rights for the sake of the owner.

5. *Concerns with Registration System.* Although the common law tradition might be the reason for the initial introduction of the use-based system in the U.S., this alone does not explain the adherence to this system. If the deviations outlined above are necessary developments that take modern business practices and needs into account, the question of why a use-based system should be maintained becomes ever more pertinent.

A more fundamental concern with the registration-based system, aside from the constitutional matter, is its conferral of exclusive rights to a mark that does not serve the main function of distinguishing products in the marketplace. These marks do not represent the good will of the holder; thus they do not indicate origin and cannot serve to prevent customer confusion.

Why is there a reluctance to confer trademark rights, if they are not essential to prevent consumer confusion? While the repugnance of allowing

activity, as well as the furnishing of evidence to that effect."

²²² TLT Art. 3(1)(a)(xvii), (b).

²²³ See discussion *infra* text accompanying notes 290-300 (discussing concerns with separability of good will and business establishment).

²²⁴ See WIPO, *Trademark Law Treaty ("TLT") 1994* (visited August 16, 1999) <<http://www.wipo.org/eng/main.htm>> ("The aim of the TLT is to make national and regional trademark registration systems more user friendly. This is achieved through the simplification and harmonization of procedures and through removing pitfalls, thus making the procedure safe for the owners of marks and their representatives.").

monopolies to exist might be a viable cultural justification, this alone should not satisfy the curious lawyer trained under the civil law system.

The predominant concern is not so much the fact that trademarks might have anti-competitive effects. Some commentators claim that consumer susceptibility to suggestive advertising restrains competition over goods themselves.²²⁵ However, trademarks in the U.S. are generally considered beneficial because they reduce consumer search costs²²⁶ and encourage the production of quality products,²²⁷ while not producing significant deadweight costs on the consumer. Economists reject the antitrust monopoly analysis with regard to trademarks.²²⁸ This rejection constitutes the main difference between the trademark right and the patent and copyright monopolies.²²⁹ In 1985, the U.S. Supreme Court acknowledged that trademarks promote competition.²³⁰ The German and the European understanding of the benefits inherent to trademarks is similar.²³¹

This understanding does not lead to the conclusion that a registration system is just as efficient as a use-based system or vice versa. Landes and Posner, in their much quoted article on the economics of trademarks, discussed the economic efficiency of the acquisition of trademarks. A "first possession rule," *i.e.*, a use-based system, minimizes rent seeking costs. While a registration system might draw resources into the creation of trademarks

²²⁵ Klieger, *supra* note 22, at 856-60; Davis, *supra* note 101, at 244-45.

²²⁶ William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265 (1987). Landes and Posner illustrate this point by hypothesizing a consumer eager to purchase decaffeinated coffee made by General Foods.

If General Foods brand had no name, then to order it in a restaurant or grocery store you would have to ask for 'the decaffeinated coffee made by General Foods.' This takes longer to say, requires you to remember more, and requires the waiter or clerk to read and remember more than if you can just ask for 'Sanka.'

Id. at 268-69; see also Roger E. Meiners & Robert J. Staaf, *Patents, Copyrights, and Trademarks: Property or Monopoly?*, 13 HARV. J.L. & PUB. POL'Y 911, 931 (1990) (stating that the qualities of many products cannot be determined without looking at the purchase price).

²²⁷ MCCARTHY, *supra* note 2, at § 2.05(2) (describing the monopoly theory as a "misnomer."). *But see* Carter, *supra* note 147, at 768 (rejecting a registration system on grounds of the language exclusivity argument).

²²⁸ Landes & Posner, *supra* note 226, at 275-80.

²²⁹ For this reason Art. I, § 8 of the U.S. Constitution secures these monopolies for only a limited time. See, ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 125-26 (1997) (describing the origin of patents and copyrights in the U.S.).

²³⁰ *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 193, 198, 224 U.S.P.Q. (BNA) 327, 329, 331 (1985).

²³¹ BVerfGE 51, 193; FEZER, *supra* note 9, cmt. nos. 18-21.

beyond the optimal level of such an investment.²³² In addition to this, Landes and Posner state that a use-based system induces enforcement costs only where the trademark is likely to yield the net social benefits associated with trademarks.²³³

Another argument in favor of the use-based system claims that it is inefficient to confer rights in words without prior use. This view suggests that some words are better than others for the purposes of labeling goods²³⁴ and that firms that choose more descriptive or suggestive marks face lower entry costs and lower long-run costs. If this is so, the conclusion that a registration system gives the clever entrepreneur an undue advantage on a first-come-first-served basis has some ground. Although this presumption is questionable,²³⁵ it remains clear that a strict reservation system “would frustrate another’s legitimate wish to use that mark or a similar one, and furthermore vest the registrant with substantial rights of no justifiable basis.”²³⁶

Additionally, a pure registration system, without safeguards, enables third parties to register marks for the mere purpose of capitalizing on other companies’ legitimate interest in such a mark.²³⁷

6. *Safeguards under German Law-Obligation to Use.* The German system of trademark protection acknowledges these concerns. It is therefore axiomatic for German trademark law that marks must be used in compliance

²³² Landes & Posner, *supra* note 226, at 281.

²³³ *Id.* at 282.

²³⁴ Carter, *supra* note 147, at 768-75; Susannah Hart, *Developing New Brand Names*, in BRANDS, THE NEW WEALTH CREATORS 34, 42-45 (Susannah Hart & John Murphy eds., 1998) (discouraging the choice of descriptive names as trademarks because they are less protectable, but suggesting the choice of associative terms).

²³⁵ Landes & Posner, *supra* note 226, at 289-90; Carter, *supra* note 147, at 771; Parker, *supra* note 106, at 338, (stating:

First, the idea that companies reserve trademarks for anticompetitive reasons presumes that there are a finite number of “good” trademarks. This seems far from clear. For example, would IBM have bothered to reserve the mark APPLE for personal computers? Even if it did, an arbitrary mark like APPLE had no particular value in connection with computers prior to its use. As a matter of logic, it seems probable that the marks that are most susceptible to being reserved for anticompetitive purposes would tend to be descriptive marks that have informational or advertising value to competitors.);

see *Coca-Cola Co. v. Old Dominion Beverage Corp.*, 271 F. 600, 604 (4th Cir. 1921) (enjoining defendants from using the word “Taka-Cola” and stating, “Plaintiff’s rights are limited to at the most to two words. All the rest of infinity is open to defendant.”).

²³⁶ Pickering, *supra* note 13, at 14.

²³⁷ See *infra* § III.A.6.b. (discussing bad faith application); *Classe E*, OLG Frankfurt, GRUR 1998, 704.

with their function.²³⁸ The so-called "obligation to use"²³⁹ a mark was introduced into German law as early as 1967.²⁴⁰ The introduction was supposed to serve several purposes. The register²⁴¹ was overloaded and the Patent Office had to deal with more and more applications, which led to an increase in oppositions. This increased activity triggered the need for relief to both the Patent Office and the Federal Patent Court²⁴² and also made it necessary to restrict the registration of defensive marks²⁴³ and the warehousing of marks.²⁴⁴ Thus, marks would be protected only if someone might use them.²⁴⁵ At the same time the use requirement would enhance the opportunities for businesses to obtain new trademarks.²⁴⁶ Today, section 25 of the Trademark Act contains the basic provision, which constitutes the obligation to use marks. It is an obligation only insofar as it prevents the proprietor from enforcing his trademark rights if he does not use the trademark within five years of registration.²⁴⁷ Further, any person has

²³⁸ BT-Drucks., Begründung zum Markengesetz, *supra* note 48, at 82; FEZER, *supra* note 9, Vorb. § 25 note 1; Miriam Kellerhals, *Der Benutzungszwang im Gemeinschaftsmarkenrecht*, GRUR Int. 1999, 14.

²³⁹ In German, Benutzungszwang.

²⁴⁰ Gesetz zur Änderung des Patentgesetzes, des Warenzeichengesetzes und weiterer Gesetze v.4. September 1967 (BGBl. I 1967, 953 and BGBl. I 1968, 29) (also known as "Vorabgesetz"); FEZER, *DER BENUTZUNGSZWANG IM MARKENRECHT*, 15 (1974).

²⁴¹ In those days the register was referred to as "Zeichenrolle."

²⁴² The German Federal Patent Court is called *Bundespatentgericht*; it is the Court of first Appeal in registration proceedings. See FEZER, *supra* note 240, at 16 (claiming that this increase in activity was the main purpose for imposing the "obligation to use"). *But see* INGERL & ROHNKE, *supra* note 9, § 26 cmt. no. 9 (questioning the increased activity rationale as multiple registrations occur just as well under the "obligation to use" system).

²⁴³ Defensive marks are called *Defensivmarken*. These are marks that are registered, not for purposes of later use, but rather for the mere protection of a main mark against the use of similar marks. In comparison to "warehousing," these marks are not meant to be used at any point. ADOLF BAUMBACH & WOLFGANG HEFERMEHL, *WARENZEICHENRECHT*, § 1 cmt. no. 50 (1985); FEZER, *supra* note 240, at 16.

²⁴⁴ RUDOLF BUSSE, *WARENZEICHENGESETZ*, Einl. cmt. no. 13, § 5 cmt. no. 44 (1976); Kellerhals, *supra* note 238, at 14; INGERL & ROHNKE, *supra* note 9, § 26 cmt. no. 7.

²⁴⁵ FEZER, *supra* note 240, at 16.

²⁴⁶ INGERL & ROHNKE, *supra* note 9, § 26 cmt. no. 8; Cirkulin, BGH GRUR 1997, 747 (749). The Court additionally mentioned the origin function as a rationale for the obligation to use. The authority referred to by the Supreme Court, however, concerns the old German Trademark law.

²⁴⁷ German Trademark Act, *supra* note 1, § 25. The German Trademark Act, in relevant part, reads: Exclusion of Claims because of Insufficient Use

(1) The proprietor of a registered trademark cannot assert any claims against third parties within the meaning of Sections 14, 18 and 19, if the trademark has not been used pursuant to Section 26 within the last five years prior to the assertion of the claim for the goods or services cited by him to substantiate his claim, provided, that the trademark has been registered for a period of at least five years on this date.

standing to seek legal action for cancellation of a mark that has not been used.²⁴⁸ This provision, which eliminates deadwood from the register, serves the public interest²⁴⁹ and minimizes the number of possible conflicts between existing marks.²⁵⁰

Section 26 of the Trademark Act stipulates the type of uses that are sufficient for purposes of the use obligation. The Trademark Act explicitly allows use by third parties with the consent of the proprietor and uses of the mark in a different form, as long as the differences do not alter the distinctive nature of the mark.²⁵¹ Importantly, the trademark owner is obliged to put the mark to genuine use; sham uses will not suffice to fulfill the use requirement.²⁵² The Supreme Court, *Bundesgerichtshof (BGH)*, has frequently held that the decisive question is whether the claimed use is economically reasonable. Courts take a global approach, taking into account the overall

²⁴⁸ German Trademark Act, *supra* note 1, at §§ 49(1), 55(1), (2) Nr.1 (“*Popularklage*”); BT-Drucks., Begründung zum Markengesetz, *supra* note 48, at 98. There is some dispute among German scholars about whether such a “*quivis ex populo*” is justified in cases where the cancelled mark could not be used by third parties anyway and whether foreigners without a commercial link to Germany should be entitled to commence such an action. See INGERL & ROHNKE, *supra* note 9, § 55 cmt. no. 5 (in favor of general standing). *But see* FEZER, *supra* note 9, § 55 cmt. nos. 4-5 (taking a more restrictive position).

²⁴⁹ INGERL & ROHNKE, *supra* note 9, § 55 cmt. no. 5; FEZER, *supra* note 9, § 55 cmt. no. 4.

²⁵⁰ INGERL & ROHNKE, *supra* note 9, § 26 cmt. no. 8; *see also* RALF HACKBARTH, GRUNDFRAGEN DES BENUTZUNGSZWANGES IM GEMEINSCHAFTSMARKENRECHT, 2-4 (1992) (concerning the EU Community Trademark; Hackbarth emphasizes that there was hardly any other provision whose adoption was so undisputed as the one regarding the obligation to use a mark).

²⁵¹ German Trademark Act, *supra* note 1, § 26. This section of the German Trademark Act reads:

(1) Insofar as the assertion of claims resulting from a registered trade mark or the maintenance of the registration depends on the fact that the trade mark has been used, it must have been used genuinely by the proprietor in the Federal Republic of Germany in connection with the goods or services in respect of which it is registered, unless there are proper reasons for non-use.

(2) Use of the trademark with the consent of the proprietor shall be deemed to constitute use by the proprietor.

(3) The use of the trade mark in a form differing from the form in which it was registered shall also constitute use of a registered trade mark, provided that the differences do not alter the distinctive nature of the trade mark. Sentence 1 shall also apply if the trade mark is also registered in the form in which it has been used.

²⁵² *See* BT-Drucks., Begründung zum Markengesetz, *supra* note 48, at 83 (avoiding dummy uses is the explicit purpose of the “genuine use” requirement); Old German Trademark Act, Warenzeichengesetz v.5. Mai 1936 (RGBl. II S. 134 and BGBl. I S. 29, BGBl. III 4 No. 423-1) (as amended) (not explicitly requiring “genuine use”; the interpretation of the use requirement was left to the courts and the courts did require genuine use); BAUMBACH & HEFERMEHL, *supra* note 243, § 11 cmt. nos. 49-50 (for the same proposition); FEZER, *supra* note 9, § 11 cmt. no. 31 (for the same proposition).

circumstances of the case such as the manner, extent, and duration of use.²⁵³ Thus, in *Darcy*²⁵⁴ the Supreme Court held that small sales of cigarettes (between 35,000 and 137,000 cigarettes per year from 1974 to 1980) to members of the Belgium armed forces who were stationed in Germany were sufficient to establish use. The *BGH* reasoned that it made economic sense to supply this customer group with the brand they were accustomed to in order to prevent a switch to other brands.²⁵⁵ In another case involving cigarettes, *King II*, the registrant brought sales of 50,000 cigarettes in 1975 down to 20,000 in 1977 and subsequent years. In this case, the same court found that a supply for three smokers, smoking an average of twenty cigarettes a day, was not sufficient to establish an economically sensible use, as opposed to a mere *pro forma* use, for purposes of maintaining the registered rights.

The juxtaposition of these two cases exemplifies what courts are looking for in the use assessment. The overall circumstances are decisive; therefore a minimal use can be balanced out by special circumstances, as occurred in *Darcy*.

A registrant may justify non-use with appropriate reasons. Such reasons include circumstances beyond the control of the owner, such as acts of God, natural disasters, import or export restrictions, war, or consequences of war.²⁵⁶ The Supreme Court, in the 1997 *Cirkulin* decision, held that an agreement barring the trademark owner from using the mark in the required way does not constitute a viable justification for non-use.²⁵⁷ The plaintiff, who was using the registered mark "Zirkulin" for a blood-cleansing specimen and garlic pills, was seeking cancellation of defendant's "Cirkulin" mark. The defendant had registered this mark for blood-cleansing tea. In an agreement between the parties, which had been concluded by their respective predecessors more than sixty years earlier, the defendant had committed himself to using the mark "Cirkulin" on licensed preparations only. Thus,

²⁵³ *Darcy*, BGH NJW 1986, 3138 (3139), translated in 18 I.I.C. 275, 277-78 (1987) (including a comment by Gerhard Heil, Presiding Judge of the Federal Patent Court); *King II*, BGH NJW 1986, 3139 (3140); *Topfitz/topfit*, BGH NJW 1985, 2762 (2763).

²⁵⁴ *Darcy*, BGH NJW 1986, 3138, translated in 18 I.I.C. 275 (1987).

²⁵⁵ *Darcy*, BGH NJW 1986, 3138 (3139), translated in 18 I.I.C. 275, 277-78 (1987).

²⁵⁶ *Cirkulin*, BGH GRUR 1997, 747 (749); WERNER ALTHAMMER ET AL., MARKENGESETZ, § 26 cmr. no. 34 (1997).

²⁵⁷ *Cirkulin*, BGH GRUR 1997, 747 (749); see *Annual Review: B. The Sixth Annual International Review of Trademark Jurisprudence*, 89 TRADEMARK REP. 309, 326-27 (1999) (detailing the findings of the German Supreme Court in *Cirkulin*).

it had not used the mark for the registered blood-cleansing tea. The Court did not accept the agreement between the parties as a sufficient ground for justifiable non-use.²⁵⁸ The Court held the registered mark to be a mere defensive mark, which had to be cancelled because it blocked the register and barred competitors from using the mark or registering it themselves.²⁵⁹

The "obligation to use" provision is one of the compulsory regulations required by the EU Directive.²⁶⁰ Thus, there is an understanding among Member States that such a provision is essential to the protection of trademarks.²⁶¹ Although trademarks in Germany are property rights and one of their main purposes is to guarantee the right of the owner, their scope is not as unlimited as this safeguard provision suggests.

The need for such a provision under German law was heightened by the Trade Mark Act of 1995, which did away with the requirement of the existence of a business establishment as a prerequisite to registration.²⁶² Until then, only businesses could register marks. Now natural persons are entitled to the same protection. This shift has implications for mark designers, holding companies, and advertising agencies who might be interested in

²⁵⁸ The court was applying the old German trademark statute. See *Warenzeichengesetz* § 11 (1) No.4 (1989) (allowing non-use if the use of the mark was "unreasonable" ("unzumutbar")). The new law does not contain such strong language by allowing "proper reasons" ("berechtigte Gründe") as an excuse for non-use. However, this change in language was not intended to change the legal analysis. See FEZER, *supra* note 9, § 26 cmt. nos. 40-41 (explaining the effect of the new language); INGERL & ROHNKE, *supra* note 9, § 26 cmt. no. 120 (explaining the effect of the new language).

²⁵⁹ *Cirkulin*, BGH GRUR 1997, 747 (749).

