

Marks of Consequence – An Irrational  
Basis of Trademark Protection,  
or:  
Re-Inculcating some Schechter into the  
Doctrine of Trademark ‘Dilution’

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## Table of Contents

|  |           |
|--|-----------|
| <i>Table of Cases</i>  | III       |
| <i>Table of Statutes, EU Directives, and International Treaties and Instruments</i>  | VI        |
| <i>Bibliography</i>  | VII       |
| <b>I. Introduction</b>   | <b>1</b>  |
| <b>II. Exposition: The Current System with Respect to the Protection of Trademarks against Non-Confusing Uses in Connection with Dissimilar Goods and Services</b> | <b>4</b>  |
| <i>A. Introduction and Structure of Chapter</i>  | 4         |
| <i>B. Provisions on the International Tier</i>   | 8         |
| 1. Developments on the International Level of Influence upon New Zealand Trademark Law: Paris Convention, TRIPS Agreement, and WIPO's Joint Recommendation.        | 8         |
| 2. The Paris Convention  | 9         |
| 3. The TRIPS Agreement   | 14        |
| 4. Summary of Paris Convention and TRIPS Agreement Provisions as They Relate to Extended Trademark Protection  | 23        |
| 5. WIPO's Joint Recommendation   | 24        |
| 6. Conclusions Pertaining to the International Tier  | 31        |
| <i>C. The Domestic Provisions</i>  | 32        |
| 1. What Do the Domestic Provisions Define as Harm?   | 32        |
| 2. What Are the Requirements to Qualify for the Protection?  | 37        |
| 3. The United Kingdom and European Union Provisions  | 37        |
| 4. The United States Provisions  | 43        |
| 5. The New Zealand Provision in Section 89(1)(d) TMA 2002: a Special Kind of Interpretative Quandary   | 49        |
| <i>D. Conclusion to Chapter Exposition</i>   | 80        |
| <b>III. What Schechterian Singularity Protection Really Is About</b>   | <b>82</b> |
| <i>A. Introduction</i>   | 82        |
| <i>B. Schechter's Rational Basis: Incomprehensible on Its Own</i>  | 85        |
| <i>C. Some Prefatory Matter: An Array of Common Misconceptions</i>   | 87        |
| 1. Did Schechter Truly Never Employ the Term 'Dilution'?   | 87        |
| 2. Purported 'Property Bias' in Schechter's "Rational Basis of Trademark Protection"   | 89        |
| 3. Schechter Never Established a 'Famousness Criterion'  | 98        |
| 4. Schechter's Criteria: Uniqueness and 'Selling Power', Not Fame  | 99        |

|   |            |
|---|------------|
| 5. Who Discerns It Correctly?   | 104        |
| 6. Rational Basis – Groundbreaking or Not?  | 108        |
| <i>D. Ramifications of Modern Trade as the Starting Point for Schechter’s Theory</i>  | <i>117</i> |
| 1. Mediaeval Times: Localised Trade and Personalised Trade Relations as the Economic and Social Backdrop for the Inception of Trademark Law   | 117        |
| 2. Modern Trade: Delocalised Trade, Impersonalised Trade Relations and Shifts in Economy and Society Cause Severe Changes in the Use of Trademarks  | 124        |
| 3. Trademarks as Facilitators of the Market Mechanism and Trademark Law Lagging Behind Trademarks’ Evolutionary Development   | 128        |
| <i>E. Schechter’s Conclusion: Trademark Law Needs to Acknowledge the Necessities of Modern Trade, the Consequences of Modern Day Trade Relations and the Changes in the Functions of Trademarks</i> | <i>133</i> |
| 1. Former Functions of Trademarks   | 134        |
| 2. The Former Merchants’ Marks and Proprietary Marks and Their Functions  | 135        |
| 3. The Former Regulatory Production Mark and Its Functions  | 139        |
| 4. The Functions of the Modern Trademark  | 142        |
| <i>F. Schechter’s Approach in Historical Foundations versus “Rational Basis”: Trademarks as Assets versus Trademarks as Agencies</i>  | <i>148</i> |
| <i>G. Schechter’s Concept of Selling Power in a Trademark</i>   | <i>152</i> |
| <i>H. Schechter’s Concept of Protecting a Trademark’s Uniqueness and Singularity</i>  | <i>156</i> |
| 1. Schechter’s Quest for an Objective Instead of a Subjective Standard for Extended Trademark Protection  | 157        |
| 2. Schechter’s Basic Differentiation: Unique and Singular Trademarks versus Commonplace Trademarks  | 160        |
| 3. The Concept of Proprietary Connotation   | 161        |
| 4. Expanding the Concept to Arbitrary and Fanciful  | 165        |
| 5. Conclusion on the Difference between Unique and Commonplace Signs.   | 169        |
| <i>I. Conclusion on Schechterian Singularity Protection</i>   | <i>171</i> |
| <b>IV. Critiquing the Current System and Conclusion</b>   | <b>176</b> |
| <i>A. Incongruence between the Quantitative Qualification Criterion and the Harm of Detriment to Distinctive Character</i>  | <i>177</i> |
| <i>B. The Quantitative Threshold: Also Flawed Intrinsically</i>   | <i>190</i> |
| <i>C. Conclusion</i>  | <i>193</i> |

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*Chocosuisse Union des Fabricants Suisses de Chocolat and Others v Cadbury Ltd* (1998) 42 Intellectual Property Reports 1 (EWHC).....55

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*CIR v Muller & Co's Margarine Ltd* [1901] AC 217..... 151  
*Eastman Kodak Co v Kodak Cycle Co* [1898] 15 RPC 105..... 111  
*Ferodo Ltd's Application* (1945) 62 RPC 111 ..... 76, 77  
*Harrods Ltd v R Harrod Ltd* [1923] 41 RPC 74 ..... 111  
*Jellinek's Application* (1946) 63 RPC 59 ..... 178  
*Pianotist Co's Application* (1906) 23 RPC 774..... 178  
*Rysta Ltd's Application* (1943) 60 RPC 87 ..... 187  
*Society of Motor Manufacturers etc Ltd v Motor Manufacturers etc Insurance Co Ltd* [1925] 42 RPC 307..111  
*Trego v Hunt* [1896] AC 7 ..... 151  
*Walter v Ashton* [1902] 2 Ch 282 ..... 111

### European Union

C-408/01 *Adidas-Salomon AG and Adidas Benelux BV v Fitnessworld Trading Ltd* [2003] ECR I-2537 (ECJ 23 October 2003).....42, 71, 72  
C-292/00 *Davidoff & Cie SA and Zino Davidoff SA v Gofkid Ltd* [2003] ECR I-389 (ECJ 09 January 2003) ...41, 42, 71, 72  
C-375/97 *General Motors Corp v Yplon SA* [1999] ECR I-5421 (ECJ 14 September 1999) ....39, 40, 43, 72, 73  
C-102/07 *Marca Mode CV v. Adidas AG and Adidas Benelux BV*, June 22, 2000 [2000] ETMR 9 (ECJ 10 April 2008)..... 180  
C-251/95 *SABEL BV v Puma AG, Rudolf Dassler Sport* [1997] ECR I-6191 (ECJ 11 November 1997).... 43, 72, 181, 182, 184

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|  |              |
|--|--------------|
| <i>Allied Maintenance Corp v Allied Mechanical Trades Inc</i> 42 NY2d 538; 369 NE2d 1162; 399 NYS2d 628; 1978 USPQ 418 (NY Ct App 1977)..... | 101, 190     |
| <i>American Steel Foundries v Robertson</i> 269 US 372 (1926) .....  | 94           |
| <i>Aunt Jemima Mills v Rigney &amp; Co</i> 247 Fed 407 (2nd Cir 1917) .....  | 111          |
| <i>Avery Dennison Corp v Sumpton</i> 189 F 3d 868 (9th Cir 1999).....  | 46           |
| <i>Beech-Nut Packing Co v Lorillard Co</i> 7 F 2d 967 (3rd Cir 1925), .....  | 58, 111, 142 |
| <i>Coca Cola Co v Koke Company of America</i> 245 US 143 (1920).....   | 21           |
| <i>Du Pont Cellophane Co v Waxed Products Co</i> 85 F 2d 75 (2nd Cir 1936) .....   | 95           |
| <i>France Milling Co v Washburn-Crosby Co</i> 7 F 2d 304 (2nd Cir 1925) .....  | 169, 188     |
| <i>Gotham Music Service Co Inc v Denton and Haskins Music Pub Co</i> 259 NY 86, 91; 181 NE 57, 59 (1932) ..                                  | 127, 144     |
| <i>Hanover Star Milling Co v Metcalf</i> 240 US 403 (1916) .....   | 127, 151     |
| <i>Haviland &amp; Co v Johann Haviland Chine Corp</i> 269 F Supp 928 (SDNY 1967) .....   | 101          |
| <i>International News Service v Associated Press</i> 248 US 215 (1918).....  | 150          |
| <i>IP Lund Trading v Kohler Co</i> 163 F 3d 27 (1st Cir 1998) .....  | 46           |
| <i>Landers, Frary &amp; Clark v Universal Cooler Corp</i> 85 F 2d 46 (2nd Cir 1936) .....  | 162          |
| <i>Menne Co v Gillette Co</i> 565 F Supp 648 (SDNY 1983) .....   | 101          |
| <i>Mishawaka Rubber &amp; Woolen Mfg Co v SS Kresge Co</i> 316 US 203 (1942) .....   | 91, 103      |
| <i>Nabisco Inc v PF Brands Inc</i> 191 F 3d 208 (2d Cir 1999) .....  | 47           |
| <i>Polaroid Corp v Polaroid Inc</i> 319 F 2d 830 (7th Cir 1963) .....  | 101          |
| <i>Pro-phy-lac-tic Brush Company v Jordan Marsh Company</i> 165 F 2d 549 (1st Cir 1984).....   | 88           |
| <i>Ringling Brothers-Barnum &amp; Bailey Combined Shows v BE Windows Corp</i> 937 F Supp 204 (SDNY 1996) ..                                  | 171          |
| <i>Shredded Wheat Co v Humphrey Cornell Co</i> 250 Fed 960 (2nd Cir 1918) .....  | 142          |
| <i>Sporty's Farm LLC v Sportsman's Mkt Inc</i> 202 F 3d 489 (2d Cir 2000) .....  | 46           |
| <i>TCPIP Holding Co Inc v Haar Communications Inc</i> 244 F 3d 88 (2d Cir 2001) .....  | 46           |
| <i>Time Mirror Magazines v Las Vegas Sports News LLC</i> 212 F 3d 157 (3rd Cir 200).....   | 46           |
| <i>Victor Moseley and Cathy Moseley, dba Victor's Little Secret (Petitioners) v V Secret Catalogue Inc et al</i><br>537 US 418 (2003) .....  | 46, 47       |
| <i>Vogue Co v Thompson-Hudson Co and another</i> 300 F 509 (6th Cir 1924) .....  | 111          |
| <i>Wall v Roll-Royce of America</i> 4 F 2d 333 (3rd Cir 1925) .....  | 111          |
| <i>Wal-Mart Stores Inc v Samara Bros Inc</i> 529 US 205 (2000) .....   | 46           |
| <i>Walter Baker &amp; Co Ltd v Slack</i> 130 Fed 514 (7th Cir 1904) .....  | 144          |

## New Zealand

|  |            |
|--|------------|
| <i>Pioneer Hi-Bred Corn Comp v Hy-Line Chicks Pty Ltd</i> [1978] 2 NZLR 50 ..... | 55, 56, 57 |
|--|------------|

|  |    |
|--|----|
| <i>Taylor Bros Ltd v Taylor Group Ltd</i> [1988] 2 NZLR 1 (HC) and [1988] 2 NZLR 1 (CA).....           | 55 |
| <i>Villa Maria Wines Ltd v Montana Wines Ltd</i> [1984] 2 NZLR 422.....                                | 68 |
| <i>Wineworths Group Ltd v Comité Interprofessionel du Vin de Champagne</i> [1992] 2 NZLR 327 (CA)..... | 55 |

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### Statutes United Kingdom

|  |                                |
|--|--------------------------------|
| s 5(3) Trade Marks Act 1994 .....  | 33, 41, 42                     |
| s 10(3) Trade Marks Act 1994 .....   | 32, 33, 37, 39, 41, 42, 43, 71 |
| s 56 Trade Marks Act 1994.....   | 38, 74                         |
| Trade Marks (Proof of Use, etc.) Regulations 2004 (SI 2004_946) of 05 May 2004 ..... | 32, 41                         |

### Statutes International

|   |   |
|---|---|
| art 6 <i>bis</i> Paris Convention.....    | 10, 13  |
| art 10 <i>bis</i> Paris Convention.....   | 12, 13  |
| art 16(1) TRIPS Agreement.....            | 28, 59  |
| art 16(2) TRIPS Agreement.....            | 16, 27, 40, 48  |
| art 16(3) TRIPS Agreement.....            | 9, 13, 17, 18, 19, 20, 21, 22, 23, 26, 28, 29, 30, 36, 61, 62, 69, 71 |
| art 2 WIPO Joint Recommendation .....     | 26, 27  |
| art 3 WIPO Joint Recommendation .....     | 28  |
| art 4 WIPO Joint Recommendation .....     | 28, 29, 30  |
| art 4 European Trade Mark Directive ..... | 33, 68, 72  |
| art 5 European Trade Mark Directive ..... | 33, 38, 43, 64, 68, 72  |

### Statutes United States

|                                   |        |
|-----------------------------------|--------|
| §1125 15 USC 22, Lanham Act ..... | 33, 47 |
|-----------------------------------|--------|

### Statutes New Zealand

|                                      |  |
|--------------------------------------|--|
| s 16 Trade Marks Act 1953.....       | 55, 56                                     |
| s 25(1)(c) Trade Marks Act 2002..... | 35, 36, 37, 49, 50, 67, 68, 69, 74, 78, 79 |
| s 89(1)(d) Trade Marks Act 2002..... | 35, 36, 49, 50, 68, 69, 70, 72, 73, 74, 78 |



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## I. Introduction

This Piece is concerned with the soundness of the qualification criterion of quantitative public recognition in relation to protecting trademarks from detriment to distinctive character. It will be demonstrated that all jurisdictions under consideration in this Comment have chosen to tie the granting of extended protection for trademarks to the discrimination criterion of a quantitative consumer knowledge threshold. This will be the task in Chapter II, Exposition. In the course of this Chapter a closer look will be taken at the genesis of the ‘anti-dilution’ provisions within New Zealand’s statutory trademark law and at the exegesis of the threshold criterion of “well known” within the appurtenant provisions.

The main focus of this Piece rests with the harm described as detriment to distinctive character. This Comment is, however, not concerned with an attempt to deliver yet another justification for ‘dilution’ protection. There is ample discussion of that in other works. This Paper is predicated upon the premise that there is, indeed, some sort of harm which justifies a remedy in situations of trademark ‘dilution’. In so far the provisions in the various jurisdictions are accepted as a given. Instead, this Comment addresses the issue whether for the purposes of affording protection against detriment to distinctive character it is really logically sound to discriminate between trademarks along the lines of a quantitative consumer knowledge threshold.

The protection against detriment to distinctive character has been chosen instead of the other types of harm which are nowadays subsumed under ‘dilution’ because this type of harm is the true core of the protection against ‘dilution’ as originally conceived by Schechter. As Simon Fhima fittingly posits in the conclusion to her review article:

One of the most surprising trends ... is that, despite the differences in terminology and the seeming differences in conceptual basis, the most convincing explanations for why we have anti-blurring/detriment to distinctive character legislation have at least some basis in Schechter’s writing. This is because all the key explanations focus on how trade marks function in the marketplace and how the way in which they function can be damaged.<sup>1</sup>

It is undisputed and within the Anglo-Commonwealth realm almost a matter of course that the doctrine of protection against trademark ‘dilution’ originated with Schechter’s 1927 Harvard

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<sup>1</sup> I Simon Fhima “Dilution by Blurring – A Conceptual Roadmap” (2010) 1 Intellectual Property Quarterly 44 at 83–84.



Law Review journal article “The Rational Basis of Trademark Protection”. Nevertheless, it was accurately recognised by Bone, dilution appears to be even more controversial today than it was in Schechter’s time.<sup>2</sup>

It is the main contention of this Comment that today’s controversy over the doctrine of trademark ‘dilution’ has its origins in a widespread and fundamental misconception of what Schechter truly conceived of. If the doctrine of trademark ‘dilution’ is understood to be the theory which Schechter developed in his 1927 journal article, then it cannot be emphasised enough that the quantitative consumer recognition threshold which has found implementation in trademark law has absolutely nothing in common with what Schechter expounded in his propositions for trademark protection.

It is contended in this Paper that Schechter never intended to protect famous, reputable, or well-known trademarks. Schechter’s new approach was that the public’s apperception of trademarks should form the proper basis of a qualification criterion for the protection of trademarks against ‘dilution’. Schechterian public apperception, however, is in no way connected to the mere quantitative degree of consumer knowledge with respect to a particular trademark. Rather, Schechter designed a *qualitative* threshold which directly corresponded to what he endeavoured to protect in trademarks: uniqueness and singularity.

Trademarks which, to Schechter, possessed the requisite degree of uniqueness and singularity were the ones which were based upon coined, arbitrary or fanciful words, phrases, signs or symbols. To Schechter, only such trademarks which were unique and singular in the public’s apperception did at all possess the requisite quality of distinctiveness to be endangered by the type of harm which Schechter so vividly described as “the gradual whittling away ... of the identity and hold upon the public mind of the mark”.<sup>3</sup>

In the further course of this Comment will be employed the term ‘singularity protection’ to refer to Schechter’s original concept for extended trademark protection. This is done in contradistinction to the term ‘dilution’ which in today’s legal sphere, unfortunately, is much overused and indiscriminately employed for too great a variety of too many disparate types of

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<sup>2</sup> “This history of dilution’s origins and early reception provides useful background for understanding current debates and also helps explain why dilution is so much more controversial today than it was in Schechter’s time.” RG Bone “Schechter’s Ideas in Historical Context and Dilution’s Rocky Road” (2008) 24 Santa Clara Computer & High Tech L J 469 at 469.

<sup>3</sup> FI Schechter “The Rational Basis of Trademark Protection” (1927) 40 Harvard L Rev 813 at 825.

harm.

In Chapter III of this Comment will be detailed the basis of the functional analysis of trademarks upon which Schechter founded his theory of singularity protection. It will be demonstrated that Schechter did not argue for a property right in trademarks but rather for a *qualitative* consumer recognition criterion. It will be shown that Schechter's demarcation line ran between unique and singular trademarks on the one hand and commonplace trademarks on the other hand. And, it will, thus, be demonstrated that Schechter did specifically not propose a differentiation between famous and obscure or ignoble trademarks.

The last Chapter concludes by critiquing the shortcomings of the currently implemented 'famousness criterion' and by demonstrating the differences between the current approach and Schechter's theory.

## **II. Exposition: The Current System with Respect to the Protection of Trademarks against Non-Confusing Uses in Connection with Dissimilar Goods and Services**

### **A. Introduction and Structure of Chapter**

In this Chapter will be canvassed the current state of the statutory trademark law in the jurisdictions elected for comparison within this Comment. The focus will be upon those provisions governing the protection against subsequent non-confusing trademark use in connection with dissimilar goods or services.<sup>1</sup> Furthermore, we will centre our attention upon those statutory provisions which protect trademarks against the harm described as detriment to distinctive character. We are thus concerned with subsequent employment of the same or similar sign beyond a trademark's specification on the register where this use causes forms of harm other than confusion of source or derivatives thereof.

Already at this stage of our analysis we can establish that, as a requirement for affording the appurtenant protection, all of the germane statutory provisions revolve around a quantitative threshold of consumer knowledge or public recognition for the trademark seeking protection. It will be demonstrated that all the national jurisdictions conflate entirely disparate policy rationales within the very same provisions. All jurisdictions elate the intricate differences between distinct policy concerns: free riding, unjust enrichment, misappropriation of business values, bad faith uses of a mark, tarnishment of a mark's reputation, and detriment to a mark's distinctive character are all indiscriminately dealt with under one uniform qualification criterion and within one single provision. The only proper way to attend to such heterogeneous concerns would be to establish different norms geared towards the individual policy concerns, each featuring its respective gatekeeper requirements, and designed in comity with the appurtenant pursued policy rationale. The contemporary system of 'dilution' protection does not differentiate between those distinct policy rationales but takes a broad-brush approach. One uniform qualification criterion is applied: the quantitative degree of consumer recognition or public knowledge. The situation is exacerbated because this quantitative recognition criterion is incongruent and unsuitable with respect to protecting a

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<sup>1</sup> In the further course of this Chapter 'goods' and/or 'products' will be used as a convenient short hand term and are meant to encompass 'goods and/or services'. Where applicable differences in the treatment of goods and services will be addressed separately.

trademark's distinctive character. Whether or not a trademark is well known, famous, or reputable neither determines nor adequately reflects the category of qualitative distinctiveness of the word, sign, symbol or concept underpinning a particular trademark.

This Chapter will start out with a discussion of the relevant international instruments. These are the Paris Convention for the Protection of Industrial Property of 20 March 1883<sup>2</sup> (Paris Convention or PC), the Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods of 1994<sup>3</sup> (TRIPS Agreement or TRIPS), and the World Intellectual Property Organization's (WIPO) Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks of 1999<sup>4</sup> (Joint Recommendation or JR).

As with the provisions in the domestic legal systems so for the international norms the course of investigation will advert to the requirements those international regimes postulate for affording the broader type of protection for trademarks. The concept on the international level is one of granting extended protection to marks which fulfil the precondition of being well known. We will ascertain what this 'well-known-paradigm' entails and of what type and scope the extended protection is which is conferred by the international system of trademark protection.

The international conventions are of relevance for the analysis of the domestic legal systems. They establish for the signatory countries obligations with respect to the type and scope of protection afforded to trademarks in general and in particular to well-known trademarks. The member states need to comply with these international requirements. It follows that any proper appraisal of the domestic trademark laws cannot be undertaken without fully comprehending the requirements established in the international agreements and the ramifications thereof.

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<sup>2</sup> Paris Convention for the Protection of Industrial Property of 20 March 1883 [Paris Convention], as revised at Brussels on 14 December 1900, at Washington on 02 June 1911, at The Hague on 06 November 1925, at London on 02 June 1934, at Lisbon on 31 October 1958, and at Stockholm on 14 July 1967, and as amended on 28 September 1979.

<sup>3</sup> Negotiated during the 1986–1994 Uruguay Round of GATT and adopted as part of the Multilateral Trade Agreements at Marrakesh, Morocco, on 15 April 1994. The Multilateral Trade Agreements form an integral part of the Agreement establishing the World Trade Organisation [WTO]. The Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods of 1994 [TRIPS Agreement or TRIPS] arose from the Multilateral Trade Agreements of the Uruguay Round of Multilateral Trade Negotiations of which Annex 1C forms the Uruguay Round's Agreement on TRIPS.

<sup>4</sup> Adopted by the Assembly of the Paris Union for the Protection of Industrial Property and the General Assembly of the World Intellectual Property Organization [WIPO] at the Thirty-Fourth Series of Meetings of the Assemblies of the Member States of WIPO, 20–29 September 1999.

Whereas Paris Convention and TRIPS are binding, compliance with the Joint Recommendation is not mandatory for the Paris Union<sup>5</sup> and WIPO member states. However, especially New Zealand may voluntarily have chosen to incorporate the suggestions contained in the Joint Recommendation when enacting her Trade Marks Act 2002 (NZ) (TMA 2002 (NZ)). As a member of WIPO New Zealand may voluntarily have chosen to implement the Joint Recommendation into this Act because it was promulgated after the Recommendation had been adopted in 1999. Additionally, the Act requires a trademark to be well known and thus the language is closer to the Joint Recommendation and the other international instruments than “fame” in the United States and “reputation” in the European Union. If not binding, the Joint Recommendation may still have been of influence upon New Zealand’s latest piece of trademark legislation.

For reasons of coherence the international conventions will be charted in their entirety before turning towards any of the domestic legal systems. Discussing the international conventions within their own context will render the reader capable of fully appraising that part of what contributes to the contemporary state of disarray of the law of trademark ‘dilution’ appears to be attributable to the uncertainty of what exactly the underlying policy rationale of the international conventions is. Whereas the policy rationales are reasonably clear for the Paris Convention, the ones of TRIPS remain rather obfuscated and in a state of ambiguity. As a result, with reference to TRIPS there cannot be an unequivocal resolve on what exact kind of protection is demanded of the signatory countries.

Subsequently, we will take a look at the trademark legislation of two of the major trading blocks: the United States and the European Union. The latter will be exemplified by means of the United Kingdom domestic provisions which are a manifestation of the European Trade Mark Directive<sup>6</sup> (EUTMDir) within the body of a domestic legal system kindred to the New Zealand one. This is then followed by an extensive analysis of New Zealand trademark law as it pertains to the protection of well-known trademarks against non-confusing uses upon dissimilar products. The two overseas regimes are taken as a reference so the New Zealand provisions can be contrasted against the context of other domestic legal systems. It will also allow for a comparison of how – if at all – the two major trading blocks and New Zealand

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<sup>5</sup> Paris Convention, art 1(1): “The countries to which this Convention applies constitute a Union for the protection of industrial property.”

<sup>6</sup> First Council Directive 89/104/EEC to Approximate the Laws of the Member States Relating to Trade Marks of 21 December 1988, [1989] Official Journal L 40 at 1 [EUTMDir].

have implemented their international obligations into domestic law.

The part on the individual domestic trademark laws is preceded by an assessment of whether the three national jurisdictions' provisions are aimed at the same type of behaviour by rival traders and whether the provisions contemplate the same type of harm. Ensuing this will be a scrutiny of the various prerequisites to which the three jurisdictions tie their granting of 'anti-dilution' protection.

The analysis of the types of harm, however, is not done for the sake of discussing at length whether or not non-confusing uses upon dissimilar goods do indeed actually cause any harm. It will not be discussed whether or not such kind of protection can be justified. As was already pointed out:<sup>7</sup> this Comment is predicated upon the premise that all domestic legal systems have already affirmed – by implementing the respective provisions – that there, indeed, is actual harm to a trademark or its owner which deserves a remedy in the pertaining situations. The types of harm against which protection is conferred are discussed solely in order to establish that the various national provisions are based upon a common ground and mutually shared policy considerations in so far as they are all aimed at the same kind of 'mischief'. There appears to be need for clarification of this common basis because, at least when taken at their face value, the provisions protect against what appears to be quite a diverse – perhaps even disparate – array of types of damage: the United States protect against a trademark's dilution by blurring and/or dilution by tarnishment; the New Zealand and the United Kingdom provisions both proscribe taking unfair advantage of and/or detriment to the distinctive character and/or the repute of a trademark.

This will be followed by a close inspection of the jurisdictions' qualification requirements for the protection of trademarks against non-confusing uses beyond the trademarks' specification on the register. Here, also, different wordings have been used for the threshold requirements: the United States require a trademark to be famous; the United Kingdom provisions protect trademarks which have a reputation; New Zealand affords the broader type of protection only to well-known trademarks. Whether or not there is, for these provisions, an underlying common set of principles and shared policy rationales, this will be analysed. We will first assess the United Kingdom's and the United States' consumer recognition requirements. The remainder of the Chapter is then devoted to examining in detail the New Zealand

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<sup>7</sup> In this Comment's Chapter "Introduction".

contemporary provisions in the TMA 2002 (NZ).

We shall take a close look at the legislative history of New Zealand's current regime for trademarks as well as the legal regime's potential predecessor with respect to 'dilution' protection in the former statutory trademark law: the system of defensive registration for well-known and invented trademarks. Possibly, we will be able to elucidate why, in the TMA 2002 (NZ), the well-known paradigm was chosen over other possible standards and how the technical term of a trademark being 'well known' will have to be construed within the New Zealand legislation.

## **B. Provisions on the International Tier**

### **1. Developments on the International Level of Influence upon New Zealand Trademark Law: Paris Convention, TRIPS Agreement, and WIPO's Joint Recommendation.**

Endeavours to develop an internationally harmonious level of protection for well-known trademarks date back as far as the Paris Convention's 1925 The Hague revisions introducing art 6*bis*.<sup>8</sup> However, this protection for well-known marks is restricted to traditional conceptions of confusion of source. In addition, the provisions for well-known marks in PC, art 6*bis* only confer protection against subsequent use or subsequent applications for registration<sup>9</sup> in connection with goods. Service marks are protected in PC, art 6*sexies*<sup>10</sup> but the provisions conferring broadened protection relative to well-known marks do not apply to service marks.

The developments on the international tier to afford expanded protection to well-known trademarks is of more recent date: the TRIPS Agreement of 1994. TRIPS implemented protection of well-known marks beyond identical and similar products. Whether or not protection against dissimilar products under the auspices of TRIPS extends not only to confusion of source but, in addition, as far as proscribing non-confusing uses is a somewhat contentious issue and will be addressed when discussing TRIPS in detail.

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<sup>8</sup> WR Cornish & D Llewelyn *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* (6th ed, Sweet & Maxwell, London, 2007) at 638 [n 66].

<sup>9</sup> In the further course of this Comment 'employment' or 'use' of trademarks will be used to comprehend both subsequent trademark use and subsequent applications for registration or registrations. In instances where differences occur between trademark use and registration this will specifically be pointed out in the text.

<sup>10</sup> Paris Convention, art 6*sexies*: "The countries of the Union undertake to protect service marks. They shall not be required to provide for the registration of such marks."

All international provisions concerned with broader protection for trademarks are based upon a common underlying template: the paradigm of the well-known trademark. There are, of course, also other provisions which are applicable regardless of whether or not the respective trademark is well known.<sup>11</sup> However, extended forms of protection centre their attention exclusively upon trademarks which are well known.

As we shall see in the further discussion, the Paris Convention – as opposed to TRIPS – does not contain substantive provisions which actually confer broader or expanded protection upon well-known trademarks. Rather, the Paris Convention establishes a regime to exempt well-known trademarks from requirements of registration or use in order to profit from the respective pre-existing national scheme and scope of ‘regular’ trademark protection.

It is TRIPS which extends the scope of protection for well-known trademarks beyond classic concepts of confusion of source in connection with use upon identical or similar goods. The legal technique by which TRIPS operates is to incorporate art 6*bis* PC into the provisions of art 16(3) TRIPS. TRIPS builds upon the Paris Convention and hence the former inextricably ties its extended protection to the latter. It follows that the respective provisions in TRIPS cannot be properly understood without first attending to the provisions in the Paris Convention. Not only for the sake of proceeding in chronological order but also for reasons of logical soundness will we thus first evaluate the Paris Convention and then, afterwards, carry on to analyse the TRIPS provisions.

## 2. The Paris Convention

The Paris Convention<sup>12</sup> in arts 6–11 contains a variety of provisions relative to trademarks. Out of those, only art 6*bis*<sup>13</sup> is of relevance with respect to well-known trademarks.

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<sup>11</sup> One of these provisions is, for example, the so-called principle of national treatment which is found in Paris Convention, art 10*bis*. This ensures an harmonious scope of protection against trademark-related acts of unfair competition within the Paris Union member states. The substantive provisions in Paris Convention, art 10*bis* apply irrespective of whether the trademark is well known or obscure.

<sup>12</sup> The Paris Convention is administered by WIPO with its seat in Geneva, Switzerland.

<sup>13</sup> Paris Convention, art 6*bis*(1) provides:

“Marks: Well-Known Marks

“(1) The countries of the Union undertake, ex officio if their legislation so permits, or at the request of an interested party, to refuse or to cancel the registration, and to prohibit the use, of a trademark which constitutes a reproduction, an imitation, or a translation, liable to create confusion, of a mark considered by the competent authority of the country of registration or use to be well known in that country as being already the mark of a person entitled to the benefits of this Convention and used for identical or similar goods. These provisions shall also apply when the essential part of the mark constitutes a reproduction of any such well-known mark or an



The Article's objective is to overcome the requirements of registration or of actual use with reference to affording protection to well-known trademarks. Actual use or registration in many jurisdictions are prerequisites for attaining protection.<sup>14</sup> The Paris Convention does not confer protection against non-confusing uses upon dissimilar products. The decisive change brought about by art 6bis(1) PC is that the requirements of registration or use are obviated for well-known trademarks in case of infringement actions and opposition proceedings.<sup>15</sup> In fact, not even established goodwill within the appurtenant jurisdiction will be needed.<sup>16</sup> The mark only need be "well known in that country as being already the mark of a person ... for identical or similar goods."

The provision is targeted at "situations of misuse of the mark".<sup>17</sup> However, foreign reputation is not sufficient and the trademark must be well known within the jurisdiction where protection is sought. Article 6bis PC will hence be "only an occasional weapon against the 'kidnapper' who seeks to appropriate a mark well known abroad before it is introduced into a particular country."<sup>18</sup> Just as for a common law action in passing off, foreign goodwill will not be sufficient to meet the requirements of art 6bis PC.<sup>19</sup>

The policy rationale of art 6bis PC, thus, is to prevent interlopers from 'trademark grabbing' in cross-border situations where a trademark has become well known on an international scale but is not or not yet registered or used in all countries where it factually already has become well known. Considering this purview, the criterion of a quantitative consumer knowledge threshold, namely a mark's 'well-known-ness' certainly makes sense. Contemplating the specific form of misappropriation the Article is directed against it appears that a trademark of international fame or notoriety will obviously be more prone to such attempts than a mark which is traded in a geographically confined area and known to only a very limited group of customers. With respect to art 6bis PC's objective it seems justified for the purposes of differentiating for protection to discriminate upon the basis of the quantitative level of a

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imitation liable to create confusion therewith."

<sup>14</sup> Cornish & Llewelyn, above n 8 at 637–638.

<sup>15</sup> GHC Bodenhausen *Guide to the Application of the Paris Convention for the Protection of Intellectual Property: as revised at Stockholm in 1967* (BIRPI, Geneva, 1968, reprinted as WIPO Publication No 611 (E), Geneva, 1991) at 90–91.

<sup>16</sup> Cornish & Llewelyn, above n 8 at 638.

<sup>17</sup> Ministry of Commerce *Review of Industrial Property Rights – Patents, Trade Marks and Designs – Possible Options for Reform, Volume One* (New Zealand Ministry of Commerce Discussion Paper] at 10.

<sup>18</sup> Cornish & Llewelyn, above n 8 at 638.

<sup>19</sup> See generally for the problems of foreign goodwill in connection with the action for passing off: Cornish & Llewelyn, above n 8, ch 17.

trademark's consumer recognition. Only marks which are widely recognised and which are ubiquitously known as denoting a certain, perhaps very reputable, undertaking are susceptible to the sort of free riding behaviour contemplated by art 6*bis* PC. Only for such marks will there be a sufficient economic incentive for interlopers. Consequently, only marks which fulfil the criterion of showing a sufficient degree of consumer knowledge are eligible for this type of protection.

**a) Paris Convention's Standard of "Well Known"**

There is, however, a lacuna in art 6*bis* PC. The Article does not define whether the respective degree of consumer knowledge needs to be with the general public at large or whether recognition within the (relevant) section of the public will suffice. Missing as well are guidelines as to how high the degree knowledge of the mark must be within the group concerned.<sup>20</sup> The Article mentions neither a percentage nor any other means of measuring the degree of "well known". It appears reasonable, though, to assume that to be well known in the Paris Convention sense will require a fairly substantial level of knowledge. Otherwise the trademark would hardly attract the kind of free loading art 6*bis* is aimed at since there would not be sufficient economic gain involved for the interloper.

Conspicuously absent from the provision are also considerations with respect to whether or not the appurtenant well-known trademark is itself distinctive in a qualitative sense. Such a criterion is obviously irrelevant in relation to the provision's purview. The likelihood of 'trademark grabbing' is solely determined by the quantitative level of a trademark's consumer recognition. It is higher for a well-known trademark and decreases the less well known a trademark is. Whether or not the sign upon which the trademark is based possesses a qualitative distinctive character has no bearing upon such deliberations. The determinants for the likelihood of attracting attempts to free load are then: whether a mark is well known and whether it operates with vast economic success upon the market place. In case of an obscure or ignoble mark which is not or only hardly known to the general public the interloper can neither save advertising costs nor is there any reputable quality association which could be misappropriated without the interloper investing into the quality or advertising himself or herself.

The Paris Convention's choice of a quantitative consumer recognition requirement as a

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<sup>20</sup> Cornish & Llewelyn, above n 8 at 638.

threshold for protection is hence appropriate for and commensurate to the ambits of art 6bis in an international trading context. Article 6bis is not aimed at protecting a trademark's distinctive character. With respect to the underlying policy principles the chosen quantitative knowledge threshold is a valid criterion and logically sound.

**b) Paris Convention Confusion Standard**

Notably, proof of likelihood of confusion on behalf of the well known trademark is sufficient. Proof of actual confusion of source is not required.<sup>21</sup>

Not quite as clear is as to what the confusion must relate. The provision only uses the plain term "confusion" without any further explanation. The wording of the Article itself does not impart whether the confusion is only as to source and origin or also encompasses forms of extended confusion. Possibly, "liable to create confusion" could hence be construed liberally and in the widest conceivable sense. The provision would then also embrace expanded notions of confusion, such as sponsorship, licensing, post sale, and initial interest confusion.

Assistance can be gained from other provisions contained in the Paris Convention. Article 10bis implements the obligation for member states to "assure ... effective protection against unfair competition"<sup>22</sup>. The Article defines acts of unfair competition as comprising "[a]ny act of competition contrary to honest practices in industrial or commercial matters"<sup>23</sup> and expounds a non-exhaustive<sup>24</sup> list of acts which specifically ought to be prohibited.

According to art 10bis(3), item (1),<sup>25</sup> the confusion must hence be with reference to the owner

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<sup>21</sup> Paris Convention, art 6bis: "... liable to create confusion ..." (emphasis added).

<sup>22</sup> Paris Convention, art 10bis(1).

<sup>23</sup> Paris Convention, art 10bis(2).

<sup>24</sup> Paris Convention, art 10bis(3): "The following *in particular* shall be prohibited ..." (emphasis added).

<sup>25</sup> Paris Convention:

"Article 10bis

"Unfair Competition

"(1) The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition.

"(2) Any act of competition contrary to honest practices in industrial and commercial matters constitutes an act of unfair competition.

"(3) The following in particular shall be prohibited:

"1. all acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor;

"2. false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor;

"3. indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods."

of the mark or the business or business activities to which the trademark relates. The phrase “industrial or commercial activities” potentially leaves room to also subsume a business’ merchandising and licensing activities. Consequently, the Subsection’s definition of confusion would then also encompass expanded notions of confusion. However, within the context of art 10*bis*(3) as a whole it appears more likely that the Paris Convention rests upon a traditional concept of confusion of source or origin and is not inclusive of more modern propositions of expanded confusion.

A clear tendency towards the concept of confusion of source – instead of expanded notions of confusion – can also be taken from art 6*bis*(1) PC. The junior trademark must be liable to create confusion with a senior trademark which is “well known ... as being already *the mark of a person*”.<sup>26</sup> The likelihood of confusion must arise because the junior trademark constitutes a reproduction, imitation, or translation of the well-known senior mark. The confusion art 6*bis* is looking towards must hence be one which would interfere with the public’s perception that the mark already ‘belongs’ to someone else than the subsequent user.

In addition, art 6*bis* PC only proscribes confusing uses in relation to goods which are “identical or similar”. This also points to the traditional system of confusion of source or origin. The hallmark of the approaches of expanded confusion is precisely that they endeavour to extend the classic confusion protection *beyond* the same or similar goods and services.

Finally, art 16(3) TRIPS explicitly includes art 6*bis* PC and expands upon it, declaring the latter to be applicable where the senior trademark is used in situations where the “goods or services ... are not similar” and where that use “would indicate a connection” in the course of trade. Article 16(3) TRIPS hence replaces the Paris Convention’s confusion requirement with a connection requirement. The latter is obviously a much wider criterion than the former. These extensions upon art 6*bis* PC would seem to be entirely superfluous if art 6*bis* already allowed for an expanded concept of confusion.

In conclusion, we can state with reasonable safety that art 6*bis* PC is founded upon a traditional trademark concept of classic confusion of source. It follows that for our purposes we can conclude that the Paris Convention does not impose obligations for the member states

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<sup>26</sup> Paris Convention, art 6*bis*(1) (emphasis added).

with respect to implementing any form of ‘anti-dilution’ provisions<sup>27</sup> or protection of a trademark’s distinctive character. The novelty of the Paris Convention is confined to protecting well-known trademarks irrespective of the fact whether or not they are registered or used within the jurisdiction where protection is sought.

### **3. The TRIPS Agreement**

The main purposes of TRIPS are:<sup>28</sup>

to reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade.

TRIPS, hence, only promotes intellectual property rights with respect to the facilitation of international trade. The TRIPS Agreement is not ‘self-determining’ and it is not to be viewed separately or independently but is of only supplemental purpose within the context of the GATT Uruguay Round’s Multinational Trade Agreements. Consequently, where in doubt, the free-trade principles will prevail over the notions of conferring private rights for intellectual property.<sup>29</sup>

#### **a) *Policy Considerations of TRIPS: Harmonising Minimum Levels of Broader Protection***

The TRIPS Agreement sets forth minimum standards for WTO’s signatory countries with respect to protection of intellectual property. Its main ambit is to ensure an harmonious and effective protection of intellectual property for the sake of enhancing and facilitating international trade on the basis of a mutually guaranteed scope of minimum rights in intangible subject matter. This does, however, not prevent member states from implementing a level and scope of protection for trademarks which not only embraces but also reaches

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<sup>27</sup> I Simon “Dilution in the US, Europe, and beyond: international obligations and basic definitions” (2006) 1 Journal of Intellectual Property Law & Practice 406–407.

<sup>28</sup> TRIPS Agreement, recitals: “... to reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade; ... the provision of adequate standards and principles concerning the availability, scope and use of trade-related intellectual property rights; ... the provision of effective and appropriate means for the enforcement of trade-related intellectual property rights, taking into account differences in national legal systems ...”.

<sup>29</sup> With reference to procedure for the enforcement of intellectual property, for instance, the member states are to take heed that “[t]hese procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade.”, TRIPS Agreement, “Part III Enforcement of Intellectual Property Rights”, “Section 1: General Obligations”, art 41.

beyond the obligations provided for in TRIPS. Member states<sup>30</sup>

may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement.

Member states would thus, for instance, be entitled to implement into their domestic the provisions of WIPO's Joint Recommendation.<sup>31</sup> Since TRIPS only prescribes a minimum level of protection, it is perhaps more adequate to describe the result as an approximate rather than an harmonious standard of protection.

TRIPS explicitly incorporates Paris Convention's arts 1–12 and 19.<sup>32</sup> It builds its extension of protection for well-known trademarks upon the pre-existing Paris Convention provisions. By including the Paris Convention standard an internationally harmonious level of “effective and adequate protection of intellectual property rights” as well as “adequate standards and principles concerning the availability, scope and use of ...”<sup>33</sup> trademark rights is supposed to be ensured.<sup>34</sup>

#### **b) TRIPS, Article 16**

TRIPS, like the Paris Convention, contains special provisions in relation to well-known trademarks. Again, we find that special types and standards of protection are connected to a consumer knowledge threshold. As far as relevant within the ambit of our analysis TRIPS promulgates the following:<sup>35</sup>

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<sup>30</sup> TRIPS Agreement, art 1(1).

<sup>31</sup> The Joint Recommendation will be discussed in one of the following section of this Comment.

<sup>32</sup> In TRIPS Agreement, art 2(1) is established the obligation that in respect of TRIPS Agreement, Parts II, III and IV the signatory entities shall comply with Paris Convention, art 1–12 and 19.

<sup>33</sup> TRIPS Agreement, recitals.

<sup>34</sup> Next to the harmonious standards of protection, one of the points of major significance with respect to TRIPS as a whole rests with the fact that prior to the Agreement there was no proper means for enforcing the duties established under the Paris Convention. The Paris Convention obliges the signatory countries to implement the appurtenant levels of protection. Nevertheless, if – in the past – any of the Paris Union member states chose not to comply with those obligations there was no means for the other Paris Union members to enforce the implementation of those standards within the domestic legal system of respective member state which was in violation of its contractual duties. TRIPS remedies this state of non-enforceability. Compliance with the TRIPS Agreement provisions is under the auspices of the WTO's general mechanisms for dispute resolution. Since TRIPS explicitly includes the Paris Convention's provisions with respect to well-known trademarks, non-compliance with the respective Paris Convention obligations can now be put under scrutiny within the context of the WTO's dispute settlement procedures. For the first time, an effective system of dispute resolution procedures has been put in place for the enforcement of international obligations with respect to an harmonious level of protection of intellectual property and industrial property rights. This has been made available for both obligations under TRIPS as well as the Paris Convention.

<sup>35</sup> TRIPS Agreement, “Part II Standards Concerning the Availability, Scope and Use of Intellectual Property

## Article 16

### Rights Conferred

1. The owner of a registered trademark shall have the exclusive right to prevent all third parties not having the owner's consent from using in the course of trade identical or similar signs for goods or services which are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion. In case of the use of an identical sign for identical goods or services, a likelihood of confusion shall be presumed. The rights described above shall not prejudice any existing prior rights, nor shall they affect the possibility of Members making rights available on the basis of use.

2. Article 6*bis* of the Paris Convention (1967) shall apply, *mutatis mutandis*, to services. In determining whether a trademark is well-known, Members shall take account of the knowledge of the trademark in the relevant sector of the public, including knowledge in the Member concerned which has been obtained as a result of the promotion of the trademark.

3. Article 6*bis* of the Paris Convention (1967) shall apply, *mutatis mutandis*, to goods or services which are not similar to those in respect of which a trademark is registered, provided that use of that trademark in relation to those goods or services would indicate a connection between those goods or services and the owner of the registered trademark and provided that the interests of the owner of the registered trademark are likely to be damaged by such use.

TRIPS, art 16(2) makes available for service marks the Paris Convention's provisions on well-known marks. Subsection (2) also "provides guidance as to the relevant public when assessing whether a mark is well-known."<sup>36</sup> and thus somewhat remedies the Paris Convention's lacuna of not defining the audience concerned. Remarkably, art 16(2) TRIPS declares that the responsible authority only need take into account "the knowledge of the trademark in the relevant sector of the public", not the general public at large. A high degree of knowledge within even a very limited section of the public will thus be sufficient. The threshold in order to attain TRIPS' extended protection is, hence, a comparatively low one and makes a lot more marks eligible for the extended protection than would be if knowledge by the general public at large were required.

Already at this stage of our analysis we can, hence, state that the policy rationale of TRIPS appears to be different from the Paris Convention's original one. The likelihood of interlopers is decidedly less for a niche mark than would be for a trademark which is well known to the general public at large.

There is no doubt that "well known" is to be understood in its plainest possible sense. Accordingly, the well-known standard simply requires a trademark to overcome a quantitative knowledge threshold. Consumers must, within a given context and with a reasonable high

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Rights (Articles 15 through 21)", "Section 2: Trademarks".

<sup>36</sup> Simon, above n 27 at [n 5].

percentage, recognise the mark as being the trademark of a particular undertaking. Any degree of specific qualitative distinctiveness of the trademark's underpinning sign is not required.

(1) Problems with the Wording of TRIPS, art 16(3)

Delineating the scope of the rights conferred by virtue of art 16(3) TRIPS poses difficulties with reference to the wording of the Article. The Article appears to only apply to registered well-known trademarks. Secondly, it is a contentious issue whether the Article confers protection only within a traditional concept of confusion of source or does, perhaps, extend as far as protecting against 'dilution'.

The second issue hinges upon how precisely the criterion of "indicating a connection" is to be interpreted within the meaning of art 16(3) TRIPS. Opinions are split. On the one hand, it is contended that the Article is based upon a traditional concept of confusion of source. On the other hand, the Article is construed as an 'anti-dilution' provision proper. Whether or not the Article imparts protection against 'dilution' turns largely upon whether or not a wide approach can be taken towards the Article's interpretation. To anticipate the result of this Enquiry: the Article appears 'decidedly' to admit for narrow as well as broad approaches. However, considering the incorporation of the Paris Convention standards into art 16(3) TRIPS, it would seem that there is a bias towards demanding confusion of source and derivatives thereof.

(2) Are only Registered Trademarks Protected by TRIPS, art 16(3)?

Article 16(3) provides protection against use of a trademark in connection with products which are "not similar in respect to which a trademark is *registered*".<sup>37</sup> Protection is further tied to the pre-condition that the use would "indicate a connection between those goods or services and the owner of the *registered* trademark".<sup>38</sup> And, finally, the use will need to be likely to damage the "interests of the owner of the *registered* trademark".<sup>39</sup> The repeat use of "registered" in art 16(3) is obviously neither done by accident nor a mere coincidence. Next to the dualism between 'ordinary' and well-known trademarks the Article appears to discriminate, in addition, between well-known registered trademarks and such well-known

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<sup>37</sup> Emphasis added.

<sup>38</sup> Emphasis added.

<sup>39</sup> Emphasis added.



trademarks which are non-registered ones.

This is patently at odds with the policy considerations of art 6*bis* PC which is precisely to come to the rescue of well-known marks which are not (yet) registered. Nevertheless art 6*bis* PC is expressly referred to in art 16(3) TRIPS. The ‘mere modification’<sup>40</sup> in art 16(3) actually manifests itself as a severe deviation from one of the Paris Convention’s fundamental principles. If a well-known trademark is already registered within the appurtenant jurisdiction the reference to art 6*bis* PC is superfluous. Where it is not registered the mark will not enjoy the expanded protection under art 16(3) TRIPS even though it is well known.

This defect can also not be cured by the fact that art 6*bis* PC is supposed to apply not literally but merely “mutatis mutandis”. Mutatis mutandis, taken literally, translates to: things being changed which need to be changed. However, such change cannot be done in a haphazard manner. Rather, the expression’s meaning is restricted to a specific type of situation where a comparison (not a contrast!) is made between two instances, “making necessary alterations *while not affecting the main point at issue*”.<sup>41</sup> The two provisions, however, are so contrary in their core principles that it is impossible to reconcile them with regard to this point without affecting main points at issue.

The only conceivable escape route could be to construe “registered” as embracing situations where a prior registration of a well-known trademark anywhere in the world would be sufficient. However, to base protection of a trademark upon registrations in foreign jurisdictions, such an extraordinary step would certainly have found a more explicit mention in an agreement between sovereign states rather than implementing it through the back door of a distorting construction of art 16(3) TRIPS.

In summary, we can establish that TRIPS, art 16(3) applies to situations where a well-known trademark is to be protected against use or registration for dissimilar goods or services. However, this protection is only conferred upon well-known trademarks which are registered within the jurisdiction where protection is sought. In turn, this means that, even post-TRIPS, where a well-known trademark is not registered protection will only be afforded under art 6*bis* PC.

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<sup>40</sup> TRIPS Agreement, art 16(3): “... shall apply, mutatis mutandis, ...”.

<sup>41</sup> The New Oxford American Dictionary (3rd ed, Oxford University Press, Oxford, 2010) (emphases added).

(3) Is TRIPS, art 16(3) an 'Anti-Dilution' Provision Proper?

TRIPS, art 16(3), at first glance, appears to be conferring protection against at least some forms of trademark-related business activities which could be described as 'dilutive'. The Article requires "indicating a connection" and the form of harm is described as likelihood of damage to "the interests of the owner". In addition, the provision explicitly encompasses the subsequent use of trademarks in connection with products which are dissimilar to the ones in respect of which the senior trademark is registered. Viewed superficially, especially the "indicating a connection" requirement seems very close to situations of non-confusing uses which entail detriment to the senior trademark's distinctive character. Nowhere in the entire Section is there an express demand for showing confusion. Also, a wide interpretation of the "interests of the owner" would possibly allow for the inclusion of other types of damage than loss of sales or confusion of source. Both interpretative issues need closer inspection.

(a) *The Criterion of "Indicating a Connection" in TRIPS, art 16(3)*

It is contentious what exactly is encompassed by "indicating a connection". There are commentators who do indeed propose that the connection requirement in art 16(3) is to be construed in the widest possible sense. They suggest that the Article does, indeed, afford 'anti-dilution' protection. Mangis posits that the Article "incorporated some elements of dilution protection"<sup>42</sup> into TRIPS. Gervais<sup>43</sup> goes as far as maintaining that the Article is to be viewed independently<sup>44</sup> of its reference to PC, art 6*bis*. Essentially, Gervais asserts that art 16(3) establishes an autonomous protection within the TRIPS Article itself; irrespective of the reference to PC, art 6*bis*.

The issue of the reference to art 6*bis* PC is of importance because the Paris Convention rests firmly upon a traditional standard of confusion of source. If TRIPS, art 16(3) is hence rooted upon the respective Paris Convention provision, then, as a consequence, this reference entails that the TRIPS Article cannot stray all too far from this confusion of source concept. It is suggested here, that the problem mainly revolves around "mutatis mutandis" and the question of how far can be taken the "things being changed which need to be changed" and the

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<sup>42</sup> DE Mangis "When Almost Famous Just Isn't Famous Enough: Understanding Fame in the Federal Trademark Dilution Act as a Term of Art Requiring Minimal Distinctiveness" (2002) 21 *Review of Litigation* 455 at 461 and [n 31].

<sup>43</sup> D Gervais *The TRIPs Agreement: Drafting History and Analysis* (Sweet & Maxwell, London, 2003) at 174.

<sup>44</sup> Read: irrespectively of, in contradiction to, and under omission and exclusion of the clear content of the Article.

“*necessary* alterations while not affecting the main points”. The question boils down to whether “*mutatis mutandis*” reaches so far as to replace the Paris Convention’s “liable to cause confusion” entirely with “indicating a connection”. In the alternative, the Paris Convention’s confusion of source requirement persists and prevails and “indicating a connection” will only be of supplemental importance.

Whosoever argues for a replacement instead of a mere supplement will also need to answer how this replacement supposedly can be done “without affecting the main points” of the art 6*bis* PC reference. The confusion of source concept is obviously the mainstay of art 6*bis* PC. Consequently, it appears to be hardly a tenable line of argument to maintain that TRIPS, art 16(3) establishes an autonomous basis of relief which is independent of any showing of confusion of source. Either the reference to art 6*bis* PC would have to be regarded as fallacious or such a construction is out of line because it ignores – or, even worse: negates – one of the core principles of art 6*bis* PC.

The type of “connection” which art 16(3) requires is between the owner of the senior well-known, registered trademark and the products upon which the subsequent mark is employed. Simon<sup>45</sup> points out correctly that the described connection is much closer to a situation of traditional confusion of source or origin rather than to the one where consumers make an association solely between the signs without being confused. In contrast to Gervais’ interpretation, the connection requirement in art 16(3) is thus quite obviously more along the lines of an expanded concept of confusion. Consumers, perhaps, mistake the products to have been made by or under the licence of the owner of the senior mark. Even upon a wide construction of “connection with the senior owner” this criterion would still be confined to the confusion doctrine, albeit, of course, encompassing the expanded concepts of confusion and derivatives thereof.

Construing the Article’s connection requirement to render some sort of protection against mere association without any confusion would be putting too much strain on the actual wording. To demand that a subsequent use indicate a connection between such use upon goods and the owner of the senior trademark definitely asks for more than that consumers merely associate the two signs without being confused about the goodwill or source which is represented by the respective mark. If it is accepted that detriment to distinctive character

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<sup>45</sup> Simon, above n 27 at 407.

occurs when consumers' "awareness that a particular mark signifies 'a single thing coming from a single source' becomes instead an unmistakable, correct awareness that the mark signifies various things from various sources",<sup>46</sup> then 'dilution' is clearly outside the realm of "indicating a connection" between goods and the owner of a senior trademark.

*(b) The Criterion of "Damaging the Interests of the Owner" in TRIPS, art 16(3)*

Also, the type of harm described in art 16(3) TRIPS clearly looks towards the interests of the owner. The Article does not explicitly provide for detriment to a trademark's distinctive character which is the crucial paradigmatic criterion building the foundation of 'anti-dilution' doctrine in its strict sense.

Certainly, upon a very wide construction, the interests of a trademark's owner could be interpreted to also comprise the integrity of the trademark's distinctive character. However, the damage to the interests of the owner must be caused by the connection evoked<sup>47</sup> in consumers' conception between the goods of the subsequent trademark and the owner of the senior trademark. Non-source-confusing subsequent uses upon dissimilar goods are clearly not comprehended by the damage encompassed by art 16(3). Thus, isolated detriment to distinctive character without the presence of at least expanded notions of confusion cannot be held to be comprised within the ambit of art 16(3); not even when doing quite some violence to the requirement of "connection".

*(c) The Argument from the WIPO Joint Recommendation in Connection with TRIPS, art 16(3)*

Edification can also be drawn from WIPO's Joint Recommendation. Joint Recommendation, art 4(1)(b), item (i),<sup>48</sup> almost verbatim repeats art 16(3) TRIPS. Next to that, though, the Joint

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<sup>46</sup> BW Pattishall "Dawning Acceptance of the Dilution Rationale for Trademark-Trade Identity Protection" (1984) 74 Trademark Reporter 289 at 300, Pattishall quoting *Coca Cola Co v Koke Company of America* 245 US 143 (1920) at 146 per Holmes J.

<sup>47</sup> TRIPS Agreement, art 16(3): "... likely to be damaged by such use." (emphases added).

<sup>48</sup> Joint Recommendation:

"Article 4

"Conflicting Marks

"(1) Conflicting Marks

" ...

"(b) Irrespective of the goods and/or services for which a mark is used, is the subject of an application for registration, or is registered, that mark shall be deemed to be in conflict with a well-known mark where the mark, or an essential part thereof, constitutes a reproduction, an imitation, a translation, or a transliteration, of the well-known mark, and where at least one of the following conditions is fulfilled:

Recommendation explicitly introduces additional situations<sup>49</sup> in which subsequent use of a trademark is deemed to be in conflict with a senior well-known trademark. All additions are instances where the subsequent trademark use would be deleterious to the “distinctive character of the well-known mark”. These are classic descriptions of ‘dilution’. The Joint Recommendation, thus, chooses to specifically augment art 16(3) TRIPS for instances of ‘dilution’ within the very same section in which the very Article is literally quoted. This would hardly have been necessary if TRIPS would have been considered to already comprise instances of ‘dilution’ and not only confusion.<sup>50</sup>

*(d) Summary to Whether TRIPS, art 16(3) Is an ‘Anti-Dilution’ Provision Proper*

In conclusion, TRIPS, art 16(3) can be summarised to not impose any standards upon member states with respect to establishing a protection against non-confusing uses of trademarks upon dissimilar products.

It remains rather obfuscated, however, what kind of policy considerations are exactly supposed to be the foundation of the provisions in TRIPS, art 16(3). By requiring a well-known trademark to be registered TRIPS countervails the clear policy concepts of art 6*bis* PC. It remains rather obscure what kind of damage is contemplated by the damage to the “interests of owner of the registered trademark”.

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“(i) the use of that mark would indicate a connection between the goods and/or services for which the mark is used, is the subject of an application for registration, or is registered, and the owner of the well-known mark, and would be likely to damage his interests;

“(ii) the use of that mark is likely to impair or dilute in an unfair manner the distinctive character of the well-known mark;

“(iii) the use of that mark would take unfair advantage of the distinctive character of the well-known mark.

<sup>49</sup> Joint Recommendation, art 4(1)(b), items (ii) and (iii).

<sup>50</sup> See for this argument also: Simon, above n 27 at 408. A caveat is in order, however, and arguing interpretations of TRIPS from the position of the Joint Recommendation needs to be taken with the grain of salt. Yes, the Joint Recommendation almost verbatim reiterates TRIPS, art 16(3) and then proceeds to expand upon that foundation. It follows that the argument expounded above is certainly logically sound. However, it is not WIPO’s call to interpret TRIPS. At least WIPO is not in a position of competence to rule upon interpretation of TRIPS in any authoritative manner. WIPO is only responsible for administering the Paris Convention. The TRIPS Agreement is under the sole auspices of the WTO.

On the other hand, WIPO and the WTO by virtue of the latter’s body, the TRIPS Council, very closely cooperate with one another. Also, TRIPS is largely based upon treaties whose administration is under the authority of WIPO. In addition, the Joint Recommendation is WIPO’s strategy to advance IP protection on a level alternative to the treaty-based approach. These elements taken together make for a tenable assumption that, essentially, WIPO adopted its Joint Recommendation in advancement of and with respect to the entirety of the international treaties and not only with regards to its ‘own business’, the Paris Convention.

Moreover, since TRIPS builds upon the Paris Convention it appears within reason that, when promulgating the Joint Recommendation, WIPO bore TRIPS’ provisions in mind. It is therefore conceivable that the Joint Recommendation expands not only upon the Paris Convention but also upon TRIPS.

The 'rationale' behind TRIPS, art 16(3) can perhaps best be described as a sort of broad-brush misappropriation prevention in situations of confusion of source and extended confusion. A truly principled approach cannot be gathered from art 16(3). Why only registered well-known trademarks should be protected is incomprehensible. There is simply no proper reason which could justify that there is any change in the likelihood of free loading between a registered or a non-registered trademark as long as both trademarks are well-known.

The scope of protection granted by TRIPS, art 16(3) is not entirely clear, either. The more convincing arguments seem to be the ones constraining the Article's remit to situations where confusion is present. Notwithstanding, of course, that this will be an expanded concept of confusion.

However, considering the registration requirement in art 16(3) which is a clear contravention to art 6*bis* PC it would not be entirely surprising, if, by extension, it had been intended by art 16(3) to implement even more drastic deviations from the Paris Convention by establishing 'dilution' to replace the concept of confusion. Gervais may thus even be right in his appraisal that art 16(3) establishes an autonomous basis for relief. However, if this were what TRIPS, art 16(3) actually intended, then it is inconceivable why the reference to art 6*bis* PC was incorporated into the provision at all. In summary, as long as the Paris Convention-reference remains, a narrow construction of art 16(3) appears to be the preferable and more plausible alternative.

#### **4. Summary of Paris Convention and TRIPS Agreement Provisions as They Relate to Extended Trademark Protection**

In summary, there is, thus far, no international obligation incumbent upon the signatory entities of Paris Convention and TRIPS to provide for well-known marks a protection against non-confusing uses in connection with dissimilar goods or services. The scope of protection is limited to a concept of likelihood of expanded confusion caused by use of a trademark upon identical, similar, or dissimilar goods or services. There is no obligation to protect a trademark's distinctive character in the absence of confusion and hence there is no obligation arising for New Zealand from Paris Convention or TRIPS to implement an 'anti-dilution' protection.

The qualification criterion for both Paris Convention and TRIPS is the mere quantitative

threshold of a trademark being well known. Qualitative requirements with reference to the distinctiveness of the trademark or its underpinning sign do not exist. This is logically sound in so far as neither TRIPS nor Paris Convention endeavour to protect a trademark's distinctive character but are based upon what can, perhaps, best be described as prevention of misappropriation of business values.

