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## International Trademark Protection and Global Public Health: A Just-Compensation Regime for Expropriations and Regulatory Takings

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## International Trademark Protection and Global Public Health: A Just-Compensation Regime for Expropriations and Regulatory Takings

### Cover Page Footnote

Assistant Professor, University of Tulsa College of Law. J.D. Harvard, 2005; M.Phil. Oxford, 2001; B.S. Kansas State University, 1999. The author would like to thank Stephanie Regenold for superb research assistance, as well as Sean Goldman and Zach Perez for excellent research assistance. This Article benefited from helpful comments received at the Georgetown University Law Center Summer Workshop, the Humphreys School of Law at the University of Memphis, the Junior International Law Scholars Association Annual Workshop, the O'Neill Institute Summer Lecture Series, and the annual meeting of the Association of Law, Property, and Society. The author would especially like to thank Chuck Adams, Bernadette Atuahene, Christoph Henkel, Janet Levit, Joe Page, Tamara Piety, Mike Seidman, James Smith, Robert Spoo, David Super, John Thomas, Rebecca Tushnet, Hannah Wiseman, Sam Wiseman, and Rex Zedalis for helpful comments.

# INTERNATIONAL TRADEMARK PROTECTION AND GLOBAL PUBLIC HEALTH: A JUST-COMPENSATION REGIME FOR EXPROPRIATIONS AND REGULATORY TAKINGS

*Sam Foster Halabi*<sup>+</sup>

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Confrontations between trademarks law and public-health interests are increasing in both frequency and severity.<sup>1</sup> Trademarks—words, colors, signs, shapes, and other distinguishing marks that convey the origin and quality of goods or services<sup>2</sup>—provide an opportunity for firms to simply and inexpensively associate their products with desirable quality and price in the mind of the consumer.<sup>3</sup> Laws against counterfeiting or infringing trademarks protect firms’ investments in the quality of their goods and preserve consumers’ interest in an inexpensive source of product information.<sup>4</sup> Without these protections, competitors may, through flagrant or subtle imitation, “free ride” on those investments to the detriment of trademark holders.<sup>5</sup> When these imitators supply inferior or hazardous goods, consumers and trademark holders are adversely affected.<sup>6</sup> This fundamental mutual benefit provided by trademark protection has successfully persuaded many legislators, primarily in industrialized states, to steadily increase the reach of trademark protection.<sup>7</sup>

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1. See *infra* Part I.C.

2. See BLACK’S LAW DICTIONARY 1630 (9th ed. 2009).

3. See Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687, 1690 (1999) (explaining how trademarks efficiently communicate product information to consumers).

4. See Robert G. Bone, *Hunting Goodwill: A History of the Concept of Goodwill*, 1 in *Trademark Law*, 86 B.U. L. REV. 547, 555–56 (2006).

5. See J. Shahar Dillbary, *Trademarks as Media for False Advertising*, 31 CARDOZO L. REV. 327, 333–34 (2009) (commenting that one purpose of trademark law is to protect consumers from the passing off of imitation goods).

6. *Id.*

7. See, e.g., Lanham Act, Pub. L. No. 79-489, ch. 540, 60 Stat. 427 (1946) (codified as amended in scattered sections of 15 U.S.C.). The purpose of the Lanham Act is to protect trademarks from “infringement,” which is broadly defined as the unauthorized use of a mark “likely to cause confusion” with an already registered or established trademark. See 15 U.S.C. §§ 1114, 1125 (2006 & Supp. IV 2010). In 1996, Congress further authorized holders of famous trademarks to enjoin conduct that “diluted” the uniqueness of the trademark. Trademark Dilution Act of 1995, Pub. L. No. 104-98, § 3, 109 Stat. 985, 985–86 (1996) (codified as amended at 15 U.S.C. § 1125(c)). Under the current dilution provision, the trademark holder does not have to show that a purported dilutor’s conduct might confuse the consumer, only that the use may blur or tarnish a valuable mark by associating it with unrelated goods or casting it in an unflattering light.