²⁶⁰ Council Directive, *supra* note 7, Art. 10. All Member States have converted the Council Directive into national laws that contain corresponding provisions. See FEZER, *supra* note 9, Vorbemerkung § 25 cmt. no. 9. The Council Regulation on the Community Trade Mark, Art. 15 contains an identical provision with regard to the Community trademark. Council Regulation 40/94 of 20 December 1993 [hereinafter Council Regulation].

²⁶¹ See the preamble to Council Regulation, *supra* note 260, on the Community Trade Mark § (9) ("Whereas there is no justification for protecting Community trademarks or, as against them, any trade mark which has been registered before them, except where the trade marks are actually used.").

²⁶² German Trademark Act, *supra* note 1, § 7 (reads:

Proprietorship

Proprietors of registered trade marks and of trade marks applied for may be:

natural persons,

legal persons, or

partnerships provided that they have been vested with the ability to acquire rights and to assume obligations);

See INGERL & ROHNKE, *supra* note 9, § 26 cmt. no. 8 (pointing to the change in the law).

registering marks but are not interested in using the marks on their own goods.²⁶³

a. *No Intent-To-Use Requirement.* German trademark law does not contain an intent to use requirement comparable to that found in U.S. law. German scholars are in disagreement about whether the law should require the registrant to have such an intent to use the mark.²⁶⁴ Under the old law, this intent had to be present with regard to the use as a trademark. The new law enables registration by holding companies and natural persons without the existence of a business establishment.²⁶⁵ The law might require only a general intent that the mark be used in conjunction with a business at a given point, if it requires such an intent at all.²⁶⁶ It is, however, legitimate to conclude that the new law requires a mark to have the ability to distinguish goods of different enterprises without any further subjective requirements.²⁶⁷ Accordingly, the German Patent and Trademark Office does not investigate the intentions of applicants. Therefore, as a practical matter, there is no intention to use requirement that functions as a safeguard against the warehousing of marks in German trademark law.

b. *Bad Faith Applications.* A viable safeguard may be located in section 50 (1) No. 4 of the German Trademark Act, which enables the cancellation of trademarks if the applicant acted in bad faith in filing the application.²⁶⁸ The scope of this provision remains unresolved. The absence of an underlying business establishment cannot alone trigger this nullity provision.²⁶⁹ Instead, it means to act as a counterweight to the introduction of the principle of separability of the mark from the business

²⁶³ For further implications of this change see *infra*. § III.A.6.a-c.

²⁶⁴ FEZER, *supra* note 9, § 3 cmt. nos. 78, 170 (arguing that this follows the nature of marks as source identifiers). *But see* INGERL & ROHNKE, *supra* note 9, § 3 cmt. no. 11 (arguing that it is not the German Patent and Trademark Office's responsibility to investigate a registrant's intent as the law applies an objective standard as to the registration of a mark). *See also* ALTHAMMER & STRÖBELE, *supra* note 256, § 32 cmt. no. 29 (appearing vague on the subject).

²⁶⁵ German Trademark Act, *supra* note 1, § 7; *see supra* note 262 (quoting this portion of the German Trademark Act).

²⁶⁶ *See* FEZER, *supra* note 9, § 3 cmt. no. 78 (in support of this proposition); Classe E, OLG Frankfurt, GRUR (1998) 704, 705 (citing Fezer approvingly).

²⁶⁷ INGERL & ROHNKE, *supra* note 9, § 3 cmt. no. 11.

²⁶⁸ AUFENANGER & BARTH, *supra* note 1, § 3; Council Directive, *supra* note 7, Art. 3 No.2 (d) (opening up the option for such a provision).

²⁶⁹ FEZER, *supra* note 9, § 50 cmt. no. 30; INGERL & ROHNKE, *supra* note 9, § 50 cmt. no. 9; ALTHAMMER & STRÖBELE, *supra* note 256, § 50 cmt. no. 7.

establishment,²⁷⁰ applicable in cases of abuse of legal rights or violation of morality.²⁷¹ These concepts of law are subject to interpretation by the courts.²⁷²

However, these provisions alone will not prevent warehousing. Some additional element must be present to make the registration immoral or abusive in the relevant case. This situation was illustrated in the *Mercedes* decision, issued by the Higher Regional Court of Frankfurt.²⁷³ A private party²⁷⁴ registered the term "Classe E" with the German Patent and Trademark Office and in several other countries. Mercedes Benz AG formed an agreement with the registrant regarding his registrations in Switzerland and France²⁷⁵ in order to issue its latest model under the mark "E-Klasse."²⁷⁶ Mercedes was not prepared to pay an additional licensing fee for the rights in Germany and challenged the registration. The Higher Regional Court held the registration to be abusive. The court distinguished this case from the registrations sought by advertising agencies and designers of marks, observing that those groups are pursuing legitimate purposes under the German Trademark Act. Conversely, the registrant in *Mercedes* had registered marks for a number of goods for the purpose of holding the marks against third parties for pecuniary benefit, without intending to use them for his or her own business establishment or in conjunction with a broader advisory service for other businesses.²⁷⁷ The German Trademark Association, a voluntary association of prominent owners of trademarks

²⁷⁰ BT-Drucks., Begründung zum Markengesetz, *supra* note 48, at 95-96; FEZER, *supra* note 9, § 50 cmt. no. 30.

²⁷¹ BT-Drucks., Begründung zum Markengesetz, *supra* note 48, at 95.

²⁷² The interpretation of section 1 of the Law Against Unfair Trade Practices, which was applicable under the old system, gives helpful guidance for this purpose. See FEZER, *supra* note 9, § 50 cmt. no. 29; INGERL & ROHNKE, *supra* note 9, § 50 cmt. nos. 8, 10ff (for overview of interpretations issued by courts).

²⁷³ Classe E, OLG Frankfurt, GRUR 1998, 704 (*affirmed by Urteil vom. 23. November 2000-I 2R 93/98*).

²⁷⁴ The registrant's name is Ulrich Schele, and he enjoys a reputation comparable to that of the so-called domain name squatter Dennis Toeppen in the U.S.

²⁷⁵ Mercedes paid approximately 200,000 German Marks to obtain the rights in France and Switzerland. Classe E, OLG Frankfurt, GRUR 1998, 704; see *Mercedes siegt im Namensstreit*, FRANKFURTER ALLGEMEINE ZEITUNG, June 27, 1996, at 22.

²⁷⁶ See *Daimler Benz verteidigt "E-Klasse,"* LEBENSMITTEL ZEITUNG, November 21, 1997, at 30 (for summary of the facts of the case).

²⁷⁷ Classe E, OLG Frankfurt, GRUR 1998, 704, 705 so-called "Hinterhaltmarke."

from different industries, welcomed the decision.²⁷⁸ In sum, this case illustrates that the German Trademark Act offers means for preventing registration of marks for exploitative purposes. It will be interesting to see whether the courts will vigorously protect against trademark "squatters" in cases where the immoral intent is not as obvious as it was in *Mercedes*.²⁷⁹

Another potential safeguard against warehoused marks is that the examination procedure lacks a confusion inquiry. If a prior registrant does not enforce his rights, at some point his claims will be limited by consequence of acquiescence,²⁸⁰ as described in section 21 of the German Trademark Act. Additionally, section 49 of the Act makes the senior registrant's mark liable to revocation if the mark has not been used within five years.

c. *Evaluation*. What is left of the concerns expressed under U.S. law? The concern that unnecessary "rent-seeking costs" will occur is somewhat weakened by the 5-year safeguard provision.

Although unnecessary costs might occur under the registration systems, such costs will be minimal. The benefits a business accrues in launching a product will outweigh the costs of un-necessary lawsuits. In addition, there are also costs which are inherent to the use-based system that tend to tip the efficiency scale in favor of a registration system. Registers give an accurate account of trademarks subject to ownership interests²⁸¹ and make costly searches of common law sources obsolete.²⁸² The ITU system, as practiced in the U.S. with periodical re-filing requirements, also creates costs which do not occur in a registration system. The *Mercedes* case demonstrates that there

²⁷⁸ See WOLFGANG HEFERMEHL & ADOLF BAUMBACH, WETTBEWERBSRECHT, *Einl. UWG* cmt. no. 35 (1996) (Discussing Markenverband [translation] [hereinafter BAUMBACH & HEFERMEHL]; *Mercedes siegt im Namensstreit*, FRANKFURTER ALLGEMEINE ZEITUNG, June 27, 1996, at 22; "E-Klasse" bleibt bei Daimler-Benz, LEBENSMITTEL ZEITUNG, Nov. 14, 1997, at 28.

²⁷⁹ Schele tried to argue that he did not know about Mercedes' plans to introduce the mark "E-Klasse" and that he intended to settle down as a mark designer. He registered more than 50 terms for the purpose of selling them. See *Classe E*, OLG Frankfurt, GRUR 1998, 704, 705 (rejecting that argument). In less obvious cases courts might buy this reasoning; the famous mark designer Manfred Gotta had taken legal steps against Schele because of his presumptuous statements. See *Markenstreit; Unter Piraten FOCUS MAGAZIN*, Jan. 15, 1996, at 165; *Ein Markenerfinder fährt Mercedes an den Wagen*, SÜDDEUTSCHE ZEITUNG, Jan. 15, 1996, *Wirtschaft*.

²⁸⁰ German Trademark Act, *supra* note 1, § 21 (the limitation will typically be effective after a five year period of acquiescence).

²⁸¹ Landes & Posner, *supra* note 226, at 281-82; Parker, *supra* note 106, at 327-28.

²⁸² Common law sources include phone books, local directories, state trademark registers, yellow pages etc. Although the alleged obsolescence is only partially true, as in the U.S., even a registration system would have to rely on common law sources with regard to already established rights.

might still be enforcement costs that would not occur in a plain use-based system. But this case occurred in the testing of a new law, when the scope of the law was not yet clear.²⁸³ Precedents such as the *Mercedes* case should reduce abusive conduct in the future.

The argument that some marks are better than others and therefore should not be warehoused is only applicable to suggestive, not descriptive, marks.²⁸⁴ Neither the Lanham Act nor the German Trade Mark Act allows the registration of descriptive marks without a showing of secondary meaning.²⁸⁵ If one follows the argument that suggestive marks are “better than” arbitrary or fanciful marks, there can be genuine concern about warehousing. Yet, if some marks are better than others, it will take investment to find out which are the superior marks. It is also likely that these marks will be used, and not warehoused, because their “creation” costs money.²⁸⁶

One should not forget that the “word monopoly” conferred by a registration in Germany formally exceeds the monopoly granted by an ITU system by only two years. Nor should one disregard that the examination process, with its likelihood of confusion assessment, is considerably more

²⁸³ Note that these kind of lawsuits are encouraged under the U.S. common law system by such features as the contingent fee, punitive damages, and treble damages. They are, therefore, obviously not considered inefficient.

²⁸⁴ See Vincent N. Palladino, *The Real Trouble With Trademarks*, 81 TRADEMARK REP. 150, 156 (1991) (noting that federal trademark law prohibits the registration of descriptive marks).

²⁸⁵ Lanham Act § 2(3), (f), 15 U.S.C. § 1052(e), (f) (1994); German Trademark Act § 8 (2) No. 1., No. 2., (3) (1995). U.S. courts apply the “Abercrombie test,” described by Judge Friendly in *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9, 189 U.S.P.Q. (BNA) 761 (2nd Cir. 1976). U.S. law distinguishes between fanciful, arbitrary, and suggestive marks, which are inherently distinctive and descriptive terms which need to acquire distinctiveness through use. Generic terms cannot be registered at all. Note that the latter is not true under German law; according to German Trademark Act § 8(3), genericness can be overcome through the acquisition of secondary meaning. Here a higher standard is required than under § 4 No.2. Compare the different German wording: “Verkehrsgeltung” and “Verkehrsdurchsetzung”; the different approach exemplifies that German trademark law is not so much concerned about the word monopoly as is U.S. law.

²⁸⁶ See Hart, *supra* note 234, at 36, for some of the considerations that accompany the development of new brands. The agency Gotta reportedly asked for 250,000 German Marks for the creation of the name “Aventis” for the merging companies of Hoechst and Rhone-Poulenc. See *Mit Kunstnamen auf den Weg in die Zukunft*, FRANKFURTER ALLGEMEINE ZEITUNG, Jan. 12, 1999, at 16. The agency Nomen will charge up to 80,000 German Marks; see *LEBENSMITTEL; Die neue Ess-Klasse*, FOCUS MAGAZIN, Nov. 10, 1997, at 336-40. Generally, the so-called branding agencies charge between 50,000 and several 100,000 German marks for the creation of trademarks. The creation of such marks takes between three and twelve months. See *Weiche Buchstaben für milden Kaffee*, FRANKFURTER ALLGEMEINE ZEITUNG, Feb. 26, 1995, at 15.

comprehensive, taking an average of eighteen months.²⁸⁷ This examination period, combined with the thirty-six month period before the "Statement of Use" has to be issued, extends the possible period of non-use up to fifty-four months. The five year obligation-to-use provision and the ITU requirement serve as functional equivalents. Although the PTO seems to take a lenient approach in interpreting the "good cause" requirement, and although the extension procedure seems to be a rather straightforward process, it is costly and unduly burdens businesses when a less burdensome alternative could achieve the same result. The ITU, as a reaction to basic business interests, conveys the principle need for some protection before use occurs.

In sum, it can be said that the U.S. system shows considerable deviations from its use-based, consumer confusion notion. These deviations are driven by the practical necessity to enhance the entrepreneur's rights. The German registration system openly admits to this necessity but, nevertheless, contains safeguards to ameliorate the justified concerns with such a system.

B. ASSIGNMENTS IN GROSS AND LICENSING

The question of assignments of marks in gross and of licensing of marks exemplifies the different understandings of the purpose for trademark. U.S. law strictly prohibits assignments of marks in gross or "naked assignments,"²⁸⁸ whereas the German Trademark Act explicitly allows them.²⁸⁹ German trademark law, therefore, again emphasizes the interest of the trademark owner. U.S. law, on the other hand, emphasizes the perception of the consumers.

1. *The Problems and Concerns.* As McCarthy puts it, "[g]ood will can no more be separated from a business than reputation from a person."²⁹⁰ Because it is the purpose of trademark law to protect consumers, the

²⁸⁷ MCCARTHY, *supra* note 2, § 19:25; see The Patent and Trademark Office, *FAQ about Trademarks* (last modified Feb. 12, 1999) <<http://www.uspto.gov/web/offices/tac/tmfaq.htm#Application014>>, ("How long does it take for a mark to be registered . . . [T]he total time for an application to be processed may be anywhere from almost a year to several years."). The ITU process involves the same examination procedure, the numbers are therefore equally applicable to ITU.

²⁸⁸ MCCARTHY, *supra* note 2, §§ 18:1 18:2. (noting that assignments in gross are invalid and can lead to abandonment of the mark); see *id.* § 18:17, § 18:48 for a discussion of "naked" licenses.

²⁸⁹ See German Trademark Act, *supra* note 1, § 27, ("(1) The right established by the registration or use of a trade mark or by the fact that the trade mark is well-known may be transferred or assigned to others for some or all of the goods or services for which the trade mark is protected [. . .]").

²⁹⁰ MCCARTHY, *supra* note 2, § 18:2.

prohibition of assignments of marks without the underlying good will ensures that the assignee's use of the mark will not be deceptive to the public and will not break the continuity of the product symbolized by the assigned mark.²⁹¹ Marks assigned in gross without the good will, however, no longer serve as source identifiers and, thus, do not protect against deception.²⁹² U.S. law, therefore, proscribes such assignments in gross.²⁹³

The problem with a strict proscription of assignments in gross is that assignments in gross can benefit trademark owners in some situations. First, an assignment can be helpful in securing an early priority date for the assignee against third party users who began using the mark after the assignor had obtained the right in the mark.²⁹⁴ Another example arises from a manufacturer—distributor relationship, where the public perception as to the ownership of a mark might be somewhat uncertain and quite different from the terms to which the parties of the distributorship agreed.²⁹⁵ It would, therefore, benefit the parties if they did not have to depend on public perceptions. Finally, assignments are an important collateral used for loans. A strict assignment in gross rule undermines the possibility of banks obtaining a security interest in marks.²⁹⁶ Thus, there is a practical need to allow such transfers in the interest of mark owners.

The consequences of the proscription are, as a matter of fact, somewhat ameliorated because other legal constructions can achieve the desired results. An assignment to acquire priority can be structured as an assignment with a license-back agreement.²⁹⁷ Here, the trademark owner assigns his mark, accompanied by the good-will, to an assignee who in turn grants him a license to use the mark. Such an arrangement might also be helpful as a

²⁹¹ *Id.* at § 18:3.

²⁹² Lisa B. Martin & Stacey M. Berg, *Trademark Assignment: Avoiding a Naked Transfer*, 6 NO. 5 J. PROPRIETARY RTS. 8 (1994); *Green River Bottling Co. v. Green River Corp.*, 997 F.2d 359, 362, 27 U.S.P.Q.2d (BNA) 1304, 1306 (7th Cir. 1993); *Sugar Busters v. Brennan*, 177 F.3d 258, 265-66, 50 U.S.P.Q.2d (BNA) 1821, 1825 (5th Cir. 1999).

²⁹³ Lanham Act § 10, 15 U.S.C. § 1060 (1994); *Sugar Busters*, 177 F.3d at 265 (5th Cir. 1999); *Macmahon Pharmacal Co. v. Denver Chemical Mfg. Co.*, 113 F. 468 (8th Cir. 1901); *Mister Donut of Am., Inc. v. Mr. Donut, Inc.*, 418 F.2d 838, 164 U.S.P.Q. (BNA) 67 (9th Cir. 1969); *Marshak v. Green*, 746 F.2d 927, 223 U.S.P.Q. (BNA) 1099 (2nd Cir. 1984); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 34 cmt. b (1995).