## 5. WIPO's Joint Recommendation

The Joint Recommendation was promulgated by WIPO.<sup>51</sup> It is WIPO's attempt to "complement the treaty-based approach", to offer "new options for accelerating the development of international harmonized common principles", and to promote "new approaches to the progressive development of international intellectual property law"<sup>52</sup>. One needs to keep in mind, though, that WIPO's competences are limited to the provisions of the Paris Convention. The administration of TRIPS lies exclusively with the WTO's Council for Trade-Related Aspects of Intellectual Property Rights (TRIPS Council).<sup>53</sup> Nevertheless,

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<sup>51</sup> The Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks [Joint Recommendation] as adopted in a joint resolution by the Assembly of the Paris Union for the Protection of Intellectual Property and by the General Assembly of the World Intellectual Property Organization at the Thirty-Fourth Series of Meetings of the Assemblies of the Member States of WIPO, 2029 September 1999 (PDF-document, last retrieved on 06 November 2010, 21:55h, [http://www.wipo.int/about-ip/en/development\\_iplaw/](http://www.wipo.int/about-ip/en/development_iplaw/)). The Joint Recommendation embodies the provisions as adopted as the finalising point of a series of meetings of a WIPO-appointed Committee of Experts on Well-Known Marks (Sessions, Conferences, Meetings and Seminars all held at Geneva, Switzerland; WIPO document numbers: 13–16 November 1995, WKM CE I 95, WKM/CE/I/1–WKM/CE/I/3; 28–31 October 1996, WKM CE II 96, WKM/CE/II/1–WKM/CE/II/3; 20–23 October 1997, WKM CE III 97, WKM/CE/III/1–WKM/CE/III/3) and of the WIPO Standing Committee on the Law of Trademarks, Industrial Designs and Geographical Indications (Sessions, Conferences, Meetings and Seminars all held at Geneva, Switzerland; WIPO document numbers: 13–17 July 1998, SCT/1/1–SCT/1/6; 15–17 March 1999, SCT/2/(1)/1–SCT/2/(1)/5; 7–12 June 1999, SCT/2/(2)/6–SCT/2/(2)/12; 8–12 November 1999, SCT/3/1–SCT/3/10, the SCT stating in SCT/3/8 that the Joint Recommendation had been adopted in the Joint Assemblies as prepared by the SCT and without modification). These meetings were held during the years 1995–1999 in the wake of the establishment of the WTO and the promulgation of TRIPS.

<sup>52</sup> Joint Recommendation, preface.

<sup>53</sup> More specifically the Council's responsibilities are to "... monitor the operation of this Agreement and, in particular, Members' compliance with their obligations hereunder, and shall afford Members the opportunity of consulting on matters relating to the trade-related aspects of intellectual property rights. It shall carry out such other responsibilities as assigned to it by the Members, and it shall, in particular, provide any assistance requested by them in the context of dispute settlement procedures" (TRIPS, art 68). However, even though the TRIPS Council monitors the member states' compliance with their obligations under TRIPS it is not the body authorised to enforce any measures in case of a breach of those obligations. Disputes arising from or over obligations amongst the member states under TRIPS are not subject to the Council's ruling. Instead, because TRIPS is but an annex to the greater scheme of Multilateral Trade Agreements, conflicts are referred to the WTO's dispute resolution mechanisms.

It is important to note that WIPO is not in any position of authority with respect to the administration of TRIPS. This rests solely with the WTO and its administrative bodies. Notwithstanding this clear separation of authority of those two governing bodies on paper, there is close co-operation between WIPO on the one side and the WTO and the TRIPS Council on the other side. This coordinated interaction was intended from the very inception of TRIPS in which was expressed the desire "to establish a mutually supportive relationship between the WTO and ... [WIPO] ... as well as other relevant international organizations;" (TRIPS, preamble). And as one of the first

regarding the WTO-WIPO cooperation<sup>54</sup> and that the two organisations basically share the same member base, WIPO's Assemblies<sup>55</sup> certainly have borne TRIPS in mind when adopting the Joint Recommendation.

The Joint Recommendation does not have any binding effect upon either the member states of the Paris Convention or the signatory countries of TRIPS.<sup>56</sup> However, WIPO strongly encourages its Members to follow the recommendations as a guideline for the protection of well-known trademarks.

Of relevance in this context are furthermore the Explanatory Notes in the addendum to the Joint Recommendation. The Explanatory Notes have been prepared by the International Bureau of WIPO. They have, however, not been officially adopted by either of WIPO's Assemblies.<sup>57</sup> The Explanatory Notes are intended to remain merely expository and strictly subordinate to the actual provisions of the Joint Recommendation. The actual Recommendation will always prevail over the Explanatory Notes.

The interesting fact about the Joint Recommendation with respect to New Zealand trademark legislation is that the Recommendation lies in between two major changes in New Zealand's legislation relative to trademark law: the Joint Recommendation is post the 1994 Amendments to the Trade Marks Act 1953 (NZ) (TMA 1953 (NZ)) and prior to the TMA 2002 (NZ). While it is clear that the Trade Marks Amendment Act 1994 (NZ) was passed in order to comply with and in fulfilment of international obligations resulting from TRIPS and while it is equally clear that the Joint Recommendation is not binding there is still

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tasks of the TRIPS Council was outlined that "In consultation with WIPO, the Council shall seek to establish, within one year of its first meeting, appropriate arrangements for cooperation with bodies of that Organization." (TRIPS, art 68). As a consequence of this WIPO has been granted observer status for the WTO's TRIPS Council with respect to TRIPS and the WTO's administration thereof. The WTO's collaboration and interaction with WIPO is governed by the WTO-WIPO Cooperation Agreement of 22 December 1995, Geneva, Switzerland. TRIPS also refers specifically to a number of other WIPO conventions – besides the Paris Convention – and collaboration has also developed between the WTO and other international and regional organizations.

<sup>54</sup> Since the finalisation of GATT's Uruguay Round, there is a joint cooperation between the World Trade Organisation and WIPO and they are continuously working on the future development for the protection of intellectual and industrial property in all respective areas of the law. Consequently, one always needs to bear in mind that what is a mere recommendation of WIPO today might very soon become an internationally binding obligation via the means of the WTO.

<sup>55</sup> The Assembly of the Paris Union for the Protection of Intellectual Property and the General Assembly of the World Intellectual Property Organization.

<sup>56</sup> "The Assembly of the Paris Union for the Protection of Industrial Property and the General Assembly of the World Intellectual Property Organization (WIPO), ... Recommend that each Member State *may consider* the use of any of the provisions adopted ..., as guidelines for the protection of well-known marks;" Joint Recommendation, recitals (emphases added).

<sup>57</sup> I.e. neither by the Assembly of the Paris Union nor by the WIPO General Assembly.



a possibility that New Zealand voluntarily chose to adopt, in the TMA 2002 (NZ), the standards set out in the Joint Recommendation. If the latter were the case, then the Joint Recommendation will be a valuable guideline for the adjudgment of whether or not a trade mark is well known and for the scope of protection.

Unfortunately, instead of being of real assistance the Joint Recommendation rather presents a vivid example of the state of disarray of the law with respect to the qualitative and/or quantitative appreciation of a trademark's character and qualification for protection. The vast and multifarious variety of factors which supposedly are determining elements if a trademark is well known are not necessarily connected to a trademark's qualitative distinctiveness. However, the protection of a trademark's distinctive character is one of the major additions the Joint Recommendation introduces in its article 4 in order to complement TRIPS, art 16(3). Consequently, a trademark's distinctive character will be protected if the mark passes the quantitative test for being well known irrespective how high that level of qualitative distinctiveness of the mark actually is. The trademark being well known and the trademark being distinctive, those two separate issues are carelessly being conflated by Joint Recommendation, arts 2 and 4. In turn, no matter how high the level of qualitative distinctiveness of a trademark may be, the mark will not be eligible for protection as long as it does not pass the threshold of the 'well-known-ness' criterion.

#### **a) *The Standard of "Well Known" in the Joint Recommendation***

In art 2 JR<sup>58</sup> is laid down an extensive, albeit non-exhaustive, provision on the circumstances

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<sup>58</sup> Joint Recommendation, "Part I, Determination of Well-Known Marks", art 2:

"Determination of Whether a Mark is a Well-Known Mark in a Member State

"(1) Factors for Consideration

"(a) In determining whether a mark is a well-known mark, the competent authority shall take into account any circumstances from which it may be inferred that the mark is well known.

"(b) In particular, the competent authority shall consider information submitted to it with respect to factors from which it may be inferred that the mark is, or is not, well known, including, but not limited to, information concerning the following:

"1. the degree of knowledge or recognition of the mark in the relevant sector of the public;<sup>1</sup>

"2. the duration, extent and geographical area<sup>2</sup> of any use<sup>3</sup> of the mark;

"3. the duration, extent and geographical area of any promotion of the mark, including advertising or publicity and the presentation, at fairs or exhibitions, of the goods and/or services to which the mark applies;

"4. the duration and geographical area of any registrations, and/or any applications for registration, of the mark, to the extent that they reflect use or recognition of the mark;

"5. the record of successful enforcement of rights in the mark, in particular, the extent to which the mark was recognized as well known by competent authorities;<sup>4</sup>

"6. the value associated with the mark.<sup>5</sup>

"(c) The above factors, which are guidelines to assist the competent authority to determine whether the mark is a well-known mark, are not pre-conditions for reaching that determination. ..."

under which a trademark is to be accounted as well known. This is a considerable expansion upon the meagre criteria introduced by TRIPS, art 16(2). Space does not permit deliberation upon each individual item of art 2 JR at length. More importantly, however, there is no need to do so. Suffice to state that all items exclusively determine considerations with reference to a trademark's economic value and purely quantitative consumer recognition criteria. The Joint Recommendation is hence based solely upon a quantitative consumer knowledge threshold. Matters of qualitative distinctiveness of the actual underpinning sign of a trademark are not at issue at all.

The factors in art 2 JR reflect the – unfortunately – ever increasing opinion that trademarks are to be viewed as an investment vehicle and should be protected as such.<sup>59</sup> This view, however, actually tends to protect trademarks irrespective of their usefulness for consumer society and regardless of their function as facilitators of consumer choice in a competitive free market economy. Additionally, if the assessment of whether a trademark is well known really is to be determined by “the degree of knowledge or recognition of the mark in the relevant sector of the public”,<sup>60</sup> then the amount of investment made upon a particular mark appears to have rather little connection with the fact of how that trademark is being perceived and received by consumers within the realities of the market place. After all, the records of

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Compare also the appurtenant Explanatory Notes:

<sup>1</sup> “The degree of knowledge or recognition of a mark can be determined through consumer surveys and opinion polls. The point under consideration recognizes such methods, without setting any standards for methods to be used or quantitative results to be obtained.”, Explanatory Note 2.3.

<sup>2</sup> “The duration, extent and geographical area of any use of the mark are highly relevant indicators as to the determination whether or not a mark is well known by the relevant sector of the public. Attention is drawn to Article 2(3)(a)(i), providing that actual use of a mark in the State in which it is to be protected as a well-known mark cannot be required. However, use of the mark in neighboring territories, in territories in which the same language [is] or languages are spoken, in territories which are covered by the same media (television or printed press) or in territories which have close trade relations may be relevant for establishing the knowledge of that mark in a given State.”, Explanatory Note 2.4.

<sup>3</sup> “The term “use” is not defined. On the national or regional level, the question of what constitutes “use” of a mark usually arises in the context of acquisition of trademark rights through use, the invalidation of registrations for non-use, or the acquisition of distinctive character of a mark through use. However, for the purpose of the Provisions, the term “use” should cover use of a mark on the Internet.”, Explanatory Note 2.5.

<sup>4</sup> “Due to the principle of territoriality well-known marks are enforced on a national basis. Evidence of successful enforcement of the right to a well-known mark or of the recognition of a given mark as being well known, for example, in neighboring countries, may serve as an indicator as to whether a mark is well known in a particular State. Enforcement is intended to be construed broadly, also covering opposition procedures in which the owner of a well-known mark has prevented the registration of a conflicting mark.”, Explanatory Note 2.8.

<sup>5</sup> “There exists a considerable variety of methods for trademark evaluation. This criterion does not suggest the use of any particular method. It merely recognizes that the value associated with a mark may be an indicator as to whether or not that mark is well known.”, Explanatory Note 2.9.

<sup>59</sup> Compare for a description of trademarks as investment and advertising vehicles Cornish & Llewelyn, above n 8 at 620.

<sup>60</sup> Joint Recommendation, art (2)(1)(b) item(1).

marketing history are replete with miserably failed attempts to launch trademarks which cost the respective enterprises huge amounts of money but in the end just were investments which had to be written off the books without having had any marketing success. Why in such a situation the owner of the trademark should benefit from the broadened protection because the trademark – according to the investment criterion – allegedly would need to be considered to be a well-known one, this is entirely inconceivable. In other words: past investments into the marketing or promotion or – for that matter – into the legal defence of a trademark and the quantitative level of consumer recognition of a trademark can be related but this is not of necessity so.

On another note, the Joint Recommendation interestingly enough returns to the foothold of the Paris Convention. It countervails TRIPS, art 16(3) with respect to whether or not the well-known trademark needs to be registered within the jurisdiction where protection is sought.<sup>61</sup> Neither use nor registration are required for a well-known trademark to profit from the protection under the auspices of the Joint Recommendation.

#### **b) *Scope of Protection Conferred by the Joint Recommendation***

In art 3 JR<sup>62</sup> is established that well-known trademarks are to be protected “against conflicting marks, business identifiers and domain names”. Our real focus, however, lies with art 4 JR where instances are being expounded as to when third parties’ marks will be held to be “conflicting marks”.

Article 4(1)(a) more or less re-iterates TRIPS, art 16(1), albeit it is confined to well-known

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<sup>61</sup> Joint Recommendation provides in art 2(3):

“(3) Factors which shall not be required

“(a) A Member State shall not require, as a condition for determining whether a mark is a well-known mark:

“(i) that the mark has been used in, or that the mark has been registered or that an application for registration of the mark has been filed in or in respect of, the Member State;

“(ii) that the mark is well known in, or that the mark has been registered or that an application for registration of the mark has been filed in or in respect of, any jurisdiction other than the Member State; or

“(iii) that the mark is well known by the public at large in the Member State. ...”

<sup>62</sup> Joint Recommendation, art 3:

“Protection of Well-Known Marks; Bad Faith

“(1) A Member State shall protect a well-known mark against conflicting marks, business identifiers and domain names, at least with effect from the time when the mark has become well known in the Member State. ...”

And compare also the appurtenant Explanatory Notes:

“The Provisions do not apply to conflicts between well-known marks and geographical indications or appellations of origin. However, the Provisions constitute a minimum standard of protection, and Member States are of course free to provide for broader protection.”, Explanatory Note 3.1.

“This means that a Member State is not obliged to protect and “internationally” known mark if that mark is not well known in that State, or the mark is known albeit not well known.”, Explanatory Note 3.2.

marks instead of including all types of trademarks. Article 4's essential substance for our purposes is found in its paragraph (1)(b). This defines where a conflict will be made out in the case of use of a trademark irrespective of the relatedness of the goods upon which the use is made. Except for omission of the reference to art 6*bis* PC the contents of art 4(1)(b)(i) JR are very much the same as TRIPS, art 16(3). The other two items in paragraph (1)(b) are additional situations considered to be misuse of a trademark.<sup>63</sup>

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<sup>63</sup> Joint Recommendation, art 4:

“Conflicting Marks

“(1) Conflicting Marks

“(a) A mark shall be deemed to be in conflict with a well-known mark where that mark, or an essential part thereof, constitutes a reproduction, an imitation, a translation, or a transliteration, liable to create confusion, of the well-known mark, if the mark, or an essential part thereof, is used, is the subject of an application for registration, or is registered, in respect of goods and/or services which are identical or similar to the goods and/or services to which the well-known mark applies.<sup>1</sup>

“(b) Irrespective of the goods and/or services for which a mark is used, is the subject of an application for registration, or is registered, that mark shall be deemed to be in conflict with a well-known mark where the mark, or an essential part thereof, constitutes a reproduction, an imitation, a translation, or a transliteration, of the well-known mark, and where at least one of the following conditions is fulfilled:<sup>2</sup>

“(i) the use of that mark would indicate a connection between the goods and/or services for which the mark is used, is the subject of an application for registration, or is registered, and the owner of the well-known mark, and would be likely to damage his interests;<sup>3</sup>

“(ii) the use of that mark is likely to impair or dilute in an unfair manner the distinctive character of the well-known mark;<sup>4</sup>

“(iii) the use of that mark would take unfair advantage of the distinctive character of the well-known mark.<sup>5</sup>

“(c) Notwithstanding Article 2(3)(a)(iii), for the purposes of applying paragraph (1)(b)(ii) and (iii), a Member State may require that the well-known mark be well known by the public at large.<sup>6</sup> ... “

And compare also the respective Explanatory Notes:

<sup>1</sup>“Paragraph (1)(a) defines the conditions under which a mark is deemed to be in conflict with a well-known mark in respect of identical or similar goods and/or services. If the conditions of this subparagraph are met, the remedies provided for in paragraphs (2) to (6) are applicable.”, Explanatory Note 4.1.

<sup>2</sup>“Paragraph (1)(b) is applicable irrespective of the nature of the goods and/or services to which the conflicting mark applies. The remedies provided for in paragraphs (3) to (6) are only available in such cases if at least one of the conditions set out in items (i) to (iii) is met. Where protection is to be granted against the registration of, for example, a conflicting mark which has not yet been used, the conditions of items (i) to (iii) have to be applied as if the conflicting mark had been used, as indicated by the words “would” in items (i) and (iii) and “is likely to” in item (ii).”, Explanatory Note 4.2.

<sup>3</sup>“Under this item, a connection between a well-known mark and a third party's goods or services may be indicated, for example, if the impression is created that the owner of the well-known mark is involved in the production of those goods, or the offering of those services, or that such production or offering was licensed or sponsored by him. The interests of the owner of the well-known mark could be damaged if the goods and/or services with which the connection is established have a down-market image, thereby reflecting negatively on the goodwill of the well-known mark.”, Explanatory Note 4.3.

<sup>4</sup>“This item would apply, for example, if the use of a conflicting mark is likely to impair or dilute in an unfair manner the unique position of a well-known mark in the market. A further example of dilution is where the conflicting mark is used on goods or services which are of an inferior quality or of an immoral or obscene nature. The meaning of the words “in an unfair manner” implies that third-party use of a well-known mark which is not contrary to honest commercial practice (e.g., reference to a well-known mark for review or parody) does not constitute dilution.”, Explanatory Note 4.4.

<sup>5</sup>“The case referred to in this item differs from the cases covered by items (i) and (ii) in that no wrong connection concerning the real source of the goods and/or services is indicated (as in item (i)), and the value of the well-known mark has not diminished in the eyes of the public (as in item (ii)), but rather the use in question would, for example, amount to a free ride on the goodwill of the well-known mark for the person who uses a

On the face of it, art 4(1)(b)(i) JR is almost verbatim the same as TRIPS, art 16(3). Explanatory Note 4.3, indeed, interprets the described harm in a way which can best be described as being the concept of expanded confusion.<sup>64</sup> It is of import, though, that situations are not included where there is no confusion at all or where there is no bad faith use reflecting negatively upon the senior trademark's goodwill. Namely, cases of non-confusing detriment to distinctive character without damage to reputation are not encompassed.

No more comity with TRIPS or Paris Convention exists, however, for the next two types of damage which Joint Recommendation, art (4)(1)(b) suggests in items (ii) and (iii).

In Items (ii) and (iii) "the distinctive character of the well-known mark" is the focus of what is to be protected. This is clearly different from art 16(3) TRIPS's "interests of the owner". Clearly then, protecting an owner's interests is considered to not be congruent with protecting a trademark's distinctive character itself. This is buttressed by the fact that in art 4 JR, as opposed to art 16(3) TRIPS, there are no references to art 6*bis* PC. It follows that there would be no constraints to interpreting art 4(1)(b)(i) JR's "indicating a connection" and "interests of the owner" liberally to comprise detriment to distinctive character.

The Joint Recommendation accumulates a variety of harms with no clear concept what the policy rationale is supposed to be. The prerequisites for the protection against different types of harm are not properly separated. Admittedly, the Joint Recommendation is exclusively concerned with the international legal fate of well-known trademarks. However, there is no additional criterion that even a well-known trademark would at least need to demonstrate that it does at all possess qualitative distinctiveness in order to enjoy protection of its "distinctive character". Rather, it appears to be presumed that a well-known trademark 'automagically' possesses such a distinctiveness for which vast protection is justified. The distinction between quantitative public recognition and degrees of qualitative distinctiveness, though, is not to be

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conflicting mark. The reference to "unfair advantage" in this item is intended to give Member States flexibility in the application of this criterion. For example, reference to a well-known mark for commercially justifiable reasons, such as the sale of spare parts, is not unfair and should, thus, be allowed.", Explanatory Note 4.5.

<sup>6</sup> "Subparagraph (c) provides for an exception to the general principle contained in Article 2(3)(a)(iii), namely that a Member State shall not require knowledge of a mark by the public at large when determining whether a mark is a well-known mark. Knowledge of a mark by the public at large may, however, be required if that mark is to be protected under Article 4(1)(b)(ii) and (iii).", Explanatory Note 4.6.

<sup>64</sup> I.e. encompassing the instances of so-called affiliation, approval, or endorsement confusion. In addition, Explanatory Note 4.3 also mentions "... a down-market image, thereby reflecting negatively on the goodwill ..." as a type of harm to be covered by the expression "... the interests of the owner ..." in Joint Recommendation, article 4(1)(b)(i). This is not actual confusion but rather more along the lines of tarnishment of or detriment to a trademark's reputation as it is also found in the United States, United Kingdom provisions, as well as in TMA 2002 (NZ), s 89(1)(d).

elided.

## 6. Conclusions Pertaining to the International Tier

In summary, neither Paris Convention nor TRIPS oblige member states to implement protection against non-confusing uses upon dissimilar goods which could cause detriment to distinctive character. None of the binding international conventions calls for a concept of ‘dilution’. If, however, any of the signatory countries should choose to implement anything which goes beyond a confusion-based standard then they are certainly at liberty to do so<sup>65</sup>.

None of the international provisions appears to be based upon considerations of distinctiveness or uniqueness of a trademark. In fact, their threshold criterion for attaining protection is not the distinctiveness but rather the quantitative degree of public recognition of a trademark. The international provisions’ rationale seems to be that well-known trademarks are more likely the subject of attempts of free riding, unjust enrichment, and misappropriation. If this hypothesis is accepted as correct, then well-known trademarks will also be more prone to sponsorship, approval of goods, association, and licensing confusion by the public.<sup>66</sup> According to this tenet, the public will more readily believe that some well-known mark has been licensed or cross-marketed rather than an obscure or ignoble mark. An extended confusion concept as the basis for protecting well-known trademarks appears, hence, to be logically sound. The trouble with the actual implementation of the international conventions is that these purposes have not been properly expressed. Moreover, the distinct topics of a mark’s distinctive character, its reputation, and whether that trademark is well known are being conflated within one broad-brush approach of ‘anti-dilution’.

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<sup>65</sup> TRIPS Agreement, art 1(1).

<sup>66</sup> See, for instance, C-251/95 *SABEL BV v Puma AG, Rudolf Dassler Sport* [1997] ECR I-6191 (ECJ 11 November 1997) at [24]: “In that perspective, the more distinctive the earlier mark, the greater will be the likelihood of confusion. It is therefore not impossible that the conceptual similarity ... may give rise to a likelihood of confusion where the earlier mark has a particularly distinctive character, wither per se or because of the reputation it enjoys with the public.”; C-375/97 *General Motors Corp v Yplon SA* [1999] ECR I-5421 (ECJ 14 September 1999) at [23]: “It is only where there is a sufficient degree of knowledge of that mark that the public, when confronted by the later trade mark, may possibly make an association between the two trade marks, even when used for non-similar products or services, and that the earlier trade mark may consequently be damaged.” and *ibid* at [30]: “... if should be observed that the stronger the earlier mark’s distinctive character and reputation the easier it will be to accept that detriment has been caused to it.”.

## C. The Domestic Provisions

### 1. What Do the Domestic Provisions Define as Harm?

Having ascertained what the international provisions envisage as protection standard for well-known trademarks we will now turn towards the various provisions in the national jurisdictions under consideration in this Comment. We endeavour to compare the various criteria which the national jurisdictions have introduced with reference to the requirements a trademark must meet in order to qualify for the extended type of protection. Before comparing and contrasting the various criteria which have been advanced as qualification requirements for such extended protection we need to establish that the various norms do indeed endeavour to protect against essentially the same type of harm. Only if the domestic provisions are aimed at the same ‘mischief’ can the qualification criteria be discussed on a sound basis.

At face value the national jurisdictions’ provisions appear to protect against quite a disparate selection of things: tarnishment, blurring, taking unfair advantage, detriment to distinctive character, and detriment to repute or reputation. However, as will be demonstrated, at their core all these norms arrive at essentially the same result: next to other forms of harm they endeavour to protect a trademarks distinctive character in instances where there is a non-confusing subsequent use in connection with dissimilar goods or services.

#### **a) Harm as Defined in the European Union and the United Kingdom**

Protection in the United Kingdom is granted under s 10(3) Trade Marks Act 1994 (UK) (TMA 1994 (UK)) against subsequent use<sup>67</sup> of a trademark in the course of trade if “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.”<sup>68</sup>

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<sup>67</sup> There is a similar provision in s 5(3) Trade Marks Act 1994 (UK) [TMA 1994 (UK)] which allows for denial of registration of a trademark under the equivalent circumstances as s 10(3) stipulates for enjoining the use of a trademark.

<sup>68</sup> TMA 1994 (UK), s 10(3):

“(3) A person infringes a registered trade mark if he uses in the course of trade, in relation to goods or services, a sign which ... is identical to or similar to the trade mark 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. ...” (as amended by the Trade Marks (Proof of Use, etc.) Regulations 2004 (SI 2004\_946) of 05 May 2004).

The subsequent use can be enjoined<sup>69</sup> by the senior trademark's owner irrespective of the goods or services with respect to which the subsequent trademark is employed. Confusion or a connection between the trademarks or the goods and services and the senior trademark's owner is not required.

The United Kingdom provisions manifest an implementation into domestic law of the requirements of the First Council Directive 89/104/EEC to Approximate the Laws of the Member States Relating to Trade Marks as adopted by the Council of the European Communities of 21 December 1988 (EUTMDir). The Directive contains in its arts 4(4)(a)<sup>70</sup> and 5(2)<sup>71</sup> provisions to the same effect as ss 5(3) and 10(3) TMA 1994 (UK), prohibiting, respectively, registration or use of trademarks if that use were to be detrimental to a trademark's distinctive character or taking unfair advantage.

**b) Harm as Defined in the United States of America**

The relevant section in the United States is found in the trademark law on the Federal level, §1125(c)(1) of the Trademark Act of 1946 (US)<sup>72</sup> (Lanham Act).<sup>73</sup> Section §1125(c)(1) proscribes uses<sup>74</sup> which would be likely to cause “dilution by blurring” or “dilution by

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<sup>69</sup> Or the registration opposed.

<sup>70</sup> First Council Directive 89/104/EEC to Approximate the Laws of the Member States Relating to Trade Marks of 21 December 1988, [1989] Official Journal L 40 at 1 [EUTMDir]:

“Article 4

“Further grounds for refusal or invalidity concerning conflicts with earlier rights

“ ...

“4. Any Member State may furthermore provide that a trade mark shall not be registered or, if registered, shall be liable to be declared invalid where, and to the extent that:

“(a) the trade mark is identical with, or similar to, an earlier national trade mark within the meaning of paragraph 2 and is to be, or has been, registered for goods or services which are not similar to those for which the earlier trade mark is registered, where the earlier trade mark has a reputation in the Member State concerned and where the use of the later trade mark without due cause would take unfair advantage of, or be detrimental to, the distinctive character or the repute of the earlier trade mark; ... .”

<sup>71</sup> EUTMDir, art 5:

“Rights conferred by a trade mark

“ ...

“2. 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. ... .”

<sup>72</sup> An Act to Provide for the Registration and Protection of Trademarks Used in Commerce, to Carry Out the Provisions of Certain International Conventions, and for Other Purposes, approved 05 July 1946 (15 USC 22 1051 et seq) [Trademark Act of 1946 (US) or Lanham Act].

<sup>73</sup> The Lanham Act is codified in Title 15—Commerce and Trade, Chapter 22—Trademarks, of the United States Code at §§1051 et seq, as amended by the Federal Trademark Dilution Act of 1995 [FTDA 1995] and subsequently by the Federal Trademark Dilution Revision Act of 2006 [TDRA 2006].

<sup>74</sup> Opposition against applications for registration and application for cancellation of registered trademarks can



tarnishment” of a trademark which qualifies as famous. The same Section explicitly states that these forms of damage will be found to be present “regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.”<sup>75</sup>

This wording, on the face of it, might at first appear very different from the ones used in the EUTMDir and the United Kingdom provisions. A further enquiry into the definition sections of the Lanham Act however reveals that, in essence, the United States statute is aimed at the same kind of mischief as the United Kingdom and European Union provisions. Dilution by blurring is defined as “association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark.” Dilution by tarnishment is expounded to be “association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark.”<sup>76</sup>

### **c) Harm as Defined in New Zealand**

The appurtenant New Zealand provision is aimed at the same type of harm as the United

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be done under United States law by virtue of 15 USC 22 §1063 and §1064 respectively. Both Sections refer to §1125(c), stating that opposition to registration and/or petition for cancellation may be filed when injury or damage are to be apprehended, the potential damage including the conditions of dilution by blurring or tarnishment outlined in §1125(c).

<sup>75</sup>Lanham Act, 15 USC 22:

“§1125. False designations of origin, false descriptions, and dilution forbidden.

“ ...

“(c) Dilution by Blurring; Dilution by Tarnishment.

“(1) Injunctive relief.

“Subject to the principles of equity, the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner’s mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury. ... ”

<sup>76</sup>Lanham Act, 15 USC 22:

“§1125. False designations of origin, false descriptions, and dilution forbidden.

“ ...

“(2) Definitions.

“(A) ...

“(B) For purposes of paragraph (1), ‘dilution by blurring’ is association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark. In determining whether a mark or trade name is likely to cause dilution by blurring, the court may consider all relevant factors, including the following:

“(i) The degree of similarity between the mark or trade name and the famous mark.

“(ii) The degree of inherent or acquired distinctiveness of the famous mark.

“(iii) The extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark.

“(iv) The degree of recognition of the famous mark.

“(v) Whether the user of the mark or trade name intended to create an association with the famous mark.

“(vi) Any actual association between the mark or trade name and the famous mark.

“(C) For purposes of paragraph (1), ‘dilution by tarnishment’ is association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark. ... .“

Kingdom one. In New Zealand s 89(1)(d) TMA 2002 (NZ)<sup>77</sup> provides:

89 – Infringement where identical or similar sign used in course of trade

(1) A person infringes a registered trade mark if the person does not have the right to use the registered trade mark and uses in the course of trade a sign—

...

(d) identical with or similar to the registered trade mark in relation to any goods or services that are not similar to the goods or services in respect of which the trade mark is registered where the trade mark is well known in New Zealand and the use of the sign takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the mark.

(2) Subsection (1) applies only if the sign is used in such a manner as to render the use of the sign as likely to be taken as being use as a trade mark.

The Section hence also protects a trademark’s distinctive character and repute. The only difference to the United Kingdom<sup>78</sup> provisions is that the use made of the trademark is not required to be “without due cause”. This omission, however, does not materially change the ambit of the Section.

In contrast to the United Kingdom the New Zealand provisions concerning subsequent uses of a trademark and subsequent registrations of a trademark are very different from one another.

In contrast to s 89(1)(d) TMA 2002 (NZ) s 25(1)(c) is worded quite differently:

25 – Registrability of identical or similar trade mark

(1) The Commissioner must not register a trade mark (trade mark A) in respect of any goods or services if—

...

(c) it is, or an essential element of it is, identical or similar to, or a translation of, a trade mark that is well known in New Zealand (trade mark D), whether through advertising or otherwise, in respect of those goods or services or similar goods or services or any other goods or services if the use of trade mark A would be taken as indicating a connection in the course of trade between those other goods or services and the owner of trade mark D, and would be likely to prejudice the interests of the owner.

There are marked differences between this Section and s 89(1)(d). As concerns the type of harm which is discussed in this context, s 25(1)(c) looks towards prejudice with respect to the interests of the owner whereas s 89(1)(d) pertains to uses which would be injurious to the trademark or its distinctive character or reputation. Also, in contrast to s 89(1)(d), trademarks are eligible for protection under s 25(1)(d) irrespective of whether or not they are registered in

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<sup>77</sup> New Zealand Trade Marks Act 2002 (2002 No 49) [TMA 2002 (NZ)], as amended by Trade Marks Amendment Act 2003 (2003 No 100) and Trade Marks Amendment Act 2005 (2005 No 116).

<sup>78</sup> The same differences account for the EUTMDir.

New Zealand.<sup>79</sup>

Section 25(1)(c) appears to be decidedly more geared towards the Paris Convention and TRIPS specifications than s 89(1)(d). The scope of protection to which s 25(1)(c) potentially expands, though, seems to be wider than the international obligations. According to the above evaluation of art 16(3) TRIPS the included reference to art 6*bis* PC was crucial for limiting the interpretation of art 16(3) TRIPS to a confusion-based standard of protection. This limiting factor is not present in TMA 2002 (NZ), s 25(1)(c). The widest possible sense of s 25(1)(c) in combination of both the connection requirement as well as the interests of the owner could conceivably encompass all variants of ‘dilution’ and could consequently be of equally broad application as s 89(1)(d). For the purposes of this Comment it shall hence be assumed that protection against detriment of distinctive character can at least be accommodated within an interpretation of s 25(1)(c).

***d) Conclusions with Respect to the Harm Proscribed by the Various Domestic Provisions***

In summary, the scope of protection conferred by the various national provisions is, at its core, essentially the same: the possibility of protecting a trademark beyond its specification on the register and against non-competing and non-confusing uses. The underlying policy rationales and the remit of the provisions is identical. It is a form of protection which is enlarged as opposed to the traditional protection against confusion and which is afforded to trademarks which are – in contrast to ‘regular’ or ‘ordinary’ trademarks – somehow qualified with respect to some form of a consumer recognition criterion. At their core, all the provisions endeavour to protect the distinctive character, the reputation, or the repute of a qualifying trademark.

At this juncture we can also summarise that, by the results reached at this point, we have established, at the same time, that the particular domestic provisions each provide for a broader protection than would be necessary to ensure comity with the international obligations created by the Paris Convention and TRIPS. As we had ascertained earlier, these international conventions only impose upon their signatory countries a standard of expanded confusion. Every single one of the national provisions under scrutiny goes beyond those international obligations. None of the provisions requires demonstrating or prove of confusion

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<sup>79</sup> For these differences and a comparison of further differences in the requirements between TMA 2002 (NZ), s 25(1)(c) and s 89(1)(d) compare P Sumpter *Trade Marks in Practice* (Lexis Nexis, Wellington, 2004) at 93–94.

of source, of confusion derivatives, of competition or of relatedness of goods or services. The sole exception could possibly be s 25(1)(c) TMA 2002 (NZ) if one decide for a narrow construction of “indicating a connection” and “interests of the owner.”

## **2. What Are the Requirements to Qualify for the Protection?**

Having ascertained that the harm contemplated by the respective provisions is essentially the same we can now turn towards the discussion, comparison and evaluation of the respective criteria relating to the eligibility for protection.

When looking only superficially at the respective New Zealand, United Kingdom and United States provisions, one might gain the impression that the jurisdictions have chosen to tie the granting of broadened protection to entirely different standards. The provisions appear to require quite a divergent variety of qualification criteria. While New Zealand chooses to protect trademarks which are well known the United Kingdom requires a trademark to have a reputation and in the United States, finally, a trademark needs to meet the qualification criterion of being famous.

The New Zealand standard of “well known” as well as the United States standard of “famous” quite obviously point towards a requirement of a certain level of consumer recognition, namely, a quantitative threshold. This is, however, not so plain for the United Kingdom provisions and, for that matter, the underlying Articles of the EUTMDir. The trademark’s owner, here, must show the mark to have a “reputation” in order to be afforded the appurtenant scope of protection. In this regard, reputation could mean both, a qualitative as well as a quantitative gatekeeper criterion.

It will be the task in the following Section to ascertain, what exactly these various criteria entail.

## **3. The United Kingdom and European Union Provisions**

### ***a) Requirements for Attaining a “Reputation” in the European Union***

As introduced above, the relevant United Kingdom provision is s 10(3)<sup>80</sup> TMA 1994 (UK).<sup>81</sup>

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<sup>80</sup> TMA 1994 (UK), s 10(3):

“(3) A person infringes a registered trade mark if he uses in the course of trade, in relation to goods or services, a sign which ... is identical to or similar to the trade mark where the trade mark has a reputation in the United

<sup>82</sup> The pertaining United Kingdom provision is a contemporary to the 1994 TRIPS Agreement. Nevertheless, the United Kingdom threshold criterion of “reputation” pre-dates TRIPS. The reputation criterion is based on the EUTMDir which had already been adopted in 1989. On the other hand, TRIPS sources its criterion of “well known” from the Paris Convention which, in turn, is older than the EUTMDir. What exactly the reasons are that the EUTMDir – and, in its wake, the United Kingdom – chose “reputation” instead of “well known” remained elusive in the course of research undertaken for this Comment. The contrast in wording is even more bewildering since the EUTMDir explicitly notes that “all the Member States of the Community are bound by the Paris Convention” and that because of that “it is necessary that the provisions of this Directive are entirely consistent with those of the Paris Convention”.<sup>83</sup>

Advancing upon the findings made above with regard to the scope and policy rationale of the protection afforded by the Paris Convention one possible explanation is that not only the scope but also the type of protection conferred by art 5(2) EUTMDir is an entirely different one than the Paris Convention free riding policy rationale and confusion concept. Therefore, the authors of art 5(2) perhaps felt that it be neither necessary nor adequate to use the Paris Convention’s “well known” standard for the kind of protection they established by virtue of the EUTMDir. This appreciation can also be buttressed by the fact that – in contradiction to the Paris Convention’s policy rationale – the EUTMDir’s protection in art 5(2) is only bestowed upon registered trademarks. In addition, that this was viewed as an entirely different type of protection and not only as a different scope for a certain category of marks is evinced by the aspect that TMA 1994 (UK) contains a separate provision for Paris-Convention and TRIPS-Agreement type trademarks in its s 56. No use or registration but only the consumer recognition threshold of “well known” is required for Convention trademarks in order to enjoin subsequent uses. However, protection in s 56 is restricted to such uses which

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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. . . .”

<sup>81</sup> Since the provision regarding the opposition to or cancellation of registration in s 5(3) TMA 1994 (UK) is essentially identical the focus of the further discussion will be upon the section enjoining the use of the subsequent sign.

<sup>82</sup> Section 10(3) manifests the implementation of art 5(2) EUTMDir into the British domestic legal system.

<sup>83</sup> EUTMDir, 12th recital. Also, there is a provision in art 4(2)(d) EUTMDir which stipulates that “earlier mark” also encompasses a prior well-known mark in the sense of art 6*bis* Paris Convention and consequently art 4(1) and (2) allow for refusal of registration on the ground that a likelihood of confusion would exist with a well-known trademark. The following art 4(4)(a) however then only contemplates marks with a reputation for the expanded, non-confusion type protection against registration. Article 5(2) EUTMDir, finally, does not provide for Paris Convention type trademarks at all.

are “likely to cause confusion.”<sup>84</sup>

In consequence, the “well known” standard of Paris Convention and TRIPS will not be of any avail for ascertaining what exactly is comprised by “reputation” according to the standard of the EUTMDir. The requirement of “reputation” in s 10(3) TMA 1994 (UK) could, at least on the face of the Section’s wording, be decided in either a qualitative sense or in a merely quantitative sense.

For some time it appeared, indeed, questionable whether “reputation” in the EUTMDir was indeed to be interpreted as a quantitative threshold criterion of how large a percentage of the consuming public is aware of or knows the mark under scrutiny. The Directive itself “makes no attempt at a definition”.<sup>85</sup> The European Court of Justice decided this matter in *General Motors Corp v Yplon SA*.<sup>86</sup> The Court held that some sort of knowledge threshold needed to

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<sup>84</sup> TMA 1994 (UK), s 56:

“(1) References in this Act to a trade mark which is entitled to protection under the Paris Convention or the WTO agreement as a well known trade mark are to a mark which is well- known in the United Kingdom as being the mark of a person who-

“(a) is a national of a Convention country, or

“(b) is domiciled in, or has a real and effective industrial or commercial establishment

“in, a Convention country, whether or not that person carries on business, or has any goodwill, in the United Kingdom. References to the proprietor of such a mark shall be construed accordingly.

“(2) The proprietor of a trade mark which is entitled to protection under the Paris Convention or the WTO agreement as a well known trade mark is entitled to restrain by injunction the use in the United Kingdom of a trade mark which, or the essential part of which, is identical or similar to his mark, in relation to identical or similar goods or services, where the use is likely to cause confusion.

“This right is subject to section 48 (effect of acquiescence by proprietor of earlier trade mark).

(3) Nothing in subsection (2) affects the continuation of any *bona fide* use of a trade mark begun before the commencement of this section.”

One small, additional marginal note must be made because the Author simply cannot help but to point out yet another peculiarity which is, yet again, paradigmatic of the chaotic state the law of ‘dilution’ is in: Whereas for s 10(3) TMA 1994 (UK) the mark must be registered in order to enjoin non-confusing uses irrespective of the similarity of the goods or services, this is not so with respect to the relative ground for refusal of registration. According to s 6(1)(c) TMA 1994 (UK) marks which are “entitled to protection under the Paris Convention or the WTO agreement as a well known trade mark” are also an “earlier trade mark” in the sense of s 5(3) TMA 1994 (UK). It follows, that a “well known” trademark does not need to be registered in order to prevent subsequent registrations in case of non-confusing uses upon dissimilar goods. Conversely, such a trademark would, however, need to be registered to achieve the same protection against mere use. The “well known” trademark, however, additionally would need to satisfy the requirement of having a “reputation” within the United Kingdom in order to profit from the protection against registration outlined in s 5(3) TMA 1994 (UK).

<sup>85</sup> C-375/97 *General Motors Corp v Yplon SA* (Opinion AG Jacobs) at [2]. The only hint as to how “reputation” is to be viewed can be taken from the Directive’s 9th recital which expounds that the facilitation of “the free circulation of goods and services” is not meant to “prevent the Member States from granting at their option extensive protection to those trade marks which have a reputation” (EUTMDir, 9th recital). The only thing this clarifies, though, is that “reputation” is to be viewed in connection to granting broader protection to such marks. With respect to a definition of “reputation” the Recital remains devoid of any meaning.

<sup>86</sup> C-375/97 *General Motors Corp v Yplon SA* [1999] 3 CMLR 427 (ECJ 14 September 1999). Here the Court was called upon to decide by way of a preliminary ruling upon a reference to the Court under art 177 of the EC Treaty (now article 234 EC) how “reputation” would have to be construed within the context of art (5) EUTMDir. Consequently, this also decided the matter in regard to s 10(3) TMA 1994 (UK).

be overcome for a mark to possess the requisite “reputation”:<sup>87</sup>

The degree of knowledge required must be considered to be reached when the earlier mark is known by a significant part of the public concerned by the products or services covered by that trade mark.

Possibly the ECJ desired comity with art 16(2) TRIPS which also stipulates that “knowledge of the trademark in the relevant sector of the public” be sufficient. This does, however, not emerge clearly from the ECJ’s decision.

In defining reputation in this way, and hence denying it to be a qualitative criterion, the Court also gave its reason for doing so:<sup>88</sup>

It is only where there is a sufficient degree of knowledge of that mark that the public, when confronted by the later mark, may possibly make an association between the two trade marks, even when used for non-similar products or services, and that the earlier trade mark may consequently be damaged.

And the Court also stated that even though this was a quantitative measurement – as opposed to a qualitative one – this knowledge threshold could not be one of a fixed percentage.<sup>89</sup>

Since the Court decided against a fixed percentage as the threshold for ascertaining a mark’s reputation it chose to also hand down a non-exhaustive guideline as to which factors needed to be taken into consideration by the national courts when evaluating the facts of a case for a trademark’s reputation:<sup>90</sup>

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

To define the requisite recognition as by “the public concerned by the products or services covered by that mark” sets the threshold to attain this vast form of protection at a relatively low level in comparison to, for instance, demanding that the trademark be known by the general public at large.

The quantitative knowledge threshold requirement leaves unprotected reputable and highly distinctive, if ignoble, trademarks. It can hardly be maintained that in such a situation the

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<sup>87</sup> C-375/97 *General Motors Corp v Yplon SA* (ECJ 14 September 1999) at [26].

<sup>88</sup> C-375/97 *General Motors Corp v Yplon SA* (ECJ 14 September 1999) at [23].

<sup>89</sup> “It cannot be inferred from either the letter or the spirit of Article 5(2) of the Directive that the trade mark must be known by a given percentage of the public so defined”; C-375/97 *General Motors Corp v Yplon SA* (ECJ 14 September 1999) at [25].

<sup>90</sup> C-375/97 *General Motors Corp v Yplon SA* (ECJ 14 September 1999) at [27].

ECJ's appraisal is correct that the reputation or distinctive character of such a trademark could not be damaged among the customer base which the trademark does possess just because the mark is held to not muster a "sufficient degree of knowledge".

**b) *The Dissimilar/Similar Goods" Story in Connection with the European Union Provisions***

For a considerable period of time it was also in doubt whether the "extensive protection"<sup>91</sup> was to be granted only against use upon dissimilar goods or services or whether protection against identical and similar goods and services was also encompassed. The reason is that the wording in the pertaining articles of the EUTMDir is: "not similar".<sup>92</sup> The way the Directive framed its Articles was diligently reflected within ss 5(3)<sup>93</sup> and 10(3)<sup>94</sup> TMA 1994 (UK) before the amendments introduced in 2004.<sup>95</sup>

The ECJ, in its decisions handed down in *Davidoff & Cie SA and Zino Davidoff SA v Gofkid Ltd*<sup>96</sup> and – confirming this – in *Adidas-Salomon AG and Adidas Benelux BV v Fitnessworld*

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<sup>91</sup> EUTMDir, 9th recital.

<sup>92</sup> According to art 4(4)(a) EUTMDir "a trade mark shall not be registered or, if registered, shall be liable to be declared invalid where and to the extent that: the trade mark ... is to be, or has been, registered for goods or services which are *not similar* to those for which the earlier trade mark is registered," (emphasis added). Article 5(2) of the Directive is similarly phrased, allowing trademark owners to enjoin subsequent use of an identical or similar sign where the use of the trademark is made "in relation to goods or services which are *not similar* to those for which the trade mark is registered," (emphasis added).

<sup>93</sup> TMA 1994 (UK), s 5:

"Relative grounds for refusal of registration

" ...

"(3) A trade mark which—

"(a) is identical with or similar to an earlier trade mark,

"and

"(b) is to be registered for goods or services which are *not similar* to those for which the earlier trade mark is protected,

"shall not be registered if, or to the extent that, the earlier trade mark has a reputation in the United Kingdom (or, in the case of a Community trade mark, in the European Community) and the use of the later mark without due cause would take unfair advantage of, or be detrimental to, the distinctive character or the repute of the earlier trade mark. ... ." (emphases added).

<sup>94</sup> TMA 1994 (UK), s 10:

"Infringement of a registered trade mark

"(3) A person infringes a registered trade mark if he uses in the course of trade a sign which—

"(a) is identical with or similar to the trade mark,

"and

"(b) is used in relation to goods or services which are *not similar* to those for which the trade mark is registered, "where the trade mark has a reputation in the United Kingdom and the use of the sign, being without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark. ... ." (emphases added).

<sup>95</sup> Trade Marks (Proof of Use, etc.) Regulations 2004 (SI 2004\_946) (UK) of 05 May 2004.

<sup>96</sup> C-292/00 *Davidoff & Cie SA and Zino Davidoff SA v Gofkid Ltd* [2003] ECR I-389 (ECJ 09 January 2003).



*Trading Ltd*<sup>97</sup> was called upon to consider art 5(2) EUTMDir.<sup>98</sup>

The problem the Court faced was that the Article's rationale is to confer "extensive protection to those trade marks which have a reputation"<sup>99</sup> as opposed to 'regular', 'normal', or 'ordinary' trademarks for which "likelihood of confusion ... constitutes the specific condition for"<sup>100</sup> protection. This distinction between two types of trademarks and the difference in the scope of protection it entails is a datum within the Directive – irrespective of how "reputation" is defined. It must thus be ensured that throughout marks with a reputation enjoy a broader scope of protection than 'ordinary' marks.

By way of *a fortiori argumendo* the ECJ decided that if it was accepted that marks with a reputation would suffer harm in the absence of confusion if the sign is used upon dissimilar products, then – by extension – the mark with a reputation was even more in need of protection in cases where use of such a mark with a reputation is made upon identical or similar goods. Consequently, the Article's type of broader protection was held to be applicable not only in cases of use upon dissimilar goods but also in instances where such use is made upon identical or similar goods.

These decisions precipitated the amendments to TMA 1994 (UK), s 10(3) by means of the Trade Marks (Proof of Use, etc.) Regulations 2004<sup>101</sup>. The words "not similar" were removed from s 5(3) as well as from s 10(3) TMA 1994 (UK) which lead to the wording in which TMA 1994 (UK), s 10(3) presents itself in its currently drafted form.

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<sup>97</sup> C-408/01 *Adidas-Salomon AG and Adidas Benelux BV v Fitnessworld Trading Ltd* [2003] ECR I-2537 (ECJ 23 October 2003).

<sup>98</sup> In the further discussion we shall limit our considerations to EUTMDir, art 5. Equivalent deliberations, however, do equally apply to EUTMDir, art 4.

<sup>99</sup> EUTMDir, 9th recital.

<sup>100</sup> EUTMDir, 10<sup>th</sup> recital.

<sup>101</sup> United Kingdom Statutory Instrument, SI 2004/946 of 05 May 2004. In the Instrument's Explanatory Notes: "Regulation 7

"repeals section 5(3)(b) and amends section 10(3) of the [Trade Marks] Act [1994 (UK)]. These amendments implement the decision of the European Court of Justice in *Davidoff & Cie SA and Zino Davidoff SA v Gofkid Ltd* of 9th January 2003 (C-292/00) which was confirmed by its decision in *Adidas-Salomon AG and Adidas Benelux BV v Fitnessworld Trading Ltd* of 23rd October 2003 (C-408/01). Those decisions determined that Article 5(2) of the Directive, which on the face of it, grants a right to the proprietor of a trade mark to prevent third parties from using an identical or similar trade mark in relation to goods or services which are not similar where the earlier trade mark has a reputation and the use of that sign takes unfair advantage or is detrimental to the distinctive character of that earlier trade mark, also applies to goods or services which are similar or identical to those for which the earlier trade mark is registered."

**c) Does s 10(3) TMA 1994 (UK) Feature an Implied Requirement of Confusion?**

Initially there was also doubt whether s 10(3) TMA 1994 (UK) impliedly required consumer confusion to be present. As opposed to the United States norm the consumer confusion requirement traditionally found in trademark law is not explicitly ruled out<sup>102</sup> in s 10(3) but simply absent. A systematic argument was that because subsections (1) and (2) of s 10 required confusion to be present this also accounted – albeit impliedly – for subsection (3).<sup>103</sup>

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Demanding confusion would, however, have countervailed the extended protection for trademarks with a reputation which was one of the EUTMDir’s main goals. Consequently, the ECJ clarified expressly in its judgment in *SABEL BV v Puma AG*<sup>105</sup> that art 5(2) does “not require proof of likelihood of confusion, even where there is no similarity between the goods in question.”<sup>106</sup>

**4. The United States Provisions**

The relevant provisions in the United States first found their way into the federal trademark law of the Lanham Act when Congress passed the Federal Trademark Dilution Act of 1995<sup>107</sup> (FTDA 1995). Subsequently the provisions implemented by the FTDA 1995 were, yet again, amended themselves by virtue of the Trademark Dilution Revision Act of 2006<sup>108</sup> (TDRA 2006).

The FTDA 1995 states its rationale as implementing “certain revisions relating to the

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<sup>102</sup> The United States section explicitly states that “regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury” the owner of a qualifying mark shall be entitled to an injunction, Lanham Act, 15 USC 22 §1125(c)(1).

<sup>103</sup> “It may be noted at the outset that, in contrast to Article 5(1)(b), there is no requirement under Article 5(2) of a likelihood of confusion on the part of the public. It had been thought in some quarters that a requirement of confusion was implicit in Article 5(2) since it seemed paradoxical that confusion should be required under Article 5(1)(b) where the respective goods or services were identical or similar, but not required under Article 5(2) in relation to dissimilar goods or services. However the issue was resolved by the Court in its judgment in *SABEL*, which made it clear, when ruling on Article 5(1)(b), that Article 5(2) did not require confusion.”, C-375/97 *General Motors Corp v Yplon SA* (Opinion AG Jacobs) at [26].

<sup>104</sup> Perhaps the argument for implied confusion was also derived from the EUTMDir’s 10th Recital which states that for “the protection afforded by the registered trade mark, ... the likelihood of confusion ..., constitutes the specific condition for such protection”.

<sup>105</sup> C-251/95 *SABEL BV v Puma AG, Rudolf Dassler Sport* (ECJ 11 November 1997).

<sup>106</sup> C-251/95 *SABEL BV v Puma AG, Rudolf Dassler Sport* (ECJ 11 November 1997) at [20].

<sup>107</sup> This is the official short title (Federal Trademark Dilution Act of 1995 (HR 1295, 104th) [FTDA 1995], s 1–Short Title).

<sup>108</sup> Trademark Dilution Revision Act of 2006 (US) (HR 684, 109th), s 1(a) Short Title.

protection of *famous* marks”<sup>109</sup> and FTDA 1995, s 3 is entitled “Remedies for Dilution of *Famous* Marks”.<sup>110</sup> The FTDA 1995 was adopted by Congress in the context of establishing a set of standards for the extended protection of famous trademarks on the domestic as well as on the international level.<sup>111</sup> Clearly, the policy considerations behind the FTDA 1995 are then to protect trademarks which enjoy a certain standing with consumers in the market place. Additionally, there is a tendency to protect the effort and investment in promoting and advertising a trademark since pretty much all criteria in FTDA 1995, s 3(c)(1)(A)-(H) appear to reward “affirmative action”<sup>112</sup> by the trademark owner in order to establish the trademark by virtue of marketing. This allows the assumption that the FTDA 1995 leans very much to the protection of the so-called investment function, protecting trademark owners’ investment of skill, time, and money.<sup>113</sup>

Significantly, this earlier version prior to the 2006 TDRA amendments does not distinguish between dilution by blurring and dilution by tarnishment but simply grants an injunction against the use of a subsequent sign “if such use ... causes dilution of the distinctive quality of the mark.”<sup>114</sup> ‘Dilution’ itself is defined in the FTDA 1995, s 4<sup>115</sup> as:

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<sup>109</sup> FTDA 1995, preliminary note (emphasis added).

<sup>110</sup> Emphasis added.

<sup>111</sup> Compare DE Mangis “When Almost Famous Just Isn’t Famous Enough: Understanding Fame in the Federal Trademark Dilution Act as a Term of Art Requiring Minimal Distinctiveness” (2002) 21 *Review of Litigation* 455 at 457, 462 and [n 34] where he renders the respective statements of several Congressional Representatives.

<sup>112</sup> DE Mangis “When Almost Famous Just Isn’t Famous Enough: Understanding Fame in the Federal Trademark Dilution Act as a Term of Art Requiring Minimal Distinctiveness” (2002) 21 *Review of Litigation* 455 at 482.

<sup>113</sup> EB Staffin “The Dilution Doctrine: Toward a Reconciliation with the Lanham Act” (1995) 6 *Fordham Intellectual Property Media and Entertainment Law Journal* 105 at 106-107: “The Lanham Act also has an often overlooked second purpose: namely, to protect the trademark owner’s investment of ‘energy, time and money in presenting to the public the product from the misappropriation ‘by pirates and cheats.’ ”, Staffin quoting *Statement of the United States Trademark Association In Support of Section 1883 (De Concini) The Trademark Law Revision Act 1988*, reprinted in (1988) 78 *Trademark Reporter* 382 at 384–385: “The purpose underlying any trade-mark statute is two-fold. One is to protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favourably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark has spent energy, time and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats. This is a well-established rule of law protecting both the public and the trade-mark owner.”

<sup>114</sup> FTDA 1995, s 3:

“Remedies for Dilution of Famous Marks.

“(a) Remedies—

“Section 43 of the Trademark Act of 1946 (15 USC 22 1125) is amended by adding at the end the following new subsection:

“(c)

“(1) The owner of a famous mark shall be entitled, subject to the principles of equity and upon such terms as the court deems reasonable, to an injunction against another person’s commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark, and to obtain such other relief as is provided in this subsection. In determining whether a mark is

The term ‘dilution’ means 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.

It is not entirely clear whether or not the scope of ‘dilution’ as defined in the section encompassed situations of tarnishment, namely, where a trademark’s reputation is sullied.<sup>116</sup>

In addition, complications interpreting the FTDA 1995 arose because the provision endeavours to protect famous trademarks but then proceeds – within the same subsection – to

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distinctive and famous, a court may consider factors such as, but not limited to—

“(A) the degree of inherent or acquired 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 03, 1881, or the Act of February 20, 1905, or on the principal register.

“(2) In an action brought under this subsection, the owner of the famous mark shall be entitled only to injunctive relief unless the person against whom the injunction is sought willfully intended to trade on the owner’s reputation or to cause dilution of the famous mark. If such willful intent is proven, the owner of the famous mark shall also be entitled to the remedies set forth in section 35(a) and 36, subject to the discretion of the court and the principles of equity.

“(3) ...

“(4) The following shall not be actionable under this section:

“(A) Fair use of a famous mark by another person in comparative commercial advertising or promotion to identify the competing goods or services of the owner of the famous mark.

“(B) Noncommercial use of a mark.

“(C) All forms of news reporting and news commentary.

“(b) Conforming Amendment—

“The heading for Title VIII of the Trademark Act of 1946 is amended by striking ‘and False Descriptions’ and inserting ‘, False Descriptions, and Dilution.’”

<sup>115</sup> FTDA 1995, s 4:

“Section 4. Definition.

“Section 45 of the Trademark Act of 1946 (15 USC 22 1127) is amended by inserting after the paragraph defining when a mark shall be deemed to be ‘abandoned’ the following:

“The term ‘dilution’ means 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.”

<sup>116</sup> *Victor Moseley and Cathy Moseley, dba Victor’s Little Secret (Petitioners) v V Secret Catalogue Inc et al* 537 US 418 (2003) at 432: “Whether it [tarnishment] is actually embraced by the statutory text, however, is another matter. Indeed, the contrast between the state statutes, which expressly refer to both ‘injury to business reputation’ and to ‘dilution of the distinctive quality of a trade name or trademark’, and the federal statute which refers only to the latter, arguably supports a narrower reading of the FTDA.” (citing RN Klieger “Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection” (1997) 58 University of Pittsburgh Law Review 789 at 812–813 and [n 132]).

hand down a non-exhaustive list of criteria which courts ought to consider “[i]n determining whether a mark is *distinctive and famous*”.<sup>117</sup> It was hence uncertain if it would be sufficient for a trademark to be famous or whether the mark would, in addition, also need to be distinctive in a qualitative sense. Another problem was that, if the trademark needed to also be distinctive, it was unclear whether the trademark would be required to be inherently distinctive or whether it would suffice for the trademark to have acquired distinctiveness by virtue of secondary meaning through use.

Essentially, it was at large, whether – according to the statutory language – next to famousness the mark’s distinctiveness was an additional, independent requirement or whether distinctiveness (inherent or acquired) was only one out of several considerations which needed to be taken into account within the statutorily defined and outlined multi-factor test for famousness.<sup>118</sup>

As a result of the mentioned lack of clarity<sup>119</sup> in the FTDA 1995 there was considerable disagreement between the various courts of the Federal Circuits in the United States during the pre-TDRA 2006 era.<sup>120</sup> This disagreement between the Circuits was eventually ended by both the decision of the US Supreme Court in *Victor Moseley and Cathy Moseley, dba Victor’s Little Secret (Petitioners) v V Secret Catalogue Inc et al*<sup>121</sup> (*Victor Moseley v V Secret*) and the enactment of the TDRA 2006. The latter was eventuated by and designed to overturn the result of the Supreme Court decision in *Victor Moseley v V Secret*.

The Supreme Court did not directly address the issue whether or not distinctiveness was to be

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<sup>117</sup> FTDA 1995, s 3 (now 15 USC 22 §1125 (c)(1)) (emphases added).

<sup>118</sup> MR Becker “Streamlining the Federal Trademark Dilution Act to Apply to Truly Famous Marks” (2000) 85 Iowa Law Review 1387 at 1452–1453, arguing that distinctiveness should be an element and not a mere factor.

<sup>119</sup> Xuan-Thao N Nguyen “A Circus among the Circuits: Would the Truly Famous and Diluted Performer Please Stand Up? The Federal Trademark Dilution Act and its Challenges” (2000) 1 Journal of Intellectual Property 158 at 161–162, denoting the paucity of the legislative record as chief reason for the disagreement between the Circuit Courts. One of the causes perhaps also being that “[t]he FTDA passed the House of Representatives under suspension of rules on Dec. 16, 1995 and was passed by the Senate (without benefit of any hearing) on Dec. 26, 1995.”, J Gilson *Trademark Protection & Practice* (looseleaf ed, Lexis Nexis, Newark NJ) at [§5.12.[1][c]]

<sup>120</sup> The entirety of the disputes between the Circuits is thoroughly canvassed by DE Mangis “When Almost Famous Just Isn’t Famous Enough: Understanding Fame in the Federal Trademark Dilution Act as a Term of Art Requiring Minimal Distinctiveness” (2002) 21 Review of Litigation 455. Compare also the following decisions; *Nabisco Inc v PF Brands Inc* 191 F 3d 208 (2d Cir 1999) at 216; *Sporty’s Farm LLC v Sportsman’s Mkt Inc* 202 F 3d 489 (2d Cir 2000) at 497; *TCPIP Holding Co Inc v Haar Communications Inc* 244 F 3d 88 (2d Cir 2001); *IP Lund Trading v Kohler Co* 163 F 3d 27 (1st Cir 1998) at 4647; *Wal-Mart Stores Inc v Samara Bros Inc* 529 US 205 (2000) at 216; *Time Mirror Magazines v Las Vegas Sports News LLC* 212 F 3d 157 (3rd Cir 200) at 165–167; *Avery Dennison Corp v Sumpton* 189 F 3d 868 (9th Cir 1999).

