

# **THE COEXISTENCE OF TRADEMARK LAW, UNFAIR COMPETITION AND CONSUMER PROTECTION IN THE EUROPEAN UNION AND THE UNITED STATES FEDERAL JURISDICTION – A COMPARATIVE ANALYSIS**

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## ABSTRACT

Trademarks can have significant value. The amount of money spent by firms to develop and maintain their own trademarks is growing significantly every year. Their role on the market and the scope of protection afforded to them has been likewise strengthened and extended both at national and international level. However, the law of trademarks determines not only the proprietors' position, but it also affects significantly the interests of the consuming public and other market actors. Furthermore, in a broader sense it has a great impact on commercial practices, as well.

With regards to the balancing of interests of the parties concerned, continental and common law legal regimes provide for similar legal solutions; although, due to their diverging approaches, some differences still exist. Moreover, there remained certain unregulated or controversial issues, as well. The ultimate goal of this thesis is to give a general insight into the functioning and coexistence of the relevant fields of law in the EU and in the US, and to highlight the critical or debated points in this regard.

In order to attain this purpose, first I portray the general position, functions and justifications of trademark protection. Thereafter I describe how the interrelated issues under the law of trademarks, unfair competition and consumer protection operate and complement each other in Europe at Community level and in the U.S. at federal level. Finally I point out some controversial or unsolved issues hereof.

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## INTRODUCTION

Imagine a world without trademarks - tens of thousands of products of all kinds on the shelves of supermarkets, none of them bearing on their packages a name or logo or any sign providing some information as to their origin... How would you then decide which one to buy, and what do you think, how long would it take for you to find out which goods match the best your expectations? Or imagine a world without adequate protection of trademark rights - genuine 'fake goods' sold everywhere, lots of fake BMW Z4's cruising down the streets, fake Rolex and Tag Heuer watches ticking on every second businessmen's arms... As a rich top manager willing to build up an impressive image of yourself, would you still be interested in investing your money in a genuine Rolex or to buy a genuine BMW instead, if actually no one could differentiate the genuine products from the fake ones? And if you were the manufacturer, would it still be worth for you to invest a lot of money, time and effort to produce high-quality goods and to build up a valuable trademark; would you be able at all to create a long-lasting brand with repute, if your competitors would be allowed to free-ride on your achievements and consumers were not be able to distinguish your original products from those made by the free-riders? Well, most probably not.

Trademarks are important and we are surrounded by them everywhere. They deserve protection, because it is in everyone's interest on the market. A trademark is a powerful commercial tool that assures consumers that they will get exactly what they expect, since it identifies a certain product by associating that good with a specific manufacturer as its source of origin.<sup>1</sup> Consequently, shopping time can be significantly shortened, because consumers can recognize the desired products by their marks alone. In order to satisfy consumers, who will as a result repurchase the products due to their positive past experiences with those brands, producers have great interest in maintaining consistent product quality. However, once a manufacturer

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<sup>1</sup> Shashank Upadhye: Trademark Surveys: Identifying the Relevant Universe of Confused Consumers, 8 Fordham Intell. Prop. Media & Ent. L.J. , p.552

develops a mark - generally at significant costs - that has positive associations in consumers' minds, other businesses would try to take advantage of that consumer trust. Thus, legal protection for trademark owners against confusing uses is necessary, in order to achieve the economic benefits provided by trademarks.<sup>2</sup> Trademarks can be valuable assets and goodwill<sup>3</sup>, which is created by the public associations and is based on the trademark's reputation, it is a property that has to be protected by law against misappropriation and trading-off, and on the other hand trademark owners have to be rewarded for the time, effort, and money spent in presenting their products to the public.<sup>4</sup> Protection of trademarks encourages firms to maintain and enhance their goodwill whilst competing with each other, and as a result consumers get better products and services.<sup>5</sup>

The concept of consumer sovereignty is a basic idea of free market economy. Considering the information acquired about the goods and services offered to them, consumers choose the best combination of price and quality.<sup>6</sup> The law prohibits unauthorized or misleading uses of trademarks to prevent the likelihood that ordinarily prudent consumers will be confused about the source and quality of products and services. But at the same time unnecessary burden on competition has to be avoided<sup>7</sup> by curtailing the trademark monopoly, and in certain cases some confusion may be tolerated, to further competition between manufacturers in functional goods markets.

Present essay aims to examine of what aspects the protection of trademark rights and consumers, and the prevention of unfair business practices are interrelated, and in which forms

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<sup>2</sup> Aaron Perzanowski: UNBRANDING, CONFUSION & DECEPTION, Harvard Journal of Law & Technology Volume 24, Number 1 Fall 2010, pp 18-19

<sup>3</sup> Jerry Cohen defines goodwill as the going concern value of a business, which is often many times the value of the tangible assets carried on a company's balance sheet. See: Jerry Cohen: Trademarks and related unfair competition law, Bureau of National Affairs, Arlington, Va., 2011, p A-1

<sup>4</sup> See supra 1 p561

<sup>5</sup> Graeme W. Austin: TOLERATING CONFUSION ABOUT CONFUSION: TRADEMARK POLICIES AND FAIR USE, 50 Ariz. L. Rev. 157 2008, p158

<sup>6</sup> Ross D. Petty: INITIAL INTEREST CONFUSION VERSUS CONSUMER SOVEREIGNTY: A CONSUMER PROTECTION PERSPECTIVE ON TRADEMARK INFRINGEMENT, 98 Trademark Rep. 757 2008, p757

<sup>7</sup> APOSTOLOS CHRONOPOULOS: TRADE DRESS RIGHTS AS INSTRUMENTS OF MONOPOLISTIC COMPETITION: TOWARDS A REJUVENATION OF THE MISAPPROPRIATION DOCTRINE IN UNFAIR COMPETITION LAW AND A PROPERTY THEORY OF TRADEMARKS, EMERGING SCHOLARS SERIES<sup>16</sup> Marq. Intell. Prop. L. Rev. 119 2012 p139

the concerned interests of proprietors, the relevant public and other market players are mutually balanced and regulated by the respective fields of law.

The thesis proceeds in four parts, focusing primarily on trademark law, but only on those specific issues thereof, which are of particular importance in this regard. It does not cover or only partially touches upon certain areas of trademark law, such as cyberspace issues, enforcement, remedies and procedural rules of registration. Chapter 1 deals with the theoretical justifications of trademark protection, the objections and functions of trademark law, as well as its relations to other branches of law, especially to the law of unfair competition and consumer protection. Both Chapter 2 and Chapter 3 give an insight into the relevant topics governed by the law of trademarks, unfair competition and consumer protection respectively in the European Union's legal regime and in The United States federal jurisdiction. Finally, Chapter 4 intends to highlight and explain some debated or controversial points in a comparative manner with regards to both jurisdictions. So now, "Let's roll".<sup>8</sup>

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<sup>8</sup> The phrase has been trademarked by several companies and a charitable organization since 2001. See: <http://edition.cnn.com/2008/LIVING/wayoflife/02/15/famous.phrases/>

## CHAPTER 1: The general position of trademark law

### 1.1 Objectives, functions and rationales of trademark protection

Historically trademarks served to identify the manufacturers and sponsors of goods or providers of services.<sup>9</sup> Today, as a general rule, trademark law's objection is to protect three distinct, but interrelated sets of interests, which are in most cases well aligned.<sup>10</sup> First, it promotes the welfare of consumers by enabling them to easily identify the source of goods and services on the market and to distinguish them from other manufacturers' products, thereby assisting them in making intelligent purchasing decisions. In this way consumers will be prevented from being deceived, since by acquiring efficient and accurate information through the use of trademarks as to the source and main characteristics of the branded<sup>11</sup> goods they will know each time what to expect when they purchase certain products. And to the contrary: consumers will be afforded protection by allowing them to identify those brand owners who are responsible for manufacturing defective or dangerous goods. Second, when enabling consumers to identify branded goods or services and thereby encouraging them to search for a certain manufacturer's product, trademark law also protects against misappropriation of the investment made by businesses in creating the goodwill and value of marks in their branded goods and services. Ultimately, this provides incentives for competition on the market based on quality requirements. The third, less-often mentioned goal of trademark law is the indirect promotion of fairness in trade practices of competing businesses, thereby serving the interests of the market broadly.

After the loss of the personal connection between producer and consumer during the industrial revolution, the modern use of trademarks as an origin identifier has emerged, to let

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<sup>9</sup> Jennifer E. Rothman: INITIAL INTEREST CONFUSION: STANDING AT THE CROSSROADS OF TRADEMARK LAW, vol 27 Cardozo L. Rev. 105 2005-2006, pp124-127

<sup>10</sup> See supra 2 p20

<sup>11</sup> Present essay refers to trademarks - either registered or unregistered - as brands, marks or signs, which are eligible for protection under trademark laws. Thus, the scope of trademarks is narrower.



consumers know who the manufacturers or providers of goods or services are.<sup>12</sup> This mirrors the widely accepted idea, that the source and origin or identifying function is the primary and essential function of trademarks. Each mark must be able to function in this manner, i. e. it must be able to identify the source and origin of products without any danger of consumer confusion, as well as to distinguish them from others' goods and services, or otherwise the mark cannot qualify as a trademark. It must provide for a kind of guarantee that all goods and services bearing the trademark have been manufactured or provided by the same manufacturer or service provider. The source and origin function also implies an identification or individualization function, which means the ability of trademarks to have the public recognize it as a source indication. However, it is not necessary to enable the relevant public to identify the exact origin of the products, it is sufficient to enable the consumers to distinguish those goods from other products originating from other businesses.<sup>13</sup> Quality function, advertising function and goodwill or investment function are together referred to as the secondary functions of trademarks.<sup>14</sup> Identifying and quality functions are complementary and it is connected to the fact that consumers who acquired an indication by a particular trademark may repeat this choice when considering a later purchase, provided the experience was positive. Advertising function is also known as communication or information function, which serves to inform and persuade the public. "A trademark is nothing without advertising and advertising is nothing without trademark"<sup>15</sup>; so trademark together with the advertising message conveys the goodwill, therefore this function is closely related to the goodwill function. Goodwill function refers to the protection of the investment, which has been made by the trademark proprietor in the trademark, whereby a trademark has become a symbol for consumers' experiences with the trademarked products or services. The protection of goodwill function often takes the form of protection of the distinctive character and repute of a trademark against unfair trade practices. Finally, there is a

<sup>12</sup> Mohammad Amin Naser: RE-EXAMINING THE FUNCTIONS OF TRADEMARK LAW, 8 Chi.-Kent J. Intell. Prop. 99 2008-2009, p101

<sup>13</sup> See supra 3, p11

<sup>14</sup> Irna Pak: The Expansion of Trademark Rights in Europe, 3 IP Theory xiii 2012-2013, vol3 issue 2, art 7, 2013, p159

<sup>15</sup> See supra 13, p13

recent tendency to identify the social identifier function as a new separate function of trademarks.<sup>16</sup> It is based upon the idea that consumers can use trademarks and their specific profiles to distinguish themselves, to demonstrate an affiliation or to communicate a certain image or lifestyle through being associated with a trademark.

The most appropriate rationale for theoretical justification of trademark protection is the economic cost-benefit analysis, according to which trademarks are tools to regulate market communication.<sup>17</sup> It is grounded in classic utilitarian theory, which seeks to maximize the general good and to find the economic optimum between benefits and costs. Thus, trademark rights should be granted if the benefits of trademark protection outweigh the negative consequences and costs. Economic theories view trademarks as remedies for market failures, which result from monopoly structures, free-riding, or information asymmetries. Search cost rationale focuses on the fact that trademarks are able to significantly improve the information situation of consumers. Although, perfect information is unattainable, without trademarks consumers would be misguided and would have to take considerable risks and costs in searching for the goods they want to purchase. Reliable trademarks lower the search costs of consumers, because they provide them with efficient information about the product. Manufacturers, on the other hand, are able to inform consumers in a reliable manner of the qualities of their products. However, if other free-riding traders use similar or identical signs in an unfair manner for their own products, consumers may get confused or misled, leading to the destruction of search cost reduction; hence, trademark law has to prohibit the likelihood of consumer confusion in order to secure the information benefits. The dynamic efficiency rationale is based on the idea that trademark law should secure the link between traders and their goods and services, in order to provide the trademark holders an economic incentive to produce diverse and high-quality products. The search cost reduction and the dynamic efficiency benefits must be set off against the costs that

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<sup>16</sup> Hock, Regina [Red.]: Vom harmonisierten Markenrecht zum harmonisierten Markenverfahren, Symposium 2009, Tagungsband, München 2010, p24

<sup>17</sup> Wolfgang Sakulin: Trademark protection and freedom of expression, Information Law Series, Kluwer Law International, Volume 22, Alphen aan den Rijn, 2011, p52

monopolistic trademark rights impose on third parties and the whole society, and trademark protection should be afforded only insofar as the benefits of granting outweigh its costs<sup>18</sup>. Economic rationales require that consumers base their purchasing behaviour on rational decisions. However, advertising, which may be used to build up the goodwill of the mark, may stimulate irrational consumer behaviour by playing on their desires and psychological needs, thereby obstructing rational decision-making. Consequently, while source and origin, identification and quality functions are clearly protected under the economic theory, the protection of goodwill and advertising functions is ambiguous, because they can harm economic efficiency. These latter functions nevertheless enjoy protection under the modern marketing justifications<sup>19</sup>, which focus on the communicative and cultural significance as well as the psychological impact of trademarks. According to these theories it would be simply unfair to ignore that significance and impact: unfair to consumers, who assign value to the social meaning of trademarks, and unfair to traders, who generated that value.