²⁹⁴ MCCARTHY, *supra* note 2, § 18:1; RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 34 cmts. b, c (1995).

²⁹⁵ RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 34 cmt. d (1995).

²⁹⁶ *Id.* at § 34 cmt. e.

²⁹⁷ MCCARTHY, *supra* note 2, §§ 18:16.1, 18:9.

means to allow a trademark owner to obtain a loan by allowing a lending institution to obtain a security interest in the trademark as collateral.²⁹⁸ Legal title does not pass with a conditional assignment as security.²⁹⁹ In the case of default, however, where a debtor enforces the security, the actual assignment becomes operative, and the result is that the mark passing to the creditor must be accompanied by good will.³⁰⁰

2. *Implications and Deviations.* Good will can be defined as the favorable consideration, shown by the purchasing public, to goods known to emanate from a particular source.³⁰¹ It does not refer to the underlying business or tangible assets, but rather to that which is necessary to uphold the quality of the product and therefore meet consumer expectations.³⁰² It is well settled that neither the business establishment itself nor the tangible assets of the business need to be transferred to validate the assignment.³⁰³

In practice the proscription against assignments in gross implies that if, for instance, a trademark for a cologne is assigned, the recipe for the cologne has to be assigned as well.³⁰⁴ In other cases the transfer of customer lists, merchandise or other equipment may be decisive.³⁰⁵

Accordingly, ITU-marks, which have not yet been used, cannot be assigned at all unless the assignee is the successor in the ongoing business.³⁰⁶ Since the marks have not gained any market significance, there is no good

²⁹⁸ Gregory J. Battersby & James G. Coplit, *License Back of Trademark Rights*, 4 No. 4 INTELL. PROP. STRATEGIST 2 (1998).

²⁹⁹ MCCARTHY, *supra* note 2, § 18:7.

³⁰⁰ MCCARTHY, *supra* note 2, § 18:7; Allison Sell McDade, Note, *Trading in Trademarks — Why the Anti-Assignment in Gross Doctrine Should be Abolished when Trademarks are Used as Collateral*, 77 TEX. L. REV. 465, 475-76 (1998); Haymaker Sports, Inc. v. Turian, 581 F.2d 257, 260-61 198 U.S.P.Q.(BNA) 610, 613-14 (C.C.P.A. 1978).

³⁰¹ MCCARTHY, *supra* note 2, §§ 2:17, 2:19.

³⁰² *Id.* § 2:17; see also Martin & Berg, *supra* note 292, at 8 (noting that transfer of a trademark does not necessarily require transfer of a tangible asset as well so long as the purchaser is producing or will produce a substantially similar product).

³⁰³ Martin & Berg, *supra* note 292, at 10.

³⁰⁴ Mulhens & Kropff, Inc. v. Ferd Muhlen, Inc., 43 F.2d 937, 6 U.S.P.Q. (BNA) 144 (2nd Cir. 1930) (involving the famous mark of the cologne "4711"); see Elke Elizabeth Werner, *Are We Trading Our Lanham Act Away? An Evaluation of Conflicting Provisions Between the NAFTA and North American Trademark Law*, 2 SW. J.L. & TRADE AM. 227, 256 (1995) (noting the court's requirement of transferring the recipe along with the mark in the dispute over "4711").

³⁰⁵ See *Mister Donut of Am., Inc. v. Mr. Donut, Inc.*, 418 F.2d 838, 842, 164 U.S.P.Q.(BNA) 67, 69 (9th Cir. 1969) (holding the transfer of the mark of a doughnut business ineffective without the customer lists, recipes, and equipment of the business).

³⁰⁶ Lanham Act § 10, 15 U.S.C. § 1060 (1994); MCCARTHY, *supra* note 2, § 18:13.

will that can be transferred together with the mark.³⁰⁷ The TLRA added language to the Lanham Act that prohibits assignments of ITU—marks with the explicit purpose of preventing “trafficking” in marks.³⁰⁸ The legal sanction affixed to a proscribed assignment of an ITU application is not only the nullification of the mark, but also of the ITU application itself.³⁰⁹

The assignment in gross rule does not stand without criticism. Critics point out that the rule elevates form over substance by focusing on what might ensure continuity in a business endeavor, although there is no guarantee that a subsequent owner will maintain the quality of the good or market the same type of good.³¹⁰ Moreover, the problem of defining what constitutes good will in specific circumstances makes judicial responses unpredictable for trademark owners.³¹¹ The legislative history of the Lanham Act reveals that there were attempts by opponents of the strict prohibition to allow assignments in gross with the enactment of the Act.³¹² Those who feared the deviation from the common law rule, however, prevailed. Interestingly, the United Kingdom was one of the first countries to abolish the assignment in gross prohibition.³¹³ Today the U.S. is rather isolated in requiring the transfer of good will as a prerequisite to a valid assignment.³¹⁴

However, if the U.S. ratifies the TLT, it may adopt the majority policy. As already mentioned, the TLT contains provisions that point in the direction of allowing a separate identity of mark and underlying business.³¹⁵

³⁰⁷ MCCARTHY, *supra* note 2, § 18:13.

³⁰⁸ MCCARTHY, *supra* note 2, § 18:13; *The Clorox Co. v. Chemical Bank*, 40 U.S.P.Q.2d (BNA) 1098, 1104 (T.T.A.B. 1996).

³⁰⁹ *The Clorox Co.*, 40 U.S.P.Q.2d (BNA) at 1104.

³¹⁰ STEPHEN P. LADAS, PATENTS, TRADEMARKS, AND RELATED RIGHTS: NATIONAL AND INTERNATIONAL PROTECTION, § 617, at 1118 (1975); McDade, *supra* note 300, at 482.

³¹¹ MCCARTHY, *supra* note 2, § 18:10.

³¹² *Id.* § 18:10; Ladas, *supra* note 310 at 1118-19.

³¹³ LADAS, *supra* note 310 at 1118-19.

³¹⁴ *Id.*; McDade, *supra* note 300, at 490.

³¹⁵ See *supra* text accompanying notes 221-23; see TLT Art. 3 (7) (ii) and TLT Art. 11 (4), which in relevant part reads,

[Prohibition of Other Requirements] No contracting party may demand that requirements other than those referred to in paragraphs (1) to (3) be complied with in respect of the request referred to in this Article. In particular, the following may not be required: [. . .]

(ii) an indication of the owner's carrying on of an industrial or commercial activity, as well as furnishing of evidence to that effect;

(iii) an indication of the new owner's carrying on of an activity corresponding to

TLT Art. 11 (1) (b) further, provides that the recording of only extracts from the assignment document will suffice to meet the requirements for a request for a recording.³¹⁶ The importance of the recording is its function as prima facie evidence of the execution of an assignment. Under the old law, the filing of the complete assignment document was required for recording. The new language of the Lanham Act requires the filing of the "prescribed information," *i.e.*, information subject to the PTO's prescription.³¹⁷ This change is only a minor adjustment which nevertheless fits the overall scheme. It merely weakens the control as to whether a mark was actually assigned in gross or not.

In addition, NAFTA has been criticized on the ground that Article 1708(11)³¹⁸ does not meet the high consumer protection standards required under U.S. law.³¹⁹ NAFTA allows the transfer of a trademark without the underlying business, thus providing no assurance of consistent quality once a trademark has been assigned. Although the U.S. did not make use of the option of free transferability offered by NAFTA, it is interesting to note that

the goods and/or services affected by the change in ownership, as well as the furnishing of evidence to either effect;

FEZER, *supra* note 9, § 3 cmt. no. 66.

³¹⁶ TLT Art. 11 (1) (b) reads,

Where the change in ownership results from contract, any contracting party may require that the request indicate that fact and be accompanied, at the option of the requesting party, by one of the following:

a copy of the contract, which copy may be required to be certified, by a notary public or any other competent authority, as being in conformity with the original contract;

an extract of the contract showing the change in ownership, which extract may be required to be certified, by a notary public or any other competent public authority, as being a true extract of the contract;

an uncertified certificate of transfer drawn up in the form and with the content as prescribed in regulations and signed by both the holder and the new owner;

an uncertified transfer document drawn up in the form and with the content as prescribed in the Regulations and signed by both the holder and the new owner.

³¹⁷ *Trademark Law Treaty Implementation Act*, Pub. L. No. 105-330, 112 Stat 3064 (1998) ("Acknowledgment shall be prima facie evidence of the execution of an assignment, and when the prescribed information reporting the assignment is recorded in the Patent and Trademark Office, the record shall be prima facie evidence of execution"); see Port, *supra* note 68, at 38 (predicting this change).

³¹⁸ NAFTA Art. 1708(11) reads:

A Party may determine conditions on the licensing and assignment of trademarks, it being understood that the compulsory licensing of trademarks shall not be permitted and that the owner of a registered trademark shall have the right to assign its trademark with or without the transfer of the business to which the trademark belongs.

³¹⁹ Werner, *supra* note 304, at 254-56.

the U.S. became party to a trade agreement that makes no effort to uphold its basic trademark law principles.

3. *Licensing is Permitted.* The treatment of the closely related field of trademark licensing more clearly reveals the tendency in the U.S. to enhance trademark owners' rights and to de-emphasize traditional concerns over consumer confusion.

Licensing, in contrast to assignment, does not transfer ownership of a mark, but grants only a limited right to use a mark.³²⁰ Under the traditional source theory, licensing was proscribed because it ran afoul of the notion that trademarks indicate a single source.³²¹ The acceptance of the quality assurance function changed this analysis.³²² Because marks today are regarded as indicators of consistent and predictable quality, the Lanham Act and the courts hold licensing agreements valid where the licensor retains control over the quality of the licensed products.³²³ This approach seems to confirm the conventional understanding of trademark functions as well as the consumer confusion rationale. However, as has been pointed out, courts have applied the control requirement most leniently.³²⁴ *Inter alia*, they have held that minimum control,³²⁵ a mere control provision,³²⁶ or even the reliance on the licensee's own control mechanism³²⁷ will suffice to satisfy the control condition. The reason behind the reluctance to enforce the quality

³²⁰ MCCARTHY, *supra* note 2, § 18:1.

³²¹ Kevin Parks, "Naked" is Not a Four-Letter Word: Debunking the Myth of the "Quality Control Requirement" in Trademark Licensing, 82 TRADEMARK REP. 531, 533 (1992); Macmahon Pharmacal Co. v. Denver Chem. Mfg. Co., 113 F. 468 (8th Cir. 1901).

³²² Parks, *supra* note 321, at 533; Alfred M. Marks, *Trademark Licensing—Towards A More Flexible Standard*, 75 TRADEMARK REP. 641, 643 (1988).

³²³ Lanham Act § 5, 15 U.S.C. § 1055 (1994); Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 121 U.S.P.Q. (BNA) 430 (2nd Cir. 1959); see Parks, *supra* note 321, at 533-35 (for overview of the change in licensing analysis); K Mart Corp. v. Cartier, Inc., 486 U.S. 281, 1829, 6 U.S.P.Q. (BNA) 1897, 1911 (1988) (Brennan, J., concurring) (describing the change in licensing analysis); Noah D. Genel, *Keep It Real: A Call For A Broader Quality Control Requirement In Trademark Law*, 8 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 269, 278-81 (1997) (arguing that that the quality control requirement should be applied to all trademark uses); David J. Franklyn, *The Apparent Manufacturer Doctrine, Trademark Licensors And the Third Restatement of Torts*, 49 CASE W. RES. L. REV. 67 (1999) (stating the significance of the control requirement for the licensor's liability).

³²⁴ Johnston, *supra* note 2, at 27-29; Parks, *supra* note 321, at 540; Marks, *supra* note 322, at 645; McDade, *supra* note 300, at 485-86; Genel, *supra* note 323, at 287-88.

³²⁵ Kentucky Fried Chicken Corp. v. Diversified Packaging Corp., 549 F.2d 368 (5th Cir. 1977).

³²⁶ Robinson Co. v. Plastics Research & Dev. Corp., 264 F. Supp. 852, 864, 153 U.S.P.Q. (BNA) 220, 230 (W.D. Ark. 1967); Wolfies Restaurant, Inc. v. Lincoln Restaurant Corp., 143 U.S.P.Q. (BNA) 310, 310 (N.Y. Sup. Ct. 1964).

³²⁷ Embedded Moments, Inc. v. Int'l Silver Co., 648 F. Supp. 187, 194 (E.D.N.Y. 1986).

control requirement lies in the fact that the question usually comes up in third party infringement cases in which courts tend to look for reasons to allow trademark owners to prevail.³²⁸

In some cases, the Trademark Trial and Appeal Board (TTAB) has made a retroactive assessment of whether the control requirement was met.³²⁹ In *University Book Store v. University of Wisconsin Board of Regents* the TTAB rejected the argument that the Badger mark had been abandoned because the University had tolerated the use of the mark by third parties for years before a formal licensing program was launched. This court characterized the situation as a valid, royalty-free, nonexclusive, implied license, although no quality control had taken place. It relied on the finding that the "licensees" had maintained a satisfactory, *i.e.*, merchantable, quality, so that no deception of purchasers had taken place.³³⁰ While such an approach conforms with the consumer confusion model, it nevertheless reveals a desire to help the interest of the mark owner prevail.

The less control a licensor is required to retain, the more a license resembles a transfer in gross.³³¹ This adjudication expresses the willingness to submit to the interests of trademark owners by sacrificing the traditional functions of a trademark.³³²

4. *Promotional Licensing.* The notion that licensing does not comply with the traditional source identifying and consumer confusion rationale is even better illustrated by promotional licensing or merchandising. Promotional licensing describes the contract between an institution, such as a school or athletic team, and a third party, allowing this latter party to place the institution's emblem on certain goods for promotional purposes.³³³ Here marks do not act merely as source identifiers but are part of the product

³²⁸ Parks, *supra* note 321, at 547.

³²⁹ *University Book Store v. Univ. of Wisconsin Bd. of Regents*, 33 U.S.P.Q.2d (BNA) 1385, 1402 (T.T.A.B. 1994) (citing *Stockpot, Inc. v. Stock Pot Restaurant, Inc.*, 220 U.S.P.Q. (BNA) 52, 59 (T.T.A.B. 1983).

³³⁰ *University Book Store*, 33 U.S.P.Q. 2d at 1396.

³³¹ Johnston, *supra* note 2, at 29; McDade, *supra* note 300, at 485.

³³² McDade, *supra* note 300, at 485; Parks, *supra* note 321, at 567-68.

³³³ See, e.g., Johnston, *supra* note 2, at 29 (referring to use of a mark to primarily attract customers who wish to express allegiance, association, or sympathy as "promotional," "merchandise," or "character" trademark licensing).

itself.³³⁴ They are used as profitable products in their own right.³³⁵ Consumers are not interested in owning the product because it represents a particular quality. They are interested in owning the product because it bears a particular mark.³³⁶

For many years trademark owners could not resort to the courts in order to prevent non-licensees from using the institutions' emblems without authorization. The major impediment was establishing "likelihood of confusion" as to the source of the goods, as consumers knew that the school, sports team, or institution was not the actual producer of the shirts, caps, towels and the like.³³⁷ Courts have shown various reactions to the problem of unlicensed promotional goods.³³⁸ Today confusion as to the source of sponsorship or endorsement is sufficient to establish an infringement.³³⁹ Courts have at times undermined even this requirement by weighing the equities³⁴⁰ or by simply presuming that consumers are likely to be confused.³⁴¹

Now that the trademark owners stand a better chance of prevailing on the confusion issue, licensing has become a major revenue source for them.³⁴² The problem with promotional licensing is that oftentimes there is no

³³⁴ Alex Kozinski, *Trademarks Unplugged*, 68 N.Y.U. L. REV. 960, 965 (1993); *Plasticolor Molded Prod. v. Ford Motor Co.*, 713 F. Supp. 1329, 1332, 11 U.S.P.Q.2d (BNA) 1023, 1026 (C.D.Cal. 1989) (J. Kozinski) *vacated by* *Plasticolor Molded Products, Inc. v. Ford Motor Co.*, 767 F. Supp. 1036, 18 U.S.P.Q.2d (BNA) 1975 (C.D.Cal. 1991) (consent judgment); *W.T. Rogers Co. v. Keene*, 778 F.2d 334, 340, 228 U.S.P.Q. (BNA) 145 (7th Cir. 1985) (J. Posner); *Pickering*, *supra* note 13, at 58-61.

³³⁵ Kozinski, *supra* note 334, at 965; *Pickering*, *supra* note 13, at 59.

³³⁶ *Johnston*, *supra* note 2, at 29; W. J. Keating, *Promotional Trademark Licensing: A Concept Whose Time Has Come*, 89 DICK. L. REV. 363, 363 (1985); *Marks*, *supra* note 322, at 652.

³³⁷ *Johnston*, *supra* note 2, at 29-30; *Keating*, *supra* note 336, at 366; *Marks*, *supra* note 322, at 652-53; *Boston Prof'l Hockey Ass'n, Inc. v. Dallas Cap & Emblem Mfg., Inc.*, 510 F.2d 1004, 1012, 185 U.S.P.Q. (BNA) 364, 369 (5th Cir. 1975).

³³⁸ *Johnston*, *supra* note 2, at 29-36 for overview.

³³⁹ *Int'l Order of Job's Daughters v. Lindeburg and Co.*, 633 F.2d 912, 918-20, 208 U.S.P.Q. (BNA) 718, 724-26 (9th Cir. 1980); *Supreme Assembly, Order of Rainbow for Girls v. J. H. Ray Jewelry Co.*, 676 F.2d 1079, 1082-85, 217 U.S.P.Q. (BNA) 757, 759 (5th Cir. 1982); *see infra* § III.C. for a more thorough discussion of the confusion issue.