<sup>121</sup> 537 US 418 (2003).

interpreted as a separate requirement next to the trademark being famous. Rather, the decision focussed upon whether actual dilution needed to be proved under the FTDA 1995 or whether proof of likelihood thereof was sufficient. However, the Supreme Court's majority vote did benevolently advert to the opinion which the Second Circuit had adopted in 1999 in *Nabisco Inc v PF Brands Inc*<sup>122</sup> that distinctiveness, next to fame, was a requirement, not a mere consideration. This was uttered in an obiter dictum because it did not immediately apply to the context of the Supreme Court's decision. However, it appears reasonable to assume that the Supreme Court endorsed the Second Circuit's view, the Supreme Court opining that according to "those standards, it was necessary to discuss the two issues that the District Court had not specifically addressed—whether respondents' mark is 'distinctive', and whether relief could be granted before dilution has actually occurred."<sup>123</sup>

**a) The Trademark Dilution Revision Act of 2006**

The TDRA 2006 was enacted "to amend the Trademark Act of 1946 with respect to dilution by blurring or tarnishment."<sup>124</sup> Section 1125(c)(1) Lanham Act now requires that the famous trademark be distinctive in order to benefit from the protection against 'dilution'. However, the TDRA 2006 clarifies that whether "inherently or through acquired distinctiveness" does not make any difference as long as there is some degree of distinctiveness.<sup>125</sup> This will

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<sup>122</sup> *Nabisco Inc v PF Brands Inc* 191 F 3d 208 (2d Cir 1999) at 216.

<sup>123</sup> *Victor Moseley and Cathy Moseley, dba Victor's Little Secret (Petitioners) v V Secret Catalogue Inc et al* 537 US 418 (2003) at 425–426.

<sup>124</sup> Trademark Dilution Revision Act of 2006 (US) (HR 684, 109th), preliminary note.

<sup>125</sup> TDRA 2006 "Section 2. Dilution by Blurring; Dilution by Tarnishment.

"Section 43 of the Trademark Act of 1946 (15 USC 22 1125) is amended—

"(1) by striking subsection (c) and inserting the following:

"(c) Dilution by Blurring; Dilution by Tarnishment.

"(1) Injunctive Relief.

"Subject to the principles of equity, the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner's mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.

"(2) Definitions.

"(A) For purposes of paragraph (1), a mark is famous if it is widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark's owner. In determining whether a mark possesses the requisite degree of recognition, the court may consider all relevant factors, including the following:

"(i) The duration, extent, and geographic reach of advertising and publicity of the mark, whether advertised or publicized by the owner or third parties.

"(ii) The amount, volume, and geographic extent of sales of goods or services offered under the mark.

"(iii) The extent of actual recognition of the mark.

"(iv) Whether the mark was registered under the Act of March 03, 1881, or the Act of February 20, 1905, or on the principal register.

"(B) For purposes of paragraph (1), 'dilution by blurring' is association arising from the similarity between a

supposedly be the same degree of distinctiveness that would be required for registrability under the Lanham Act.

Importantly, the Section defines famousness to only be met if the trademark “is widely recognized by the general consuming public”. Accordingly, reputation, recognition or knowledge which are confined to only a niche market will not be sufficient to establish fame under the TDRA 2006. Arguably, by establishing such a relatively high threshold, the United States could be held to be in breach of TRIPS since under TRIPS, art 16(2) “knowledge of the trademark in the relevant sector of the public” ought to be sufficient to attain the standard – and consequently the protection – of “well known”. Whether because of the current statutorily defined famousness standard the United States are in breach of TRIPS depends on two factors: first, the relative difference in the degrees of consumer appreciation between a well-known trademark and a famous trademark. The requisite levels of public knowledge may not be the same and what the respective variants entail is essentially at large. Secondly, the United States may always be able to amend the lack of protection under statutory law by affording protection to well-known marks by virtue of their common-law action for unfair competition.<sup>126</sup>

#### **b) Conclusions as Regards the United States Provisions**

Just as in the Joint Recommendation, in the international conventions and in the European Trade Mark Directive, the United States provisions do not follow a clear concept as regards nomenclature and separation of different types of harm. Detriment to a trademark’s distinctive character (“dilution by blurring”) and activities which might sully a trademark’s reputation

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mark or trade name and a famous mark that impairs the distinctiveness of the famous mark. In determining whether a mark or trade name is likely to cause dilution by blurring, the court may consider all relevant factors, including the following:

“(i) The degree of similarity between the mark or trade name and the famous mark.

“(ii) The degree of inherent or acquired distinctiveness of the famous mark.

“(iii) The extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark.

“(iv) The degree of recognition of the famous mark.

“(v) Whether the user of the mark or trade name intended to create an association with the famous mark.

“(vi) Any actual association between the mark of trade name and the famous mark.

“(C) For purposes of paragraph (1), ‘dilution by tarnishment’ is association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark.

“ ...

“Section 3. Conforming Amendments.

“ ...

“(e) Definitions.

“Section 45 of the Trademark Act of 1946 (15 USC 22 1127) is amended by striking the definition relating to the term ‘dilution.’”

<sup>126</sup> The United States counterpart to the United Kingdom action for passing off.

(“dilution by tarnishment”) are indiscriminately summarised under the term ‘dilution’. The same accounts for the gatekeeper criterion for attaining the extended type of protection. All is hinged upon a quantitative consumer recognition threshold. No heightened degree of distinctiveness, not even a certain qualitative element of reputation is demanded of a trademark as long as it manages to pass the knowledge requirement. In contrast to the European Union and the international provisions the United States does, however, at least demand a minimal degree of acquired distinctiveness for attaining the extended protection instead of solely hinging this upon a quantitative threshold.

## **5. The New Zealand Provision in Section 89(1)(d) TMA 2002: a Special Kind of Interpretative Quandary**

During the course of research for this Comment it proved highly difficult to ascertain the legislative history of how exactly subsection (d) found its way into s 89(1) TMA 2002 (NZ). This uncertainty is to be attributed to the paucity of material with respect to the drafting history. Not only is it relatively obscure how s 89(1)(d) entered the drafting process. It also remains at large how the Section found its final wording.

Issues are exacerbated on the interpretative front due to the fact that the corresponding provision in s 25(1)(c) TMA 2002 (NZ) has been enacted in a phraseology which significantly differs from s 89(1)(d). In contrast, the provisions in the respective articles of the EUTMDir are worded almost identical and the United States, in their opposition and cancellation provisions, simply incorporate the relevant definition sections via reference to the provisions relating to subsequent use.

Matters with respect to understanding ss 25 and 89 TMA 2002 (NZ) become even more intricate because trademark legislation in New Zealand underwent two major changes within the time span of merely a decade. Not only was an entirely new statutory trademark law enacted by virtue of the TMA 2002 (NZ) but the prior TMA 1953 (NZ) had already been amended and considerable novelties had been incorporated by virtue of the Trade Marks Amendment Act 1994 (NZ). The 1994 Amendments had been adopted to implement New Zealand’s TRIPS obligations<sup>127</sup> into the former 1953 legislation. However, s 25(1)(a) and (b)

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<sup>127</sup> P Sumpter *Trade Marks in Practice* (Lexis Nexis, Wellington, 2004) at 84, stating that the 2002 New Zealand legislation “... is an amalgamation containing some of the previous legislation (both the original 1953 model and TRIPS influenced 1995 amendments), portions of the UK Act and so on.”



and s 89(1)(a) through (c) TMA 2002 (NZ) relatively closely mirror the amended version of the 1953 Act whereas this is not so for s 25(1)(c) and s 89(1)(d) TMA 2002 (NZ). The last two introduce notable additions – perhaps even aberrations – in comparison with the pre-2002 state of the law. This complicates a proper appraisal, assessment and interpretation of those Sections.

It is not entirely clear how “well known” will have to be construed within s 89(1)(d) TMA 2002 (NZ).<sup>128</sup> The problems with interpreting the standard of “well known” in relation to s 89(1)(d) TMA 2002 (NZ)<sup>129</sup> will, however, – most likely – be similar to the ones discussed above with regard to the criterion of “reputation” within the EUTMDir.

Also, there has not been any authoritative decision as to whether or not ss 89(1)(d) and 25(1)(c) TMA 2002 (NZ) actually are indeed ‘anti-dilution’ provisions. It is not yet clear whether the Sections will (impliedly) require a likelihood of confusion or if trademark owners will be able to avail themselves of these rights in all situations of unauthorised subsequent use.

Finally, the concept of protecting well-known trademarks against subsequent non-confusing uses upon dissimilar goods is not entirely new to New Zealand statutory trademark law. Oft forgotten is the system of defensive registration for well-known trademarks in the former legislation: s 36 TMA 1953 (NZ)<sup>130</sup>. This provision enabled owners of qualified trademarks to block the entire register and to prevent any subsequent commercial use of their trademark – irrespective of the presence or absence of confusion and irrespective of the relatedness of the goods or services. Section 36 TMA 1953 (NZ) will have to be scrutinised with respect to whether or not it can be viewed as a valid predecessor or ancestral norm to the current provisions in ss 25(1)(c) and 89(1)(d) TMA 2002 (NZ).

In the following Sections of this paper we will trace how protection against non-confusing trademark uses for non-similar goods found its way into New Zealand’s statutory trademark law. More specifically, we will retrace how s 89(1)(d) found its implementation into the TMA 2002 (NZ). For this purpose we will start out with the state the law presented itself according to the Trade Marks Act 1953 (NZ), as amended by the Trade Marks Amendment Act of 1987 (NZ).<sup>131</sup> We will then take a closer look at the 1994 Amendments<sup>132</sup> to the 1953

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<sup>128</sup> Nor for that matter has it been defined for s 25(1)(c) TMA 2002 (NZ).

<sup>129</sup> And as well TMA 2002 (NZ), s 25(1)(c).

<sup>130</sup> Trade Marks Act 1953 (1953 No 66) (NZ) [TMA 1953 (NZ)].

<sup>131</sup> Trade Marks Amendment Act 1987 (NZ).

legislation. And finally, we will scrutinise the drafting history of the TMA 2002 (NZ).<sup>133</sup>

**a) State of Law in the TMA 1953 (NZ) as Amended by the 1987 Amendments**

The main purpose of the Trade Marks Amendment Act 1987 (NZ) was to extend the statutory provisions in such a way as to embrace service marks next to trademarks for goods. Before those amendments the TMA 1953 (NZ) was limited to protection relating to trademarks for goods. The Act rested firmly upon what can be called a classic concept of confusion of source.

The definition of a trademark accordingly presented itself as follows:<sup>134</sup>

“Trade mark” means, ... , a mark used or proposed to be used in relation to goods or services for the purpose of indicating, ... , a connection in the course of trade between the goods or services and some person having the right ... to use the mark,  
... .

Clearly, the provision – demanding that a trademark indicate the appurtenant connection – relied on the classic principle in trademark law that the function of a trademark is the indication of source and origin.

Accordingly, the relative grounds for refusal of registration of trademarks were relatively narrow and confined to a confusion of source doctrine as well. Consideration was only given to refusal of registration in case the goods or services were “the same” or in case they were “of the same description” or if the subsequent use would be “closely related to” the goods or services for which the senior mark was already registered for.<sup>135</sup> In case the subsequent sign

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<sup>132</sup> Trade Marks Amendment Act 1994 (NZ).

<sup>133</sup> TMA 2002 (NZ).

<sup>134</sup> TMA 1953 (NZ), s 2(1), as amended by Trade Marks Amendment Act 1987 (NZ), s 2(2).

<sup>135</sup> Trade Marks Amendment Act 1987 (NZ), s 11:

“11. Prohibition of registration of identical and resembling trade marks—

“The principal Act is hereby amended by repealing section 17, and substituting the following section:

“17. (1) Subject to subsection (3) of this section, no trade mark shall be registered in respect of any goods if it is identical to a trade mark belonging to a different proprietor and already on the register in respect of the same goods, goods of the same description or services that are closely related to such goods, or that so nearly resembles such a trade mark as to be likely to deceive or cause confusion.

“(2) Subject to subsection (3) of this section, no trade mark shall be registered in respect of any services if it is identical to a trade mark belonging to a different proprietor and already on the register in respect of the same services, services of the same description or goods that are closely related to such services, or that so nearly resembles such a trade mark as to be likely to deceive or cause confusion.

“(3) In case of honest concurrent use, or of other special circumstances which in the opinion of the Court or the Commissioner make it proper so to do, the Court or the Commissioner may permit the registration of trade marks that are identical or nearly resemble each other as aforesaid by more than one proprietor subject to such conditions and limitations, if any, as the Court or the Commissioner, as the case may be, may think it right to impose.

“(4) Where separate applications are made by different persons to be registered as proprietors respectively of trade marks that are identical or nearly resemble each other as aforesaid the Commissioner may refuse to register

was not identical but merely resembled the senior trademark, likelihood of deception or confusion needed to be established for successful opposition proceedings in addition to the relatedness of the goods or services.

The infringement provisions as well remained firmly rooted upon the confusion of source doctrine.<sup>136</sup> The infringement provision was contained in s 8(1A):<sup>137</sup>

(1A) Without limiting subsection (1) of this section, the right conferred by that subsection shall be deemed to be infringed by any person who, ... , uses a mark identical with it or so nearly resembling it as to be likely to deceive or cause confusion in the course of trade, in relation to any goods or services in respect of which it is registered, and in such manner as to render the use of the mark likely to be taken—  
"(a) As being use as a trade mark.

Clearly, “likely to deceive or cause confusion ... as being use as a trade mark” is a confusion of source concept if one also takes into consideration that use of a trademark, in turn, served “the purpose of indicating, ..., a connection in the course of trade between the goods or services and some person having the right ... to use the mark”.

#### (1) The Scheme of Defensive Registration for Trademarks under the TMA 1953 (NZ)

Within the TMA 1953 (NZ) the only provision actually designed to enable trademark owners to prevent subsequent use or registration irrespective of the closeness of the goods and

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any of them until their rights have been determined by the Court, or have been settled by agreement in a manner approved by the Commissioner or on an appeal to the Court."

<sup>136</sup> TMA 1953 (NZ), s 8(1), as amended by Trade Marks Amendment Act 1987 (NZ), s 5(1):

“8. Right given by registration in Part A, and infringement thereof

“(1) Subject to the provisions of this section, and of sections 11 and 12 of this Act, the registration (whether before or after the commencement of this Act) of a person in Part A of the register as proprietor of a trade mark (other than a certification trade mark) in respect of any goods or services shall, if valid, give or be deemed to have given to that person the exclusive right to the use of the trade mark in relation to those goods or services.

<sup>137</sup> TMA 1953 (NZ), s 8(1A), as introduced by Trade Marks Amendment Act 1987 (NZ), s 5(1):

“(1A) Without limiting subsection (1) of this section, the right conferred by that subsection shall be deemed to be infringed by any person who, not being the proprietor of the trade mark or a registered user of it using by way of the permitted use, uses a mark identical with it or so nearly resembling it as to be likely to deceive or cause confusion in the course of trade, in relation to any goods or services in respect of which it is registered, and in such manner as to render the use of the mark likely to be taken—

"(a) As being use as a trade mark; or

"(b) In a case in which the use is use upon goods or in physical relation to goods or in an advertising circular or other advertisement issued to the public relating to goods, as importing a reference to some person having the right either as proprietor or as registered user to use the trade mark or to goods with which such a person is connected in the course of trade; or

"(c) In a case in which the use is in relation to services or in an advertising circular or other advertisement issued to the public relating to services, as importing a reference to some person having the right either as proprietor or as registered user to use the trade mark or to services with which such a person is connected in the course of trade. ... .”

irrespective of the presence or absence of confusion was s 36. The Section stipulates:<sup>138</sup>

Where a trade mark consisting of an invented word or invented words has become so well known as respects any goods or services in respect of which it is registered and in relation to which it has been used that the use thereof in relation to other goods or services would be likely to be taken as indicating a connection in the course of trade between those goods or services and a person entitled to use the trade mark in relation to the first mentioned goods or services, then, notwithstanding that the proprietor registered in respect of the first mentioned goods or services does not use or propose to use the trade mark in relation to those other goods or services, ... , the trade mark may, on the application in the prescribed manner of the proprietor registered in respect of the first mentioned goods or services, be registered in his name in respect of those other goods or services as a defensive trade mark, and, while so registered, shall not be liable to be taken off the register in respect of those goods or services under that section.

The section does not in its letter spell out protection against detriment to distinctive character of a trademark. The potential scope of s 36, however, is just the same as – or, perhaps, even broader than – the protection conferred by the more recent provisions. Upon an elastic construction of “indicating a connection” and if a trademark meets the required standard of “invented” and “well known” the defensive registration could be sought for all classes of goods and services and, in consequence, block the entire register within a particular jurisdiction.

Three things are noteworthy with regard to s 36. First and foremost, even this protection against dissimilar goods or services was restricted to instances where the subsequent use was “likely to be taken as indicating a connection in the course of trade between” the subsequent, dissimilar goods or services and the senior trademark’s owner. The concept of “indicating a connection” stems from the definition of a trademark in the 1953 legislation and clearly refers to designation of trade origin, respectively trade source.<sup>139</sup> Only upon a wide riding could this particular connection criterion be read to incorporate non-confusing uses. This is, however, not very likely. Rather, this must be seen within the entirety of the Act’s context to only encompass likelihood of confusion, albeit, of course, an extended concept of confusion of association, product approval, endorsement, and licensing.

Secondly, the threshold for defensive registration to be accorded is a high one. The trademark not only needed to be well known but also had to consist of an invented word or invented words. The trademark must hence not only meet a certain degree of consumer recognition but,

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<sup>138</sup> As amended by Trade Marks Amendment Act 1987 (NZ), s 19, which included service marks into the Section’s ambit.

<sup>139</sup> P Sumpter *Trade Marks in Practice* (Lexis Nexis, Wellington, 2004) at 96.

in addition, the sign underlying the trademark must also satisfy a particular category of inherent distinctiveness. The word-based trademark sign must be non-pre-existent within the common language. Additionally, only word marks were eligible.

Not many trademarks will have been capable of fulfilling these strict requirements. This is evinced by the fact that during the process of enacting the TMA 2002 (NZ) the Select Committee Report of 01 March 2002<sup>140</sup> stated that only 89 defensive trademarks were on the register at that time.<sup>141</sup>

Even though s 36 shares the ‘well-known-criterion’ with art 6*bis* PC the distinction can be found in the fact that there is not only a free-ride policy underlying s 36. Rather, s 36, in addition, appears to be also founded upon some sort of reward for adopting new signs or words as trademarks instead of appropriating words of common speech for purposes of the commercial embodiment of goodwill.

All in all, the Trade Marks Act 1953 (NZ) rested firmly upon the established traditional principle of confusion of source. This clearly emerges even in the more exceptional provision of s 36.

## (2) Appreciation

Neither s 17 nor s 8 TMA 1953 (NZ) provided extended protection of well-known trademarks. However, there was special statutory protection for registered well-known trademarks in s 36 TMA 1953 (NZ).

Nonetheless, unregistered and foreign marks which are well known in New Zealand were not entirely without protection and New Zealand was, arguably, not in breach of any international obligations arising from art 6*bis* PC<sup>142</sup>. None of the international treaties necessarily demands that protection be implemented into national statutory trademark law. The protection can be

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<sup>140</sup> The Select Committee Report on Trade Marks Bill 2001 (2001 No 124—2) of 01 March 2002.

<sup>141</sup> Trade Marks Bill 2001, Select Committee Report:

“Defensive Trade Marks

“... It is difficult for an applicant to establish that his or her registered trade mark has passed the necessary threshold for being “so well known” that its use on other goods indicates a trade connection with the owner. As a result, very few defensive trade marks are actually registered. IPONZ advises us that currently there are 89 defensive trade marks on the register, involving a total of only ten trade mark owners. There are 27 applications for defensive trade marks currently under examination, all of which have been lodged by the same applicant.

...”, Select Committee Report on Trade Marks Bill 2001 (2001 No 124—2) dating from 01 March 2002.

<sup>142</sup> Nor, accordingly, would New Zealand later on have been in breach of TRIPS, art 16, if the TMA 1953 (NZ) had been left un-amended.

conferred by other means. New Zealand offers protection to well-known, foreign, non-registered marks by means of the action for passing off and the Fair Trading Act 1986 (NZ). Both function as a possible supplementary protection where statutory trademark law will not be of any avail.<sup>143</sup> Neither passing off nor the provisions of the Fair Trading Act 1986 (NZ) are confined by any requirement that the subsequent use need be with respect to similar goods or services.<sup>144</sup> However, both are restricted by the requirement of misrepresentation, respectively misleading and deceptive conduct in trade.<sup>145</sup> Additionally, as regards the action for passing off, establishing the existence of the requisite goodwill within the respective jurisdiction can be difficult for a foreign mark.

Protection was also accorded in New Zealand to unregistered, unused but well-known trademarks by way of an extended reading of TMA 1953 (NZ), s 16.<sup>146</sup> Section 36 TMA 1953 (NZ) was of no avail to proprietors of unregistered marks because this defensive registration required a registered trademark as the basis for defensive registrations. New Zealand courts showed themselves sympathetic to the need of protecting unregistered well known marks as established in the case of *Pioneer Hi-Bred Corn Comp v Hy-Line Chicks Pty Ltd* (the *Hy-Line* case.)<sup>147</sup> Proprietors whose marks had been registered overseas but not in New Zealand were held to be entitled to oppose a third party's application for registration of that same mark for the same goods under s 16 TMA 1953 (NZ). In the *Hy-Line* case the opponent's non-registered trademark had become known very widespread in New Zealand through trade publications<sup>148</sup> and hence there was the substantiated possibility of resulting deception or

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<sup>143</sup> A Sims "Dilution in New Zealand: The Effects of the Tarnishment Limb of Dilution on Free Speech" (2001) 32 Victoria University of Wellington Law Review 103 at 116; S Frankel "Towards a Sound New Zealand Intellectual Property Law" (2001) 32 Victoria University of Wellington Law Review 47 at 72; and see more generally: *Wineworths Group Ltd v Comité Interprofessionel du Vin de Champagne* [1992] 2 NZLR 327 (CA); *Chocosuisse Union des Fabricants Suisses de Chocolat and Others v Cadbury Ltd* (1998) 42 Intellectual Property Reports 1 (EWHC).

<sup>144</sup> *Taylor Bros Ltd v Taylor Group Ltd* [1988] 2 NZLR 1 (HC) at 151, McGechan J recognising that passing off may also comprise instances of dilution, affirmed by the Court of Appeal, *Taylor Bros Ltd v Taylor Group Ltd* [1988] 2 NZLR 1 at 37–38 (CA).

<sup>145</sup> *Wineworths Group Ltd v Comité Interprofessionel du Vin de Champagne* [1992] 2 NZLR 327 (CA) at 341, Gault J opining that actual or likely misrepresentation or deception is an essential element of the action for passing off.

<sup>146</sup> TMA 1953 (NZ), s 16:

"Prohibition of registration of deceptive, etc., matter. (1939, No 26, s 13)

"16. It shall not be lawful to register as a trade mark or part of a trade mark any scandalous matter or any matter the use of which would be likely to deceive or cause confusion or would be contrary to law or morality or would otherwise be disentitled to protection in a Court of justice."

<sup>147</sup> *Pioneer Hi-Bred Corn Co v Hy-Line Chicks Pty Ltd*, [1978] 2 NZLR 50.

<sup>148</sup> Ministry of Commerce Review of *Industrial Property Rights – Patents, Trade Marks and Designs Possible Options for Reform, Volume One* (Ministry of Commerce – Competition Policy and Business Law Division, Wellington, 1990) [1990 Ministry of Commerce Discussion Paper] at 159.

confusion if the applicant would have been allowed to register and use the same trade mark.<sup>149</sup>

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In summary, the protection of trademarks was confined to concepts of confusion of source or deception. At the same time protection was also vastly restricted to use in connection with goods or services which are the same, similar or of the same description. Also, in the *Hy-Line* case, when ascertaining the requisite degree of reputation necessary with respect to TMA 1953 (NZ), ss 16 and 17, the court spoke of awareness, cognizance, and knowledge of the

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<sup>149</sup> In furtherance the 1990 Ministry of Commerce Discussion Paper, above n 148, comments on TMA 1953 (NZ), s 16 this as follows:

“Chapter 15

“15.0 Registrability of Marks

“ ...

“ 15.4 Comment

“ ...

“15.4.7 Objections under Section 16 – Deception or Confusion, Contrary to Law or Morality

“ ...

“ – External factors: a mark may cause deception or confusion because it is similar to another mark. While section 17 deals with conflicts with registered marks and co-pending applications, section 16 covers a wide range of situations such as conflict with unregistered but used trade marks, and conflict with overseas trade marks which are not used in New Zealand, but which have gained a reputation or awareness in the relevant market.

“ ...

“ – Otherwise disentitled to protection in a Court of Justice: the wide scope of this last ground was upheld in the “Hy-Line” case (*Pioneer Hi-Bred Corn Comp v Hy-Line Chicks Pty Ltd*, 1978:52). It enables applications to be rejected where good faith is missing in the claim to proprietorship (*Wham-O Manufacturing Co v Lincoln Industries Ltd*, [1984] 1 NZLR 642).

“Section 16 also overlaps with section 17 in that if marks are confusingly similar under the section 17 tests, there will be deception and confusion for the purposes of section 16. Both grounds are routinely raised in opposition proceedings. However, it is unclear whether the honest concurrent use provisions of section 17(3) are available under section 16.

“The tests provided in the “Hy-Line” case are helpful to the Office in determining opposition and rectification proceedings based on “awareness” or reputation of the opponent’s or applicant for rectification’s trade mark for example the “C&A” case (*C&A Trade Mark* (Assistant Commissioner Martin 1990)).“

<sup>150</sup> And also the Ministry of Commerce *Reform of the Trade Marks Act 1953 – Proposed Recommendations* (Ministry of Commerce – Competition Policy and Business Law Division, Wellington, 1991) [1991 Ministry of Commerce Reform Report] at 11 strongly suggested that the form of protection conferred by virtue of s 16 be retained in its existing form:

“Chapter 2

“2.0 Registrability of Marks

“ ...

“2.5.2 Relative Grounds for Refusal

“ ...

“ ..., it can be noted that section 16 allows use on dissimilar goods or services to be taken into account where there is a strong possibility of public deception or confusion (rather than unfairness). Consideration should be given to retaining this aspect of the present law.”

The 1991 Ministry of Commerce Reform Report makes the last statement in connection to considering the provisions in the European Trade Mark Directive in respect of refusal of registration on relative grounds of use on dissimilar goods or services. The Directive, as seen above, providing that registration and use even for dissimilar goods or services will be refused or enjoined when detriment to distinctive character and/or taking unfair advantage are given. As opposed to unfairness the 1991 Ministry of Commerce Reform Report obviously deems favourable a solution where public deception or confusion are at the centre of considerations rather than “anti-dilution” deliberations.

overseas trademark,<sup>151</sup> rather than of the mark being well known. The category of ‘well known’ obviously seems to have been reserved for purposes in connection with Paris Convention or s 36 TMA 1953 (NZ).

**b) State of Law Introduced by the Trade Marks Amendment Act 1994 (NZ)**

The Trade Marks Amendment Act 1994 (NZ) is directly related to implementing the international obligations of TRIPS.<sup>152</sup> Consequently, the changes to the TMA 1953 (NZ)<sup>153</sup> by virtue of the Trade Marks Amendment Act 1994 (NZ) need to be gauged against the prescribed level of TRIPS. Naturally, because of the course our enquiry is taking, the main focus will be on the provisions relating to well-known trademarks as well as on the provisions with respect to the scope of infringement in relation to the use of a trademark by third parties on dissimilar goods and services.

**(1) Changes to the Definition of “Trade Mark”**

The definition of “mark” in s 2(1) TMA 1953 (NZ)<sup>154</sup> was repealed,<sup>155</sup> inserting instead the

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<sup>151</sup> *Pioneer Hi-Bred Corn Comp v Hy-Line Chicks Pty Ltd*, [1978] 2 NZLR 50 at 63.

<sup>152</sup> Besides the year in which they both have been promulgated there is not much which would immediately suggest, on the face of it, that the Trade Marks Amendment Act 1994 (NZ) is indeed directly related to implementing the international obligations which TRIPS introduced in the very same year. This, however, becomes clearer if one takes into account that the Trade Marks Amendment Act 1994 (NZ) originated as a portion of the GATT (Uruguay Round) Bill 1994 (1994 No 27—1 and No 27—2) and was split off by way of a supplementary order from this Bill (Introduction of the GATT (Uruguay Round) Bill 1994 (1993 No 27—1) on 13 July 1994, Select Committee Report on 15 November 1994, Second Reading on 29 November 1994, under the same date splitting off of the Trade Marks Amendment Act 1994 (formerly Part II of GATT (Uruguay Round) 1994) by Supplementary Orders 57 and 59, Third Reading of the Trade Marks Amendment Act 1994 on 29 November 1994; Trade Marks Amendment Act 1994, Royal Assent on 08 December 1994 as 1994 No 123; compare: Parliamentary Bulletins 94.12 of 21 July 1994 at 19, 94.22 of 21 November 1994 at 21, 94.24 of 05 December 1994 at 21 and 26, and 94.25 of 13 December 1994 at 24 and 30).

The portion of the GATT (Uruguay Round) Bill 1994 which eventuated in shape of the Trade Marks Amendment Act 1994 (NZ) amended the TMA 1953 (NZ) in order to give effect to TRIPS (Explanatory Note, GATT (Uruguay Round) Bill 1994 (1994 No 27—1) at p i). The Bill’s main purposes with respect to trademarks can be taken from Explanatory Note, GATT (Uruguay Round) Bill 1994 at p ii:

“Part III

“Amendments to Trade Marks Act 1953

“Part III of the Bill implements section 2 of Part II (Articles 15–21) of the TRIPS Agreement. The principal changes are the substitution of a new definition of the term “trade mark”, the extension of the rights given to a registered proprietor under sections 8 and 9 of the principal Act to include protection against infringement by signs that are similar to a registered trade mark, or by the use of such signs on goods that are the same or similar to the goods or services in respect of which the trade mark is registered, and the inserting of provisions for the detention by Customs of imported goods bearing infringing trade marks.”

<sup>153</sup> As amended by the Trade Marks Amendment Act 1987 (NZ).

<sup>154</sup> Trade Marks Act 1953 (NZ), s 2(1): “... “Mark” includes a device, brand, heading, label, ticket, name, signature, word, letter, numeral, or any combination thereof: ...”.

<sup>155</sup> Trade Marks Amendment Act 1994 (NZ), s 2(1); GATT (Uruguay Round) Bill 1994, cl 22(1).



definition of a “sign”<sup>156</sup> but apart from that the definition itself remained verbatim the same. The new definition of trademark, however, was significantly different:<sup>157</sup>

“Trade mark” means, ... , any sign or any combination of signs, capable of being represented graphically and capable of distinguishing goods or services of one person from those of another person.

The Act rendered obsolete the former criterion that a trademark needed to indicate a connection in the course of trade between the goods or services and the owner of the trademark. Accordingly, the new Act views a trademark more as a “distinguishable token”<sup>158</sup> rather than as a mere indicator of a specific existing goodwill. This means a considerable shift away from the formerly very narrow source concept of a trademark as it had been traditionally understood to be a trademark’s essential (and only) function. The changes in the definition of a trademark are clearly owed to the way trademarks are specified in TRIPS and entail the change from a ‘source function’ of trademarks to a ‘distinguishing function’ which is a more modern approach, allowing for a better consideration of the actual functioning of trademarks in the market place.

## (2) Repeal and Substitution of Section 17 Pertaining to Grounds for Refusal of Registration

The Trade Marks Amendment Act 1994 (NZ)<sup>159</sup> repealed s 17 TMA 1953 (NZ)<sup>160</sup> and substituted it with an entirely new s 17 providing for all trademarks in subsection (1) whereas in subsection (2) special provision was made for the protection of well-known trademarks.<sup>161</sup>

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<sup>156</sup> Trade Marks Amendment Act 1994 (NZ), s 2(2); GATT (Uruguay Round) Bill 1994, cl 22(2).

<sup>157</sup> Trade Marks Amendment Act 1994 (NZ), s 2(3); GATT (Uruguay Round) Bill 1994, cl 22(3).

<sup>158</sup> *Beech-Nut Co v Lorillard Co* 273 US 629 (1927) at 632 per Holmes J: “A trade-mark is not only a symbol of an existing good will, although it is commonly thought of only as that. Primarily it is a distinguishable token devised or picked out with the intent to appropriate it to a particular class of goods and with the hope that it will come to symbolize good will.” Also quoted by FI Schechter “Fog and Fiction in Trade-Mark Protection” (1936) 36 Columbia L Rev 60 at 65 [n 13].

<sup>159</sup> GATT (Uruguay Round) Bill 1994, cl 28: “Prohibition of registration of identical and resembling trade marks”.

<sup>160</sup> As substituted/amended by Trade Marks Amendment Act 1987 (NZ), s 11.

<sup>161</sup> TMA 1953 (NZ), s 17, as amended by Trade Marks Amendment Act 1994 (NZ):

“(1) Subject to subsection (5) of this section, no trade mark shall be registered in respect of any goods if it is identical with or similar to a trade mark belonging to a different proprietor and already on the register in respect of—

“(a) The same goods; or

“(b) Similar goods; or

“(c) Services that are similar to such goods,—

“if use of the first-mentioned trade mark is likely to deceive or cause confusion.

“(2) Subject to subsection (5) of this section, no trade mark shall be registered in respect of any goods if the trade mark (or an essential element) is identical or similar to or a translation of a trade mark which is well-known in

The novelty with regard to well-known trademarks' protection, however, was confined to the fact that the senior well known mark did not need to be registered or used in order to profit from that protection.

Peculiarly, for ordinary as well as well-known trademarks protection against identical marks upon identical goods or services was only granted in s 17 if there was present, in addition, a likelihood of deception or confusion. This does not appear to conform with the aim of extending the rights accorded to trademark proprietors.<sup>162</sup> What is more, this clearly contravenes TRIPS, art 16(1) according to which likelihood of confusion or deception in cases of double identity is to be presumed.

For well-known trademarks, the provision is even nonsensical. Even though in the statutory definition of a trademark the former "connection in the course of trade" was repealed and substituted by "capable of distinguishing goods or services of one person from those of another person" the 1994 Amendments retained the former "indicating a connection" requirement within the provision for relative grounds of refusal of registration. This can, perhaps, be explained due to the fact that the international treaties themselves also employ "indicating a connection". The Amendment thus retained this requirement close to the actual wording in TRIPS.

A clear inconsistency within the section and, in fact, a patently obvious contravention of internationally required standards, however, is that even in instances of 'double identity' a likelihood of confusion or deception is required. Especially subsection (2) becomes even more irreconcilable with international conventions in cases of similar marks used in connection with similar goods or services: here, not only confusion but, in addition, a connection in the course of trade must be proved. It remains elusive, how this 'double accounting' within the provision is to be understood. An oddity – to say the least.

To summarise: protection against subsequent registration was to be granted only on a confusion-based standard. The same result has been reached as discussed above within the

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New Zealand (whether through advertising or otherwise)—

“(a) As respects those goods or any similar goods; or

“(b) As respects any other goods if use of the first-mentioned trade mark would be taken as indicating a connection in the course of trade between those other goods and the proprietor of the well-known trade mark, and would be likely to prejudice the interests of such proprietor,—

“where use of the first-mentioned trade mark would be likely to deceive or cause confusion. ...

<sup>162</sup> Compare for this aim the Explanatory Note to Part III of the GATT (Uruguay Round) Bill 1994.

context of the international provisions. Section 17 as introduced by the 1994 Amendments can hence be adjudged to not provide a protection against cases of detriment to distinctive character without the presence of confusion. This appreciation is based upon the fact that even though s 17(2)(b) grants protection against “*any* other goods” this is still strictly tied to a finding of deception or confusion.

Also, s 17(2) solely discriminates along the lines of a quantitative consumer recognition threshold. Qualitative distinctiveness is apparently not a requirement.

### (3) Changes to the Provisions Pertaining to Trademark Infringement

In the course of extending trademark proprietors’ rights,<sup>163</sup> s 8(1A) TMA 1953 (NZ)<sup>164</sup> underwent considerable changes during the legislative process. After the Select Committee Report from 15 November 1994 and upon the Second Reading in Parliament on 29 November 1994 the Clause to amend s 8 of the principal Act received its final wording.<sup>165</sup>

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<sup>163</sup> As the Explanatory Note to Part III of the GATT (Uruguay Round) Bill 1994 at p ii declared, one of the principal changes brought about by the implementation of TRIPS was the “extension of the rights given to a registered proprietor under section 8 and 9 of the principal Act to include protection against infringement by signs on goods that are the same or similar to the goods or services in respect of which the trade mark is registered”.

<sup>164</sup> As amended by Trade Marks Amendment Act 1987 (NZ), s 5.

<sup>165</sup> CI 23(1) GATT (Uruguay Round) Bill 1994:

“(1A) Without limiting subsection (1) of this section, the right conferred by that subsection shall be deemed to be infringed by any person who, . . . , uses in the course of trade—

(a) A sign identical with it in relation to any goods or services in respect of which the trade mark is registered; or  
(b) A sign identical with it in relation to any goods or services that are similar to any goods or services in respect of which the trade mark is registered, if such use would be likely to deceive or cause confusion; or  
(c) A sign similar to it in relation to any goods or services that are identical with or similar to any goods or services in respect of which the trade mark is registered, if such use would be likely to deceive or cause confusion,—

and in such manner as to render the use of the sign likely to be taken—

(d) As being use as a trade mark;”

<sup>166</sup> The Trade Marks Amendment Act 1994 (NZ) retained the two-tier structure of the New Zealand statutory trademark law and thus the division between Part A and Part B trademarks. Accordingly, the separate infringement provision in TMA 1953 (NZ), s 9, needed to be amended as well. Strangely enough, the changes to s 9 of the principal Act did not need to go through equivalent changes because the initial version of the Bill was accepted. Clause 24 of the GATT (Uruguay Round) Bill 1994 remained unchanged during the entire legislative process and entered the Trade Marks Amendment Act 1994 as its section 4, repealing the old s 9(2) TMA 1953 (NZ) and forming the new s 9(2) TMA 1953 (NZ):

“(2) In any action for infringement of the right to the use of a trade mark given by registration as aforesaid in Part B of the register, otherwise than by an act that is deemed to be an infringement by virtue of section 10 of this Act, no injunction or other relief shall be granted to the plaintiff if the defendant establishes to the satisfaction of the Court that the use of which the plaintiff complains is use:

“(a) Of a sign identical with the trade mark in relation to any goods or services similar (but not identical) to any goods or services in respect of which the trade mark is registered; or

“(b) Of a sign similar (but not identical) to the trade mark in relation to any goods or services in respect of which

The statutory protection of trademarks was expanded to use of trademarks upon similar goods or services but not to use on dissimilar ones. Also, the Section required a trademark to be registered in New Zealand in order to be eligible for protection under this norm.

Protection against use of well-known trademarks on dissimilar goods or services was one of the main ambits of art 16(3) TRIPS. No such form of protection entered s 8 TMA 1953 (NZ), as amended, though. Here accounts the same as was said before: New Zealand will have fulfilled its international obligations with respect to well-known trademarks by means extraneous to statutory trademark law.

Interestingly, the infringement provision is worded much clearer than the provision concerning relative grounds for refusal of registration in s 17 TMA 1953 (NZ). It emerges very clearly from s 8(1A)(a) that confusion is not a requisite in instances of ‘double identity’. Any form of ‘anti-dilution’ protection, however, is not afforded by s 8(1A), not even for registered well-known trademarks.

#### (4) Changes to the System of Defensive Registration

The system of defensive registration in s 36 TMA 1953 (NZ)<sup>167</sup> was amended by striking out the words “consisting of an invented word or invented words”,<sup>168</sup> thus considerably broadening the ambit of defensive registration to all well known trademarks.

Accordingly, the Amendment set a lower threshold for obtaining a defensive registration since the trademark merely needed to be well known and not consist of an invented word any longer. However, even this amended version was still of no avail to proprietors of a well-known trademark whose trademark was not registered in New Zealand. Any defensive registration was still predicated upon the pre-existence of a trademark registration in New Zealand.<sup>169</sup>

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the trade mark is registered or in relation to similar goods or services,—

“and is not likely to deceive or cause confusion or to be taken as indicating a connection in the course of trade between the goods or services or similar goods or services and some person having the right either as proprietor or as registered user to use the trade mark.”

<sup>167</sup> As amended by Trade Marks Amendment Act 1987 (NZ), s 19, which merely introduced conforming amendments with respect to protection of service marks in addition to marks upon goods.

<sup>168</sup> Trade Marks Amendment Act 1994 (NZ), s 18; GATT (Uruguay Round) Bill 1994 cl 37 “Defensive registration of well-known trade marks”.

<sup>169</sup> Already the 1990 Ministry of Commerce Discussion Paper, above n 148 at 120 delivered the following deliberations on this issue:

“Chapter 15

It is suggested here that the revised s 36 was in concord with art 16(3) TRIPS. The latter establishes obligations of broader protection only with respect to registered well-known trademarks. Section 36, as amended, does not even demand for prejudice to the interests of the trademark owner but solely for the trademark to be well known and for the subsequent use or registration to be “indicating a connection in the course of trade between those goods or services and a person entitled to use the trade mark”. The parallels between the two norms with respect to the last two criteria are patently obvious. The defensive registrations as well possessed full vigour against both subsequent registrations and subsequent use. For every class of goods or services where a defensive trademark was registered subsequent use of the same or similar trademark could be adjudged to constitute an infringement under the provisions proscribing use of similar marks for similar goods. Thus, the ‘work around’ of defensively registering a well-known trademark in a plethora of classes allowed for employing the regular infringement provisions under s 8 TMA 1953 (NZ) because for each class in which the well-known mark was registered the subsequent use would have constituted use of an identical or similar sign upon identical or similar products.<sup>170</sup>

As a consequence, s 36 was capable of embracing – based upon a broad interpretation of “connection” – an even wider spectrum of varieties of harm than art 16 TRIPS which, in addition, asks for prejudice to the interests of the owner. No such restriction is present in s 36. Section 36 must hence be criticised for conflating a potential plethora of types of damage under one single criterion of a trademark being a well-known one. After removing “invented” from the Section there was not even a requirement of qualitative distinctiveness any longer. The problem with the connection requirement of s 36 is that, potentially, it did not underlie the same constrictions as it did before the 1994 Amendments. The reason being that the definition of trademark had been changed in the course of the 1994 Amendments as well and

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“15.0 Registrability of Marks ... 15.4 Comment ... 15.4.17 Defensive Registration

“The interests protected by registrations under section 36 may be protected by passing off and the Fair Trading Act. As defensive registration is available for invented words only, these trade marks form an elite group. Consideration could be given to either extending the potential for defensive registration to all Part A trade marks or phasing out defensive registrations all together. While many systems do not have defensive registrations the proposed Draft Treaty on Trade Mark Harmonisation includes a provision on protection of ‘exceptionally well-known’ trade marks. (Draft Article 103) However, it appears that such protection need not be by registration.”<sup>2</sup> As follows, the Legislative, in the course of the 1994 Amendments, chose to implement a system where not only Part A but also, potentially, Part B trademarks could participate in the broader form of protection, as long as both types of marks met the “well known” requirement. The last sentence of the statement appears to already envision the possibility of the later s 36-counterpart, s 89(1)(d) TMA 2002 (NZ) where commensurate protection would be given without defensive registration but by virtue of infringement provisions against dissimilar goods or services.

<sup>170</sup> See also J Glengarry “An Anti-Dilution Trade Mark Law for New Zealand” (2000) 6 New Zealand Business Law Quarterly 258 at 265.

therefore the ‘trademark-definition-strictures’ had been shed. Due to the cumulative effect of the changes to the definition of “trademark” and the changes to s 36 itself, interpretation of “connection” had opened up to the possibility of a very broad construction. The issue, however, never had to be decided and was eventually pre-empted because of introduction of the TMA 2002 (NZ). A reasonable assessment would probably be that s 36, even in its 1994-amended form, will have been restricted to a confusion of source concept as was still the overall tendency of the entire TMA 1953 (NZ) even in its amended manifestation.<sup>171</sup>

(5) Summary to the Changes Brought about by the Trade Marks Amendment Act 1994 (NZ).

In implementing its international obligations New Zealand chose to give protection to well-known trademarks only against registration of identical and similar goods and services. Against registration of dissimilar goods or services protection was only provided in case such registration would have resulted in confusion of source. Infringement provisions protecting well-known marks against mere use were not established within statutory trademark law.

At this stage mention must be made that it appears quite a remarkable choice that New Zealand implemented into her statutory trademark law, in a separate provision, s 17(2), protection of well-known marks against subsequent registrations whereas it decided against such a separate provision for the infringement provisions. This is even more bewildering since s 36 applies to both situations, subsequent registration and use. It remains elusive why protection for non-registered well-known trademarks was implemented against subsequent registrations whereas such protection was omitted for instances of subsequent uses. It is, however, submitted, again, that this protection was assumed to be granted in an appropriate scope by legal means besides statutory trademark law. As the 1990 Ministry of Commerce Discussion Paper stated:<sup>172</sup>

It is considered that the Trade Marks Act [1953] combined with the protection given by passing off comply with New Zealand’s obligations under the [Paris Convention’s] London text.

The Joint Recommendation had not been adopted yet when New Zealand enacted the Trade

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<sup>171</sup> See also J Glengarry “An Anti-Dilution Trade Mark Law for New Zealand” (2000) 6 New Zealand Business Law Quarterly 258 at 264: “In New Zealand, dilution, even dilution of a well-known or famous trade mark, is effectively only preventable to the extent that it is a consequence of origin confusion and its derivatives.”

<sup>172</sup> 1990 Ministry of Commerce Discussion Paper, above n 148 at 121.

Marks Amendment Act 1994 and thus it is not surprising that the provisions in the Amendment Act do not reflect WIPO's recommendations.

In contrast, art 5(2)<sup>173</sup> EUTMDir had already been promulgated at the time New Zealand enacted the 1994 Amendments. New Zealand, however, chose not to take up the example of the European provisions. Later on, however, with the TMA 2002 (NZ), New Zealand chose to implement, at least in part, the kind of provisions present in the EUTMDir. The reasons for these peculiarities remain at large.

**c) State of Law in the Trade Marks Act 2002 (NZ)**

Considering the changes implemented into New Zealand statutory trademark law by virtue of the Trade Marks Amendment Act 1994 (NZ) it is reasonably safe to state that Paris Convention and TRIPS obligations had been fulfilled even before promulgation of the TMA 2002 (NZ). As already ascertained above, Paris Convention and TRIPS only oblige the signatory countries to implement a confusion-based standard of protection. Even for well-known trademarks there is only protection against use upon dissimilar goods and services if the third-party use causes confusion of source or derivatives thereof.

With respect to the provisions pertaining to dissimilar goods and services, a comparison between the 1994 Amendments and the current legislation in the TMA 2002 (NZ) reveals distinct differences in the scope of protection. The new 2002 Act goes far beyond the requirements of Paris Convention and TRIPS.

**(1) The Trade Marks Bill 2001 (NZ) and the Trade Marks Act 2002 (NZ)**

The Explanatory Note of the Trade Marks Bill 2001 starts out with a General Policy Statement:<sup>174</sup>

Registered trade marks are an important part of the intellectual property rights regime. Trade Marks consist of signs, words, symbols, or designs that are capable of distinguishing the goods or services of a trade mark owner from the goods or services of other traders. This enables the public to recognise that all goods or services with a particular trade mark come from the same origin, thereby providing low cost information to consumers and creating incentives for businesses to invest in quality products.

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<sup>173</sup> And, in case of relative ground of refusal of registration, EUTMDir, art 4(4)(a).

<sup>174</sup> Explanatory Note, General Policy Statement, Trade Marks Bill 2001 (NZ) at 1.

This policy statement clearly moves New Zealand trademark law away from the old standards which applied a fairly narrow view of a trademark as solely an indicator of source which had been mirrored in the former paradigm demanding a “connection in the course of trade”.<sup>175</sup> The emphasis now is upon the distinguishing function of trademarks. The Bill’s Explanatory Note clearly states that the public understands a trademark as indicating that products emanate from the same origin but not from a specific source or a particular origin the connection with which the trademark would need to indicate.

There is also an explicit recognition of the economic usefulness of trademarks. New Zealand’s policy with regard to trademark law is an approach which is to be understood as neither solely being consumer protection nor only protection of traders’ property interests. Trademarks are rather viewed in their role as facilitators of the market mechanism. Trademark law is thus not focussed upon the interests of any one particular group only. Also acknowledged is trademarks’ informational role and communicative function within the market place.<sup>176</sup> This recognises trademarks’ so-called advertising function next to the two other functions to which traditional trademark law used to be confined, that is designation of source and quality ‘guarantee’.<sup>177</sup>

Furthermore, the law discards the long-standing opinion that trademark law and trademarks are about ensuring or guaranteeing product quality. The Explanatory Note propounds a specific policy decision that quality is a corollary but not an essential element of the functions of trademarks. The quality assurance – as opposed to a ‘guarantee’ – is a result of what generally is called the market incentive<sup>178</sup> which trademarks exert upon producers and distributors of products, namely, that trademarks ensure identification and distinction of products enabling consumers to identify and seek out within the market place the products which they desire to purchase and to avoid the ones they wish to shun.

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<sup>175</sup> TMA 1953 (NZ), s 2(1).

<sup>176</sup> Explanatory Note: “providing low cost information to consumers”.

<sup>177</sup> A Sims “Dilution in New Zealand: The Effects of the Tarnishment Limb of Dilution on Free Speech” (2001) 32 Victoria University of Wellington Law Review 103 at 115.

<sup>178</sup> CDG Pickering *Trade Marks in Theory and Practice* (Hart Publishing, Oxford, 1998) at 88: “This is the so-called self-enforcing feature of trade marks: a trade mark derives its economic as well as capital value from the fact that it denotes consistent quality; the mark will lose its value if variations in quality render the mark deceptive, because consumers will not be able to relate the trade marked product to past experience.” And *ibid* at 88 [n 103]: “This is the market incentive for trade mark owners to maintain product quality; the legal incentive is contained in s.46(1)(d) Trade Marks Act 1994 [UK] which provides for the revocation of a deceptive trade mark. However, this is arguably less effective than the market mechanism because it requires someone to initiate legal action.”



Before the 2001 Trade Marks Bill was introduced New Zealand's trademark law drew heavily upon the law of the United Kingdom.<sup>179</sup> It is suggested here that by means of the TMA 2002 (NZ) New Zealand took the step to establish a somewhat more idiosyncratic system of her own. Starting with the 2002 Act New Zealand's trademark law is, therefore, to be viewed much more autonomously from the law applicable in the United Kingdom and the European Union. As Sumpter notes,

the New Zealand Trade Marks Act is an amalgamation containing some of the previous legislation (both the original 1953 model and TRIPS influenced 1995 amendments), portions of the UK Act and so on.<sup>180</sup>

It is submitted that – as will be shown – at least for the way the 2002 Act deals with well-known trademarks the provisions need to be viewed autonomously from the United Kingdom ones.

## (2) Drafting History of Section 25(1)(c) Trade Marks Act 2002

In the Trade Mark Bill 2001's first draft the only provisions relating to well-known trademarks and to use of trademarks upon dissimilar goods or services are to be found in the Bill's clauses with reference to relative grounds for refusal of registration.<sup>181</sup> Striking is the

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<sup>179</sup> The 1990 Ministry of Commerce Discussion Paper, above n 148 at 6–7 puts it this way:

“Chapter 2

“2.0 The International Environment

“ ...

“2.2.2 Other Relationships

“New Zealand's traditional relationship with the United Kingdom is reflected in New Zealand's adoption of the United Kingdom industrial property laws. New Zealand's Patents Act, Trade Marks Act and Designs Act are all based on United Kingdom statutes. ...”.

and *ibid* at 92:

“Chapter 14

“14.0 Nature of Trade Mark

“ ...

“ ... the Trade Marks Act 1953 is primarily a replica of the British Trade Marks Act 1938. ...”.

<sup>180</sup> P Sumpter *Trade Marks in Practice* (LexisNexis, Wellington, 2004) at 84.

<sup>181</sup> Clause 25(1) provides for trademarks used upon goods:

“(1) The Commissioner must not register a trade mark (trade mark A) in respect of any goods—

“(a) if—

“(i) ...

“(ii) ...

“(iii) it is, or an essential element of it is, identical or similar to, or a translation of, a trade mark that is well known in New Zealand (trade mark C), whether through advertising or otherwise, in respect of those goods or similar goods or any other goods if the use of trade mark A would be taken as indicating a connection in the course of trade between those other goods and the owner of trade mark C, and would be likely to prejudice the interests of the owner; and

“(b) its use is likely to deceive or confuse.

“(2) ...”.

Clause 26 makes equivalent provisions for service trademarks.

explicit retention of a confusion requirement for all instances.<sup>182</sup> A protection against non-confusing uses was clearly not envisaged; not even for well-known marks. Also, even in cases of ‘double identity’ the registration could only be refused if there was a likelihood of confusion or deception.

The provisions on the relative grounds for refusal of registration underwent considerable changes as a result of the Select Committee process. The Report of the Select Committee explicitly recommended the “inclusion of certain clauses in order to strengthen protection for well known trade marks”<sup>183</sup> and commented extensively on the protection to be conferred upon well-known trademarks with respect to subsequent registration and/or use.<sup>184</sup>

Protection of well-known marks against subsequent registration was introduced in a new clause into the Bill in its version “2001 No 124—2” and eventually was adopted as s 25 of the TMA 2002:

25 Registrability of identical or similar trade marks

(1) The Commissioner must not register as trade mark (trade mark A) in respect of any goods or services if—

(a) ...

(b) ...

(c) it is, or an essential element of it is, identical or similar to, or a translation of, a trade mark that is well known in New Zealand (trade mark D), whether through advertising or otherwise, in respect of those goods or services or similar goods or services or any other goods or services if the use of trade mark A would be taken as indicating a connection in the course of trade between those other goods or services and the owner of trade mark D, and would be likely to prejudice the interests of the owner.

Section 25(1)(c) TMA 2002 (NZ) strikingly resembles art 16(3) TRIPS.

Sumpter argues section 25(1)(c) TMA 2002 (NZ) to be a provision protecting trademarks of

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<sup>182</sup> Cl 25(1), subclause (b).

<sup>183</sup> Trade Marks Bill 2001 (NZ) Part “Summary”, Commentary at 1.

<sup>184</sup> “Protection of well known trade marks

“Clauses 25 and 26 are intended to provide protection against the registration of a trade mark that is identical or similar to another registered or well known trade mark belonging to a different owner in respect of identical or similar goods and/or services. However, as currently drafted these clauses do not provide comprehensive protection for well-known trade marks in relation to dissimilar goods and services. For example, as drafted the clauses would allow the registration of a trade mark for services even though there is an identical or similar well-known trade mark belonging to a different owner in respect of goods.

“We recommend that the clauses be merged to become one clause that covers the registrability of identical or similar trade marks with respect to identical, similar and dissimilar goods or services. We also recommend the removal of the requirement that there be a likelihood of deception or confusion on behalf of the public where a trade mark is registered which is identical to an existing registered trade mark belonging to another owner in respect of identical goods and/or services. This is consistent with Article 16 of the TRIPS agreement. ... .” Trade Marks Bill 2001 (NZ), Commentary at 3.

well-known status “in part, ... against ‘dilution’ .”<sup>185</sup> He bases this upon the appraisal that the “previous requirement in the old legislation (and in the original Bill) that there must also be likelihood of deception or confusion has been removed.”<sup>186</sup> And he notes that this “takes the protection further than ... required by art 16 of TRIPS.”<sup>187</sup> On the other hand Sumpter also points out that the phrase “connection in the course of trade”<sup>188</sup> in s 25(1)(c) appears to be derived from the traditional definition of a trademark in the former TMA 1953 (NZ) which denoted trade origin and/or trade source.<sup>189</sup> The connection which needs to be indicated in s 25(1)(c) would then be “exclusively as to trade source” and consequently “imply the need for an element of confusion.”<sup>190</sup> This analysis properly sums up the enigma which s 25(1)(c) poses.

It will be remembered from the discussions above that, in fact, the additional requirement in the former s 17 TMA 1953 (NZ) of confusion or deception entailed a certain degree of ‘double accounting’ with respect to the presence already of “indicating a connection” in the very same subsection. It could hence be argued that the retained connection requirement still demands for the presence of confusion and hence firmly ties the new s 25 TMA 2002 (NZ) to a traditional confusion of source concept.

It will be recalled as well that the question of an implied confusion criterion needed to be answered for the equivalent provisions in EUTMDir, arts 4(4)(a) and 5(2). The ECJ eventually decided that the provisions on extended protection of trademarks did not require the showing of confusion. However, whereas s 89(1)(d) TMA 2002 (NZ) is worded very closely along the lines of the European and United Kingdom provisions this does not account for s 25(1)(c) of the same Act. The differences suggest that the ECJ’s appraisal cannot be transposed for the purposes of s 25(1)(c) TMA 2002 (NZ).

On the other hand, upon a very broad construction of the connection requirement as well as of prejudice to the interests of the trademark owner one might just as easily arrive at protection against tarnishment, taking unfair advantage, and detriment to a trademark’s distinctive character. Such a broad interpretation of s 25(1)(c) is at least conceivable because the Section

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<sup>185</sup> P Sumpter *Trade Marks in Practice* (LexisNexis, Wellington, 2004) at 93.

<sup>186</sup> Sumpter, above n 185 at 93.

<sup>187</sup> Sumpter, above n 185 at 93.

<sup>188</sup> TMA 2002 (NZ), s 25(1)(c).

<sup>189</sup> Sumpter, above n 185 at 96; referencing *Ferodo Ltd’s Application* (1945) 62 RPC 111 and *Villa Maria Wines Ltd v Montana Wines Ltd* [1984] 2 NZLR 422 at 431–432.

<sup>190</sup> Sumpter, above n 185 at 96.

is not of necessity tied to a confusion of source concept. Even though the wording is the same as art 16(3) TRIPS, s 25(1)(c) does not underlie the same constrictions. The direct reference to PC, art 6*bis* is absent in the latter. All conceivable variants of interpretation of s 25(1)(c) are within the realm of possibilities. A slant towards an ‘anti-dilution’ style protection instead of only protecting against confusion and derivatives of confusion seems not entirely excluded.

Sumpter makes an interesting observation with respect to the interplay of ss 25(1)(a) through (c). He contemplates that in the case of s 25(1)(c) “the most common form of prejudice will be confusion or deception as to trade origin.”<sup>191</sup> He concludes that in instances of a senior well-known trademark and a subsequent application for registration of the same mark for the same or similar goods or services s 25(1)(c)’s “prejudicial harm must be something other than the likelihood of deception or confusion”, because “otherwise this would render s 25(1)(b) redundant” since the latter Section already deals with cases of subsequent registrations for the same or similar goods or services and is inclusive of all types of marks. He then goes on to suggest that if accord with s 89(1)(d) TMA 2002 (NZ) were to be sought then “indicating a connection in the course of trade” as well as “prejudice to the interests of the owner” would need to be construed broadly and as embracing ‘dilution’.<sup>192</sup> Ultimately, however, Sumpter concludes that the “fact that entirely different wording is used implies that the section [s 25(1)(c)] will embrace a different form of prejudice and different requirements of proof”<sup>193</sup> than s 89(1)(d).

It is submitted here, that one further matter needs to be taken into consideration when appreciating ss 25(1)(a)-(c) TMA 2002 (NZ). Subsection 25(1)(c) is, indeed in no way redundant nor superfluous – not even in instances of identical or similar goods or services. Sumpter is certainly correct with his appraisal as regards the interrelationship of the types of damage. However, the substantial difference between subsections 25(1)(a) and (b) on the one hand and subsection 25(1)(c) on the other hand lies with the fact that the former two require the senior trademark to be on the register in New Zealand whereas the latter confers protection exactly in those instances where the senior trademark is solely well-known but not registered.

It follows that constraining section 25(1)(c) to a confusion standard does not render the

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<sup>191</sup> Sumpter, above n 185 at 94.

<sup>192</sup> Sumpter, above n 185 at 94.

<sup>193</sup> Sumpter, above n 185 at 94.

Subsection redundant. The Subsection rather retains its very own definite and distinct purpose for well-known trademarks which exactly matches the PC, art *6bis*-designed policy rationale.

In accordance with the interpretative possibilities expounded above, it is suggested here that the greater likelihood and the construction which puts the least strain upon the wording rests with s 25(1)(c) as being founded upon a (expanded) confusion of source concept. This conforms with the fact that the changes to s 25(1)(c) appear to have been made mainly to remedy the former s 17's 'double accounting' and ensuring s 25(1)(c)'s comity with art 16 TRIPS and art *6bis* PC.

This assessment of s 25(1)(c) as a confusion-based provision is sustained by the fact that s 25(1)(c) is drafted in a distinctly different way from the requirements s 89(1)(d) establishes. This accounts not only for one but two aspects: first there is no connection, or confusion, or deception pre-requisite in s 89(1)(d) at all. Secondly, the way the type of harm is outlined is fundamentally different. It follows that s 25(1)(c) must be interpreted on its own and does not confer an identical scope of protection as s 89(1)(d).

It is hence submitted that section 25(1)(c) is only meant to protect on the level of an expanded confusion concept but is not, as opposed to s 89(1)(d), an 'anti-dilution' provision. Especially, s 25(1)(c) misses an explicit mention of the crucial criterion of detriment to distinctive character.

### (3) Drafting History of Section 89(1)(d) Trade Marks Act 2002

Section 89(1)(d) was not present in the Bill as it was first introduced into Parliament. In fact, in the Bill's Part 4 "Legal Proceedings" there were no provisions at all concerning the protection of well-known marks. Nor was there envisaged any protection of marks against non-confusing uses irrespective of the similarities of goods or services. Moreover, the Bill stuck to a strict requirement of confusion and deception for all cases of infringement except for the one where an identical trademark would be used upon identical goods or services for which the likelihood of confusion was presumed.

The provision in the current s 89(1)(d) TMA 2002 (NZ) as enacted found its way into the Bill after the Select Committee stage and here, again, the Select Committee Report can be of assistance in understanding the purpose of the changes:

## Protection of well known trade marks

...

We recommend that clause 89 be amended to provide for infringement when someone other than the owner of a well-known trade mark uses the well-known trade mark in respect of dissimilar goods and/or services in situations where that use of the trade mark would indicate a connection in trade, the trade mark has a reputation in New Zealand and where the interests of the owner are likely to be damaged by such use.

We also recommend an amendment to clause 89(2) to provide that a trade mark is infringed in the circumstances set out in clause 89(1) only if the use is in such a manner as to render the use of the sign likely to be taken as being use of as a trade mark. This amendment ensures the scope of infringement right currently provided under section 8(1A)(d) of the current Act is carried over into the bill.<sup>194</sup>

The Select Committee recommendation would have been both closer to the provisions in art 16(3) TRIPS as well as to the wording in s 25(1)(c) TMA 2002 (NZ).

Strangely enough, this Select Committee recommendation is in no way reflected in the wording of s 89(1)(d) as eventually enacted. Section 89(1)(d) as enacted in the TMA 2002 (NZ) states:

89 – Infringement where identical or similar sign used in the course of trade  
(1) A person infringes a registered trade mark if the person does not have the right to use the registered trade mark and uses in the course of trade a sign—

...

(d) identical with or similar to the registered trade mark in relation to any goods or services that are not similar to the goods or services in respect of which the trade mark is registered where the trade mark is well known in New Zealand and the use of the sign takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the mark.