These protections have, in turn, made their way into the rapidly expanding network of bilateral and multilateral trade and investment treaties between developed states and developing or middle-income states.<sup>8</sup> As a result, trademark proprietors currently enjoy stronger protections in more jurisdictions than ever before.<sup>9</sup>

Not all trademarks, however, serve the dual purposes of incentivizing investments in quality and preserving consumer expectations. Some trademarks obscure relevant product information, minimize product risks, or suggest product attributes that are difficult or impossible to verify.<sup>10</sup> For example, cigarette manufacturers used “light” and “mild” descriptors in their brands to persuade smokers that such cigarettes constituted healthier alternatives to “full flavor” cigarettes.<sup>11</sup> Government-mandated warnings for

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*See* Trademark Dilution Revision Act of 2006, Pub. L. No. 109-312, § 2, 120 Stat. 1730, 1730–32 (codified as amended at 15 U.S.C. § 1125(c) (Supp. IV 2010)); *Toys “R” Us, Inc. v. Akkaoui*, 40 U.S.P.Q.2d (BNA) 1836, 1839 (N.D. Cal. 1996) (acknowledging the strength of Toys “R” Us’s dilution claim against adultsrus.com, a website offering a line of sexual products because it disparaged the famous Toys “R” Us name).

8. *See infra* Part I.B.

9. *See* Burton Ong, *The Trademark Law Provisions of Bilateral Free Trade Agreements*, in TRADEMARK LAW AND THEORY: A HANDBOOK OF CONTEMPORARY RESEARCH 229, 230 (Graeme B. Dinwoodie & Mark D. Janis eds., 2008) [hereinafter TRADEMARK LAW AND THEORY] (“Similarly, trademark law provisions which have found their way into bilateral free trade agreements are also intended to fortify and, in most cases, expand the domestic legal framework from which trademark owners derive their exclusive rights.”); Poppy S. Winanti, *Explaining Change in Developing Countries’ Intellectual Property Legislation: The Case Studies of Indonesia and India I* (Apr. 21, 2011) (unpublished manuscript), available at [http://www.psa.ac.uk/journals/pdf/5/2011/108\\_86.pdf](http://www.psa.ac.uk/journals/pdf/5/2011/108_86.pdf) (“The TRIPs Agreement went substantially beyond the existing intellectual property (IP) regime under the World Intellectual Property Organisation (WIPO), by establishing minimum standards for members’ domestic IP laws, with respect to terms and scope of protection for a wide range of intellectual property rights (IPR) categories under a single multilateral agreement. Its negotiation process exhibited relentless attempts of developing countries to resist the adoption of the agreement, because of the concerns about the difference in philosophical strands, and the administrative costs associated with implementing the agreement. Despite their objections, however, almost all developing countries have altered their domestic laws in response to the TRIPs Agreement, many did so prior to the deadline for implementation, and many adopted more rigorous IP rules than required by TRIPs.”).

10. *See infra* notes 154–56 and accompanying text; *see also* *United States v. Philip Morris USA, Inc.*, 449 F. Supp. 2d 1, 26–27 (D.D.C. 2006) (enjoining tobacco companies from using deceptive brand descriptors on cigarette packages to obscure health risks and concerns), *aff’d in part, vacated in part*, 556 F.3d 1095 (D.C. Cir. 2009).