## 1.2 The law of unfair competition and the tort of passing off

The law of unfair competition finds its origin in the Paris Convention<sup>20</sup> on the protection of industrial property of 1883.<sup>21</sup> Unfair competition refers to commercial or business conduct that does not satisfy the generally accepted requirements of fairness. Here, the term ‘competition’ has to be interpreted broadly, e. g. it also includes the sales activities of a company which has no competitors.<sup>22</sup> An important prerequisite is that the conduct must have a commercial aspect. However, unfair competition law regulates only a part of what is regarded as unfair commercial

<sup>18</sup> These are transaction costs (costs of economic exchanges), costs of policing (costs of rights enforcement) and costs of exclusion (exclusion of third parties to use trademarks may hamper their ability to compete. See supra 17, p57.

<sup>19</sup> Mark D. Janis: Trademark and unfair competition law in a nutshell, Nutshell series St. Paul, Minn. 2013, p 10.

<sup>20</sup> Protection against unfair competition at international level later on has been strengthened by the ‘WIPO Model Provisions for Protection Against Unfair Competition’ of 1996, which is a mere proposal without legal commitment. See in: Frauke Henning-Bodewig: Unfair competition law, International competition law series, vol 18, Kluwer Law Internat. 2006 p23.

<sup>21</sup> According to Article 10bis of Paris Convention the members of the Paris Union committed to grant each other’s citizens protection against acts of unfair competition. Those are any acts of competition, which are contrary to honest business practices and industrial commercial matters. See in: Jules Stuyck: Briefing Paper on Addressing unfair commercial practices in business-to-business relations in the internal market, European Parliament, DIRECTORATE GENERAL FOR INTERNAL POLICIES POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICY, 2011, p10.

<sup>22</sup> See supra 20, p 1

practices in a broader sense, thus, not every unfair activity in the commercial sector falls under unfair competition law, certain types of conduct are covered by other fields of law, such as trademark law. Moreover, while in the past a competitive relationship between the parties was a main criterion, today this requirement is interpreted in a broad and increasingly relaxed manner, in order to take into consideration the interests of other market participants, as well, such as those of the consumers or the general public.

In common law countries the concept of passing off, which is rooted in the common law action of deceit, is a core element of statutory trademark protection.<sup>23</sup> The modern formulation of tort of passing off<sup>24</sup> involves the deceptive invasion of a property right in the goodwill of a business, and actual damage to the goodwill as a result of misrepresentation as to the source of the goods and services concerned<sup>25</sup>. While the traditional tort of passing off has expanded significantly and has increasingly become disconnected from its moorings in the law of deceit<sup>26</sup>, it is still not as broad as the concept of unfair competition law in continental Europe.

### 1.3 Trademark law's relation to neighbouring fields of law

Trademark law stands in close relation to unfair competition law. While both provide some kind of protection to trademarks against certain behaviour of third parties, the types of protection are different.<sup>27</sup> Unfair competition law focuses on the conduct of competitors and operates with liability, whereas, trademark law primarily protects the interests of right holders. The modern rationale of unfair competition law is that an economy, in which individual competitors enjoy freedom of competition, is the most beneficial to the society, however, parties in competition may engage in behaviour that has negative effects on other parties, as well. Freedom of competition requires that not all of these negative effects must be prohibited, only

<sup>23</sup> Mary LaFrance: PASSING OFF AND UNFAIR COMPETITION: CONFLICT AND CONVERGENCE IN COMPETITION LAW, 102 Trademark Rep. 1096 2012 Vol. 102 TMR pp.1098-1099,1106

<sup>24</sup> The essential elements of a passing-off claim are often called the 'classic trinity'.

<sup>25</sup> Gail E. Evans: RECENT DEVELOPMENTS IN THE PROTECTION OF TRADEMARKS AND TRADE NAMES IN THE EUROPEAN UNION: FROM CONFLICT TO COEXISTENCE?, 97 Trademark Rep. Vol. 97 TMR 2007 p1015

<sup>26</sup> See supra 23, p1125

<sup>27</sup> See supra 17, p68.

those harmful activities should be precluded, which are above a certain threshold of unfairness. Unfair competition rules thereby ensure that competition, while remaining free, is fair at the same time. As for the relationship between antitrust law and the law of unfair competition: both are concerned with the protection of competition, but of different aspects. Antitrust law ensures the freedom of competition, whereas, unfair competition law prevents distortions of this free competition.<sup>28</sup> Trademark law and antitrust law emerged from the same social stew, but they had different aspects and purposes of protection; and neither is intended to reinforce or complement the other. Trademark law primarily promotes fair conduct by traders and aims to reduce consumer deception, while antitrust law's dominant objective is to support competitive markets.<sup>29</sup> With regards to consumer protection: one of the main objectives of modern unfair competition law as well as of trademark law is the indirect protection of consumer interests, but not everything that serves the protection of consumers is also part of the law of unfair competition or trademarks.<sup>30</sup>

#### **1.4 Different approaches in civil law and common law concerning trademark protection**

There is a historical-cultural difference between common law and civil law regimes with respect to both registered and unregistered trademarks.<sup>31</sup> Primary importance is given to the narrower goal of prevention of consumer deception in common law countries, whereas in civil law jurisdictions the broader concept of unfair competition predominates, according to which the protection of consumer interests is subsumed within the larger goal of securing the fairness of competition above all. Thus the civil law approach is often criticized as being anticompetitive, as compared to the common law approach, which makes competition the primary goal and treats fairness as a consideration only when the conduct of market actors is particularly extreme, e. g. when it is likely to mislead or confuse consumers about the origin or qualities of certain goods on

<sup>28</sup> See supra 20, p7.

<sup>29</sup> Haromld P Weinberg: IS THE MONOPOLY THEORY OF TRADEMARKS ROBUST OR A BUST?, 13 J. Intell. Prop. L. 137 2005-2006, p157.

<sup>30</sup> See supra 20, p6.

<sup>31</sup> See supra 23, p1096-1097

the market. Summarizing the above, while the interests of consumers and competitors are considered in both legal regimes, in common law the promoting consumer interests and free competition are of primary importance, whereas in civil law due to the dominant position of unfair competition the focus is less on consumers and more on fair commercial behaviour. Since the US continues to favour free competition and consumer interests over highly regulated markets and the concept of fairness, it is therefore likely to continue to favour the narrow passing-off regime, even though the aggressive litigation of trademark owners has led to the considerable expansion of the passing-off doctrine.<sup>32</sup>

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<sup>32</sup> See *supra* 23, p1125.

## CHAPTER 2: The European system of trademark law

Both the Treaty on the European Union<sup>33</sup> and the Treaty on the Functioning of the European Union<sup>34</sup> determine the establishment and the continuous enhancement of a community-wide Internal Market as primary institutional and legislative purpose of the European Union<sup>35</sup>. One of the core principles of the development of a single market is the free movement of goods and services within the common boundaries of the Member States. According to the above objective the EU is permanently seeking to harmonise business-related laws by introducing minimum standards and unified rules in order to facilitate inter-state trade activities. Trademark protection and especially efficient enforcement of trademark rights at supranational level are significant elements of furthering cross-border business transactions on the common market.

### 2.1 Sources and main features of European trademark law

The two-fold system of European trademark law is based on Directive 2008/95/EC<sup>36</sup> of 22 October 2008 on the approximation of the laws of the Member States relating to trademarks (hereinafter: Directive) and Regulation (EC) 207/2009<sup>37</sup> on the Community Trademark (hereinafter: Regulation and CTM). The Directives goal is to harmonise national trademark laws of Member States by laying down common standards to certain fundamental rules regulating registered national trademarks. However, it is not intended to bring about full-scale approximation of national trademark laws, Member States retain expressive freedom inter alia to fix the provisions of procedure concerning the registration of national trademarks<sup>38</sup>. The Regulation moves one important step forward by providing proprietors with the option to apply

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<sup>33</sup> Article 3 (ex Article 2 TEU)

<sup>34</sup> Article 26 (ex Article 14 TEC)

<sup>35</sup> Lars Meyer: MUCH ADO ABOUT NOTHING? CHARACTERISTICS, BENEFITS, AND PRACTICAL IMPLICATIONS OF THE EUROPEAN COMMUNITY TRADEMARK, Chicago-Kent Journal of Intellectual Property, 158, 2005-2006, p158.

<sup>36</sup> Consolidated version, re-codifying Council Directive 89/104/EEC of 21 December 1988, available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:299:0025:0033:en:PDF>

<sup>37</sup> Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:078:0001:0042:en:PDF>

<sup>38</sup> C-239/05 - BVBA Management, Training en Consultancy, para 43-45.

for a uniform European trademark with community-wide effect<sup>39</sup>, thereby ensuring cost-effective and prosperous protection in all Member States through filing one single application for registration.<sup>40</sup> National trademarks remained intact in the sense that they are neither replaced nor eliminated by CTMs; this second layer of trademark protection at community level creates a distinct parallel system that coexists with the approximated domestic legislations<sup>41</sup>, thereby offers a supplemental alternative to national trademarks. However, unless explicitly provided otherwise, the sets of rules defined by Directive and Regulation concerning both the requirements and the scope of protection are regulated and to be interpreted in an identical way<sup>42</sup>.

According to the principle of double protection<sup>43</sup> the rights conferred by CTMs are enforceable separately from and next to any claims arising in connection with national trademarks. Each Member State has to designate one or more national courts as Community Trademark Courts of first and second instance. These courts have exclusive jurisdiction over disputes related to CTM.<sup>44</sup> Where Regulation does not provide any rules, the national laws that apply are those of the country where the Community Trademark Court is deciding the matter.<sup>45</sup> In case of infringement claims brought to different courts concerning the same cause of action between the same parties in connection with the same trademark which is protected at both national and community level, Regulation determines jurisdiction rules<sup>46</sup>. Further examples demonstrating the interrelatedness of CTMs with national trademarks involve the relative grounds for refusal of CTM registration, the possible prohibition of use of a CTM within the

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<sup>39</sup> Prior to the introduction of CTM marks could be protected either by registering them under the respective domestic systems, or by applying for an international trademark under the Madrid System – a rather costly and complicated solution, since in order to secure protection in more countries, applications had to be filed independently in each Member States, or, for acquiring an international mark, the existence of a valid national trademark prior to a Madrid registration was required, moreover, enforcement also had to be sought separately in each countries where an infringement occurred. See: supra 35, p 159.

<sup>40</sup> As compared to national trademarks that can be obtained at national trademark and patent offices, the CTMR established the Office for Harmonization of the Internal Market (OHIM) in Alicante, Spain, to administer the CTM applications, handle registration procedures, maintain the public registry of CTMs and also to decide over registration and invalidation procedures.

<sup>41</sup> Florian Schuhmacher: *Europäisches Marken-, Muster- und Urheberrecht*, Manzsche Verlags- und Universitätsbuchhandlung, Vienna, 2010 p 4.

<sup>42</sup> It is therefore justified to refer to them together as the ‘European trademark law’ - See: Gerhard Riehle: *Trade mark rights and remanufacturing in the European Community*, Studies in industrial property and copyright law ; vol. 22, Verlag CH Beck, München 2003, p31

<sup>43</sup> See supra 41.

<sup>44</sup> Regulation Art.95

<sup>45</sup> Regulation Art.101

<sup>46</sup> Regulation Art.109



territory of a given Member State due to violation of a national prior right, moreover, a CMT may also constitute ground for cancellation of a registered national trademark or for opposition in course of registration of a national trademark.

The unitary character<sup>47</sup> of CTM refers to its essence, namely, that instead of creating a “bundle of national rights” pursuant to some kind of unified registration procedure<sup>48</sup>, it provides a uniform right and system of protection for the entire territory of the EU obtained by means of one single procedure distribution, thereby significantly reducing the financial and time burden for registration, monitoring, and management of the trademark.<sup>49</sup> But on the other hand, the same applies also to its surrender, transfer, revocation, or invalidation; consequently, if there are circumstances preventing protection in just one Member State, as a result no CTM can be obtained or maintained for the other states either.<sup>50</sup> In addition, since EU joined the Madrid Protocol in 2004, a CTM provides a basis for international protection as well by generating priority on the basis of their EU registration. Therefore an EU-wide uniformly protected and enforceable CTM may constitute “a right of great commercial value and strategic potential”, thus “applying for a CTM instead of obtaining a portfolio of multiple national trademarks is advisable<sup>51</sup>.”

The possible threat of distortion to the free movement principle due to differing national requirements and restrictions regarding the use of trademarks is reduced by the national courts’ obligation to obey the interpretation of Directive in preliminary rulings<sup>52</sup> and the European Court’s final decisions based on Regulation in appeals from OHIM decisions.<sup>53</sup> According to the CJEU’s respective vision trademark rights are “essential element in the system of undistorted

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<sup>47</sup> Regulation Art.1(2)

<sup>48</sup> Such as in case of Madrid System.

<sup>49</sup> Community Collective Mark may also be registered as CTM, to distinguish goods or services of the members of an association, See Regulation Art.66.