The Section as finally drafted and enacted in the TMA 2002 (NZ) rather resembles the United Kingdom provision in s 10(3) TMA 1994 (UK)<sup>195</sup> as it was originally enacted by the British Parliament before it underwent the changes which took account of the ECJ's decisions in *Adidas-Salomon v Fitnessworld*<sup>196</sup> and *Zino Davidoff v Gofkid*<sup>197</sup>.

It follows that s 89(1)(d) TMA 2002 (NZ) poses the same interpretative problems as the

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<sup>194</sup> Trade Marks Bill 2001 (NZ), Commentary at 3.

<sup>195</sup> “10 – Infringement of registered trade mark

“

“

“(3) A person infringes a registered trade mark if he uses in the course of trade a sign which—

“(a) is identical with or similar to the trade mark, and

“(b) is used in relation to goods or services which are not similar to those for which the trade mark is registered, where the trade mark has a reputation in the United Kingdom and the use of the sign, being without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.

“ . . . ”

<sup>196</sup> C-408/01 *Adidas-Salomon AG and Adidas Benelux BV v Fitnessworld Trading Ltd* (ECJ 23 October 2003).

<sup>197</sup> C-292/00 *Davidoff & Cie SA and Zino Davidoff SA v Gofkid Ltd* (ECJ 09 January 2003).

former s 10(3) TMA 1994 (UK) and arts 4(4)(a) and 5(2) EUTMDir. It is suggested here that these will most logically be solved in the same way as the ECJ decided in *Adidas-Salomon v Fitnessworld*<sup>198</sup>, in *Zino Davidoff v Gofkid*<sup>199</sup> and in *SABEL BV v Puma AG*<sup>200</sup>, namely that s 89(1)(d) will apply, by extension, not only to dissimilar but also to identical and similar goods and/or services and that confusion is not an implied requirement.

There are also differences between the United Kingdom provision and the New Zealand one, though. New Zealand Parliament decided to enact s 89(1)(d) without the requirement that the use must be “without due cause”. Also, “well known” instead of “reputation” was chosen as the standard for the level of consumer recognition which needs to be attained by the mark in order to qualify for this type of protection.

In summary, the New Zealand Section can certainly said to be modelled upon the corresponding United Kingdom provision,<sup>201</sup> albeit s 89(1)(d) clearly also retains a certain degree of autonomy. The major issue is how “well known” is to be interpreted.

A real discrepancy between s 89(1)(d) TMA 2002 (NZ) and s 10(3) TMA 1994 (UK) possibly exists with respect to the consumer recognition thresholds of “well known” and “reputation”.<sup>202</sup> As was suggested in *General Motors Corp v Yplon SA* by AG Jacobs “well known” may be a higher threshold to overcome than “reputation”.<sup>203</sup> AG Jacobs bases this assessment not so much upon the difference of the actual words but rather on the differing policy principles between PC, art 6*bis* and the EUTMDir, arts 4(4)(a) and 5(2):<sup>204</sup>

The purpose of the protection afforded to well-known marks under those provisions [Paris Convention, art 6*bis* and TRIPS Agreement, art 16(3)] appears to have been to provide special protection for well-known marks against exploitation in countries where they are not yet registered.

The protection of well-known marks under the Paris Convention and TRIPs is accordingly an exceptional type of protection afforded even to unregistered marks. It would not be surprising therefore if the requirement of being well-known imposed a relatively high standard for a mark to benefit from such exceptional protection. There is no such consideration in the case of marks with a reputation.

He then proceeds to concede that arts 4(4)(a) and 5(2) EUTMDir also represent an aberration

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<sup>198</sup> C-408/01 *Adidas-Salomon AG and Adidas Benelux BV v Fitnessworld Trading Ltd* (ECJ 23 October 2003).

<sup>199</sup> C-292/00 *Davidoff & Cie SA and Zino Davidoff SA v Gofkid Ltd* (ECJ 09 January 2003).

<sup>200</sup> C-251/95 *SABEL BV v Puma AG, Rudolf Dassler Sport* (ECJ 11 November 1997).

<sup>201</sup> Sumpter, above n 185 at 182.

<sup>202</sup> Compare for this also Sumpter, above n 185 at 182–184.

<sup>203</sup> C-375/97 *General Motors Corp v Yplon SA* (Opinion AG Jacobs) at [31][44].

<sup>204</sup> C-375/97 *General Motors Corp v Yplon SA* (Opinion AG Jacobs) at [32]–[33].

from the traditional concepts of trademark law: they both deviate from the established principle of speciality, according to which trademarks are only protected within the scope of their specification on the register.<sup>205</sup> However, arts 4(4)(a) and 5(2) enable the courts to prevent an “unduly extensive protection”<sup>206</sup> on a twofold basis: first, there are, in addition to the quantitative recognition threshold, the requirements that there must be detriment to or taking unfair advantage of distinctive character or repute; secondly, mere likelihood of these prejudices to the trademark is not sufficient. The Articles’ wording is in the present tense so that the “court must be satisfied by evidence of actual detriment, or of unfair advantage.”<sup>207</sup> Both limiting criteria can be approached very restrictively by the courts and thus there lies no danger in a somewhat lower ‘entrance level’ when only reputation and not ‘well-known-ness’ is required in order to claim protection under the EUTMDir. In comparison, in TRIPS and Paris Convention such restraining measures are missing and the qualification threshold must hence be higher.

It follows from these explanations that AG Jacobs’ appreciation is not based upon the wording of the recognition thresholds but on the policy considerations. He concludes that “reputation” will need to be “interpreted as meaning a mark which is known to a significant part of the relevant sectors of the public, but which need not attain the same degree of renown as a mark which is well known within the meaning of the Paris Convention.”<sup>208</sup> As we have seen, this is based upon the deliberation that there is ‘no harm done’ by interpreting the threshold so that it can be more easily overcome because this can be reined in via other requirements present in the EUTMDir. The ECJ in its decision in *General Motors Corp v Yplon SA* followed AG Jacobs in that respect.

In conclusion, when interpreting s 89(1)(d) TMA 2002 (NZ) the mere wording of the Section as requiring a well-known trademark does not necessarily mean that a commensurate level as for the policy purposes of PC, art 6*bis* would need to be attained by the trademark.

The former s 36 TMA 1953 (NZ) also contained the requirement of “well known”. However, for the interpretation of s 89(1)(d) the former s 36 is not really of assistance, either. First, “well known” within the former s 36 has never been properly defined. Secondly, during the 1994 Amendments the threshold for attaining protection was actually lowered by removing

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<sup>205</sup> C-375/97 *General Motors Corp v Yplon SA* (Opinion AG Jacobs) at [38].

<sup>206</sup> C-375/97 *General Motors Corp v Yplon SA* (Opinion AG Jacobs) at [42].

<sup>207</sup> C-375/97 *General Motors Corp v Yplon SA* (Opinion AG Jacobs) at [43].

<sup>208</sup> C-375/97 *General Motors Corp v Yplon SA* (Opinion AG Jacobs) at [44].



the necessity to show that the word mark was an invented one. The latter does not necessarily have a direct bearing on an interpretation of “well known”. It does, however, display Parliament’s general notion that obtainment of protection was meant to be made more readily available under s 36. Consequently, it cannot be ascertained whether a high or low threshold for “well known” would have been the adequate interpretation. The additional requirement of “indicating a connection” had been retained so that a low threshold of “well known” could, potentially, have been reined in via this additional criterion but the additional constrictions of former s 36 do not have the equal capacity as the ones in the EUTMDir. It seems that a high threshold for “well known” would have been the more provident interpretation. Nothing is certain in this respect, though.

A clue for the construction of “well known” within s 89(1)(d) can perhaps be gained from yet another aspect, though. In the United Kingdom 1994 Act there is – next to ss 10(3) and 5(3) – contained in s 56 a separate provision for Paris Convention marks. No such separate treatment is envisaged by TMA 2002 (NZ). This could be a hint that Paris Convention marks are to be treated under the pertinent provisions ss 25(1)(c) and 89(1)(d). However, s 25(1)(c) is very closely worded to Paris Convention and TRIPS whereas s 89(1)(d) is not. In addition, s 89(1)(d) requires the trademark to be registered whereas no such pre-requisite exists in s 25(1)(c). Building upon AG Jacob’s differentiation expounded above, a reasonable approach to limit the extent of the protection conferred could then be that s 89(1)(d) with its additional constraining criteria would require a lower degree of consumer recognition, e.g. as is proposed for “reputation” in the United Kingdom and the European Union. Conversely, for s 25(1)(c) which does not contain any further limiting restrictions there would need to be applied the higher threshold equivalent to Paris Convention and TRIPS. The drawback to such an approach would, obviously, be two different constructions for the word “well known” within one and the same Statute. A somewhat undesirable state.

In proposing this, nothing is determined about the actual degrees of public recognition. Only the relative degrees of recognition of the Sections in relation to one another is addressed. In addition, there would still need to be clarified whether recognition within only a relevant sector of the public would be sufficient or whether recognition by the general public at large would be required.

The issue of the precise degree and scope of consumer recognition aside, what is clear about

s 89(1)(d) is that it is an ‘anti-dilution’ provision. Protection against subsequent uses is afforded irrespective of the closeness of the goods or services. No confusion and not even a “connection in the course of trade” are necessary ingredients of the action. Unfortunately, just as with the other jurisdictions, s 89(1)(d) also comprises an entire array of different types of damage under one single criterion: well known. There is no differentiation according to the different variants of harm. There is no requirement of distinctiveness in order to profit from the protection against detriment to distinctive character.

#### (4) Summary of Trade Marks Act 2002 NZ

In conclusion, while s 89(1)(d) TMA 2002 (NZ) is an ‘anti-dilution’ provision, s 25(1)(c) must be viewed differently. Section 25(1)(c), arguably, provides protection more along the lines of a concept of expanded confusion of source rather than against non-confusing uses.

Furthermore, it is proposed here that the differences in ss 89(1)(d) 25(1)(c) in contrast to the United Kingdom’s provisions indicate that the New Zealand provisions are distinctly different from the United Kingdom’s precursors. Therefore it appears reasonable to develop a course independent of the United Kingdom and the European Union when approaching the New Zealand provisions. Or, as Sumpter puts it:

Because the UK Act was based upon the EC Trade Mark Directive and our Act is not, the cases decided since 1994 in the UK, as well as ECJ decisions themselves, may not necessarily be the right approach in New Zealand. ... The general view taken is that ECJ decisions should be treated a tad cautiously.<sup>209</sup>

In support of this appraisal of Sumpter we can additionally adduce here that especially with regard to European Union influences caution is indeed advisable. One of the European Union’s main purposes is, after all, the establishment and functioning of the Single Market. The EUTMDir was adopted with that very purpose in mind. The Directive was meant to address the “disparities which may impede the free movement of goods and freedom to provide services and may distort competition within the common market” and it was adopted “in view of the establishment and functioning of the internal market”.<sup>210</sup> Just as with TRIPS, the main focus is hence not necessarily the establishment of a logically sound, principled and

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<sup>209</sup> Sumpter, above n 185 at 84.

<sup>210</sup> EUTMDir recital 1.

coherent trademark law system but rather to advert to potential barriers to trade. ECJ decisions may, hence, if only impliedly, always have superimposed over the actual trademark issues the pre-eminent concerns and deliberations with respect to trade within the Single Market.

It follows that New Zealand's approach to the issue of 'anti-dilution' provisions ought to be regarded independently and autonomously from the one in the European Union and the United Kingdom. Decisional law emanating from those jurisdictions will merely be of persuasive authority, if at all. Or, as the 1990 Ministry of Commerce Discussion Paper advances:

Chapter 2

2.0 The International Environment

...

2.2.2 Other Relationships

...

As with many other aspects of the New Zealand/United Kingdom relationship, it is no longer necessarily appropriate that New Zealand should mirror the United Kingdom in industrial property laws. Major changes have been made to the United Kingdom system consistent with that country's membership of the EC and for the European Patent Convention.<sup>211</sup>

New Zealand takes its very own approach to the qualification criterion of consumer recognition. Taking into account the drafting history of the respective provisions, support in construing what is entailed by the concept of "well known" can possibly be taken from two sources.

First, the work of WIPO towards a common international standard in the Joint Recommendation contains advice on which factors need to be taken into consideration when ascertaining whether or not a trademark is well known.

Secondly, it is suggested, authorities concerned with "well known" in relation to the former s 36 TMA 1953 as well as the corresponding former United Kingdom provisions in s 27 TMA 1938 (UK) and their regimes of defensive registrations may be regarded as still being good law. Unfortunately, such authorities are more than rare because of the way the former defensive registration system has been marginalised by the courts.<sup>212</sup> One possible candidate is the decision in *Ferodo Ltd's Application*<sup>213</sup> which is not particularly helpful in giving a

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<sup>211</sup> 1990 Ministry of Commerce Discussion Paper, above n 148 at 7.

<sup>212</sup> CDG Pickering *Trade Marks in Theory and Practice* (Hart Publishing, Oxford, 1998) at 110.

<sup>213</sup> *Ferodo Ltd's Application* (1945) 62 RPC 111.

proper definition, though. Evershed J opined that the trademark under scrutiny must equate to being a “household name”.<sup>214</sup> This does not exactly advance our quest for what the degree of recognition needs to be for a trademark to be well known.

The former provision in s 36 TMA 1953 (NZ) envisaged a similar type of protection for the same type of trademarks and was capable of leading to the same outcome as today’s dilution provisions: a trademark’s singularity across all classes of a jurisdiction’s register. Also, the standard – in its literal wording – which trademarks needed to attain in order to achieve a defensive registration is the same as the one in New Zealand’s provisions on broader protection today: the trademark needed to be well known.

Already the 1990 Ministry of Commerce Discussion Paper had contemplated s 36 TMA 1953 (NZ) in connection with a protection which would have been conferred generally upon all well-known trademarks and not only invented word marks.<sup>215 216</sup>

Chapter 15  
15.0 Registrability of Marks

...

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<sup>214</sup> *Ferodo Ltd’s Application* (1945) 62 RPC 111 at 339.

<sup>215</sup> Further edification can be drawn from the Select Committee Report’s commentary on the Trade Marks Bill 2001 (NZ), Commentary at item 5 on the abolition of defensive trademarks:

“Defensive Trade Marks

“KPMG Legal, Simpson Grierson and Red Bull New Zealand Ltd are concerned that the bill makes no provision for defensive trade marks and in fact abolishes them under clause 205(3). The Act does provide for defensive trade marks under section 36. Section 36 enables an owner of a trade mark that has become well known in relation to particular goods and/or services to register a defensive trade mark in relation to any other goods and/or services. Unlike other trade marks defensive trade marks cannot be removed from the register for non-use.

“The decision to abolish defensive trade marks is taken on the basis that defensive trade marks have inherent limitations. Before a defensive trade mark can be registered there must be an existing registered trade mark with a high level of factual distinctiveness that is “so well known” that it has achieved a degree of notoriety. The test that is applied to an application to register a defensive trade mark is whether the public would associate the trade mark in the new class of goods or services with the existing registration. It is difficult for an applicant to establish that his or her registered trade mark has passed the necessary threshold for being “so well known” that its use on other goods indicates a trade connection with the owner. As a result, very few defensive trade marks are actually registered. IPONZ advises us that currently there are 89 defensive trade marks on the register, involving a total of only ten trade mark owners. There are 27 applications for defensive trade marks currently under examination, all of which have been lodged by the same applicant.

“In addition, the decision to abolish defensive trade marks took into account the fact that there are other forms of protection available to the owners of well known trade marks through the Fair Trading Act 1986 and the common law action of passing off. To strengthen protection for well known trade marks we have also recommended a number of additional measures be inserted into the bill. These include a transitional provision to enable existing defensive trade marks to continue to be registered as ordinary trade marks on the coming into force of the bill, and amendments to clauses 25, 26 and 89 to provide protection for well known marks.

“...

“National and ACT support the retention of defensive trade marks as a form of protection for established trade marks. Other developed countries would expect New Zealand to maintain the provisions for defensive trade marks.”

<sup>216</sup> 1990 Ministry of Commerce Discussion Paper, above n 148 at 123.

## 15.5 Possible Options for Reform

...

### Defensive trade marks

14 Repeal the provision on defensive trade marks and rely on Fair Trading Act and common law rights.

15 Extend the scope of section 36 to any Part A mark, or, if the register is unified, to any sufficiently “well-known” or “highly-renowned” mark.

Further support for the argument that s 89(1)(d) is in comity with the former s 36 can be taken from the Select Committee Report on the Trade Marks Bill 2001 (2001 No 124—2) (NZ). Therein the Select Committee explicitly juxtaposes the abolition of the former defensive registration system under the regime of s 36 TMA 1953 (NZ) with the introduction of the new system of protection of well-known trademarks against subsequent registration and use under ss 25(1)(c) and 89(1)(d) TMA 2002 (NZ):<sup>217</sup>

### Protection of well known trade marks

...

These amendments<sup>218</sup> would ensure that the bill explicitly complies with the TRIPS agreement and make the necessity for defensive trade marks redundant.

It should not be forgotten, however, that the Select Committee, of course, referred to the wording in its own suggestion, not to the wording which s 89(1)(d) received when enacted. Since s 89(1)(d) is arguably wider than the Select Committee’s approach, though, the Section actually also embraces the Select Committee’s narrower approach. Thus, the argument that s 89(1)(d)’s predecessor is the former s 36 still holds true. The defensive registration system can, after all, only become “redundant” due to the introduction of the new provisions if these protect essentially the same thing and afford at least a commensurate scope of protection to those well-known trademarks.

According to our analysis s 25(1)(c) and s 89(1)(d) differ in their scope of protection afforded to well-known trademarks. Whilst the former is arguably confined to a confusion of source concept the latter is an ‘anti-dilution’ provision protecting well-known trademarks irrespective of the presence or absence of confusion. Additionally, the two Sections will potentially also differ in the way how high a degree of consumer recognition will be required for their respective levels of ‘well known-ness’. The discrepancies between the Sections have the unfortunate consequence that owners of well-known trademarks will, under statutory trademark law, be able to prevent subsequent uses where, in the very same type of situation,

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<sup>217</sup> Trade Marks Bill 2001 (NZ), Commentary at 3.

<sup>218</sup> The amendments to ss 25 and 89 Trade Marks Bill 2001 (NZ).

they will not be able to prevent subsequent registration of a conflicting sign in spite of the fact that in both situations there might likely be commensurate damage to the senior trademark. The desirability of an harmonious standard of protection against uses as well as against registrations has already been pointed out in the 1990 Ministry of Commerce Discussion Paper in the context of potential revisions of the infringement provisions:<sup>219</sup>

Chapter 19

19.0 Infringement

...

19.4.2 Extent of Infringement

...

It would seem only reasonable that the rights a trade mark owner has when the mark has been infringed should be co-extensive with the rights to prevent subsequent registration of other marks for goods or services of the same description or closely related services or goods.

An equivalent appreciation was given, yet again, in the 1991 Ministry of Commerce Reform Report:<sup>220</sup>

Chapter 6

6.0 Infringement of Rights Granted by Registration

...

6.1 Definition of Infringement

...

There are also strong grounds for aligning the requirements for infringement with the requirements for registration. A trade mark owner has the right to prevent subsequent registration of similar marks not only for the particular specification of goods or services for which the mark is registered, but also for goods or services of the same description or closely related services and goods.

The Ministry therefore proposes that the definition of infringement should include use in relation to similar goods or services.

Unfortunately, we need to conclude that the TMA 2002 (NZ) has achieved this goal of harmonious protection only for regular, non-well-known trademarks. With respect to an harmonious standard for well-known trademarks the TMA 2002 (NZ) has certainly failed to achieve such accord between the infringement provisions and the ones with relate to relative grounds for refusal.

The owners of well-known trademarks will have to take recourse to an action for passing off in cases where they deem the respective protection of s 25(1)(c) TMA 2002 (NZ) as insufficient. But if s 25(1)(c) is adjudged to only convey protection in case of extended confusion of source, then there is not much to be gained in a parallel count of passing off

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<sup>219</sup> 1990 Ministry of Commerce Discussion Paper, above n 148 at 159.

<sup>220</sup> 1991 Ministry of Commerce Reform Report, above n 150 at 26–27.

since this, as well, requires misrepresentation to be present.

In instances where infringement due to subsequent use is at issue passing off and Fair Trading Act 1986 will possibly be of avail to the owner of a senior well-known trademark which is not registered. But these will be of a more limited scope as opposed to s 89(1)(d) which does not require confusion.

#### **D. Conclusion to Chapter Exposition**

Comparing the originally fairly clear policy rationale of the Paris Convention with how the ‘concept’ of expanded trademark protection has progressed in TRIPS and the various domestic legal systems one cannot help but notice that something has gone astray. The Paris Convention’s ‘well-known paradigm’ with its ambit of protecting against interlopers those marks which operate on a global, international scale<sup>221</sup> has become estranged to its roots. Based upon a quantitative consumer recognition threshold nowadays is granted a “virtual exclusive property right in a trademark to its owner”.<sup>222</sup> Irrespective of the qualitative distinctiveness of the sign or symbol underpinning a trademark extensive rights are conferred as long the threshold requirement of the various quantitative consumer recognition criteria is overcome. That is, the respective trademark gets vast protection irrespective of whether or not the underlying word is part of the common language or, indeed, as Schechter intended, unique and singular.

Also, all jurisdictions have – at least to some degree – gone beyond what the international conventions actually require. If we recall the analysis of the international conventions as undertaken in this Comment and if we stick with our appraisal then the international treaties do not require trademark regimes to go beyond the concept of an extended confusion of source.

The Paris Convention’s and – to an extent – the TRIPS’s policy rationale is clearly one based upon the prevention of free-riding, misappropriation and unjust enrichment in instances where there is blatant misuse and bad faith is patently obvious.

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<sup>221</sup> E.g. the ones which would appear as major/main sponsors of, for instance, the Olympic Games or the Football World Cup, and hence will be known to almost everyone on the entire planet, no matter whether they will be actually trading in a country or not.

<sup>222</sup> DS Welkowitz “Reexamining Trademark Dilution” (1991) 44 Vanderbilt Law Review 531 at 532.

What has become of this within the various national jurisdictions is that this clear former principle is hardly recognisable at all. All jurisdictions under consideration establish a uniform (read: indiscriminate) quantitative consumer recognition requirement for the broader standard of protection of trademarks. This is done irrespective of the conglomerate of different policy rationales underlying tarnishment, detriment to distinctive character and broad free riding considerations. All jurisdictions employ the broad brush approach of a uniform quantitative qualification threshold for a plethora of different types of harm.

The consumer recognition threshold criterion, by its nature, entails ramifications mainly for marks with international repute. From the perspective of internationally operating trademark owners (and also for all other traders who participate in the market) an internationally harmonious standard would seem desirable. This, however, is not the case under the current circumstances with the EU connecting its threshold recognition to “the relevant select customer group” and the US tying their protection to “recognised by the general public”.

In that sense, TRIPS may have achieved broader protection for well-known marks but has failed to achieve international harmony for ‘acquisition’ of this standard. With respect to the latter, one can only speak of approximation but not harmonisation. Perhaps this is due to the fact that both, the EUTMDir as well as the FTDA 1995 are pre-Joint Recommendation and the EUTMDir is even pre TRIPS. However, at least the US would have had the chance to overhaul their system to a “well known” instead of a “famous” standard with the enactment of the TDRA 2005. They have however failed to do so or at least chosen not to do so.

With respect to the New Zealand provisions all that can be said with certainty is that the criterion of “well known” will be a quantitative qualification threshold. This accords with the plain wording of the requirement and will ensure comity with New Zealand’s international obligations. As pertains to the details of what exact quantitative levels of ‘well-known-ness’ will be required in accordance with ss 25(1)(c) and 89(1)(d), unfortunately, all that can be said is, that this remains at large.



### III. What Schechterian Singularity Protection Really Is About

#### A. Introduction

As we have pointed out in our analysis above, the current system of broader protection in statutory trademark law is based upon the concept of establishing a quantitative consumer recognition threshold for differentiating whether or not a trademark will be afforded protection under this scheme. The questions which ensue are whether this is inherent to the doctrine of ‘dilution’ as conceived by Schechter and whether the doctrine, perhaps, was thus flawed from its very inception. Both questions can clearly be answered in the negative. In fact, it may even safely be claimed that what is being applied in statutory trademark law today has – at least with respect to the prerequisites for obtaining the broader type of trademark protection – next to nothing in common with Schechter’s original proposal. As was eloquently put by Stadler Nelson, Schechter cannot only “provide us with insights into a concept that (even now) is poorly understood” but his “conception of trademark dilution simply makes more sense than the doctrine being applied by the courts today.”<sup>1</sup>

It is this Author’s contention that not only is the fame criterion as implemented fallacious with reference to protecting a trademark’s uniqueness. More importantly, it is also not what Schechter conceived of. It will be shown that Schechter’s doctrine aims to protect a trademark’s quality as an individual and unique sign, not a trademark’s quantitative level of consumer recognition. What Schechter really intended to protect he explained in a statement when testifying during a Congressional hearing in 1932 in front of a committee:<sup>2</sup>

[T]he person who has the trade-mark should be able to prevent other people from *vitiating the originality, the uniqueness* of that mark.

It is patently obvious that this means something very different from eroding a mark’s reputation, fame, or any other element which could be described as a trademark’s quantitative degree of consumer recognition.

Schechter endeavoured to protect the trademark-based trade identity founded upon a unique

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<sup>1</sup> S Stadler Nelson “The Wages of Ubiquity in Trademark Law” (2003) 88 Iowa Law Review 731 at 736 [Stadler Nelson “Wages of Ubiquity”].

<sup>2</sup> Hearings before the House Committee on Patents, 72d Cong, 1st Sess 15 (1932), quote as rendered by WJ Derenberg “The Problem of Trademark Dilution and the Antidilution Statutes” (1956) 44 California Law Review 439 at 449 (emphases added) [Derenberg “Trademark Dilution”].

sign which serves as a focal point for the public's considerations of goodwill. Such a unique symbol forges a 're-personalised', individualised trade experience for customers within an economic market environment which is growing more and more anonymised. Under these circumstances, traders and manufacturers on the one side and the public and consumers on the other side become more and more alienated and estranged to one another. Isolated from one another by an increasingly complex chain of distribution and other societal changes trademarks have become the only bearers of trade identity. Considerations pertaining to the goodwill attach solely to trademarks themselves not to the entities which remain anonymous behind the trademarks. Schechter's conclusion is that attribution, ascription and recollection of goodwill considerations pertaining to a particular trademark and, at the same time, communication via advertising and marketing will be the more effective the more readily the trademark is 'individualisable' for the consuming public.

As a result, Schechter developed his proposal that a trademark should be unique and singular. If these qualities were present in the underlying sign of the trademark, such trademark should be given protection of its uniqueness and singularity. It is advanced in this Comment that for Schechter the basis of relief is constituted in the individual trademark-based trade identity which is founded upon a trademark's uniqueness and singularity. This is a concept entirely different from a trademark's reputation, repute, esteem, prestige or fame.

For the structure of this Chapter we will follow Schechter's footsteps as he bases his conclusions upon an astute analysis of how the realities of commerce and the function of trademarks have changed over the course of history. He accurately determines the difference in trademarks' functions within a pre-industrialised civilisation as opposed to a post-industrialisation market place. He notes the marked differences between the personalised trade relationships of yore and the anonymity of trade relations in a modern market economy with its estranged and alienated sides to both ends of the chain of distribution. Schechter establishes that in times of an anonymised market place and estranged trade relationships trademark law's source theory is obsolete. Traders, as a consequence of being unknown as the actual source of wares and services, are heavily reliant upon their appurtenant trademarks as a substitute for and as the embodiment of their personal trade identity which remains anonymous in the modern day market place.

The conventional account of Schechter runs along the lines that he mainly wanted to protect a

trademark's economic value as the manifestation of a trademark owner's financial investment and advertising effort. In contrast, this Comment will argue that a trademark's 'selling power' which Schechter conceived of is directly connected to his endeavours to find a more objective standard for determining which trademarks should be afforded broader protection. The concept of selling power in a trademark, to Schechter, is not to be understood as a trademark's value in an economic sense. Instead, selling power is embodied in a unique trademark's capacity to denote one single trade identity only. Schechter first expounded this scheme of trademark protection in his 1927 Harvard Law Review article "The Rational Basis of Trademark Protection"<sup>3</sup> ("Rational Basis"). In one of Schechter's later journal articles, "Fog and Fiction in Trade-Mark Protection",<sup>4</sup> can be found a concise statement summarising his theory:<sup>5</sup>

The real heart of the matter seems to be that a trade-mark, both as a symbol and as a creative agency of its owner's good will, depends for its value upon its hold upon the public mind; this value may be diminished or even destroyed either by a diversion of trade from the owner of the mark (where it is used by another upon competing goods) or even in the case of its use upon non-competing goods, and especially when the mark is coined or fanciful, by the gradual dilution or whittling away of its uniqueness—and hence of its selling power.

The value of a trademark hence lies in the trademark as a symbol and as a creative agency. This is what makes a trademark a trader's most efficient tool within the market place.

It is further argued in this Comment that Schechter views his theory as beneficial for traders and consumers alike. By virtue of unique symbols of trade identity both are enabled to rely upon trademarks as unequivocal distinguishable token and as unambiguous facilitators of the market mechanism. It is the "originality and ingenuity in their contrivance"<sup>6</sup> which makes a unique trademark an exclusive denominator of one single trade identity and this is what equates to the trademark's selling power. It is the objectively defined singularity of the trademark's underpinning sign in consumers' apperception which determines whether the trademark is sufficiently individual and unique to enjoy an absolute standard of protection. Conversely, what does not entail any bearing upon whether a trademark is singular and unique are the amount of financial investment and advertising effort upon a trademark as well

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<sup>3</sup> FI Schechter "The Rational Basis of Trademark Protection" (1927) 40 Harvard Law Review 813 [Schechter "Rational Basis"], reprinted in (1927) 22 Trademark Bulletin 139 and in (1970) 60 Trademark Reporter 334.

<sup>4</sup> FI Schechter "Fog and Fiction in Trade-Mark Protection" (1936) Columbia Law Review 36 [Schechter "Fog and Fiction"].

<sup>5</sup> Schechter "Fog and Fiction" above n 4 at 65.

<sup>6</sup> Schechter "Rational Basis" above n 3 at 830.

as the subjectively estimated criterion whether a particular trademark can muster a higher degree of quantitative consumer recognition than others.

## **B. Schechter's Rational Basis: Incomprehensible on Its Own**

With regard to Schechter's seminal 1927 Harvard Law Review article "The Rational Basis of Trademark Protection"<sup>7</sup> it has been maintained that it contained "holes"<sup>8</sup> and suffered from "shortcomings".<sup>9</sup> It has also been noted that the Article was too terse and too brief to be comprehensible in a satisfactory manner.<sup>10</sup> In part, these appraisals are certainly correct. Schechter's "Rational Basis" is rendered in a highly compressed manner. However, it cannot be asserted that the basic tenets of Schechter's theory do not emerge clearly from the pages of "Rational Basis". Rather, it appears more likely that the notion of "holes" within "Rational Basis" is to be attributed to the pre-determined bias of the respective reader when approaching Schechter's article. Whosoever takes upon "Rational Basis" with the pre-conceived opinion to find extolled an argument for the protection of famous marks or for an abstract property right in trademarks will certainly be disappointed. Simply, because this is entirely not what "Rational Basis" is about. As has already been intimated above, Schechter's theorem rather is on trademarks' uniqueness and singularity. It is thus patently obvious why a reader with a pre-determined 'property bias' or someone on the quest for a 'theory on the famousness criterion for trademarks' should conceive the arguments extolled in "Rational Basis" as 'insufficient'.

On the other hand one needs to admit that Schechter's proposal on what should form the basis of relief in trademark cases cannot properly be comprehended in its entirety if the reader is only furnished with what is expounded in "Rational Basis". It would appear that Schechter wrote "Rational Basis" mainly with a highly adept academic audience and, perhaps, with his skilled peers from the trademark bar in mind. "Rational Basis" definitely addresses a type of reader who already possessed a proficient understanding of the pressing issues and current trends which obtained in trademark law at the time Schechter published his article. It is thus highly demanding upon any reader who endeavours to properly appreciate Schechter's

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<sup>7</sup> Schechter "Rational Basis" above n 3.

<sup>8</sup> LM Slenzak "Dilution Law in the United States and Canada: A Review of the State of the Law and a Proposal for United States Federal Dilution Protection" (1993) 83 Trademark Reporter 205 at 209.

<sup>9</sup> DE Mangis "When Almost Famous Just Isn't Famous Enough: Understanding Fame in the Federal Trademark Dilution Act as a Term of Art Requiring Minimal Distinctiveness" (2002) 21 Review of Litigation 455 at 461.

<sup>10</sup> HJ Shire "Dilution versus Deception—Are State Antidilution Laws an Appropriate Alternative to the Law of Infringement?" (1987) 77 Trademark Reporter 273; CB Wolf "Trademark Dilution: The Need for Reform" (1984) 74 Trademark Reporter 311.

“Rational Basis” based solely upon its own account. As a supplement to “Rational Basis” it is hence indispensable to undertake the effort of also acquiring some knowledge on Schechter’s 1925 doctoral thesis, *The Historical Foundations of the Law Relating to Trade-Marks* (*Historical Foundations*).<sup>11</sup> As Martino aptly notes:<sup>12</sup>

This later work<sup>13</sup> builds on the firm foundations established by the earlier.<sup>14</sup> It is hardly surprising therefore that it should present its readers only the edited highlights of the assiduous research which would underscore the dilution rationale.

In fact, Martino’s appraisal needs to be augmented by adding that one can make even more sense of “Rational Basis” if it is read not only together with *Historical Foundations* but, in addition, conjoined with two more of Schechter’s later journal articles: the 1936 “Fog and Fiction in Trade-Mark Protection” (“Fog and Fiction”)<sup>15</sup> and the 1937 “Trade Morals and Regulation: The American Scene” (“Trade Morals”).<sup>16</sup> Both of the last mentioned pieces confer additional insight into how Schechter responded to and absorbed later developments in the legal field. Both, “Fog and Fiction” and “Trade Morals”, can hence serve to add some more clarity as to what Schechter had in mind with his proposed doctrine.<sup>17</sup> It needs to be admitted, though, that these two works of Schechter’s can only contribute in a limited fashion to an interpretation of Schechter’s theory. The references therein to the ‘dilution’ theory are done more or less obliquely and only in passing. “Fog and Fiction” mainly revolves around the issue whether or not it would be constitutional for US Congress to pass substantive – as opposed to merely procedural – legislation on trademarks. “Trade Morals” is, at its core, a very extensive book report on Oppenheim’s *Cases on Trade Regulation*<sup>18</sup>, Schechter delivering further context to the cases discussed within Oppenheim’s book. When retracing Schechter’s steps toward his theory our main focus will accordingly remain with the much

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<sup>11</sup> FI Schechter *The Historical Foundations of the Law Relating to Trade-Marks* (short title on the book’s cover: *Historical Foundations of Trade-Mark Law*) (Columbia University Press, New York, 1925) [Schechter *Historical Foundations*].

<sup>12</sup> T Martino *Trademark Dilution* (Clarendon Press, Oxford, 1996) at 17.

<sup>13</sup> I.e. Schechter “Rational Basis” above n 3.

<sup>14</sup> Schechter *Historical Foundations* above n 11.

<sup>15</sup> Schechter “Fog and Fiction” above n 4.

<sup>16</sup> FI Schechter “Trade Morals and Regulation: The American Scene” (1937) 6 *Fordham L Rev* 190 [Schechter “Trade Morals”].

<sup>17</sup> More of Schechter’s writings can also be found in the following: “A Study in Comparative Trade Morals and Control” (1933) 19 *Virginia L Rev* 794; “The Law and Morals of Primitive Trade” in M Radin and AM Kidd *Legal Essays in Tribute to Orrin Kip McMurray* (University of California Press, Berkeley, California, 1935) 546; “Would Compulsory Licensing of Patents be Unconstitutional?” (1936) 22 *Virginia L Rev* 287. These pieces do, however, not relate to Schechter’s doctrine on ‘dilution’. They are hence not of relevance in the further course of this Comment. What these pieces of Schechter do evince, though, is that he was deeply concerned with the state of morals in trade.

<sup>18</sup> SC Oppenheim *Cases on Trade Regulation* (Series: American Casebook Series) (St Paul, Minnesota, West Publishing Co, 1936).

more relevant *Historical Foundations* and “Rational Basis” whereas “Fog and Fiction” and “Trade Morals” will merely be playing a subordinate role. The last two will only be referenced where they can be of supportive assistance.

### **C. Some Prefatory Matter: An Array of Common Misconceptions**

Before adverting to Schechter’s theory in detail we will first address a few sundry issues. These are not directly related to the way Schechter’s doctrine will find its interpretation within this Comment. They are, however, of immediate importance with reference to the tenet that Schechter has been continuously misconstrued. All of the lemmata which will be addressed in the succeeding paragraphs represent popular opinion on what Schechter purportedly proposed. The issues in the following paragraphs are of relevance with respect to the fact that they serve to portray popular constructions and assertions which do not truly find a foothold in what Schechter actually proposed. They represent the misconceived standard account of Schechter. These opinions are canvassed here so the reader be enabled to establish a clear contrast between popular misinterpretation and what Schechter truly conceived of.

#### **1. Did Schechter Truly Never Employ the Term ‘Dilution’?**

A popular misconception when interpreting Schechter’s doctrine is – as has frequently albeit fallaciously been stated – that Schechter never employed ‘dilution’ himself<sup>19</sup> or, alternatively, that he never used ‘dilution’ to describe the type of injury he endeavoured to enjoin.<sup>20</sup>

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<sup>19</sup> “Although Schechter never actually used the word ‘dilution’ to describe his proposal, he relied on several German dilution cases and thus his article has been construed as the genesis of dilution in American law.” GN Magliocca “One and Inseparable: Dilution and Infringement in Trademark Law” (2001) 85 *Minnesota L Rev* 949 at 975 [n 137]; “Interestingly enough, Schechter himself did not use that word. It likely was taken from a German case he cited in his article ...” Stadler Nelson “Wages of Ubiquity” above n 1 at 754 [n 145]; “Although he never used the words ‘dilution’ or ‘blurring,’ this famous passage from Schechter, with its ‘gradual whittling away’ phrase, became standard language for describing what we today call the blurring theory of dilution.” RG Bone “Schechter’s Ideas in Historical Context and Dilution’s Rocky Road” (2008) 24 *Santa Clara Computer and High Technology L J* 469 at 475–476 [Bone “Historical Context”].

<sup>20</sup> “Schechter never employed the term ‘dilution’ to describe the wrong he attacked, but the concept expressed in his article was clearly the progenitor of the first anti-dilution statute which was enacted in Massachusetts twenty years later.” BW Pattishall “The Dilution Rationale for Trademark—Trade Identity Protection, Its Progress and Prospects.” (1976) 71 *Northwestern University Law Review* 618 at 619 [Pattishall “Dilution Rationale”]; “‘Diluted’ appears, however, in his quotations from the opinion in the *Odol* case.” *ibid* at 619 [n 10]; “Schechter never actually referred to his theory as one protecting against ‘dilution,’ but rather as a basis providing ‘preservation of the uniqueness of a trademark’.” BW Pattishall “Dawning Acceptance of the Dilution Rationale for Trademark-Trade Identity Protection” (1984) 74 *Trademark Reporter* 289 at 289 [Pattishall “Dawning Acceptance”]; “‘Diluted’ appears, however, in his quotations from the opinion in the German *Odol* case, ...” *ibid* at 289 [n 2].

True enough, Schechter did not himself ‘officially’ dub his own proposal ‘the doctrine of dilution’ nor ‘the theory on dilution’ or the like. Also, it may very well have been accurately recognised by Bone<sup>21</sup> that it was, indeed, Callmann who actually termed this type of extended protection for trademarks as the ‘doctrine of dilution’ or ‘theory of dilution’.<sup>22</sup> Whosoever may have coined it as a piece of nomenclature, at any rate the term ‘dilution doctrine’ appears to have been commonly accepted as a convenient short-hand term for the concept by 1947 for in that year an appellate court held “that the ‘dilution doctrine’, as it may be called”<sup>23</sup> had, by that time, been established under that terminology.

Nevertheless, quite to the contrary of popular opinion Schechter did employ the term dilution himself to describe the type of harm he wanted to prevent. In his oft-overlooked later article “Fog and Fiction”<sup>24</sup> Schechter expresses “dilution” as an equivalent alternative explanation to “whittling away” when characterising the type of harm he had in mind. Schechter states that in case of a coined, arbitrary or fanciful trademark a subsequent use will be inimical to the senior trademark because of

the gradual *dilution* or whittling away of its uniqueness—and hence of its selling power.<sup>25</sup>

In addition, Schechter almost certainly deliberately endorsed ‘dilution’ as the translation of the German word ‘verwässert’ which is found in the well-known German *Odol* case.<sup>26</sup> The earliest translation of the German *Odol* case into the English language appears to have been rendered by Wertheimer in the 1925 US Trademark Bulletin.<sup>27</sup> However, neither the fact that this decision was handed down by the Landgericht Elberfeld, nor the citation of the judgment’s actual report in the German law journal<sup>28</sup> finds any mention in Wertheimer’s note. These appear to have been contributed by Schechter himself. Especially, the addendum “...

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<sup>21</sup> Bone “Historical Context” above n 19.

<sup>22</sup> “Callmann reserved a separate section for dilution; he unequivocally endorsed dilution as a distinct cause of action; he gave it the name ‘dilution’ (recall that Schechter never named it); ...” Bone “Historical Context” above n 19 at 499.

<sup>23</sup> *Pro-phy-lac-tic Brush Company v Jordan Marsh Company* 165 F 2d 549 (1st Cir 1984) at 553.

<sup>24</sup> Schechter “Fog and Fiction” above n 4.

<sup>25</sup> Schechter “Fog and Fiction” above n 4 at 65 (emphasis added).

<sup>26</sup> Landgericht Elberfeld [Civil Court of Elberfeld] in (1925) 25 *Juristische Wochenschrift* 502; (1925) XXV *Markenschutz und Wettbewerb* 264; [1924] *Gewerblicher Rechtsschutz und Urheberrecht (GRUR)* 204.

<sup>27</sup> L Wertheimer “Broadened Protection of Names and Trade-Marks under the German Law” (1925) 20 *Bulletin of the American Trade-Mark Association (New Series)* 75. In “Rational Basis” above n 3 at 832 [n 87], Schechter pretty much verbatim employs the wording as provided by Wertheimer.

<sup>28</sup> Schechter “Rational Basis” above n 3 at 832 [n 87]: “*Gewerblicher Rechtsschutz und Urheberrecht* (1924) 204–205”.

[*verwässert*] ...”<sup>29</sup> – present in “Rational Basis” – is not to be found in the translation as rendered by Wertheimer.

It would very much appear, that “... [*verwässert*] ...” was a deliberate addition by Schechter which he will most likely have gained nowhere else but from a consultation of the *Odol* decision in its German original. Opposed to what appears to be a widespread presupposition amongst academic writers on the ‘dilution’ rationale, Schechter was not ‘genuinely’ American but – as also was the case for Callmann<sup>30</sup> and Derenberg<sup>31</sup> – of German dissent. It is not only reasonable but rather highly likely that Schechter possessed considerable proficiency in the German language himself.<sup>32</sup> Other possible choices for translating ‘*verwässert*’ could have been: ‘to weaken’ or ‘to thin out’. On a quite literal level ‘*verwässert*’ could have been translated to ‘to water down’. A more liberal translation could possibly have been ‘to adulterate’.

It is hence submitted here that Schechter’s “... [*verwässert*] ...” addendum is an explicit and conscious endorsement of the choice of ‘diluted’ as a translation and that Schechter deliberately put emphasis on ‘diluted’ by adding to it the word used in the German original text.

## **2. Purported ‘Property Bias’ in Schechter’s “Rational Basis of Trademark Protection”**

As was already stated, this Comment does not endeavour to deliver a justification for the type of harm involved in cases of ‘dilution’.<sup>33</sup> Rather, this Paper is predicated on the approach that

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<sup>29</sup> Schechter “Rational Basis” above n 3 at 832.

<sup>30</sup> Bone “Historical Context” above n 19 at 498, referencing “Rudolph Callmann, 83, Dies - Lawyer Aided Jewish Refugees” NY Times 15 March 1976 at 33.

<sup>31</sup> Bone “Historical Context” above n 19 at 498 n145, referencing PB Flint “Prof Walter J Derenberg Dies - Lawyer Was Copyright Expert” NY Times 10 September 1975 at 48.

<sup>32</sup> Schechter’s family background clearly points to him being capable – perhaps even fluent – in the German language. Schechter’s father: renowned Jewish scholar Solomon Schechter; born in Romania (1847); studied in Lemberg, Vienna, and Berlin; emigration to England, London, in 1882; met in London Mathilde Roth and married her in 1887; moved to New York in 1902; died there in 1915

(<http://www.jtsa.edu/prebuilt/archives/jtsarchives/arc101.shtml>, last retrieved 15 August 2011). Schechter’s Mother: Mathilde Schechter, née Roth; born 1857 in Silesia; grew up in Breslau; went to London 1885; died in New York 1924; worked on a translation into the English language of the works of German Jewish poet and writer Heinrich Heine (<http://jwa.org/encyclopedia/article/schechter-mathilde> , last retrieved 15 August 2011). Frank Isaac Schechter, born in London 1890; graduated from Columbia University in 1912; master’s degree in 1914 (same institution); died in New York City 1937

(<http://www.jtsa.edu/prebuilt/archives/jtsarchives/arc101.shtml>, last retrieved 15 August 2011).

<sup>33</sup> There is ample discussion to be found on whether or not dilution is justified – and if so by what rationale – in a plethora of material. To name but a few of the more recent works: JB Swann Sr “Dilution Redefined for the Year 2000” (2000) 90 Trademark Reporter 823; S Hartman “Brand Equity Impairment—The Meaning of Dilution” (1997) 87 Trademark Reporter 418; MA Lemley “The Modern Lanham Act and the Death of Common Sense”



all jurisdictions under consideration have accepted that there is at least some sort of damage in instances of ‘dilution’ which ought to be remedied. The jurisdictions have legislated accordingly.

Connected to the justification of a ‘dilution’ remedy is usually the discussion of whether or not trademarks are to be viewed as property. Since Schechter proposed a ‘dilution’ approach, criticisms of the ‘property approach’ to trademarks also advert to Schechter’s theory. However, it was only in *Historical Foundations* that Schechter truly proposed a ‘property approach’ to trademark protection. It is suggested in this Comment, that Schechter may have still ‘cherished’ a certain ‘property bias’ but that the true basis of “Rational Basis” lies with the approach that the public’s apperception is the mainstay of extended protection for trademarks, not a ‘property approach’.

An appraisal of Schechter’s ‘property bias’ relates to how his theory is construed in this Comment. As shall be demonstrated below, it is this Author’s contention that a trademark’s uniqueness and singularity in Schechterian terms is directly connected to the public’s apperception of the trademark’s underpinning sign, symbol or word. It follows, that whether a trademark will enjoy singularity protection immediately hinges upon consumers’ recognition of such a sign, symbol or word. The quality or nature of being singular and unique is determined by an appraisal whether in the public’s conception a trademark’s underlying sign is non-commonplace, not by whether or not a trademark is property.

As a consequence, Schechter’s approach to trademark protection in “Rational Basis” is in no way connected to nor dependent upon whether or not a trademark or the rights attaching to a trademark are qualified as property. It may, however, be likely that the public’s apperception takes a much more prominent place in Schechter’s theory than, perhaps, even he himself cared to admit. It would appear that for ‘his’ coined, arbitrary and fanciful trademarks Schechter never quite managed to entirely divorce himself from the ‘property bias’. This will be evinced by the appreciation rendered in the following paragraphs.

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(1999) 108 Yale L J 1687; RC Denicola “Some Thoughts on the Dynamics of Federal Trademark Legislation and the Trademark Dilution Act of 1995” (1996) 59 Law & Contemporary Problems 75; H Carty “Dilution and Passing Off: Cause for Concern” (1996) 112 Law Quarterly Rev 632. For some earlier comments on the rationale of dilution compare: RS Brown Jr “Advertising and the Public Interest: Legal Protection of Trade Symbols” (1948) 57 Yale L J 1165; GW Goble “Where an What a Trade-Mark Protects” (1927) 22 Illinois L Rev 379; JF Oates Jr “Relief in Equity Against Unfair Trade Practices of Non-Competitors” (1931) 25 Illinois L Rev 643; J Wolff “Non-Competing Goods in Trademark Law” (1937) 37 Columbia L Rev 582; Note “Trade-Marks, Unfair Competition, and the Courts: Some Unsettled Aspects of the Lanham Act” (1953) 66 Harvard L Rev 1094.

The common interpretation of Schechter's "Rational Basis" article is that Schechter promoted property rights in trademarks. In concluding this result there is usually not much difference whether Schechter is being construed by proponents or by opponents of a 'dilution' rationale.

Pattishall, an outspoken advocate of 'anti-dilution' protection, maintains that "Schechter's new 'rational' rationale proclaimed a property right in trademarks."<sup>34</sup> Pattishall himself argued towards protection of trademarks' "commercial magnetism"<sup>35</sup> and he likened 'dilution' to the trespass of a property right rather than deceit. Both of Pattishall's tenets do not actually find a foothold in the theory as expressed by Schechter. They are rather to be attributed to Pattishall himself.<sup>36</sup> Callmann, another proponent, if not asserting that Schechter himself argued for trademarks as a form of property, takes Schechter's theory as a backdrop for urging the acknowledgement of property rights in trademarks. Callmann clearly presses towards the recognition that there must be a right of absolute exclusion attaching to trademarks.<sup>37</sup> Derenberg, as well, viewed Schechter's proposal as one suggesting that "trademarks should be protected as *an independent property right*, regardless of the presence of confusion."<sup>38</sup>

Opponents commonly employ the property paradigm as an argument why they disapprove of 'dilution'. Middleton, one of the earliest critics, pointed out how property in trademarks – which Schechter purportedly asserted – was diametrically opposed to the traditional notion that trademark law protected only the trade, not the mark. Middleton maintained that 'dilution' would confer a copyright-like property in trademarks which, in effect, protected trademarks in the abstract because it conferred protection autonomously from the trade in which trademarks were employed.<sup>39</sup> Welkowitz, as well, is of the opinion that protection "against the diminution of the marketing value ... has the potential of granting a virtual exclusive property right in a

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<sup>34</sup> Pattishall "Dilution Rationale" (1977) above n 20 at 618.

<sup>35</sup> This is a phrase which is attributable to Frankfurter J: "The protection of trade-marks is the law's recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them. A trade-mark is a merchandising short-cut which induces a purchaser to select what he wants, or what he has been lead to believe he wants. The owner of a mark exploits this human propensity by making every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol. Whatever the means employed, the aim is the same—to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trade-mark owner has something of value. If another poaches upon the commercial magnetism of the symbol he has created, the owner can obtain legal redress." *Mishawaka Rubber & Woolen Mfg Co v SS Kresge Co* 316 US 203 (1942) at 205.

<sup>36</sup> Pattishall "Dawning Acceptance" above n 20 at 309–310.

<sup>37</sup> R Callmann *Unfair Competition, Trademarks and Monopolies* (looseleaf, 4th ed, Thomson/West, St Paul MN) at [§21.11].

<sup>38</sup> Derenberg "Trademark Dilution" above n 2 at 449 (emphasis added).

<sup>39</sup> GE Middleton "Some Reflections on Dilution" (1952) *Trademark Reporter* 175 at 179.

trademark to its owner”. He notes, in addition, that this is “something that traditional trademark law has eschewed.”<sup>40</sup>

Even the rather neutral accounts derive the conclusion that Schechter at least “tended toward a property rationale”<sup>41</sup> or “sought to ... recognize in senior users of distinctive marks an in gross property right no more limited than that in the physical assets of a business.”<sup>42</sup>

Undeniably, the way Schechter argued in *Historical Foundations* had a clear propensity toward property rights in trademarks.<sup>43</sup> He characterised and emphasised the development of modern trademarks as traders’ assets. Already in *Historical Foundations*, however, we find intimations that Schechter also – already at this stage of his thought process – had the clear insight that

[t]he problem is not solved by boldly describing trade-mark rights as property rights. To say that a trade-mark is property and therefore should be protected clarifies the situation no more than to say that a trade-mark is protected and is therefore property.<sup>44</sup>

The same line of argument Schechter repeats, yet again, in his “Fog and Fiction” article in 1936.<sup>45</sup>

As will be explained below, Schechter’s focus takes a clear – and, as is contended in this Comment, decisive – shift in his 1927 “Rational Basis” article. He takes his gaze away from trademarks as assets and towards trademarks as both consumers’ token for quality assurance and a trader’s agency in the market place. Commensurate to this change in language from ‘asset approach’ to ‘agency approach’ comes a change in theory and concept.

Under the theory of a trademark as a trader’s agency Schechter views trademarks in their functions as facilitators of the market mechanism (read: public interest) and not any longer

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<sup>40</sup> DS Welkowitz “Reexamining Trademark Dilution” (1991) 44 *Vanderbilt L Rev* 531 at 532.

<sup>41</sup> DJ Franklyn “Debunking Dilution Doctrine: Toward a Coherent Theory of the Anti-Free-Rider Principle in American Trademark Law” (2004) 56 *Hastings L J* 117 at 123.

<sup>42</sup> RN Klieger “Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection” (1997) 58 *University of Pittsburg L Rev* 789 at 796–797.

<sup>43</sup> For example, Schechter states explicitly in his final conclusions: “Using the term property in its modern legal sense, *viz.*, as a right having pecuniary value which will be protected by the legal agencies of society, rights in or pertaining to trade-marks may be classified as property.” Schechter *Historical Foundations* above n 11 at 171.

<sup>44</sup> Schechter *Historical Foundations* above n 11 at 160.

<sup>45</sup> “Nothing is to be gained, in determining the nature of a trade-mark and the basis of its protection by describing the trade-mark as ‘property.’” Schechter “Fog and Fiction” above n 4 at 65 and *ibid* at [n 13]. Schechter also adverts to the same point in his 1937 “Trade Morals” article: “For a discussion of the vacillation of the Supreme Court as to the basis of trade-mark protection and the ‘delusive exactness’ (to use Justice Holmes’ phrase) in merely labelling trade-marks as ‘property,’ ...” Schechter “Trade Morals” above n 16 at 200 [n 35].

from the stance of private property interests (read: private interest). In “Rational Basis” Schechter contemplates trademarks from the perspective of consumers as a focal point for goodwill and from the perspective of traders as a supplement for the personalised trade identity which has been lost due to the “ramifications of modern trade”.<sup>46</sup> It will become apparent that, in “Rational Basis”, Schechter does not push for ‘proPERTISATION’ of trademarks any longer; at least not as his main contention for the proper basis of relief.

Bone attributes Schechter’s firm rejection of the “property formalism” and Schechter’s “functional approach” to the fact that Schechter formed part of the legal realist movement at the beginning of the twentieth century.<sup>47</sup> Bone’s classification of Schechter as a legal realist is certainly accurate. It does serve to explain why, to Schechter, the functional approach bore such importance and why he was so much more concerned with the “the very practical consideration as to the basis of relief in trade-mark cases”<sup>48</sup> rather than with “the somewhat metaphysical question as to the exact nature of a right in a trade-mark.”<sup>49</sup> Schechter’s deliberations with respect to the functional analysis of trademark law and the corresponding considerations as to the appropriate basis of relief are not only reflected in *Historical Foundations* but they also lie at the very core of his 1927 Journal Article. This is adequately portrayed by Schechter’s choice of title as “The Rational *Basis* of Trademark Protection”.<sup>50</sup> To Schechter, simply, “dilution was the real reason to protect”<sup>51</sup> marks because it was the reason that fit the way marks actually functioned in the marketplace.<sup>52</sup> Nonetheless, the taxonomic appraisal of Schechter as a legal realist does, unfortunately, not resolve the issue whether or not Schechter did indeed favour property in trademarks and/or property in the rights appurtenant to trademarks.<sup>53</sup>

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<sup>46</sup> Schechter “Rational Basis” above n 3 at 814.

<sup>47</sup> Bone “Historical Context” above n 19 at 484–485.

<sup>48</sup> Schechter *Historical Foundations* above n 11 at 5.

<sup>49</sup> Schechter *Historical Foundations* above n 11 at 5.

<sup>50</sup> Schechter “Rational Basis” above n 3 (emphasis added).

<sup>51</sup> “... the real reason to protect ...” in this context needs to be read as: the rational basis of relief.

<sup>52</sup> Bone “Historical Context” above n 19 at 471.

<sup>53</sup> Compare for the niceties in differentiation between property in the subject matter and property in the rights accorded to the subject matter: “The intellectual property statutes all provide that *the rights they confer* are personal property. But it is important to identify precisely *the object of* the relevant property right. ... there have been some who have claimed that intellectual property is property in the intangible asset itself ...” but the laws “... adopt more careful language ... [t]hey provide that it is copyright and patents which are personal property and not the works or inventions that are their subject matter.” M Spence *Intellectual Property* (Clarendon Law Series, Oxford University Press, Oxford, 2007) at 13–14 (emphases added). And compare also: “The distinction between property in subject matter and property in the right to control particular uses of subject matter may seem like academic sophistry.” M Spence “The Mark as Expression/The Mark as Property” (2005) 58 *Current Legal Problems* 491 at 495.

An alternative route to ascertaining Schechter's attitude with respect to a property right in trademarks has been made by Stadler Nelson in her 2003 journal article "The Wages of Ubiquity in Trademark Law."<sup>54</sup> She notes that Schechter in a Congressional Hearing<sup>55</sup> in 1932 on the 'Vestal Bill'<sup>56</sup> "was careful not to use obvious 'property' language."<sup>57</sup> In this Hearing Schechter stated that he would "not [be] going into the controversy here as to whether a trademark is or is not property."<sup>58</sup> Earlier on in her article<sup>59</sup> Stadler Nelson points out that the United States Supreme Court, in 1926, passed down judgment in *American Steel Foundries v Robertson*<sup>60</sup> which probably prevented Schechter from employing obvious property language in "Rational Basis". The Supreme Court decision lies right in between the publication of *Historical Foundations* in 1925 – where Schechter argued pro property rights in trademarks – and the time when "Rational Basis" was published, in 1927, – where Schechter applied much more innocuous, 'non-property' language. The Supreme Court explicitly rejected the notion of property in trademarks in the abstract. The Court opined that "[t]here is no property in a trademark apart from the business or trade in connection with which it is employed."<sup>61</sup> The quintessence of Stadler Nelson's research contributions would then be that Schechter would have only paid lip service to traditional 'non-proprietary' trademark doctrine in order to placate 'dilution' opponents and to make his proposals more palatable. In truth, however, he would have still pursued the push for the true property core of his theory, Schechter not mitigating his actual theory but only his pronouncements thereof.

It would appear, that Stadler Nelson's appraisal as regards Schechter's 'property bias' is about correct. Schechter would seem indeed to have been hesitant to divorce himself entirely from his former 'property bias'. Nevertheless, "Rational Basis" and the 'agency approach' expounded therein need to be classified as a decisive shift.

It needs to be admitted, though, that there is also a passage in Schechter's 1937 "Fog and Fiction" article which is quite revealing. According to this statement, Schechter's seems to have been of the opinion that at least some special protective privileges attached to the type of

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<sup>54</sup> (2003) Iowa L Rev 731.

<sup>55</sup> Hearings before the House Committee on Patents, 72d Cong, 1st Sess (1932).

<sup>56</sup> HR 7118 72nd Congress (1931) the so called 'Vestal Bill' was an attempt to propose a draft in order to reform the entire Federal Trademark Act of 1905 (US).

<sup>57</sup> Stadler Nelson "Wages of Ubiquity" above n 1 at 755.

<sup>58</sup> Hearings before the House Committee on Patents, 72d Cong, 1st Sess (1932) at 9.

<sup>59</sup> Stadler Nelson "Wages of Ubiquity" above n 1 at 737.

<sup>60</sup> 269 US 372 (1926).

<sup>61</sup> 269 US 372 (1926) at 380.

coined, arbitrary and fanciful trademarks he sought to protect. Schechter, with reference to his appraisal of the decision in *Du Pont Cellophane Co v Waxed Products Co*<sup>62</sup>, apparently simply cannot help but betray his property-biased view on the rights appurtenant to trademarks.

The Circuit Court of Appeals of the Second Circuit, in the *Cellophane* decision, adverted to the issue of ‘generic term defences’ denying relief to the plaintiff company on the basis that

[t]he course of conduct of the complainant and its predecessors, and especially complainant’s advertising campaign, tended to make cellophane a generic term descriptive of the product rather than of its origin, and, in our opinion, made it so to at least a very large part of the trade. . . . It, therefore, makes no difference what efforts or money the Du Pont Company expended in order to persuade the public that ‘cellophane’ means an article of Du Pont manufacture. So far as it did not succeed in actually converting the world to its gospel it can have no relief.<sup>63</sup>

Schechter adjudges this reasoning as “distinctly less favorable to the protection of trade-marks generally”<sup>64</sup> than other cases with respect to ‘generic term’ defences. Taking into account the Court’s arguments Schechter proceeds to question whether there is at all any “sound foundation for the protection of trade-marks.”<sup>65</sup> And Schechter goes on to maintain that

[j]ust how, under modern conditions of production, advertising and distribution, *any* complainant could “succeed in actually converting the world to its gospel” so that it can obtain relief from trade-mark piracy is not clear. We are confronted with this paradox that the very creation of any real hold on the public mind through trade-mark advertising and merchandising must, by such reasoning, in and though itself, automatically involve the self-destruction of the mark.<sup>66</sup>

Schechter clearly ignores that, according to the facts ascertained in the *Cellophane* case, the vast majority of the public concerned did not attribute any notion of source or origin to the word cellophane; or, at least, the public did not do so any longer. The case turns on the fact that the trademark owner by virtue of its own marketing campaign had caused its trademark to become a generic term. Apparently there was no involvement at all by competitors and it was entirely the trademark owners own fault.

The word had become purely descriptive of the product and thus passed over into the public domain of common speech. The public, however, as soon as a term becomes generic, does not

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<sup>62</sup> 85 F 2d 75 (2nd Cir 1936), *modifying* 6 F Supp 859 (EDNY 1934), *cert. denied* 57 US 194 (1936).

<sup>63</sup> *Du Pont Cellophane Co v Waxed Products Co* 85 F 2d 75 (2nd Cir 1936) at 80–81.

<sup>64</sup> Schechter “Trade Morals” above n 16 at 201.

<sup>65</sup> Schechter “Trade Morals” above n 16 at 202.

<sup>66</sup> Schechter “Trade Morals” above n 16 at 202–204 (italics provided in original; citations omitted).

associate any longer any notion of source or quality assurance with that particular word or phrase any longer. The term merely describes a certain type of product. ‘Cellophane’ had become a descriptive commonplace term. These are, as will be seen, exactly the conditions upon whose materialisation, according to Schechter’s very own proposal in “Rational Basis,” there can be no more trademark protection. The public did not view ‘cellophane’ as denominating a particular source nor as the promise of a certain, consistent product quality any longer. The proper noun ‘Cellophane’ had undergone a metamorphosis to become the merely descriptive common noun ‘cellophane’. Of the latter apparently a diverse range of different qualities of ‘cellophane’ existed upon the market. These various qualities of ‘cellophane’ were offered by a variety of purveyors, only one among those being the producer of ‘Cellophane’ with its particular quality assurance.