11. *See Philip Morris USA, Inc.*, 449 F. Supp. 2d at 27. In *United States v. Philip Morris USA, Inc.*, the U.S. government brought a RICO claim against several tobacco companies for false representations regarding nicotine levels in “light” and “low” tar cigarettes. *Id.* at 26–27. The lengthy opinion provides an excellent survey of tobacco firms’ collusive efforts to hide smoking-related risks from consumers in the United States. *Id.* Similarly, Philip Morris International’s subsidiaries in Uruguay introduced trademark variations on cigarettes with a marketing objective designed to deceive consumers:

Our anchorman shall add credibility to the product’s deliveries which will be compared to Galaxy (soft pack) in order to stress that the normal Galaxy is the “Intelligent

alcoholic beverages often appear in the decorative marks that adorn product containers.<sup>12</sup> In countries with large illiterate populations, the importance of colors, symbols, and signs for both marketing and regulation places these interests in regular conflict.<sup>13</sup> Legal scholars, legislators, judges, and regulators have struggled to develop and apply rules that balance the interest in using trademarks as helpful product indicators for consumers and the interest of protecting consumers from misleading information or predatory marketing.<sup>14</sup> These two trends—expanding protections for trademarks and the costs that trademark protections impose on consumers—are increasingly in tension.<sup>15</sup>

In order to balance these interests, legislators and regulators have considered prohibiting the use of certain trademarks,<sup>16</sup> selectively limiting specific aspects of trademarks, requiring that disclosures and warnings accompany trademarks,<sup>17</sup> or doing nothing at all, allowing market incentives to encourage one competitor to build a reputation for consumer-friendly practices or to advertise negative product attributes of a rival's goods.<sup>18</sup>

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Decision” combining low tar and nicotine with smoking pleasure but if the smoker wishes the lowest numbers in a very sophisticated cigarette. Galaxy Ultra Lights is lower in its deliveries than Galaxy. Since consumers believe that Galaxy and Coronado Ultra Lights have more or less the same deliveries, with Coronado Ultra Lights only slightly lower, this advertising will also position Galaxy Ultra Lights as lower than Coronado Ultra Lights. Galaxy Ultra Light’s pack design shall be stressed in order to clearly communicate its high level of sophistication.

Submission from R.W. Murray, Philip Morris Int’l, to Corporate Products Committee, New Product Introduction, Galaxy Ultra Lights (Sept. 3, 1984), *available at* <http://legacy.library.ucsf.edu/tid/oa29e00/pdf>.

12. Press Release, Ctr. for Science in the Pub. Interest, Alcohol Warning Labels Go Unnoticed, Poll Finds (Aug. 17, 2001), *available at* [http://www.cspinet.org/booze/batf\\_labels2001\\_press.htm](http://www.cspinet.org/booze/batf_labels2001_press.htm) (quoting a poll administrator who stated that “the poll data clearly show that consumers think the warning statement was designed specifically not to be noticed”).

13. *See, e.g., Tobacco Products Should Sport More Graphic Warnings: Survey*, SIFY.COM (Nov. 26, 2010, 9:20 PM), <http://www.sify.com/news/tobbaco-products-should-sport-more-graphic-warnings-survey-news-health-kl0vujiecg.html> (describing the desire of people in India to have strong pictorial warnings on tobacco products and the resistance from tobacco companies).

14. *See infra* notes 16–30; *see also infra* Part I.B.

15. *See infra* Part I.B.

16. *See* U.S. PATENT & TRADEMARK OFFICE, TRADEMARK MANUAL OF EXAMINING PROCEDURE § 1203.02 (6th ed. 2010) (stating that federal trademark statutes provide a complete bar to the use of deceptive trademarks); Benn McGrady, *TRIPS and Trademarks: The Case of Tobacco*, WORLD TRADE REV. 53, 59 (2004) (describing British authorities’ refusal of trademarks due to their tendency to mislead).

17. *See, e.g.,* J. Craig Andrews, Richard G. Netemeyer & Srinivas Durvasula, *Believability and Attitudes Toward Alcohol Warning Label Information: The Role of Persuasive Communications Theory*, 9 J. PUB. POL’Y & MARKETING 1, 1 (1990) (discussing U.S. regulations mandating warning requirements on alcohol packaging).