<sup>50</sup> See supra 3, p.470

<sup>51</sup> See supra 35, pp161,174

<sup>52</sup> TFEU Article 267(ex Art.234 TEC)

<sup>53</sup> Maria Ruth Unterreithmaier: The relationship between European and German Trademark Law and European and German Unfair Competition Law according to the jurisdiction of the European Court of Justice and the German Federal Supreme Court, Munich Intellectual Property Law Center, Thesis, 2007, p 24

competition, which the Treaty seeks to establish and maintain”<sup>54</sup>. In such a system an undertakings can attract and retain customers by the quality of their products or services, due to the existence of distinctive signs by which they can be identified. The so-called ‘essential function doctrine’ has been developed under the CJEU’s case law as a tool for interpretation of rights contained in Regulation and Directive in order to secure the above aim of trademarks.<sup>55</sup> The doctrine serve as a conglomerate of all the general trademark functions and from a consumer’s point of view it clarifies the ultimate role of trademarks in relation to the internal market; however it merely describes the effect of that function but it fails to articulate any normative reasons for protection. According to the doctrine, for a trademark to be able to fulfil its function, it must constitute a guarantee that all products and services bearing it have been manufactured or supplied under the control of the proprietor undertaking which undertakes responsibility for their quality.<sup>56</sup> Hence it must enable consumers or ultimate users to distinguish the products and services in question from those with another origin, without any possibility of confusion. In other words the rights conferred by trademarks aim to guarantee an indication of origin and in case of similarity between marks and between goods or services , the likelihood of confusion test constitutes a specific condition for protection.<sup>57</sup>

In general the perception of consumers or end users plays a decisive role, since the whole aim of the commercialisation process and of marketing goods and services is their purchase by those persons. If the relevant goods and services are intended for all consumers the relevant public must be deemed to be composed of the average consumer. The average consumer standard elaborated by the CJEU refers to the reasonably well-informed and reasonably observant and circumspect types of consumers<sup>58</sup>, who as a rule perceive trademarks in their entirety and do not analyse them in detail.<sup>59</sup> Moreover, when applying the standard account has to

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<sup>54</sup> CJEU 23 May 1978 Hoffmann-La Roche, para 7.

<sup>55</sup> See supra 17, p50

<sup>56</sup> C-206/01 of 12.11.2002 – Arsenal Football Club, para 47.

<sup>57</sup> C-120/04 of 6.10.2005 – Medion, para 24.

<sup>58</sup> C-412/05 P of 26.4.2007 – Alcon/OHIM (II), para 61.

<sup>59</sup> C-342/97 of 22.06.1999 – Lloyd Schuhfabrik Meyer, para. 25.

be taken of the fact that relevant consumers only rarely have the chance to make a direct comparison between the different marks, thus their trust has to be placed into an imperfect picture of the trademarks that is kept in their mind, and in this respect their level of attention is likely to vary according to the category of goods or services in question.

## **2.2 Eligibility of signs for registration as trademark, grounds for refusal**

The types of signs of which registrable trademarks may consist are defined by Article 2 of Directive and Article 4 of Regulation, which are drafted in almost identical form and have to be given the same interpretation.<sup>60</sup> Three cumulative conditions are laid down as to the eligibility for registration of marks: any sign may qualify as trademarks which is capable of graphic representation and of distinguishing the goods or services of one undertaking from those of other undertakings. The definition of undertaking in this sense has to be interpreted broadly: it considers any participation or activities in the course of trade with the purpose of obtaining some economic advantage.<sup>61</sup> Graphical representation must be clear, precise, self-contained, easily accessible, intelligible, durable and objective, not to leave any room to ambiguity.<sup>62</sup> Lists of possible types of signs are also provided in the relevant Articles: those are words, including personal names, designs, letters, numerals, shape of goods or their packaging. However these lists are non-exhaustive, therefore, signs which are not expressly mentioned by them are not automatically precluded from registration – such as those visually non-perceivable. Nevertheless, the preconditions of distinctiveness or acquisition of distinctive character on the one hand and particularly the capability of a sign of being graphically represented on the other hand set relatively high standards for eligibility, there is little room for registration of non-traditional forms of trademarks. These requisites have to be met in relation to specific goods or services, for which

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<sup>60</sup> C-321/03 of 12.10.2004 – Dyson, para 14.

<sup>61</sup> See *supra* 3, p74.

<sup>62</sup> C-273/00 of 12.12.2002 – R. Sieckmann

registration is applied for, and for which the Nice Agreement Concerning the International Classification of Goods and Services<sup>63</sup> provides classification.

It constitutes an absolute ground for refusal of the registration, if a mark fails to comply with the above requirements; this means that the application may be refused based on certain characteristics of the mark. In addition, further absolute grounds for refusal are listed in Regulation Article 7 and Directive Article 4, most of them related to the inability of the mark to fulfil its function as trademark because of its non-distinctiveness, descriptiveness or customariness.<sup>64</sup> The registration of a CTM may be refused even if an absolute ground for refusal exists only in one part of the Union. However, if the mark in question has already acquired secondary meaning, i. e. has become distinctive in relation to the goods or services for which registration is being pursued, some of the above absolute grounds are inapplicable.<sup>65</sup> In general, absolute grounds for refusal protect various types of public interest; these are actually “the recognition of European trademark law that trademark rights in certain signs may cause disproportionate problems to third-party traders, state authority, or to the public at large.”<sup>66</sup>

Relative grounds for refusal either aim at prohibiting bad faith registrations or they protect pre-existing rights in signs, i. e. holders of certain rights that conflict with the trademark can initiate opposition procedure during registration.<sup>67</sup> The typical conflicts with prior rights in case of which registration has to be prohibited or invalidated are following<sup>68</sup>: the trademark is identical to a prior trademark in relation to identical goods or services; the trademark is identical or similar to a prior trademark in relation to identical or similar goods or services to the extent that there is a likelihood of confusion; the trademark is identical or similar to a prior trademark but not in relation to similar goods or services, but the prior trademark has a reputation and the use of the

<sup>63</sup> [http://www.wipo.int/treaties/en/text.jsp?file\\_id=287532](http://www.wipo.int/treaties/en/text.jsp?file_id=287532)

<sup>64</sup> Examples for absolute grounds for refusal: the mark is an indistinct, generic term; designates only the kind, quality, quantity, intended purpose, value, geographical origin, or time of production of the goods or rendering of the service; merely describes the characteristics; the mark consists of customary signs; it is immoral, deceptive or illicit.

<sup>65</sup> See supra 35, p163.

<sup>66</sup> See supra 17, p30.

<sup>67</sup> Regulation Art.8, Directive Art 3.(2)&4

<sup>68</sup> See supra 41, p18.

later trademark without due cause takes unfair advantage of or is detrimental to the distinctive character or the repute of the earlier trademark, even absent likelihood of confusion.<sup>69</sup> Since many of these terms used during opposition or invalidation proceedings (or during deciding over claims against possible infringements) do not contain absolute criteria in the sense that their contents are determined predominantly by local customs or the perception of the relevant public, the assessment of identity or similarity and reputation of trademarks, as well as the likelihood of confusion test may lead to different result in different Member States<sup>70</sup>.

The lists of absolute as well as relative grounds for refusal of registration are exhaustive under European trademark law, furthermore each ground for refusal are independent and have to be examined separately.<sup>71</sup> Generally, trademark law protection can be based on either first use of the trademark (declarative system) or on the first registration of the trademark (attributive system). Both Directive and Regulation have a corrected attributive system, which means that beyond providing a sufficient level of legal certainty to third parties by renewable registration certain corrections have been made to the attributive system.<sup>72</sup> Registered trademarks may be surrendered by the proprietor, revoked, cancelled or declared invalid under certain circumstances.

### 2.3 Rights conferred by trademarks

Registered valid trademarks confer exclusive rights on their proprietors<sup>73</sup>, inter alia aiming at three essential basic objectives: trademark identity protection, protection against confusion of the public at large and protection of trademarks with reputation against unfair advantage or of harms to the distinctive character of their repute.<sup>74</sup> First of all proprietors are entitled to prevent all third parties from using a sign in the course of trade without their consent which is identical to

<sup>69</sup> Earlier trademarks may involve inter alia registered national or community trademarks as well as applications for national or community trademarks, furthermore well-known trademarks.

<sup>70</sup> See supra 3, p488.

<sup>71</sup> C-173/04 P of 12.01.2006 – Deutsche Si-Si Werke / OHIM, para 59.

<sup>72</sup> Such corrections are for instance: the obligation imposed on proprietors to use the trademark, otherwise it can be cancelled after five years, supplemental protection for unregistered trademarks with reputation. See: supra3, p15.

<sup>73</sup> Directive Art.5, Regulation Art.9

<sup>74</sup> See supra 41, p20.

their trademark and is used for identical goods or services as those for which the trademark has been registered. Identity protection encompasses not only the typical case of trademark piracy, but also extends to *inter alia* the use of a sign in advertising.<sup>75</sup> The same rule applies to identical or similar signs in relation to identical or similar goods or services, provided that the similarity gives rise to likelihood of confusion among the public.

Determination of likelihood of confusion necessitates a comprehensive analysis by taking into consideration several factors. CJEU differentiates direct, indirect confusion in its case law.<sup>76</sup> Direct confusion refers to confusion as to the trademark itself or to the goods or services that it is attached to. Indirect confusion is whereby consumers recognize the difference between the signs or products, still, they assume that the goods or services originate from economically-linked undertakings.

## 2.4 Protection of trademarks with reputation

In addition to the above, exclusive trademark rights entitle owners to prevent all third parties from using in course of trade of a sign without their consent which is identical or similar to their trademark, provided that the trademark in question has a reputation and without due cause the use of the sign takes unfair advantage of or is detrimental to the distinctive character of its repute. Accordingly, right holders may prohibit others from: free-riding, which means taking unfair advantage of the distinctive character or the repute of the mark; blurring, which is causing detriment to the distinctive character; tarnishment, that refers to causing detriment to the repute.<sup>77</sup> This applies even outside of direct competition between the parties and irrespective of whether there is a likelihood of confusion among consumers, thus this is a specific protection against the impairment of the distinctive character of the repute of well-known trademarks<sup>78</sup>. In this regard it is sufficient that consumers establish a link between the trademark and the sign,

<sup>75</sup> Both Directive Art 5.3 and Reg. 9.2 expressly refer to advertising.

<sup>76</sup> See *supra* 17, p35

<sup>77</sup> See *supra* 17, p36.

<sup>78</sup> Blurring and tarnishment together are referred to as 'dilution' under US jurisdiction.

See: [http://www.law.cornell.edu/wex/dilution\\_trademark](http://www.law.cornell.edu/wex/dilution_trademark)

even though it does not confuse them<sup>79</sup>, nevertheless this link or connection implies a mental process above the threshold of consciousness<sup>80</sup>.

The assessment of reputation of national trademarks is based on local circumstances, but the question arises what kind of repute a CTM must have especially in geographical terms in order to be eligible to the above protection. CJEU formulated a rule hereto<sup>81</sup>, according to which a CTM has repute in the EU if it is well-known to a considerable part of the relevant public in a considerable part of the relevant territory. In another ruling the CJEU put the threshold of renown extremely low by stating that the reputation among a substantial part of the relevant public in Austria alone was sufficient.<sup>82</sup> By all means, there has to be a sufficient degree of knowledge among the relevant public, and in examining whether the necessary conditions as to existence of repute are fulfilled, all the relevant factors have to be taken into consideration, in particular the market share held by the trademark, intensity, duration and geographical extension of its use and the size of investment of its promotion<sup>83</sup>.

Directive Article 5.5 provides for an optional protection of distinctive character of all trademarks, even those without a reputation, even outside of trade, when such use amounts to free-riding, blurring or tarnishment; however, this clause has been implemented only in Benelux countries so far.<sup>84</sup>

## 2.5 Limitations to trademark rights

Limitations to the monopoly rights conferred on proprietors by trademarks under European trademark law are justified by various interests of certain groups of the public or by those of the public at large. These include permitted descriptive use of name or address by third parties, as well as referential use in terms of indicating certain characteristics, origin or purpose of

<sup>79</sup> C-408/01 of 23.10.2003 – Adidas v. Fitnessworld, para 27.

<sup>80</sup> See supra 17, p37.

<sup>81</sup> C-375/97 of 14.12.1999 – General Motors v. Yplon

<sup>82</sup> C-301/07 of 6.10.2009 – PAGO v. Tirolmilch

<sup>83</sup> C-375/97 of 14.9.1999 – General Motors, para 24., 27.

<sup>84</sup> See supra 17, p39.

goods and services other than those manufactured or offered by the trademark owner<sup>85</sup>. However, these restrictions only apply if such use of trademark is cumulatively necessary to the respective description or reference and it conforms to the principle of honest practices in trade and commerce. The latter condition requiring use to be made in accordance with the honest practices rule constitutes in substance the expression of a duty to act fairly in relation to the legitimate interests of the trademark owner. In that regard, use of a trademark cannot be deemed as honest commercial practice if it gives the impression that there is a commercial connection between the proprietor and the third-party user of the mark.<sup>86</sup> Nor may such use affect the value of the trademark by taking unfair advantage of its distinctive character or repute, or discredit or denigrate that mark, moreover, neither does it comply with the honest practices requirement if the third party presents its product as an imitation or replica of the goods of the proprietor bearing the trademark.<sup>87</sup>

Further important restrictions are contained in Articles 5.2 and 5.5 of Directive, as well as in Article 9.1.c of Regulation, which refer to the requirements of fairness and due cause in terms of trademark protection. In addition, Directive 2006/114/EC on misleading and comparative advertising<sup>88</sup> (hereinafter: DMCA) defines highly-relevant additional conditions beyond those set forth in the Regulation and the Directive regarding the legitimate use of trademarks. CJEU interprets these two separate sets of criteria in a uniform manner, consequently DMCA acts as a complementary limitation to European trademark law (see section 2.8 of this Chapter). All in all, both the general limitation rules of European trademark law and the additional criteria of DMCA are imported into the process of balancing the interests concerned by trademark protection in the EU under the principles of fairness and due cause.