Schechter himself, thus, completely ignores the difference in the public’s apperception between a trademark attaining fame as a trademark and a word – even though it may actually, at the same time, represent a trademark – being popularised purely as a product description. If, in an advertising campaign, that distinction is made an obvious one to the public then the popularity of a trademark will, as opposed to Schechter’s appreciation, not of necessity “involve the self-destruction of the mark”. The trademark owner, by virtue of an appropriate employment of terminology, will be quite capable of “converting the world to its gospel”. The trademark will become famous and popular without the phrase or word falling prey to the public domain.<sup>67</sup>

It is submitted here that it becomes apparent through Schechter’s appraisal that he wanted to cast a kind of absolute protection around the type of coined, arbitrary and fanciful trademarks he had described in “Rational Basis”. ‘Cellophane’ patently belongs into this group. According to Schechter, the demarcation line for protection is to be determined by virtue of whether in the public’s apperception the trademark is unique and singular. On the other hand, Schechter also appeared to be of the opinion that for coined trademarks even changes in consumers’ conception would not matter once that mark had been categorised to belong into this particular group. Thus, even if the public apperception changed and started to perceive the sign as merely commonplace, then the trademark would still enjoy singularity protection because it had once belonged to the group of coined, arbitrary and fanciful trademarks.

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<sup>67</sup> The situation would, of course, be different if competitors caused the mark’s metamorphosis into a generic term. However, the *Cellophane* decision appears to be an example where this was caused solely by the trademark owner itself.

If trademarks were to be protected in the described manner, then this would, indeed, equate to something akin to a property right in coined, arbitrary and fanciful trademarks. Only if the trademark is regarded as the property of the trademark owner would it not matter when the underlying sign or phrase becomes a generic term. Schechter appears to be of the opinion that there should not be a loss of trademark rights even in those instances where genericism is entirely attributable to the trademark owner's 'self-dilution'. This attitude can only be explained when property rights are assumed to be vested in trademarks. Accordingly, Schechter, against his differing, property-cautious language in "Rational Basis", could never quite manage to divorce himself entirely from the property-in-trademarks paradigm which he was so adamantly supportive of in his doctoral thesis.

Nonetheless, no matter how much of a propensity Schechter may have had to support property in trademarks or trademark rights, he never argued in favour of what is often called property in trademarks in the abstract. The latter is, however, averred by Derenberg who summarises that Schechter proposed "that ... trademarks should be protected as an *independent property right*, regardless of the presence of confusion."<sup>68</sup> As opposed to Derenberg's interpretation Schechter never propagated any rights in trademarks which would have divorced the trademark from the appurtenant going concern. Schechter never argued for such an independent or autonomous right in trademarks. This is clearly expressed in "Rational Basis". Schechter even endorses as a "salutary principle"<sup>69</sup> the policy rationale that a trademark must pertain to an actual undertaking which is actively trading in the market place. He buttresses this with his earlier findings in *Historical Foundations* in which his research showed that this doctrine which intends to prevent the trafficking – Schechter calling this 'farming out'<sup>70</sup> – of trademarks had already been developed by the cutlers in London as early as the beginning of the seventeenth century.<sup>71</sup> What Schechter concluded, though, was that this policy consideration, while appropriate to justify the proscription of trafficking in trademarks, is not necessarily a logically sound basis to restrict the protection of trademarks to only the one line of business in which such going concern is actually and currently trading in. Schechter stated that the "rule that a trademark must be appurtenant to a going concern should not in any way set limits to the extent of protection of such a mark when so

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<sup>68</sup> Derenberg "Trademark Dilution" above n 2 at 449 (emphasis added).

<sup>69</sup> Schechter "Rational Basis" above n 3 at 822.

<sup>70</sup> Schechter "Rational Basis" above n 3 at 822.

<sup>71</sup> Schechter "Rational Basis" above n 3 at 822; Schechter *Historical Foundations* above n 11 at 111 and generally chs III and IV.



appurtenant.”<sup>72</sup>

In summary, Schechter’s approach in “Rational Basis” rests vitally upon the public’s apperception of trademarks as unique and singular. This is a doctrine which is distinct and independent from viewing trademarks as property. It is submitted that Schechter’s appreciation of the *Cellophane* decision appears to be a rather marginal aberration into his old habit of viewing trademarks as property which, however, does not materially change the appraisal of Schechter’s doctrine as rendered in this Comment.

### **3. Schechter Never Established a ‘Famousness Criterion’**

As opposed to the issue of the use of ‘dilution’ and Schechter’s ‘property bias’ we will now turn to a matter which is much more material to a proper appraisal of Schechter’s theory. It is this Author’s main contention that from the very beginning Schechter’s “Rational Basis” article has been pretty much misapprehended and – perhaps, by portions of the academic community, somewhat deliberately – misinterpreted as establishing a ‘famousness criterion’ for the protection of marks against ‘dilution’. Contrary to the construction of this standard account it will be demonstrated that nothing could be further from what Schechter truly conceived of. In fact, Schechter’s proposal is distinctly different from the threshold criterion of a trademark being well known, famous or reputable in the public’s recognition. Schechter never postulated that fame or reputation or even the amount of investment into trademarks should form the basis of trademark protection. Rather, what he proposed is the protection of singular marks whose underlying sign or symbol is unique. This is an entirely different concept from the quantitative threshold criteria which have found their way into trademark law as currently implemented. The main difference is that the marks Schechter instanced – like Rolls-Royce, Kodak, Blue Goose, Aunt Jemima’s, Corona, Nujol, and Mazda –<sup>73</sup> managed to attain their respective levels of famousness, in accordance with Schechter’s theory, because they were unique and singular and not the other way round. A proper appreciation of Schechter’s theory discloses that these exemplified trademarks do not possess such a recognition of exclusivity with consumers simply because they rose to such levels of fame. Instead, they are so exclusive because they were unique symbols from their very inception. That is a crucial difference. Namely, the underlying signs or symbols of those trademarks are unique and singular in consumers’ conception.

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<sup>72</sup> Schechter “Rational Basis” above n 3 at 823.

<sup>73</sup> Schechter “Rational Basis” above n 3 at 829–830.

To be sure, the Schechter doctrine and the ‘famousness standard’ found in the current statutes are both based upon consumer perception. The public’s apperception of trademarks is, at the basis of considerations, certainly an adequate criterion for the protection of trademarks; especially, with reference to trademarks as facilitators of the market mechanism in consumer society. However, the ‘famousness standard’ merely is concerned with predominance of a certain trademark connotation upon consumers’ recognition whereas the Schechter approach asks for the niceties in the public’s apperception when beholding and contemplating the sign or symbol underlying a particular trademark.

In addition to being unique and singular from their very start the Schechter-type marks managed to retain this exclusivity. They are only used with reference to one singular goodwill across the entirety of the market place. Because of their singularity this type of mark is enabled to achieve, attain and retain the respective level of high reputation with consumers (read: fame). In other words: in Schechter’s theory fame is, or can be, the possible result and outcome of a unique and singular trademark. It is not the case, however, – as nowadays appears to be the underlying principle – that predominance upon consumers’ minds equates to exclusivity of the trademark. Fame of a trademark a result of mere penetration of public perception via pervasive advertising campaigns is entirely not what Schechter endeavoured to protect in a trademark.

#### **4. Schechter’s Criteria: Uniqueness and ‘Selling Power’, Not Fame**

The crucial, if subtle, distinction just outlined appears, for the most part, to go pretty much unnoticed. Even though most authors appear to take cognisance of Schechter’s conclusion that “the preservation of the *uniqueness* of a trademark should constitute”<sup>74</sup> the basis for the protection of trademarks, the common interpretation almost always deviates from this explicit statement.<sup>75</sup> This accounts for authors of treatises, commentators and courts alike, prompting Martino in his 1996 treatise to remark that ‘dilution’ is “[e]ver a curious chap, ... an exotic thornbush ..., misunderstood, misconstrued and misapplied.”<sup>76</sup>

The standard account of Schechter’s approach, respectively of ‘dilution’ theory, is either or

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<sup>74</sup> Schechter “Rational Basis” above n 3 at 831 (emphasis added).

<sup>75</sup> Compare for the same appraisal also S Stadler Nelson: “... —most likely because everyone assumed (as they do to this day) that when Schechter spoke of uniqueness, he was referring to acquired distinctiveness or even to fame, the latter of which he never mentioned as a criterion for dilution protection.” in Stadler Nelson “Wages of Ubiquity” above n 1 at 775.

<sup>76</sup> T Martino *Trademark Dilution* (Clarendon Press, Oxford, 1996) at 2.

both of the following: that protection of famous, well-known or established marks is intended. In the alternative it is argued that Schechter proposed protection of the advertising investment made upon a trademark or of some sort of economic value which is manifest in a trademark. As will be shown, none of these appraisals comes anywhere close to what Schechter actually proposed in “Rational Basis”. Opposed to what may be called the ‘conventional reading’ of Schechter the value of a trademark to Schechter is not determined as the essence of the monetary investment devoted to the mark nor is it the manifest effort of making a trademark ubiquitously known to the consuming public by pervasive advertising.

In the contrary: to Schechter the value of the trademark lies in its capability to develop selling power as a “most effective agent for the creation of goodwill”<sup>77</sup> and this value of a trademark is particularly dependent “in large part upon its uniqueness”,<sup>78</sup> not upon the extent of or expenses put towards commercial advertising campaigns. The value of a trademark’s selling power depends not only upon “the merit of the goods upon which it is used” but “equally upon its own uniqueness and singularity”.<sup>79</sup> The latter is determined by the extent to which the trademark “is actually unique and different from other marks.”<sup>80</sup> Thus, if any sort of value is to be protected in accordance with the Schechter doctrine then it is a trademark’s value for a trader which rests with the trademark’s capability to develop selling power which, in turn, manifests itself in the level of a trademark’s capacity to function as an agency of a trader’s goodwill in the market place.<sup>81</sup> The extent to which a trademark can fulfil both its selling power and its trade identity function as an agency is determined by the degree to which the sign or symbol underpinning the trademark is actually unique and singular. This concept of ‘value by virtue of uniqueness’ is in no way to be conflated with a trademark’s value in an economic sense, namely, the mark’s value on a business entity’s balance sheet. And it will be obvious that the Schechterian value of selling power in a trademark is also not to be equated to the amount of investment made upon the mark or the popularity or celebrity status of the mark.

To illustrate the conventional reading of Schechter we will adduce some examples of how

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<sup>77</sup> Schechter “Rational Basis” above n 3 at 819.

<sup>78</sup> Schechter “Rational Basis” above n 3 at 826, Schechter quoting from Note “Appropriation of Trade Symbols by Noncompetitors” (1925) 25 Columbia L Rev 199 at 204.

<sup>79</sup> Schechter “Rational Basis” above n 3 at 831.

<sup>80</sup> Schechter “Rational Basis” above n 3 at 831.

<sup>81</sup> Schechter “Rational Basis” above n 3: “an agency for the actual creation and perpetuation of good will” at 818; “most effective agent for the creation of good will” at 819; “creation and retention of custom ... is the primary purpose of the trademark today” at 822.

Schechter is commonly construed. To instance but a few examples of definitions of ‘dilution’ in the courts: In *Allied Maintenance Corp v Allied Mechanical Trades Inc*<sup>82</sup> the majority opined that “[t]he evil ... [is] ... a cancer-like growth ... which *feeds upon the business reputation of an established distinctive trademark or name*”.<sup>83</sup> The Court defined ‘dilution’ as “the whittling away of an *established trademark’s selling power and value*.”<sup>84</sup> The court in *Menne Co v Gillette Co* required of the plaintiff that “to make out a claim under this section,<sup>85</sup> plaintiff must establish that it has a *strong mark*, one which is *at least descriptive with secondary meaning*.”<sup>86</sup> In *Polaroid Corp v Polaroid Inc*, after ascertaining that the “plaintiff’s trademark and trade name was original—it was coined and invented—and was *a strong name*” the court still justified the ‘dilution’ remedy mainly by emphasizing that

[i]t was a name which through much effort and the *expenditures of large amounts of money* had acquired a *widespread reputation* and much goodwill, which plaintiff should not be required to share with defendant.<sup>87</sup>

Other courts even required the presence of confusion or of bad faith:

“Plaintiff cannot claim right to relief under the New York State anti-dilution statute, since it has failed to show likelihood of confusion or unfair intent on the defendant’s part.”<sup>88</sup>

The picture in the field of academic writing does not bode well, either. Klieger, for example, puts far too strong an emphasis on the trademark owner’s investment:

Schechter believed that the advertising value and selling power of a mark correlated directly with the uniqueness of the mark and that a firm that invests thousands of dollars developing a mark should not have to stand idly by while other users strip the mark of its commercial magnetism.<sup>89</sup>

Magliocca maintains that “[t]he second approach to trademark protection is dilution, which is

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<sup>82</sup> *Allied Maintenance Corp v Allied Mechanical Trades Inc* 42 NY2d 538; 369 NE2d 1162; 399 NYS2d 628; 1978 USPQ 418 (NY Ct App 1977).

<sup>83</sup> *Allied Maintenance Corp v Allied Mechanical Trades Inc* (NY Ct App 1977) 42 NY2d 538 at 544-545; 369 NE2d 1162 at 1165-1166; 399 NYS2d 628 at 632; 1978 USPQ 418 at 422 (emphases added).

<sup>84</sup> *Allied Maintenance Corp v Allied Mechanical Trades Inc* (NY Ct App 1977) 42 NY2d 538 at 542; 369 NE2d 1162 at 1164; 399 NYS2d 628 at 630; 1978 USPQ 418 at 420.

<sup>85</sup> Section 368-d of the then pertinent New York Anti-Dilution Statute.

<sup>86</sup> *Menne Co v Gillette Co* 565 F Supp 648 (SDNY 1983) at 656 (emphasis added).

<sup>87</sup> *Polaroid Corp v Polaroid Inc* 319 F 2d 830 (7th Cir 1963) at 837 (emphases added).

<sup>88</sup> *Haviland & Co v Johann Haviland Chine Corp* 269 F Supp 928 (SDNY 1967) at 957.

<sup>89</sup> RN Klieger “Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection” (1997) 58 University of Pittsburgh L Rev 789 at 807.

concerned with safeguarding the *advertising power* of marks.”<sup>90</sup> and that

[t]he difference between Schechter's treatise<sup>91</sup> and his subsequent article<sup>92</sup> was that the latter argued that courts should focus on *protecting the persuasive power* given to marks by the quality function and advertising. ... [Schechter] believed that by *protecting investments in a mark's commercial magnetism* ... marks would get the optimal level of protection that infringement was unable to provide.<sup>93</sup>

Welkowitz, finally, is one of the most extreme examples. He avers that

[t]he arguments made by dilution proponents do not demonstrate that a *well-known mark* is likely to *lose its notoriety* because of its use on another's goods in the absence of confusion.<sup>94</sup>

Not to be mistaken, there certainly is merit in a lot of Welkowitz' more detailed deliberations as well as in his overall approach that 'dilution' is superfluous because most of its applications are, nowadays, covered by variants of extended confusion or derivatives thereof. However, it appears that Welkowitz quite deliberately utilises careless nomenclature just in order to be able to discredit the 'dilution' approach. He indiscriminately – or, if at all, then but with the slightest distinction – conflates the categories of fame, reputation, strong marks, weak marks, acquired and inherent distinctiveness<sup>95</sup> as if they were freely interchangeable terminology. This is, of course, far from appropriate in an academic context.

Even proponents of dilution who essentially claim to build their own proposals upon Schechter's theorem have the very same tendency to misconstrue the Schechter doctrine toward the protection of well-known or famous marks. Derenberg for instance, at first, in his 1936 treatise *Trademark Protection and Unfair Trading*, appears to have favoured for the purposes of affording broader protection a clear distinction between coined and colloquial words<sup>96</sup>. All the same, in a 1956 article of his Derenberg maintains that Schechter had suggested “that the uniqueness of *well known* trademarks should be protected as an

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<sup>90</sup> GN Magliocca “One and Inseparable: Dilution and Infringement in Trademark Law” (2001) 85 Minn L Rev 949 at 960 (emphasis added).

<sup>91</sup> I.e. Schechter's doctoral thesis *Historical Foundations* above n 11.

<sup>92</sup> I.e. Schechter “Rational Basis” above n 3.

<sup>93</sup> Magliocca above n 90 at 975–976 (emphases added).

<sup>94</sup> Welkowitz “Reexamining Trademark Dilution” above n 40 at 539 (emphases added).

<sup>95</sup> Welkowitz “Reexamining Trademark Dilution” above n 40: “well-known mark” at 539; “eroding the luster of the famous car maker's mark” at 539; “an archetypical ‘strong’ trademark” at 539; “mark declines in strength” at 540; “weakly established their identity” at 540; “strong foothold in the public mind as a unique source of goods” at 540; “celebrated mark became weak” at 540; “less famous, although still distinctive, mark” at 545; “weaker than that of a famous mark” at 545; “level of public recognition or ‘distinctiveness’” at 547; “the mark is strong even if it is arbitrary” at 588. The list runs on almost indefinitely through the article's entire length.

<sup>96</sup> WJ Derenberg *Trade-Mark Protection and Unfair Trading* (M Bender, Albany NY, 1936) at 408 et seq.

independent property right, regardless of the presence of confusion.”<sup>97</sup> And later, in the very same article, Derenberg even laments that

[u]nfortunately, all four antidilution statutes are so worded as to invite reliance thereon not only by the owners of well known or famous trademarks or names for whose protection this legislation was intended, but also by others who can take no claim to such celebrity or reputation.<sup>98</sup>

The same accounts for another proponent of ‘dilution’, Pattishall, who endorses the general shift towards protecting against ‘dilution’ any type of acquired distinctiveness instead of solely Schechterian uniqueness:

It also seems that marks and names with acquired distinctiveness (secondary meaning) are entitled to protection against dilution, ... The reasonableness and equities of this are appealing, and further development in that direction seems likely.<sup>99</sup>

In the case of Pattishall this is apparently founded upon the belief that not a trademark’s uniqueness but rather the investments made upon it for advertising purposes are the true vale which is to be protected. Pattishall asserts that “the dilution rationale is a sound basis for affording needed protection to the immense but fragile “*commercial magnetism*” value of trademarks.”<sup>100</sup>

For the last two authors it would appear, however, that they actually were aware of what Schechter truly had conceived of but deliberately somewhat ‘broadened’ this in their own interpretation of Schechter’s proposal. They both appear to have pursued ulterior motives. In their works referred to above both authors, Derenberg and Pattishall, pushed strongly for broader protection of famous and well-known trademarks irrespective of whether or not these are actually unique. They both put emphasis on the fact that acquired distinctiveness is what should constitute a sufficient basis as to the prerequisite which needs to be established in order for a famous trademark to profit from ‘dilution’ protection.

Finally, a review article in the 1955 Harvard Law Review<sup>101</sup> upon the state of the law as regards trademarks and unfair competition reveals that, quite patently, the law already was on

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<sup>97</sup> Derenberg “Trademark Dilution” above n 2 at 449 (emphasis added).

<sup>98</sup> Derenberg “Trademark Dilution” above n 2 at 451.

<sup>99</sup> Pattishall “Dawning Acceptance” above n 20 at 304.

<sup>100</sup> Pattishall “Dawning Acceptance” above n 20 at 290 (emphasis added), Pattishall citing *Mishawaka Rubber & Woolen Mfg Co v SS Kresge Co* 316 US 203 (1942) at 205, Frankfurter J for the “commercial magnetism” quotation.

<sup>101</sup> Note “Developments in the Law—Trade-Marks and Unfair Competition” (1955) 68 Harvard L Rev 816.

a deviant course in comparison to in comparison with Schechter's original proposal. It also reveals that the ends and bounds of the different branches of extended protection were blurred just as much already back then as they are today with the broad-brush knowledge threshold approach. The Harvard Note summarises that

[a]pparently, this protection has thus far been limited to marks that have gathered about them connotations of quality that might be destroyed in the public mind by the use of the marks on products or services of an inferior quality, or of such a nature that no comparable prestige could attach to them. It might be argued that this protection *should be extended to any coined or highly distinctive mark* which has no connotation other than those attaching to it by virtue of its association with the owner's product, since there is no countervailing public policy in favor of allowing its use by others."<sup>102</sup>

This evinces that at least the commentator of this note was of the opinion that the law should next to the extended protection of reputable marks also incorporate the same type of extended protection for coined marks. This is a somewhat perplex proposal. The protection of a trademark's reputation (tarnishment) is something which is clearly distinct from the protection of a trademark's distinctive character (blurring) which Schechter proposed. It is hence not possible to "extend" the former type of protection to the latter.

## 5. Who Discerns It Correctly?

In the course of the research undertaken during the preparation of this Paper, only two authors have been unearthed who distinctly took notice of the difference between fame and Schechterian uniqueness. If, indeed, more writers did take notice of the difference, then these two, at least, are the only ones who cared to make this consideration explicitly known in their respective works.

Wolff quite apparently takes heed of the difference established by Schechter between unique and commonplace marks, posing the question:

Does the doctrine apply to coined marks and unique names only, such as *Kodak*, *Penslar*, *Aunt Jemima* and *Budweiser* or does it also apply to words of common speech<sup>103</sup> and ordinary names such as *Blue Ribbon*, *Gold Medal*, *Universal* and *Murphy*?<sup>104</sup>

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<sup>102</sup> Note "Developments in the Law—Trade-Marks and Unfair Competition" (1955) 68 Harvard L Rev 816 at 851–852 (emphasis added).

<sup>103</sup> J Wolff "Non-Competing Goods in Trademark Law" (1937) 37 Columbia L Rev 582 at 596 [n 66]: "By 'words of common speech' reference is had not to descriptive words incapable of appropriation as a trademark but to words of ordinary language which are sufficiently fanciful in relation to the goods on which they are used

He then, however, discounts this notion by dismissing Schechter's differentiation stating that "[i]t would seem that this distinction has been slightly overemphasized by Schechter."<sup>105</sup> In the further course of his article Wolff then also proceeds to misconstrue Schechter to some degree with respect to the fact that in Wolff's view Schechter apparently mainly aimed to protect famous marks.<sup>106</sup> Wolff eventually concludes that "the results advocated by Schechter can, it seems, be reached without departing from the historical and present day foundations of trademark law."<sup>107</sup> In Wolff's opinion not unique but rather marks which have acquired fame or "a high degree of celebrity"<sup>108</sup> ought to enjoy broadened protection. This extended protection should be available to all such celebrated marks irrespective of their nature, namely, "[t]he rule is not limited to coined words but extends to all valid trademarks."<sup>109</sup> Derivatives of confusion or extended confusion protection, however, Wolff views as reserved for those celebrated marks whereas 'ordinary' marks, no matter whether coined, unique or otherwise, should only be afforded classic confusion protection against similar and identical goods.<sup>110</sup>

Stadler Nelson is the only author who explicitly and distinctly points out the degree of misconstruction present within the contemporary implementations in statutory trademark law of the 'dilution' doctrine.<sup>111</sup> It is edifying to quote her at some length, especially because this Author himself could not think of a way to posit this any more fittingly than Stadler Nelson has already done. Stadler Nelson notes that

Schechter, warned that the *distinctiveness of truly unique* trademarks was in danger of being "whittled away" (diluted) by the use of those trademarks on unrelated goods, and proposed that if nothing else, trademark law should be an instrument for the preservation of this *uniqueness*. Courts initially were hostile to the radical

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to constitute a valid trademark."

<sup>104</sup> Wolff above n 103 at 596.

<sup>105</sup> Wolff above n 103 at 598 [n 74], referencing Schechter "Rational Basis" at 826 et seq.

<sup>106</sup> "Schechter's statement that a *famous* trademark, if permitted to be used on dissimilar goods will, in fact, gradually lose its distinctiveness, cannot be challenged; with his conclusions that such use should not be permitted, we agree. The question is whether a resort to his theory is the only practicable way of protecting the owner from this hazard. The question seems eminently pertinent once the full implications of his theory are realized. What he, in effect, proposes is to divorce the law from the uncertainties inherent in estimating the state of the public mind and entirely to eliminate the issue of confusion. Yet the American law of unfair competition and trademarks rests firmly on passing off. The very incongruousness of Schechter's theory with the tradition and the fundamental and the fundamental principles of the common law forms the chief obstacle to its general acceptance in this country." Wolff above n 103 at 602 (emphasis added).

<sup>107</sup> Wolff above n 103 at 602.

<sup>108</sup> Wolff above n 103 at 608.

<sup>109</sup> Wolff above n 103 at 608.

<sup>110</sup> Wolff above n 103 at 608.

<sup>111</sup> "Yet no one has asked if present dilution law is consistent with its original conception, or whether, instead, the modern incarnation of the doctrine might be contributing to the very harms it was intended to remedy." Stadler Nelson "Wages of Ubiquity" above n 1 at 733.



theories that Schechter proposed, but in the end, scholars and practitioners convinced courts that Schechter had described a harm that deserved to be remedied—a harm that, in 1995, Congress defined as “the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence of absence of ... likelihood of confusion, mistake, or deception.” *Unfortunately, this harm was not the one that Schechter described.* In promulgating and interpreting the trademark law, Congress and most courts have assumed that by “unique,” Schechter meant “distinctive and famous”—in other words, that Schechter meant his dilution remedy to cover *every famous word or phrase that happened to have acquired the ability to function as a trademark.* A closer review of the Schechter text reveals, however, that Schechter intended his remedy to apply *not to famous marks, but to a select class of highly distinctive ... trademarks that were, like most trademarks of his day, synonymous with a single product or product class.*<sup>112 113</sup>

When reviewing the prerequisites Schechter wanted to establish for granting ‘dilution’ protection, Stadler Nelson moves on to ascertain that “[t]here are several concepts packed into [Schechter’s] definition, but trademark fame—the headliner in litigation arising under the Federal Trademark Dilution Act—is not one of them.”<sup>114</sup> In her conclusion she accurately and perceptively summarises that the probable reason why the modern approach to implementing trademark ‘dilution’ has gone so wrong in comparison with Schechter’s original conception is

most likely because everyone assumed (as they do to this day) that when Schechter spoke of uniqueness, he was referring to acquired distinctiveness or even to fame, the latter of which he never mentioned as a criterion for dilution protection.<sup>115</sup>

As accurately as Stadler Nelson recognises the differences between the Schechter approach and the current implementations of the ‘dilution’ doctrine, unfortunately we cannot follow her in the conclusions she derives from her further interpretation of Schechter’s work. She endeavours to construe Schechter as having intended to protect the use of a singular trademark upon one singular good or product only. From there she concludes that any sort of product diversification into other fields of business under that same trademark – even if done by one and the same trademark owner and thus denoting one singular goodwill – constitutes an act of ‘self-diluting’ a trademark’s uniqueness by its very owner.<sup>116</sup> She observes that trademark owners randomly brand different products in diverse fields of the market and – at times – somewhat haphazardly license their marks. She essentially alleges that by virtue of this marketing behaviour trademark owners convert their own trademarks into ubiquitously

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<sup>112</sup> Stadler Nelson “Wages of Ubiquity” above n 1 at 734 [n 14]: “Like descriptive marks, trademarks used to identify a variety of products lacked the singularity to be ‘whittled away’ in the first instance”, referencing Schechter “Rational Basis” at 825–830;

<sup>113</sup> Stadler Nelson “Wages of Ubiquity” above n 1 at 734 (emphases added, citations omitted).

<sup>114</sup> Stadler Nelson “Wages of Ubiquity” above n 1 at 749.

<sup>115</sup> Stadler Nelson “Wages of Ubiquity” above n 1 at 775.

<sup>116</sup> Stadler Nelson “Wages of Ubiquity” above n 1 at 784–791.

present trade symbols and hence ‘dilute’ their marks themselves. From there she constructs what she propounds as an ‘ubiquity defence’. This, she claims, ought to be available to defendants in all cases – even against a famous plaintiff mark – if a prolific product portfolio policy is pursued by the senior trademark owner.<sup>117</sup> Her deliberations with this respect are certainly meritorious. There, indeed, appears to exist not too remote a possibility that a mark ‘dilutes’ in the public’s apperception at least in those cases where the licensing is done in such an arbitrary fashion that consumers are left confounded with reference to whether or not the particular sign still represents one singular goodwill or trade identity. This appraisal, however, cannot account for instances in which the trademark owners themselves expand their own business under their own symbols of their very own trade identity.

The doctrinal problems with Stadler Nelson’s proposal rest with the fact that she tries to found her ubiquity defence upon the ‘dilution’ theory as conceived by Schechter. The way she endeavours to interpret Schechter’s theorem to mean a ‘one-product-per-mark-only’ rationale is not compatible with Schechter’s actual propositions. The attempt to construe Schechter in the sense of a restriction to ‘one-product-per-mark-only’ is, in fact, diametrically opposed to what Schechter intended. Schechter explicitly considered as one of the most important “ramifications of modern trade”<sup>118</sup> that a trademark’s “owner should be allowed the broadest scope possible for the *natural expansion of this trade to other lines or fields of enterprise.*”<sup>119</sup> Schechter unequivocally emphasised that this need of ‘transposition of goodwill’ (as this Author would like to call this process) is one of the most crucial things to traders under conditions of modern trade. Schechter not only noted this in “Rational Basis” but, equally, already in *Historical Foundations*.<sup>120</sup> Schechter also buttressed this with his illustration that this need of traders for the expansion into other fields of enterprise

was demonstrated with particular acuteness after the Great War in the case of such firms as The Remington Arms Company, The Winchester Repeating Arms Company and the Dupont Company, which were under the immediate necessity of transferring their activities from the manufacture of war material to peace

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<sup>117</sup> Stadler Nelson “Wages of Ubiquity” above n 1 at 791–799.

<sup>118</sup> Schechter “Rational Basis” above n 3 at 814.

<sup>119</sup> Schechter “Rational Basis” above n 3 at 823 (emphases added, citations omitted).

<sup>120</sup> “The *ratio decidendi* in such cases would appear to be simply a reluctance on the part of the Court to permit defendants to get the benefit of complainant’s reputation or of its advertisement or to forestall the extension of its trade. It ... is a salutary, if somewhat bleated, recognition of the actual nature and function of the trade-mark under modern conditions of production and distribution.” Schechter *Historical Foundations* above n 11 at 170 (italics provided in original, citations omitted).

industries of an entirely different nature but under the same trademarks and names.”<sup>121</sup>

If we were to follow Stadler Nelson, then what Schechter proposes would be an act of ‘self-diluting’ those wartime icons of goodwill and trade identity. In addition, Schechter references Glenn’s article “Pre-Emption in Connection with Unfair Trade”<sup>122</sup> not only in “Rational Basis”<sup>123</sup> but specifically directs his readers’ attention once more to this very same article in his 1937 article “Trade Morals”. Schechter recommends Glenn’s piece as a “suggestive paper ..., written when the doctrine of the protection of similar marks from misuse on dissimilar goods was still in its infancy.”<sup>124</sup> Glenn contemplates in his article not only the geographic expansion of one single product under the same mark but also what has already been referred to as transposition of goodwill into other fields of enterprise. Schechter would hardly have endorsed Glenn’s article with such reverence if he would not have been in agreement with Glenn on the aspect of expansion and diversification into other lines of merchandise.

In summary, we can state that not even the authors who did notice the difference between a quantitative and a qualitative threshold requirement construed Schechter correctly. For reasons which remained elusive during the course of research for this Comment the myth that Schechter established a ‘famousness threshold’ for extended trademark protection is highly persistent within the legal community.

## **6. Rational Basis – Groundbreaking or Not?**

Whether or not Schechter really ‘invented’ the doctrine of trademark ‘dilution’ is an issue which appears to be comparatively contentious among academic writers. What can be ascertained with reasonable certainty, though, is that Schechter is fairly unanimously accredited with making the principles constituting trademark ‘dilution’ widely known in the conscience of the Anglo-Commonwealth and US American legal profession.<sup>125</sup> It is certainly no exaggeration if we describe Schechter’s “Rational Basis” journal article as seminal in the

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<sup>121</sup> Schechter “Rational Basis” above n 3 at 823.

<sup>122</sup> G Glenn “Pre-Emption in Connection with Unfair Trade” (1919) 19 Columbia L Rev 29.

<sup>123</sup> Schechter “Rational Basis” above n 3 at 818 [n 23].

<sup>124</sup> Schechter “Trade Morals” above n 16 at 66 [n 14].

<sup>125</sup> T Martino *Trademark Dilution* (Clarendon Press, Oxford, 1996) at 7–10 and *ibid* ch 3 “Life During Schechter”; I Simon Fhima “Dilution by Blurring – a conceptual roadmap” (2010) 1 Intellectual Property Quarterly 44 at 45; Stadler Nelson “Wages of Ubiquity” above n 1 at 733–734; H Carty “Dilution and Passing Off: Cause for Concern” (1996) 112 Law Quarterly Rev 632 at 643; and compare also the list of commentators crediting Schechter with bringing the concept of dilution to the attention of the US legal profession in: LM Slenzak “Dilution Law in the United States and Canada: A Review of the State of the Law and a Proposal for United States Federal Dilution Protection” (1993) 83 Trademark Reporter 205 at 208 [n 11] and 210.

legal landscape of trademark law.<sup>126</sup> Never<sup>127</sup> shy to quote himself nor hesitant to cite or reference his own works,<sup>128</sup> Schechter also made this observation himself in his 1936 journal article “Fog and Fiction”.<sup>129</sup>

There were certainly other noteworthy authors who also proposed and, too, pushed for broader protection of trademarks against subsequent uses upon dissimilar products. Bone,<sup>130</sup> for example, instances an article by George Goble,<sup>131</sup> published in the very same year as Schechter’s “Rational Basis”. While Goble’s proposal for protection is almost as expansive as Schechter’s, the crucial difference in theory is that Goble still requires causation of “mental association as to the manufacture or origin of the goods.”<sup>132</sup> Goble’s approach hence rests firmly upon a confusion concept, albeit an extended one. Schechter, in contrast, explicitly wanted to protect trademarks irrespective of the presence or absence of confusion. This is also noted by Bone and he thus concludes that “Frank Schechter is properly credited as the first person in the United States to present the dilution theory in a *systematic* form.”<sup>133</sup>

Another of Schechter’s contemporaries worth mentioning in this context is Garrard Glenn. Especially, since – as has been mentioned above – Schechter appears to have been inspired, to some extent, in his ideas by Glenn’s article.<sup>134</sup> In a 1919 Columbia Law Review article “Pre-Emption in Connection with Unfair Trade”<sup>135</sup> Glenn essentially advances that goodwill should be considered more broadly than only within the actual field of enterprise. Consequently, an established mark should be protected against imitators of that goodwill under the same mark irrespective of the relatedness of the goods upon which the subsequent mark is being employed. Glenn argues that the test for trademark infringement should not be “confined to matters of species and sub-species.”<sup>136</sup> However, Glenn, just as Goble, remains

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<sup>126</sup> See also J Gilson *Trademark Protection & Practice* (looseleaf ed, Lexis Nexis, Newark NJ) at [§5.12[1][b]] who notes that Schechter’s article had a “... profound impact on the development of trademark law.” And see DE Mangis “When Almost Famous Just Isn’t Famous Enough: Understanding Fame in the Federal Trademark Dilution Act as a Term of Art Requiring Minimal Distinctiveness” (2002) 21 Rev of Litigation 455 at 460 [n 23].

<sup>127</sup> “Frank Schechter is properly credited as the first person in the United States to present the dilution theory in a systematic form.”, Bone “Historical Context” above n 19 at 474.

<sup>128</sup> There are also quite a few footnotes in “Rational Basis” where Schechter references his own doctoral thesis, Schechter *Historical Foundations* above n 11.

<sup>129</sup> Schechter “Fog and Fiction” above n 4 at 65 [n 14]: “This point of view was first expressed, as far as I know, in this country [i.e. the United States] by the present writer ...”.

<sup>130</sup> Bone “Historical Context” above n 19.

<sup>131</sup> GW Goble “Where and What a Trade-Mark Protects” (1927) 22 Illinois L Rev 379.

<sup>132</sup> Goble above n 131 at 388.

<sup>133</sup> Bone “Historical Context” above n 19 at 474 (emphasis added).

<sup>134</sup> Schechter quotes Glenn’s journal article in “Rational Basis” as well as in “Fog and Fiction”.

<sup>135</sup> G Glenn “Pre-Emption in Connection with Unfair Trade” (1919) 19 Columbia L Rev 29.

<sup>136</sup> Glenn above n 135 at 44.

firmly rooted with his proposal upon traditional concepts of confusion. Glenn bases his proposal for protection on consumers' "association of ideas" and the fact that the public will be "likely to trace the two products to the same origin."<sup>137</sup> Schechter may hence have taken some inspiration from Glenn's article. Nevertheless, Schechter's doctrine is fundamentally different from the latter's approach.

As has already been intimated above, opposed to the very nearly unanimous acceptance of Schechter as the 'messenger' of trademark 'dilution', it is not equally undisputed whether or not Schechter can be held to have been the true inceptor and originator of the theory. Pattishall, for instance, notes that "Mr. Schechter adopted the theory from the German law<sup>138</sup>". Pattishall refers to the well-known *Odol*<sup>139</sup> decision handed down by a German court in 1924. Derenberg<sup>140</sup> goes even further and maintains that

the concept originated in England when the British court protected the trademark "Kodak" against use on bicycles,<sup>141</sup> and further developed when a lower German court held that the famous trademark "Odol" was infringed by use of the same mark for totally unrelated products.<sup>142 143</sup>

Following Pattishall and Derenberg, the doctrine of 'dilution' would then not have originated with Schechter, but would find its basis in earlier judgments.

A staunch critic of the concept of trademark 'dilution', Welkowitz, also appears to tend towards the appraisal that Schechter was merely popularising the concept but cannot be accounted its original inceptor. Welkowitz asserts that "[a]lthough one can trace the underpinnings of trademark dilution to an earlier time, Frank Schechter's 1927 article, ..., was

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<sup>137</sup> Glenn above n 135 at 44.

<sup>138</sup> BW Pattishall "The Case for Anti-Dilution Trade-Mark Statutes" (1953) 43 Trademark Reporter 887 at 888. Compare also LM Slenzak "Dilution Law in the United States and Canada: A Review of the State of the Law and a Proposal for United States Federal Dilution Protection" (1993) 83 Trademark Reporter 205 at 207–208, stating that the "dilution concept has its origins " in the English *Kodak Bicycle* case, the German *Odol* case and, in the United States, in what she refers to as the "Rolls Royce" case, further stating that Schechter relied upon those cases and is to be credited as "bringing the concepts of dilution to the United States."

<sup>139</sup> Landgericht Elberfeld, (1925) 25 Juristische Wochenschrift 502; XXV Markenschutz und Wettbewerb 264.

<sup>140</sup> Derenberg "Trademark Dilution" above n 2.

<sup>141</sup> Derenberg referencing *Eastman Photographic Materials Co v John Griffith Corp* [1898] 15 RPC 105 in Derenberg "Trademark Dilution" above n 2 at 448 [n 48].

<sup>142</sup> Derenberg referencing the *Odol* decision of the Landgericht Elberfeld.

<sup>143</sup> Derenberg "Trademark Dilution" above n 2 at 448–449. Slenzak also denotes the *Kodak* as well as the *Odol* decisions as the origins of 'dilution' doctrine, but, in addition, also adduces *Walls v Rolls-Royce* 4 F 2d 333 (3rd Cir 1925), compare LM Slenzak above n 138 at 207–208. DeSimone discerns more thoroughly between Schechter's proposal and the confusion-based preceding decisions by the courts but also points out what he terms the "Kodak rule" as existent before Schechter published his doctrine and agrees with Callmann's and Derenberg's appraisal, terming the *Kodak* decision a "dilution case", DeSimone hence implying that there was existent a doctrinal body of law already prior to Schechter establishing his theory, AR DeSimone "Anti-Dilution Concepts Abroad" (1965) 55 Trademark Reporter 724 at 724–726.

the birth of dilution as a recognized theory.”<sup>144</sup> Unfortunately, Welkowitz does not, in the further course of his article, state where these “underpinnings ... [of] ... an earlier time” are supposed to be sought and found.

Admittedly, even before the publication of Schechter’s “Rational Basis” there had been handed down decisions by the courts, attempting to extend the traditional confusion of source system. This can be viewed as an incremental approach to deploy the law beyond situations of the same descriptive properties<sup>145</sup> and beyond situations in which trademark owners were acting in the market place in direct competition.<sup>146</sup> Schechter himself mentions these cases in “Rational Basis” and, in fact, utilises them to illustrate his contention.<sup>147</sup> However, Schechter did not actually base his theory upon these precedents. None of these decisions had been founded upon a proper concept of a single comprehensive doctrine. In short, a proper appraisal of Schechter’s approach would probably be that the idea of expansion of the protection of trademarks is certainly not the novelty, but the protection of a trademark’s uniqueness, for sure, is unprecedented.

Schechter does recognise that there can be discerned a tendency by the courts to grant broader protection. The courts strove to extend “the doctrine of unfair competition beyond cases where there is an actual diversion of custom.”<sup>148</sup> However, Schechter at the same time disapproves of the fact that this “process has been one of making exceptions rather than of frank recognition of the true basis of trademark protection.”<sup>149</sup> In addition, it is to be noted, at this juncture, that Schechter’s quest for the proper basis of relief is not confined to “Rational Basis” but did already start out with *Historical Foundations*. In fact, the quest for the proper

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<sup>144</sup> Welkowitz “Reexamining Trademark Dilution” above n 40 at 533.

<sup>145</sup> Which was the touchstone for infringement claims under the United States Trade Marks Act 1905.

<sup>146</sup> See for example *Vogue Co v Thompson-Hudson Co and another* 300 F 509 (6th Cir 1924) at 510 and 512, stating that the court of first instance had erroneously assumed that a case on the count of unfair competition (i.e. passing off) had to be dismissed because there was no direct competition between the markets for magazines and the ones for women’s hats and opining further that the action for unfair competition “rests more vitally upon the unfairness” and that even though this count might usually be invoked “when there is an actual market competition between the analogous products of the plaintiff and the defendants; ... there is no fetish in the word ‘competition’.”

<sup>147</sup> The cases which Schechter takes into account in relation to the use of trademarks upon non-competing goods are: *Aunt Jemima Mills v Rigney & Co* 247 Fed 407 (2nd Cir 1917), cert. denied 245 US 672 (1928); *Vogue Co v Thompson-Hudson Co* 300 Fed 509 (6th Cir 1924); *Beech-Nut Packing Co v Lorillard Co* 7 F 2d 967 (3rd Cir 1925), cert. granted 269 US 551 (1926); *Wall v Roll-Royce of America* 4 F 2d 333 (3rd Cir 1925); *Eastman Kodak Co v Kodak Cycle Co* [1898] 15 RPC 105; *Walter v Ashton* [1902] 2 Ch 282; *Society of Motor Manufacturers etc Ltd v Motor Manufacturers etc Insurance Co Ltd* [1925] 42 RPC 307 at 319; *Harrods Ltd v R Harrod Ltd* [1923] 41 RPC 74.

<sup>148</sup> Schechter “Rational Basis” above n 3 at 821 (citations omitted).

<sup>149</sup> Schechter “Rational Basis” above n 3 at 821.

basis of relief is the true purpose and lies at the very heart of the assiduous historical research preformed in *Historical Foundations*. Schechter indicates therein at repeat instances the courts' fallacy in their "tendency to insist upon deception of the public as not merely a *test* of a violation of a trade-mark right but as the *basis* of relief against such violation."<sup>150</sup> It was based upon the foundations of the historic trail unearthed in *Historical Foundations* that Schechter was enabled to eventually conclude in "Rational Basis" that

the *proper* expansion of trademark law has been hampered by obsolete conceptions both as to the function of a trademark and as to the need for its protection.<sup>151</sup>

This is, it must be indicated in this context, one of Schechter's main contentions, namely, that in his view trademark owners for their protection against non-confusing uses upon dissimilar goods are reliant upon "appeals to good conscience and judicial sensibilities"<sup>152</sup> instead of proper doctrine. One of Schechter's main concerns with reference to 'dilution' is that the courts in their "apparent failure ... to keep pace with the necessities of trade and the functional development of trademarks"<sup>153</sup> deliver arbitrary results in their judgments. This is to be ascribed to a lack of "legal principles ... derived from ... the real tort involved."<sup>154</sup> Schechter instances that courts had held that, on the one hand, bread and flour as well as pancake flour and syrup were, respectively, in the same class. On the other hand, however, straight wheat flour and prepared flour, chewing gum and chewing tobacco, ice cream and milk, and cheese and butter were held to be of different descriptive properties. In the last mentioned instances the goods had been held to be unrelated products and hence not in the same class.<sup>155</sup> This, in turn, meant that in those instances no likelihood of confusion was seen and, thus, no relief granted. This disarray of purportedly related and unrelated products evinces clearly that the courts cannot be held to have acted in a very principled manner.

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<sup>150</sup> Schechter *Historical Foundations* above n 11 at 5 (italics provided in original). Schechter also disparages the courts' blind reliance upon Dodderidge J's "irrelevant reminiscent dictum first reported in 1656 to have been dropped in the case of *Southern v. How*", Schechter *Historical Foundations* above n 11 at 6.

<sup>151</sup> Schechter "Rational Basis" above n 3 at 824 (emphasis added).

<sup>152</sup> Schechter "Rational Basis" above n 3 at 813.

<sup>153</sup> Schechter "Rational Basis" above n 3 at 824. Compare also: "Summarizing briefly the evidence adduced in this chapter, medieval proprietary marks, while not, strictly speaking, trade-marks in the modern sense of the word, were an important factor in the development of modern trade-mark law. As appears from municipal document and the records of the Admiralty Courts, ..., merchants' marks were regarded as establishing *prima facie* and often conclusive evidence of the ownership of the goods to which they were affixed. This proprietary significance of merchants' marks still survives in and distinctly tinges the judicial concept of the function of a trade-mark." Schechter *Historical Foundations* above n 11 at 34; "The development of the law of unfair competition with respect to trade-marks has been hampered by the failure of the law to keep pace with the functional evolution of trade-marks themselves." *ibid* at 171.

<sup>154</sup> Schechter "Rational Basis" above n 3 at 813.

<sup>155</sup> Schechter "Rational Basis" above n 3 at 823 and the cases cited by Schechter therein.

In addition Schechter is very much adverse to the fact that the confusion concept is so heavily reliant upon the subjective “judicial estimate of the public mind”.<sup>156</sup> He is concerned about the severe ramifications this entails with respect to legal certainty. This is, of course, also connected to the lack of proper doctrine in instances of dissimilar goods and the resulting need for “appeals to good conscience and judicial sensibilities”<sup>157</sup> instead of proper doctrine. To Schechter, the confusion concept does not produce the desirable protection of a trader’s established goodwill but rather incalculable results. Schechter specifically criticises that in cases of dissimilar goods the courts could not resort to diversion of custom of the basis for relief. Consequently, since the real injury in dissimilar goods cases had not found universal acceptance, the courts, in order to justify their decrees, needed to “resort to an exceedingly laborious spelling out”<sup>158</sup> of other forms of damage to the trademark owner. In consequence, Schechter urges that the “vague doctrine of related goods”<sup>159</sup> be discounted because it leads to unprincipled and incongruous results.

Contrary to Derenberg’s, Pattishall’s and Welkowitz’ appreciation, these judicial decisions hence do not form a comprehensive body of precedent and cannot be adjudged to comprise the foundation of the doctrine of ‘dilution’. At least, they do not constitute the basis for the Schechter-type singularity protection. Certainly, these decisions contain notions of expanded confusion or derivatives of confusion, but these are classic concepts of confusion of source nevertheless. This latter fact has been indicated for the English *Kodak* decision by Lukens<sup>160</sup> and has comprehensively been demonstrated for all cases here in question by Middleton in his 1952<sup>161</sup> and 1957<sup>162</sup> articles. Middleton accurately concludes that the ratio decidendi in at

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<sup>156</sup> “The question as to whether the deception of the public should be regarded as one of the bases of trade-mark infringement is of course closely connected with that of the actual significance of trade-marks to the public itself. As we have already indicated, the public is concerned with the trade-mark not so much as an indication of origin but as a guaranty of quality. Any theory of trade-mark protection which overlooks this fact and which does not focus the protective functions of the court upon the good-will of the owner of the trade-mark, inevitably renders such owner dependent for protection, not so much upon the normal agencies for the creation of good-will, such as the excellence of his product and the appeal of his advertising, as upon the judicial estimate of the state of the public mind”, Schechter *Historical Foundations* above n 11 at 166.

<sup>157</sup> Schechter “Rational Basis” above n 3 at 813.

<sup>158</sup> Schechter “Rational Basis” above n 3 at 825.

<sup>159</sup> Schechter “Rational Basis” above n 3 at 823.

<sup>160</sup> Lukens pointing out that the court held confusion to be highly likely and enjoined the use of the Kodak mark by defendant because “the defendant should not be permitted to sell ‘Kodak Bicycles,’ because the plaintiff sold cameras attachable to bicycles and called them ‘Bicycle Kodaks’.”, EC Lukens “The Applications of the Principles of Unfair Competition to Cases of Dissimilar Products” (1927) 75 University of Pennsylvania L Rev 197 at 201.

<sup>161</sup> GE Middleton “Some Reflections on Dilution” (1952) 42 Trademark Reporter 175.

<sup>162</sup> GE Middleton “Some Aspects on Trademark Dilution” (1957) 47 Trademark Reporter 1023.



least all the pre-Schechter decisions<sup>163</sup> is based upon a finding of confusion, not ‘dilution’.

Furthermore, Middleton correctly points out that in all those decisions deliberations with respect to diluting a trademark’s distinctive character – if at all present – are solely employed as an additional makeweight but they do not constitute the basis for relief.<sup>164</sup> They are, thus, to be qualified as mere obiter dicta. Derenberg makes a converse attempt to construe the legal precedents in a way which implies that the courts could already take recourse in their decisions to a readily established concept of ‘dilution’. Derenberg maintains that the courts merely – additionally – “still found it necessary to justify the granting of relief by finding some semblance of ‘confusion’ “. <sup>165</sup> This attempt of Derenberg can, however, safely be attributed to the fact that he was an outspoken advocate of a broad ‘dilution’ concept for all famous or celebrated marks. Derenberg obviously tried to construe the legal history in a way which was supposed to evince that ‘dilution’ could already look back upon a long-standing and distinguished history in the realm of United States and Anglo-Commonwealth trademark law.

Additionally, although Schechter himself adduced these respective decisions to buttress his contention of a ‘dilution’ theory slowly germinating in the courts we will have to agree, with Stadler Nelson’s appraisal with respect to the point that the

cases on which Schechter relied in *Rational Basis* were not quite as they seemed; cases that Schechter had cited as evidence of a dilution theory in its incipiency seemed, in the end, to have been decided based on consumer confusion after all.<sup>166</sup>

However, a somewhat more discerning evaluation would probably be – as has already been intimated above – that Schechter took these cases merely as a starting point for the protection of trademarks against use upon dissimilar goods and from there elaborated to construct his very own theory. Schechter, hence, did not rely upon those cases for the doctrinal portion of his theory but only incorporated them into his analysis of the then prevailing conditions in trademark law. He did this in order to demonstrate that, indeed,

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<sup>163</sup> And these are the only ones we are concerned with at this juncture when endeavouring to ascertain whether a proper dilution concept was present in the law before Schechter’s publication.

<sup>164</sup> Middleton stating that “the courts generally have not regarded dilution as a common law tort in its own right, although they have occasionally used it as a makeweight in cases where confusion or its likelihood was the *ratio decidendi*. So far as I know no case has turned on dilution alone.”, GE Middleton “Some Reflections on Dilution” (1952) 42 Trademark Reporter 175 at 187.

<sup>165</sup> Derenberg “Trademark Dilution” above n 2 at 450 (mind the quotation marks surrounding the word confusion; provided by Derenberg in the original).

<sup>166</sup> Stadler Nelson “Wages of Ubiquity” above n 1 at 753 [n 139] (italics supplied in original).

[t]he history of important trademark litigation within recent years shows that the use of similar marks on *non*-competing goods is perhaps the *normal* rather than the exceptional case of infringement.<sup>167</sup>

From there he derived his contention that, to tackle such cases, the law needed to redirect its approach toward a more conceptually sound and comprehensive doctrinal basis.

As regards the known precedents outside the legal sphere of the Anglo-Commonwealth and, thus, with respect to the German *Odol* decision, Schechter himself does not found his ideas upon this case but explicitly only refers to it merely as “... fortifying ...”<sup>168</sup> the ideas and conclusions expounded in his article. More importantly, however, the development in the German law differs materially from Schechter’s proposal to protect the uniqueness of coined, arbitrary and fanciful marks. The German court, in this respect, appears to have been more concerned with the protection of the fame of plaintiff’s symbol than of its uniqueness.<sup>169</sup>

An even more crucial difference lies in the fact that, legally, the relief granted to the plaintiff in the *Odol* case was based on counts extraneous to the then subsisting German statutory trademark law. The relief was based upon § 826 of the German Civil Code<sup>170</sup> according to which injunctive relief and damages shall be granted to the plaintiff if the defendant *designedly* injures another in a way which is considered to blatantly contravene *bonos mores*. The plaintiff, in order to obtain redress under § 826, hence needs to establish – and prove – defendant’s intent. The Section provides an exceptional remedy and establishes a threshold which is not easily overcome.

The second count upon which the Court based its decision was § 1 of the Law against Unfair Competition,<sup>171</sup> which provides a very broad and general norm against any form of business conduct which violates good morals in the course of competition within the market place. Under this norm, “competitors may enjoin false advertising without proving damage.”<sup>172</sup> The Court saw such a violation of appropriate business manners in defendant’s encroachment

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<sup>167</sup> Schechter “Rational Basis” above n 3 at 825 (italics provided in original).

<sup>168</sup> Schechter “Rational Basis” above n 3 at 831: “Our conclusion ... is *fortified* by the doctrine that has developed within recent years in German law on this same point.” (emphasis added).

<sup>169</sup> Compare Schechter’s own quotations of the case in Schechter “Rational Basis” above n 3 at 831–832.

Compare also the more thorough discussion by Wertheimer in L Wertheimer “Broadened Protection of Names and Trade-Marks under the German Law” (1925) 20 Trademark Bulletin 75 at 76–77.

<sup>170</sup> Bürgerliches Gesetzbuch (BGB).

<sup>171</sup> Gesetz gegen den Unlauteren Wettbewerb.

<sup>172</sup> J Wolff “Non-Competing Goods in Trademark Law” (1937) 37 Columbia L Rev 582 at 585 [n 17].

upon plaintiff's business reputation.<sup>173</sup>

The *Odol* court's main focus can thus be summarised to have rested with the bad faith and the predatory intent of the defendant. Both counts are, in decisive portions, substantially different from trademark infringement actions in the Common Law realm, whether it be under heads of statutory trademark law or the action for passing off.

In conclusion it is certainly safe to concur with Deering's appraisal that the main impetus of the decisional law during the pre-Schechterian era in the realm of the Anglo-Commonwealth legal sphere was to establish "confusion of source as a criterion and eliminated the idea that unfair competition could not exist where there was no diversion of custom"<sup>174</sup> and that "the emphasis was shifted to deception, and confusion of source became the test, without regard to the artificial criterion of product classification."<sup>175</sup>

Schechter's appraisal, thus, must be adjudged to hold true, namely, that the courts moved away from public confusion or deception as a *test* for diversion of custom and shifted their emphasis towards confusion (or the likelihood thereof) as the actual *basis of relief*. This takes us nicely back to the initial question posed at the beginning of this Section whether Schechter was, indeed, the true incipient of the doctrine on trademark 'dilution'. In agreement with Martino's<sup>176</sup> assessment we will discount the notion that the pre-Schechterian cases in instances of non-related goods espoused an actual doctrine on 'dilution' in the proper sense. It is hence submitted here that Schechter was not only the 'messenger' but indeed, the true begetter of 'dilution' doctrine.

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<sup>173</sup> Compare the rendition in English of excerpts from the *Odol* decision in L Wertheimer "Broadened Protection of Names and Trade-Marks under the German Law" (1925) 20 Trademark Bulletin 75 at 76–77. And compare also the quite thorough account of the broadened confusion protection of famous and celebrated marks in German law of the time by Wolff above n 172 at 584–590. Compare also H Carty's assessment of the German law's main focus lying with the protection of a famous mark's unique market position H Carty "Dilution and Passing Off: Cause for Concern" (1996) 112 Law Quarterly Rev 632 at 650–651.

<sup>174</sup> TP Deering "Trade-Marks on Noncompetitive Products" (1956) 36 Oregon Law Review 1 at 4.

<sup>175</sup> Deering above n 174 at 3 and note also *ibid* [n 10], Deering referencing the discussion of this development in law in *SC Johnson & Son Inc v Johnson* 175 F 2d 176 (2nd Cir 1949). Compare for this also Wolff who clearly charts the shift from loss of sales in connection with goods of the same class/goods of the same descriptive properties to confusion of source as the lodestone of the courts in trademark cases Wolff above n 172 at 590–593. And compare generally the portrayal of the same development in T Martino *Trademark Dilution* (Clarendon Press, Oxford, 1996) chs 2–5 and ch 11. And also the evolution of expanded concepts and derivatives of confusion in CDG Pickering *Trade Marks in Theory and Practice* (Hart Publishing, Oxford, 1998) chs 2–4.

<sup>176</sup> T Martino *Trademark Dilution* (Clarendon Press, Oxford, 1996) at 3: "this book traces the historical progression of the alien intruder from his earliest appearance (rejecting the notion that he first set foot in the English courts), through his adoption by the real hero of this piece, Frank I Schechter, to his acceptance by a number of US State legislatures."

## **D. Ramifications of Modern Trade as the Starting Point for Schechter's Theory**

Having ascertained that Schechter was indeed the progenitor of singularity protection we can now turn our attention from the man to the actual theory itself. Schechter's first steppingstone towards expounding his theory in both *Historical Foundations* as well as in "Rational Basis" are the realities of trade and the resulting conditions for the functioning of trademarks in the market place. He contrasts the trading conditions and the trade relations of mediaeval times, when regulations relative to trademarks first emerged, against the reshaping of trade in modern times as the result of the transformations in economic structures during the Industrial Revolution. The most fundamental of these changes was the "separation of the producer from the customer".<sup>177</sup> Trade transcended the local and regional boundaries and started to be conducted on a national and international range. This precipitated a concomitant change in the way trade relations were established. Products started to be distributed through a complex chain of distribution, alienating from one another both sides to a bargain. Manufacturers remained remote and isolated from end consumers and vice versa. For consumers, this, in turn, brought about a "shift from trade in commodities from known suppliers to trade in known goods."<sup>178</sup> These transformations forge "the economic background of the genesis of modern trade-mark law".<sup>179</sup> At the same time, this shift in trade relations entails crucial consequences for the functioning of trademarks. All these changes taken in their entirety necessitate "recognition of the actual nature and function of the trade-mark under modern conditions of production and distribution."<sup>180</sup>

### **1. Mediaeval Times: Localised Trade and Personalised Trade Relations as the Economic and Social Backdrop for the Inception of Trademark Law**

The conditions under which trademarks and trademark law first evolved<sup>181</sup> were the economic circumstances and societal structures of mediaeval society. This era was vastly dominated by personal trade relations and a localised trade, a so called neighbourhood economy.<sup>182</sup> The

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<sup>177</sup> CDG Pickering *Trade Marks in Theory and Practice* (Hart Publishing, Oxford, 1998) at 39.

<sup>178</sup> CDG Pickering *Trade Marks in Theory and Practice* (Hart Publishing, Oxford, 1998) at 42.

<sup>179</sup> Schechter *Historical Foundations* above n 11 at 134.

<sup>180</sup> Schechter *Historical Foundations* above n 11 at 170.

<sup>181</sup> Markings as a differentiating token for all kinds of purposes do, of course, date back much further than the Middle Ages. One need only think, in this context, of the branding of life stock. Schechter acknowledges this. But he is concerned with trademarks as they first appear because they are, at the same, time observed in norms and regulations of legal significance, this significance going beyond mere proof of ownership.

<sup>182</sup> Schechter "Rational Basis" above n 3 at 824: "neighborhood theory of trade."

hallmarks of this type of economy were a “system of minute sectional organization”<sup>183</sup> and, resulting from this, the guilds’ tight grip upon the organisation of trade and upon the production, manufacture and distribution of all kinds of wares and commodities.<sup>184</sup> In fact, “until the fifteenth century or even later, so large a part of the manufacturing work of the country was arranged on the gild system, that that term may be fairly used to describe the whole organization of industry.”<sup>185</sup>

Mediaeval communities were closely knit and social and economic structure were determined by close proximity. Producers, purchasers and purveyors of goods all lived, worked and traded in close vicinity and relationship to one another.<sup>186</sup> “The great majority of articles in the daily use of the mass of the people were bought by the consumer from the actual maker.”<sup>187</sup> Trade was simply not done on a national or international scale. For a long period of time trade did not even attain a regional scale. Because of the close relations between producer and consumer the manufacturer or trader – the source or origin of goods – was, in the vast majority of instances, personally known to consumers. Trademarks were not really of importance to consumers for discerning from one another personally acquainted trade sources. Based upon repeat custom the public was well familiar with qualities of goods and wares on offer from a known source.<sup>188</sup> Due to the close proximity and the closely knit communities consumers had ample occasion for “personal inspection of the goods before purchase”.<sup>189</sup> “[T]he observation by the consuming public of the materials and methods of production

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<sup>183</sup> Schechter *Historical Foundations* above n 11 at 103.

<sup>184</sup> Schechter *Historical Foundations* above n 11 at 16–18.

<sup>185</sup> Schechter *Historical Foundations* above n 11 at 40 (citations omitted).

<sup>186</sup> “If the making of an article was divided between several craftsmen as, for example, that of cloth between weavers, fullers and dyers, each of these groups of craftsmen [\*41] lived within a narrow circuit and under the eyes of most of those who ultimately bought their manufactures. The members of each craft usually lived in the same street or neighborhood.” Schechter *Historical Foundations* above n 11 at 40–41; “These characteristics of the medieval mark we have ascribed to a great extent to the proximity of the producer to the consumer and of one producer to another, and also to the theory and practice of gild control of industries in each locality.” *ibid* at 78.

<sup>187</sup> Schechter *Historical Foundations* above n 11 at 40.

<sup>188</sup> “The slight degree of *national* economic significance acquired by trade-marks prior to the middle of the nineteenth century accounts for much of the tardiness in the growth of modern trade-mark law both in England and in the United States. ... trade-marks did not develop as valuable symbols of good-will so long as producer and consumer were in close contact.” Schechter *Historical Foundations* above n 11 at 128–129 (emphasis added).