18. *See* Mark Armstrong, *Interactions Between Competition and Consumer Policy*, 4 COMPETITION POL’Y INT’L 87, 103 (2008) (highlighting the primacy of a firm’s reputation when the firm attempts to identify positive attributes of its own products and negative attributes of

When challenging regulations, trademark holders characterize their marks either as speech or as property, depending on which will better defeat or deter proposed restrictions.<sup>19</sup> For example, when the U.S. Food and Drug Administration (FDA) released its proposed graphic warning labels for cigarette packs, tobacco companies argued not only that the labels forced them to communicate a message not of their own choosing in violation of the First Amendment, but also that the labels “confiscat[ed]” the visual displays of their trademarks in violation of the Fifth Amendment.<sup>20</sup> As speech, trademarks arguably enjoy a high level of protection from regulation.<sup>21</sup> In many

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competitors’ products); *see also* Jean Wegman Burns, *The Paradox of Antitrust and Lanham Act Standing*, 42 UCLA L. REV. 47, 76 (1994) (discussing sellers’ market incentives not to falsely advertise); Lee Goldman, *The World’s Best Article on Competitor Suits for False Advertising*, 45 FLA. L. REV. 487, 498 (1993) (discussing comparative advertising).

19. *See* Jude A. Thomas, *Fifteen Years of Fame: The Declining Relevance of Domain Names in the Enduring Conflict Between Trademark and Free Speech Rights*, 11 J. MARSHALL REV. INTELL. PROP. L. 1, 13 (2011) (commenting that trademark regulation can be said to encapsulate both property and free-speech interests). In recent years, the most heated policy and scholarly debates have revolved around trademarks as corporate speech and the extent to which firms’ efforts to persuade consumers deserve the same protections as social and political expression. *See id.*; *see also* Tamara R. Piety, *Grounding Nike: Exposing Nike’s Quest for a Constitutional Right to Lie*, 78 TEMP. L. REV. 151, 151–52, 188–99 (2005) (“The commercial speech doctrine had been under pressure almost from its inception.”).

20. Sandra Young, *FDA Reveals Bigger, Graphic Warning Labels for Cigarette Packages*, CNN.COM (June 21, 2011, 5:03 PM), <http://www.cnn.com/2011/HEALTH/06/21/cigarette.labels/index.html> (highlighting the argument that new FDA warning labels “confiscate” tobacco trademarks).

21. This is arguably the case in the United States. *See* *Transp. Alts., Inc. v. City of New York*, 218 F. Supp. 2d 423, 437–38 (2002) (“The conclusion that a corporation’s marks are commercial speech even when used in connection with an event that is fully protected by the First Amendment is further supported by the Supreme Court’s decision in *San Francisco Arts & Athletics, Inc. v. United States Olympic Committee*,” in which the Court held that “[t]o the extent that [the statute] applies to uses [of ‘Olympic’] for the purpose of trade [or] to induce the sale of any goods or services its application is to commercial speech.” (alteration in original) (citations omitted) (internal quotation marks omitted)); *see also* Rebecca Tushnet, *Truth and Advertising: The Lanham Act and Commercial Speech Doctrine*, in TRADEMARK LAW AND THEORY, *supra* note 9, at 294, 294–95 (discussing the problem with distinguishing commercial and noncommercial speech). Trademarks are starting to enjoy greater protection at the international level as well. *See* Lisa P. Ramsey, *Free Speech and International Obligations to Protect Trademarks*, 35 YALE J. INT’L L. 405, 407 (2010) (“With the recent expansion of trademark rights and the increased protection of speech—including commercial expression—there are a growing number of potential conflicts between laws prohibiting unauthorized use of another’s mark and the right to freedom of expression.”); *see also* Unconstitutionality Claim Brief for *Nobleza Piccardo* at 29, Corte Suprema de Justicia de la Nación [CSJN] [National Supreme Court of Justice], “*Nobleza Piccardo S.A.I.C. Y F. c. Provincia de Santa Fe*,” 188/2006 (Arg.) [hereinafter *Nobleza Piccardo Unconstitutionality Claim*] (arguing that trademarks deserve free-speech protection under Argentine law). However, other jurisdictions require balancing of all individual interests—including, equally, property and speech—as do many international instruments. *See, e.g.*, International Covenant on Civil and Political Rights, art. 19, Dec. 16, 1966, S. Treaty Doc. 95-20, 999 U.N.T.S. 171 (“Everyone shall have the right to freedom of expression; this right shall include freedom to seek, receive and impart information and ideas of