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<sup>85</sup> Directive Art.6, Regulation Art.12

<sup>86</sup> C-63/97 of 23.2.1999 – BMW, para 61-62., 64.

<sup>87</sup> C-228/03 of 17.3.2005 – Gillette Company and Gillette Group Finland, para 43-45., 49.

<sup>88</sup> Directive 2006/114/EC of the European Parliament and of the Council of 2006 of 12 December 2006 concerning misleading and comparative advertising – available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:376:0021:0027:EN:PDF>



## 2.6 Exhaustion rules

By making the further commercialisation of a trademarked product possible within the borders of the European Economic Area, the principle of exhaustion<sup>89</sup> likewise seeks to reconcile the fundamental interests related to trademark protection and to the fostering of its essential role in promoting undistorted competition, with those related to the free movement of goods and services<sup>90</sup> and free trade between Member States on the unified internal market.<sup>91</sup> According to the concept of EEA-wide exhaustion<sup>92</sup> the proprietor of a trademark is not entitled to oppose any use of his trademark for goods or services that have been put on the internal market<sup>93</sup> by the proprietor himself or by third parties with his consent, provided that there is no legitimate reason on behalf of the proprietor that could nevertheless justify his opposition, thereby practically excluding the application of this rule.<sup>94</sup> Consent to introducing goods or services in the course of trade must be expressed in such a form that an intention to renounce exclusive rights of a proprietor is unequivocally demonstrated. Implied consent cannot be inferred from the mere silence of the trademark owner or of his failure to take effective measures to oppose the use of his trademark, it must be expressed positively.<sup>95</sup> There is a legitimate reason for opposing further commercialisation especially - but not exhaustively - where the condition of the products has been changed or impaired since they were put on the market.<sup>96</sup> The rule of exhaustion of trademark rights aims at preventing owners from partitioning national markets and thus facilitating the maintenance of price differences between Member States.<sup>97</sup> Furthermore, the CJEU has held repeatedly that prevention of interstate importation within the territory of the EU may amount to measures having equivalent effect to quantitative restriction, thus enforcement of

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<sup>89</sup> Aka first sale rule.

<sup>90</sup> Like every secondary legislation of the EU, both the Directive and the Regulation have to be interpreted in the light of the rules defined in TFEU, especially in its Article 26 (exArt. 14 TEC) on the free movement of goods and services.

<sup>91</sup> C-63/97 of 23.2.1999 – BMW, para 57.

<sup>92</sup> Since EEA Agreement entered into force in 1994.

<sup>93</sup> Merely importing the goods or offering them for sale does not equal to putting them on the market. See: C-16/03 of 30.11.2004 – Peak Holding, para 43.

<sup>94</sup> Directive Art.7, Regulation Art.13.

<sup>95</sup> C-414/99 to C-416/99 of 20.11.2001 – Zino Davidoff and Levi Strauss, para 45-56

<sup>96</sup> Directive Art.7.2 Regulation Art.13.2

<sup>97</sup> C-337/95 of 4.11.1997 – Parfums Christian Dior / Evora, para 37.

trademark monopoly rights should not be allowed unless the actions are justified by Chapter 3 of TFEU on prohibition of quantitative restrictions between Member States.<sup>98</sup>

## **2.7 Maintenance of undistorted competition on the common market**

Rules of European primary law on competition between undertakings<sup>99</sup> may be relevant with respect to trademark licence agreements as well as concerted practices between undertakings holding trademark monopoly rights, moreover, in exceptional cases abuse of dominant position of such undertakings may also contravene with the objectives of these provisions.<sup>100</sup> Different forms of licences may receive attention from a competition law viewpoint, especially those, which grant territorial exclusivity, product exclusivity, costumer based restrictions, non-competition clauses or tie-in clauses. In addition, related group exemption regulations, particularly those concerning technology transfer agreements and other vertical agreements with regard to trademarks are also of great importance.<sup>101</sup> Since Council Regulation 1/2003 has been enacted, agreements that satisfy the conditions listed therein are automatically exempted by operation of law from application of the prohibition set forth in Article 101 TFEU, hence exemption no longer has to be granted by the European Commission.

## **2.8 Protection of fair commercial practices and consumer interests**

The complementary set of rules regulating interconnected aspects of unfair competition law and consumer protection in the European Union is at the same time of high relevance to European trademark law as well, both of a proprietor and of a relevant public (competitor-consumer) point of view.

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<sup>98</sup> See: IRENE CALBOLI: TRADEMARK EXHAUSTION IN THE EUROPEAN UNION: COMMUNITY-WIDE OR INTERNATIONAL? THE SAGA CONTINUES, 6 Marq. Intell. Prop. L. Rev. 47 2002, p54

<sup>99</sup> TFEU Articles 101, 102

<sup>100</sup> See supra 3 p.562

<sup>101</sup> See supra 3 pp571-3

The EU secondary legislation in the field of consumer protection is mostly governed by minimum harmonization policies based on the general objective stipulated in TFEU<sup>102</sup>. The most important minimum standards protecting consumers' economic interests and guaranteeing European citizens the same high level of protection throughout the single market are focusing on the prohibition of unfair commercial practices<sup>103</sup>, misleading and comparative advertising<sup>104</sup>, unfair contract terms, furthermore on product liability, guarantees, distance contracts, online services and financial services.

As compared to the relatively wide-ranging and comprehensive legal regulation in the sphere of consumer protection, there exist only “islands of unfair competition law”<sup>105</sup> at Community level. Moreover, these unfair competition rules full of gaps contain numerous optional clauses as well as references to domestic laws of Member States; therefore, many different approaches aiming at fight against unfair trade practices coexist. So within the framework set by EU law, unfair competition law remained above all a matter of national law: the specific meanings given to general terms by Member States depends very much on domestic traditions, cultural historic and linguistic particularities.<sup>106</sup> Consequently, European unfair competition law is far-off from a fully harmonized legal system that does not constitute barriers or uncertainties standing in the way of free trade and effective EU-wide enforcement.

EU primary law does not contain a basis that directly deals with the regulation of unfair competition law. However, related issues are implied in the stipulations referring to the functions of the Community, the establishment of a common market, the promotion of a high degree of competitiveness and convergence of economic performance, protection of undistorted

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<sup>102</sup> Art.12 exArt.153(2) TEC and Art.169 exArt.153 TEC

<sup>103</sup> Directive 2005/29/EC of 11 May 2005 concerning unfair business-to-consumer commercial practices (hereinafter: UCPD), available at: [http://www.esma.europa.eu/system/files/2005\\_29\\_EC.pdf](http://www.esma.europa.eu/system/files/2005_29_EC.pdf)

<sup>104</sup> Directive 2006/114/EC of 12 December 2006 concerning misleading and comparative advertising

<sup>105</sup> See supra 53 p9.

<sup>106</sup> See supra 20 pXVI.

competition, free movement of goods and services and approximation of laws of Member States to an extent required for the functioning of the common market<sup>107</sup>.

As for secondary legislation, partial harmonisation of national unfair competition law of the Member States has been effected above all by means of directives, concerning inter alia the following issues, most of which are linked to consumer protection as well: misleading and comparative advertising, television broadcasting activities, tobacco advertising, distance contracts, electronic commerce, privacy in electronic communications, unfair commercial practices, product prices.

As it is apparent from the above, the DMCA and the UCPD are those sources of Community law, which are of high relevance in terms of the triangle of trademark protection, consumer protection and protection against unfair competition. Although, the CJEU has recognised fairness in commercial transactions as a ground for justification of obstacles to the principle of free movement of goods and services, the related case law does not really differentiate the protection against unfair trade practices from the protection of consumers or trademarks<sup>108</sup>.

The definition of commercial practices can be found in Article 2(d) of UCPD: “any act, omission, course of conduct or representation, commercial communication including advertising and marketing, by a trader, directly connected with the promotion, sale or supply of a product to consumers.” This broad concept includes various methods of sales, promotion and advertising, in relation to which unfair commercial practices are prohibited. Commercial practices are considered unfair if they don’t comply with the requirements of professional diligence, and they materially distort or are likely to materially distort the economic behaviour of the consumer.<sup>109</sup> Professional diligence is defined as “the standard of special skill and care which a trader may reasonably be expected to exercise towards consumers, commensurate with honest market

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<sup>107</sup> See supra 20, p34.

<sup>108</sup> See supra 21, p6.

<sup>109</sup> Ucpd Art.5.2

practice and/or the general principle of good faith in the trader's field of activity.”<sup>110</sup> Those rules apply particularly to misleading practices, that contain false information or in any way deceive or are likely to deceive the average consumer in relation to certain elements, inter alia the origin of the goods or services, and thereby cause or are likely to cause the consumers to take a transactional decision that he would not have taken otherwise. A commercial practice is likewise misleading if it involves any marketing of a product, including comparative advertising, which creates confusion with any products, trademarks, trade names or other distinguishing marks of a competitor.<sup>111</sup> The non-exhaustive list contained in Annex I of those commercial practices which shall in all circumstances be regarded as unfair, expressly mentions the unauthorized displaying of trust marks, quality marks or equivalents, furthermore, the promotion of “a product similar to a product made by a particular manufacturer in such a manner as deliberately to mislead the consumer into believing that the product is made by that same manufacturer when it is not.” With respect to the relationship between trademark protection and unfair competition law paragraph 14 of the preamble of the UCPD is of great importance, which states that UCPD does not aim “to reduce consumer choice by prohibiting the promotion of products which look similar to other products unless this similarity confuses consumers as to the commercial origin of the product and is therefore misleading.” At first glance, this sentence could suggest that lookalikes or counterfeit goods should not be prohibited if they do not create confusion with the reference product. This interpretation would however not be consistent with the express legal provisions of European trademark law, to the effect that it provides protection against free riding or dilution for trademarks with a reputation even absent likelihood of confusion on behalf of the consumers.<sup>112</sup>

DMCA grants protection for traders against B2B misleading advertising and the unfair consequences thereof, and lays down the conditions under which B2B as well B2C comparative

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<sup>110</sup> Ucpd Art.2(h)

<sup>111</sup> Ucpd Art.6

<sup>112</sup> See supra 21 p.12.

advertising is permitted. With regard to misleading advertising in B2B relations DMCA provides for minimum harmonisation, thus in B2B relations Member States are free to offer a better protection for competitors, whereas the field of B2C commercial practices, including advertising is based on maximum harmonisation.<sup>113</sup> An advertising is misleading, if it “in any way, including its presentation, deceives or is likely to deceive the persons to whom it is addressed or whom it reaches and which, by reason of its deceptive nature, is likely to affect their economic behaviour or which, for those reasons, injures or is likely to injure a competitor.”<sup>114</sup> In determining whether advertising is misleading, all its features have to be taken into account, in particular any information it contains, concerning inter alia the commercial origin of the goods or services, and the ownership of industrial, commercial or intellectual property rights of the advertiser.<sup>115</sup> Comparative advertising refers to any advertising which explicitly or implicitly identifies a competitor or the goods or services offered by him<sup>116</sup> and which is permitted only if the cumulative conditions listed in DMCA Article 4 are met. Those are inter alia that the advertising activity is not misleading, it does not discredit or denigrate the trademarks of a competitor, it does not take unfair advantage of the reputation of a trademark of a competitor, it does not present goods or services as imitations or replicas of goods or services bearing a protected trademark, furthermore it does not create confusion among traders, between the advertiser and a competitor or between the advertiser's trademarks, goods or services and those of a competitor.

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<sup>113</sup> See supra 21 p.14.

<sup>114</sup> DMCA Art.2

<sup>115</sup> DMCA Art.3

<sup>116</sup> DMCA Art.2

## CHAPTER 3: The system of federal trademark law in the U.S.

The common law of trademarks in the United States is originated in the early XIX. century as “a part of the broader law of unfair competition”<sup>117</sup>: early unfair competition cases frequently involved tort claims of passing off. The law of trademarks is usually referred to even today as ‘trademark and unfair competition law’. However, under the modern US framework, it has predominant position in relation to the law of unfair competition, and the latter plays a mere supplemental role.<sup>118</sup>

### 3.1 Sources and main features of federal trademark law

The legal provisions regulating trademarks at federal level are contained in the US Trademark Act (15 U.S.C §§ 1051-1141n), also known as the Lanham Act<sup>119</sup>, that has been amended several times<sup>120</sup> since its enactment in 1946. Primary institutions in the US trademark system administering the Lanham Act are the federal courts and the US Patent and Trademark Office (PTO), an agency organizationally a part of the US Department of Commerce.