<sup>189</sup> “[E]ach of these groups of craftsmen [\*41] lived within a narrow circuit and under the eyes of most of those who ultimately bought their manufactures. From the consumer’s standpoint, the greater his proximity to the producer, the better are his opportunities for personal inspection of the goods before purchase, and the less becomes his necessity for relying upon trade-mark or trade-names in the modern sense as a symbol or guarantee of excellence of material or workmanship.” Schechter *Historical Foundations* above n 11 at 40–41.

employed w[as] rendered easy by the physical conditions involved.”<sup>190</sup>

In addition, consumers’ demands at the time can hardly be described as refined or largely varied. The product portfolio on offer was comparatively straightforward. As a result, the quality and the individual merits of manufactured goods could be easily compared against each other by consumers who desired to do so.<sup>191</sup> Furthermore, because needs were not highly sophisticated, there was no demand for a plethora of possible product choices. Consequently, there was also no necessity for developing trademarks as a means of distinguishing such non-existent diversity. Also, one of the guilds’ main ambits was not only to maintain a high but, equally, an harmonious (read: uniform) standard of workmanship within the region of their monopoly.<sup>192</sup> The compliance with the prescribed uniform standard was evinced by the guild seals which every craftsman had to affix upon his wares as a compulsory production mark. These served the public as something akin to today’s certification mark, ensuring to the consumer that certain standards of production had been maintained and that the product had satisfied a particular quality inspection. “Every craft, of course, either had its own ordinances concerning such marks or administered<sup>193</sup> statutory or municipal regulations of a similar nature.”<sup>194</sup> Irrespective of the variety of these sources of law, “[a]ll of these regulations, whatsoever their source, made the use of the production mark<sup>195</sup> compulsory”.<sup>196</sup> This is the reason why the buying public could rest assured that a product bearing the respective guild’s seal had been deemed to satisfy the appurtenant production and quality standards. Differentiation of products or sources in the face of goods which all possessed almost the exact same qualities would have been superfluous and supererogatory a task. Under the given economic structure there was, for consumers, no need to utilise an individual traders’ mark as

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<sup>190</sup> Schechter *Historical Foundations* above n 11 at 40.

<sup>191</sup> “Wants were comparatively few and unchanging; ... they were supplied by neighboring craftsmen; consumer and producer stood in direct relation with one another.” Schechter *Historical Foundations* above n 11 at 40.

<sup>192</sup> “the enforcement of the monopoly was accompanied by the preservation of high standards of production.” Schechter *Historical Foundations* above n 11 at 40; “the gild seal, which was always set upon goods conforming to gild standards” *ibid* at 45; “The profuse legislation of the guilds concerning marks was designed solely to maintain standards of workmanship for the protection of the collective good-will of the gild ...” *ibid* at 63; “the characteristics of the typical craftsman’s mark of the Middle Ages were: (1) that it was compulsory, not optional; (2) that its purpose was the preservation of gild standards of production” *ibid* at 78.

<sup>193</sup> “Even when the industry became the subject of national, rather than local regulation, the guilds and companies were greatly relied upon by the Crown and Parliament to supervise manufacturing processes and trade.” Schechter *Historical Foundations* above n 11 at 40.

<sup>194</sup> Schechter *Historical Foundations* above n 11 at 47.

<sup>195</sup> Schechter, when employing the term ‘production marks’ regularly refers, throughout *Historical Foundations* as well as “Rational Basis,” to the regulatory production marks of *the guilds* but he points out that “[t]he same was true of those marks which craftsmen were required *by statute* to affix to their wares.” Schechter *Historical Foundations* above n 11 at 63 (emphasis added).

<sup>196</sup> Schechter *Historical Foundations* above n 11 at 47.

a token which would have denoted a product's particularly outstanding or even a merely consistent quality.

It needs to be mentioned, though, that this 'consumer protection' with respect to a 'certified quality' was certainly merely a corollary – a mere reflex, as to speak – of other motives of the guilds. There are other reasons why the guilds so closely supervised the compliance with the uniformity of set quality standards. These reasons are connected to the anti-competitive character underpinning the whole guild system. The maintenance of a very uniform standard of products ensured that no real competition could arise among fellow guild members. At least, this countervailed any form of competition by virtue of a differentiation in product quality. This way the guilds achieved one of their main purviews, namely, to secure – by restriction of competition – that every guild member would be enabled to retain his or her customers and, thus, to earn and sustain an adequate livelihood from the business they were engaged in.

The absence of representation of individual goodwill in trademarks under the guild system is, however, not only attributable to the lack of need for trademarks because of the uniformity of the product world. Rather, the guilds' organisation of commerce thwarted any trader's or craftsman's attempt to prominently employ an individual mark upon their products designating their own individual goodwill. The guilds were fiercely opposed to the display of such individual goodwill and they showed great "reluctance ... to permit the association of their arms with the mark of one of their members."<sup>197</sup> Since the guilds' seals compulsorily had to be affixed to all goods within the reach of a particular guild's monopoly, the guilds' proscription of "association of their arms with the mark of one of their members" essentially amounted to proscription of display of individual marks to its entirety. The guilds' supervision of craftsmen with respect to this was rigid and, at the same time, highly effective because of the guilds' monopolies and the circumstances of society and economy recounted above.<sup>198</sup>

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<sup>197</sup> Schechter *Historical Foundations* above n 11 at 44–45.

<sup>198</sup> "grants of monopoly formed a regular and almost universal feature in gild charters, and the enforcement of the monopoly was accompanied by the preservation of high standards of production. ... The supervision of industry by the guilds ... of the materials and methods of production employed were rendered easy by the physical conditions involved. ... The members of each craft usually lived in the same street or neighborhood. ... Such a grouping must have enormously strengthened the sense of corporate life in each craft, and must also have made the work of supervision comparatively easy." Schechter *Historical Foundations* above n 11 at 40–41; "The gild sought to exercise and actually acquired a fairly rigid monopoly of the trade in their area, and they strove by

To what extent the guilds and their successors, the companies, sought to repress the establishment of an individual good-will on the part of their members, as opposed to a collective or gild good-will, is evinced by their reluctance to permit one guildsman to use a mark or sign of greater prominence than another, or to exploit the gild seal, which was always set upon goods conforming to gild standards, in conjunction with his own.<sup>199</sup>

This is also corroborated by the fact that “[m]ost of the regulations made by the Craft relating to makers’ marks seem to have been made with the intention of preventing any form of self-advertisement.”<sup>200</sup> This opposition of the guilds to the prominent display of individual goodwill is deeply connected to the “anti-competitive and regulatory features of the gild system”.<sup>201</sup> The compulsory affixing of the gild seal upon wares served the purpose to ensure that the standards of workmanship were maintained and that wares were ‘of good measure’. But no matter how high an individual standard a craftsman may have achieved, the guild system was ever and only designed to protect the collective, not any individual goodwill.<sup>202</sup> What guild regulations concerning production marks “did *not* permit was, . . . , the exploitation of these marks to the direct individual advantage or for the personal advertisement of those who”<sup>203</sup> were, at the same time, obliged to employ those compulsory marks upon their wares.

Neither the physical circumstances surrounding gild life nor the economic theories underlying the functions actually exercised by the guilds encouraged the development of an individual guildsman’s good-will, nor the exploitation of the symbol of such goodwill, *i.e.*, his trade-

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every means at their disposal to prevent “foreigners”—as the merchants coming from a town five miles away might be described— from competing with their [\*42] gild.” *ibid* at 41–42.

<sup>199</sup> Schechter *Historical Foundations* above n 11 at 44. Schechter then carries on to give ample reference of examples of the Pewterers of London not being allowed to strike their own name at length, Schechter *Historical Foundations* above n 11 at 45.

<sup>200</sup> Schechter *Historical Foundations* above n 11 at 46. With respect to the pewterers Schechter notes: “. . . there are certain indications in the records of the Pewterers’ Company that these compulsory marks gradually acquired a secondary significance as symbols of their user’s good-will. . . . While there was actually such a development [i.e. towards symbolising individual goodwill], it cannot be said that there was a corresponding development to any marked degree of any system of protection of the individual’s mark. On the contrary, the Company rather put in much effort to repress such development of individual goodwill among its members.”, Schechter *Historical Foundations* above n 11 at 102 [n 1] and at 45.

<sup>201</sup> Schechter *Historical Foundations* above n 11 at 47.

<sup>202</sup> “The profuse legislation of the guilds concerning marks was designed solely to maintain standards of workmanship for the protection of the collective good-will of the gild and to permit the tracing of the sale of ‘foreign goods’ for the enforcement of the gild monopoly” Schechter *Historical Foundations* above n 11 at 62; “The protection of trademarks originated as a police measure to . . . safeguard the collective good will . . . of the gild.” Schechter “Rational Basis” above n 3 at 819.

<sup>203</sup> Schechter *Historical Foundations* above n 11 at 47 (*italics in original*).



mark.<sup>204</sup> At the very heart of the guild system lies that “—at any rate, according to the theory of their legislation—there was no such thing as competition, solely co-operation,” and thus,

the guild records abound in oaths and ordinances that were calculated to prevent not only the enticing away of each others’ apprentices but all other forms of or tendencies towards intra-guild competition.<sup>205</sup>

These anti-competitive ordinances were buttressed with non-litigation clauses. This tightened the guilds’ hold upon their members even further since the consequence of these non-litigation clauses was that no outside assistance could be obtained from a court ‘at law’ for all disputes or any matters which were guild-related. In essence, this meant that very nearly all matters trade-related and virtually exhaustively all issues arising in connection with production and/or manufacture of goods remained under the jurisdiction of the guilds.<sup>206</sup>

But even if a craftsman or trader would – in violation of said ordinances – have been so daring as to engage into actual competition with his fellow guild members or if he would have attempted to make known the outstanding excellence or quality of his own individual wares as opposed to, for example, the average guild standard, his enterprise would, most likely, have been forestalled already in its very beginnings. Regarding the rigid structure of the guilds just extolled and the close scrutiny to which every member of mediaeval society was subject within the narrowly confined limits of neighbourhood trade, on the balance of probabilities, his chances to succeed or even to merely remain undetected in his endeavours would not have been very high.

Furthermore, next to the portrayed insignificance of trademarks for denoting goodwill amongst and within the various crafts of a given locality themselves, such function did also not develop with respect to goods being shipped into the community from outside. This, because for the very vast portion of items on offer in the marts of commerce such goods from different provenance were non-existent since

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<sup>204</sup> Schechter *Historical Foundations* above n 11 at 62.

<sup>205</sup> Schechter *Historical Foundations* above n 11 at 42.

<sup>206</sup> “The first glance at the medieval economic structure and methods of production will furnish us with a very simple reason for the absence of any evidence of trade-mark litigation in the early records of the king’s courts. Medieval trade was largely conducted through guilds or “misteries” and an integral part of the whole scheme of organization into guilds or “misteries” was the prevention of litigation among guildsmen in any tribunal save the court held by the guild officials of guild members themselves and the punishment of all effort to seek redress “at law” for wrongs perpetrated by a guildsman against his fellow-gildsman, without the consent of the guilds. The ... point may be emphasized here that arbitration among guildsmen was primary duty of the master and wardens of practically every British guild and livery company, and resort to litigation was the gravest [\*17] kind of offense.” Schechter *Historical Foundations* above n 11 at 16–17.

[t]he compulsory production mark likewise assisted the gild authorities in preventing those outside the gild from selling their products within the area of the gild monopoly.<sup>207</sup>

This is connected to the guilds' collective goodwill the protection of which was facilitated by strict monopolies which commonly were conferred upon the guilds. Thus,

[t]he guilds sought to exercise and actually acquired a fairly rigid monopoly of the trade in their area, and they strove by every means at their disposal to prevent "foreigners"—as the merchants coming from a town five miles away might be described—from competing with their gild.<sup>208</sup>

Imported goods from anonymous trade sources would actually have profited from being capable to be distinguished by virtue of their trademarks in distinction to the locally supplied products. However, because of the guilds' local monopolies such imported goods were virtually not existent.

Next to the vain attempts to designate one's own, individual goodwill at all, this entire economic and societal structure also serves to explain why instances of unfair competition between traders appear to be conspicuously absent not only in the courts at law and of equity but also within guild jurisprudence of that time. This accounts at least for cases with respect to conflicts of interests between traders in connection with the right to employ a particular sign upon one's wares. For one, adoption and application of individual signs were being combated as such by the guilds in the first place. Secondly,

[t]he difficulty of the "appropriation of trade values" in the face of the control of industry either by or through guilds under the physical conditions just described is apparent. ... [H]ad the medieval craftsman been tempted to engage in unfair competition against his fellow-craftsman living in the same narrow street, his desire would seem to have been a very difficult thing to accomplish without detection.<sup>209</sup>

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<sup>207</sup> Schechter *Historical Foundations* above n 11 at 47. And compare also "The profuse legislation of the guilds concerning marks was designed solely to maintain standards of workmanship for the protection of the collective good-will of the gild and to permit the tracing of the sale of 'foreign goods' for the enforcement of the gild monopoly. The marks used by the medieval [\*63] guildsman, *quâ* guildsman, were in their origin purely regulatory or police marks, and, as such, liabilities, not assets." Schechter *Historical Foundations* above n 11 at 62–63; "The protection of trademarks originated as a police measure ... to safeguard the collective good will and monopoly of the gild.", Schechter "Rational Basis" above n 3 at 819.

<sup>208</sup> Schechter *Historical Foundations* above n 11 at 41–42; "The compulsory production mark likewise assisted the gild authorities in preventing those outside the gild from selling their products within the area of the gild monopoly." *ibid* at 47.

<sup>209</sup> Schechter *Historical Foundations* above n 11 at 41.

## 2. Modern Trade: Delocalised Trade, Impersonalised Trade Relations and Shifts in Economy and Society Cause Severe Changes in the Use of Trademarks

With the era of Industrial Revolution came distinct changes in market relations. Delocalised trade first developed for products which were durable and, hence, capable of being transported over long distances. In addition, for the delocalisation of trade, not only distance in the geographic sense was of the essence. Just as important was distance in the sense of time, namely, the possibility to produce the respective wares not only for present demands but also for future markets.<sup>210</sup>

As a result, out of all the varying commodities in the market place those ones gained in importance for the nationalisation and internationalisation of trade which could be offered, without deteriorating in their quality, on markets further apart from and far beyond only the vicinity of the place of manufacture.<sup>211</sup> Schechter points to the industries of the cloth and cutlery trades and to the manufacture of pewter wares as paradigmatic for this evolution.<sup>212</sup> As the epitome of the development of the modern trademark he views the marks used upon cloth – representing more of a collective goodwill of different localities – and the marks employed by the forgers of the cutlery trade – these evolving very early on as marks of truly individual goodwill.<sup>213</sup> Schechter subsequently, in two separate chapters of *Historical*

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<sup>210</sup> Schechter notes that for products which continued to be traded only locally there was hardly any cognisable development of the trademarks employed thereupon towards assets. They remained, for the most part, strictly liability marks. And Schechter exemplifies this for the marks used by bakers upon bread. “From the trade-mark law standpoint it should also be remembered that bread could only be made in comparatively small quantities; it cannot be made for a distant or a far-future market. It is not surprising, therefore, that on the one hand there is much national as well as local legislation on the subject of bakers’ marks, and that on the other hand, whatever references we find to these marks show their uses to have been solely regulatory.”, Schechter *Historical Foundations* above n 11 at 48 (citations omitted).

<sup>211</sup> “In the course of time in certain trade these police marks or liability marks gradually became, . . . , asset marks,—that is to say, they became valuable symbols of individual good-will. This was so in the case of goods of durability and transportability for long distances, especially in the clothing and cutlery trades. But even in the case of these trades their trade-marks began as solely regulatory indicia or police marks of origin and only later developed as symbols of good-will.” Schechter *Historical Foundations* above n 11 at 47.

<sup>212</sup> “The same mark might ultimately acquire a secondary significance as a symbol of the excellence of its user’s workmanship and wares, but this secondary development is found only in certain industries dealing in commodities capable of transportation for a long distance, such as cloth, cutlery and to a lesser degree pewterware, and not perishable foodstuffs.” Schechter *Historical Foundations* above n 11 at 62–63.

<sup>213</sup> While there was, on the one hand, in the cutlery trades, an “emphasis upon the importance of individual cutlers’ marks. On the other hand, in the cloth trade, the trade-mark which became of importance and the subject of protection were not only those of individual clothiers but, to a more considerable degree, the collective [\*79] marks of the centers of the cloth industry. Furthermore, while the cutlers developed their own law mainly within their own organizations, the development of trade-mark law in the cloth industry was, as we shall see, largely the creation of administrative law concerned with the national expansion of that industry. . . . [\*80] Of course, just as in the case of the individual craftsman whose trade-mark began as purely regulatory or liability mark, so in the case of the corporations or localities engaged in the cloth industry the affixing of seals was a compulsory part of

*Foundations*, elaborates at large upon the detailed evolution of the marks within those two trades.<sup>214</sup>

The portrayal of the detailed historical development of trademarks towards traders' assets is rendered very thoroughly in *Historical Foundations*. The difference in "Rational Basis" is that Schechter much more clearly juxtaposes the contrast between the personalised trade relationships of yore<sup>215</sup> with the changes which occurred in trade attributable to the anonymity of impersonalised trade relations in a modern market economy.<sup>216</sup> Under these latter circumstances which are sometimes also dubbed 'consumer society' both ends to the bargain, producers and consumers, are remote and, consequently, estranged to one another. This entails consequences for dealings in the market place, for trade relations and for the functioning of trademarks. These changes are the determinant factors for the necessities which arise in modern trade and in the use and function of modern trademarks.<sup>217</sup> Next to the changes in trade relations and the concomitant changes in functions of trademarks Schechter adduces as the factors which are of influence upon the necessities of modern business: first, the growing subtlety and the "progressive ingenuity" of interlopers and of counterfeit products.<sup>218</sup> Secondly, the need of a modern business for a "natural expansion of his trade"<sup>219</sup> comprising geographical extension<sup>220</sup> as well as the diversification of businesses into new

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the scheme of national regulation." Schechter *Historical Foundations* above n 11 at 78–80.

<sup>214</sup> Schechter *Historical Foundations* above n 11 chs IV and V.

<sup>215</sup> "The signboard of an inn in stage-coach days, when the golden lion or the green cockatoo actually symbolised to the hungry and weary traveler a definite smiling host, a tasty meal from a particular cook, a favorite brew and a comfortable bed, was merely 'the visible manifestation' of the good will or probability of custom of the house; ...", Schechter "Rational Basis" above n 3 at 818–819.

<sup>216</sup> "..., owing to the ramifications of modern trade and the national and international distribution of goods from the manufacturer through the jobber or importer and the retailer to the consumer, the source or origin of the goods bearing a well known trademark is seldom known to the consumer.", Schechter "Rational Basis" above n 3 at 814 (citations omitted); "A trademark may be affixed to goods by a manufacturer thousands of miles away from the consumer, or by an importer or jobber who has not manufactured but merely selected the goods and put them on the local market, or by a commission merchant who has not even selected the goods or rendered any service relating to them except to sell such as may have been sent to him by the owner.", *ibid* at 815–816 (citations omitted).

<sup>217</sup> Schechter "Rational Basis" above n 3: "... the needs of modern business ..." at 813; "... as to the nature and function of a trademark and as to the necessities for its protection.", at 813; "... apparent failure of the courts to keep pace with the necessities of trade and the functional development of trademarks ...", at 824; "... the necessities of modern trademark protection ...", at 830.

<sup>218</sup> Schechter "Rational Basis" above n 3: "... progressive ingenuity of commercial depravity ...", at 813; "Trademark pirates are growing more subtle and refined. They proceed circumspectly, by suggestion and approximation, rather than by direct and exact duplication of their victims' wares and marks.", at 825; "... the weapons with which to combat the commercial buccaneer.", at 832.

Schechter *Historical Foundations* above n 11 at 170–171: "Such reasoning, ..., will prove the most effective means of combating trade-mark pirates who lurk ever-watchful on the fringes of the field of trade."

<sup>219</sup> Schechter "Rational Basis" above n 3 at 823.

<sup>220</sup> "... the necessities of the chain type of organization with which the United States has been covered in recent years. ... through the existence of the telephone, the automobile, the motor bus, the high-speed interurban trolley,

fields of merchandise.<sup>221</sup> The last mentioned is a direct corollary of the nationalisation and, at the same time, liberalisation of trade during the era of the Industrial Revolution. For the first time, goods were being mass-produced and the legal agencies of society allowed for the “ideal of competition in a free market in the manner still characteristic of the organisation of commerce today.”<sup>222</sup>

The notion of the transformations in trade and in the employment of trademarks and the changes precipitated thereby are also already distinctly present in *Historical Foundations*. In “Rational Basis,” though, Schechter elaborates upon these transformations in a much more conspicuous manner. In “Rational Basis” he canvasses these events in a way which makes more readily apparent to the reader the contradistinction of the economic and societal circumstances and the importance of the employment of trademarks in relation to goods which these changes precipitate. However, Schechter, in *Historical Foundations*, also especially draws his readers’ attention to a fact which, in turn, is not as prominently echoed in “Rational Basis”, namely, that

[c]lose upon the Industrial Revolution came a tremendous expansion not only in the means of production and distribution but, proportionately, in the advertising of goods, in which process trade-marks for the first time acquired a national and not merely local significance.<sup>223</sup>

This mention of the advent of mass marketing is of significance for Schechter’s deliberations with respect to ‘selling power’ of a trademark which he bases a great portion of his theory upon in “Rational Basis”. Advertising gained importance for maintaining a “connecting link”<sup>224</sup> to consumers while personal trade relationships gradually dissolved. In *Historical Foundations* Schechter specifically opposes the notion of a certain Dr Johnson, apparently

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and the railroad, the consumer now projects his shopping far from home ...”, Schechter “Rational Basis” above n 3 at 824 (citations omitted).

<sup>221</sup> “... , its owner should be allowed the broadest scope possible for the ‘natural expansion of his trade’ to other lines or fields of enterprise. This point was demonstrated with particular acuteness after the Great War in the case of which firms ... were under the immediate necessity of transferring their activities from the manufacture of war material to peace industries of an entirely different nature but under the same trademarks and names.”, Schechter “Rational Basis” above n 3 at 823.

“The *ratio decidendi* in such cases would appear to be simply a reluctance on the part of the Court to permit defendants to get the benefit of complainant’s reputation or of its advertisement or to forestall the extension of its trade. It ... is a salutary, if somewhat bleated, recognition of the actual nature and function of the trade-mark under modern conditions of production and distribution.” Schechter *Historical Foundations* above n 11 at 170 (italics provided in original, citations omitted).

<sup>222</sup> CDG Pickering *Trade Marks in Theory and Practice* (Hart Publishing, Oxford, 1998) at 39.

<sup>223</sup> Schechter *Historical Foundations* above n 11 at 130 (footnotes omitted).

<sup>224</sup> Schechter “Rational Basis” above n 3 at 818 [n 21] and *ibid* at 833.

dating from 1759,<sup>225</sup> that “the trade of advertising is now so near to perfection that it is not easy to propose any improvement”.<sup>226</sup> And Schechter buttresses his appraisal that mass marketing is a fairly recent phenomenon by pointing out that

it was not until late in the eighteenth century that newspaper advertising began to be fairly common, nor was it until 1871 that the pictorial poster was first used with great success in England. In the United States, just as in England, trade-marks did not begin to acquire importance as assets of value in the commerce of the nation in contra-distinction to local trade until the second half of the nineteenth century.<sup>227</sup>

Schechter corroborates his deliberations on the nationalisation of trade and the concomitant ‘impersonalisation’ of trade relations by recurrence to the ‘anonymous source rule’ which had, at that time, started to find acknowledgement in the courts. Even though the courts as late as in 1916 still were of the opinion that “the primary and proper function of a trademark [was] to identify the origin or ownership of the goods to which it is affixed”<sup>228</sup> they “at the same time [needed to] concede the indifference of the public to the actual physical origin or ownership of the goods in question.”<sup>229</sup> It is, however, not mainly indifference by the consuming public as to the source of the respective product. Instead, it is, under conditions of modern trade, simply almost impossible for the consumer to attain any knowledge on the actual source or origin. This is the consequence of the alienation and estrangement of producer and customer

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<sup>225</sup> Schechter *Historical Foundations* above n 11 at 130 [n 1] references GW Goodall *Advertising: A Study of a Modern Business Power* (London School of Economics, Monographs, No 41, 1914). The person referred to appears to be Dr Samuel Johnson (1709–1784), English critic, poet and essayist and the entirety of his quote is: “The trade of advertising is now so near perfection that it is not easy to propose any improvement. But as every art ought to be exercised in due subordination to the public good, I cannot but propose it as a moral question to these masters of the public ear, whether they do not sometimes play too wantonly with our passions.” (as rendered at <http://quotationsbook.com/quote/1217/> last retrieved 21 September 2011).

<sup>226</sup> Schechter *Historical Foundations* above n 11 at 130, Schechter referencing GW Goodall *Advertising: A Study of a Modern Business Power* (London School of Economics, Monographs, No 41, 1914) at 1.

<sup>227</sup> Schechter *Historical Foundations* above n 11 at 130 (footnotes omitted).

<sup>228</sup> *Hanover Star Milling Co v Metcalf* 240 US 403 (1916) at 412.

<sup>229</sup> “... today only by ignoring realities can one say that to the consuming public a trade-mark actually indicates the specific ownership or origin of goods to which such trade-mark is affixed. Given a popular product with an international or at any rate a consumption through the complicated channels of modern distribution, a knowledge of its specific source can by no means generally be attributed to those who purchase it. The very courts that still describe trade-marks as symbols indicating origin or ownership at the same time concede the indifference of the public to the actual physical origin or ownership of the goods in question.” Schechter *Historical Foundations* above n 11 at 147–148 (citations omitted) and compare the cases cited therein.

“It has been repeatedly pointed out by the very courts that insist on defining trademarks in terms of ownership or origin that, ..., the source or origin of goods bearing a well known trademark is seldom known to the consumer.” Schechter “Rational Basis” above n 3 at 814 (citations omitted).

See also Schechter “Fog and Fiction” above n 4 at 65 [n 12] citing and quoting *Gotham Music Service Co Inc v Denton and Haskins Music Pub Co* 259 NY 86, 91; 181 NE 57, 59 (1932), Crane, Circuit Judge: “When one buys Uneda Biscuits or Cremo cigars or talcum powder, no one has in mind the manufacturer; this legal phraseology is a mere fiction. The producer may change its corporate existence innumerable times, and the public does not know or care. What they do know is that an ordinary bit of merchandise has, through advertising, become very popular, and they want the merchandise with that name. It is the name that counts and has been made a valuable asset.”

as the result of the “consumption through the complicated channels of modern distribution”<sup>230</sup> and of the “national and international distribution of goods from the manufacturer through the jobber or importer and the retailer to the consumer.”<sup>231</sup> And Schechter notes that this accounts even for goods sold under well known trademarks.<sup>232</sup> The function of trademarks with respect to designating the origin of products had, thus, deteriorated to, at best, denoting the notion of source or ‘source’ but not of an actual source or origin.

### **3. Trademarks as Facilitators of the Market Mechanism and Trademark Law Lagging Behind Trademarks’ Evolutionary Development**

We have noted the distinct differences in Schechter’s emphasis between *Historical Foundations* and “Rational Basis” when rendering his account of the transformations in trade relations. It is suggested that this is, as was already pointed out, attributable to Schechter’s difference in approach. He shifted his view from trademarks as ‘assets’ to trademarks as a trader’s ‘agency’. His purpose in *Historical Foundations* was mainly to argue towards a property right in trademarks. This is evinced by him giving so much preeminence to the development of trademarks as traders’ assets. *Historical Foundations* is clearly written with a ‘property bias’. In *Historical Foundations* it appears that considerations very much prevail that the stakes and private interests of traders and manufacturers ought to prevail which these hold in absolutely and exclusively wielding ‘their’ individual escutcheons in the market place. Hence, Schechter’s property-biased ‘asset approach’ in *Historical Foundations*.

Conversely, Schechter’s appraisal in “Rational Basis” is much more discerning and he perceives much more clearly trademarks as the facilitators of the market mechanism. The emphasis is much more upon trademarks as not only serving manufacturers and traders as assets but as being of importance for both producers and the market competition as a whole. This is why Schechter, in “Rational Basis”, recognises the trademark as an agency in the market place instead of (solely) a trader’s asset. He acknowledges the importance which the public’s perception of trade symbol performs in the functioning of trademarks. The import of the public’s apperception of signs is also the reason why, according to the theory extolled in “Rational Basis”, not generally all but only unique as opposed to commonplace trademarks

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<sup>230</sup> Compare above n 229 quoting Schechter *Historical Foundations* above n 11 at 147–148.

<sup>231</sup> Schechter “Rational Basis” above n 3 at 814.

<sup>232</sup> “the source or origin of the goods bearing a well known trademark is seldom known to the consumer.” Schechter “Rational Basis” above n 3 at 814. Compare also the cases cited in Schechter “Rational Basis” above n 3 at 814–815.

are of relevance with respect to protecting them as exclusive symbols of trade identity. In “Rational Basis” Schechter recognises consumers’ perception of the signs underlying trademarks as being of crucial importance. This lead to what we have already termed to be Schechter’s ‘agency approach’. In their function as agencies trademarks are viewed ostensibly more from the perspective of the consuming public than in the property-biased ‘asset approach’ in *Historical Foundations*.

Coincidentally, according to Schechter’s rendition, it appears to have been, for the very most part, the compulsory regulatory production marks which developed to tokens of goodwill<sup>233</sup>. This might, at first, seem somewhat bewildering since, as was already discussed, the regulatory production marks were mainly directed against – not in favour of – the craftsman. In addition the modern trademark thrives in the competition of the modern market place whereas the compulsory guild marks were tools which were specifically aimed against any form of competition between craftsmen. With respect to enforcing the monopoly and the rigid production standards such marks were, in their basic concept, liabilities to the manufacturer, not assets which could be employed to manifest one’s individual goodwill when striving for consumers’ patronage in competition with rival traders. But at the same time the compulsory nature appears to have been greatly of assistance in the development of the respective into tokens of consistent quality for consumers as soon as trade transcended the boundaries of vicinity trade.<sup>234</sup> Quite simply, because those marks were affixed to the goods compulsorily, they were, at the same time always manifest upon the respective products.<sup>235</sup> Thus, the public grew accustomed to the fact that they could rely upon those marks as denoting a particular provenance’s consistent quality. Consumers learnt to appreciate that, when contemplating

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<sup>233</sup> Schechter *Historical Foundations* above n 11 chs IV and V. And compare also: “In the course of time in certain trade these police marks or liability marks gradually became, ..., asset marks,—that is to say, they became valuable symbols of individual good-will. This was so in the case of goods of durability and transportability for long distances, especially in the clothing and cutlery trades. But even in the case of these trades their trade-marks began as solely regulatory indicia or police marks of origin and only later developed as symbols of good-will.” *ibid* at 47; “The marks used by the medieval [\*63] gildsman, *quâ* gildsman, were in their origin purely regulatory or police marks, and, as such, liabilities, not assets. The same mark might ultimately acquire a secondary significance as a symbol of the excellence of its user’s workmanship and wares, but this secondary development is found only in certain industries dealing in commodities capable of transportation for a long distance, such as cloth, cutlery and to a lesser degree pewterware, and not perishable foodstuffs.” *ibid* at 62–63.

<sup>234</sup> “When, however, we come to industries such as the cloth and cutlery trades, the situation is quite different. In these trades is clearly noticeable the evolution of the trade-mark from a mark of origin to a mark of quality and hence from a liability to an asset, of distinct value to the owner of the mark.” Schechter *Historical Foundations* above n 11 at 78.

<sup>235</sup> “Of course, just as in the case of the individual craftsman whose trade-mark began as purely regulatory or liability mark, so in the case of the corporations or localities engaged in the cloth industry the affixing of seals was a compulsory part of the scheme of national regulation.” Schechter *Historical Foundations* above n 11 at 80.



their purchasing decisions, they could rest assured of the product conforming to their desired satisfactory standard. In such way, marks acquired the function of assuring consistent quality to the consuming public. This evolvement was certainly merely a gradual one. In the beginning trademarks – seeing that these signs originally were guild seals as opposed to individual trademarks – certainly designated the collective provenance and quality of a guild or of a particular locality rather than an individual trader’s or producer’s goodwill.<sup>236</sup> Nevertheless, the public developed a level of trust into certain trademarks because these had evolved to denote a consistent quality. This reliance upon trademarks brought with it that products were bought without the closest of inspection, in spite of the fact that the source was not personally known, and albeit the individual buyer was not personally acquainted with the specific origin of the goods. Goods started to be “sold merely upon the strength of ... [their] ... marks<sup>237</sup>.”

So, one might rightfully ask, how it did come to pass that producers and traders in their employment of trademarks managed to elude the tight grip of the guilds described in the previous Sections. Schechter describes this quite strikingly for the cloth industry. There, cloth of certain provenance soon established a good reputation which, in turn, raised the demand for the wares from those particular localities which had become renowned for their quality. As a result this raised producers’ profit margins and thus, in consequence, the Crown’s revenue in levies and taxes. This, and, in addition, the fact that a high revenue stream in customs could be generated for the Crown by trading English cloth internationally, transformed this trade into one which was of national interest and importance to the Crown.<sup>238</sup> This was

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<sup>236</sup> Schechter *Historical Foundations* above n 11: “In many instances, these seals or marks or the symbols of the municipal authorities became assets of great value to the corporation or *universitas* from which they emanated, and goods to which they were affixed were sold merely upon the strength of these marks without the formality of opening or carefully scrutinizing the bales or bolts to which they were affixed.” at 79; “... under the protection of the national government, the local or collective trademarks ... were developed and protected, and the notion of a trade-mark as an asset, rather than a liability was fostered. ... an arrival of the notion ... of a trade-mark as a symbol of good-will, as an asset of value, instead of merely as a regulatory mark of origin, and consequently a liability.” at 94 (citations omitted); “... brings us to the point where trade-marks are regarded as identifying not merely the defects but also the good qualities of the source of production from which they emanate.” at 95–96.

<sup>237</sup> Schechter *Historical Foundations* above n 11: “In many instances, these seals or marks or the symbols of the municipal authorities became assets of great value to the corporation or *universitas* from which they emanated, and goods to which they were affixed were sold merely upon the strength of these marks without the formality of opening or carefully scrutinizing the bales or bolts to which they were affixed.” at 79; “... under the protection of the national government, the local or collective trademarks ... were developed and protected, and the notion of a trade-mark as an asset, rather than a liability was fostered. ... an arrival of the notion ... of a trade-mark as a symbol of good-will, as an asset of value, instead of merely as a regulatory mark of origin, and consequently a liability.” at 94 (citations omitted); “... brings us to the point where trade-marks are regarded as identifying not merely the defects but also the good qualities of the source of production from which they emanate.” at 95–96.

<sup>238</sup> Schechter *Historical Foundations* above n 11: “... constant efforts of the crown to capture and maintain

accompanied by a development in national statutory law and regulations. These overturned and superseded the local laws and guild regulations. The Royal norms recognised and protected these important trademarks in their modern functions as “assets of value that are worthy of protection” and they were afforded the according safeguards, if not yet by the common-law courts, so by the administrative courts of the King’s Council and the Star Chamber.<sup>239</sup> Thus, “the development of trade-mark law in the cloth industry was, ..., largely the creation of administrative law concerned with the national expansion of that industry.”<sup>240</sup>

Hence, if we could interview Schechter today for the purposes of this Comment he would most certainly tell us that it was no mere coincidence that the first case involving a trademark dispute based upon a conflict of interests between traders which found its way not to the guild or administrative courts but instead to the common-law courts was the one involving two traders in cloth which found mention in the year 1618 as an obiter dictum by Dodderidge J in *Southern v How*.<sup>241</sup> The cloth trades – and as well the cutlery trades – simply were the first ones in which traders were entirely reliant and dependant upon their trademarks instead upon their repute established in personal trade dealings. Only by virtue of their individual trademarks could they build up and secure a goodwill in market places which were far away from their actual places of business. Their wares were traded in distances too far away to maintain personalised trade relationships. Commensurate to the loss of personal connections

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supremacy in the European cloth markets ... the government began to foster and protect the reputation of the trade-marks of the various centers of industry in England. Of course, just as in the case of the individual craftsman whose trade-mark began as a purely regulatory or liability mark, so in the case of the corporations or localities engaged in the cloth industry the affixing of seals was a compulsory part of the scheme of national regulation.” at 80; “... the government entered into a direct relationship, and the crown came to concern itself more and more with the various individual weavers’ and clothiers’ marks, as well as with both gild and town seals.” at 81.

The Crown’s main interest for obvious reasons not being the cloth trade itself but rather the customs duties and sundry royal revenues derived therefrom, see Schechter *Historical Foundations* above n 11 at 80 and 86. And Schechter noting that the development of modern trademarks “... is particularly conspicuous in the cloth industry and is, in its origins, to a considerable degree associated with the royal interest in and regulation of the trade”, the crown taking to national regulations of trademarks in its “... constant efforts ... to capture and maintain supremacy in the European cloth markets and also in its efforts to derive as much custom as possible from the trade, ...”, Schechter *Historical Foundations* above n 11 at 80.

<sup>239</sup> Schechter *Historical Foundations* above n 11 at 95–96.

<sup>240</sup> Schechter *Historical Foundations* above n 11 at 79;

and see also “When, however, we come to industries such as the cloth and cutlery trades, the situation is quite different. In these trades is clearly noticeable the evolution of the trade-mark from a mark of origin to a mark of quality and hence from a liability to an asset, of distinct value to the owner of the mark. ... while the rivalry between the cutlers of London and Sheffield was very great, the rivalry between the members themselves in each of these centers of industry appears to have been no less keen, with a consequent emphasis upon the importance of individual cutlers’ marks. On the other hand, in the cloth trade, the trade-marks which became of importance and the subject of protection were not only those of individual clothiers but, to a more considerable degree, the collective marks of the centers of the cloth industry.”, Schechter *Historical Foundations* above n 11 at 78–79.

<sup>241</sup> Compare this with Schechter *Historical Foundations* above n 11 at 126–127.

their trademarks became considerably more important to them as bearers of goodwill. Thus, the guild-related purposes of marking products clearly were on the wane.

However, the process of the courts at law and of equity who took over the jurisdiction over trademarks from the bodies of administrative courts and of guild jurisprudence was a lengthy and tedious one.<sup>242</sup> Even when the industry became the subject of national, rather than local regulation, the guilds and companies were greatly relied upon by the Crown and Parliament to supervise manufacturing processes and trade.<sup>243</sup>

Hence, the guilds, for a very long time, maintained a steady influence upon all things ‘commerce’. This “was so even in the seventeenth century when the influence of the guilds and companies and their control over their members had long been on the wane.”<sup>244</sup> This gave guilds the leverage they needed to assert against the courts ‘at law’ and equity their power over all matters which could be considered to be guild-related. Since trademark issues were strictly regarded as such matters, in result, there was no trademark-related litigation before the courts ‘at law’ nor before the courts of equity. Even after the abolishment of the non-litigation ordinances by an Act of Parliament in 1504<sup>245</sup> the guilds and their successors – the livery companies and ‘misteries’ – kept habitually enacting and enforcing the pertaining clauses for over a century.<sup>246</sup> In essence, guilds and companies retained considerable factual influence for

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<sup>242</sup> “The first glance at the medieval economic structure and methods of production will furnish us with a very simple reason for the absence of any evidence of trade-mark litigation in the early records of the king’s courts. Medieval trade was largely conducted through guilds or ‘misteries’ and an integral part of the whole scheme of organization into guilds or ‘misteries’ was the prevention of litigation among guildsmen in any tribunal save the court held by the guild officials of guild members themselves and the punishment of all effort to seek redress ‘at law’ for wrongs perpetrated by a guildsman against his fellow-guildsman, without the consent of the guilds. ... arbitration among guildsmen was primary duty of the master and wardens of practically every British guild and livery company, and resort to litigation was the gravest [\*17] kind of offense.” Schechter *Historical Foundations* above n 11 at 16–17.

<sup>243</sup> Schechter *Historical Foundations* above n 11 at 40. “Although by the middle of the fifteenth century the disintegration of the guilds had begun, [\*125] and while the common law in the sixteenth and seventeenth centuries was beginning to take cognizance of many cases of a commercial nature, the administration of such laws and regulations as then existed with regard to trade-marks, was a matter that still vitally affected the discipline and monopolistic aims of the guilds and companies. Trade-mark law consequently remained to a great degree the concern of the guilds and companies rather than of the common law courts. Furthermore, as part of the scheme of the national control of industry the guilds and companies were still useful as the local agents for carrying out a national industrial policy.” *ibid* at 124–125 (citations omitted); “In discussing the relation of national regulation of the cloth [\*81] industry to the development of trade-mark law, it will not be necessary to consider at any length the causes of the decay of the guilds or the effect of this decay upon the supervision of industry by the guilds. From very early times the crown undertook the regulation of the cloth industry. This Royal supervision was effected partly through officials of the crown and partly through the guild officials acting practically in the same capacity. It was the nature of things inevitable.” *ibid* at 80–81 (citations omitted).

<sup>244</sup> Schechter *Historical Foundations* above n 11 at 44.

<sup>245</sup> 19 Hen VII c. 7, *Stat of the Realm*, ii, p. 653.

<sup>246</sup> Schechter *Historical Foundations* above n 11 at 18 and sources cited therein.

a long time even after their beginning demise in the middle of the fifteenth century. Even when trade was already vastly practiced on a national rather than a local level the development of law with respect to trademarks remained in their hands mainly by virtue of the livery companies and the administrative courts.<sup>247</sup> This was due to the fact that the guilds and livery companies proved themselves to be valuable tools and facilitators to the Crown as local enforcers and administrators of the national regimes in the organisation and regulation of trade and trades.<sup>248</sup>

### **E. Schechter's Conclusion: Trademark Law Needs to Acknowledge the Necessities of Modern Trade, the Consequences of Modern Day Trade Relations and the Changes in the Functions of Trademarks**

We have seen that Schechter ascertained thoroughly the economic and social circumstances of trade and, thus, the determinants of trademarks and trademark law. In his second step of analysis Schechter then turns to the actual functions of trademarks which accompanied the respective systems of trade and trade relations.

Coetaneous to the evolutionary changes in trade and trade relations occurred a commensurate transformation in the functions of trademarks. Trademarks became of prominent significance to consumers and producers in denoting consistent quality of wares whose actual provenance remained obscure. Formerly, under conditions of personalised trade, trademarks had, at best, been of ancillary or supplemental use to the consuming public. In essence trademarks could at best designate a particular source which was already known to consumers due to personal trade relations. Where formerly the marking of products had been the guilds' instrument to ensure manufacturers' and traders' liability for their wares, now trademarks transformed into traders' surrogates for their 'lost' personal trade identities in an impersonalised organisation of trade. Where consumers and producers remained separate and isolated from one another there arose the need for both sides for a medium to replace the loss of the possibility of ascribing, by virtue of personal dealings, goodwill to a certain source. Personal goodwill as a

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<sup>247</sup> "Despite an Act of Parliament in 1504 (n. 1: 19 Hen VII c. 7, Stat. of the Realm, ii, p. 653) prohibiting non-litigation ordinances, they continued steadily to be enacted and enforced for over a century thereafter. In the light of such ordinances the reason for the absence of cases involving commercial disputes in the early common-law reports becomes apparent." Schechter *Historical Foundations* above n 11 at 18.

<sup>248</sup> "However, the replacement of the guilds by the domestic system, or the transformation of the guilds 'to be at once the organs and subject to national regulation' does not, . . . , retard, but rather accelerates and broadens the development of trade-mark law.", Schechter *Historical Foundations* above n 11 at 81 (citations omitted).

market economy's essential expression of the dimension of trust in trade dealings needed a feasible replacement. The viable and reliable substitute for personal trade identity was found for consumers and producers in attributing goodwill to the trademark as employed upon products, the mark denoting a consistent, satisfactory level of quality emanating from the same, albeit anonymous, trade origin.

## **1. Former Functions of Trademarks**

Before the advent of the modern trademark, marks' implications on a factual level can comprehensively be described as denoting ownership and/or the "actual producer of the goods."<sup>249</sup> These marks can be termed merchants' marks and regulatory production marks respectively. With respect to their legal significance these marks' functions were exhausted as proprietary marks and/or as compulsorily affixed 'police marks.'<sup>250</sup> These functions will briefly be summarised in the following Sections before turning, in contrast to these obsolete roles, to the function of the modern trademark as described by Schechter.

During the era of the dominance of the guilds and as long as trade was, for the vast part, confined to the locality and to personal trade relations neither trademarks nor trademark law were needed as instruments against unfair competition. This is to be ascribed, as was expounded above, to the 'guild structure' and the societal and economic circumstances under which trade was conducted.

Where trade was localised and personalised, and regulated and organised in 'guild structure', trademarks simply did not develop any relevance in relation to denoting the individual goodwill of a source or the quality of the wares. Trademarks under modern conditions of trade are, of course, essential for discerning amongst the various trademark-based goodwills and the – perhaps only purported – quality differences between the appurtenant goods or services. Formerly, however, in a pre-industrialised economic context, trademarks were simply superfluous with respect to these roles. The particular idiosyncrasies (read: goodwill) of the actual, specific source or origin were well known to the consuming public. Marks were not needed for denoting them. The detailed qualities of the wares on offer were prescribed, supervised and monitored by the guilds. Additionally, the display of individual goodwill was proscribed by the guilds and thus marks could not develop as a means of portraying such

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<sup>249</sup> Schechter "Rational Basis" above n 3 at 814.

<sup>250</sup> Schechter "Rational Basis" above n 3 at 814 and *ibid* at 819.

‘non-existing’ goodwill.

## 2. The Former Merchants' Marks and Proprietary Marks and Their Functions

When viewed in contrast to the regulatory production mark the most salient feature of the merchants’ mark was that the decision on whether or not they were to be employed upon goods and wares was entirely within the discretion of the respective trader. Their use, thus, was merely optional and wholly voluntary.<sup>251</sup>

Merchants’ marks were indicative of ownership with respect to the wares to which they had been affixed. Their legal significance was exhausted in establishing property in chattels in case of havoc, shipwreck, piracy, or other forms of similar hazard. Merchants’ marks were used and acknowledged, in legal dealings, to establish either conclusive or at least *prima facie* evidence of property and ownership with respect to the wares to which they were attached.<sup>252</sup>

Conversely, these proprietary marks, because they were not assigned authoritatively to a trader by his administering guild, bore no legal implications with reference to a manufacturer’s or trader’s entitlement – or obligation – to employ a specific sign as a trademark. In other words, these marks had absolutely no “relation to conflicts of interest in the merchants’ marks themselves.”<sup>253</sup> Likewise, these proprietary marks had no significance in relation to demonstrating to the prospective buyer that a particular regulatory production

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<sup>251</sup> “The same mark might be used simultaneously by the gildsman on the one hand, voluntarily, as his “merchant’s mark” and on the other, compulsorily, as his craftsman’s or production mark, or two different marks might serve these purposes.” Schechter *Historical Foundations* above n 11 at 122; “The modern trademark has two historical roots: (1) the proprietary mark, which was optionally but usually affixed to goods by the owner”, Schechter “Rational Basis” above n 3 at 814.

<sup>252</sup> “... merchants’ marks *as indicative of property* in the goods to which they were affixed or in relation to which they were used.”, Schechter *Historical Foundations* above n 11 at 38 (italics provided in original); “The Maritime Courts, ..., had occasion to decide cases involving merchants’ marks, but such allusions in the records of these courts clearly refer to such marks as indicative of ownership of the goods to which they were affixed and have no relation to conflicts of interest in the merchants’ marks themselves.” *ibid* at 15; “... universality of the use of merchants’ marks on the continent for the purpose of establishing property in goods that had gone astray through shipwreck, piracy or other mishap.” *ibid* at 26; “... function of the merchants’ marks appearing on the goods and also entered on the registry of the ships carrying there goods, to establish at least a *prima facie* presumption of ownership in the goods, ...”, *ibid* at 26 (italics provided in original, citations omitted); “... in English law in the fourteenth and following centuries ... unvaried and unbroken was the recognition given to merchants’ marks as affording practically conclusive evidence of proprietary right in the articles to which they were affixed or in connection with which they were used.” *ibid* at 27; “Summarizing briefly the evidence adduce in this chapter, medieval proprietary marks, while not, strictly speaking, trade-marks in the modern sense of the word, were an important factor in the development of modern trade-mark law. As appears from municipal document and the records of the Admiralty Courts, ..., merchants’ marks were regarded as establishing *prima facie* and often conclusive evidence of the ownership of the goods to which they were affixed. This proprietary significance of merchants’ marks still survives in and distinctly tinges the judicial concept of the function of a trade-mark.” *ibid* at 34.

<sup>253</sup> Schechter *Historical Foundations* above n 11 at 15.

standard or quality level had been met nor did they designate the source or origin of manufacture or production of goods.

Because of their very much confined legal consequence “[t]hese marks were very remote in their essential significance from the modern concept of a trade-mark<sup>254</sup>” and, hence,

[s]trictly speaking, marks designating ownership are not trade-marks at all but merely proprietary marks, which may or may not incidentally serve to designate the origin or source of the goods to which they are affixed.<sup>255</sup>

As was indicated above, Schechter views mainly the regulatory production mark as the progenitor proper of the modern trademark.<sup>256</sup> Especially, because the compulsory production mark truly denoted to prospective buyers the accordance with particular, satisfactory standards of quality. However, Schechter also points out what could be termed the ‘dualism’ of the merchants’ mark and the regulatory production mark. Schechter, next to the commercial uses, also adverts to “the social ... uses”<sup>257</sup> for which merchants’ marks were employed. We will briefly need to address both the ‘dualism’ as well as those social forms of deploying the merchants’ marks since it will demonstrate that these marks as well may potentially have contributed to the development of the modern trademark and, hence, should, perhaps, not be as categorically excluded in this transformational context as Schechter did.

What was called the ‘dualism’ of the early trademark is derived from the reason that

in a great many instances, the very same mark fulfilled the dual function of proprietary mark, ..., and of production mark. Hence, many of the marks that were compulsorily registered with municipal or guild authorities are identical in form with the merchants’ marks.<sup>258</sup>

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<sup>254</sup> Schechter *Historical Foundations* above n 11 at 38.

<sup>255</sup> Schechter *Historical Foundations* above n 11 at 20.

<sup>256</sup> “In the preceding chapter we have dealt with merchants’ marks as *indicative of property* in the goods to which they were affixed or in relation to which they were used. These marks were very remote in their essential significance from the modern concept of a trade-mark. The trade-mark today is in itself an asset, often of far greater value than the physical property of the business in connection with which it is used. As Mr. Rogers has pointed out, the modern trade-mark is ‘good will symbolized.’ (fn 1: ES Rogers “Some Historical Matter Concerning Trade-Marks” 9 Michigan L Rev 29 at 43) But if the merchant’s mark considered in our last chapter did not approach the present notion of a trade-mark, the mark that we are now about to consider and that is often carelessly referred to in terms of modern trade-mark law, is even further distant in function and legal significance from our modern trade-mark. While the latter is, ..., an *asset*, the medieval mark indicating source or origin, ..., is distinctly a *liability*.” Schechter *Historical Foundations* above n 11 at 38.

<sup>257</sup> Schechter *Historical Foundations* above n 11 at 25–26.

<sup>258</sup> Schechter *Historical Foundations* above n 11 at 39. And compare also: “the proprietary mark or ‘merchant’s mark’, as it was known, indicating ownership of the goods to which it was affixed, and the regulatory production mark indicating the source or origin of manufacture. ... this classification of medieval marks into proprietary and regulatory marks was often one of function rather than of form or nature. The same mark might be used

Until very late in economic history “the line of demarcation between the merchant and craftsman was not yet sharply defined.”<sup>259</sup> Rather,

craftsman and merchant were often one and the same person. As craftsman he might be compelled by statute law or gild regulations to affix his mark to his goods,—as merchant he would desire to affix a mark to the bale or wrapping of the same goods in order to identify them for the illiterate warehouse clerk and also for the Admiralty Court to which they might be brought after capture on the high seas or wreck on the English coast.<sup>260</sup>

It follows, that merchants’ marks, because of this ‘intermingling’, may have developed to signify consistent quality to consumers just as the regulatory production marks did. Especially, if they were used in a constant, dependable way which would have made them equally predictable and reliable to the public as tokens of quality as the production marks would become. However, even though proprietary mark and regulatory production mark may often have coincided, caution is to be advised with respect to the fact that “this proprietary mark or merchant’s mark, as it was called, has no inherently necessary historical or legal relation to the production mark.”<sup>261</sup>

Nevertheless, just because the purpose or significance of merchants’ marks was confined in the legal sense this does not, at the same time, exclude that they could have gained factual importance for consumers. Moreover, as will be seen,<sup>262</sup> the regulatory production marks’ legal significance was not only confined as well but actually even adverse to the development of as traders’ assets and yet they still managed to emerge and function as the differentiating tool which so significantly rests at the centre of modern trademark concepts. Just as well, the fact that the merchants’ mark was a merely voluntary tool does not of itself pre-empt its transformation into a symbol of goodwill. After all, advancing such an argument would, at the same time, necessitate to repudiate this, too, for the modern trademark’s character as a token of goodwill since the latter is, just as was the former merchants’ mark, entirely optional as well.

As Schechter portrays in *Historical Foundations*, merchants’ marks were also put to use in a

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simultaneously by the gildsman on the one hand, voluntarily, as his “merchant’s mark” and on the other, compulsorily, as his craftsman’s or production mark, or two different marks might serve these purposes.” Schechter *Historical Foundations* above n 11 at 122.

<sup>259</sup> Schechter *Historical Foundations* above n 11 at 15 [n 14] (citations omitted), Schechter referencing C Gross *The Gild Merchant – A Contribution to British Municipal History* (Oxford, 1890) vol 1 at 107.

<sup>260</sup> Schechter *Historical Foundations* above n 11 at 20–21.

<sup>261</sup> Schechter *Historical Foundations* above n 11 at 62–63.

<sup>262</sup> And has, in part, already been described above with respect to the considerations pertaining to the proscription, by the guilds, of establishing and displaying individual goodwill.



personal and/or social context as soon as their user had managed to attain a certain level of (local) renown. Proprietary marks were, in such instances, utilised in order to perpetuate the good repute via their application in uses of aegis and patronage. This renown or reputation would appear, in essence, to be nothing else than classic goodwill accruing to the respective trademark. Schechter, in particular, instances the erection or restoration of churches being financed by wealthy merchants<sup>263</sup> whose “same marks that they used upon their bales and their goods”<sup>264</sup> were then, in turn, placed somewhere upon or within the edifice. He also gives other examples of social and commercial uses of merchants’ marks.<sup>265</sup> This form of employment of merchants’ marks may, perhaps, even be characterised as an early form of advertisement or cultural sponsoring.

In “Rational Basis” Schechter notes that usually a trader offered “stocks of his own buying and his own individual reputation.”<sup>266</sup> It follows that wares, even though they were maybe only marked with a merchants’ mark, were by no means “sold anonymously.”<sup>267</sup> The description that “the oil man sold his own lamp oil, and no one asked where he got it”<sup>268</sup> rather points to the fact that the consuming public did not ask because a level of trust with respect to the oil man’s consistent quality had been established even though these goods were sold ‘from the tap’ and thus their provenance could not be verified by virtue of a compulsory production mark.

Adjudging from the adduced instances, it can at least not be excluded that merchants’ marks as well partook in the transformation to symbols of goodwill and, thus, to the modern trademark.

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<sup>263</sup> “they—especially the wealthy wool-staplers—signified their recognition of the Divine source of their prosperity by the erection or restoration of churches, and in those churches they or the grateful recipients of their benefactions placed the same marks that they used upon their bales and their goods.” Schechter *Historical Foundations* above n 11 at 23.

<sup>264</sup> Schechter *Historical Foundations* above n 11 at 23.

<sup>265</sup> “These marks not only were used commercially to designate the proprietor of the goods to which they were affixed, but also acquired a distinct social significance. It would appear that very early in the history of medieval commerce, merchants, as soon as they had arrived at any degree of prominence or substance, were anxious to perpetuate the marks which they had used to designate their products.” Schechter *Historical Foundations* above n 11 at 23.

<sup>266</sup> Schechter “Rational Basis” above n 3 at 818 [n 21] Schechter quoting from HG Wells *The World of William Clissold* (Vol 1) at 237.

<sup>267</sup> Schechter “Rational Basis” above n 3 at [n 21] Schechter quoting from HG Wells *The World of William Clissold* (Vol 1) at 237.

<sup>268</sup> Schechter “Rational Basis” above n 3 at 818 [n 21] Schechter quoting from HG Wells *The World of William Clissold* (Vol 1) at 237.

### 3. The Former Regulatory Production Mark and Its Functions

The functions which the regulatory production mark served are inextricably tied to the economic and societal ‘guild structure’ as described above. But

[t]he function of such marks is made apparent not merely from the circumstances under which they were used, but in most cases from the laws and ordinances in which their use was prescribed.<sup>269</sup>

Just as deeply connected to this ‘guild structure’ of commerce and the functions fulfilled are the facts that – as was already frequently mentioned above – the affixing of the regulatory production mark was compulsory and that it was employed by craftsmen and traders in order to comply with the “requirements of their guilds and of statute law.”<sup>270</sup> The functions of the regulatory production mark are threefold:

- to prevent and trace – and severely punish – the production and sale of goods which were defective or in any other way regarded as being sub-guild-standard;<sup>271</sup>
- to safeguard the collective goodwill of the guild which, in effect, was achieved by two complementing means,
  - the said prevention of the production and sale of sub-standard quality which would, possibly, have damaged such collective goodwill,<sup>272</sup> but also equally,
  - the suppression of what was regarded as the undue development of individual goodwill; this was viewed as unwarranted competition amongst fellow guild members and was regarded as undesirable because it would have lead to

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<sup>269</sup> Schechter *Historical Foundations* above n 11 at 47–48.

<sup>270</sup> Schechter *Historical Foundations* above n 11 at 18; “The medieval craftsman would appear from a very early period in gild history to have had little choice as to the affixing of this ‘police mark’ on his wares. In practically every trade, both in England and on the continent, these marks were compulsory.” *ibid* at 39 (citations omitted); “Every craft, of course, either had its own ordinances concerning such marks or administered statutory or municipal regulations of a similar nature. All of these regulations, whatsoever their source, made the use of the production mark compulsory.” *ibid* at 47.

<sup>271</sup> “Their expressed purpose was to facilitate the tracing of ‘false’ or defective wares and the punishment of the offending craftsman.” Schechter *Historical Foundations* above n 11 at 47; and see also M Smith: “... [they] were imposed upon them in the interest of the public, in order to locate responsibility for short weight, inferior material or poor workmanship. Like finger prints taken today by the police, they established a liability rather than a right. But since this liability tended to secure honest and efficient workmanship, the trade-mark came to be regarded as an assurance of quality, and the confidence of the public in the quality of the wares bearing the trade-mark of good repute became an asset. This asset grew in value when wares, at first produced only for local consumption, gained wider markets.” *ibid* in the Foreword at x; “the affixing of that mark may have worked to the detriment of its user, since thereby defective workmanship could be traced and punished.” *ibid* at 122.

<sup>272</sup> “The sale of wares that were shoddy in material or imperfect in workmanship constituted, ... not only a violation of the criminal law or police regulations but also, from the civil standpoint, ... an injury to the collective good-will of the guilds.”, Schechter *Historical Foundations* above n 11 at 46 and compare also *ibid* at 45 [n 1].

competing away of another fellow guildsman's custom which, in turn, would potentially, have been to the fellow guildsman's economic and financial detriment,<sup>273</sup>

- to secure and defend the guild's monopoly.<sup>274</sup>

Schechter instances, for illustrative purposes, that – opposed to the transformation which the marks of the cloth and cutlery trades underwent –

[t]he most typical regulatory mark of the Middle Ages and the one which, through the nature of the goods upon which it was imposed, always remained a regulatory or liability mark was that of the baker.<sup>275</sup>

This becomes understandable if,

[f]rom the trade-mark law standpoint it ... [is] ... remembered that bread could only be made in comparatively small quantities; it cannot be made for a distant or for a future market.<sup>276</sup>

Thus, the bakers' marks did not develop into symbols of individual goodwill but remained – until very late in economic history – what they had been from their very inception: marks ensuring compliance with a prescribed production standard.

All the functions of the regulatory production mark were solely directed against the individual trader. The individual manufacturer or producer could not derive any direct personal benefit for his or her business from these functions of the regulatory production mark. The production

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<sup>273</sup> With respect to the pewterers Schechter notes: "... there are certain indications in the records of the Pewterers' Company that these compulsory marks gradually acquired a secondary significance as symbols of their user's good-will. ... While there was actually such a development [i.e. towards symbolising individual goodwill], it cannot be said that there was a corresponding development to any marked degree of any system of protection of the individual's mark. On the contrary, the Company rather put in much effort to repress such development of individual goodwill among its members.", Schechter *Historical Foundations* above n 11 at 102 [n 1] and at 45.

<sup>274</sup> "With the foregoing anti-competitive and regulatory features of the gild system in mind, we now proceed to an examination of the marks with which the medieval craftsman stamped his wares. Every craft, of course, either had its own ordinances concerning such marks or administered statutory or municipal regulations of a similar nature. All of these regulations, whatsoever their source, made the use of the production mark compulsory. ... The compulsory production mark likewise assisted the gild authorities in preventing those outside the gild from selling their products within the area of the gild monopoly. But what the whole theory of the legislation pertaining to production marks did *not* permit was, ..., the exploitation of these marks to the direct individual advantage or for the personal advertisement of those who used them.", Schechter *Historical Foundations* above n 11 at 47; "The regulatory production mark, ... was compulsorily affixed to goods by statute, administrative order or municipal or guild regulation, so that defective work might be traced to the guilty craftsman and heavily punished, or that "foreign" goods smuggled into an area over which a gild had a monopoly might be discovered and confiscated." Schechter "Rational Basis" above n 3 at 814; "The protection of trademarks originated as a police measure to prevent the grievous deceit of the people by the sale of defective goods, and to safeguard the collective good will and monopoly of the gild." *ibid* at 819 (citations omitted).

<sup>275</sup> Schechter *Historical Foundations* above n 11 at 48.