jurisdictions, speech is part of the fundamental right to identify the self<sup>22</sup>—even the corporate self.<sup>23</sup> Therefore, regulations must be narrowly tailored to meet a well-defined and significant public interest.<sup>24</sup> The government often bears the evidentiary burdens to prove either that a regulation advances a compelling objective or that the speech is undeserving of protection, such as being deceptive or misleading.<sup>25</sup> Property, on the other hand, receives different, arguably less protection.<sup>26</sup> Although some nations' constitutions create a default right to private-property ownership, others explicitly vest all real-property ownership with the state, which may establish processes for the transfer of real property to private owners or managers.<sup>27</sup> Regardless of initial entitlements, many jurisdictions permit the state to condemn private property for public use, provided that the owner receives a reasonable compensation.<sup>28</sup> The property owner may carry the initial burden

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all kinds, regardless of frontiers, either orally, in writing or in print, in the form of art, or through any other media of his choice. (3) The exercise of the rights provided for in paragraph 2 of this article carries with it special duties and responsibilities. It may therefore be subject to certain restrictions, but these shall only be such as are provided by law and are necessary: (a) For respect of the rights or reputations of others; (b) For the protection of national security or of public order . . . or of public health or morals.”).

22. *S. African Nat'l Defence Union v. Minister of Defence & Another* 1999 (4) SA 469 (CC) para. 8 (S. Afr.) (“These rights [of free expression] taken together protect the rights of individuals not only individually to form and express opinions, of whatever nature, but to establish associations and groups of like-minded people to foster and propagate such opinions. The rights implicitly recognise the importance, both for a democratic society and for individuals personally, of the ability to form and express opinions, whether individually or collectively, even where those views are controversial.”); *see also* *R. v. Zundel*, [1992] 2 S.C.R. 731, 734–35 (Can.) (holding that the Canadian Charter of Rights and Freedoms guarantees free speech, regardless of the content’s popularity).

23. *See, e.g.*, *Citizens United v. FEC*, 130 S. Ct. 876, 899 (2010) (“The Court has recognized that the First Amendment [of the U.S. Constitution] applies to corporations.” (citations omitted)).

24. *See Buckley v. Valeo*, 424 U.S. 1, 25–27 (1976) (per curiam) (finding that the government’s interest in preventing actual or apparent corruption permitted campaign-finance limitations under the First Amendment).

25. *See, e.g., Zundel*, 2 S.C.R. at 734 (“Before a person can be denied the protection of [free speech], it must be certain that there can be no justification for offering protection.”); *see also* *Pearson v. Shalala*, 130 F. Supp. 2d 105, 120 (D.D.C. 2001).

26. *See* Louis Michael Seidman, *The Dale Problem: Property and Speech Under the Regulatory State*, 75 U. CHI. L. REV. 1541, 1567–68 (2008) (analyzing the ease with which political authorities may compensate for the loss of a property right relative to the loss of a speech right).

27. *Compare* U.S. CONST. amend. V (“[P]rivate property [shall not] be taken for public use, without just compensation.”), *with* Constitución Política de los Estados Unidos Mexicanos [C.P.], art. 27, Diario Oficial de la Federación [DO], 5 de Febrero de 1917 (Mex.) [The Political Constitution of the United Mexican States] (“The ownership of lands and waters comprised within the limits of the national territory is vested originally in the Nation, which has had, and has, the right to transmit title thereof to private persons, thereby constituting private property.”).