³⁴⁰ *See Johnston*, *supra* note 2, at 31 (quoting *Boston Prof'l Hockey Ass'n, Inc. v. Dallas Cap & Emblem Mfg., Inc.*, 510 F.2d 1004, 1011, 185 U.S.P.Q. (BNA) 364, 368 (5th Cir. 1975),

Although our decision here may slightly tilt the trademark laws from the purpose of protecting the public to the protection of the business interests of plaintiffs, we think that the two become so intermeshed when viewed against the backdrop of the common law of unfair competition that both the public and plaintiffs are better served by granting the relief sought by plaintiffs).

³⁴¹ *Boston Athletic Ass'n v. Sullivan*, 867 F.2d 22, 35, 9 U.S.P.Q.2d (BNA) 1690, 1701 (1st Cir. 1989).

³⁴² *Ruijsenaars*, *supra* note 26, at 110.

quality standard that can serve as an indicator for the goods that are sold by the licensee since the trademark owner sets these standards only through his license agreements.³⁴³ The trademark owner himself has not used the mark on the respective goods. Nevertheless, courts require a quality control provision which is, however, subject to the aforementioned broad interpretation.³⁴⁴

5. *The German Approach.*

a. *Assignments.* Until 1992 the inseparability of trademark and the underlying business source was an axiom of German trademark law. Because the trademark law of the German Democratic Republic³⁴⁵ had allowed such an assignment in gross, in anticipation of the emerging Trademark Act, the legislature in 1992 eliminated the inseparability requirement with the Protective Rights Extension Act.³⁴⁶ This regulation was adopted in the Trademark Act of 1995. Section 27 of the Act accordingly allows the assignment of rights without the assignment of the underlying business establishment.

Because consumer protection is the main concern with assignments of trademarks in gross, German courts formerly justified the prohibition of assignments in gross with the need to avoid customer confusion and with the function of a mark as a source identifier.³⁴⁷ However, the proscription was subject to heavy criticism.³⁴⁸ The main arguments were that consumers very often have uncertain ideas, or even no idea at all about the source of particular goods.

Although the inseparability requirement to some extent ensures a quality standard of a product, this is not true for all cases, for example succession in the business might alter the product quality. Additionally, it was easy to

³⁴³ Parks, *supra* note 321, at 538; Marks, *supra* note 322, at 653.

³⁴⁴ Marks, *supra* note 322, at 647, 651.

³⁴⁵ *Gesetz über Warenkennzeichen* of November 30th 1984; see FEZER, *Markenrecht*, *supra* note 9, § 3 cmt. no. 59.

³⁴⁶ *Gesetz über die Erstreckung von gewerblichen Schutzrechten (Erstreckungsgesetz - ErstrG)* of April 23rd 1992 (BGBl. I S. 938). The goal of the Protective Rights Extension Act was to harmonize the trademark laws of the Federal Republic of Germany and the former German Democratic Republic. INGERL & ROHNKE, *supra* note 9, *Einl.* cmt. nos. 26-27.

³⁴⁷ Rose, BGH NJW 1960, 2208 (2209); BGH NJW 1971, 1936; Baader, BGH NJW 1972, 2123; BAUMBACH & HEFERMEHL, *supra* note 243, § 8 cmt. no. 2; FEZER, *supra* note 9, § 27 cmt. no. 7; Fratelli, RGZ 146, 325 (331).

³⁴⁸ See BAUMBACH & HEFERMEHL, *supra* note 243, § 8 cmt. no. 2; FEZER, *supra* note 9, § 27 cmt. no. 7.

circumvent the proscription. Conspirators could just have the new owner register the mark, and the proprietor would not file an opposition but would consequently have his old mark canceled.³⁴⁹ The courts sanctioned such a procedure³⁵⁰ while they still adhered to the statutory proscription of independent transferability.³⁵¹ Under the old German law it was not only the good will that had to be transferred to validate the assignment, but rather the business establishment itself.³⁵² Over time, courts in Germany tended to interpret the need for a transfer of the underlying business establishment broadly. Thus, in compliance with the proscription's purpose to prevent consumer confusion, it would suffice if those elements of the underlying business were transferred together with the mark that ensured the continuity on the use of the designation,³⁵³ an approach that closely resembles the approach taken by U.S. courts in defining good will. What constituted the requirement of continuity was subject to the particular circumstances of each case. The assignment of a wholesale business' mark therefore might have required only the transfer of customer and supplier names together with descriptions of the supplied goods. In the case of a manufacturing business, however, this might not have sufficed.³⁵⁴ The critics did acknowledge that potential misuse is inherent to the concept of free transferability, which makes safeguards necessary.³⁵⁵

Today the general clauses of the Law Against Unfair Trade Practices are considered sufficient safeguard provisions.³⁵⁶ Thus, the purchase of a mark might be regarded as an anti-competitive practice,³⁵⁷ or the use of the assigned

³⁴⁹ So-called *Leerübertragung*, BAUMBACH & HERFERMEHL, *supra* note 243, § 8 cmt. no. 2; BUSSE, *supra* note 244, § 8 cmt. no. 2.

³⁵⁰ RG GRUR 1942, 174; see BUSSE, *supra* note 244, § 8 cmt. no. 2.

³⁵¹ Schwarz Weiss, RGZ 169, 240; BGHZ 1, 241 (245); Rose, BGH NJW 1960, 2208; Baader, BGH NJW 1972, 2123.

³⁵² *Warenzeichengesetz* § 8 (1) in relevant part read, "[. . .] Das Recht kann jedoch nur mit dem Geschäftsbetrieb oder dem Teil des Geschäftsbetriebs, zu dem das Warenzeichen gehört, auf einen anderen übergehen [. . .]"

³⁵³ FEZER, *supra* note 9, § 27 cmt. no. 8; compare Rose, BGH NJW 1960, 2208 (2209), Nocado, BGH NJW 1971, 1936 and Baader, BGH NJW 1972, 2123 with BGHZ 1, 241 (245) (an earlier case).

³⁵⁴ Rose, BGH NJW 1960, 2208 (2209).

³⁵⁵ BAADER, BAUMBACH & HEFERMEHL, *supra* note 243, § 8 cmt. no. 2.

³⁵⁶ FEZER, *supra* note 9, § 3 cmt. no. 76; INGERL & ROHNKE, *supra* note 9, § 27 cmt. no. 12; Joachim Starck, *Marken und Sonstige Kennzeichenrechte als verkehrsfähige Wirtschaftsgüter—Anmerkungen zum neuen Markenrecht*, WRP 1994, 698, 699-700.

³⁵⁷ UWG, *supra* note 33, § 1. Conceptually this means that a violation of the general clause against unfair trade practices is a violation of a statutory prohibition that voids the transaction according to § 134 of the German Civil Code. Bürgerliches Gesetzbuch of 18 August 1896, as amended (RGBl. S. 195)

mark might be considered misleading.³⁵⁸ The mere confusion as to the source of the goods will not suffice to invalidate the assignment. An additional qualified deception is necessary. A case involving the name "R. G. D. & Co." which was used by the U.S. private detective agency to designate its services³⁵⁹ illustrates the additional element that is required to make the use of a name or mark an unfair trade practice. In World War I, the U.S. company's branch in Germany had been put under sequestration and later was put into private use. The Supreme Court barred the acquirer of the company from using its own name with the addition "R. G. D. & Co." because such a use would have invoked the customer perception that the parties were affiliated in a permanent business relationship. The qualifying factor here was the confusion as to the permanent business relationship.³⁶⁰

In addition to these safeguards, section 27 (2) of the German Trademark Act preserves a connection between mark and business by prescribing a rebuttable presumption that the mark has been transferred together with the underlying business if the business establishment is transferred.³⁶¹ The purpose of this provision, however, is not to act as a safeguard against consumer confusion. Since the old law had contained a similar provision and because this notion generally complies with the parties' intentions, the legislature thought it necessary to clarify the continuing applicability of this rule to avoid future legal actions.³⁶²

Another potential safeguard might be seen in the fact that the interdependence between mark and business is at least partly restored after five years because the protection is then limited to the scope of the use.³⁶³

[hereinafter BGB].

³⁵⁸ UWG, *supra* note 33, § 3 in conjunction with BGB, *supra* note 357, § 134.

³⁵⁹ BGHZ 10, 196 (200-03).

³⁶⁰ See *infra* § III.B.5.b. for further discussion of application of the Law Against Unfair Trade Practices.

³⁶¹ ALTHAMMER, *supra* note 256, § 27 cmt. no. 2.

³⁶² FEZER, *supra* note 9, § 27 cmt. no. 29. It should be noted that this concept does not establish an automatism. These kinds of rules of interpretation are only applicable if a general interpretation of the parties' intentions does not lead to a reliable conclusion. Thus, more significant facts include whether an extra sum was paid for the good will or whether single items had been explicitly listed as part of an asset deal. See INGERL & ROHNKE, *supra* note 9, § 27 cmt. no. 17.

³⁶³ FEZER, *supra* note 9, § 3 cmt. no. 75; see *Loma Linda Food Co. v. Thomson & Taylor Spice Co.*, 279 F.2d 522, 524, 126 U.S.P.Q.(BNA) 261, 269 (C.C.P.A. 1960) (citing an identical rule under U.S. law); *Discount Muffler Shop, Inc. v. Meineke Realty Corp., Inc.*, 535 F. Supp. 439, 449, 217 U.S.P.Q.(BNA) 1154, 1160 (N.D. Ohio 1982) (stating an identical rule).

This, however, does not protect against consumer confusion subsequent to the assignment.

b. Licensing. The German Trademark Act of 1995, for the first time, contains explicit provisions regulating trademark licensing.³⁶⁴ The old law had presupposed the existence of license agreements, and the courts did sanction the licensing of marks in spite of the dependence of the mark on the business establishment.³⁶⁵ The license agreement need not contain a control provision to be valid.³⁶⁶ The German Trademark Act itself does not protect consumers against deception as to product quality. Instead, the Act relies on the trademark owner's interest to uphold a particular quality standard.³⁶⁷ Such a notion is consistent with the understanding that trademarks primarily serve the interests of trademark owners and only concomitantly serve the interest of the consuming public.³⁶⁸

³⁶⁴ Compare German Trademark Act, *supra* note 1, § 30 (stating

(1) The right established by the registration or use of a trade mark or by the fact that the trade mark is well-known may be the subject matter of exclusive or non-exclusive licenses for some or all of the goods or services for which the trade mark is protected and for the whole or part of the territory of the Federal Republic of Germany.

(2) The proprietor of a trade mark may invoke the rights conferred by that trade mark against a licensee who contravenes any provision in his licensing contract with regard to,

the duration of the license,
the form covered by the registration in which the trade mark may be used,
the scope of the goods or services for which the license was granted,
the area within which the trade mark may be affixed,
the quality of the goods manufactured or of the services provided by the licensee.)

with Council Directive, *supra* note 7, Art. 8 (prescribing licensing provisions for registered marks in the member states) and Council Regulation, *supra* note 260, Art. 22.

³⁶⁵ INGERL & ROHNKE, *supra* note 9, § 30 cmt. nos. 2, 7; Meßmer-Tee-II, BGHZ 44, 372 (375). Under the old law only *in personam* licenses were possible ("*schuldrechtlich*"). The new law allows *in rem* licenses (*dinglich*); only the latter affords the licensee with the trademark owner's priority date.

³⁶⁶ INGERL & ROHNKE, *supra* note 9, § 30 cmt. nos. 7, 59; BAUMBACH & HEFERMEHL, *supra* note 243, Anhang WGZ § 8 cmt. no. 20; ALEXANDER v. MÜHLENDAHL, ET. AL., DIE GEMEINSCHAFTSMARKE, § 9 cmt. no. 33 (1998) (concerning the Community Trademark; the inclusion of a quality control requirement had been discussed but was omitted in the end).

³⁶⁷ Which is now expressed in German Trademark Act, *supra* note 1, § 30 (2); see v.MÜHLENDAHL, *supra* note 366, § 9 cmt. no. 33 (discussing Council Regulation Art. 22 (2), which resembles German Trademark Act § 30 (2)). These provisions provide for a cause of action for the trademark owner if the licensee does not meet the contractual quality standards; they illustrate that the quality function primarily serves as a means to protect trademark owners' interest); see also BT-Drucks., Begründung zum Markengesetz, *supra* note 48, at 86 (discussing Trademark Act, § 30).

³⁶⁸ BAUMBACH & HEFERMEHL, *supra* note 243, Anhang WGZ. § 8 cmt. no. 20 (expressing the same view with regard to the old law).

The Law Against Unfair Trade Practices serves as a safeguard for the concern of abuse.³⁶⁹ Section 3 of the Law Against Unfair Trade Practices³⁷⁰ invalidates the license agreement³⁷¹ if the use of the mark by the licensee would convey misleading information as to the origin of the product and if a certain quality standard is inadvertently linked to this source and the licensee does not meet this standard.³⁷² The typical scenario would be that the licensee alters essential product features for which the licensor's product was known when he used the mark himself.³⁷³ A Supreme Court case involving the mark "Nevada" for ski-bindings illustrates the scope of this safeguard.³⁷⁴ The French licensor manufactured this renowned ski-binding with certain special technical characteristics that had made the binding the choice of many professional skiers. The licensee sold a ski-binding under the name "Ess-Nevada." This binding, however, was not equipped with these special features. The Court held that the mere assumption that the licensor was the source of the "Ess-Nevada" binding was not sufficient to invalidate the license agreement.³⁷⁵ However, consumer expectations that the ski-binding might have certain special characteristics did invalidate the agreement.³⁷⁶

³⁶⁹ INGERL & ROHNKE, *supra* note 9, § 30 cmt. no. 59; FEZER, *supra* note 9, § 30 cmt. no. 51; BAUMBACH & HEFERMEHL, *supra* note 278, § 3 cmt. no. 261.

³⁷⁰ UWG, *supra* note 33, § 3 states:

Any person who, in the course of business activity for purposes of competition, makes deceptive statements concerning business matters, in particular concerning the nature, the origin, the manner of manufacture, or the pricing of individual goods or commercial services or of the offer as a whole, concerning price lists, the manner or the source of acquisition of goods, concerning the possession of awards, concerning the occasion or purpose of the sale, or concerning the size of the available stock may be enjoined from making such statements.

Translated in FRIEDRICH-KARL BEIR ET AL., *German Industrial Property, Copyright and Antitrust Laws* 124 (2nd ed. 1989).

³⁷¹ BGB, *supra* note 358, § 134; FEZER, *supra* note 9, § 30 cmt. no. 53.

³⁷² INGERL & ROHNKE, *supra* note 9, § 30 cmt. no. 59; BAUMBACH & HEFERMEHL, *supra* note 278, § 3 cmt. no. 261-63.

³⁷³ INGERL & ROHNKE, *supra* note 9, § 30 cmt. no. 59.

³⁷⁴ Nevada Skibindung, BGH NJW 1965, 2150.

³⁷⁵ *Id.* at 2151.

³⁷⁶ Note that it did not make a difference that licensee's ski-binding might have been of a better quality than licensor's; *Id.* at 2151; this approach conforms with the U.S. notion that quality refers to "consistent quality"; MCCARTHY, *supra* note 2, § 3:10. *See also* Grüner Punkt, KG Berlin, Betriebs-Berater 1994, 2299, 2299-2300 (discussing § 3 of the Law Against Unfair Trade Practices and elaborating on the question whether consumers expect special quality features in connection with a green dot indicating a particular recycling system).

Promotional licensing is also a big issue among sports clubs in Germany.³⁷⁷ As to the problem of preventing third parties from making unauthorized uses of logos and symbols, courts interpret the likelihood of confusion in a broad sense.³⁷⁸ The problem is somewhat ameliorated by the fact that some sports clubs today actually manufacture their own apparel.³⁷⁹

6. *Evaluation.* In comparison to U.S. law, the German approach emphasizes the result of an assignment or license rather than the formalities accompanying the assignment. Some authors have suggested a similar solution for U.S. law.³⁸⁰ For instance, the Badger case³⁸¹ illustrates that such a notion might be a viable alternative for U.S. law.

Under German law no concern at all should arise with regard to those marks that are not used. The concern of consumer confusion is not pertinent as no good will has been built up yet.³⁸² The separate existence of mark and business has enabled the business of mark designers to flourish.³⁸³ The ITU system, in conjunction with the proscription of assignments, makes it difficult for U.S. entrepreneurs to establish such a business.

The Statement of the German Parliament regarding the introduction of the separability of business and mark illustrates the benefits of the present assignment in gross regulation.³⁸⁴ As mentioned above, the main purpose of the separability of business and trademark is to enable holding companies to own marks although they do not themselves constitute the business that uses the mark. In addition to this, the change was supposed to enable "character-merchandising," *i.e.*, business establishments that specialize in the design and sale of symbols.³⁸⁵ The Statement also expresses the urge to adjust to international developments, which on the European level was taking steps

³⁷⁷ Ruijsenaars, *supra* note 26, at 111.

³⁷⁸ *Id.* at 114. Note that courts are not barred from finding confusion even where it is obvious to the buyer that the product is a bootleg; see INGERL & ROHNKE, *supra* note 9, § 14 cmt. no. 140; FEZER, *supra* note 9, § 14 cmt. no. 75; see *infra* § III.C.3. for deeper discussion of confusion issue.

³⁷⁹ Ruijsenaars, *supra* note 26, footnote 41 (citing *Die Begeisterung für Fan-Artikel läßt langsam nach*, SÜDDEUTSCHE ZEITUNG, August 6, 1997, at 24).

³⁸⁰ MCCARTHY, *supra* note 2, at § 18:18; McDade, *supra* note 300, at 483.

³⁸¹ In the Badger case, the court emphasized the result by implying a valid, royalty-free, nonexclusive license. See *supra* text accompanying notes 329-30.

³⁸² ALTHAMMER, *supra* note 256, § 27 cmt. no.7.

³⁸³ See *supra* note 286 for citations to articles containing examples of mark designers' prospects.