According to Lanham Act a trademark may include any word, name, symbol, device or any combination thereof used or intended to be used by a person to identify its goods or services, to indicate their source, and to distinguish them from those manufactured or sold by others.<sup>121</sup> In line with this definition any symbol that can be perceived can operate as a trademark without

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<sup>117</sup> Hanover Star Milling Co. V. Metcalf, 240 US 403 (1916)

<sup>118</sup> See supra 19, p.6.

<sup>119</sup> Named after its principal sponsor, Rep. Fritz Lanham.

<sup>120</sup> The most significant amendments to Lanham Act were the followings: amendments of 1962 to Section 32 regarding certain elements of the confusion test; Trademark Clarification Act of 1984 concerning the conditions of genericness; Trademark Law Revision Act of 1988 (TLRA-88) containing a number of major revisions; Trademark Law Treaty (TLT) together with the Trademark Law Treaty Implementation Act (TLTIA) effective as of 1999 concerning federal registration; Federal Trademark Dilution Act (FTDA) of 1995 providing federal remedy against dilution by introducing the dilution cause of action under Section 43(c); the Madrid Protocol Implementation Act of 2002; Anti-Cybersquatting Protection Act (ACPA) of 1999 introducing a cause of action for domain name cybersquatting; Trademark Counterfeiting Act 1984; Trade Act of 1934, as amended by the Omnibus Trade and Competitiveness Act of 1988; the Trademark Dilution Revision Act of 2006, making amendments to the anti-dilution cause of action; the Prioritizing Resources and Organization for Intellectual Property Act of 2008 enhancing the means of protecting trademarks.

<sup>121</sup> See supra 3, pA-4

further restrictions, provided, that it fulfils the functions of identification and distinguishing of goods or services, and indication of their source of origin<sup>122</sup>. The notion of ‘mark’ is an umbrella term that encompasses any trademark, service mark, collective mark or certification mark which is entitled to registration, and it can be any word, phrase, design, colour scheme, configuration of packaging or goods, or even sounds<sup>123</sup>, however trade names are not registrable under federal US trademark law. The non-functional parts or aspects of a product design or its packaging or a service establishment or other unique presentation elements of certain goods or services are usually referred to as trade dress, which can be also registered under the Lanham Act as trademarks if the general conditions thereto are fulfilled.

These principal requirements for establishing a valid trademark are: distinctiveness, non-functionality, adoption and use.<sup>124</sup> Distinctiveness is unique source identification ability: the central concept driving the doctrine of distinctiveness is the source identification functions doctrine.<sup>125</sup> The level of distinctiveness of a mark determines the scope of protection granted to it, which can be a relevant issue at the time of filing for a registration as well as during opposition or cancellation proceedings, and non-distinctiveness may also serve as a defence against claims of infringement. The spectrum of distinctiveness<sup>126</sup> has been developed primarily through case law and runs from strong to weak based on the two main classes of implied and acquired distinctiveness. It means that if a mark is not inherently distinctive its owner has to produce evidence of use through which it acquired a distinctive source identifier character. Arbitrary or fanciful marks have the highest level of inherent distinctiveness. Suggestive marks are still inherently distinctive but have a slightly lesser degree thereof. Descriptive marks are not inherently distinctive but can acquire distinctiveness as a result of being used in the course of trade, whereas genericness of a mark creates an absolute obstacle to registration, since generic

<sup>122</sup> Together referred to as : the ‘source identification functions’.

<sup>123</sup> 15 U.S.C. § 1125(d).

<sup>124</sup> See supra 19, p.18

<sup>125</sup> See supra 19, p.4.

<sup>126</sup> Set forth in *Abercrombie & Fitch Co. V. Hunting World, Inc.* 537 F.2d 4 (2d Cir. 1976).



marks cannot acquire a secondary meaning. Distinctiveness inquiry, which has to be conducted on a case by case basis, takes into consideration other factors as well, ‘inter alia’ the type of mark (whether it is a word mark, or colour mark, trade dress or other untraditional types of marks). Once a trademark is registered, it has constructive notice effect throughout the US, which means that no one can claim later good faith use of an identical or confusingly similar mark.<sup>127</sup>

### 3.2 Causes of action

The major Lanham Act causes of action are trademark infringement, unfair competition-related false designation of origin, furthermore dilution, false advertising and cybersquatting claims.

Trademark infringement disputes<sup>128</sup> involve unauthorized use of valid, registered trademarks giving rise to likelihood of confusion. Alternatively or in many cases parallel to infringement claims cause of action based on false designation of origin<sup>129</sup> is used to enforce rights in unregistered marks in case of unauthorized use that gives rise to likelihood of confusion.<sup>130</sup> In theory unfair competition claims comprise more than just the tort of passing off, however, practice courts have consigned unfair competition to a limited role, referring primarily to actions under Lanham Act § 43(a).<sup>131</sup>

Likelihood of confusion is the touchstone for both infringement liability for registered trademarks and false designation of origin liability for unregistered marks; although before the enactment of Lanham Act the rules of common law unfair competition did not focus on the consumer confusion inquiry, it was not clear whether liability was triggered by confusion at all.<sup>132</sup> Infringement liability can be imposed on anyone who uses in commerce any reproduction of a registered trademark without the consent of the proprietor and in connection with the sale,

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<sup>127</sup> See supra 3, pA - 5

<sup>128</sup> L.A. Section 32(1)(a)

<sup>129</sup> L.A. Section 43(a)(1)(A)

<sup>130</sup> See supra 19, p.15

<sup>131</sup> See supra 19, p.8

<sup>132</sup> See supra 19, p.194

offering for sale, distribution or advertising of any goods or services, provided that such use is likely to cause confusion.<sup>133</sup> Furthermore, anyone can be held liable for infringement, who on or in connection with any goods or services uses in commerce any word, term, name, symbol, device or any combination thereof, if such use is likely to cause confusion.<sup>134</sup>

The term ‘use in commerce’ with regard to the above causes of infringement (actionable use<sup>135</sup>) has to be distinguished from the kind of use referred to as a basis for acquiring distinctiveness. The latter refers to any bona fide use of a mark in the ordinary course of trade, as defined in Section 45. Since the amendment to Lanham Act of 1962 took effect, the claims of likely confusion are not limited any more to actual purchasers: confusion of all members of the public at large (prospective purchasers as well as individuals who are not likely to become purchasers) can give rise to liability, even away from the point of sale, i.e. also in case of the pre-sale or post-sale confusion.

Each federal court in the US has adopted some kind of multi-factor test for the likelihood of consumer assessment; however, these factors operate only as devices to assist in determining the level of confusion.<sup>136</sup> In a trademark infringement case it is not necessary to demonstrate merit on every factor to prevail, only that the overall weighted analysis is in plaintiff's favour.<sup>137</sup> Furthermore, the lists of factors are non-exhaustive<sup>138</sup>, but departure from the factors tests is relatively rare in practice<sup>139</sup>. Although, the tests are not completely identical, there are some core common factors which are examined by each court: the alleged infringer's intent, evidence of actual confusion and other market factors such as the similarity of the marks, strength of the plaintiff's mark, or competitive relatedness and similarity of the goods or services themselves,

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<sup>133</sup> L.A. § 32(1)(a)

<sup>134</sup> L.A. § 43(a)

<sup>135</sup> See supra 19, p202

<sup>136</sup> *Sullivan v. CBS Copr.*, 385 F.3d 772 (7th Cir. 2004)

<sup>137</sup> See: Dan Sarel and Howard Marmorstein: *THE EFFECT OF CONSUMER SURVEYS AND ACTUAL CONFUSION EVIDENCE IN TRADEMARK LITIGATION: AN EMPIRICAL ASSESSMENT*, 99 Trademark Rep. 1416 2009, p1416

<sup>138</sup> *Network Automation, Inc. V. Advanced Systems Concepts, Inc.* 638 F.3d 1137 (9th Cir. 2011)

<sup>139</sup> See supra 19, p.209.

similarity of the commercial or geographic contexts of their sale, similarity of their target audiences, or similarity of the techniques and media used to advertise and market them.<sup>140</sup> The presentation of evidence of actual confusion is not indispensable to prevail. In addition, factors attempting to assess the buyer sophistication also have to be taken into consideration: the more sophisticated the consumer is, the more capable he is to avoid confusion; furthermore the higher the degree of care has been exercised, the lower the likelihood of confusion is.<sup>141</sup> Courts use significantly varying factors to determine the characters of a reasonably prudent purchaser for purposes of the likelihood of confusion test.<sup>142</sup>

Some types of the likelihood of confusion factors analyses is adapted and relied upon when confusion arises away from the point of sale, as well. Despite the fact, that in a commercial aspect, capturing the prospective consumers' presale attention may be crucial in making business, the pre-sale initial interest confusion may bring about at least three potential types of harm: diversion of potential buyer's interest to a source which is erroneously believed to be authorized, consequently, this erroneous impression may influence the consumer's ultimate purchase decision and also may have an adverse effect on the initial credibility that the confused purchaser may accord to the infringer's product. Similarly, even if there is no more consumer confusion at the point of sale, the purchased infringing product may still cause a subsequent harmful confusion among the potential buyers (actually any member of the public, also non-purchasers<sup>143</sup>) who may see the infringing mark, particularly in classic 'knock-off' scenarios<sup>144</sup>. Older court decisions often referred to post-sale confusion as 'secondary confusion' and to the subsequent confused viewers as 'secondary viewers' of the mark.<sup>145</sup> Harms of the type associated with post-sale confusion fall very close to those identified in dilution cases: before the enactment of FTDA the

<sup>140</sup> See: Jeremy N. Sheff: The (Boundedly) Rational Basis of Trademark Liability, 15 Tex. Intell. Prop. L.J. 331 2006-2007p350.

<sup>141</sup> Daddy's Junky Music Stores v. Big Daddy's Family Music Ctr., 109 F.3d 275, 280 (6th Cir. 1997)

<sup>142</sup> See supra 19, p.228.

<sup>143</sup> Due to Lanham Act amendment of 1962, the limitation of confusion test to actual purchasers has been removed, and the inquiry has been extended to non-purchasers, as well.

<sup>144</sup> See, e.g., Rolex Watch, USA, Inc. v. Canner, 645 F. Supp. 484 (S.D. Fla. 1986).

<sup>145</sup> See, e.g., Mastercrafters Clock & Radio Co. V. Vacheron & Constantin-Le Coultre Watches, Inc., 221 F.2d 464 (2d Cir. 1955)

post-sale theory was used by courts as a surrogate for dilution, but the today the availability of the anti-dilution cause of action reduces the need for courts to rely on the post-sale confusion doctrine.<sup>146</sup> In most cases a forward confusion is involved, that is, when a junior user trades off the goodwill or reputation of a senior user. By contrast, in case of reverse confusion, instead of free-riding, the junior user so saturates the market e. g. by massive marketing campaigns, that as a result consumers associate the senior owner's mark rather with the junior user.<sup>147</sup>

### **3.2.1      *Non-confusion-based causes of action***

Non-confusion-based causes of action<sup>148</sup> depart from the traditional likelihood of confusion test. These are: trademark dilution<sup>149</sup> that can be claimed when unauthorized use of a famous mark brings about likelihood of dilution<sup>150</sup>; anti-cybersquatting claims as partly a new form of dilution seek remedy against use of registered domain names that are identical or confusingly similar to a distinctive mark or dilutive of a famous mark; anti-counterfeiting claims seek protection against unauthorized duplication of marks under certain circumstances.

The law of dilution in the U.S. has its roots in Frank Schechter's theory, that any unauthorized use of a unique mark necessarily reduces the mark uniqueness. The extensive Schechter model which would have afforded absolute property rights and absolute protection to trademarks has not been adopted in its entirety. However, less expansive anti-dilution state laws were enacted during the twentieth century prohibiting the use of a mark that creates a likelihood of dilution. The term of dilution was defined by courts; the test determining likelihood of dilution generally involved the following factors<sup>151</sup>: similarity of the marks and products at issue,

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<sup>146</sup> See supra 19, p.239

<sup>147</sup> Sands, Taylor & Wood Co. v. Quaker Oats Co., 978 F.2d 947, 957 (7th Cir. 1992)

<sup>148</sup> See supra 19, p.255

<sup>149</sup> L.A. Section 43(c)

<sup>150</sup> The Lanham Act defines dilution as "the lessening of the capacity of a famous trademark to identify and distinguish goods and services, regardless of the presence or absence of (1) competition between the owner of the famous mark and the other parties, or (2) likelihood of confusion, mistake, or deception."; see in: supra 1, p.557

<sup>151</sup> Judge Sweet's concurring opinion, see in: Mead Data Cent., Inc. V. Toyota Motor Sales USA, Inc., 875 F. 2d 1026 (2d Cir. 1989).

sophistication of consumers, predatory intent, renown of the senior and of the junior mark. State laws have been supplemented by federal anti-dilution rules as FTDA was incorporated into the Lanham Act in 1995, later on those provisions were amended by TDRA in 2006. Accordingly, Section 43 (c) provides for a cause of action against dilution, when the existence of the following elements can be proven: the mark at issue (registered or unregistered, as long as inherently distinctive or has acquired distinctiveness by its use in trade) is famous, the defendant's use of that mark was commenced after the mark became famous, the use at issue is likely to cause dilution by blurring or tarnishment, regardless of whether there is any competition between the parties, or any likelihood of confusion on behalf of the consumers, or whether any actual economic injury has emerged. By enacting the TDRA, the likelihood of dilution test has been adopted<sup>152</sup>, accordingly, the Supreme Court's former interpretation<sup>153</sup>, that proof of actual injury is required to find dilution, has been rejected. Under the forward-looking likelihood of dilution standard the 'fame' requirement<sup>154</sup> is difficult to satisfy<sup>155</sup>: a mark is famous, if it is widely recognized by the general consuming public of the US as a designation of source of the goods or services of its owner. A non-exhaustive list contains those factors that courts may use in assessing the level of fame.<sup>156</sup> The two types of dilution are: dilution by blurring that provides protection for famous marks, when the association arising from the similarity between a famous mark and another mark or trade name impairs the distinctiveness of the famous mark, thereby diminishing the unique connection between the famous mark and the products of its proprietor, giving rise to multiplication of meanings<sup>157</sup>; whereas dilution by tarnishment occurs when the similarity harms

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<sup>152</sup> John Shaeffer: TRADEMARK INFRINGEMENT AND DILUTION ARE DIFFERENT-IT'S SIMPLE, 100 Trademark Rep. 808 2010, p829.