28. *See, e.g.*, U.S. CONST. amend. V; Constitución Política de los Estados Unidos Mexicanos [C.P.], art. 27, Diario Oficial de la Federación [DO], 5 de Febrero de 1917 (Mex.)

of proving the value of the property taken by the state.<sup>29</sup> However, the threat of paying significant compensation to an owner may deter regulation.<sup>30</sup>

This Article is principally concerned with a property-based approach to trademark regulation. It proposes that trademarks are better characterized as property for purposes of public-health and consumer-protection regulation. First, although trademarks are certainly like speech in the sense that they are intended to distinguish the speaker and perform an informational function, for purposes of regulation, their property attributes overshadow their speech attributes.<sup>31</sup> The basic motivation of trademark law is to give the trademark proprietor the right to exclude others and control use.<sup>32</sup> In many jurisdictions, trademarks may be freely bought, sold, or licensed.<sup>33</sup> Trademark holders' rights are essentially a privilege granted by the state,<sup>34</sup> and trademarks are regularly assigned an objectively determined monetary value.<sup>35</sup> Second, the

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("Private property shall not be expropriated except for reasons of public utility, and upon payment of compensation.").

29. *Town of Williams v. Perrin*, 217 P.2d 918, 919 (Ariz. 1950) (noting that the property owner carries the burden of establishing damages in an eminent-domain proceeding); Shawn H.T. Denstedt & Ryan V. Rodier, *What Happens When Developers Can't Develop?: Can and Should Resource Developers Be Compensated When They Can't Develop Their Assets?*, 48 ALBERTA L. REV. 331, 332, 355 (2010) (comparing takings jurisprudence from Australia, Canada, the United States, and the United Kingdom, and noting that at common law in Canada, "the burden of proof of market value rests on the owner of the expropriated property," but matters before expropriation compensation tribunals are "more in the nature of an investigation than a trial so the onus rests on neither party." (quoting *Casamiro Resource v. British Columbia* (1993), 50 L.C.R. 99, 141, 143 (Can. B.C.E.C.B.), *aff'd*, 2000 BCCA 407, 76 B.C.L.R.3d 303)). There are, of course, other approaches. For example, under the World Trade Organization regime, the favored resolution for a trade dispute is for a member state to "bring the measure into conformity with th[e] agreement [covered by the WTO]." Understanding on Rules and Procedures Governing the Settlement of Disputes art. 19, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 2, 1869 U.N.T.S. 401, available at [http://www.wto.org/english/docs\\_e/legal\\_e/28-dsu\\_e.htm#fnt9](http://www.wto.org/english/docs_e/legal_e/28-dsu_e.htm#fnt9). However, even under WTO dispute resolution, binding arbitration is a possible and frequently used mechanism. See *infra* notes 53–54.

30. See, e.g., KONRAD VON MOLTKE & HOWARD MANN, INT'L INST. FOR SUSTAINABLE DEV., TOWARDS A SOUTHERN AGENDA ON INTERNATIONAL INVESTMENT: DISCUSSION PAPER ON THE ROLE OF INTERNATIONAL INVESTMENT AGREEMENTS 30 (2004), available at [http://www.iisd.org/pdf/2004/investment\\_sai.pdf](http://www.iisd.org/pdf/2004/investment_sai.pdf) (explaining the "regulatory chill" resulting from the specter of large arbitration awards and costly litigation in the context of international investment agreements); see also *infra* note 123 (discussing Uruguay's hesitation to proceed with its trademark regulation in the face of a potentially large award for an indirect expropriation of tobacco trademarks).

31. See *infra* Part II.C.1.

32. See *infra* Part II.C.1.

33. Cheryl L. Hodgson, *Registration and Ownership of Music Group Names in the Digital Age*, 17 ENT. & SPORTS L. 3, 5 (2000).