³⁸⁴ Bundestagsdrucksache 12/1399 v. 30.10.1991, Begründung zum Erstreckungsgesetz, 68 [hereinafter BT-Drucks., Begründung zum Erstreckungsgesetz].

³⁸⁵ Webén und Kaufén, *Marke wird handelsbares Wirtschaftsgut Erste Börsen entstehen bereits*, January 13, 1995, at 15.

in the direction of free transferability.³⁸⁶ Now EU Regulation Article 17 stipulates just this, with regard to the Community Trademark. Although the EU Directive does not contain a provision prescribing such a regulation, all of the Member States have adopted a similar provision allowing independent transferability of marks.³⁸⁷

The groups with an interest in trademark protection unanimously welcomed the provision allowing assignments in gross.³⁸⁸ Some authors argue that the proscription against naked assignments and licenses does not reflect economic reality, especially with regard to the use of marks as merchandising marks, *i.e.*, marks that have a value on their own, such as logos, emblems, and symbols of sports clubs and universities.³⁸⁹

With regard to the quality control requirement, the market will likely undertake self regulation.³⁹⁰ The "assignee has every commercial motivation" to use the mark in a continuous way.³⁹¹ Landes and Posner point out that an incentive to deceive only exists if the short term sale profits exceed the long term loss of reputation.³⁹² Gross assignments, therefore, are a real concern only in last period settings, when the seller of the mark is leaving the market at the same time as the sale.³⁹³ Furthermore, consumers do not expect the quality and characteristics of a product to remain the same even if the owner remains the same,³⁹⁴ and the owner has no obligation to keep the quality at a consistent level when using the mark himself.³⁹⁵ Although, absent a quality control requirement, consumers might be

³⁸⁶ BT-Drucks., Begründung zum Erstreckungsgesetz 2, *supra* note 384, at 69.

³⁸⁷ FEZER, *supra* note 9, § 27 cmt. no. 6; *see, e.g.*, United Kingdom Trade Marks Act, 1994, § 24 (Eng.).

³⁸⁸ BT-Drucks., Begründung zum Erstreckungsgesetz 2, *supra* note 384, at 69.

³⁸⁹ Kozinski, *supra* note 334, at 960-66, 977-98; Parker, *supra* note 106, at 332; Pickering, *supra* note 13, at 36; Marks, *supra* note 322, at 647-49.

³⁹⁰ BAUMBACH & HEFERMEHL, *supra* note 243, § 8 cmt. no. 20; v. Mühlendahl & Ohlgart, *supra* note 366, § 9 cmt. no. 33; *see also* Constance L. Hays, *This Bud's for Them; Anheuser-Busch Takes Closer Aim at Foreign Markets*, N.Y. TIMES, June 23, 1999, at C1

Foreign expansion is a costly exercise. Like Coca-Cola, Anheuser believes that a key to winning converts is making a product that tastes exactly the same everywhere in the world. So it sends brewmasters to its overseas plants to supervise the making of Budweiser from ingredients that are mostly imported from the United States; quoting Frank Walters, the director of research at Impact, a trade newsletter in New York, "If you don't have a consistent product, you can't build up brand loyalty"); McDade, *supra* note 300, at 473-75, 480-81.

³⁹¹ Werner, *supra* note 304, at 258.

³⁹² LANDES & POSNER, *supra* note 226, at 285-86.

³⁹³ *Id.*

³⁹⁴ RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 34 cmt. c (1995).

³⁹⁵ PARKS, *supra* note 321, at 536; LADAS, *supra* note 310, § 617, at 1118.

deceived if the assignee or licensee launches an inferior product, this might not be any different under the safeguard.³⁹⁶

It therefore does not come as a surprise that the assignment and licensing rules, under the flexible standard applied by the courts, again stress a tendency in the U.S. to drift into the direction of an understanding of trademarks as marketing devices in the interest of the respective owners. Deviations are allowed to enhance business prospects. The German law accepts the necessity to allow the conduct discussed and contains safeguards for those cases of misuse.

C. SCOPE OF PROTECTION INCLUDING DILUTION

As we have seen, the different trademark laws are subject to convergence with respect to the acquisition of trademark rights and the transferability of marks. The inconsistent application of U.S. trademark law derives from the need to grant extensive rights to businesses in order to enhance business opportunities. The practical needs, and not the theoretical underpinnings, determine the scope of protection. The following section discusses the scope of protection afforded to trademark owners under the respective laws.

1. *General Scheme.* One would assume that the scope of protection should be broader under German law, which employs a system that emphasizes the function of a mark as a right in the interest of owners instead of as a source identifier.

The remedies open to the trademark owner in case of a trademark infringement are of a comparable nature under U.S. and German law. Once an infringement has been established, the proprietor of the mark, under the respective specified circumstances, will be able to obtain the necessary injunctive³⁹⁷ and monetary relief.³⁹⁸ Although the remedies afforded to a trademark owner are crucial to the question of how strong a right he owns, a more thorough discussion of the remedies and their ramifications would go beyond the scope of this article.³⁹⁹ The more pertinent question for our

³⁹⁶ McDade, *supra* note 300, at 482.

³⁹⁷ Lanham Act § 34, 15 U.S.C. § 1116 (1994); German Trademark Act, *supra* note 1, § 14 (5).

³⁹⁸ Lanham Act § 35, 15 U.S.C. § 1117 (1994); German Trademark Act, *supra* note 1, § 14 (6).

³⁹⁹ See generally MCCARTHY, *supra* note 2, § 30:1 et seq. (discussing remedies for mark infringement); INGERL & ROHNKE, *supra* note 9, §§ 14-19 (for comprehensive discussions of remedies). It seems worthwhile to mention that German law requires willful or negligent conduct on behalf of the infringer for any kind of monetary relief, German Trademark Act, *supra* note 1, § 14 (6), whereas under U.S. law

purposes is the problem of what triggers the remedies available to trademark owners, *i.e.*, what constitutes a trademark infringement.

2. *U.S. Law.* Under U.S. law, "likelihood of confusion" is the keystone of common law and statutory trademark infringement.⁴⁰⁰ The assessment under statutory trademark law becomes important with regard to infringements of registered⁴⁰¹ or unregistered⁴⁰² marks and with regard to applications for federal registration.⁴⁰³

3. *Confusion as to Source.* Generally speaking, the critical question is whether the purchasing public⁴⁰⁴ would mistakenly assume that the applicant's goods originate with, are sponsored by, or are in some way associated with goods sold under the trademark.⁴⁰⁵

Section 32 of the 1962 Lanham Act required confusion of "purchasers as to the source of origin of such goods."⁴⁰⁶ The amended language merely requires use of a mark which is "likely to cause confusion, or to cause mistake, or to deceive" without any further requirement. Courts interpreted this amendment to codify a post-sale confusion doctrine, which allows confusion not only with regard to the actual purchasers (point of sale confusion) but also with regard to non-purchasers as prospective customers.⁴⁰⁷

an element of fault is not necessary for such a recovery. Courts, however, are reluctant to enforce a strict liability concept, and therefore require proof of actual losses or actual damage instead of likely confusion, MCCARTHY, § 30:28. The concept of statutory damages in lieu of actual damages, 15 U.S.C. § 1117(c), and the concept of treble damages in cases of intentional infringement, 15 U.S.C. § 1117 (b), are unknown to German law. The same is true with regard to punitive damages, which cannot be awarded under the Lanham Act, but are available under state law. The losing party under German law, as a general procedural rule, is liable for the winning party's necessary costs; a specific regulation with regard to attorneys' fees cannot be found in the German Trademark Act; *compare with* 15 U.S.C. § 1117(a), (b) (discussing charges for trademark infringement).

⁴⁰⁰ MCCARTHY, *supra* note 2, § 23:1.

⁴⁰¹ Lanham Act § 32, 15 U.S.C. § 1114 (1994).

⁴⁰² Lanham Act § 43(a), 15 U.S.C. § 1125(a) (1994).

⁴⁰³ Lanham Act 2(d), 15 U.S.C. § 1052(d) (1994). The analysis of section 2 (d) resembles that of Lanham Act § 43 (a) and will not be discussed any further; *see* Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 769 (1992) (discussing § 2(d) of the Lanham Act); MCCARTHY, *supra* note 2, §§ 23:1, 23:8, 23:78, 27:26, 27:14.

⁴⁰⁴ The standard is the reasonable prudent purchaser, *see* MCCARTHY, *supra* note 2, §§ 23:91 - 23:103 (discussing the entire analysis).

⁴⁰⁵ MCCARTHY, *supra* note 2, § 23:78; Lanham Act § 2(d) (describing the modern test for infringement).

⁴⁰⁶ McCarthy, *supra* note 2, §§ 23:7, 23:21, 23:76, 29:167.

⁴⁰⁷ *See id.*; Insty Bit, Inc. v. Poly-Tech Indust. Inc., 95 F.3d 663 (8th Cir. 1996); Computer Care v. Serv. Sys. Enter., Inc., 982 F.2d 1063, 1070 (7th Cir. 1992).

The Second Circuit has held that confusion as to the products themselves will suffice.⁴⁰⁸ The case involved the registered mark "Vagitol" for a vaginal crème product and the enjoined use of the unregistered mark "Vagestrol" on a vaginal suppository product. The Second Circuit thought it proper to look primarily at product confusion among physicians and pharmacists, rather than at confusion among purchasers as to source of origin. The Court emphasized the possible dire effects on public health, but also stated, "In amending that section in 1962, Congress eliminated the italicized, qualifying language, thereby evincing a clear purpose to outlaw the use of trademarks which are likely to cause confusion, mistake, or deception of any kind, not merely of purchasers nor simply as to source of origin."⁴⁰⁹

What this illustrates is that the language of § 32 of the Lanham Act gives courts leeway to prevent any kind of consumer confusion. Confusion is not limited to the source of the product.

Similarly, section 43 (a) of the Lanham Act was amended with the enactment of the TLRA in 1989 to include confusion "as to the affiliation, connection, or association," or "the origin, sponsorship, or approval." This was a codification of existing law, and although it was not supposed to bring a change in judicial analysis, it was broad enough to permit subsequent judicial interpretation.⁴¹⁰

Therefore, today it is clear that confusion does not require uncertainty as to the source of the goods in a strict sense. On the other hand, a mere calling to mind of a source is not sufficient to establish a likelihood of confusion. In the case of unregistered marks, there must be confusion either as to the

⁴⁰⁸ *Syntex Lab., Inc. v. Norwich Pharmacal Co.*, 437 F.2d 566, 568-69, 169 U.S.P.Q.(BNA) 1 (2nd Cir. 1971); see also *Morgenstern Chem. Co. v. G. D. Searle & Co.*, 253 F.2d 390, 116 U.S.P.Q.(BNA) 480 (3rd Cir. 1958) (finding infringement by defendant's mark "Mictine" of plaintiff's mark "Micturin" even though the two prescription drugs have separate and independent uses).

⁴⁰⁹ *Syntex Lab.*, 437 F.2d at 568; see also *Marathon Mfg. Co. v. Enerlite Prod. Corp.*, 767 F.2d 214, 221, 226 U.S.P.Q. (BNA) 836 (5th Cir. 1985)

In 1962, the quoted words were deleted, specifically to allow any kind of confusion in support of a trademark infringement action. Likelihood of confusion, due to similar trademarks, need no longer be predicated upon the claim that the public may be misled by a similarity between the goods. Marathon need only prove likelihood of confusion . . .

USTA Commission, *supra* note 170, at 378 & n.5.

⁴¹⁰ *Marie V. Driscoll, The "New" 43(a)*, 79 TRADEMARK REP. 238, 238 (1989). The old law provided for a cause of action for "false designation of origin," which was the basis for a federal infringement remedy for unregistered marks; see *McCarthy, supra* note 2, at §§ 27:9, 27:18, 27:10, 27:14.

source or the sponsorship,⁴¹¹ whereas in the case of registered marks, any kind of confusion may suffice. Courts might apply an even broader standard if section 32 is taken literally.⁴¹²

4. *Confusion Assessment.* Confusion is pretty obvious in cases where the infringer uses an identical mark on identical goods. Such cases therefore are referred to as "open and shut" cases.⁴¹³ The analysis is not as obvious in those cases where the marks or the goods are not identical but are only similar. The Federal Circuits have adopted different tests for determining likelihood of confusion in these cases.⁴¹⁴ All circuits commonly consider the degree of similarity among the marks, the proximity of the products, defendant's intent in selecting the product, evidence of actual confusion, and the strength of plaintiff's mark. These factors are not exhaustive, but rather are illustrative.⁴¹⁵ Importantly, courts consider a number of factors and the market context for purposes of the assessment.⁴¹⁶ They take a global approach and weigh all the relevant factors.⁴¹⁷

⁴¹¹ See MCCARTHY, *supra* note 2, at § 23:9, who quotes Judge Rich's analogy to a traffic light where one color calls to mind the other, but does not lead to confusion; see also *Viacom Int'l Inc. v. Kimm*, 46 U.S.P.Q.2d (BNA) 1233, 1239 (T.T.A.B. 1998). The court found no confusion between "My-T-Mouse" used for computer software, and the cartoon character "Mighty Mouse" used in film series of animated cartoons for motion pictures and television. The Court held, "We acknowledge that applicants' mark MY-T-MOUSE and design might bring to mind the cartoon MIGHTY MOUSE. However, this does not necessarily mean that consumers will be confused into believing that the two marks indicate the same source of origin." See *Academy of Motion Picture Arts & Sciences v. Creative House Promotions, Inc.*, 944 F.2d 1446, 1456, 19 U.S.P.Q.2d (BNA) 1491, 1499 (9th Cir. 1991) (involving the marketing of the "Star Award," a gold figure closely resembling the Academy's famous "Oscar" statuette; the Ninth Circuit found an infringement under Section 43(a) of the Lanham Act § 43 (a) although survey evidence had only established an association and no confusion).

⁴¹² In practice the standards seem to resemble each other; courts in a section 32 proceeding give weight to the fact that the PTO denied registration because of likelihood of confusion with another mark. See *W. E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656, 662, 168 U.S.P.Q. (BNA) 1(2nd Cir. 1970).

⁴¹³ MCCARTHY, *supra* note 2, § 23:20.

⁴¹⁴ See generally MCCARTHY, *supra* note 2, § 23:19 (citing the various factors leading to confusion recognized by the courts).

⁴¹⁵ RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 21 cmt. a (1995); *Heartsprings, Inc. v. Heartspring, Inc.*, 143 F.3d 550, 554 (10th Cir. 1998); *Elvis Presley Enters., Inc. v. Capece*, 141 F.3d 188, 194 (5th Cir. 1998).

⁴¹⁶ MCCARTHY, *supra* note 2, § 23:19; RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 21 cmt.

a.

⁴¹⁷ *Heartsprings*, 143 F.3d at 558; *Elvis*, 141 F.3d at 204; *Meridian Mut. Ins. Co. v. Meridian Ins. Group, Inc.*, 128 F.3d 1111, 1120 (7th Cir. 1997).

5. *German Law.* As in the case of U.S. law, under German law the core of the infringement assessment is the question of likelihood of confusion.⁴¹⁸ German law presumes such a confusion in cases where an identical trademark is used on an identical product. No additional showing is necessary.⁴¹⁹ The cases of double identity are just as “open and shut” as they are under U.S. law. Additionally, the owner will have a cause of action where the products and marks are similar or identical if a likelihood of confusion on the part of the public exists.⁴²⁰ German courts interpreted the likelihood of confusion requirement under the old German law as encompassing several different kinds of confusion. First, there was “direct confusion” which could be found where the public confused the sign and the mark in question.⁴²¹ “Indirect confusion,” in contrast, could be established where the public made a connection between the proprietors of the sign and of the mark and confused them.⁴²² Thirdly, “confusion in a broader sense” referred to the public’s mistaken assumption that there is an organizational or economic link between the companies marketing the two products.⁴²³

Two important recent European Court of Justice decisions addressed the issue of confusion beyond the case of double identity.⁴²⁴ The rulings defined the basic scope for the assessment by EU Member Countries, and I will therefore take a closer look at these decisions.

6. *Likelihood of Association/Indirect Confusion/Confusion in a Broader Sense.* The wording of Council Directive article 4 (1) (b) and its corresponding provision of the German Trademark Act, section 14 (2), put

⁴¹⁸ The German Trademark Act, *supra* note 1, §§ 9, 14, as well as the German version of the Council Directive, *supra* note 7, articles 4, 5 use the term “risk of confusion.” The inaccurate translation is not meant to reveal a conceptual difference with the English version of “likelihood of confusion.”

⁴¹⁹ See First Council Directive 89/104 to approximate the laws of the member states relating to trademarks, 1989 O.J. (L40), Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) art. 16(1) 1994, O.J. (L336) 214 (presuming likelihood of confusion in case of identical sign for identical goods or services).

⁴²⁰ Section 9 (1), numbers 1-3 of the Trademark Act resemble section 14, numbers 1-3; the difference is that section 9 is concerned with cancellation of registered marks whereas section 14 refers to third party uses. Note that section 9 (1), number 3 does not entitle the trademark owner to file an opposition proceeding pursuant to section 42; the exclusive remedy to attack the application, or, better, to attack the registration is the cancellation proceeding.

⁴²¹ *Unmittelbare Verwechslungsgefahr*; INGERL & ROHNKE, *supra* note 9, § 14 cmt. nos. 150, 427.

⁴²² *Mittelbare Verwechslungsgefahr*; INGERL & ROHNKE, *supra* note 9, § 14 cmt. nos. 150, 427.

⁴²³ *Verwechslungsgefahr in weiterem Sinne*; INGERL & ROHNKE, *supra* note 9, § 14 cmt. nos. 150, 427.