<sup>153</sup> V Secret Catalogue Inc. v. Moseley, 259 F.3d 464, 477 (6th Cir. 2001)

<sup>154</sup> L.A. §43 (c)(1), § 43 (c)(2)(A)

<sup>155</sup> Coach Services, Inc. v. Triumph Learning LLC, 668 F.3d 1356 (Fed. Cir. 2012)

<sup>156</sup> E. g.: the duration and extent of advertising and publicity of the mark; the geographical extent of the trading area in which the mark is used; the channels of trade for the goods with which the mark is used; 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.

<sup>157</sup> L.A. §43(c)(2)(B)

the reputation of the famous mark. The level of similarity has to be assessed by courts according to the factors specifically listed by the statute.<sup>158</sup> There are important limitations<sup>159</sup> on the protection afforded to famous marks that generally confers powerful rights on the proprietors: fair uses<sup>160</sup>, all forms of news reporting and news commentary<sup>161</sup> and any commercial use of marks<sup>162</sup> are excluded from dilution liability. The concept of fair use<sup>163</sup> has to be interpreted broadly in this respect, it includes uses in connection with parodies and comparative advertisement, as well; however, it only encompasses uses that does not aim at designating the source of goods and services.<sup>164</sup> Dilution is also a ground for opposition or cancellation of trademark registration.<sup>165</sup>

### **3.2.2 False advertising**

False advertising claims under Lanham Act Section 43(a) find their root in the common law tort of false advertising cause of action, however the latter had a quite narrow scope as compared to the modern broader statutory claims, which require a showing neither of passing off nor of actual economic loss.<sup>166</sup> In theory any person may lodge a claim who believes that he is likely to be damaged by false advertising<sup>167</sup>. However, courts have developed the prudential standing standard and fashioned various tests for its assessment, which impose limitations on standing under this section, since all of them require some evidence of competition between the parties<sup>168</sup>. Moreover,

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<sup>158</sup> Degree of similarity between the famous mark and the mark or trade name; the degree of inherent or acquired distinctiveness of the famous mark; the extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark; the degree of recognition of the famous mark; whether the user of the other mark or trade name intended to create an association with the famous mark; any actual association between the famous mark and the other mark or trade name.

<sup>159</sup> L.A. §43(c)(3)

<sup>160</sup> L.A. §43(c)(3)(A)

<sup>161</sup> L.A. §43(c)(3)(B)

<sup>162</sup> L.A. §43(c)(3)(C)

<sup>163</sup> The trademark fair use "doctrine" is not a coherent doctrine, but a 'Frankenlaw' patchwork assemblage of rules originating from different bodies of law; see: Jonathan Moskin: FRANKENLAW: THE SUPREME COURT'S FAIR AND BALANCED LOOK AT FAIR USE, 95 Trademark Rep. 848 2005, p872., and see: Fox News Network, Llc v. Penguin Group (USA), Inc., 2003 WL 23281520 03 Civ. 6162 (RLC)(DC), (S.D.N.Y. Aug. 22, 2003).

<sup>164</sup> See supra 19, p.272.

<sup>165</sup> L.A. §2 (f)

<sup>166</sup> See supra 19, p.336

<sup>167</sup> L.A. §43(a)(1)(B)

<sup>168</sup> For instance the Ninth Circuit has held that plaintiff must show commercial injury based on a misrepresentation about the product, furthermore that the injury is competitive, or harmful to the plaintiff's ability to compete with the defendant; see in: Jack Russell Terrier Network of N. Ca. V. American Kennel Club, Inc., 407 F.3d 1027 (9th Cir. 2005).

only those misrepresentations may trigger false advertising, which are made in commercial advertising or promotion, i. e. if the misrepresentation constitutes commercial speech by a commercial competitor which aims at influencing consumers' purchase decisions and is disseminated sufficiently to the relevant purchasing public as advertising or promotion within a certain industry.<sup>169</sup> Basic elements of false advertising claims are the followings: falsity and deception, materiality, causation and injury. Actionable false statements of facts about either plaintiff's or defendant's product may be either literally false, or literally true but still misleading, thereby causing likely or actual deception among a substantial part of the public. On contrast to these, puffery is a non-actionable false statement, which refers either to an exaggerated boastful statement that no reasonable consumer would rely on, or to such a general and vague claim of superiority, that reasonable consumer would construe as mere opinion<sup>170</sup>. The deception is material if it is likely to influence the purchase decision, and finally, likely or actual injury may emerge as a result of a false statement by direct diversion of sales or by loss of goodwill.<sup>171</sup>

### 3.3 Private actions under Section 43(a)

Section 43(a) of Lanham Act provides for private claims concerning two distinct types of unfair competition related causes of actions<sup>172</sup>: false advertising and product disparagement on the one hand, and infringement of unregistered marks and trade dress on the other hand (actually this is the only provision in the Lanham Act that protects unregistered marks). These two "prongs" developed separately and have achieved their own sets of substantive rules. However, these don't amount to a kind of federal codification of the overall unfair competition law, Section 43(a) offers only limited prohibition against some form of false designation of origin and misleading representation. This has a narrower scope than the law of unfair competition, thus there is no

<sup>169</sup> *Gordon & Breach Science Publishers, S.A. v. American Inst. Of Physics*, 859 F.Supp. 1521 (S.D.N.Y. 1994)

<sup>170</sup> See *supra* 19, p.349

<sup>171</sup> *Southland Sod Farms v. Stover Seed Co.*, 108 F.3d 1134 (9th Cir. 1997)

<sup>172</sup> See: J. THOMAS MCCARTHY: LANHAM ACT § 43(a): THE SLEEPING GIANT IS NOW WIDE AWAKE, LAW AND CONTEMPORARY PROBLEMS, Vol. 59: No. 2, 1996, pp45-74, p45

statutory or common law of general unfair competition at federal level in the US. Section 43(a) also encompasses less than the general unfair competition prohibitions of state statutes and that of the FTCA against unfair trade practices<sup>173</sup> (see section 3.7 of this Chapter). The view has been adopted by courts that Section 43(a) creates a new, sui generis statutory federal tort of false advertising, which is limited only by the words of the statute itself. Accordingly, under this section a showing that the plaintiff is only likely to be damaged is sufficient, as compared to the actual damages requirements of common law false advertising cause of action.<sup>174</sup> As a result, Section 43(a) became a favoured and widely used legal tool for advertisers whose competitors were allegedly engaging in false advertising; but non-competitors, including consumers don't have standing under this section.

### 3.4 Counterfeiting

Several provisions of the Lanham Act (civil liability), the federal criminal law (criminal liability) and the Tariff Act (seizure of counterfeit imports) deal with counterfeiting.<sup>175</sup> According to the Lanham Act a counterfeit<sup>176</sup> is a spurious mark which is identical with or substantially indistinguishable from a registered mark, and counterfeiting refers to the unauthorized use thereof in commerce, which gives rise to infringement liability<sup>177</sup>. As for counterfeit imports, importation of goods that copy or simulate federally registered trademarks is forbidden<sup>178</sup>, while in case of unregistered marks<sup>179</sup> the prohibition of importation applies to goods marked or labelled in contravention of Section 43(a) on false designation of origin.

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<sup>173</sup> See *supra* 183, p.50.

<sup>174</sup> See *supra* 183, p.56

<sup>175</sup> See *supra* 19, p.284.

<sup>176</sup> L.A. § 45

<sup>177</sup> L.A. § 32(1)(a)

<sup>178</sup> L.A. § 42

<sup>179</sup> L.A. § 43(b)



### 3.5 Permissible uses

Alongside with the defences to dilution claims (see subsection 3.2.1 of this Chapter) the Lanham Act defines other permissible uses as well,<sup>180</sup> excluding infringement liability in order to safeguard competition or to protect constitutional speech values<sup>181</sup>. Those include descriptive fair use, when a party uses another's trademark in order to describe his own goods or services; as well as nominative fair use, which means a party using another's trademark to identify his own goods or services.<sup>182</sup> Two important criteria of fairness in case of descriptive use are the descriptiveness prong and good faith. The former requires a showing that the trademark was used with the exclusive purpose to describe the user's goods or services and was used otherwise than a trademark. Good faith refers to the intent of the fair user whether he wanted to trade off the goodwill of the trademark.<sup>183</sup> The preconditions of nominative fair use are: product or service at issue is not readily identifiable without use of the trademark, the trademark is used only to such an extent that is reasonably necessary for identification, and the user did not suggest sponsorship or endorsement by the trademark holder<sup>184</sup>, indeed, it reflects the true and accurate relationship between the parties' products and services.<sup>185</sup>

### 3.6 Exhaustion

With regards to first sale and parallel import rules the US trademark law was based initially on the international exhaustion doctrine, promoting the universality of trademarks, but it has moved forward a regime of national exhaustion, accepting the principle of territoriality, however also diverging from it in certain aspects.<sup>186</sup> If the resale activities cross national boundaries the

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<sup>180</sup> See supra 19, p.294.

<sup>181</sup> In case of use of other's trademark in parody, art or speech there are no generally applicable rules in case law, rather courts analyse and balance the various interest on a case by case basis according to the First Amendment to the US Constitution – see in: supra 19. P.334.

<sup>182</sup> L.A. Section 33(b)(4)

<sup>183</sup> *Cosmetically Sealed Industries, Inc. v. Chesebrough-Pond's USA Co.*, 125 F.3d 28 (2d Cir. 1997)

<sup>184</sup> *New Kids on the Block v. News Am. Publ'g Inc.*, 971 F.2d 302 (9th Cir. 1992)

<sup>185</sup> *Century 21 Real Estate Corp. v. Lendingtree, Inc.*, 425 F.3d 211 (3d Cir. 2005)

<sup>186</sup> See supra 19., pp.320-323.

distribution of grey market goods within the US may give rise to consumer deception as well as to erosion of the mark owner's goodwill in case the products coming from a foreign market differ from those marketed domestically. The dominant approach applied to the import prohibition under Section 42 Lanham Act is whether the grey market goods are materially different from the corresponding domestic products. The threshold of materiality is low: it requires only that the consumers would be likely to consider the differences significant when purchasing the product.<sup>187</sup>

### 3.7 The role of the Federal Trade Commission (FTC)

The FTC<sup>188</sup> plays an important role in protecting consumer interests against fraud as well as in preventing unfair trade practices in the course of interstate business activities. Section 5 of FTCA (15 USC 45)<sup>189</sup> declares unlawful unfair or deceptive acts or practices in or affecting commerce and empowers the FTC to prevent their use. The purpose of the FTCA<sup>190</sup> is to protect primarily competition, instead of competitors, because competition benefits consumers.<sup>191</sup>

The traditional cause of action for fraud under common law is based on a false representation, which was made intentionally and with knowledge of the falsity, leading to reliance thereon and as a consequence causing damages.<sup>192</sup> According to the current Policy Statement on Deception<sup>193</sup> that has been issued in 1983 by the FTC, representations, omissions or practices are deceptive, if they are material and are likely to mislead consumers who are presumed to be acting reasonably in the given circumstances<sup>194</sup>. Mere likelihood of misleading

<sup>187</sup> Gamut Trading Co. v. USITC, 200 F.3d 775 (Fed. Cir. 1999)

<sup>188</sup> FTC is an independent federal agency established in 1914 under the FTCA with the objective to take actions against various forms of unfair competition. The Wheeler-Lea Act of 1938 amended and extended the scope of Section 5 of the FTCA, thereby granted protection for consumers against deceptive acts or practices, as well.

<sup>189</sup> Available at: <http://www.law.cornell.edu/uscode/text/15/45>

<sup>190</sup> States have also enacted "baby FTC acts", mimicking or even implementing by reference the federal rules of FTCA; see in: supra 3, p.A-43

<sup>191</sup> See supra 6, p.775.

<sup>192</sup> See in: American Bar Association, Section of Antitrust Law: Consumer protection handbook, Chicago, Ill. 2004, p.8.