<sup>276</sup> Schechter *Historical Foundations* above n 11 at 48 (citations omitted).

mark was exclusively established in the interest of the guilds and was to the trader or manufacturer distinctly a liability, not an asset.<sup>277</sup>

As Pickering observes, the regulatory production mark

was a form of medieval consumer protection, albeit a relatively unimportant one given the close proximity of consumer and producer. A far more important consequence was that the production mark became an instrument of the guild's monopoly power. It enabled the guild to identify and exclude goods of those foreign to its territory and at the same regulate legitimate traders. Since the very use of a mark indicated that the product bearing it conformed to a uniform standard, there was no reason why the mark should symbolise any individual excellence. It represented the producer, not the product.<sup>278</sup>

With reference to its functions and its obligatory nature, it becomes clear that the regulatory production mark did always denote precisely the source and the specific origin of the products in question. These marks were allotted, assigned and assiduously monitored by the administering entity in control over the respective marks. Without designating the actual producer the regulatory production mark would have been worthless to the guilds in protecting their monopoly and, at the same time, useless in any endeavours to trace the true

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<sup>277</sup> “But if the merchant’s mark considered in our last chapter did not approach the present notion of a trade-mark, the mark that we are now about to consider and that is often carelessly referred to in terms of modern trade-mark law, is even further distant in function and legal significance from our modern trade-mark. While the latter is, ..., an *asset*, the medieval mark indicating source or origin, ..., is distinctly a *liability*.” Schechter *Historical Foundations* above n 11 at 38; “In the course of time in certain trades these police marks or liability marks gradually became, ..., asset marks, — that is to say, they became valuable symbols of individual good-will. This was so in the case of goods of durability and transportability for long distances, especially in the clothing and cutlery trades. But even in the case of these trades their trade-marks began as solely regulatory indicia or police marks of origin and only later developed as symbols of good-will.” *ibid* at 47; “To summarize briefly, neither the physical circumstances surrounding gild life nor the economic theories underlying the functions actually exercised by the guilds encouraged the development of an individual gildsman’s good-will, nor the exploitation of the symbol of such goodwill, *i.e.*, his trade-mark. The profuse legislation of the guilds concerning marks was designed solely to maintain standards of workmanship for the protection of the collective good-will of the gild and to permit the tracing of the sale of ‘foreign goods’ for the enforcement of the gild monopoly. The marks used by the medieval gildsman, *quâ* gildsman, were in their origin purely regulatory or police marks, and, as such, liabilities, not assets. The same mark might ultimately acquire a secondary significance as a symbol of the excellence of its user’s workmanship and wares, but this secondary development is found only in certain industries dealing in commodities capable of transportation for a long distance, such as cloth, cutlery and to a lesser degree pewterware, and not perishable foodstuffs. The same was true of those marks which craftsmen were required by statute to affix to their wares. The gildsman might, or might not, as he saw fit, and often did use his compulsory production mark or some other mark to establish the ownership of his goods, but this proprietary mark or merchant’s mark, as it was called, has no inherently necessary historical or legal relation to the production mark.” *ibid* at 62–63; “In the previous chapter we have seen that the characteristics of the typical craftsman’s mark of the Middle Ages were: (1) that it was compulsory, not optional; (2) that its purpose was the preservation of gild standards of production and the enforcement of gild or other local monopolies rather than the impressing on the mind of the purchaser the excellence of the product in question and thereby the creation of a psychological need for that product; (3) that, consequently, while the modern trade-mark is distinctly an asset to its owner, the medieval craftsman’s mark was essentially a liability. These characteristics of the medieval mark we have ascribed to a great extent to the proximity of the producer to the consumer and of one producer to another, and also to the theory and practice of gild control of industries in each locality.” *ibid* at 78.

<sup>278</sup> CDG Pickering *Trade Marks in Theory and Practice* (Hart Publishing, Oxford, 1998) at 38.

origin of 'false' or defective wares.

#### 4. The Functions of the Modern Trademark

In contrast to the former merchants' mark and the regulatory production mark the salient features of modern trademarks under impersonalised conditions of modern trade are very distinct and far apart from the functions of denoting ownership or source. These features of the modern trademark are:

First, that it does not denote a particular origin but only consistent quality attributable to a particular goodwill which is manifest in the trademark employed appurtenant to the goods or services. As such the modern trademark designates not actual source but merely the notion of source, namely, 'source'. The trademark-based goodwill represents the consuming public's confidence that goods bearing the same mark can safely be attributed to have emanated from the same, albeit anonymous, 'source' and will yield a commensurate satisfactory quality level as they did before or as promised in the pertaining advertising. As such, a trademark has become

[p]rimarily ... a distinguishable token devised or picked out with the intent to appropriate it to a particular class of goods and with the hope that it will come to symbolize good will.<sup>279</sup>

It denotes, in differentiation and contradistinction to the goodwill symbolised by other trademarks, that the product with the familiar trademark "comes from the accustomed maker",<sup>280</sup> but the modern trademark does not convey the actual origin or specific provenance of the product.

Secondly, the use of a mark is entirely optional and

[t]he modern manufacturer may use a mark or several marks or no mark just as he pleases; his forerunner, even as late as in the seventeenth century, was compelled to use a mark, and no more than a single mark.<sup>281</sup>

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<sup>279</sup> *Beech-Nut Co v Lorillard Co* 273 US 629 at 632 (1927), Holmes J.

<sup>280</sup> *Shredded Wheat Co v Humphrey Cornell Co* 250 Fed 960 (2nd Cir 1918) at 963, Hand J.

<sup>281</sup> Schechter *Historical Foundations* above n 11 at 122; "... the medieval mark indicating source or origin, ..., is distinctly a *liability*. Except in a few instances, it is today entirely optional with a manufacturer whether he will use a trade-mark at all. The medieval craftsman would appear from a very early period in guild history to have had little choice as to the affixing of this "police mark" on his wares. In practically every trade, both in England and on the continent, these marks were compulsory." *ibid* at 38.

CDG Pickering *Trade Marks in Theory and Practice* (Hart Publishing, Oxford, 1998) at 4: "... the use of any marks at all in connection with goods or services is entirely at the option of the trader."

What is more, the producer or trader is completely at liberty in choosing what this mark should convey. It is within the sole discretion of trademark owners what they deem suitable for their trademarks to denote or indicate. The modern trademark may be suggestive of provenance or simply convey the air of luxury and elegance whereas the former production mark of necessity had to represent the true source and origin, and nothing but that. The only boundaries to the meaning of a modern trademark appear to be the absolute grounds for refusal of registration if a mark's message would intrinsically be deceptive or cause confusion as, for example, provided in s 17 Trade Marks Act 2002 (NZ). Conversely, the existence of such provisions evinces that trademarks can denote next to anything today. If they were still, indeed, designating merely the actual source of the goods, then any form of deception in the sense of s 17 would be inconceivable and the provision, consequently, rendered superfluous.

In addition the compulsory production was decidedly a means of the guilds to impose their anti-competitive agenda. In contrast, the modern trademark's main purposes is precisely to engage in effective commercial competition with rival traders within a market economy.

And lastly, the modern trademark does, in contrast to the regulatory production mark, not denote that a specific quality standard is met or that the products bearing the mark have satisfied any form of normative pre-sale inspection. Rather, the level of quality supplied to consumers under a respective trademark is completely within the discretion of the trademark owner.<sup>282</sup> The trademark and its appurtenant apperception of quality by consumers, hence, needs to prevail and continuously prove itself within the free flow of competition and the forces of the market economy. This is what has been referred to as the market incentive of trademarks,<sup>283</sup> a self-regulatory mechanism for the maintenance of high quality under conditions of competition. If the quality on offer, in comparison to rival traders, is too low or if the ratio of level of quality in relation to the sale price is not acceptable in consumers' perception, then the trademark will lose its patronage and the trademark owner will, eventually, go out of business.

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<sup>282</sup> The modern day exception to this are, of course, the norms with reference to product safety standards, foodstuff regulations, etc.

<sup>283</sup> CDG Pickering *Trade Marks in Theory and Practice* (Hart Publishing, Oxford, 1998) at 88: "This is the so-called self-enforcing feature of trade marks: a trade mark derives its economic as well as capital value from the fact that it denotes consistent quality; the mark will lose its value if variations in quality render the mark deceptive, because consumers will not be able to relate the trade marked product to past experience." and *ibid* at 88 [n 103]: "... . This is the market incentive for trade mark owners to maintain product quality; the legal incentive is contained in s.46(1)(d) Trade Marks Act 1994 [UK] which provides for the revocation of a deceptive trade mark. However, this is arguably less effective than the market mechanism because it requires someone to initiate legal action."

It has already been observed above that the actual source, due to the “ramifications of modern trade,”<sup>284</sup> remains anonymous. We can illustrate this tenet, by exemplifying this with some court holdings. For instance it has been opined that

we may safely take it for granted that not one in a thousand knowing of or desiring to purchase ‘Baker’s Cocoa’ or ‘Baker’s Chocolate’ know of Walter Baker & Co., Limited.<sup>285</sup>

Similarly, it has been held by the courts that

[w]hen one buys Uneda Biscuits or Cremo cigars or talcum powder, no one has in mind the manufacturer; this legal phraseology is a mere fiction. The producer may change its corporate existence innumerable times, and the public does not know or care. What they do know is that an ordinary bit of merchandise has, through advertising, become very popular, and they want the merchandise with that name. It is the name that counts and has been made a valuable asset.<sup>286</sup>

It is this the context of the crucial changes in functions and features of trademarks which Schechter truly is concerned with because in his opinion

[t]he development of the law of unfair competition with respect to trade-marks has been hampered by the failure of the law to keep pace with the functional evolution of trade-marks themselves.<sup>287</sup>

Schechter astutely perceives the differences between personal and impersonal trade relations and he accurately addresses the commensurate distinction in the way trademarks function in the respective market environments. Under circumstances of anonymised trade relations the consuming public cannot possibly have any definite conception of the origin of the wares they buy.<sup>288</sup> This even accounts for products on offer and sold under a well-known trademark.<sup>289</sup> In

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<sup>284</sup> Schechter “Rational Basis” above n 3 at 814.

<sup>285</sup> *Walter Baker & Co Ltd v Slack* 130 Fed 514 (7th Cir 1904) at 518.

<sup>286</sup> *Gotham Music Service Co Inc v Denton and Haskins Music Pub Co* 259 NY 86, 91; 181 NE 57, 59 (1932), Crane Circuit Judge; as cited and quoted by Schechter “Fog and Fiction” above n 4 at 65 [n 12].

<sup>287</sup> Schechter *Historical Foundations* above n 11 at 171.

<sup>288</sup> “Discarding then the idea that a trademark a tradename informs the consumer as to the *actual* source or origin of goods . . . . . indicates *not* that the article in question comes from a *definite* or *particular* source, the characteristics of which or the personalities connected with which are *specifically known* to the consumer . . . .”, Schechter “Rational Basis” above n 3 at 816 (emphases added); “... the consumer does not know the *specific* source of a trademarked article, . . .”, *ibid* at 817 (emphasis added).

<sup>289</sup> “It has been repeatedly pointed out by the very courts that insist on defining trademarks in terms of ownership or origin that, . . . , the source or origin of goods bearing a well known trademark is seldom known to the consumer.” Schechter “Rational Basis” above n 3 at 814 (citations omitted).

See also Schechter “Fog and Fiction” above n 4 at 65 [n 12] citing and quoting *Gotham Music Service Co Inc v Denton and Haskins Music Pub Co* 259 NY 86, 91; 181 NE 57, 59 (1932), Crane, Circuit Judge: “When one buys Uneda Biscuits or Cremo cigars or talcum powder, no one has in mind the manufacturer; this legal phraseology is a mere fiction. The producer may change its corporate existence innumerable times, and the public does not know or care. What they do know is that an ordinary bit of merchandise has, through advertising, become very popular, and they want the merchandise with that name. It is the name that counts and has been

modern times, a trademark indicates<sup>290</sup>

merely that the goods in connection with which it is used emanate from the *same*—possibly anonymous—source or have reached the consumer through the *same* channels as certain other goods that have already given the consumer satisfaction, and that bore the same trademark.

This means that a trademark solely designates to the consumer “that two articles, bearing the same mark, emanate from a *single* source.”<sup>291</sup> For, only in “stage-coach days<sup>292</sup>” and in days of an “antiquated neighborhood theory of trade<sup>293</sup>” did a trademark symbolise a particular trader’s or a definite business’ goodwill.<sup>294</sup>

This transformation relative to the attribution of goodwill causes a change of frame of reference for consumers. Because goodwill cannot be ascribed to a personally acquainted, or, at least, actually known source any longer, consumers attribute this goodwill to marks upon goods which have proven themselves within the market to offer a trustworthy, satisfactory, consistent level of quality. As Schechter – partially quoting E Rogers – aptly puts it: “[T]he modern trade-mark is ‘good will symbolized’.”<sup>295</sup> This is, however, not the goodwill attributable to a particular source but rather a purely trademark-based goodwill. A particular source or origin conception is not forming the basis of such goodwill but rather a notion of consistent and satisfactory quality.

Consumers employ the trademark itself as a means for identification of a product as being of a satisfactory level of quality.<sup>296</sup> Goodwill is identified via the trademarks themselves and not via the individual business of which the trademark would be merely a supplementary symbol. Customers base their purchase decisions upon trademarks and trademarked products, not upon of the trader or source. In other words, consumers differentiate by trademark, not by source.

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made a valuable asset.”

<sup>290</sup> Schechter “Rational Basis” above n 3 at 816 (emphases added).

<sup>291</sup> Schechter “Rational Basis” above n 3 at 817 (emphasis added).

<sup>292</sup> Schechter “Rational Basis” above n 3 at 818.

<sup>293</sup> Schechter “Rational Basis” above n 3 at 824.

<sup>294</sup> Schechter “Rational Basis” above n 3 at 816-819.

<sup>295</sup> Schechter *Historical Foundations* above n 11 at 38, quoting ES Rogers “Some Historical Matter Concerning Trade-Marks” 9 Michigan L Rev 29 at 43.

<sup>296</sup> Schechter “Rational Basis” above n 3: “... have reached the consumer through the same channels as certain other goods that have already given the consumer satisfaction, ...” at 816; “..., to identify a product as satisfactory ...” at 818; “... imprinting upon the public mind an anonymous and impersonal guaranty of satisfaction, ...” at 819; “... has come to indicate to the public a constant and uniform source of satisfaction, ...” at 823; “... rely more and more upon trademarks and tradenames as symbols of quality and guaranties of satisfaction.” at 824; “... created in the public consciousness an impression or symbol of the excellence of the particular product in question.” at 829; “... associated in the public mind with the excellence of any single product, ...” at 830.



The reason for this is that under circumstances of anonymised trade relations is is not the obscure, unknown source which determines the purchase decision. It is rather the quality of the product attributed directly to the trademarks itself which forges part of the conglomerate of properties for which a particular trademark becomes distinctive in the public's mind.<sup>297</sup>

And this is, in fact, as Schechter observed,

closely connected with ... the actual significance of trade-marks to the public itself ... [since] ... the public is concerned with the trade-mark not so much as an indication of origin but as a guaranty of quality.<sup>298</sup>

Under modern market conditions consumers, manufacturers and distributors of products are all concerned with trademark-based goodwill, as opposed to goodwill which would be ascribed to a particular source or derived from a specific place of business. Commensurate to the loss of personal trade relations the trademark itself directly becomes the focal point for ascription processes and, hence, the bearer of goodwill. This is why Schechter concludes that trademarks as such had transformed into traders' assets.<sup>299</sup> The modern trademark became of immediate value in competing for patronage. In contrast, the former compulsory marks solely constituted a liability for manufacturers and producers.

One small caveat needs to be added as a side note: Schechter consistently writes of the trademark as being a "guaranty of quality"<sup>300</sup> to consumers. This is, of course, not to be interpreted in a strict legal, technical sense of the term 'guaranty'. Rather, it is to be understood as a mere quality assurance since the modern trademark is distinctly not a tool for the legal enforcement of a particular level of quality. This is exactly the conspicuous

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<sup>297</sup> Schechter "Rational Basis" above n 3: "... the particular product in connection with which it has been used." at 825; "... created in the public consciousness an impression or symbol of the excellence of the particular product in question" at 829; "... become associated in the public mind with the excellence of any single product" at 830.

<sup>298</sup> Schechter *Historical Foundations* above n 11 at 166.

<sup>299</sup> Schechter *Historical Foundations* above n 11: "While the ... [modern trademark] ... is, ..., an *asset*, the medieval mark indicating source or origin, ..., is distinctly a *liability*." at 38 (italics provided in original); "... merchants' marks as *indicative of property* in the goods to which they were affixed or in relation to which they were used. These marks were very remote in their essential significance from the modern concept of a trademark. The trade-mark today is in itself an asset, often of far greater value than the physical property of the business in connection with which it is used. ... the modern trade-mark is 'good will symbolized'." at 38 (italics provided in original); "... illustrating what we may term the liability nature of the craftsmen's marks of the Middle Ages, in contradistinction to the asset nature of the modern trade-mark, ..." at 39; "The marks used by the medieval guildsman, *quâ* guildsman, were in their origin purely regulatory or police marks, and, as such, liabilities, not assets." at 62-63; "... while the modern trade-mark is distinctly an asset to its owner, the medieval craftsman's mark was essentially liability." at 78.

<sup>300</sup> Schechter *Historical Foundations* above n 11 at 166. "... imprinting upon the public mind an anonymous and impersonal guaranty of satisfaction, ...", Schechter "Rational Basis" above n 3 at 819; "... rely more and more upon trademarks and tradenames as symbols of quality and guaranties of satisfaction." *ibid* at 824;

difference to the former marks of liability. The trademark owner can do as she or he pleases but is, at the same time, left completely to the mercy of the market forces. Should the consumer not be satisfied with the quality supplied under a certain mark, then the mark will act as a deterrent when the consumer contemplates his or her future purchasing decisions.

It can hardly be over-estimated how accurate Schechter's perception is that "the proper expansion of trademark law has been hampered by obsolete conceptions both as to the function of a trademark and as to the need for its protection".<sup>301</sup> This is clearly evinced in the context of the mistaken belief which prevailed for a long time in the law of trademarks that the modern trademark (still) – as had the regulatory 'liability mark' – entailed a quality guaranty for consumers, not merely an assurance without obligation. The offspring of that misguided view, as it represented itself in the former trademark statutes, was the proscription of dealings in trademarks which included the prohibition of licensing and/or assignments of trademarks.<sup>302</sup> These prohibitions were founded upon the archaic notion that trademarks, as had the regulatory production mark, indeed, signified a particular level of quality. It was thus the obtaining opinion that, in case of licensing or assignment, consumers needed to be protected against deception because it was not 'guaranteed' that the licensor or new trademark owner would maintain the accustomed quality level. Hence, for instance, in the United Kingdom until the Trade Marks Act 1938, trademark licensing was entirely proscribed and afterwards only permissible under a rigid scheme of registration. This had been designed to prevent what was thought of as the deception of the consuming public.<sup>303</sup> Licensing was only permissible if it was "provided that the registrar was satisfied that the licensee was subjected to adequate quality control requirements in the license agreement."<sup>304</sup> Some authors even went as far as asserting that this 'quality guaranty' actually amounted to a legally enforceable obligation in the sense of a 'quality warranty'.<sup>305</sup> It is to be noted that these archaic regulations with reference to licensing and assignment of trademarks were only finally abolished in the United Kingdom as recently as the Trade Marks Act 1994 (UK). And, it is to

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<sup>301</sup> Schechter "Rational Basis" above n 3 at 824.

<sup>302</sup> Or, at least, the prohibition of assignments and licensing 'in gross.'

<sup>303</sup> Compare for this development and the questions revolving around 'quality guaranty' of trademarks and the permissibility of licensing and assignment of trademarks CDG Pickering *Trade Marks in Theory and Practice* (Hart Publishing, Oxford, 1998) at 16–17, 46–37 and 105.

<sup>304</sup> Pickering above n 303 at 46.

<sup>305</sup> A Michaels "The Function of Trade Marks: The Law and the Reality" [1980] EIPR 13 at 16; K Parks "'Naked' Is Not a Four Letter Word: Debunking the Myth of the 'Quality Control Requirement' in Trade Mark Licensing" (1992) 82 Trademark Reporter 531 at 546–553; EW Hanak "The Quality Assurance Function of Trade Marks" (1975) 65 Trademark Reporter 318.

be doubted if this would have happened even then if not the United Kingdom would have had to comply with European Union obligations with reference to the European Trade Mark Directive. It appears almost supererogatory to point out to the reader that the control and monitoring of particular quality standards was the function and nature of the compulsory, mediaeval, regulatory production mark and that this is diametrically opposed to the functions and the nature of the – entirely voluntary – modern trademark. It is astonishing how perceptive Schechter’s evaluation was in 1927 and for how long the obtaining concepts of trademark law were “based upon an archaic notion of the function of a trademark.”<sup>306</sup>

#### **F. Schechter’s Approach in *Historical Foundations* versus “Rational Basis”:**

##### **Trademarks as Assets versus Trademarks as Agencies**

We have seen in the previous Section that goodwill became based upon trademarks instead of being attributed to actual sources. Since consumers do not personally know the actual source or origin, they ascribe their quality associations directly to the trademark itself. The same happens with attribution of marketing promises and advertisements. In other words: consumers take recourse to buying the same trademark just as they would formerly have reverted to procuring goods from the same (personally known) trade source. As such, trademarks transformed into valuable tools for traders in competing for custom and in retaining pre-existing patronage. Trademarks came to constitute important assets for business entities in the environment of a competitive market economy. This ‘asset approach’ as formulated in *Historical Foundations* is mainly to be understood in contradistinction to the liability nature of the former regulatory production mark.<sup>307</sup> It does, however, represent the germ whence Schechter’s ‘agency approach’ in “Rational Basis” would grow.

Already in *Historical Foundations* Schechter noted that for any trader or manufacturer “the normal agencies for the creation of good-will, ... [are] ... the excellence of his product and the appeal of his advertising.”<sup>308</sup> In “Rational Basis” Schechter much more forcefully

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<sup>306</sup> Schechter “Rational Basis” above n 3 at 822.

<sup>307</sup> “... illustrating what we may term the liability nature of the craftsmen’s marks of the Middle Ages, in contradistinction to the asset nature of the modern trade-mark.” Schechter *Historical Foundations* above n 11 at 39.

<sup>308</sup> “The question as to whether the deception of the public should be regarded as one of the bases of trade-mark infringement is of course closely connected with that of the actual significance of trade-marks to the public itself. As we have already indicated, the public is concerned with the trade-mark not so much as an indication of origin but as a guaranty of quality. Any theory of trade-mark protection which overlooks this fact and which does not focus the protective functions of the court upon the good-will of the owner of the trade-mark, inevitably renders

emphasises the argument that trademarks as traders' agencies are the focal point for such considerations of goodwill by the public. Since it is the goodwill by virtue of which "creation and retention of custom"<sup>309</sup> are actuated, clearly, one can conclude that "the trademark is not merely the symbol of good will but ... the most effective agent for the creation of good will."<sup>310</sup> Because the trader has lost his personal contact to the customer it is, indeed, the trademark with its appurtenant goodwill which "actually *sells* the goods."<sup>311</sup> Trademarks had evolved to a trader's most important, if not the one and only tool in competing for custom within a free market economy.

The trademark-based trade identity is the substitute for the lost personal trade identity. This accounts for both sides at the end of the complex chain of distribution. Consumers ascribe their notions of goodwill directly to a trademark. The same happens if a trader, by means of the trademark, communicate quality associations and conveys advertisement information to the customer. It is, thus, via the goodwill of the trademark that a manufacturer or merchant can establish a "valuable, though possibly anonymous link between him and his consumer."<sup>312</sup> "The establishment of this connecting link"<sup>313</sup> is facilitated by virtue of trademarks because with the assistance of a trademark "the manufacturer or importer may reach over the shoulder of the retailer and across the latter's counter straight to the consumer."<sup>314</sup> The trademark, hence, functions as a sort of business tout or a pitchman, or, as Schechter posits, a "silent salesman through which direct contact between the owner of the mark and the consumer is obtained and maintained."<sup>315</sup> The trademark therefore constitutes a trader's "agency for the actual creation and perpetuation of good will."<sup>316</sup>

The goodwill which is manifest in a trademark is, it follows, based on consumers' apperception of the trademark as representing the excellence and satisfactory quality of the products or services sold under that mark. But the goodwill is also based upon the appeal of the advertising pertaining to the mark. These considerations of goodwill can also be expressed

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such owner dependent for protection, not so much upon the normal agencies for the creation of good-will, such as the excellence of his product and the appeal of his advertising, as upon the judicial estimate of the state of the public mind." Schechter *Historical Foundations* above n 11 at 166.

<sup>309</sup> Schechter "Rational Basis" above n 3 at 822.

<sup>310</sup> Schechter "Rational Basis" above n 3 at 819.

<sup>311</sup> Schechter "Rational Basis" above n 3 at 819 (*italics provided in original*).

<sup>312</sup> Schechter "Rational Basis" above n 3 at 833.

<sup>313</sup> Schechter "Rational Basis" above n 3 at 818 [n 21].

<sup>314</sup> Schechter "Rational Basis" above n 3 at 818 (citations omitted).

<sup>315</sup> Schechter "Fog and Fiction" above n 4 at 64–65.

<sup>316</sup> Schechter "Rational Basis" above n 3 at 818.

in somewhat more economic terms. Based upon the goodwill appurtenant to the trademark the trader or manufacturer has a warranted and, hence, “reasonable expectation of future patronage.”<sup>317</sup> Schechter’s main importance, indeed, rests upon the prevention of

the destruction or impairment of the probable expectancy of trade or custom, of which the trade-mark is symbol as well as a creative factor.<sup>318</sup>

To Schechter the core of trademark protection must be to “give adequate protection to both existent and potential good-will”.<sup>319</sup> Protection of goodwill of necessity engenders protection of the trademarks to which this goodwill considerations attach. It is the goodwill manifest in a trademark which ensures future patronage and “[a] trade-mark is a most important creative and also sustaining factor for that probable expectancy”<sup>320</sup> of future custom. To Schechter this amounts to traders’ “personal right of freedom from or interference with their trade trade expectations.”<sup>321</sup> This, to Schechter, is justified because goodwill is, in its essence, nothing else but the reasonable

expectation of the trader or manufacturer that he will be undisturbed in the custom or trade which the merits of his wares or the ingenuity of his advertising have attracted from the consuming public.<sup>322</sup>

It may perhaps not go amiss, at this juncture, to advert to two objections which are commonly

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<sup>317</sup> Schechter *Historical Foundations* above n 11 at 161, quoting ES Rogers *Good-Will, Trade-Marks, and Unfair Trading* (Chicago, 1919) at 13. See also *International News Service v Associated Press* 248 US 215 (1918) at 240.

<sup>318</sup> Schechter *Historical Foundations* above n 11 at 171.

<sup>319</sup> Schechter *Historical Foundations* above n 11 at 170.

<sup>320</sup> Schechter *Historical Foundations* above n 11 at 157 (citations omitted).

<sup>321</sup> Schechter *Historical Foundations* above n 11 at 161.

<sup>322</sup> Schechter *Historical Foundations* above n 11 at 157. See also: “A sounder basis of the repression of trade-mark infringement and of other forms of unfair competition is the protection of a merchant or a manufacturer from interference with ‘his [\*161] reasonable expectation of future patronage’ (Schechter quoting ES Rogers *Good-Will, Trade-Marks, and Unfair Trading* (Chicago, 1919) at 13.) Assuming that it is undesirable or inaccurate that trade-mark rights be denominated property rights, there is no reason why on other equitable principles owners of trade-marks should not be fully protected by courts of equity. . . . if historical antipathies or economic objections preclude their protecting trade-marks as property rights there is no reason they should not protect the owners of trade-marks in their personal right of freedom from or interference with their trade expectations.” *ibid* at 160–161. And compare this passage also with: “A large part of what is most valuable in modern life seems to depend more or less directly upon ‘probable expectancies’ . . . . It would seem to be inevitable that courts of law, as our system of jurisprudence is evolved to meet the growing wants of an increasingly complex social order, will discover, define and protect from undue interference more of these ‘probable expectancies’ .”, *Jersey City Printing Co v Cassidy* 63 N J Eq 759 at 765, per Stevenson VC; as quoted by Schechter *Historical Foundations* above n 11 at 157. And compare also: “Among those ‘probable expectancies’ which courts of law are being called upon with every increasing frequency to define and protect is good-will, *i.e.*, the expectation of the trader or manufacturer that he will be undisturbed in the custom or trade which the merits of his wares or the ingenuity of his advertising have attracted from the consuming public. A trade-mark is a most important creative and also sustaining factor for that ‘probable expectancy’ and, being ‘recognized by law and enforced by the power of a State’, there appears to be no valid ground for excluding trade-mark rights from the category of property or property rights.”, Schechter *Historical Foundations* above n 11 at 157 (citations omitted).

raised against Schechter's theorem. First, as has been thoroughly canvassed above, critics level at Schechter to have propagated an absolute property right in trademarks. To sustain the property-sceptic view it is usually adduced that under the statutory regime and the action for passing off only goodwill is protected, not property in a trademark. However, at this point in our discussion, the reader be reminded of what has become almost the epitome of the classic definition of goodwill by Lord Macnaghten:

It [goodwill] is the attractive force which brings in custom. It is the one thing which distinguishes an old-established business from a new business at its start. The goodwill of a business must emanate from a particular centre or source. However widely extended or diffused its influence may be, goodwill is worth nothing unless it has power of attraction sufficient to bring customers home to the source from which it emanates. Goodwill is composed of a variety of elements. It differs in its composition in different trades and in different businesses in the same trade. One element may predominate here and another element there.<sup>323</sup>

Somewhat earlier Lord Macnaghten had already taken another attempt at defining goodwill which can be considered as being of equally important influence, stating goodwill to be

the very sap and life of the business, without which the business would yield little or no fruit. It is the whole advantage, whatever it may be, of the reputation and connection of the firm, which may have been built up by years of honest work or gained by lavish expenditure of money.<sup>324</sup>

These expressions have, indeed, become such a standard in judicial definitions of goodwill that it makes the formulation of "the attractive force which brings in custom" almost sound trite. What is of import in this context is that Schechter's "reasonable expectations", "probable expectancies of future custom" and the relating deliberations with reference to the public's apperception of trademarks as bearers of goodwill are, in their very essence, nothing else than classic goodwill.

Secondly, especially the dilution critics Middleton<sup>325</sup> and Welkowitz<sup>326</sup> have maintained that Schechter's theory purportedly contradicted the Supreme Courts holding that "[i]t is the trade, not the mark, that is to be protected".<sup>327</sup> This objection can be regarded as refuted. When Schechter directs his considerations towards preventing

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<sup>323</sup> *CIR v Muller & Co's Margarine Ltd* [1901] AC 217 at 223–224, Lord Macnaghten.

<sup>324</sup> *Trego v Hunt* [1896] AC 7 at 24, Lord Macnaghten

<sup>325</sup> GE Middleton "Some Reflections on Dilution" (1952) 42 Trademark Reporter 175 at 177.

<sup>326</sup> Welkowitz "Reexamining Trademark Dilution" above n 40 at 535.

<sup>327</sup> *Hanover Star Milling Co v Metcalf* 240 US 403 (1916) at 416.

the destruction or impairment of the probable expectancy of trade or custom, of which the trade-mark is symbol as well as a creative factor<sup>328</sup>

he endeavours to protect exactly the trade which accrues to a particular goodwill.

## **G. Schechter's Concept of Selling Power in a Trademark**

We have been furnished in the preceding Sections with an understanding of which deliberations form the backdrop for Schechter's theory. With reference to the concept of consumer recognition it is at this juncture where the crucial difference comes to light between what Schechter's doctrine entails and what has found implementation in the various trademark statutes as the 'famousness standard'.

According to modern conceptions of the 'dilution' doctrine it is the investment function or advertisement function of trademarks<sup>329</sup> which is protected by this broadened scheme of trademark protection. It will be demonstrated, however, that interpreting Schechter's concept of selling power in a trademark as merely being directed to protect advertising investments in a trademark is a foreshortened, even a fallacious approach. Schechter's concept of selling power in a trademark rather stands in clear contrast to the modernist 'predominance by advertising approach'. Schechter requires something distinctly different from advertising investment or mere preeminence upon consumers' minds by means of pervasive marketing campaigns. This is evinced by the fact that any form of only acquired distinctiveness, not matter how famous, will – according to the correctly understood prerequisites in a Schechterian system of 'dilution' – decidedly not be afforded extended protection.

We have determined, in our analysis thus far, that the trademark is the most important tool in competing for custom because the trademark is the actual bearer and focal point for goodwill. We have also concluded that goodwill is ascribed to a trademark via the public's considerations with respect to associations of (consistent) quality and notions derived from advertising messages and marketing communication in connection with a trademark. With

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<sup>328</sup> Schechter *Historical Foundations* above n 11 at 171.

<sup>329</sup> See for the investment and advertisement function, for example: WR Cornish & D Lewellyn & Tanya Aplin *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* (7th ed, Sweet & Maxwell, London, 2010) at [16-22]–[16-31]; H MacQueen & C Waelde & G Laurie *Contemporary Intellectual Property: Law and Policy* (Oxford University Press, Oxford, 2007) at [13.13]–[13.15]; L Bently & B Sherman *Intellectual Property Law* (3rd ed, Oxford University Press, Oxford, 2008) at 712–713 and 718–719); "It is now standard doctrine that trademarks also have other functions: to indicate quality and to serve as an essential advertising and marketing tool.", T Martino *Trademark Dilution* (Clarendon Press, Oxford, 1996) in its Foreword.

reference to trade identity, the trademark-based goodwill is the surrogate for the former personal goodwill. The trademark, hence, needs to function as efficiently as possible as a trader's agency. After all, both consumers and producers employ the trademark for attributive and ascription processes: traders for their advertising and marketing messages, consumers for considerations of goodwill.

In making these attributive processes, ascribing and connecting particular goodwill considerations to the pertaining trademark will be rendered the easier and will be the more deeply immersed in consumers' perception the more effective and directly this process is facilitated by virtue of the trademark itself. The same accounts for the process of the public remembering and recollecting – upon beholding a particular trademark – those appurtenant goodwill considerations once they had been previously established in consumers' associations.

Consequently, as will be quite self-explanatory to the reader, these ascription and re-connective processes of the consuming public will be rendered the more direct, the easier, and the more efficient “the more distinctive the mark”<sup>330</sup> itself is in consumers' perception. By virtue of its distinctiveness in consumers' apperception the trademark facilitates the public's attribution and recollection processes. The degree of effectiveness with which the trademark equipped is what Schechter terms the selling power of a trademark. This is the reason why Schechter concludes that “the more distinctive the mark, the more effective its selling power.”<sup>331</sup> Selling power, in Schechterian terms, can hence be explained as defining the varying possible degrees of a trademark's capacity to facilitate the establishment as well as the processes of attribution, ascription, recollection and recognition of a trademark-goodwill nexus. In other words, selling power can be described as a trademark's ‘re-cognition potency’ or ‘re-identification potential’.

This capacity of a trademark will be at its apex where the trademark is highly distinctive. This can be explained by the fact that attribution and recollection in the context of consumers' recognition of a trademark are mental processes. They are centred around the public beholding a particular sign. With reference to these mental processes a trademark's selling power is dependent upon “its psychological hold upon the public”<sup>332</sup> and “the preservation of

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<sup>330</sup> Schechter “Rational Basis” above n 3 at 819.

<sup>331</sup> Schechter “Rational Basis” above n 3 at 819.

<sup>332</sup> Schechter “Rational Basis” above n 3 at 831.



[the] valuable, though possibly anonymous link<sup>333</sup> which has been created in consumers' perception with respect to the trademark-goodwill nexus. It follows that these psychological processes of linking a trademark and its appurtenant goodwill considerations – and vice versa – will be the more effective the more readily present and the more singularly outstanding and easily memorably available (read: distinctive) the trademark itself is as the token for these connective processes is in consumers' minds.

Before proceeding any further, we must, to prevent any further misconceptions, briefly advert to 'distinctiveness' as it is employed by Schechter. What exactly Schechter defines 'distinctive' to be will become patently clear to the reader in the following Sections where will be expounded Schechter's concept of a trademark's uniqueness and singularity. In the context of discussing a trademark's selling power we will just, in short, have to point out that any form of merely acquired distinctiveness will distinctly not be sufficient for a trademark to be distinctive in terms of Schechter's concept of selling power in a trademark.

Schechter employs the term 'distinctive' in the context of a trademark's selling power with reference only to trademarks which fulfil his requirement of being unique and singular. This is evinced by the following statements in "Rational Basis": Schechter counts among the coined, arbitrary and fanciful type of trademark which he endeavours to protect<sup>334</sup> also the Blue Goose trademark. Schechter contrasts this Blue Goose trademark with the type of "commonplace words of the language"<sup>335</sup> which will not enjoy protection against 'dilution.' When describing the harm which the Blue Goose mark would incur if it were allowed to be used by other traders on various products Schechter notes that "[t]his entirely arbitrary symbol would soon lose its *arresting uniqueness* and *hence its selling power* if it could also be used on pianos, shaving cream, and fountain pens."<sup>336</sup> Further, Schechter states in the context of "[t]he real injury"<sup>337</sup> in cases of trademark infringement that a trademark needs protection against the "dispersion of [its] identity and hold upon the public mind"<sup>338</sup> because "[t]he more *distinctive or unique* the mark, the deeper is its impress upon the public consciousness."<sup>339</sup>

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<sup>333</sup> Schechter "Rational Basis" above n 3 at 833.

<sup>334</sup> "On the other hand, 'Rolls-Royce,' 'Aunt Jemima's,' 'Kodak,' 'Mazda,' 'Corona,' 'Nujol,' and 'Blue Goose,' are coined, arbitrary or fanciful words or phrases that have been added to rather than withdrawn from the human vocabulary ...", Schechter "Rational Basis" above n 3 at 829.

<sup>335</sup> Schechter "Rational Basis" above n 3 at 830.

<sup>336</sup> Schechter "Rational Basis" above n 3 at 830 (emphases added).

<sup>337</sup> Schechter "Rational Basis" above n 3 at 825.

<sup>338</sup> Schechter "Rational Basis" above n 3 at 825.

<sup>339</sup> Schechter "Rational Basis" above n 3 at 825 (emphases added).

The “impress upon the public consciousness,” of course, being but a paraphrase for the selling power of a trademark. And, finally, Schechter, in the conclusion to “Rationa Basis”, sums up that a trademark’s

selling power depends for its psychological hold upon the public ... upon its own uniqueness and singularity; ... and that the degree of its protection depends ... upon the extent to which, ... it is actually unique and different from other marks.<sup>340</sup>

It becomes clear, from these statements not only that selling power and distinctiveness are inextricably connected but, more importantly, that Schechterian distinctiveness needs to be something which equates to “arresting uniqueness” and is equivalent (confer: “distinctive *or* unique”) to the degree to which the trademark is “actually unique and different from other marks.” This can be corroborated by Schechter’s appreciation that every truly unique mark which is coined, arbitrary or fanciful, if allowed to be used by competitors, would “lose its *effectiveness* and *unique distinctiveness*.”<sup>341</sup> It is patently obvious that a trademark with merely acquired distinctiveness will not suffice to fulfil any of the preceding criteria and, especially, will never be of “*unique* distinctiveness.” This conclusion can be fortified by Schechter’s converse appraisal of commonplace marks like Blue Ribbon, Simplex, Star, Anchor and the like. Schechter notes that

all these marks have, ..., very little distinctiveness in the public mind, and in most cases suggest merit, prominence or other qualities of goods or services in general, rather than the fact that the product or service, ... emanates from a particular source.<sup>342</sup>

Clearly, then, commonplace marks are not truly distinctive in Schechter’s view.

Returning, then, to analysing the concept of selling power in a trademark we can ascertain that selling power is a trademark’s effectiveness in facilitating consumers’ recognition of the appurtenant trademark-goodwill nexus. Schechter – categorically – rules out that trademarks with only acquired distinctiveness could partake in or develop such selling power. At the same time this means that advertising of or investment into a trademark are, in Schechterian terms, not necessarily connected to selling power, either. At least, they are not of themselves sufficient to constitute and/or develop selling power in a trademark. This flows from the converse consideration that if advertising and/or investment – and, hence, the establishment of a high level of consumer recognition in merely quantitative terms – were sufficient to

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<sup>340</sup> Schechter “Rational Basis” above n 3 at 831.

<sup>341</sup> Schechter “Rational Basis” above n 3 at 830 (emphases added).

<sup>342</sup> Schechter “Rational Basis” above n 3 at 828–829.

constitute and develop selling power, then, as a consequence, acquired trademarks would not have been excluded by Schechter. No matter how much investment or advertising acquired distinctive does not suffice Schechterian requirements for distinctiveness.

We are now enabled to properly appreciate Schechter's conclusion that a trademark's

selling power depends for its psychological hold upon the public, not merely upon the merit of the goods upon which it is used, but equally upon its own uniqueness and singularity.<sup>343</sup>

Schechter's statement means that the efficiency of a trademark as an agency in the marts of commerce is determined by considerations of 'classic' goodwill plus something more. This something more is the trademark's own distinctiveness. Schechter, however, only contemplates a special degree of distinctiveness, namely, the word, sign or symbol underpinning the trademark must be unique and singular. In fact, the trademark's uniqueness and singularity is even more important than the goodwill. Goodwill can be accrued, over the course of time, by any type of trademark. In contrast, it is the uniqueness, namely, "the extent to which, through the efforts or ingenuity of its owner, it is actually unique and different from other marks"<sup>344</sup> which sets a trademark apart from other marks. It is the uniqueness and singularity which makes a trademark the highly distinctive symbol upon which the selling power and, thus, the trademark-based trade identity can depend. Protecting a trademark's uniqueness is the only way to prevent a unique trademark from deteriorating to a commonplace sign. Should a unique trademark be left unprotected to deteriorate to a commonplace symbol, then the formerly unique symbol will have lost its distinctiveness and significance to consumers and, hence, its effectiveness as a trader's agency, namely, its selling power. To these criteria of uniqueness and singularity we will turn our attention in the following section.

## **H. Schechter's Concept of Protecting a Trademark's Uniqueness and Singularity**

Before delving any further into analysing the intricacies of Schechter's distinction between unique and commonplace marks we need to take note that Schechter developed his doctrine as a reaction to the conditions described earlier on in this Chapter. It was the fact that merchants and manufacturers were reliant and dependent for the protection of their trademarks upon

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<sup>343</sup> Schechter "Rational Basis" above n 3 at 831.

<sup>344</sup> Schechter "Rational Basis" above n 3 at 831.

“appeals to good conscience and judicial sensibilities rather than to strictly legal principles derived from a critical analysis of the real tort involved”.<sup>345</sup> This made Schechter set out on his quest to determine a more rational basis of trademark protection. Schechter’s solution was to develop the criterion that a mark needed to be unique and singular in order to profit from the extended form of trademark protection. It is submitted here that the criteria of uniqueness and singularity were an immediate reaction of Schechter’s to his criticism that the confusion system relied upon the particular judge’s or court’s highly subjective “judicial estimate of the public mind”.<sup>346</sup> How random the results can be of the judicial ‘guesstimate’ as to whether confusion will be present in consumers’ perception was aptly demonstrated by Schechter.

### **1. Schechter’s Quest for an Objective Instead of a Subjective Standard for Extended Trademark Protection**

It is suggested that Schechter’s criterion of uniqueness needs to be viewed under the aspect that he endeavoured to rationalise the decisions in trademark law. For this purpose, his main emphasis rested upon the implementation and establishment of objective qualification criteria rather than the subjective estimate whether or not confusion would be present or whether or not goods were related or of the same descriptive properties. Schechter’s approach, it follows, is deeply rooted in considerations with reference to legal certainty. It is against this backdrop that Schechter viewed the rules which ought to apply in trademark law and it is whence that he was spawned to his conclusion “that the preservation of the uniqueness of a trademark should constitute the only rational basis for its protection”.<sup>347</sup>

Without even having progressed any further in our analysis of the uniqueness criterion we can, hence, already conclude at this stage that the protection of the objectively determined uniqueness is something distinctly different to the quantitative knowledge thresholds which have been established in the current statutory provisions. The current provisions are based upon the subjective estimate of a quantitative consumer recognition, namely, whether, in

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<sup>345</sup> Schechter “Rational Basis” above n 3 at 813

<sup>346</sup> “The question as to whether the deception of the public should be regarded as one of the bases of trade-mark infringement is of course closely connected with that of the actual significance of trade-marks to the public itself. As we have already indicated, the public is concerned with the trade-mark not so much as an indication of origin but as a guaranty of quality. Any theory of trade-mark protection which overlooks this fact and which does not focus the protective functions of the court upon the good-will of the owner of the trade-mark, inevitably renders such owner dependent for protection, not so much upon the normal agencies for the creation of good-will, such as the excellence of his product and the appeal of his advertising, as upon the judicial estimate of the state of the public mind.” Schechter *Historical Foundations* above n 11 at 166.

<sup>347</sup> Schechter “Rational Basis” above n 3 at 831.

consumers perception, a mark is famous or well known. Alternatively, the requirements for protection are based upon the equally subjective appraisal or evaluation whether a particular subsequent trademark use will detract from a trademark's fame, will erode a senior mark's distinctiveness or reputation, or will potentially sully the senior trademark.

That Schechter wanted to establish the objective criterion of uniqueness and not a subjective estimate of whether a mark is famous can be fortified by the following consideration: would Schechter have intended to include fame or 'well-known-ness' into his scheme of trademark protection, he would have certainly expressly mentioned this in his criteria and/or conclusions. Schechter was not only a scholar but also an actively practicing attorney as a corporate trademark counsel.<sup>348</sup> In the year 1925, precisely during the years Schechter worked on both his doctoral thesis and "Rational Basis", extended protection of trademarks was introduced into the Paris Convention of 1883. It was precisely art 6*bis* of the Paris Convention which was implemented by virtue of the 1925 The Hague revisions,<sup>349</sup> enabling the owners of well-known trademarks to oppose subsequent registrations of the same mark even though their own trademark was not yet on the register in a foreign jurisdiction. It is hardly conceivable that any one within the legal profession working in the field of trademark law would possibly have missed this crucial development. We can safely assume that Schechter was well aware and familiar with the concepts and terminology of famous, notorious and well-known trademarks. Consequently, if Schechter would have wanted to convey protection to such a type of trademarks, it is more than reasonable to assume that he would expressly have done so instead of centring his approach upon the uniqueness and singularity of trademarks.

It may be a mistake which is easily made to jump to the conclusion that Schechter wanted to protect famous marks when one takes into consideration that Schechter instances, as the type of marks he intended to protect, the trademarks of Rolls-Royce, Aunt Jemima's, Kodak, Mazda, Corona, Nujol and Blue Goose. Most of these even as of today still enjoy a widespread repute with consumers. Clearly, however, Schechter chose well-known trademarks for merely illustrative purposes because he could rest assured that his readers would be familiar with these marks, too. These marks would thus be suitable examples for

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<sup>348</sup> J Gilson "A Federal Dilution Statute: Is It Time?" (1993) 83 Trademark Reporter 108 at 109. Gilson just mentions the company, BVD, at which Schechter was employed. According to Stadler Nelson this was a company manufacturing underwear, Stadler Nelson "Wages of Ubiquity" above n 1 at 736.

<sup>349</sup> Ladas, Stephen Pericles *Patents, trademarks, and related rights - national and international protection* (Harvard University Press, Cambridge Mass, 1975) vol 2, ch 32, "VI Protection of well-known trademarks", "§682. Scope of Application of Article 6*bis*" p1256.

illustrating what he meant when describing unique marks as coined, arbitrary or fanciful. The fact that Schechter chose the respective marks solely for illustrative purposes – and not because he sought to establish a famousness standard – is proven by the following: Schechter also employed examples of other famous and well-known trademarks in “Rational Basis”. So, for instance, he refers to the judgments with respect to the trademarks Baker’s Chocolate,<sup>350</sup> Borden’s Ice Cream,<sup>351</sup> Yorkshire Relish<sup>352</sup> and Shredded Wheat Biscuit<sup>353</sup>. All these are trademarks which apparently held a sizeable share of the market in their time. In part, they still enjoy a high degree of consumer recognition as of today. None of these marks, however, appear in Schechter’s list when illustrating the type of marks which he thought ought to enjoy singularity protection. What is more, Schechter even explicitly lists “Universal”<sup>354</sup> amongst the type of sign or symbol which is in common use and has “very little distinctiveness in the public mind”<sup>355</sup> and which would thus not enjoy protection under his scheme. The moving pictures companies, however, were a very new thing back then and, as to speak, ‘on the hype’. It is reasonable to assume that Universal Pictures was already well known back in Schechter’s time, too. The trademark depicting the phrase ‘Universal Pictures’ orbiting a globe upon which are outlined the earth’s continents has, indeed, first been used in commerce in 1924 and has been registered in 1925.<sup>356</sup> Thus, if Schechter would have wanted to protect famous or well-known marks it is hardly conceivable that he would have relegated the term “Universal” to the not protected commonplace signs and consequently would have allowed the well-known trademark Universal Pictures to fall prey to its competitors.

Schechter, it follows, did also count quite well-known trademarks among those which could not be accounted as unique or singular marks. It follows that Schechter, in seeking to protect a mark’s uniqueness, did not want to establish a criterion of subjectively estimating the degree of a mark’s consumer recognition. Much rather, as will be shown, Schechter endeavoured to propound a more objective standard by implementing not the distinction between famous and obscure marks but by proposing a “differentiation between coined and commonplace marks”.<sup>357</sup> Considering Schechter’s criticism of the subjectiveness of the confusion standard,

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<sup>350</sup> Schechter “Rational Basis” above n 3 at 814–815.

<sup>351</sup> Schechter “Rational Basis” above n 3 at 815.

<sup>352</sup> Schechter “Rational Basis” above n 3 at 815–816.

<sup>353</sup> Schechter “Rational Basis” above n 3 at 816–817.

<sup>354</sup> Schechter “Rational Basis” above n 3 at 828.

<sup>355</sup> Schechter “Rational Basis” above n 3 at 829.

<sup>356</sup> United States Patent and Trademark Office, registration serial number 71198546.

<sup>357</sup> Schechter “Rational Basis” above n 3 at 832.

it would have been completely nonsensical to make a difference without distinction by replacing the confusion concept with a famousness standard which suffered from the exact same flaws.

## **2. Schechter's Fundamental Differentiation: Unique and Singular Trademarks versus Commonplace Trademarks**

We are turning, then, to the evaluation of Schechter's concept of uniqueness and singularity in a trademark. As the starting point for his deliberations on uniqueness and singularity Schechter takes recourse to the differentiation which courts had begun to draw "between common or semi-descriptive marks or names on the one hand, and arbitrary or fanciful trademarks or tradenames [sic] on the other."<sup>358</sup> And he concludes that, from the standpoint of determining the distinctiveness and uniqueness of a trademark,

[t]he rule that arbitrary, coined or fanciful marks or names should be given a much broader degree of protection than symbols, words or phrases in common use would appear to be entirely sound.<sup>359</sup>

The reason why these coined, arbitrary or fanciful marks are more distinctive than commonplace ones<sup>360</sup> is that they

have been added to rather than withdrawn from the human vocabulary by their owners, and have, from the very beginning, been associated in the public mind with a particular product, not with a variety of products.<sup>361</sup>

The demarcation line hence runs, on the one hand, between coined, arbitrary or fanciful signs and symbols which forge unique and singular trademarks and, on the other hand, "symbols, words or phrases in common use". What distinguishes the coined, arbitrary and fanciful brethren and sisters from their commonplace second cousins is the former's "originality and ingenuity in their contrivance".<sup>362</sup>

The difference between unique trademarks and commonplace signs is, as can be deduced from Schechter's statements, a two-dimensional one. The first level of distinction is that a unique trademark's underlying word, sign or symbol is coined arbitrary or fanciful and has

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<sup>358</sup> Schechter "Rational Basis" above n 3 at 826.

<sup>359</sup> Schechter "Rational Basis" above n 3 at 828.

<sup>360</sup> See for Schechter's differentiation between arbitrary and commonplace marks Schechter "Rational Basis" above n 3 at 829–830.

<sup>361</sup> Schechter "Rational Basis" above n 3 at 829.

<sup>362</sup> Schechter "Rational Basis" above n 3 at 830.

been “added to rather than withdrawn from the human vocabulary”.<sup>363</sup> Conversely, commonplace marks are trademarks which are based upon signs, symbols or words in common use and which form part of the “commonplace words of the language”.<sup>364</sup> A commonplace trademark’s underpinning sign forms, at the same time, part of common speech, everyday communication and general signification by words or symbols. Commonplace trademarks, in other words, have been adapted as trademarks by virtue of appropriation of signs, words or symbols from the public domain, namely, they have been “withdrawn from the human vocabulary”.<sup>365</sup> The first level of distinction is thus a qualitative aspect directed at the inherent quality of the sign or symbol upon which the trademark is based.

The second level which distinguishes the two types of trademarks is if “in common use” is construed from a more quantitative viewpoint. Unique trademarks are only employed with respect to one singular goodwill in the entirety of the market place. In contrast, commonplace trademarks are thus termed exactly because that is what they are, commonplace, namely, they are and have been prolifically and ubiquitously applied to denote a variety of different goodwills in the marts of commerce. In this context it is important to understand the following: Schechter does employ the word “product” when noting that unique trademarks have “from the very beginning, been associated in the public mind with a particular product, not with a variety of products”.<sup>366</sup> “Product”, however, in this connection, is really to be read as “goodwill”. This relates to what has been expounded above when adverting to Stadler Nelson’s far too literal (mis-) interpretation of what she purports to be Schechter’s ‘solely one product per goodwill only’ theory. In truth, Schechter was concerned with allowing for “the natural expansion of ... trade to other lines or fields of enterprise.”<sup>367</sup> Consequently, the issue with reference to the distinction against commonplace marks is whether a singular and unique trademark has, from its very inception, been associated solely with one particular *goodwill*, and not whether this was associated with only one particular *product*.

### **3. The Concept of Proprietary Connotation**

For the reader’s better understanding of what exactly constitutes a unique and singular mark we will need to introduce and expound, at this juncture, the concept of proprietary

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<sup>363</sup> Schechter “Rational Basis” above n 3 at 829.

<sup>364</sup> Schechter “Rational Basis” above n 3 at 830.

<sup>365</sup> Schechter “Rational Basis” above n 3 at 829.

<sup>366</sup> Schechter “Rational Basis” above n 3 at 829.

<sup>367</sup> Schechter “Rational Basis” above n 3 at 823 (citations omitted).



connotation. A proper grasp of this concept will facilitate the appreciation of the Schechterian doctrine of uniqueness and singularity in a trademark.

‘Proprietary connotation’ with respect to trademark law has – as far as this Author is aware – first been introduced by Learned Hand J for the purposes of characterising and paraphrasing the legal terminology ‘secondary meaning’.<sup>368</sup> However, ‘proprietary connotation’ is employed in this Comment not only to describe secondary meaning but rather as a concept which is applicable and inherent to all trademarks.

When a word, sign or symbol<sup>369</sup> is adopted by an entity in order to serve as its trademark, this process is commonly known as the entity *appropriating* the pertinent sign as its trademark. Thus, if such word, sign or symbol is employed as a trademark it is, owing to this use as a trademark, furnished with a proprietary connotation. This connotation is proprietary to the trademark owner because no one else has thus far established this specific connotation with respect to the particular sign or symbol. Thus, each and every trademark owner establishes his or her individual pertaining trademark-goodwill nexus as an entirely new connotation for that sign. The respective connotation has not had any preexistence in the public’s apperception of the sign prior to the inception of employing the respective sign as the particular trademark in question. That is why this new connotation is called proprietary connotation.

It follows that for words, signs or symbols which are part of the common everyday language or of the public domain there will be preexisting at least one commonplace connotation. Possibly, there can also be an entire host of connotations for each of these words, signs or symbols. These preexisting connotations are the ones which are connected to the respective sign by virtue of how the sign is employed in its commonplace or else its ordinary language usage. In case of such commonly used signs, when being adopted as a trademark, the proprietary connotation will merely be added as one more connotation in addition to the preexisting connotations which are derived from the common use of the sign. Even though the trademark connotation remains a proprietary connotation of the particular trader it will merely

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<sup>368</sup> “The proprietary connotation,—‘secondary meaning’—of a word of common speech is harder to create and easier to lose, and its fringe of penumbra does not usually extend so far as that of a coined word.” Hand J in *Landers, Frary & Clark v Universal Cooler Corp* 85 F 2d 46 (2nd Cir 1936) at 48.

<sup>369</sup> If not explicitly noted otherwise, in the course of the further deliberations, the terms sign, symbol and word are used interchangeably as a reference to what constitutes the ‘communicative matter’ of a trademark. The terms are also to be understood, unless stated otherwise, as a proxy, one or the other being employed to represent the entirety of the realm of items, devices or signs which would nowadays be possible as the signs underlying a trademark.

be one connotation next to the preexisting ones. This is what Schechter means with his expression that they “have been ... withdrawn from the human vocabulary” when referring to commonplace marks in contradistinction to unique, namely, coined, arbitrary or fanciful marks. In case the sign – prior to the appropriation by a particular trader – has not only been used merely in common speech but has, next to that, also already been employed by other traders, then the respective trader’s proprietary connotation is established next to the preexisting commonplace and other proprietary connotations.

Consequently, in the latter case just described the commonplace sign will not only be used already in its commonplace connotations of ordinary language but there will also already be an array of proprietary connotations. The word or symbol will hence be neither unique in itself nor will the (additional) proprietary connotation attached to that commonplace sign be singular as a trademark connotation on the register. The sign will, thus, not only already be prolifically used as part of everyday common speech but also already ubiquitously employed with various trademark connotations. The sign may, hence, be commonplace in a threefold sense. It is commonplace in a double quantitative sense: the sign may already be used ubiquitously as a term in common speech and it may already be prolifically employed as denoting various proprietary connotations in commercial use. In addition, the sign is commonplace in the qualitative sense: it cannot be considered to be coined nor arbitrary nor fanciful because it is part of the ordinary communication and already has a host of both regular and proprietary connotations associated with it.

Should the sign or symbol in question – prior to its adaption as a particular trademark – previously only have been applied as a common speech term and not as a trademark by any other trader, then the early adopter or first comer will be the first to appropriate the sign with a proprietary connotation in a trademark-goodwill context. In this instance the underlying symbol will, in the quantitative sense, be singular on the register, namely, the symbol’s proprietary connotation is – thus far – the only use in which it is being employed as a trademark. Nevertheless, the underlying symbol itself is not unique in the proper sense since there may be a plethora of commonplace connotations next to the – singular – proprietary connotation. In other words, the sign in its use as a trademark connotation will, in the quantitative sense, not (yet) be commonplace as a proprietary connotation but it will at any rate merely be a commonplace sign in the qualitative sense because there may be plenty of ordinary language connotations.

In both situations as just described, commonplace signs and their pertaining adopted proprietary connotations will not be eligible for Schechterian singularity protection. The underlying sign, in its more important qualitative dimension, is not unique but merely commonplace. Especially, it is not sufficient under the Schechter doctrine to merely be the first adopter of a sign which is otherwise commonplace. Mere singularity on the register without the underlying sign being genuinely unique does not suffice. Schechter expresses this quite distinctly at several occasions in “Rational Basis” where he emphasises that what truly matters is the “uniqueness or individuality of the trademark”,<sup>370</sup> the “originality and ingenuity in ... contrivance”<sup>371</sup> of the trademark, and that the trademark has been “created by ... ingenuity”.<sup>372</sup>

Conversely, trademarks whose underlying words, signs or symbols upon which they are based are genuinely unique will be afforded the Schechter-type singularity protection. The necessary uniqueness of trademarks’ underpinning signs Schechter views as sufficiently fulfilled in the case of coined, arbitrary or fanciful word, signs or symbols.

In the case of a genuinely coined word or an ingenious sign or symbol being adopted as a trademark there will not be any preexisting connotations whatsoever. These will neither exist in the ordinary language and common communication nor in commercial use. The one and only connotation which at all exists in the public’s apperception will be the proprietary connotation of the trademark-goodwill nexus. In case of coined marks there are, quite simply, no other connotations but the proprietary trademark connotation.

In the case of these coined signs this consumer recognition is independent and autonomous of the contextualisation within which the symbol appears or is being set. In other words, because there are no other connotations but the proprietary one it does not matter in what context the sign appears. In every conceivable context it will solely denote the proprietary connotation.

This is different for the commonplace signs discussed above. For these signs contextualisation severely matters. Context is needed in consumers’ apperception in order to distinguish the various connotations. At the same time, the respective context determines, in the public’s recognition, which precise connotation is being referenced once a particular context has been established. In connection with commonplace signs this accounts for both commonplace

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<sup>370</sup> Schechter “Rational Basis” above n 3 at 822.

<sup>371</sup> Schechter “Rational Basis” above n 3 at 830.

<sup>372</sup> Schechter “Rational Basis” above n 3 at 833.

connotations as well as proprietary connotations. Context is essential for differentiating commonplace connotations and proprietary connotations amongst each other and against one another and for determining (identifying) a specific connotation.

#### **4. Expanding the Concept to Arbitrary and Fanciful**

Schechter extends his doctrine of uniqueness beyond genuinely coined signs to symbols which are arbitrary or fanciful. Whereas for truly coined signs or symbols there exists solely one connotation this does not hold true in the case of (merely) arbitrary or fanciful marks. Schechter, unfortunately, does not elaborate upon what exactly the conceptual approach was intended to be as regards these fanciful and arbitrary marks. What Schechter intended by incorporating arbitrary and fanciful symbols into his scheme can hence only be gleaned from the trademarks he instanced as ‘paradigmatic’ and some other ‘dicta’ in “Rational Basis”. Only the instanced<sup>373</sup> Kodak and the Nujol trademark appear to be genuinely coined. The rest, namely the Rolls-Royce, Aunt Jemima’s, Mazda, Corona and Blue Goose trademark would then have to be categorised as arbitrary and/or fanciful. This can, at least in part, be corroborated by Schechter’s appraisal of the Blue Goose mark as being an “entirely *arbitrary* symbol”.<sup>374</sup>

With reference to the principles of proprietary connotation and contextualisation the following is proposed with respect to approaching Schechter-type arbitrary and fanciful marks. Schechter’s approach essentially rests upon the public’s apperception of signs and symbols. As such whether or not a sign can be categorised as coined, arbitrary or fanciful depends upon the predetermined conceptions and preexisting connotations which obtain within the populace with reference to the word, sign or symbol in question. At the same time we have already ascertained that Schechter also intended a more ‘objectified’ approach to the protection of trademarks.

With this in mind, regarding, now, the Mazda trademark, the reader will perhaps solely know this word in its proprietary connotation as the well known Japanese car manufacturer’s trademark. It will, thus, perhaps surprise the reader to hear that the word Mazda actually has its genuine connotation in the name of Zoroastrianism’s main deity: Ahura Mazda. The sign underlying the Mazda car manufacturer’s trademark hence originates in ordinary language.

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<sup>373</sup> Schechter “Rational Basis” above n 3 at 829.

<sup>374</sup> Schechter “Rational Basis” above n 3 at 830 (emphasis added).

Nevertheless, it can hardly be categorised to be a commonplace word. The vast majority of the populace will almost certainly not in the least be aware even of the existence of the ‘Zoroastrian-deity-connotation’ of the sign Mazda. They will only know of and solely recognise the sign Mazda in its proprietary trademark connotation. It follows that, for the vast majority of the populace, the public’s apperception of the (sole) connotation which is connected to the sign Mazda will not be altered by virtue of different contextualisations of the sign Mazda. To the vast portion of the populace changing contextualisations will not matter because to them differences in context will not have any bearing upon the signification of Mazda as being nothing else but the car manufacturer’s trademark. In other words, differing contexts will not signify different connotations to them because, to them, the only existing connotation is the proprietary one. Hence, the sign Mazda can be said to possess, for the vast part of the populace, only this one signification in connection with the sign Mazda as the trademark of the car producer. This is so, irrespective of the fact that, in truth, of course, Mazda is also associated with a preexisting ordinary language connotation. For the vast portion of the populace the Mazda trademark is, thus, *as good as* unique.