⁴²⁴ Case C-251/95, Sabel BV v. Puma AG, and Rudolf Dassler Sport, 1997 E.C.R. I-6191, [1998] 1 C.M.L.R. 445 (1998); Case C-39/97, Canon Kabushiki Kaisha v. Metro-Goldwyn-Mayer Inc, 1998 E.C.R. I-5507, [1999] 1 C.M.L.R. 77 (1998).

into question the traditional analysis under the old law. The EU Directive required “likelihood of confusion on the part of the public,” but continued to state, “which includes the likelihood of the sign and the trade mark becoming associated in the mind of the public.”⁴²⁵ This wording could be interpreted as enhancing trademark owners’ rights by lowering the infringement threshold. In the case of *Sabel v. Puma*⁴²⁶ the German Federal Court of Justice⁴²⁷ had found a resemblance between Sabel’s “bounding feline” and Puma’s registered “bounding feline” with respect to certain classes of sport goods. It, however, did not find a likelihood of confusion.⁴²⁸ As the relevant provision in the German law is based on Council Directive article 4, the Court referred the question to the European Court of Justice⁴²⁹ which had to decide whether a mere association which the public might make between two marks was sufficient to justify a finding of likelihood of confusion.

The European Court of Justice answered the question negatively, mainly relying on the tenth recital in the preamble of the Directive, which makes likelihood of confusion the specific condition for protection.⁴³⁰

Defendant Sabel and the United Kingdom had invoked the argument that trademark protection cannot go further than is necessary to protect its function as a guarantee of origin. The Benelux countries in contrast argued that where a sign is likely to give rise to the association of a mark, *i.e.*, where the public makes a connection between the marks although the two are not confused, an infringement is established. The European Court of Justice, in essence, held that likelihood of association is not an alternative to likelihood of confusion, but rather serves to define the scope.⁴³¹

⁴²⁵ See German Trademark Act, *supra* note 1, for English version.

⁴²⁶ Case C-251/95, *Sabel BV v. Puma AG, & Rudolf Dassler Sport*, 1997 E.C.R. I-6191, [1998] 1 C.M.L.R. 445 (1998).

⁴²⁷ *Bundesgerichtshof* [BGH].

⁴²⁸ The case involved an opposition proceeding under German Trademark Act § 9 (1) No.2. This provision resembles § 14 (2) No. 2, and the legal analysis is the same.

⁴²⁹ For purposes of a preliminary ruling under article 177 of the EC.

⁴³⁰ Case C-251/95, *Sabel BV v. Puma AG, & Rudolf Dassler Sport*, 1997 E.C.R. I-6191, V I-6222, I-6225, HH 18,26 [1998] 1 C.M.L.R. 445, 470, 472, HH 18,26 (1998).

⁴³¹ *Id.*; reiterated in Case C-342/97, *Lloyd Schuhfabrik Meyer & Co. GmbH v. Klijsen Handel BV*, 1999 E.C.R. I-3819, [1999] 2 C.M.L.R. 1343, ¶ 17 (1999).

The Court, however, also unambiguously endorsed the view that indirect confusion could suffice to establish a likelihood of confusion.⁴³² In an earlier case which had also been referred to the European Court of Justice by the *BGH*, the court had held that confusion in a broader sense, *i.e.*, when “the mistaken assumption relates to the existence of an organisational or economic link between the undertakings concerned, such as a licensing agreement under which one undertaking is authorised to manufacture a product with the same properties as the product of the other” was an acceptable test for the likelihood of confusion assessment.⁴³³ In its recent *Canon* decision the Court held that confusion in a broader sense at the same time presents the outer limit for likelihood of confusion, *i.e.*, at a minimum confusion regarding the link between the two undertakings must exist for infringement purposes.⁴³⁴

These notions conform with the meaning the German legislature attributed to the wording, which it considered to be a confirmation of the traditional understanding of indirect confusion and confusion in a broader sense.⁴³⁵

In light of this judgment, a decision issued by the Higher Regional Court of Hamburg (*Oberlandesgericht Hamburg*) just three months before *Canon* was concluded seems troubling.⁴³⁶ The case involved the question of whether the design of the cigarette packaging for the brand “CABINET-mild” caused confusion with the design of the “Marlboro-King-Size” packaging. The Court, while discussing the concept of confusion in a broader sense, notes that the concept no longer requires confusion with regard to an economic or organizational link between the undertakings marketing the products in question. The Court added that, although not every association would

⁴³² *Sabel* 1997 E.C.R. at I-6222-23, HH 16-17 [1998] 1 C.M.L.R. at 470, HH 16-17 (1998); INGERL & ROHNKE, *supra* note 9, § 14 cmt. nos. 150, 427.

⁴³³ Case C-317/91, *Deutsche Renault AG v. Audi AG*, 1993 E.C.R. I-6227, [1995] 1 C.M.L.R. 461 (1995), Decision ¶ 36; GRUR Int. 1994, 168 (170); INGERL & ROHNKE, *supra* note 9, § 14 cmt. no. 439; *see also Sabel* 1997 E.C.R. at I-6204, ¶ 38, [1998] 1 C.M.L.R. at 457, ¶ 38 (1998) (opinion of Advocate General Jacobs).

⁴³⁴ Case C-39/97, *Canon Kabushiki Kaisha v. Metro-Goldwyn-Mayer Inc.*, 1998 E.C.R. I-5507, I-5535, ¶ 30, [1999] 1 C.M.L.R. 77, 97 ¶ 30 (1998); *see also Case C-342/97, Lloyd Schuhfabrik Meyer & Co. GmbH v. Klijsen Handel BV*, 1999 E.C.R. I-3819 [1999] 2 C.M.L.R. 1343, ¶ 17 (1999); Annett Wagner, *Infringing Trade Marks: Function, Association and Confusion of Signs According to the E.C. Trade Marks Directive*, [1999] E.I.P.R. 127-132 (1999).

⁴³⁵ BT-Drucks., Begründung zum Markengesetz, *supra* note 48, at 125; INGERL & ROHNKE, *supra* note 9, § 14 cmt. no. 443.

⁴³⁶ Cabinet, OLG Hamburg, GRUR 1999, 172.

suffice to constitute confusion, the new law did not require a strong emphasis of the source identifying function. Thus, a mistaken association of product characteristics or specific quality standards could be sufficient. The interpretation did not make a difference in the outcome of the case as the Court did not find a likelihood of confusion, in spite of this broad understanding. It seems questionable whether such an approach can be upheld in light of *Canon*, although the decisions might be reconciled if confusion as to the characteristics or quality standards is regarded as tantamount to confusion in a broader sense.

In the final analysis, the likelihood of confusion assessment has not changed under German law. It therefore does not give evidence of a shift of the understanding of trademark functions.

7. *Similarity.* The old German law used an objective test to assess whether there was similarity between the goods in question.⁴³⁷ This static approach asked for an isolated assessment of whether the products were similar. The new act in implementing the Council Directive, altered the wording regarding the assessment.⁴³⁸ The explanatory statement by the German Parliament to the trademark reform law explicitly states that the purpose of this new choice of words was to redefine the scope of protection, and most German scholars agreed.⁴³⁹ Thus, the old expression was interpreted primarily in light of the origin function of trademarks,⁴⁴⁰ whereas the new expression is no longer based on this notion.⁴⁴¹ Although the courts did not apply the changes with force,⁴⁴² as a whole, they came to acknowledge that the scope of the new law was broader than that of the old one.⁴⁴³ In 1996 the German Supreme Court referred to the European Court of Justice a question as to the interpretation of article 4(1)(b) of the Council

⁴³⁷ §§ 5 (4) No.1, 11 (1) No.1 Warenzeichengesetz; based on the wording "Warengleichartigkeit."

⁴³⁸ See §§9 (1) No.2, 14 (2) No.2 "Ähnlichkeit."

⁴³⁹ BT-Drucks., Begründung zum Markengesetz, *supra* note 48, at 72; FEZER, *supra* note 9, § 14 cmt. no. 119; INGERL & ROHNKE, *supra* note 9, § 14 cmt. no. 249. *But see* ALTHAMMER, *supra* note 256, § 9 cmt. no. 9. Both expressions can be translated as "similarity." See *Collins German Dictionary* (1997). If a distinction should be made, the old expression of "Warengleichartigkeit" could be translated as "great similarity" or "of the same kind." See Brockhaus, *Enzyklopädie, Bd. 29, Wörterbuch Englisch* (1996). For our purpose, it is important to note that the new wording was intended to change the analysis.

⁴⁴⁰ INGERL & ROHNKE, *supra* note 9, § 14 cmt. no. 248.

⁴⁴¹ BT-Drucks., Begründung zum Markengesetz, *supra* note 48, at 72; Tilmann, *supra* note 8, at 384.

⁴⁴² See INGERL & ROHNKE, *supra* note 9, § 14 cmt. no. 250 for citations.

⁴⁴³ See *Oxygenol II*, BGH NJW 1995, 1677 (1679) (in obiter dictum).

Directive,⁴⁴⁴ which the specific provision of the German law⁴⁴⁵ is based on.⁴⁴⁶ The case involved an application by Metro-Goldwyn-Mayer (MGM) for registration of the word "CANNON" with respect to "films recorded on video tape cassettes" and other items. Canon Kabushiki Kaisha (CKK) opposed the application on the basis of its registration of "Canon" for certain leisure electronic devices, including video recorders. The Federal Patent Court (*Bundespatentgericht*, abbreviated *BPatG*) had denied that there was a similarity of the goods in question based on the factual finding that the relevant average purchaser did not think that recorded video tapes and the corresponding recording devices came from the same business operation.⁴⁴⁷ Under this analysis, CKK's opposition had to fail because there was no similarity of the goods involved and therefore no confusion possible, regardless of the distinctiveness or reputation of CKK's "Canon" mark. The *BGH* on appeal held the new law applicable and thus had to decide the question of the appropriate analysis. It proposed an analysis based on an inverse correlation between the similarity of the goods on the one hand, and the similarity of the marks and the distinctive character of the earlier mark on the other hand.⁴⁴⁸ Thus under such an analysis CKK could prevail as a lower degree of similarity between the goods could be offset by a greater degree of similarity between the marks. The *BGH* accordingly referred the following question to the European Court of Justice:

May account be taken, when assessing the similarity of the goods or services covered by the two marks, of the distinctive character, in particular the reputation of the

⁴⁴⁴ Council Directive Art. 4 (1) reads:

A trade "mark" shall not be registered or, if registered, shall be liable to be declared invalid:

if it is identical with an earlier trade mark, and the goods or services for which the trade mark is applied for or is registered are identical with the goods or services for which the earlier trade mark is protected; if because of its identity with, or similarity to, the earlier trade mark and the identity or similarity of the goods or services covered by the trade marks, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association with the earlier trade mark.

⁴⁴⁵ German Trademark Act, *supra* note 1, § 9 (1) Nr. 2; *see also id.*, § 14 (2) Nr. 2.

⁴⁴⁶ Canon, *BGH GRUR* 1997, 221 (*translated in* 28 I.I.C. 213-216 (1998)).

⁴⁴⁷ Case C-39/97, *Canon Kabushiki Kaisha v. Metro-Goldwyn-Mayer Inc.*, 1998 E.C.R. I-5507, I-5514, ¶ 19, I-5528, H5, [1999] 1 C.M.L.R. 77, 83, ¶ 19, 92, ¶ 5 (1998); Canon, *BGH GRUR* 1997, 221 (*translated in* 28 I.I.C. 213-216 (1998)).

⁴⁴⁸ *Canon*, 1998 E.C.R. at I-5514, ¶ 19, I-5528, ¶ 5; Canon, *BGH GRUR* 1997, 221.

mark with earlier priority (on the date which determines the seniority of the later mark), so that, in particular, that likelihood of confusion within the meaning of Article 4(1)(b) of the Directive 89/104/EEC must be taken to exist even if the public attributes the goods and/or services to different places of ('Herkunftsstätten') origin?⁴⁴⁹

The European Court of Justice answered in the affirmative with regard to both parts of the question.⁴⁵⁰ First, the distinctive character, that is the reputation of a mark can play a role in the assessment of whether the goods are sufficiently similar to give rise to a likelihood of confusion. Second, the likelihood of confusion is possible, even where the public perception is that the goods or services have different places of production.

The likelihood of confusion therefore depends on numerous elements, such as recognition of a trademark on the market, the association that can be made with the mark, and the degree of similarity between the trademark and the goods identified.⁴⁵¹

8. *Conclusion.* EU Directive article 4(1)(b) and its implementation correlate in German law by enhancing trademark owners' rights to some extent, and at the same time diminishing the source identifying function.⁴⁵² *Sabel v. Puma*, on the one hand, emphasized the origin function by rejecting the mere association (association in a strict sense) approach as a basis for a confusion analysis. On the other hand, this case endorsed the notion of indirect confusion. *Canon* enhanced trademark owner's rights by prescribing a focus on the overall impression, *i.e.*, a global approach to confusion assessment. This decision also stressed the origin function by

⁴⁴⁹ *Canon*, 1998 E.C.R. at I-5516, ¶ 25; Canon, BGH GRUR 1997, 221 (223).

⁴⁵⁰ With the caveat as to the link between the enterprises in question, see *supra* text accompanying note 430. See *British Sugar Plc. v. James Robertson & Sons Ltd.*, [1996] R.P.C. 281 for the approach of Justice Jacob in UK. For a commentary, see Rachel Montagnon, "Strong" Marks Make More Goods "Similar," [1998] E.I.P.R. 401-04.

⁴⁵¹ *Canon*, 1998 E.C.R. at I-5532, ¶¶ 16-18; Case C-251/95, *Sabel BV v. Puma AG & Rudolf Dassler Sport*, 1997 E.C.R. I-6191, I-6224, ¶¶ 22-24 [1998] 1 C.M.L.R. 471, ¶¶ 22-24; INGERL & ROHNKE, *supra* note 9, § 14 cmt. no. 180; ALTHAMMER/STRÖBELE, *supra* note 256, § 9 cmt. no. 14; Cabinet, OLG Hamburg, GRUR 1999, 172, 175; see also Rolf Sack, *Probleme des Markenschutzes im Ähnlichkeitsbereich*, 1998 WRP 1127, 1139-41 (arguing that such an overall assessment opens up the possibility to interpret "likelihood of confusion" broadly based on the particular interests of the respective trademark owner).

⁴⁵² See *Canon*, 1998 E.C.R. at I-5516, Opinion ¶ 25 ("According to the Bundesgerichtshof [. . .] it would be considerably easier than under the previous German law to demonstrate a likelihood of confusion.").

setting the outer limit of possible confusion where confusion in a broader sense is at stake.

9. *Comparative Analysis.* The assumption that protection should be more readily available under German law is not supported by a juxtaposition of the applicable law. An assessment of the actual protection offered under the applicable laws would require an additional analysis of the law in the courts. Here the conclusion must be that both the U.S. system and the German system make the question of confusion a judgement call by relying on the courts to make an overall assessment of several relevant factors. The ECJ struck down the static approach under the old German law and thus enhanced trademark proprietor's rights by allowing a low degree of similarity of the goods to be overcome by a high degree of similarity of the marks. Before this change, U.S. law evidently offered broader protection.

On the one extreme, under both systems a mere association between two marks will not suffice to establish an infringement. On the other extreme, both systems relate the scope of protection as to confusion to a link between two undertakings. The ECJ held accordingly in *Canon*.⁴⁵³ Section 43 (a) of the Lanham Act stipulates just the same with regard to unregistered marks. Section 32 (a), which is concerned with registered marks, does not contain this restrictive language. It gives courts leeway to interpret confusion in a broad sense as the Second Circuit ruling in *Syntex Laboratories*⁴⁵⁴ reveals.

There are two points that essentially explain this result.

First, the conflict of a strong right as opposed to an emphasis on the source identifying function is not applicable here. Consumer protection, the primary goal of U.S. trademark law, is best achieved if any kind of confusion not just confusion regarding the source is prevented.

Second, the "restraints" imposed by the law of the EU must not be disregarded. EU trademark law has to take into account considerations that are different and additional to those that drive trademark laws. The concern with trademarks is not only to strike a balance between a more or less justified concern about conferring a monopoly in words and about anti-competitive effects in the national market.⁴⁵⁵ The concern is also to avoid

⁴⁵³ Case C-39/97, *Canon Kabushiki Kaisha v. Metro-Goldwyn-Mayer Inc.*, 1998 E.C.R. I-5507, [1999] 1 C.M.L.R. 77 (1998).

⁴⁵⁴ *Syntex Lab., Inc. v. Norwich Pharmacal Co.*, 437 F.2d 566, 169 U.S.P.Q. (BNA) 1, (2d Cir. 1971).

⁴⁵⁵ See generally *Hotaling*, *supra* note 20, at 1205-10 (discussing implications of the EC Treaty provisions); see also *Wagamama Ltd. v. City Centre Restaurants plc*, [1995] F.S.R. 713, 729-31 (involving the marks "WAGAMAMA" for a Japanese restaurant and "RAJA MAMA's" for an Indian style

putting up barriers to the free flow of trade between the Member Countries.⁴⁵⁶ Advocate General Jacobs in his opinion in *Sabel*, set forth the problem as follows: "The Trade Mark Directive, if interpreted too stringently, would have the effect of insulating the national markets."⁴⁵⁷ The German Trademark Act provides for a seizure remedy against infringing goods during importation and exportation.⁴⁵⁸ Thus, if the infringement provisions are interpreted too broadly, this would trigger such seizure remedies more easily and impede trade between the Member States. Before the Council Directive took effect the prominent ECJ judgments concerning trademarks gave evidence of this European concern. They addressed the issue of confusion for trademark law purposes in the light of arts. 30 and 36 of the Treaty Establishing the European Community which balance out the prohibition and need for quantitative and similar restrictions on imports.⁴⁵⁹

Thus, although German law is based on a more owner friendly notion than U.S. trademark law, this additional concern leads to a similar conceptual understanding with regard to the scope of protection granted by the respective laws.⁴⁶⁰

10. *Dilution.* Finally, the concept of dilution gives evidence of the different understandings in the respective trademark laws. It also, most obviously, illustrates the struggle U.S. trademark law has with accepting a new, additional rationale for the protection of trademarks. Here, however, only a broad overview—sufficient to mark the basic differences—can be

restaurant). Justice Laddie, in dictum, disposes of the proposal that non-origin association could suffice to establish an infringement. He uses strong language as to this concern: "Monopolies are the antithesis of competition," *Id.* at 728; "Monopolies are the exception not the rule," *Id.* at 729; "If the broader scope were to be accepted, the Directive and the Act would be creating a new type of monopoly not related to the proprietors' trade but in the trade mark itself," *Id.* at 730-31.