<sup>193</sup> Available at: <http://www.ftc.gov/ftc-policy-statement-on-deception>

<sup>194</sup> In this regard, reference has to be made also to the Uniform Deceptive Trade Practices Act of 1964 (revised in 1966), which has been adapted only by 12 states so far. See: <http://www.law.cornell.edu/uniform/vol7#dectr>

may give rise to liability, furthermore, intent is not formally relevant under this definition, but good faith may have an impact on the outcome of FTC's investigation.<sup>195</sup> The central question is whether misleading statements are likely to affect consumer behaviour in purchasing. Materiality can be assumed, thus the communication is deceptive, if the consumer would have chosen differently if provided with accurate information, in this case injury exists regardless of demonstrable economic harm.<sup>196</sup> Thus, while traditional trademark infringement disputes focus on likelihood of consumer confusion about product origin, FTC consumer protection is based on likelihood of deception<sup>197</sup> about a product or service that is material to consumer purchase behaviour.<sup>198</sup>

False or misleading advertising is the most important category within the area of deceptive practices, which may be of direct relevance to trademark protection, as well. Beyond expressed or implied statements, under certain circumstances omissions may also constitute deceptive practice under FTCA, provided that as a result reasonable consumers will likely be left with a false or misleading impression from the advertisement as a whole. This can happen either by telling only half-truth or by remaining silent under certain circumstances; the FTCA protects against distortion emerging from selective excerpting.<sup>199</sup> Where deception is the result of silence or could be cured by clarifying additional information, FTC has a unique remedial measure at its disposal: the mandated disclosure<sup>200</sup> (whereas the typical trademark infringement remedy is an injunction against the unauthorized use of a confusingly similar mark). This mirrors an important goal of the FTC's consumer protection mission: that the consumers receive reliably accurate information about products and services they may wish to purchase. It also reflects the FTC's concern with consumer sovereignty as against courts' concerns with protected rights of

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<sup>195</sup> See in *supra* 202, p.6.

<sup>196</sup> See in *supra* 2, p 42.

<sup>197</sup> "From the perspective of what is going on in the consumer's mind, there is not much difference between a consumer being 'confused' as a result of exposure to a trademark or trade dress or 'deceived' as a result of exposure to an advertisement." – see in *supra* 6, p.760.

<sup>198</sup> See in *supra* 6, p.760.

<sup>199</sup> See in *supra* 202, pp.11-12.

<sup>200</sup> See in *supra* 2, p 43.

trademark owners, and on the other hand this is linked to the FTC's antitrust objection to promote competitive markets in order to provide consumers with a wide range of offers.<sup>201</sup>

Unfair business practices have become distinct from deception only after the issuance of FTC's Policy Statement on Unfairness in 1980.<sup>202</sup> This statement defines the following factors according to which unfairness of commercial practices can be determined: whether the practice offends public policy, whether it is immoral, unethical, oppressive or unscrupulous and whether it causes substantial injury to consumers. Under the FTCA definition an unfair act or practice is one that "causes or is likely to cause substantial injury to consumers that is not reasonably avoidable and is not outweighed by countervailing benefits to consumers or competition."<sup>203</sup>

Application of Section 5 of the FTCA has two important practical limitations.<sup>204</sup> First of all, it does not provide for a private right of action or standing neither for consumers nor for competitors harmed by false or misleading statements, because enforcement is left entirely to the FTC. Furthermore, the FTCA does not provide for compensation to injured consumers for any financial harm suffered, it only permits the FTC to seek civil penalties for violations.

### 3.8 Comparative advertising

According to the prevailing general objectives of maximizing consumer welfare and promoting a free and competitive economy, comparative advertising in the United States has long been authorized and widely used.<sup>205</sup> Its generous authorization is the rule rather than the exception today, as well. The initial limitations on comparative advertising, which were usually imposed by industry self-regulatory codes, have been removed due to two important legal decisions: the Chanel case of 1968<sup>206</sup> and the FTC Policy Statement on Comparative Advertising

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<sup>201</sup> See in *supra* 6., p.759.

<sup>202</sup> See *supra* 202., p.27.

<sup>203</sup> 15 USC 45n

<sup>204</sup> See *supra* 2., pp.43-44.

<sup>205</sup> See in: Charlotte J. Romano: Comparative Advertising in the United States and in France, *Northwestern Journal of International Law & Business*, Volume 25 Issue 2/Winter 2005, p.371.

<sup>206</sup> *Smith v. Chanel, Inc.*, 402 F.2d 562 (9th Cir. 1968)

of 1969<sup>207</sup>. The former took an important step forward in the promotion of comparative advertisement by permitting to use a trademark in truthful and non-confusing advertisement for the purpose of identifying a product. The FTC's statement recognized truthful comparative advertising as a valuable source of information to consumers that could "assist them in making rational purchase decisions", moreover, it may encourage "product improvement and innovation, and can lead to lower prices in the marketplace"<sup>208</sup>, but only if the advertising is non-deceptive. U.S. courts define extensively the object of comparisons and authorize them between different but interchangeable products<sup>209</sup>. Comparative advertisements, which are likely to be confusing as to the origin of the products or services, are unlawful.<sup>210</sup> At federal level, comparative advertising may give rise to application of both Section 43(a) of the Lanham Act (cause of action for false or misleading advertising) and Section 5 of the FTCA (FTC intervention against false or deceptive advertisements). However, US law prohibits only false or deceptive statements of facts, whereas statements of opinions are authorized.<sup>211</sup> A statement of fact is a "specific and measurable claim, capable of being proved false or of being reasonably interpreted as a statement of objective fact."<sup>212</sup> An obvious statement of opinion<sup>213</sup> cannot "reasonably be seen as stating or implying provable facts."<sup>214</sup> As a rule, vague and general comparisons are not actionable, because reasonable consumers are not supposed to believe that those are statements of fact.<sup>215</sup> "A general claim of superiority over comparable products that is so vague that it can be understood as nothing more than a mere expression of opinion"<sup>216</sup> is a non-actionable puffery, which usually has four basic criteria: it is general and vague<sup>217</sup>, it makes a claim that is immeasurable,

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<sup>207</sup> Available at: <http://www.ftc.gov/statement-of-policy-regarding-comparative-advertising>

<sup>208</sup> 16 C.F.R. § 14.15(c).

<sup>209</sup> See *supra* 215, p.388.

<sup>210</sup> *Charles of the Ritz Group v. Quality King Distributors, Inc.* 636 F. Supp. 433, 437 (S.D.N.Y. 1986)

<sup>211</sup> See *supra* 215., p.394.

<sup>212</sup> *Coastal Abstract Serv., Inc. v. First Am. Title Ins. Co.*, 173 F.3d 725, 731 (9th Cir. 1999)

<sup>213</sup> Commonly referred to as 'puffery'.

<sup>214</sup> *Groden v. Random House, Inc.*, 61 F.3d 1045, 1051 (2d Cir. 1995)

<sup>215</sup> *U.S. Healthcare, Inc. v. Blue Cross of Greater Phila.*, 898 F.2d 914, 926 (3d Cir. 1990)

<sup>216</sup> *Pizza Hut, Inc., v. Papa John's Int'l, Inc.*, 227 F.3d 489, 497 (5th Cir. 2000)

<sup>217</sup> *Blue Cross of Greater Phila.*, 898 F.2d at 926; *Smith-Victor Corp. v. Sylvania Elec. Prod., Inc.*, 242 F. Supp. 302, 308 (N.D. 111. 1965)

unquantifiable or unverifiable<sup>218</sup>, it is presented as a subjective statement<sup>219</sup>, and it is the kind of claim upon which consumers are unlikely to rely<sup>220</sup>. While promoting consumer interests and welfare remains the main policy in the US, courts make assumptions about consumer credulity and their decisions rest on the premise that “the purchasing public is mostly rational, reasonable, and sophisticated enough not to believe that vague, general, and subjective statements are literally true.”<sup>221</sup> Hence, the reasonable consumer standard applied both by courts and the FTC refers to an attentive, mature, and critical consumer who does not rely solely on the advertisement, indeed, exercises common sense and does not necessarily believe and rely on all statements contained in the advertisement.<sup>222</sup> In sum, the U.S. reasonable consumer approach enables comparative advertising within broad limits, at the same time it ensures adequate protection and also information for the public at large, while it complies with the general objectives of free competition and consumer welfare.<sup>223</sup>

The strict application of Lanham Act Section 43(c) provides a powerful weapon for famous mark proprietors to prevent most of their competitors’ comparative advertisements (e. g. parody), even if those fulfil the general criteria hereto, being truthful and non-deceptive.<sup>224</sup> In theory, use of a famous mark in advertising could give rise to dilution by blurring in the typical case when consumers know that the advertiser did not produce the advertised product, still, they mentally associate the advertiser’s mark with the famous mark owner’s goods, thereby blurring the senior mark’s distinctiveness. Dilution by tarnishment may arise where such use of a famous mark injures the owner’s business reputation, so the mark’s positive associational value degrades. However, with regards to both forms of dilution, use of famous marks in comparative advertising is exempted from the application of Section 43(c), provided, that such comparison constitutes

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<sup>218</sup> *Clorox Co. Puerto Rico v. Procter & Gamble Commercial Co.*, 228 F.3d 24, 39 (1st Cir. 2000)

<sup>219</sup> *Omega Eng’g, Inc. v. Eastman Kodak Co.*, 30 F. Supp. 2d 226, 259 (D. Conn. 1998)

<sup>220</sup> *Blue Cross of Greater Phila.*, 898 F.2d at 922.

<sup>221</sup> See *supra* 215, p.397.

<sup>222</sup> *Marcus v. AT&T Corp.*, 138 F.3d 46, 57 (2d Cir. 1998)

<sup>223</sup> See *supra* 215, p.399.

<sup>224</sup> See *supra* 215, pp.401-409

either nominative or descriptive fair use as defined in Lanham Act, i. e. the famous mark is used by the advertising competitors only in a descriptive non-trademark sense. Generally, US courts tend to authorize use of famous trademarks in comparative advertising and they usually accept it as a defence in dilution cases where the risk of blurring is minimized, or where the trademark's favourable attributes are not significantly altered.

## CHAPTR 4: Some critical issues

### 4.1 Expansion of trademark rights: protection of brands

The current trend in protecting trader interests related to trademark use other than source identification - i. e. protecting a business's goodwill -, represents a shift in the theoretical framework of trademark law from protecting marks only if consumers are likely to be confused, to a broader scope of protection.<sup>225</sup> Ultimately, it leads to an expansion of the scope of trademark rights, and since the protectable interest is an individual one, trademark law moves towards a proprietary type of protection<sup>226</sup>, thereby giving mark owners greater control over the use and meaning of their trademarks. While early cases sought to protect traders from illegitimate diversions of customers they had worked to attract, modern doctrinal innovations seek to protect brands, construed broadly.<sup>227</sup> Many scholars argue that doctrinal innovations like dilution and initial interest confusion<sup>228</sup> are illegitimate, because this property-based conception of trademarks is inconsistent with trademark law's original policies of protecting consumers and improving the quality of information in the marketplace.<sup>229</sup> However, according to Mark McKenna, these critics are only half right, because trademark law historically sought to protect trademark owners from unfair diversions of their trade by competitors, but not the consumers per se.<sup>230</sup>

The special protection afforded to well-known marks<sup>231</sup> is a form of extended trademark right, which is based on the idea that some brands have acquired an extra market value, which

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<sup>225</sup> See supra 9, p.166.

<sup>226</sup> See supra 7., p.151.

<sup>227</sup> See: Mark P. McKenna: THE NORMATIVE FOUNDATIONS OF TRADEMARK LAW, 97 Trademark Rep. 1126 2007p.1179.

<sup>228</sup> Further example to demonstrate the recent expansion of trademarks rights is the protection against post-sale confusion or cybersquatting.

<sup>229</sup> See supra 237, p.1126.

<sup>230</sup> See supra 6., p.762.

<sup>231</sup> National and international laws, courts and commentators use a variety of terms when referring to marks with an increased recognition, including the terms "famous", "well-known", "notorious", "highly renowned", "mark with a reputation", etc. See in: Marcus H. H. Luepke: TAKING UNFAIR ADVANTAGE OR DILUTING A FAMOUS MARK - A 20/20 PERSPECTIVE ON THE BLURRED DIFFERENCES BETWEEN U.S. AND E.U. DILUTION LAW, 98 Trademark Rep. 789 2008, p.792.



deserves extra protection.<sup>232</sup> At international level, well-known trademarks are protected by Article 6bis of the Paris Convention and Article 16 (2) and (3) of TRIPS Agreement. When it comes to well-known marks, the standard for protection is no longer the likelihood of confusion, but the test of dilution. The former is a specific belief about the marked product's relationship to an entity, whereas the latter is concerned with the stability of that specific belief.<sup>233</sup> The dilution doctrine recognizes that a mark's value stems not only from its ability to identify specific products but also from its ability to identify a specific source.<sup>234</sup> In the US the likelihood of dilution approach is implemented, while the CJEU adopted the actual dilution doctrine following its recent decision on the Intel case.<sup>235</sup> Furthermore, the provisions of European trademark law limit dilution protection to registered marks only, Member States are, however, free to grant such protection to unregistered marks as well.<sup>236</sup> By requiring that the mark must be widely recognized by the general consuming public of the United States, US law excludes protection of those marks that have only niche fame; whereas the latter are protected in the EU.