34. See *infra* note 44 and accompanying text.

35. See Elizabeth L. Warren-Mikes, Note, *December Madness: The Seventh Circuit's Creation of Dual Use in Illinois High School Association v. GTE Vantage*, 93 NW. U. L. REV.

increasingly influential international instruments protecting trademarks largely adopt a property-based approach.<sup>36</sup> These instruments generally characterize trademarks as “investments” or “property” and, in varying levels of detail, articulate trademark holders’ ability to alienate their marks and to enjoy legal protection from counterfeit or infringement as well as compensation in the event of a regulatory taking.<sup>37</sup> For example, under Article 1110 of the North American Free Trade Agreement (NAFTA), if Canada, the United States, or Mexico adopts a trademark restriction, and even if it is based on a theory of unprotected speech, the trademark holder arguably has a right to compensation for an expropriation.<sup>38</sup>

This Article uses a property-based perspective on trademark regulation to focus on an emerging problem confronting arbitrators, judges, and lawmakers deciding trademark holders’ claims against the state: how should adjudicators

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1009, 1019 (1999) (explaining the relationship between a company’s goodwill and the corresponding monetary value assigned to its trademark).

36. See Protocol on Harmonization of Norms on Intellectual Property in Mercosur in Matters of Trademarks, Indications of Source and Appellation of Origin art. 11, Aug. 5, 1995, 2145 U.N.T.S. 460, available at [http://untreaty.un.org/unts/144078\\_158780/12/10/5009.pdf](http://untreaty.un.org/unts/144078_158780/12/10/5009.pdf) (granting the registered trademark owner exclusive rights and the ability to prevent others from using like items in commerce); Agreement on Trade-Related Aspects of Intellectual Property Rights art. 16, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299 [hereinafter TRIPS Agreement], available at [http://www.wto.org/english/docs\\_e/legal\\_e/27-trips.pdf](http://www.wto.org/english/docs_e/legal_e/27-trips.pdf) (mirroring language in the North American Free Trade Agreement and conferring an exclusive right of use to the registered trademark owner); North American Free Trade Agreement, U.S.-Can.-Mex., art. 1708, Dec. 17, 1992, 32 I.L.M. 289 (1993) [hereinafter NAFTA] (providing the trademark owner with the right to exclude others from using identical or similar items for commercial gain); Council Directive 2004/48, 2004 O.J. (L 157) 45, 61 (EC), available at <http://eur-lex.europa.eu> (obliging the member states to implement adequate measures for the protection of intellectual-property rights).

37. See, e.g., NAFTA, *supra* note 36, at arts. 1109–10; see also Vicki Been & Joel C. Beauvais, *The Global Fifth Amendment? NAFTA’s Investment Protections and the Misguided Quest for an International “Regulatory Takings” Doctrine*, 78 N.Y.U. L. REV. 30, 133–34 (2003) (detailing cigarette manufacturer Philip Morris’s legal argument that a Canadian ban on the use of certain words on product packaging would violate NAFTA by expropriating its trademarks).

38. NAFTA, *supra* note 36, at art. 1110; see also Been & Beauvais, *supra* note 37, at 133–34 (“In 2001, Philip Morris used similar tactics [as R.J. Reynolds, which asserted that it would claim significant compensation from the Canadian government if it passed plain packaging legislation,] to oppose a proposed ban on the use of the words ‘light’ and ‘mild’ on cigarette packaging in Canada: The company argued that the terms are an integral part of their registered trademarks and that the ban would violate Article 1110 by expropriating these trademarks and associated goodwill.” (footnotes omitted)); Letter from Carla A. Hills, Partner, Mudge Rose Guthrie Alexander & Ferdon, to R.J. Reynolds Tobacco Co. & Philip Morris Int’l, Inc., Legal Opinion with Regard to Plain Packaging of Tobacco Products Requirement Under International Agreements 10–11 (May 3, 1994), available at <http://legacy.library.ucsf.edu/tid/mrm97c00/pdf;jsessionid=A3117ED107B55ABA9B7E88C0C6C724A2.tobacco03> (analyzing how a plain-packaging regime for cigarettes would violate NAFTA’s trademark protections and thus “giv[e] rise to massive compensation claims”).