⁴⁵⁶ *Wagamama*, [1995] F.S.R. at 728, ("They can create barriers to trade between countries. Differences between the laws of Member States of the European Union may add further obstructions to inter-state trade because what is permissible under the law of one Member State may be prohibited under the law of its neighbour.").

⁴⁵⁷ *Sabel BV v. Puma AG & Rudolf Dassler Sport*, 1997 E.C.R. I-6191, I-6209, ¶ 51. Note that the Advocate General offers an opinion to the ECJ in preparation for its decision; the opinion is in no way binding on the Court or the Member States.

⁴⁵⁸ German Trademark Act, *supra* note 1, §§ 146-151.

⁴⁵⁹ See *Sabel*, 1997 E.C.R. at I-6201, ¶ 31.

⁴⁶⁰ Which, of course, to some extent might also be a concern for the U.S. in NAFTA and TRIPS. See Daniel R. Bereskin, *The Canada-United States Free Trade Agreement: Are Trademarks Barriers to Free Trade?*, 80 TRADEMARK REP. 272, 284 (1990).

given.⁴⁶¹ Today both laws offer protection for specific trademarks against "dilution."⁴⁶² The remarkable point about the dilution concept is that it grants trademark protection without there being a risk of consumer confusion. The Federal Trademark Dilution Act (FTDA), which was introduced into U.S. law in 1995, defines dilution as "the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of—(1) competition between the owner of the famous mark and other parties, or (2) likelihood of confusion, mistake, or deception."⁴⁶³ The FTDA created a new "federal cause of action to protect famous marks from unauthorized users that attempt to trade upon the goodwill and established renown of such marks and, thereby, dilute their distinctive quality."⁴⁶⁴ With this statute, U.S. law for the first time grants federal trademark protection even if there is no risk of consumer confusion.⁴⁶⁵

The dilution doctrine is traced back to Frank Schechter's landmark article of 1927 in the *Harvard Law Review*.⁴⁶⁶ Schechter proposed that preserving a mark's uniqueness was the only rational basis for protecting trademarks.⁴⁶⁷ He therefore introduced a pioneering idea by disposing of the consumer confusion rationale as the main test for trademark protection. He claimed that the real injury that needed to be prevented was "the gradual whittling away or dispersion of the identity and hold upon the public mind of the

⁴⁶¹ For a thorough discussion see MCCARTHY, *supra* note 2, §§ 24:67-24:114; Klieger, *supra* note 22, at 790; FEZER, *supra* note 9, § 14 cmt. nos. 410-52; INGERL & ROHNKE, *supra* note 9, § 14 cmt. nos. 453-531.

⁴⁶² See Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, 109 Stat. 985 (codified at Lanham Act §§ 43(c), 45, 15 U.S.C. §§ 1125(c), 1127); see German Trademark Act, *supra* note 1,

(Third parties shall be prohibited from using in the course of trade without the consent of the proprietor of the trade mark [. . .]

3. any sign 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 protected, where the trade mark has a reputation in the Federal Republic of Germany 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 which has a reputation.)

⁴⁶³ Lanham Act § 45, 15 U.S.C. § 1127 (Supp. IV 1998).

⁴⁶⁴ H.R. Rep. No. 104-374, at 3 (1995), reprinted in 1995 U.S.C.C.A.N. 1029; see *I.P. Lund Trading ApS v. Kohler Co.*, 163 F.3d 27, 45, 49 U.S.P.Q.2d (BNA) 1225, 1238 (1st Cir. 1998) (where plaintiff sued under the cause of action created by the FTDA).

⁴⁶⁵ *I.P. Lund Trading ApS*, 163 F.3d at 45; Klieger, *supra* note 18, at 833-35, 839; *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev.*, 170 F.3d 449, 453, 50 U.S.P.Q.2d (BNA) 1065, 1067-78 (4th Cir. 1999); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 25 cmt. b (1995).

⁴⁶⁶ Schechter, *supra* note 18; *Ringling Bros.*, 170 F.3d at 453.

⁴⁶⁷ Schechter, *supra* note 18, at 339-45.

mark or name by its use upon non-competing goods.⁴⁶⁸ Interestingly, Schechter relied on a German case involving the famous mark of "ODOL," which was used for mouth wash and a registration that had been obtained for the same word for various steel products.⁴⁶⁹ As a reaction to Schechter's proposals, some courts adopted Schechter's ideas and from the late 1940s onwards state anti-dilution statutes emerged, with Massachusetts enacting the first of the kind in 1947. By the time the FTDA was put into law, half the states had followed the example.⁴⁷⁰ However, courts at first were not very receptive to the broad rights conferred by the statutes.⁴⁷¹ A turning point was brought by the 1977 landmark New York decision, *Allied Maintenance*, which acknowledged the extension of rights through the anti-dilution statute and applied it literally.⁴⁷² The Fourth Circuit in a recent decision, acknowledged that, even after the enactment of the FTDA, trademark dilution under U.S. law today is still a "dauntingly elusive"⁴⁷³ or "somewhat nebulous concept."⁴⁷⁴

The EU Council Directive of 1988 does not mandate protection of marks against dilution. It does, however, contain an optional provision allowing Member States to adopt such legislation as they see fit,⁴⁷⁵ and all Member States have availed themselves of option.⁴⁷⁶ The *ODOL* case quoted by

⁴⁶⁸ *Id.* at 342.

⁴⁶⁹ *Id.* at 345-46; GRUR 1924, 204 the Landgericht Elberfeld case).

⁴⁷⁰ Klieger, *supra* note 22, at 811; *Ringling Bros.*, 170 F.3d at 453; RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 25 cmt. b (1995).

⁴⁷¹ Klieger, *supra* note 22, at 814-19; Johnston, *supra* note 2, at 49-50.

⁴⁷² *Allied Maintenance Corp. v. Allied Mechanical Trades, Inc.*, 369 N.E.2d 1162, 1165-66 (N.Y. 1977); see Johnston, *supra* note 2, at 50.

⁴⁷³ *Ringling Bros.*, 170 F.3d at 450.

⁴⁷⁴ *Id.* at 455 (quoting *Sally Gee, Inc. v. Myra Hogan, Inc.*, 699 F.2d 621, 625 (2nd Cir. 1983) which had applied a New York statute)).

⁴⁷⁵ First Council Directive 89/104 to approximate the laws of the member states relating to trademarks, 1989 O.J. (L40) 1 (stating

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.);

see also art. 4(4)(a); cf. art. 4 (3) and Council Regulation on Community Trademark Art. 9 para. 1(c) (granting proprietors of a community trademark the right to prevent use under the (verbatim) same circumstances).

⁴⁷⁶ *Canon*, 1998 E.C.R. at I-5523, ¶ 50.

Schechter makes clear that German law did contain provisions that protected against dilution before the EU Directive was enacted.

11. *Well-known⁴⁷⁷ and Famous Marks.* Whereas the old German law and the German Trademark Act of 1995, granted and now grants protection to famous, as well as to well-known marks⁴⁷⁸ the FTDA affords protection only to famous marks.

What constitutes a well-known mark under German law is somewhat uncertain. The classification will depend on quality as well as on quantitative aspects.⁴⁷⁹ In April 1998, the Higher Regional Court of Hamburg (*OLG Hamburg*) held that a mark may be considered well-known if thirty percent of the overall population knows the mark.⁴⁸⁰ The plaintiff in this case owned the registered mark "YVES ROCHE" which was used on cosmetics and perfumes. The defendant produced wine which for the most part was exported into the former U.S.S.R. He also used the mark, Yves Roche, on his products and had obtained a registration for it in the class for wines and spirits. The plaintiff sought the cancellation of this registration on the ground of dilution.⁴⁸¹ The Court also held that whether a mark was well-known should primarily be proven through empirical studies, *i.e.*, opinion polls. In this particular case, however, a sufficient amount of undisputed circumstantial evidence led to the conclusion that the "YVES ROCHE" mark was well-known. First there was a private study conducted by a publisher in 1990, which had concluded that the mark was known by seventy-one percent of the population in the old states. Furthermore, the

⁴⁷⁷ Note that "famous" must not be mistaken for "well-known" within the meaning of Paris Convention Art. 6bis. The German text uses the expression "*notorisch bekannte Marke*." See FEZER, *supra* note 13, § 14 cmt. no. 416; INGERL & ROHNKE, *supra* note 9, § 14 cmt. no. 468; German Trademark Act, *supra* note 1, §§ 4 Nos. 3, 10 (1).

⁴⁷⁸ See BT-Drucks., *Begründung zum Markengesetz*, *supra* note 48, at 71-72 (distinguishing between "*bekanntsten*" and "*berühmten*" Marken). The old law afforded protection for well-known marks under § 1 UWG and for famous marks under §§ 12, 823, 826 BGB. However, the distinction is of more formal nature, as there is no case imaginable where a famous mark would not also qualify as a well-known mark. INGERL & ROHNKE, *supra* note 9, § 14 cmt. no. 461.

⁴⁷⁹ BT-Drucks., *Begründung zum Markengesetz*, *supra* note 48, at 72; FEZER, *supra* note 9, § 14 cmt. no. 419. For a more thorough discussion, see Ulrich Boes & Volker Deutsch, *Die 'Bekanntheit' nach dem neuen Markenrecht und die Ermittlung durch Meinungsumfragen*, 1996 GRUR 168, 168-173.

⁴⁸⁰ Yves Rocher, *OLG Hamburg GRUR* 1999, 339.

⁴⁸¹ To be accurate, the plaintiff's claim was a counterclaim. The defendant had taken action first by seeking cancellation of the plaintiff's registration of the mark for certain classes of goods for which the plaintiff had not made use, and therefore had not met the "obligation to use" requirement. This claim was sustained.

plaintiff could refer to turnovers worth 375 million German Marks in 1995 and 396 million in 1996 for goods of a mid-level price range.

Lanham Act § 43(c)(1) lists a number of factors which courts may consider in assessing whether a mark is famous or not, and thus eligible for dilution protection.⁴⁸² The standard of fame is supposed to be a high one. Only truly prominent and renowned marks should be able to take advantage of the enhanced protection.⁴⁸³ Comparable to the quantitative requirement under German law, the Lanham Act makes the degree of recognition in the relevant trading areas and channels of trade one decisive factor. Such recognition must be established for more than an "appreciable number" of the buying public, whereby recognition with a "substantial number" is regarded as sufficient.⁴⁸⁴ McCarthy suggests that recognition should be established in at least a majority of the respective customer group.⁴⁸⁵ One court has stated that the most important factors are the extent of use of same or similar marks by third parties, and whether the mark was registered under the 1881 or 1905 acts or on the Principal Register.⁴⁸⁶

Because the standard set by the FTDA is a discriminatory one, it appears that more marks are eligible for dilution protection under the German law

⁴⁸² Lanham Act § 43(c)(1), 15 U.S.C. § 1125(c)(1) (Supp. IV 1998) states:

In determining whether a mark is distinctive and famous, a court may consider factors such as, but not limited to—

- (A) the degree of inherent [. . .] distinctiveness of the mark;
- (B) the duration and extent of use of the mark in connection with the goods or services with which the mark is used;
- (C) the duration and extent of advertising and publicity of the mark;
- (D) the geographical extent of the trading area in which the mark is used;
- (E) the channels of trade for the goods or services with which the mark is used;
- (F) the degree of recognition of the mark in the trading areas and channels of trade used by the marks' owner and the person against whom the injunction is sought;
- (G) the nature and extent of use of the same or similar marks by third parties; and
- (H) whether the mark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register.

⁴⁸³ See *I.P. Lund Trading ApS v. Kahler Co.*, 163 F.3d 27, 46, 49 U.S.P.Q.2d (BNA) 1225, (1st Cir. 1998) ("Both the text and legislative history of the original bill in 1988 and the FTDA itself indicate a congressional intent that courts should be discriminating and selective in categorizing a mark as famous"); see also *RESTATEMENT (THIRD) OF UNFAIR COMPETITION* § 21 cmt. e (1995) (discussing how foreign marks can be confused with U.S. marks in translation).

⁴⁸⁴ MCCARTHY, *supra* note 2, § 24:92.

⁴⁸⁵ *Id.*

⁴⁸⁶ See *Hershey Foods Corp. v. Mars, Inc.*, 998 F. Supp. 500, 517 (M.D.Pa. 1998) (indicating that factors G and H of 15 U.S.C. § 1125(c)(1) were the most important to the court).

than under U.S. law. A caveat, however, must be made with regard to those states that grant additional protection through state anti-dilution statutes.⁴⁸⁷ These statutes apply to all distinctive marks rather than solely to especially unique or famous marks.⁴⁸⁸ Courts therefore have sometimes used the spectrum of distinctiveness of the Lanham Act instead of applying a strong distinctiveness requirement.⁴⁸⁹

At least one court and some commentators have argued that the state anti-dilution statutes undermine the goal of the Lanham Act, which is to secure definite rights to owners of trademarks used in interstate commerce.⁴⁹⁰ Accordingly, they conclude that these statutes must be preempted by the federal act. A majority of courts, however, apply the general principle that states are entitled to extend rights granted by federal law and apply the state statutes in addition to the FTDA.⁴⁹¹ Thus, in most of those states that have enacted anti-dilution statutes, trademark owners will be entitled to more extensive rights than under the FTDA.

12. *Non-competing Goods.* The German dilution provision seems to apply only to goods or services that are not similar to those for which the trademark is protected, *i.e.*, only with regard to non-competing goods.

⁴⁸⁷ See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 25 cmt. i (1995) (giving an overview of those states with anti-dilution statutes).

⁴⁸⁸ Klieger, *supra* note 22, at 813. Many of these statutes are based on section 12 of the 1964 United States Trademark Association Model State Trademark Bill reprinted in INTERNATIONAL TRADEMARK ASSOCIATION, STATE TRADEMARK & UNFAIR COMPETITION LAW, app. 1 (1998).

Likelihood of injury to business reputation or of dilution of the distinctive quality of a mark registered under this Act, or a mark valid at common law, or a trade name valid at common law, shall be a ground for injunctive relief notwithstanding the absence of competition between the parties or the absence of confusion as to the source of goods or services;

McCarthy, *supra* note 2, § 24:80; Johnston, *supra* note 2, at 48.

⁴⁸⁹ Johnston, *supra* note 2, at 51.

⁴⁹⁰ *U.S. Jaycees v. Commodities Magazine, Inc.*, 661 F. Supp. 1360, 1368, 2 U.S.P.Q.2d (BNA) 1119, 1126 (N.D.Iowa 1987); M. Handler, *Are the State Antidilution Laws Compatible with the National Protection of Trademarks?*, 75 TRADEMARK REP. 269 (1985); MCCARTHY, *supra* note 2, § 24:82; RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 25 cmt. b (1995).

⁴⁹¹ *Plasticolor Molded Products v. Ford Motor Co.*, 713 F. Supp. 1329, 1345 n. 25, 11 U.S.P.Q.2d (BNA) 1023, 1039 n.25 (C.D.Cal. 1989), *Nikon, Inc. v. Ikon Corp.*, 803 F. Supp. 910, 925-26 (S.D.N.Y., 1992) (stating,

The basic purpose of the Lanham Act is to protect trademark holders and the public [...] New York's anti-dilution statute simply provided greater rights than its federal counterpart. To the extent that the New York statute protects rights not provided for by the federal statute, it does not conflict with the Lanham Act but rather, it complements and supplements it.

(citing *Mead Data Cent., Inc. v. Toyota Motor Sales, U.S.A. Inc.*, 702 F. Supp. 1031, 1041 (S.D.N.Y. 1988)).

German scholars agree that such a limited application would be absurd since dilution protection seems especially desirable in competitive relationships.⁴⁹² One argument claims that the wording "in relation to goods which are not similar to those for which the trademark is protected," is not meant to exclude an application for similar goods, but rather serves as a clarification that non-competing goods are included.⁴⁹³ Others reject this argument, but point out that equal protection for marks on similar products can be achieved under the provisions of the Law Against Unfair Trade Practices⁴⁹⁴ or through an analogy.⁴⁹⁵

The FTDA does not include such a restriction.⁴⁹⁶ As one court noted, however, cases of dilution caused by competitors are the exception. The dilution cause of action is not supposed to serve as a fallback for trademark owners who are unable to show infringement.⁴⁹⁷ Again U.S. courts use restrictive language with regard to the application of the dilution doctrine.

⁴⁹² INGERL & ROHNKE, *supra* note 9, § 14 cmt. no. 488.

⁴⁹³ FEZER, *supra* note 9, § 14 cmt. no. 431; *but see* Cabinet, OLG Hamburg, GRUR 1999, 172, 176. The German Supreme Court has not yet resolved the question; *see* Yellow Phone, BGH GRUR 1997, 311 (312); Dribeck's Light, BGH GRUR 1999, 155 (156). As the provisions are subject to interpretation by the ECJ, it is important to note that the Court appears to interpret the similar wording of the EU Directive Art. 5 (2) as meaning "even where there is no similarity between the goods in question." *See* Case C-39/97 Canon Kabushiki Kaisha v Metro-Goldwyn-Mayer Inc., 1998 E.C.R. I-5507, I-5511-12, ¶ [1999] 1 C.M.L.R. 77, 80-81, ¶ 8 (1999) (Advocate General Jacobs uses the term "even though the goods [...] are not similar"); Case C-251/95, Sabel BV v Puma AG & Rudolf Dassler Sport, 1997 E.C.R. I-6191, I-6223, ¶ 20, [1998] 1 C.M.L.R. 445, 471, ¶ 20 (1998) (stating that Articles 4(3) and (4)(a) and 5(2) of the EU Directive "permit the proprietor of a trademark which has a reputation to prohibit [others use of the trademark . . .] even where there is no similarity between the goods in question.").