There are a number of critical voices when it comes to the doctrine of initial interest confusion, i. e. infringement even when no one is likely to be confused at the time of purchase and even if the parties involved are non-competitors. Commentators argue that it directly contravenes the goals underlying trademark protection, short-changes consumers and threatens fair competition.<sup>237</sup> One of its greatest dangers is that it denies consumers access to information about the goods and services offered by sellers, however, such information is crucial for the efficient operation of competitive markets. Initial interest confusion precludes information-providing conduct that promotes consumer interests by facilitating consumer choice and

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<sup>232</sup> See in: Stylianos Malliaris: PROTECTING FAMOUS TRADEMARKS: COMPARATIVE ANALYSIS OF US AND EU DIVERGING APPROACHES – THE BATTLE BETWEEN LEGISLATURES AND THE JUDICIARY WHO IS THE ULTIMATE JUDGE?, 9 Chi.-Kent J. Intell. Prop. 45 2010, p.46.

<sup>233</sup> See supra 130, p.344.

<sup>234</sup> See supra 147, p.846.

<sup>235</sup> See supra 242., p.59.

<sup>236</sup> See: Marcus H. H. Luepke: TAKING UNFAIR ADVANTAGE OR DILUTING A FAMOUS MARK - A 20/20 PERSPECTIVE ON THE BLURRED DIFFERENCES BETWEEN U.S. AND E.U. DILUTION LAW, 98 Trademark Rep. 789 2008 Vol. 98 TMR, p.807.

<sup>237</sup> See supra 9, p.108.

stimulating competition. On the other hand, it is also questionable whether non-confusing references actually harm a trademark owner's rights or goodwill.<sup>238</sup> Initial interest confusion proponents argue that despite the fact that initial confusion is always corrected before possible purchase, there remains a concern that a trademark has been used by another party to unfairly attract consumer interest away from the branded product. Although, consumers may still decide to purchase the product they were initially searching for, it takes additional time to find those original goods.<sup>239</sup> So once consumers are diverted through initial confusion, it is difficult for them to resume their search for the originally desired brand. Though, resuming the original brand search does not always involve significant costs for consumers, consequently, initial interest confusion should be prohibited only when it is costly for consumers to recover from their initial confusion.

Initial interest doctrine has been traditionally applied by U.S. courts and later on it received federal statutory protection, as well. However, CJEU applied recently similar arguments in two internet-related remarkable cases<sup>240</sup>, and pursuant to that the trial judge, Mr. Justice Arnold came to the controversial conclusion that initial interest confusion exists in EU law. CJEU ruled that<sup>241</sup> keyword advertising takes unfair advantage of the distinctive character and repute of a mark without due cause and without any compensation, to the benefit of the advertiser, by the unauthorized use of the trademark, with the purpose to attract the initial attention of consumers, who may then decide to purchase the advertiser's goods or services. The advantage obtained by the advertiser is unfair, where the keyword advertiser offers "imitations" of the goods or services, as compared to offering alternatives to consumers, which constitutes due cause.

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<sup>238</sup> See supra 9., pp.129-138

<sup>239</sup> See supra 6., pp.758-788.

<sup>240</sup> C-324/09 - L'Oréal and Others and Interflora Inc & Anor v Marks and Spencer Plc & Anor [2013] EWHC 1291 (Ch) (21 May 2013)

<sup>241</sup> See supra 23., pp.1122-1123

## 4.2 Application of exhaustion rules

Exhaustion policies in the US are basically rooted in the liberal international exhaustion doctrine, even if brand owners can still stop import of materially different goods or services. Whereas, the EU has implemented a protectionist regional exhaustion regime, a compromise between national and international exhaustion.<sup>242</sup> CJEU seems to interpret the application of the principle of trademark exhaustion restrictively with respect to intra-EEA trade and grey market products.<sup>243</sup> It has adopted a narrow interpretation of the notion of trademark owners' consent and a broad interpretation of what can constitute a legitimate reason to oppose trademark exhaustion under Article 7 of the Directive. While it may have a negative impact on the correct functioning of the principle of free movement of goods within the EU, it is also contrary to the historical justifications for trademark protection, which focuses on protecting consumers against confusion and competitors against unfair competition, and only indirectly protects trademark owners' goodwill.<sup>244</sup> Questions on vertical restraints are also relevant in the larger context of parallel trade.<sup>245</sup>

While Directive Article 7(1) is clear about exhaustion at the Community level, it is not clear about international exhaustion, so the remaining question whether the principle of international exhaustion can be preserved in the trademark law of the Member States that originally recognized this principle<sup>246</sup>, had to be answered by CJEU in the *Silhouette*<sup>247</sup> and the *Sebago*<sup>248</sup> cases: international exhaustion directly affects the functioning of the internal market and if some Member States practice international exhaustion while others do not, there will be trade barriers within the internal market, hence, Article 7(1) precludes Member States from adopting

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<sup>242</sup> See *supra* 98, p.49.

<sup>243</sup> See in: IRENE CALBOLI: REVIEWING THE (SHRINKING) PRINCIPLE OF TRADEMARK EXHAUSTION IN THE EUROPEAN UNION (TEN YEARS LATER), 16 Marq. Intell. Prop. L. Rev. 257 2012, pp.261-262.

<sup>244</sup> See *supra* 253, p.278.

<sup>245</sup> Case C-306/96, *Javico Int'l & Javico AG v. Yves Saint Laurent Parfums SA*, 1998 E.C.R. I-1983

<sup>246</sup> See *supra* 98, p.61.

<sup>247</sup> *Silhouette International Schimed v. Hartauer Handelsgesellschaft* in 1998

<sup>248</sup> *Sebago Inc. et. al. v. GB-Unic SA* in 1999

international exhaustion, so that any national provisions in this sense are contrary to European trademark law.<sup>249</sup>

There remained still the divergent approaches and the lack of consensus between Member States, trade organizations, and consumer associations, as to the question of whether international trademark exhaustion should apply in Europe.<sup>250</sup> The debate on possible advantages or disadvantages of international contra Community exhaustion has been for a long time a centre of many, still unsettled discussions in the EU. Supporters of international exhaustion claim that regional exhaustion constitutes a barrier to parallel trade and intrabrand competition and by facilitating and maintaining a regime of price discrimination<sup>251</sup> it creates high prices for consumer goods within the Union. “An area that enforces regional exhaustion in a world of global exhaustion will become a high price economy for all trademark goods”<sup>252</sup>, thereby it harms EU consumers. Those advocating regional exhaustion argue that it is necessary for the protection and enhancement of European investments in innovation, production and employment, research and high-quality goods, it helps to protect Community competitiveness and innovation, because a change to international exhaustion would reduce the value of intellectual property and would put companies to a weaker position.

### 4.3 Possible threats resulting from unbranding

Just as a trademark can build up goodwill of great value, reflecting favourable public associations, they can also represent badwill, negative associations in the minds of consumers.<sup>253</sup> Although, badwill can be established through unfounded rumours, it is in many cases justified. When a brand suffers from strong negative consumer perceptions, the manufacturer’s trademark transforms from a valuable asset to a major liability, causing damages to the business;

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<sup>249</sup> See supra 98, p.65.

<sup>250</sup> See supra 98, pp.83-87.

<sup>251</sup> See in: Patrick Kenny, Patrick McNutt: Competition, Paralell Imports & Trademark exhaustion: Two wrongs from a trademark right. No8. Discussion paper / Ireland, Competition Authority, 1999, p.7.

<sup>252</sup> See supra 261, p.10

<sup>253</sup> See supra 2, p.10.

consequently, in such cases many firms understandably seek a fresh start by abandoning the brand and creating a new one.<sup>254</sup> Despite the fact, that not all instances of unbranding put consumers at risk, this practice often threatens to confuse and mislead consumers about the source and characteristics of goods and services, because they erroneously assume that a new brand indicates a new source. Potential harms may be imposed on consumers, competitors, and the market broadly by unbranding strategies, since the substitution of the tarnished brand with a fresh one disrupts the quality control and source indication functions of trademarks, thereby increasing search costs for the misled consumers.

Trademark law is poorly positioned to handle the above problem in adequate and sufficient manner; due to its structural features it has no direct mechanism for addressing unbranding.<sup>255</sup> First of all, it focuses on potentially confusing uses of a trademark by an undertaking or individual other than the trademark proprietor, whereas the confusing uses of own trademarks is mostly unregulated. So basically, trademark law describes a relationship between three parties: the mark owner, the unauthorized user and the confused consumer. However, in case of unbranding, confusion stems from a two-party relationship between the proprietor and the consumer: it is the unbranding firm, who is both the owner of the relevant mark and the source of the consumer's confusion. Consequently, under the existing rules of trademark law, there is no party with standing to sue in such cases, since trademark infringement addresses inter-brand confusion, but ignores intra-brand confusions emanating from the mark itself.

#### **4.4 Unfair B2B practices in the EU – need for stronger harmonization?**

At EU level, there are no comprehensive rules with regard to B2B unfair commercial practices.<sup>256</sup> UDRP concerns B2C activities exclusively; it is only MCAD's misleading and comparative advertising regulation which can be applied to B2B businesses. So the question

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<sup>254</sup> See supra 2, p.2

<sup>255</sup> See supra 2, pp.27-28

<sup>256</sup> See supra 21, p.3.

arises, whether there is a need for stronger harmonisation of B2B unfair competition rules in the EU. As Jules Stuyck has noted, despite the fact that antitrust law itself does not guarantee fair competition and there are some legal disparities concerning B2B businesses, there is no convincing evidence that those disparities between the laws of the Member States in this field create significant obstacles for the internal market. First, the existing EU rules on B2C practices can be invoked between businesses, as well, they have spill-over effect<sup>257</sup>, and thereby they grant protection against B2B practices, as well. Moreover, there is an extensive protection against the risk of confusion and free riding with regard to important elements of business and goodwill under European trademark law. Additional rules on unfair competition or B2B unfair commercial practices could lead to restrictions of competition and to undesirable extension of neighbouring laws, particularly the existing protection of trademarks beyond their statutory limits.<sup>258</sup> Instead, it would be reasonable to expressly extend the scope of application of the full harmonisation of UCPD. Thus complete harmonisation of unfair competition law at EU level is not to be expected in the near future, but currently it is also not required to maintain the proper functioning of the common market.

#### **4.5 Protection of consumer interests in trademark litigation**

According to Michael Grynberg, although trademark litigation is traditionally seen as a seller-versus-seller encounter, it is actually a two-against-one fight<sup>259</sup>, since consumer interest are still present, while a trademark holder attacks the infringer for unauthorized use of her trademark simultaneously arguing that the defendant is harming consumers.<sup>260</sup> Therefore, the plaintiff acts as the consumer's proxy, representing the absent party-in-interest who is harmed by the defendant. However, the interests of the confused public and the trademark holder diverge in

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<sup>257</sup> See supra 21, p.22.

<sup>258</sup> See supra 21, p.27.

<sup>259</sup> See in: MICHAEL GRYNBERG: 'TRADEMARK LITIGATION AS CONSUMER CONFLICT', NEW YORK UNIVERSITY LAW REVIEW Vol. 83:60 2008, p.73

<sup>260</sup> See supra 269., p.72.

many cases; and on the other hand, a fourth party is still missing: the consumers, who benefit from the defendant's alleged infringing conduct. Though courts consider the consuming public, they focus on the ordinarily prudent purchasers, who are likely to be misled or confused; while non-confused parties, who benefit from the defendant's behaviour<sup>261</sup>, are usually missing from the analysis.<sup>262</sup>

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<sup>261</sup> For instance, comparative advertising may benefit potential purchasers to the detriment of trademark owners.

<sup>262</sup> See *supra* 269, p.77.

## CONCLUSION

Despite their different historical and cultural moorings and traditional bases the common law regime of the US and the predominantly continental regime of the EU provide for by and large quite similar rules in most aspects as to the functions and the protection of trademarks, the promoting of consumer interests and the fairness of commercial practices. However, according to the diverging approaches in terms of the balancing of the interests concerned and to the differing policies they have implemented in their statutory legislations and case law, in certain aspects, in some cases emphasis is put on different points of protection.

A number of differences of the legal regulation enacted in these countries emerge from the fact, that in general, the US common law system has implemented a consumer based, competition enhancing approach, whereas in Europe the principle of fair competition enjoys priority over consumer interests and free competition. This leads inter alia to different exhaustion rules and different regulations with regards to comparative advertising. The latter is permitted and used in a much broader sphere in the US as compared to the strict rules in the EU.

Notwithstanding, that in infringement cases some kind of likelihood of confusion test is the touchstone in both jurisdictions and the relevant type of prudent consumer has been elaborated, in case law slightly varying factors are taken into consideration and slightly differing policies prevail. In addition, in the Community system, despite the existence of approximated European rules, the jurisdictions of national courts and the local cultural and legal traditions still play a significant role in deciding over cases. Moreover, the law of unfair competition at Community level is by far not as unified as that of the federal system.

Eligibility of marks for trademark protection, just like the grounds for refusal of registration are in both legal regimes centred around the essential source and origin function of trademarks, requiring sufficient level of distinctiveness and non-deceptiveness of marks.



However, the European requirement of being able to be graphically represented creates additional obstacles to registration for non-traditional signs.

The recent tendency of expanding trademark protection that approaches brand protection, granting property rights for trademark owners, has significant impacts in both jurisdictions. As for well-known marks, except for certain parts of regulation, the protection afforded is in general similarly strong under both regimes. Moreover, rules similar to the initial interest confusion doctrine has been gathering more ground in the EU, as well.

Finally, there exist some recently emerged problems, and also certain unsettled or controversial issues in both jurisdictions, to which adequate solutions still have to be afforded.

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