We need to admit, however, that this is an account of the Mazda mark which is certainly only tenable for English speaking countries. But this is as it should be since trademarks are to be appreciated separately for each individual language, society and jurisdiction. In addition, Schechter never claimed that a mark which was held to be unique in the United States would have to be acknowledged as such all around the world. Differences in a trademark’s legal status between different jurisdictions are the natural – and intended – consequence of the approach of ‘objectified’ consumer recognition. For instance, for people in the region of former Persia – nowadays mainly Iran and some contiguous countries – the term Mazda may, perhaps, have to be regarded to be commonplace. This is a natural result of the fact that the Zoroastrian belief originated in these regions and, hence, the Zoroastrian terminology will be held much more within common knowledge than it is in the example of the United States. This does not mean that the Mazda sign could not attain, at least, a degree of public recognition which would equate secondary meaning and justify registration of Mazda as a car manufacturer’s trademark. Nevertheless, the trademark will never have had – and most likely never achieve – the status of being unique, arbitrary or fanciful.

The Mazda sign, thus, is not truly unique (not even in English speaking nations), but taking into consideration that for the vastly dominating portion of the populace – for the general

public – it solely has one single connotation the Mazda sign can be said to be virtually unique. The Mazda trademark is, hence, presumptively unique. There will only be a negligible amount of persons to whom the connotation of the sign would potentially be context-dependent. Consequently, even though this symbol is not genuinely unique, it is permissible for the legal purposes of trademark law to treat this arbitrary or fanciful symbol as unique.

The same pattern of explanation can be advanced for all other trademarks which were enumerated above as being arbitrary or fanciful trademarks. Rolls-Royce is, of course a trademark which is derived from the surnames of the two founders of the famous enterprise. However, the combination of the two names and the fact that each of the names taken by itself is a rather rare surname makes the word combination an arbitrary, fanciful sign. The appraisal would certainly have to be a different one for a trademark like Smith-Miller. Rolls-Royce, however, is far from being commonplace. For the vast majority of the general public, no matter in what contextualisation the symbol may appear, the proprietary connotation will be the only connotation at all which is connected to the symbol.

Likewise, there may be a nigh negligible amount of persons who actually and indeed have a real-life aunt which goes by the name Jemima. Only to them could ‘aunt Jemima’ bear the connotation of their real life relative instead of the proprietary connotation Aunt Jemima. The vast majority of the population, however, will solely be aware of the existence of ‘aunt Jemima’ in the context and in the connotation as a trademark and, thus, as Aunt Jemima.

Similarly, there apparently actually is such a thing as a blue goose in the context of the animal kingdom. Within this realm, it seems, the blue goose is “a North American wild goose having a greyish plumage resembling that of the young snow goose found chiefly during its migrations in the Mississippi Valley.”<sup>375</sup> However, in the apperception of the vast majority of the consuming public the blue goose solely exists as ‘Blue Goose’, and, no matter what the contextualisation will be, they will ever and only perceive this sign in its proprietary connotation as the trademark of the conglomerate of Californian of fruit growers.<sup>376</sup>

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<sup>375</sup> Schechter “Rational Basis” above n 3 at 830.

<sup>376</sup> This is, of course, argued from the circumstances obtaining in Schechter’s time. This does not mean that blue goose as a trademark would still fulfil these requirements as of today. As has been pointed out correctly, the Blue Goose trademark has deteriorated and been abandoned. Welkowitz aptly stated that the Blue Goose trademark’s “decline was not as much from dilution as from a combination of competition, changed circumstances in the fruit business, and probably a lack of persistent advertising.” But he goes on to conclude that “ ‘Blue Goose’ illustrates the problem of the decline of a trademark outside the realm of dilution.” (both

A caveat needs to be added with respect to the Corona trademark. As was aptly observed by Welkowitz, Corona certainly is not *famous*<sup>377</sup> any more so much for cigars and “Corona beer, ..., may be edging out cigars in some areas” as being the more well-known trademark.<sup>378</sup> This change of fame in the trademarks certainly goes along with a change of habit in the majority of the populace that the number of people who smoke cigars has been on the decline in past decades. Additionally, the term ‘corona’, even if used with reference to the specific context of cigars, will nowadays most likely not denote the trademark Corona but rather a certain size of cigars. The term, in the eyes of the consuming public, will, with a degree of high probability, have become generic. More importantly, however, Welkowitz appraises the differences in fame of the two Corona marks and thus is beside the true point with respect to the question whether the term ‘corona’ as a trademark could enjoy Schechterian singularity protection. What excludes Corona from singularity protection is not that the fame of the beer trademark eclipses the fame of the trademark for cigars. The problem rests more vitally with the underpinning word itself. The word is Latin for crown and is widely known to the general populace not only as this mere vocable but also in its connection with reference to astronomy in the phrase ‘the corona of the sun’. It is hence submitted here that Schechter, as regards the commonplace nature of ‘corona’, misjudged the qualification and classification of the Corona mark as being arbitrary or fanciful. The sign ought not to have been placed within the same category as the other instanced marks. Whether or not today the trademark for Corona cigars or the one for Corona beer is more predominant upon consumers’ minds, as Welkowitz endeavours to recognise, is, thus, inconsequential for assessing the uniqueness of the underlying sign and for categorising whether the sign is coined, arbitrary or fanciful.

In summary, we can conclude that arbitrary or fanciful marks are not genuinely unique. In terms of trademark law, though, it is legitimately justified to account them as unique. There is,

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quotations from Welkowitz “Reexamining Trademark Dilution” above n 40 at 586 and compare also H Carty “Dilution and Passing Off: Cause for Concern” (1996) 112 Law Quarterly Rev 632 at 657. This does, however, not disprove the concept of ‘dilution’ as Welkowitz appears to hope. It is exactly by circumstances outside the trademark use of competitors and by reason of the trademark owner’s own behaviour and, perhaps, economic mistakes that the Blue Goose trademark deteriorated. Schechter never argued that the trademark owner should be insured, by ‘dilution’ protection, against his own mistakes but only against subsequent trademark use by competitors on related and non-related goods and services. The situation of the Blue Goose trademark is comparable to, albeit not the same(!), as in the case of the Cellophane trademark. Both owners brought the downfall of their trademarks upon themselves. In the instance of the Cellophane mark, the owner caused the mark, due to its own advertising campaign, to mutate into a generic term. In the case of the Blue Goose trademark the owner simply abandoned the mark which made it free and available for others to use. This, however, has nothing to do with dilution but is one of the very fundamental principles of trademark law.

<sup>377</sup> Yet again, this conveys that Welkowitz confused the differences between fame and uniqueness since he is solely concerned with the reputation or fame instead of the uniqueness of the Corona trademark.

<sup>378</sup> Welkowitz “Reexamining Trademark Dilution” above n 40 at 586.

in the case of arbitrary and fanciful trademarks established, as to speak, a rebuttable presumption of uniqueness. Accurately appraised these arbitrary and fanciful marks are, in the apperception of the vast majority of the populace, entirely independent and autonomous from their contextualisation and they are exclusively associated in the public's mind with their proprietary connotation.

## **5. Conclusion on the Difference between Unique and Commonplace Signs.**

Equipped with the knowledge on proprietary connotation, contextualisation and the difference between unique and commonplace signs we can turn to the marks Schechter instanced as being in common use or commonplace and hence not eligible for the type of protection he conceived of. For the purposes of ease of reading and writing during the further course of evaluation we will only refer to coined or unique marks instead of coined, arbitrary or fanciful marks. The reader be mindful in this respect that the same principles expounded with reference to coined marks extend and apply to Schechter-type arbitrary or fanciful marks as they do to genuinely coined words and truly original and ingenious signs and symbols.

Commonplace marks are based upon signs which have a descriptive connotation or which are semi-descriptive<sup>379</sup>. They are laudatory,<sup>380</sup> they are suggestive of merit and prominence,<sup>381</sup> and they endeavour to evoke appeal by implying an air of excellence and quality<sup>382</sup> with respect to the goods or services they are employed upon. Commonplace marks have this effect because their underpinning symbols possess descriptive or other connotations with which they are employed in the ordinary language. These signs decidedly do not possess solely a singular and unique proprietary connotation which would only reference one specific, particular trademark-goodwill nexus and nothing else. Schechter explicitly quotes from the decision of Hough, Circuit Judge, in *France Milling Co v Washburn-Crosby* that

[t]he phrase 'Gold Medal' is distinctly not in the same class of original, arbitrary, or fanciful words as 'Kodak' and 'Aunt Jemima' ... [consequently,] ... one who takes a phrase like 'Blue Ribbon' or 'Gold Medal' must be content with that special field which he labels with so undistinctive [sic] a name.<sup>383</sup>

This corroborates our conclusions which we have drawn above that commonplace marks are

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<sup>379</sup> Schechter "Rational Basis" above n 3 at 826 and *ibid* at 827.

<sup>380</sup> Schechter "Rational Basis" above n 3 at 827.

<sup>381</sup> Schechter "Rational Basis" above n 3 at 827 and *ibid* at 829.

<sup>382</sup> Schechter "Rational Basis" above n 3 at 829.

<sup>383</sup> Schechter "Rational Basis" above n 3 at 827, Schechter quoting from *France Milling Co v Washburn-Crosby Co* 7 F 2d 304 (2nd Cir 1925) at 306.



distinct from unique marks in the qualitative sense that the latter do not stem from the pool of ordinary words in a language but need to entail a substantial degree of originality, innovation and ingenuity.

Next to the fact that the signs underlying non-unique marks are commonly employed for other purposes in the ordinary language Schechter instances as examples for signs which are in common use as trademarks the following trademark registrations: Simplex,<sup>384</sup> Gold Medal<sup>385</sup> and Blue Ribbon,<sup>386</sup> Star,<sup>387</sup> Anchor,<sup>388</sup> Bull Dog,<sup>389</sup> 3-in-1, 2-in-1, Nox-All, Universal, and Lily White.<sup>390</sup> All these signs have been prolifically employed as trademarks. Additionally, they all have a primary descriptive connotation. They are not of necessity solely associated with a proprietary connotation but, when beheld, all describe things, actions or processes which are commonplace in everyday life. Even if – at one point earlier in history – they had been singular on the register, this is not so now any more. Hence, “these marks and names have, *at this late date*, very little distinctiveness in the public mind”.<sup>391</sup> This means that even if any of these words and phrases may have started out at some point in time as a unique, arbitrary or fanciful trademark they will by now – because of their prolific use as trademarks for various goodwills – have lost whatever uniqueness they ever possessed. This verifies our earlier results that a sign may not only be qualified as commonplace because it is derived from the common language. Equally, and even if it once was genuinely coined, it will be qualified as commonplace if it is already prolifically employed in commercial speech instead of the ordinary language.

As was pointed out earlier, this does, however, not mean that Schechter endorsed a ‘first past the post system’ for singularity protection of marks based upon commonplace signs. Much rather the instanced commonplace marks serve Schechter as an illustration that, indeed, the damage done by ‘dilution’ is an insidious type of harm. It may not factually and readily overtly present itself in the presence of merely one single remote, innocuous subsequent use.

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<sup>384</sup> Schechter “Rational Basis” above n 3 at 826 and ibis at 828, Simplex employed as a trademark approximately sixty times on the register.

<sup>385</sup> Schechter “Rational Basis” above n 3 at 828, Gold Medal registered sixty-five times.

<sup>386</sup> Schechter “Rational Basis” above n 3 at 826–827, Schechter quoting Circuit Judge Hough’s decision in *France Milling Co v Washburn-Crosby Co* 7 F 2d 304 (2nd Cir 1925) at 306, Hough J therein stating that Gold Medal and Blue Ribbon had been “extensively and variously applied”.

<sup>387</sup> Schechter “Rational Basis” above n 3 at 828, registered nearly four hundred times.

<sup>388</sup> Schechter “Rational Basis” above n 3 at 828, already in 1898 registered more than fifty times.

<sup>389</sup> Schechter “Rational Basis” above n 3 at 828, registered over one hundred times in 1923.

<sup>390</sup> Schechter “Rational Basis” above n 3 at 828, the last mentioned all registered at least more than twenty times.

<sup>391</sup> Schechter “Rational Basis” above n 3 at 828–829 (emphases added).

Nevertheless the harm starts from the very first subsequent trademarks use of a unique sign or symbol. If any proliferation is allowed with respect to subsequent trademark use of a unique sign in connection with a third party's trademark-goodwill nexus, then the unique sign will inevitably end up ("at this late date") as an indistinctive commonplace symbol. This is also the reason why Schechter describes the "real injury in all such cases"<sup>392</sup> as "the *gradual* whittling away"<sup>393</sup>. The harm is that the unique sign loses its individuality and exclusivity. It will inevitably deteriorate to a commonplace symbol even though this may not yet be factually visible with the very first or the first few subsequent uses. Without any question, though, the downward spiral inextricably sets on with the very first subsequent use. Uniqueness is, of necessity, an absolute standard.

Once a trademark has become diluted, it has lost the strength it once possessed. No matter how small the dilution, the harm has been done. ... Just a whittle taken from a stick destroys the possibility that the stick can ever be made whole again.<sup>394</sup>

Uniqueness is irrevocably destroyed with the very first subsequent employment of that sign as a trademark by another user, irrespective of whether or not the goods or services are related or non-related. In other words, even though the sign may, in the public's apperception, not immediately become commonplace it has, nevertheless, lost its uniqueness as a result of the very first subsequent use denoting another than the original proprietary connotation. Thus, what is being protected in a Schechterian system is that, for a unique trademark, the trade identity of its originator is established and retained as the one singular trade identity within the market place appurtenant to the respective unique trademark. The positive result for the consuming public is that the trademark is context-independent. I can unequivocally and unambiguously be identified instead of having to be distinguished from other goodwills or trade identities under the same mark.

## **I. Conclusion on Schechterian Singularity Protection**

With the prior deliberations in mind we are now enabled to conclude our considerations with respect to what constitutes and characterises a Schechterian unique and singular trademark.

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<sup>392</sup> Schechter "Rational Basis" above n 3 at 825.

<sup>393</sup> Schechter "Rational Basis" above n 3 at 825.

<sup>394</sup> *Ringling Brothers-Barnum & Bailey Combined Shows v BE Windows Corp* 937 F Supp 204 (SDNY 1996) at 209 (citations omitted).

We have seen that due to the ramifications of modern trade the trade relations in the market place have become increasingly anonymised and impersonalised. Under these circumstances trademarks become the bearers for considerations of goodwill. Trademarks are the surrogate of the former personal trade relations in which goodwill used to be ascribed to a particular, personally acquainted source or origin. Under modern market conditions it is the trademark-based trade identity which becomes the focal point for the ascription processes relative to goodwill. These attributive processes will be the more effective the better the trademark facilitates the consuming public's recognition of the respective trademark-goodwill nexus. This is what Schechter dubs as the selling power in a trademark.

We have also ascertained that this selling power does not only depend upon the merit and quality of the goods or services sold under the pertinent trademark. Nor would a trademark's selling power merely reflect investments or efforts in merchandising, marketing or advertising. These are all relevant with respect to establishing and maintaining the trademark's goodwill which, in turn, forms a portion of what constitutes selling power in a trademark. However, in comparison much more important with respect to a trademark's selling power is the uniqueness and singularity of the word, sign or symbol underpinning the trademark.

Trademarks which are unique and singular are based upon coined signs and thus their proprietary connotation is the exclusively existent connotation. This accounts as opposed to other proprietary connotations in the entirety of the market place as well as to other connotations in common speech. Unique trademarks underlying signs are distinctly idiosyncratic in the public's apperception and thus these marks possess genuine individuality. This is what Schechter terms "arresting uniqueness".<sup>395</sup> Unique and singular trademarks' degree of individuality is commensurate to the personal character and identity of an individual, particular source when trade relations and, equally, trade identities were still based upon personal dealings and acquaintance. Unique, coined trademarks are hence the truly and only suitable surrogate in replacing personal trade identities by virtue of trademark-based trade identities. Their genuine individuality enables coined marks to function as an agency of the highest degree of effectiveness in the facilitation of the market mechanism. Unique and singular trademarks are independent and autonomous from any form of contextualisation. Their proprietary connotation is the only meaning and connotation which exists in consumers' conception of the particular sign. This is what enables coined marks to serve as entirely

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<sup>395</sup> Schechter "Rational Basis" above n 3 at 830.

unambiguous and absolutely unequivocal tools in the processes of attribution, ascription and recollection with reference to considerations of goodwill and with respect to communicating messages in the context of advertising and commercial campaigns. Unique and singular marks are of crucial importance to both traders and consumers because of their unrivalled high degree of effectiveness in the signification, identification and differentiation of trademarks and hence of trademark-based trade identities.

In consequence, because of all these reasons “the preservation of the *uniqueness* or *individuality* of the trademark is of paramount importance”<sup>396</sup> and it is the “whittling away or dispersion of the *identity* and *hold upon the public mind*”<sup>397</sup> which constitutes the real injury in the case of unique and singular trademarks. This is why Schechter proposed that “the *vitiating of identity* of a mark should *in itself* constitute the basis for relief”<sup>398</sup> and “that the preservation of the *uniqueness* of a trademark should constitute the only rational basis for its protection”.<sup>399</sup> It is a matter of course that only trademarks which possess this requisite individuality will be eligible for this vast and extensive type of absolute protection which Schechter conceived of. This is the reason why protection is restricted to unique and singular trademarks. Their exclusivity is an absolute one and is hence commensurate to the degree of absoluteness in protection.

Conversely, it is patently clear from the above deliberations that a quantitative threshold of consumer recognition (read: fame, reputation or repute) does not form any part of the singularity protection as designed by Schechter. Certainly, the Schechter doctrine essentially is founded upon consumers’ perception of a trademark as is the ‘famousness standard’. There is, however, a crucial and decisive distinction between the two approaches: the point at which consumer recognition matters and what the lodestone of the public’s apperception is.

In case of the quantitative threshold the recognition by consumers is relevant only with reference whether the proprietary connotation of the trademark in question predominates all other proprietary connotations present in the market place. The question is thus only whether one particular proprietary connotation is more superincumbent upon and more on the forefront of the general public’s mind than other proprietary connotations. Lastly, such dominance can be achieved simply by ensuring that the trademark is ubiquitously present and

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<sup>396</sup> Schechter “Rational Basis” above n 3 at 822 (emphasis added).

<sup>397</sup> Schechter “Rational Basis” above n 3 at 825 (emphasis added).

<sup>398</sup> Schechter “Rational Basis” above n 3 at 827.

<sup>399</sup> Schechter “Rational Basis” above n 3 at 831.

by pervasive advertising and prolific marketing. This will, however, never be able to change the nature of the underlying sign of the trademark. The underpinning sign's nature is irrevocably determined with the sign's very inception. A high degree of consumer recognition can be attained irrespective of whether the mark's underpinning sign is coined or commonplace. However, if, next to the predominant proprietary connotation, there are other connotations present – especially commonplace ones of ordinary language – then contextualisation will lastly always be necessary in order to unequivocally determine which precise connotation is referenced in a particular context. Since the sign is not genuinely exclusive in consumers' recognition there is no exclusivity which would necessitate nor justify an absolute standard of protection.

In contrast, the Schechter approach is aimed at the subtlety, the refinement and the nicety in consumers' apperception and distinction of signs and signifiers. The decisive standard is the trademark's exclusivity in consumers' recognition. This standard is an objective one since it is not based upon the court's subjective estimate of the state of the public mind whether one particular (proprietary) connotation at one particular point in time is enabled, because of its predominance, to eclipse all other 'competing' connotations. The standard for Schechterian uniqueness is much rather objectively measured in terms of whether there exists only one connotation in the public's perception which is the proprietary connotation.

For coined and invented, genuinely unique marks this is an unequivocal, objective standard. For arbitrary and fanciful marks, their uniqueness can be ascertained, for instance, by consumer surveys. The result for each single survey participant will always be an unambiguous one, too: either, other connotations are known to the individual, or, there will not be an awareness of any other than the proprietary connotation. Even in the case of arbitrary or fanciful, merely presumptively unique marks this test, thus, is still one which rests much more on the objective side than on the subjective side out of the realm of possible measurements. In any case, it is a much more reliable and calculable touchstone than is the incalculable, subjective judicial estimate of whether or not a mark is held to be famous in the eyes of the general public or of a more 'specialised' consumer, namely, the section of the public held to be concerned with the trademark in question.<sup>400</sup> The only estimate which

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<sup>400</sup> The latter is even a doubly subjective estimate since first is estimated who is concerned by the trademark and how to delineate this section of the public. Then is estimated whether this arbitrarily delimited group will perceive or recognise the mark in question as famous or reputable enough to dominate, in their apperception, all other connotations, or, at least all other proprietary connotations.

remains within the discretion of the court in case of arbitrary or fanciful marks is to determine whether the criterion of uniqueness is fulfilled for the vast majority of the populace. This, however, can be decided with a much higher degree of clarity and will hence produce much more calculable results than the estimate of the state of the public mind with respect to the predominance of one out of several possible connotations.

In addition to being objective, the Schechter doctrine also has the benefit of being a test which is an absolute one instead of a relative one. This accounts equally for both genuinely unique as well as arbitrary and fanciful marks. Trademarks' uniqueness is adjudged and qualified on the basis of solely the respective trademark and its connotations *itself*, not *in comparison* to the recognition of other trademarks or the levels of prominence of the respective connotations. For Schechterian trademarks the test is not whether the mark – *in comparison* to other connotations – is permanently at the forefront of the public's thoughts but rather whether the underlying sign *by itself* is perceived as idiosyncratic and individual. The question which needs to be answered is solely whether or not the sign will need to be contextualised. A comparison to other marks is obsolete. It is suggested that this is the superior concept for the purposes of differentiating between trademarks with reference to whether or not a particular trademark qualifies for an absolute standard of protection.

#### **IV. Critiquing the Current System and Conclusion**

We have established in the previous Chapters the distinct differences between the current approach as implemented in the statutory trademark law of the jurisdictions under consideration and the approach as proposed by the Schechter doctrine.

The contemporary infringement provisions rely, as a threshold for qualification for protection, entirely upon a consumer knowledge criterion which is defined and construed in a quantitative manner. It is the subjective estimate of court of the percentage or the degree or level of public recognition of the trademark which decides whether or not such a trademark will be afforded the broader protection against detriment to distinctive character instead of mere protection against confusion.

In contrast, Schechter proposes a system of singularity protection which is based upon an objective standard of whether or not the sign underpinning a trademark is, in the public's apperception, unique and singular. This singularity protection is, of necessity, an absolute standard and leads to the result that as long as the sign in consumer's perception is unique there can only be one appurtenant proprietary connotation and hence only one single trademark-goodwill nexus associated with that sign across the entirety of the market place. Contextualisation of the sign is not needed in order to determine which proprietary connotation the consumer is confronted with. As soon and as long singularity protection accounts for the respective sign there can not be any subsequent use of the same sign as another's trademark because any one subsequent use would vitiate or impair the individuality, namely, the distinctive character of uniqueness of the trademark. As a consequence, except for detriment to distinctive character, all other considerations become obsolete, superfluous and supererogatory which are necessary in the current system, namely, whether or not the subsequent use is detrimental to the reputation of, constitutes a misappropriation of, or amounts to free riding upon the senior trademark.

It will be shown in the further course of this Conclusion that not only is the system as currently implemented with its quantitative knowledge threshold inappropriate with respect to the protection of a trademark's distinctiveness but it is also intrinsically flawed. The objective distinctiveness of a trademark's underpinning sign needs to be discriminated from a trademark's reputation and/or degree of quantitative consumer recognition. The former is

something crucially distinct from the latter. It follows, thus, that there is an incongruence between wanting to protect a trademark's distinctive character and establishing, as a qualification criterion, not that the pertinent trademark in its dimension as a sign needs to be distinctive in order to be afforded protection but that the trademark in its dimension of its proprietary connotation be predominant in comparison to other connotations which attach to the very same sign.

Furthermore, it will be established that the criterion of a quantitative consumer knowledge threshold is intrinsically flawed because it causes inequities in trademark protection which cannot be justified merely on the basis of how famous a trademark is. In addition, the criterion cannot protect

#### **A. Incongruence between the Quantitative Qualification Criterion and the Harm of Detriment to Distinctive Character**

We then turn to the criticism that the consumer recognition threshold is incompatible with the protection of the distinctiveness of a trademark. Fame is not a suitable criterion to distinguish between trademarks for the purposes of determining which marks can at all suffer a degree of damage to their distinctiveness that ought to be legally cognisable and entitle their owners to seek redress against a subsequent trademark use upon dissimilar goods. The law needs to discriminate between the harm to the distinctive character of a trademark and a trademark's reputation, fame or quantitative consumer recognition. Both are not the same and the latter has no bearing upon the former. In order to protect a trademark's distinctive character the requisite threshold criterion ought to match what the law is desiring to protect. The requirement for qualification which is congruent to protecting a trademark's distinctive character is that a trademark owner needs to demonstrate and prove that his or her mark possesses such distinctive character in the eyes of the consuming public.

Fame and reputation are criteria which are connected to the attributions which are ascribed in connection to a particular proprietary connotation of a sign which is employed as a trademark. These are criteria which are separate and distinct from the actual distinguishing function of the signs which form the basis of trademarks. Fame and reputation are considerations which are both separate and subordinate to the differentiation of trademarks from one another by virtue of their respective signs. The public's differentiation of trademarks rests much more



vitality upon the differences of the actual signs underpinning the trademarks. If the signs are not unique so they can be distinguished from one another only by referring directly to the signs themselves, then the various proprietary connotations attaching to these signs will need to be differentiated by the beholding public by virtue of contextualisation. This contextualisation is done by means of the type of products bearing the mark, the trade channels, whether or not the goods or services of the two signs being compared are related or in the same class, and other criteria, in short, the contextualisation is done by means of the criteria and factors established in *Jellinek's Application*<sup>1</sup> and in *Pianotist Company's Application*.<sup>2</sup> Only once the pertinent proprietary connotation has been unequivocally established can consumers be sure with which specific trademark-goodwill nexus they are confronted in the particular situation and only then can considerations of fame or reputation of that specific proprietary connotation develop any bearing. It is hence the underpinning sign itself, not the connotations, which determines the distinctiveness of the trademark and thus the ease and unambiguity with which the pertaining proprietary connotation can be identified.

Before progressing any further we will illustrate the differences between the Schechter doctrine and the contemporary quantitative approach with the assistance of comparing some coetaneous well-known trademarks.

Take, for instance, the Adidas and Nike trademarks. For our purposes we can assume that both marks are equally famous and possess equal renown with consumers as well as reputation with the general public. The only real difference between the two trademarks arises with reference to the signs upon which the respective proprietary connotation of the trademark is founded. Adidas is a genuinely coined word which is derived from the name of the undertaking's founder, Adolf Dassler. A German nickname version of the given name Adolf is Adi. From ADI DASsler the trademark Adidas was born. There is no other connotation to that sign in any western language than solely the trademark connotation. And even viewed on a world wide scale it would seriously surprise this Author if there would, indeed, in any language exist a word 'adidas' in ordinary speech or any other context that the trademark connotation.

This is quite different for the Nike trademark. Nike is the name not only of the US American sports article manufacturer but there is existent – prior to the word's appropriation as a

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<sup>1</sup> *Jellinek's Application* (1946) 63 RPC 59.

<sup>2</sup> *Pianotist Co's Application* (1906) 23 RPC 774.

trademark – a ordinary language connotation. Nike, in Greek mythology, is the name of the goddess of victory and in Greek language is a common noun with the meaning ‘victory’. At least in Greece the word is hence commonplace and the consuming public will always need contextualisation of the sign in order to determine whether they are concerned with the commonplace meaning, the proper noun of the goddess or the trademark. Even in the realm of Western Civilisation it would appear that a relevant portion of the public is aware at least of the ‘Greek-goddess-connotation’ next to the trademark connotation. People may not know that it is the goddess of victory but they will at least be aware that this is the name of a goddess in Greek Mythology. This may be different for Asian countries where the influence of Greek civilisation has historically certainly not been of equivalent influence and, hence, knowledge on figures of Greek mythology is less present within the general public. Whether or not, in the western realm, the knowledge of Nike as a Greek goddess is scarce enough for the Nike trademark to be accounted, in Schechterian terms, as an arbitrary or fanciful sign would be a matter of proof and that only. Nevertheless, the sign is definitely not genuinely coined and for the sake of argument we will assume for our purposes that within the entire western realm there is widespread knowledge of the Greek goddess and thus contextualisation of the Nike sign will always be needed.

Consequently, no matter how famous or how widespread the knowledge on the Nike sign as a trademark connotation will become in consumers’ perception within the general public, contextualisation will always be needed in order for consumers to decide whether they are confronted with the proprietary connotation or the commonplace connotation of the word Nike. In other words, the quantitative amount of consumer knowledge about the proprietary trademark connotation of Nike cannot change the quality of the actual distinctiveness of the underlying sign. This qualitative distinctiveness of the sign will always stay the same as long as there is, within the public, a sufficient degree of awareness that there are other (common speech) connotations besides the trademark connotation. The qualitative distinctiveness of a sign can hence not be influenced by the fame or repute of the proprietary connotation attaching to the sign but only if knowledge on other connotations in the general public deteriorates or was never present in the first place. The degree of public recognition with respect to a particular proprietary connotation of a sign entails no bearing upon other connotations associated with that sign and hence fame of a certain trademark connotation does not have any bearing upon the distinctiveness of the underlying sign. In other words, *distinction* of one particular proprietary connotation is not to be confused or conflated with

the *distinctiveness* of the actual sign.

The appraisal is different for the instanced Adidas trademark. The underlying sign is genuinely coined. Contextualisation is not needed in order for consumers to be aware that they are concerned with the proprietary connotation. But here, too, accounts what has been stated for the Nike trademark: the degree of fame the Adidas mark may develop has no bearing upon the qualitative categorisation of the underpinning sign. The Adidas trademark may be highly renowned and famous or entirely ignoble and obscure to the general public. There is no difference in the fact that Adidas is a genuinely unique word and carries no other connotation than the proprietary one.

To prevent any misunderstandings it needs to be pointed out that in the previous paragraphs we were only concerned with the word portion of the respective Adidas and Nike trademarks. Obviously, Adidas also employs the renowned three stripes and Nike its famous Swoosh. For these logo portions of the trademarks the appreciations may actually render exactly the opposite results than as ascertained for the word elements. The three stripes are definitely not a genuinely unique symbol in the Schechterian sense. It does even appear questionable, if consumers would recognise this logo as arbitrary and fanciful. Certainly, the three stripes logo has acquired secondary meaning and fame as Adidas' trademark but a consumer survey might actually very likely result in three stripes being a commonplace symbol. The three stripes are employed in such manifold ways in everyday life that the sign and the 'concept' of three stripes has a vast plethora of possible meanings and connotations. The public hence regards three stripes in general as a mere embellishment and they do not bear any signification beyond that to the public.<sup>3</sup> Conversely, the Swoosh appears to have been exclusively designed and appropriated for the Nike trademark. A consumer survey may well turn out the result that there is no other connotation for this sign but the proprietary connotation of the Nike trademark.

These examples of the logo portions of both marks serve to show that the actual distinctiveness of the signs themselves is not determined by the degree of consumer recognition of the proprietary connotations which attach to them. Three stripes may be highly famous in their proprietary connotation as forging part of Adidas' trademark. Nevertheless, it

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<sup>3</sup> Compare for the thought whether a sign is perceived as an embellishment or signifies a trademark use also the ECJ's decision in *Marca Mode CV v. Adidas AG and Adidas Benelux BV*, June 22, 2000 [2000] ETMR 9 where Marca garnished its sports clothing with two stripes which was alleged to be confusingly similar to Adidas' 'three stripe mark'.

is safe to say that the very concept of three stripes as a sign itself is far from original or ingenious and three stripes as such are definitely not unique but much rather commonplace in consumers' perception. Unless given the additional information that it is three stripes employed in the context of a particular way of affixing them upon sports clothing the public will not, if viewing merely three stripes by themselves, attribute three stripes singularly and uniquely as the proprietary connotation of Adidas. Without the additional knowledge of specific contextualisation there are a plethora of other uses to which three stripes are being employed and could be attributed to. Furthermore, it can safely be stated that the result would be quite different for the Swoosh. When beholding the particular sign the general public will not need any further context information on what sort of products or in what niche of the market this emblem is used. The consuming public will, with certainty, recognise this sign not only in the sense that they will know that this sign, when employed in a particular context, can denote a proprietary connotation but consumers will recognise the Swoosh without requiring any additional contextualisation in the sense that this is the trademark of Nike and of Nike only. Regarding this appraisal it is to be kept in mind, though, that, speaking in Schechterian terms, with respect to the Swoosh the need of contextualisation is not obviated because of the prevalence or predominance in consumers' minds (read: fame) which would be attributable to Nike's pervasive advertising and marketing. Rather, the lack of need for contextualisation with respect to the Swoosh is founded upon the fact that the actual sign is genuinely – or, at least, presumptively<sup>4</sup> – unique.

Another edifying example is the ECJ's decision in *Sabel BV v Puma AG Rudolf Dassler Sport*.<sup>5</sup> In this judgment the ECJ was concerned with defining, delimiting and delineating the likelihood of confusion and the likelihood of association within the meaning of art 4(1)(b) of the European Trademarks Directive. The decision hence did not turn decisively upon the consumer recognition threshold since both trademarks involved were not held to suffice the necessary quantitative degree of reputation.<sup>6</sup> The judgment is nevertheless instructive within the remit of this Comment because in its decision the ECJ held that

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<sup>4</sup> Compare above to the concept with respect to the presumption of uniqueness in the case of arbitrary or fanciful signs.

<sup>5</sup> *Sabel BV v Puma AG Rudolf Dassler Sport*, 11 November 1997 [1998] ETMR 1.

<sup>6</sup> The logo in question on behalf of the Puma enterprise was an older one which was not presently used and hence not well known to the public concerned within the meaning of the European Trade Marks Directive.

mere association ... between two trade marks as a result of their *analogous semantic content is not in itself* a sufficient ground for concluding that there is a likelihood of confusion.<sup>7</sup>

It is submitted here, that, in essence, the ECJ employed Schechterian considerations with respect to whether the sign underpinning a proprietary connotation is unique or commonplace. This notwithstanding, the wording of the decision, is, of course, couched in ‘confusion language’. However, in order to properly apprehend the basis of the decision we need to look beyond the surface and to the true spirit of why the ECJ handed down this judgment that the similarity of the semantic or conceptual content of a sign cannot be considered to separately be sufficient for a finding of confusion.

Sabel and Puma both employed, amongst other elements, a logo in their trademarks. Puma, based upon their pictorial mark which enjoyed priority rights, lodged opposition proceedings against the registration of the Sabel mark. Decisive in the case were the actual logos and the conceptual content of the two trademarks because the textual addenda of both marks had been held to be of only subordinate significance. Both trademarks employed a pictorial logo of what the Court described as following the concept of a “bounding feline”.<sup>8</sup> The concepts underpinning both signs were thus identical for both trademarks. Nevertheless, the way these pouncing grimalkins were rendered was, for each respective sign, quite individual and different from one another. The decision hence turned upon the “analogous semantic content” and the “conceptual similarity”<sup>9</sup> of the employed images. The ECJ opined that for both marks symbols were being employed “with *little imaginative content*”<sup>10</sup>. The Court also took up the principles as applied by the German Bundesgerichtshof that “[s]trict criteria must be applied with respect to the likelihood of confusion between *pictorial components which are basically descriptive* and have little imaginative content”<sup>11</sup> and based its decision on the findings of the Bundesgerichtshof that the

depiction of a bounding feline is a pictorial component which *closely follows a natural model and reproduces the bounding motion typical of such animals*. The particular features of the depiction of the bounding feline in the Puma mark, for example its depiction as a silhouette, are not reproduced in the Sabel mark. The fact that there is an analogy between the pictorial components of the two marks can

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<sup>7</sup> *Sabel BV v Puma AG Rudolf Dassler Sport*, 11 November 1997 at para26 (emphases added).

<sup>8</sup> *Sabel BV v Puma AG Rudolf Dassler Sport*, 11 November 1997 at para6.

<sup>9</sup> *Sabel BV v Puma AG Rudolf Dassler Sport*, 11 November 1997 at para24.

<sup>10</sup> *Sabel BV v Puma AG Rudolf Dassler Sport*, 11 November 1997 at para25 (emphases added).

<sup>11</sup> *Sabel BV v Puma AG Rudolf Dassler Sport*, 11 November 1997 at para6 (emphases added).

therefore not be adduced as a ground for finding that there is a likelihood of confusion.<sup>12</sup>

When the ECJ explains the sign of the bounding feline to have “little imaginative content” and the pictorial components to be “basically descriptive” and to “follow[ ] a *natural model ... typical* of such animals” the Court, in essence, refers to the fact that the concept of a bounding feline is something which, in the perception of the public, is nothing exceptional or unique because it is a matter of everyday life. The sign of a pouncing grimaldin as well as the underlying concept and idea of the symbol are, in fact, commonplace. It is exactly what Schechter noted when he referred to the classic ‘textbook example’ of two different traders both employing the sign of a lion upon their wares which, respectively, were linen and iron. The bounding feline is “a timeworn and commonplace symbol of regal or superb quality ... hence its use on various products, such as linen and iron, in no way impairs its individuality.”<sup>13</sup> The concept of a bounding feline is commonplace. It does not represent any degree of uniqueness or singularity. Since there is not the least degree of idiosyncrasy in such a general concept, there consequently is, to Schechter, no originality, ingenuity or individuality which could be impaired or vitiated. The consuming public rather is used to the need to take heed of small differences between the ubiquitous signs and symbols and various representations of that very same concept. In other words, the general public is accustomed to the fact that contextualisation is indispensable in order to distinguish between the plethora of different commonplace and proprietary connotations which exist for the various representations of the concept of the bounding feline. This is the reason why the, perhaps, small but distinctive differences between the actual particular renditions of the sign by Sabel and Puma were held to be sufficient to exclude likelihood of confusion between the two signs even though the underlying concepts which the signs were based upon may have been identical. Without expressly saying so the ECJ basically held that in case the signs of a senior and a subsequent trademark are both based upon the same commonplace concept the mere association between the signs’ identical underlying concepts is not sufficient in itself for concluding that there will (also) be a likelihood of confusion between the actual representations of the signs. Likelihood of confusion can only be adjudged on the basis of comparison of the actual signs as they actually are rendered and employed because that, as opposed to the common underlying commonplace concept, is the only part for which the proprietary connotation of the trademark possesses any degree of idiosyncrasy. Thus, in case

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<sup>12</sup> *Sabel BV v Puma AG Rudolf Dassler Sport*, 11 November 1997 at para6 (emphases added).

<sup>13</sup> “Rational Basis” at 830.

of identical underlying commonplace concepts the likelihood of confusion can solely be ascertained by virtue of comparing the actual, individual expressions this commonplace concept has found for the respective trademarks, these expressions being manifest in the different renditions of the actual signs underpinning the respective trademarks.

Conversely, the ECJ concluded that “the more distinctive the earlier mark, the greater will be the likelihood of confusion.”<sup>14</sup> Explained in Schechterian terms this means that if the senior trademark is unique and singular – instead of being based upon a commonplace concept – conceptual similarity does, indeed, matter. This is because consumers will be familiar solely with the proprietary connotation of the sign. They will hence assume that there is only one appurtenant trademark-goodwill nexus and thus only one unique and singular ‘concept’ for this unique and singular sign within the entirety of the market place. The public will hence not be prepared to encounter this conceptually unique sign within any other context than the unique proprietary connotation. In other words, consumers will be more likely to be confused because they are not accustomed, with reference to such a unique concept, to be aware and astute and to apply contextualisation in order to distinguish a variety of different (proprietary) connotations attaching to this sign which originally, from its very inception, is conceptually unique and singular. However, the ECJ also opined that “analogous semantic content may give rise to a likelihood of confusion where the earlier mark has a particularly distinctive character, either per se or because of the reputation it enjoys with the public.”<sup>15</sup> We can, from a Schechterian point of view, certainly agree with the first half of this statement, namely that in case of an objectively, qualitatively distinctive sign (“distinctive character ... per se”) the analogous semantic concept is unique and singular and that hence conceptual similarity will suffice to trigger infringement protection for the senior trademark. However, in compliance with Schechter, we must disagree with the second half of the ECJ’s appraisal. The reputation which a proprietary connotation attaching to a particular concept or sign or which the concept or sign itself enjoys with the public is a subjective estimate of the state of the public mind and has no capacity whatsoever to influence the innate qualities of a sign’s or a concept’s actual objective uniqueness and singularity. Not even as regards taking into account the quantitative degree of the public’s recognition of the sign does the repute or reputation of such sign change anything in this appraisal. No matter how famous a concept or sign may become, if it is not in itself unique the public’s recognition will always be aware of the fact that there are

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<sup>14</sup> *Sabel BV v Puma AG Rudolf Dassler Sport*, 11 November 1997 at para24.

<sup>15</sup> *Sabel BV v Puma AG Rudolf Dassler Sport*, 11 November 1997 at para24.

other connotations attaching to that sign as well and that contextualisation is of the essence in order to ascertain which precise connotation is referenced in a particular context. Just because a concept is or becomes famous this does not change the objective quality of the sign or concept itself. The difference between a commonplace and a genuinely unique and singular sign or concept, it would appear, will not go unnoticed in consumers' apperception of the sign or concept. With reference to the second half of the statement the ECJ's opinion is certainly owed to the current fallacious implementation of the law with respect to the undesirable tendency to afford precedence to famous and well-known trademarks and the resulting qualification criterion of the consumer knowledge threshold.

A last example may serve to further illustrate the issue of a sign's underpinning concept being a commonplace one. Furthermore this example will demonstrate as well that the fame of a particular proprietary connotation associated with such a commonplace concept will not have any bearing upon nor be capable of influencing the commonplace quality such a sign. The reader will certainly be aware of the famous Apple Computers (Apple Inc) enterprise, the renowned manufacturer of personal computers and a diverse range of other technical gadgets such as the iPod and the iPad. Apple Computers was involved in various disputes with Apple Corp, the latter being the record label under which the famous music group The Beatles published their albums. Apple Corp is, as a matter of course, the older and longer established trademark. Both companies employ the sign of an apple as their respective trademark emblems. There is, however, no resemblance between the two respective renditions of the fruit which would come anywhere close to the beholding public recognising any similarities between the two signs except for the fact that for both trademarks the underlying concept of the fruit is identical. The trademark disputes between Apple Corp and Apple Computers arose on several occasions when computers started to be able to process music and at the juncture when Apple Computers introduced the iPod and started to enter the music retail business with its iTunes store over the internet. The disputes thus arose when Apple Computers entered the same field of enterprise in which the Apple Corp trademark held its original, long-established market segment. Details of the various disputes settlements which have been reached between the two companies outside the courts are not publicly available.<sup>16</sup>

Of more recent date Apple Computers was involved in a trademark suit against New York

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<sup>16</sup> Compare for a summary of the litigation history [http://en.wikipedia.org/wiki/Apple\\_Corps\\_v\\_Apple\\_Computer](http://en.wikipedia.org/wiki/Apple_Corps_v_Apple_Computer), retrieved 29 September 2011.



City because ‘The Big Apple’ employed the logo of an apple for its GreenNYC initiative<sup>17</sup>. Even more recently Apple Computers disputed the trademark application of Woolworth Inc in Australia which employed a stylised ‘W’ for its chain of grocery stores.<sup>18</sup> Woolworth Inc’s ‘W’ is rendered in a way which resembles an apple with a leaf on top. In the last mentioned disputes Apple Computers was the one protesting the use of the apple trademark by the New York City and Woolworth whereas in the instances mentioned in the above paragraph Apple Corp opposed the use of the apple trademark by Apple Computers.

Apple Corp protested Apple Computers’ trademark use in a classic confusion situation when Apple Computers, under the ‘same’ apple trademark, entered Apple Corp’s established field of enterprise in the music business. Apple Computers thus offered not only a similar but an identical product to Apple Corp’s products. This is different for the more recent cases in which Apple Computers tried to object to trademark use in non-related markets and for dissimilar products.

It will, at this stage of this Comment, be patently obvious to the reader that Apple Computers’ claims are solely attributable to the way the current system implemented the famousness threshold for protection against subsequent trademark use upon dissimilar products. At the same time it is just as clear that for a sign based upon a commonplace concept like an apple – which is the point at issue in these litigation processes brought by Apple Computers – there does not lie action in a properly implemented Schechter system against use of a sign based upon the same commonplace symbol for dissimilar products.

The symbol of an apple is about as commonplace a concept as could be thought of. No matter how ingenious the actual emblem or depiction of the trademark’s sign may be, it will always and only be idiosyncratic with respect to the rendition of the sign itself but never with reference to the underlying commonplace concept, namely, the apple. Such an ordinary concept, taken from the domain of ordinary language can not possibly be accounted as unique, arbitrary or fanciful. Any type of apple logo will hence always remain commonplace with respect to its underlying concept. In addition, it would appear that Apple Computers, in the pertinent instances, is basing its claim not so much much on the similarities of the actual signs

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<sup>17</sup> Compare [http://en.wikipedia.org/wiki/Apple\\_Inc.\\_litigation](http://en.wikipedia.org/wiki/Apple_Inc._litigation) and also [http://www.wired.com/techbiz/it/news/2008/04/apple\\_vs\\_apple](http://www.wired.com/techbiz/it/news/2008/04/apple_vs_apple), both retrieved 01 October 2011.

<sup>18</sup> Compare [http://en.wikipedia.org/wiki/Apple\\_Inc.\\_litigation](http://en.wikipedia.org/wiki/Apple_Inc._litigation) and also <http://www.schwimmerlegal.com/2009/10/apple-v-woolworth-re-apple-logos-in-australia.html>, both retrieved 01 October 2011.

or logos. These are all sufficiently idiosyncratic and autonomous in their appearance to ensure against confusion of the logos both in direct comparison as well as taking into account the doctrine of imperfect recollection.<sup>19</sup> Much rather it is quite obvious that Apple Computers, based upon the fame of its trademark, endeavours to establish further predominance by trying to make the use of the concept of the apple as a trademark exclusive to Apple Computers. The claims targeted against New York City and Woolworth Inc in Australia can only be explained against the backdrop of Apple Computers trying to allege that there is conceptual similarity. The thrust of the famous Apple Computers trademark under the broadened protection of the ‘dilution’ doctrine as currently implemented in the law is hence that Apple Computers should be entitled to be the only one ‘wielding’ the concept of an apple as a trademark irrespective of whether or not there is a likelihood of confusion based upon the actual logos employed by the respective litigants.

This is also the juncture where the distinction between uniqueness of the trademark’s underlying concept or sign and the fame or reputation of the proprietary connotation becomes patently clear. No matter how famous the Apple Computers individual apple symbol may become, consumers will always be aware of the underpinning commonplace concept of the pertaining fruit. Simply speaking of an apple will never unequivocally denote Apple Computers without any further supplemental contextualisation being added which would make clear which one out of the possible realm of ‘apple connotations’ is at issue under the particular given circumstances. No possibly attainable degree of quantitative consumer recognition of the Apple Computers trademark will ever be able to change this apperception of consumers of the word apple as the commonplace concept of the fruit. It is admitted that this may be different for non-English speaking countries but in whatever jurisdiction English is the national language, ‘apple’ will not without further reference ‘automagically’ be equivalent to Apple Computers. Considering how prolifically and ubiquitously the English language is taught and spoken all around the world of today, this appraisal may even be accurate all around the globe so that there may not be a single jurisdiction left in which Apple Computers could claim Schechterian singularity protection across the entire trademark register. No matter how strenuous an effort in advertising may be made: no degree of quantitative consumer recognition will ever be able to remedy that fatal flaw which is inherent in the qualitative deficiencies of a commonplace concept or sign. This was expressed by

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<sup>19</sup> For the notion of consumers’ imperfect recollection compare *Rysta Ltd’s Application* (1943) 60 RPC 87.

Schechter when he stated that the selling power of a trademark “depends for its psychological hold upon the public, ... upon its own uniqueness and singularity”.<sup>20</sup> As a result, whosoever adopts as his or her trademark a commonplace concept “must be content with that special field which he labels with so undistinctive [sic] a name.”<sup>21</sup> The proprietary connotation attaching to a commonplace sign may become highly famous but this will never change the fact that, in its quality, the underlying sign’s concept is ordinary, indistinctive and hence neither unique nor arbitrary or fanciful. It follows that two entirely different principles need to be distinguished and kept separate and that there is a crucial difference and distinction between detracting from the fame which a proprietary connotation may have acquired and, on the other hand, impairing the distinctiveness (read: uniqueness and singularity) of the sign or concept upon which such proprietary connotation is founded.

As a consequence of the above deliberation it appears safe to state that a trademark’s quantitative consumer recognition is to be viewed independently and autonomously from the qualitative appraisal of the distinctive character of the sign, symbol or concept underpinning said trademark. It follows that the threshold criterion of quantitative consumer recognition is incongruent with the quality of a trademark’s character as distinctive which is what the appurtenant provisions endeavour to protect. The appropriate qualification criterion which a mark would need to fulfil would rather be to demonstrate that the trademark possesses distinctive character in the qualitative sense. In essence, this is nothing else than Schechter proposed over eighty years ago with his doctrine of protecting a trademark’s uniqueness and singularity.

These results are fortified by the architecture of the current trademark law systems at their very basis. As Pickering accurately recognises it is

possible to to conclude that there is a discernible but not expressly articulated policy in the law of trade marks in favour of encouraging new words into the language to be used as brand names rather than merely adopting common words already in use.<sup>22</sup>

The implied preference in the law of trademarks of genuinely unique over commonplace signs, words or symbols finds its expression within the provisions with reference to the registrability

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<sup>20</sup> “Rational Basis” at 831.

<sup>21</sup> *France Milling Co v Washburn-Crosby Co* 7 F 2d 304 (2nd Cir 1925) at 306.

<sup>22</sup> CDG Pickering *Trade Marks in Theory and Practice* (Hart Publishing, Oxford, 1998) at 11.

of trademarks.<sup>23</sup> In all jurisdictions under consideration in this Comment inherently distinctive trademarks are adjudged to be capable of distinguishing from their very inception and are hence registrable straight away. This is different for descriptive marks. Descriptive trademarks are deemed to only be capable of distinguishing one undertaking from another after having acquired distinctiveness in the recognition of consumers through use over the course of time.

The appraisal that there is no connection between the quantitative consumer recognition of a sign and the sign's qualitative distinctive character is further evinced by the provisions in relation to a trademark becoming a generic term. “[A] trade mark that consists only of signs or indications that may serve, in trade, to designate the kind, quality, quantity, intended purpose, value, geographical origin, time of production of goods or of rendering of services, or other characteristics of goods or services”<sup>24</sup> or “that consists only of signs or indications that have become customary in the current language or in the bona fide and established practices of trade”<sup>25</sup> must not be registered. If the underlying concept, sign or symbol of the trademark is or has become a generic expression, then no degree of fame or reputation will be of avail to rescue the appurtenant sign as a trademark for its owner. The sign's or symbol's function as a distinguishing token is lost and no matter how well-known the proprietary connotation may be there is nothing which could prevent that trademark from being expunged from the register if, in the qualitative sense, the underpinning sign is generic.

The situation of how genericism is dealt with in trademark law clearly demonstrates that quantitative consumer recognition and qualitative distinctiveness of a sign or symbol operate separately and independently from one another. The currently prevailing system of extended protection of famous trademarks cannot explain why, then, the quantitative consumer knowledge threshold purportedly is a suitable criterion for discerning which are the marks with qualitative distinctive character which need or deserve protection against vitiation of such distinctiveness.

Furthermore, an entirely obscure and ignoble trademark may just as well be founded upon an exclusively unique and singular sign and concept. Such a mark, however, will not enjoy any protection against use upon dissimilar goods even though its qualitative distinctiveness suffers

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<sup>23</sup> Compare, for instance, Trade Marks Act 2002 (NZ), s 18.

<sup>24</sup> Trade Marks Act 2002 (NZ), s 18(1)(c).

<sup>25</sup> Trade Marks Act 2002 (NZ), s 18(1)(d).

at least the same degree of harm from such a subsequent use as would that very same mark were it famous. In fact, an unknown trademark may suffer even more harm to its distinctive character than a well-known one. As was pointed out correctly by the dissenting opinion in *Allied Maintenance Corp v Allied Mechanical Trades Inc*:<sup>26</sup>

a less well-known name can also be diluted, perhaps in a more harmful and direct manner ... The ... dilution of a less well-known name ... is of no less significance to the particular plaintiff than use of an extremely well-known trade name by a totally unrelated business.

In addition, it can be presumed that a famous or well-known trademark will, regularly, be within the portfolio of an economically powerful enterprise. Such an undertaking is much more financially capable of ‘striking back’ by virtue of a vast commercial campaign than a the owners in a small company of an obscure mark would be. It is hence conceivable that for a well-known trademark and a financially potent owner the damage to distinctive character can be reasonably contained by the trademark’s owner whereas this is not the case for an economically less capable owner of an obscure trademark.

In conclusion, with reference to the protection of distinctive character, the differentiation along the demarcation line of quantitative consumer recognition appears to be entirely arbitrary and wholly unwarranted. If at all, then the gate keeper criterion should be whether or not the mark seeking broader protection possesses distinctive character in the objective sense of the term. This would be a threshold criterion which is congruent to the harm contemplated in terms of protection of a trademark’s distinctive character.

## **B. The Quantitative Threshold: Also Flawed Intrinsically**

Next to the problems of incongruence between the qualification criterion of objective consumer recognition and the harm of detriment to distinctive character the concepts of fame and reputation are also inherently flawed with respect to considerations of legal certainty and should hence not find application as threshold criteria for protection.

As was already mentioned, not only famous trademarks can suffer detriment to their distinctive character. This harm can befall obscure or ignoble marks just as well, perhaps in an even more injurious manner and with much severer consequences than for a mark which is

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<sup>26</sup> 42 NY2d 538 at 547-549; 369 NE2d 1162 at 167-1168; 399 NYS2d 628 at 633-635; 198 USPQ 418 at 423 (NY Ct App 1997).

already well known. In that sense, it would appear that the current system tries to insulate famous trademarks from losing their famousness status rather than to protect any trademark's distinctive character. It can thus be stated that the contemporary provisions protect marks which are distinctive for being famous or reputable rather than the distinctiveness of the actual underlying sign. Put succinctly, the current law of 'dilution' protects distinguished marks instead of trademarks' distinctiveness.

The situation is exacerbated by the mechanisms of the current consumer knowledge standard. A trademark owner cannot only 'occupy' coined, arbitrary or fanciful signs – as this would be in a Schechterian system – but just as well attain the requisite fame with a commonplace word or symbol which merely possesses acquired distinctiveness. In essence, in the contemporary system, the owner of a famous trademark potentially could block the entire register for a word or phrase which has been appropriated from ordinary language. The result is that by acquiring the necessary level of fame other traders could possibly be excluded from use of words which have been withdrawn from the public domain. If a commonplace word is appropriated in the described manner the current system for the protection of famous marks is completely ad odds with the necessity to keep descriptive words free and, generally, commonplace words available for other traders to use outside the field of trade or class of goods for which the famous trademark is actually being employed.

Fame and reputation are characteristics which are extremely volatile. They are inevitably subject and inexorably subordinate to the fads of fashion, to the vagaries of changing consumer behaviour, and to the vicissitudes of arbitrary consumer preferences. All these influences and developments are based upon societal changes and developments which are entirely imponderable. Fame and reputation of a trademark may wax and wane very quickly. With reference to legal certainty this vacillation of the fame and reputation of marks makes these characteristics unsuitable criteria for distinguishing between different types of protection.

The current system cannot answer the question what the consequences are supposed to be if a trademark, once accounted famous, deteriorates to a level which is beneath the requisite quantitative recognition threshold. A possible solution could be a period of grace. However, if the mark does not recover – for whichever reasons that may be – the purported status of famousness of the respective mark will have deterred market behaviour of competitors which

would, in truth, have been entirely legal and, perhaps, even economically desirable in terms of a competitive market economy. This result appears entirely undesirable and unwarranted.

Conversely, there is no protection for marks which are on their way to attaining fame and reputation. A certain trademark may already be comparatively well known but simply just not be well-known enough at a particular juncture to suffice the quantitative consumer recognition threshold. The result may very well be that the trademark which aspires to fame precipitates a host of subsequent uses by competitors in areas which are remote enough to not cause any conflict in terms of identity of similarity of goods or services under traditional likelihood of confusion system. As a consequence the 'just-not-famous-enough' trademark is rendered defenceless against all these subsequent uses even though the mark may be on the verge of fulfilling the qualification for protection. Even after crossing the threshold the owner of the senior famous trademark will be without legal redress against all the subsequent uses which have commenced before this 'turning of the tides'. The likelihood of the described behaviour by other market participants is certainly not merely remote. After all, Schechter himself noted already back in 1925 that "trade-mark pirates ... lurk ever-watching on the fringes of the field of trade"<sup>27</sup> and it is common knowledge that this situation has certainly not improved with the increased globalisation of trade in modern times.

As has been stated above the current system protects marks of distinction rather than marks which are highly distinctive. This is connected to what has been pointed out correctly by Welkowitz<sup>28</sup> and Pickering:<sup>29</sup> there is no right to perpetual fame just because there has, at one point in time, been established a certain degree of commercial significance. As succinctly phrased by Welkowitz:<sup>30</sup>

trademark recognition rightly requires at least periodic advertising to remind the consuming audience of the trademark's presence.<sup>31</sup> If trademark owners fail to promote the mark and its products, then they run the risk that another, nonconfusing use will supplant the fame of the older mark. But this is as it should

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<sup>27</sup> FI Schechter *The Historical Foundations of the Law Relating to Trade-Marks* (Columbia University Press, New York, 1925) at 170.

<sup>28</sup> DS Welkowitz "Reexamining Trademark Dilution" (1991) 44 *Vanderbilt L Rev* 531 at 539-540, 544-545 and 586.

<sup>29</sup> CDG Pickering *Trade Marks in Theory and Practice* (Hart Publishing, Oxford, 1998) at 116 and 120.

<sup>30</sup> DS Welkowitz "Reexamining Trademark Dilution" (1991) 44 *Vanderbilt L Rev* 531 at 586.

<sup>31</sup> DS Welkowitz "Reexamining Trademark Dilution" (1991) 44 *Vanderbilt L Rev* 531 at 586, n321: The product also must remain one that the public still wants to buy.

be. In a competitive economy, the competitors must stay alert. A failure to advertise exemplifies a failure to compete effectively.<sup>32</sup>

This concurs with Kamperman Sanders' appraisal that "trademarks require sustained investment and management in order to add value to the mark and to fend off both product and brand competition."<sup>33</sup> Investment into trademarks and advertising is, in its essence, a wager on the future. It is a bet on the further development of patronage and repeat custom. The trademark and its associated product world must prevail against the forces of the market or else be doomed to fail and fall from fame and economic success. The current system has the potential to thwart or, at least, substantially bias these economic processes by allowing a mark to perpetuate and defend its fame and reputation by means of litigation and thereby to influence the results which would otherwise much more immediately be the outcome within a competitive market economy. There is, it appears, a great potential that this could be to the detriment of competition and, in the long run, of consumer choice. After all, other forms of speculative investments are not privileged to a commensurate degree of protection, either.<sup>34</sup>

### **C. Conclusion**

Given the enormous consequences of asserting a mark's singularity within the entire market place when casting so vast a protection around a mark, one would rightfully expect the law to ensure a high level of legal certainty. An objective criterion as a benchmark for the benefit of certainty to all market participants seems desirable in more than just legal terms. Whether or not a mark enjoys such protection must be patently obvious to all other market participants. This accounts not only for rival traders but equally to protect consumers' apperception of a trademark and, as a consequence, the protection of consumers expectations of a satisfactory quality level and hence considerations of goodwill attaching to a particular marketing device.

Especially competitors, however, can reasonably and legitimately expect the law to give them a definite standard and specific criteria as a benchmark so they are enabled to judge in advance, before commencing using a particular sign, whether or not the senior mark enjoys singularity protection. Otherwise, if the criteria for qualification are not fixed to an explicit, clear, objective and unequivocal standard, it seems conceivable that the following scenario

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<sup>32</sup> DS Welkowitz "Reexamining Trademark Dilution" (1991) 44 Vanderbilt L Rev 531 at 586.

<sup>33</sup> A Kamperman Sanders "The Wagamama Decision: Back to the Dark Ages of Trade Mark Law" [1996] EIPR 3 at 4.

<sup>34</sup> S Wilf "Who Authors Trademarks?" (1999) 17 Cardozo Arts & Ent L J 1 at 17-18.



might occur: a market competitor may, perfectly *bona fide*, begin a secondary use of a sign trusting in the fact or the honest assumption that the senior mark is not (or at least: not yet) qualified and they will hence merely need to avoid confusing uses in connection with identical or similar goods or services. In hindsight, however, upon the senior user suing for infringement based on ‘dilution’ as contemporaneously implemented, the court might hold that the junior market participant’s use is, indeed, infringing upon the broadly protected rights of the senior trademark. The non-confusing subsequent use may be infringing because the senior trademark is, against the subsequent user’s prior assessment, held to be famous and hence enjoys protection not only against confusing but as well against non-confusing uses in connection with dissimilar goods and services. This issue of legal certainty for market competitors is the reason why the consumer recognition criterion needs to be established via a bright-line test.

It has been aptly portrayed by Schechter that the idiosyncrasy of a trademark’s proprietary connotation is based upon the uniqueness and singularity of a trademark’s underpinning sign and concept. This is, at the same time, the means by which a trademark is identified as appurtenant to an exclusive, singular goodwill in consumers’ apperception. Both tenets Schechter has based upon an astute analysis of how trade relations are structured and how trademarks function within the market place. Trademarks which are unequivocally identifiable without the need for contextualisation thus are the most effective facilitators in actuating the primacy of consumer choice within the functioning of a competitive market economy. The uniqueness and singularity of a trademark’s underpinning sign or concept is something which can be adjudged in a much more objective manner than the vacillating and subjectively appreciated criteria of fame or reputation.

The Schechter system of broadened trademark protection can possibly even be implemented by virtue of a separate register for such marks which would make it comparable to the former system of defensive registration. However, the qualification criterion in a Schechterian system would, of course, need to move away from whether a trademark is invented to whether or not the underlying sign or concept is unique, arbitrary or fanciful. The requirement of a trademark being well known would be obsolete.

As opposed to the current famousness criterion the uniqueness of a sign would be suitable prerequisite for registration purposes. While a trademark’s reputation or fame is a highly

volatile and potentially ephemeral phenomenon, the uniqueness of a sign does not change at all or, if so, only much more slowly and over the course of much longer periods of time because it is defined in connection with the commonplace pool of words, signs and symbols of ordinary language. In addition, trademarks' uniqueness is something which can be attained with certainty from a trademark's very inception. In contrast, a trademark which has only inchoately established itself within the marts of commerce will never meet the famousness requirement with the first commencement of its use but only within due course of time. This makes the quantitative consumer knowledge threshold an inappropriate criterion with reference to unambiguously establishing the scope of protection at the juncture of the inception of a sign's use as a trademark.