⁴⁹⁴ ALTHAMMER & KLAKA, *supra* note 256, § 14 cmt. no. 5 — § 1 UWG. Section 2 of the Trademark Act explicitly states that the application of other provisions for the protection of signs within the realm of the German Trademark Act are not excluded by the Act. *But see* Cabinet, OLG Hamburg, GRUR 1999, 172, 176; MAC DOG, BGH GRUR 1999, 161 (163) (*translated in* 30 I.I.C. 326, 328-29 (1999)) ("§ 2 does not allow additional protection for 'well-known' marks.").

⁴⁹⁵ INGERL & ROHNKE, *supra* note 9, § 14 cmt. no. 488 and others suggest an analogous application of § 14 (2) No. 3. Protection through an extensive interpretation of "association in the mind of the public" as had formerly been suggested by some scholars is not a viable alternative after Case C-251/95, Sabel BV v. Puma AG & Rudolf Dassler Sport, 1997 E.C.R. I-6191, [1998] 1 C.M.L.R. 445 (1998).

⁴⁹⁶ *See generally* MCCARTHY, *supra* note 2, § 24:72 (noting a split of authority as to whether the federal anti-dilution law applies to competitors); Nabisco, Inc. v. PF Brands, Inc., 191 F.3d 208, 222-23, 51 U.S.P.Q.2d (BNA) 1882, 1892-1893 (2nd Cir. 1999) (holding explicitly that the FTDA applies to competitors as well as noncompetitors).

⁴⁹⁷ I.P. Lund Trading ApS v. Kohler Co., 163 F.3d 27, 48 (1st Cir. 1998).

13. *Dilution Standard.* Dilution under U.S. law can occur through tarnishment on the one hand and blurring on the other.⁴⁹⁸ Tarnishment refers to inherently negative or unsavory associations that weaken a mark's reputation.⁴⁹⁹ Blurring is the classic case of dilution; it occurs when the use of a similar or identical mark weakens the distinctiveness and selling power of a mark.⁵⁰⁰

The three main elements of establishing dilution by blurring of a famous mark under the federal U.S. law are proof that (1) a defendant has made use of a junior mark sufficiently similar to the famous mark to evoke, in a relevant universe of consumers, a mental association of the two that (2) has caused (3) actual economic harm to the famous mark's economic value by lessening its former selling power as an advertising agent for its goods or services.⁵⁰¹ The Fourth Circuit, in its recent decision *Ringling Bros. v. Utah Division of Travel*, vigorously claimed that Schechter's broad understanding of what dilution protects against had not been adopted by the introduction

⁴⁹⁸ Recent case law refers to cybersquatting as a third and distinct form of dilution. See MCCARTHY, *supra* note 2, §§ 24:69.1, 25:77. After the editorial deadline for this publication, Congress passed the Anti-cybersquatting Consumer Protection Act, adding 15 U.S.C. 1125(d) (1999) to the Lanham Act. The new provision creates a cause of action against those registrants who register or traffic in certain marks with a bad faith intent to profit from the particular conduct. The law also establishes in rem jurisdiction for cybersquatting actions.

⁴⁹⁹ MCCARTHY, *supra* note 2, § 24:68; RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 25 cmt. c (1995). Recent cases include: *NBA Properties v. Entertainment Records LLC*, 1999 WL 335147 (S.D.N.Y. 1999) (holding that an advertisement linking the NBA logo with violence could constitute dilution by tarnishment); *Archdiocese of St. Louis v. Internet Entertainment Group, Inc.*, 34 F. Supp. 2d 1145, 1145 (E.D.Mo. 1999) (finding that the defendant's use of "papal visit 1999" and derivatives thereof to identify a sexually explicit Internet site, and the internet domain names "papalvisit1999.com" and "papalvisit.com," tarnished plaintiff's marks "Papal Visit 1999," "Pastoral Visit," "1999 Papal Visit Official Commemorative Items," and "Papal Visit 1999, St. Louis," which were used in connection with the Pope's visit to St. Louis); *American Dairy Queen Corp. v. New Line Prod., Inc.*, 35 F. Supp. 2d 727, 727 (D. Minn. 1998) (finding tarnishment of the mark "Dairy Queen" by use of the movie title "Dairy Queens" for a movie satirizing beauty contests in rural Minnesota); *America Online, Inc. v. LCGM, Inc.*, 46 F. Supp.2d 444, 444 (E.D.Va. 1998); *America Online, Inc. v. IMS*, 24 F. Supp.2d 548, 548, 48 U.S.P.Q.2d (BNA) 1857, 1857 (E.D.Va. 1998) (finding dilution of AOL mark by tarnishment because defendants sent large numbers of unauthorized and unsolicited bulk e-mail advertisements to AOL customers, as a result of which in one case AOL received 100,000 complaints daily).

⁵⁰⁰ MCCARTHY, *supra* note 2, § 24:69; RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 25 cmt. c (1995).

⁵⁰¹ *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev.*, 170 F.3d 449, 50 U.S.P.Q.2d (BNA) 1065 (4th Cir. 1999); *Playboy Enter. Inc. v. Netscape Communications Corp.*, 55 F. Supp. 2d 1070, 1070, 52 U.S.P.Q.2d (BNA) 1162, 1162 (C.D.Cal. 1999).

of the FTDA.⁵⁰² The FTDA, therefore, does not protect a mark's distinctiveness but rather only its selling power. The Court found that the phrase "The Greatest Show on Earth," which had been used by plaintiffs for more than one hundred years to identify their circus services was not diluted by the phrase "The Greatest Snow on Earth," which defendant had been using since 1962 to advertise its winter skiing facilities. The Court based its finding on the ground that the FTDA requires proof of "actual dilution." A mere "likelihood of dilution" is not sufficient under the federal law.⁵⁰³ Other courts have followed this notion.⁵⁰⁴ The Second Circuit, in its recent decision in *Nabisco, Inc. v. PF Brands, Inc.*, however, explicitly rejected the Fourth Circuit's interpretation of the FTDA and instead endorsed a "likelihood of dilution" standard.⁵⁰⁵

Again the notion that federal law does not preempt state anti-dilution statutes gains importance. State anti-dilution statutes require only a "likelihood of dilution." Although courts at first were reluctant to give the language of the statutes its full effect, thus requiring even a "likelihood of confusion," today they apply these statutes broadly⁵⁰⁶ and infer the harm to a prior user's selling power or economic value either from the circumstances of the case⁵⁰⁷ or from the mere identity or sufficient similarity of the marks in question.⁵⁰⁸

⁵⁰² *Ringling Bros.*, 170 F.3d at 454 (the court stated "this radical dilution proposal, whose practical effect if fully adopted would be to create as the whole of trademark-protection law property rights in gross in suitably 'unique' marks, never has been legislatively adopted by any jurisdiction in anything approaching that extreme form.")

⁵⁰³ *Id.* at 454; *Playboy Enter.*, 55 F. Supp. 2d at 1088; *Am. Cyanamid Co. v. Nutraceutical Corp.*, 54 F. Supp. 2d 379 (D.N.J. 1999).

⁵⁰⁴ *Playboy Enter.*, 55 F. Supp. 2d at 1070; *Am. Cyanamid Co.*, 54 F. Supp. 2d at 379; *World Gym Licensing, Ltd. v. Fitness World, Inc.*, 47 F. Supp. 2d 614, 614 (D. Md. 1999).

⁵⁰⁵ *Nabisco*, 191 F.3d at 223-25; see also *NBA Properties*, 1999 WL 335147 at 6 (granting a preliminary injunction on grounds of tarnishment, but stating, "The irreparable harm test is met under section 43(c) where there is a likelihood of dilution." This case, however, had also involved dilution allegations under the New York anti-dilution statute, N.Y. Gen. Bus. Law § 360-1, which might have influenced the court's statement.)

⁵⁰⁶ Johnston, *supra* note 2, at 50 n.157.

⁵⁰⁷ *Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026, 1035, 10 U.S.P.Q.2d (BNA) 1961, 1969 (2d Cir. 1989) (Sweet, J., concurring); see also *Nat'l Football League Properties, Inc. v. ProStyle, Inc.*, 57 F. Supp.2d 665, 670 n.4 (E.D. Wis. 1999) (noting the criticism of the approach used in *Mead*).

⁵⁰⁸ See *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Celozzi-Ettelson Chevrolet, Inc.*, 855 F.2d 480, 484, 8 U.S.P.Q.2d (BNA) 1072, 1076 (7th Cir. 1988) (applying Illinois statute); *Freedom Sav. & Loan Assoc. v. Way*, 757 F.2d 1176, 1186, 226 U.S.P.Q. (BNA) 123, 130 (11th Cir. 1985) (applying Florida anti-dilution statute); see also *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div.*

Because the EU Directive makes the protection against dilution optional, it appears that the protection granted by the various Member States differs considerably. Whereas the Benelux countries in compliance with their old law grant a broad protection,⁵⁰⁹ the UK affords only a limited protection by continuing to require a “likelihood of confusion” even as to reputable marks.⁵¹⁰ German dilution doctrine protects trademark owners against the dilution of the distinctiveness of a mark in a strict sense and against exploitative or detrimental use of a well-known mark.⁵¹¹ The latter resembles the concept of tarnishment.⁵¹² The former requires proof of a specific detrimental effect,⁵¹³ *i.e.*, the distinctiveness must actually be diminished. The argument that leads to this conclusion is based on the fact that if any third party use would suffice to dilute the distinctiveness of a mark, the requirement of “likelihood of confusion” for an infringement as

of Travel Development, 170 F.3d 449, 457-58, 50 U.S.P.Q.2d (BNA) 1065, 1071-72 (4th Cir. 1999) (explaining that the likelihood of harm may be presumed from the identity of sufficient similarity of the marks).

⁵⁰⁹ Interestingly, the Benelux countries formerly afforded protection from any economic use that was prejudicial to the owner of any trademark, *i.e.*, whether or not it was well-known, reputable, or famous. Today, in accordance with the Council Directive, the revised Benelux law limits dilution protection to marks with reputation. For a further discussion of dilution in the European context, see William T. Vuk, *Protecting Baywatch and Wagamama: Why the European Union Should Revise the 1989 Trademark Directive to Mandate Dilution Protection For Trademarks*, 21 *FORDHAM INT'L L.J.* 861, 906-08 (1998).

⁵¹⁰ *Baywatch* [1997] F.S.R. 22. This occurs in spite of the UK use of Council Directive Art. 5 para. 2 and implementation of a similar regulation in the U.K. Trade Marks Act 1994, which states:

A person infringes a registered trade mark if he uses in the course of trade a sign which —
is identical with or similar to the trade mark, and
is used in relation to goods or services which are not similar to those for which the trade mark is registered,
where the trade mark has a reputation in the United Kingdom and the use of the sign, being without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.

⁵¹¹ German Trademark Act, *supra* note 1, § 14 (2) Nr.3; see note 450 for text; BT-Drucks., Begründung zum Markengesetz, *supra* note 48, at 72; FEZER, *supra* note 9, § 14 cmt. nos. 424-27.

⁵¹² See *MAC DOG*, BGH GRUR 1999, 161, 164 (“MAC DOG” and “MAC CAT” for dog and cat food are likely to cause negative associations as to products of McDonald’s restaurant); *Markenverunglimpfung I and II*, BGH NJW 1994, 1954 and NJW 1995, 871 (use of “Mars” term on condoms); *SL*, BGH NJW 1991, 3214, 3217 (use of “SL” on low priced small cars can harm mark “SL” as used for Lexus cars); *Lusthansa*, OLG Frankfurt, GRUR 1982, 319 (regarding the use of the term “Lusthansa” on bumper stickers); *BMW*, BGHZ 98, 94 (involved the use of an obscene phrase for the shorthand symbol “BMW”); FEZER, *supra* note 9, § 14 cmt. nos. 427, 434; ALTHAMMER, *supra* note 256, § 14 cmt. nos. 17, 64.

⁵¹³ *INGERL & ROHNKE*, *supra* note 9, § 14 cmt. no. 509; *ALTHAMMER*, *supra* note 256, § 14 cmt. no. 12.

to competing goods as well as the other options to establish dilution would be pointless.⁵¹⁴ Several aspects play a role in the assessment of the detrimental effect.⁵¹⁵ The closer the related product lines, the more easily dilution will be found. The degree of recognition among consumers is important, too. Thus, "Coca-Cola" or "Adidas" will possibly be able to claim a strong protection in any line of commerce,⁵¹⁶ *i.e.*, the more famous a mark, the stronger protection. The same is true with regard to the strength of the mark and the similarity of the marks involved.⁵¹⁷ Such a correlation between the degree of recognition and other factors takes some power from the "famous" and "well known" mark distinction between the two laws because under German law marks which are "only well known" are not entitled to as much protection as truly prominent marks.

14. *Conclusion for Dilution.* Subject to the noted restrictions, the scope of protection under the dilution doctrine seems broader under German law than under U.S. law. The application of the new German law by the courts and the development of the dilution doctrine in U.S. courts will have to show whether this really is true. The tendency of U.S. courts to apply a strict standard with regard to the assessment of "fame" and the protection of well-known, as well as famous marks under German law fit the overall schemes of trademark protection in the two countries. The acceptance of the dilution rationale in U.S. law nevertheless exemplifies the convergence of the understanding in trademark doctrine. Although the FTDA may not grant protection for the distinctiveness of a senior user's mark, it nonetheless deviates from the traditional consumer confusion and source identifying model. This deviation becomes obvious when considering that courts refer to the "loss of a mark's selling power," its "economic value" or "commercial magnetism" when assessing dilution claims.⁵¹⁸ The USTA had tried to introduce federal dilution protection as early as 1987 in the course of the negotiations of the TLRA for the benefit of businesses.⁵¹⁹ The hearings before the Subcommittee on Courts and Intellectual Property of the House

⁵¹⁴ INGERL & ROHNKE, *supra* note 9, § 14 cmt. no. 509.

⁵¹⁵ *Id.* at § 14 cmt. nos. 509-18.

⁵¹⁶ *Id.*

⁵¹⁷ *Id.* at § 14 cmt. no. 515.

⁵¹⁸ See Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Development, 170 F.3d 449, 456, 50 U.S.P.Q.2d (BNA) 1065, pinpt cite (4th Cir. 1999) (citing examples concerning state anti-dilution statutes).

⁵¹⁹ USTA Commission, *supra* note 170, at 433-35.

Committee on the Judiciary contain evidence of this same notion as the testimony of businesses made reference to trademark owners' efforts by spending time and money to create and maintain the trademark property.⁵²⁰ The state anti-dilution statutes give even clearer evidence of the practical need to enhance trademark rights for the sake of business undertakings.

IV. CONCLUSION

U.S. and German trademark law are based on a different understanding of what a mark stands for. The U.S. consumer protection model grants protection only to the extent that marks are used to distinguish goods, *i.e.*, rights are only conferred where marks represent good will. In compliance with this understanding U.S. trademark law puts a strong emphasis on the source identification function of trademarks.

The distinct conceptual basis for German trademark is exemplified by several aspects of German trademark law, namely the registration system, the licensing scheme and separability of mark and business establishment. Although these concepts are not compatible with traditional U.S. trademark law theory, their patterns can also be identified in U.S. law. The introduction of the ITU registration system and the practical application of the licensing rules illustrate this convergence especially well. These changes in U.S. trademark law reveal a tendency to a similar understanding of marks as marketing devices which exist in the interest of the mark's owner.

Although German trademark law might be said to create property rights in gross and although German law definitely considers trademarks to be worth protecting as much as it does copyrights and patents,⁵²¹ they are not rights without limits. Nevertheless, protection is still based on the idea that marks exist as devices to enhance business prospects. The protected function is not limited to identifying the source of origin.⁵²² U.S. law, on the other

⁵²⁰ See Klieger, *supra* note 22, 838-39 (referring to testimony by Nils Victor Montan, Vice President and Senior Intellectual Property Counsel at Warner Bros.). Klieger also notes that "[f]or the first time in the Lanham Act's fifty years, proprietary rights in trademarks were elevated above consumer protection and welfare." *Id.* at 839.

⁵²¹ See *supra* text accompanying notes 38-48.

⁵²² The Parliamentary Statement regarding the new German Trademark Law gives evidence of this notion. BT-Drucks., Begründung zum Markengesetz, *supra* note 48, at 71 states:

Durch diesen wettbewerbsrechtlich orientierten Schutz bekannter Marken wird im Ergebnis der in der bekanntesten Marke verkörperte Goodwill geschützt, ohne daß es auf eine Beeinträchtigung der Herkunftsfunktion ankäme. An diesem Tatbestand

hand, might not create property rights in gross,⁵²³ but the introduction of the FTDA once again acknowledges that marks deserve protection for the sake of the mark proprietor and not merely concomitantly as a consumer protection device.

zeigt sich in besonders deutlicher Weise die Abkehr des neuen Markengesetzes von der geltenden Rechtslage, nach der im Kern lediglich die Beeinträchtigung der Herkunftsfunktion geschützt wird.

⁵²³ Compare *Ringling Bros.*, 170 F.3d at 456 (interpreting the FTDA as protecting the selling power of a mark instead of an in gross property right) with *Nabisco, Inc.*, 191 F.3d at 208 n.6 (agreeing with the Fourth Circuit that FTDA does not create a "property right in gross").