arrive at appropriate compensation for a trademark “taken” by the state?<sup>39</sup> In other words, what does a condemnation proceeding for trademarks look like? This Article argues that such a proceeding should adhere to the fundamental principles underlying trademark law: protection of fair competition and reduction of consumer information costs.<sup>40</sup>

When a state adopts a law or regulation that diminishes a trademark’s value, a trademark holder is under an initial obligation to show that the regulation has the effect of causing consumers to switch to competing goods or services.<sup>41</sup> This burden corresponds to the ultimate purpose of trademark law: allowing firms to distinguish their products from other firms’ products.<sup>42</sup> A regulating authority would be able to rebut a trademark holder’s initial showing by proving the regulation’s informational benefit to consumers.<sup>43</sup> These burdens correspond to both the origin of trademark as a state-granted privilege<sup>44</sup> and

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39. The problem also does not lend itself easily to Coasean bargaining because one party is the state and the property rights are arguably not well-defined. See R.H. Coase, *The Problem of Social Cost*, 3 J.L. & ECON. 1, 19 (1960) (explaining how well-defined property rights should facilitate optimal exchanges).

40. Bone, *supra* note 4, at 555–56; Lemley, *supra* note 3, at 1690.

41. Itamar Simonson, *Trademark Infringement from the Buyer Perspective: Conceptual Analysis and Measurement Implications*, 13 J. PUB. POL’Y & MKTS. 181, 181 (1994) (“The key test of trademark infringement is the likelihood of confusion (LOC) between trademarks.”); see also David S. Bloch & James G. McElwen, “*Like Toddlers in Big Surf*”: *Can the Government Control the Effects of Federal Trademark Liability?*, 33 PUB. CONT. L.J. 209, 227 (2003) (noting that in a trademark-infringement claim, an injunction is the only remedy that will cease consumer confusion arising from the infringement).

42. Frederick R. Zufert & T. Robert Rehm, Jr., *Intellectual Property: Fueling the Health Care Reform Engine*, 11 WAKE FOREST J. BUS. & INTEL. PROP. L. 147, 157 (2011).

43. See Alberto R. Salazar V., *NAFTA Chapter 11, Regulatory Expropriation, and Domestic Counter-Advertising Law*, 27 ARIZ. J. INT’L & COMP. L. 31, 37 (2010) (noting that NAFTA recognizes an exception to expropriation when the regulatory body does so in the pursuit of the public interest). Several scholars have explored variations of the argument that government should not just pay compensation in the case of a regulatory taking, but should be entitled to its benefits. Without suggesting any coherence in the literature on this issue, the argument asserted here differs from previous contributions because the “bundle” of rights included in the trademark property protection are so dependent on somewhat arbitrary government largesse. Felix S. Cohen, *Transcendental Nonsense and the Functional Approach*, 35 COLUM. L. REV. 809, 875 (1935) (noting the circular relationship between legal protection of a trademark and its value); see also Daryl J. Levinson, *Making Government Pay: Markets, Politics, and the Allocation of Constitutional Costs*, 67 U. CHI. L. REV. 345, 362–63 (2000) (discussing how the public-interest factor does not play a major role in the government’s internalization of constitutional costs); Thomas W. Merrill, *Rent Seeking and the Compensation Principle*, 80 NW. U. L. REV. 1561, 1583–84 (1986) (arguing that requiring the government to compensate for regulatory takings will only result in responsible decision making if the government in fact acts in the public interest); John Quinn & Michael J. Trebilcock, *Compensation, Transition Costs, and Regulatory Change*, 32 U. TORONTO L.J. 117, 135 (1982) (noting that uncertainty in government decision making makes it difficult to predict how compensation would affect the process).

44. See, e.g., Mark Bartholomew & John Tehranian, *The Secret Life of Legal Doctrine: The Divergent Evolution of Secondary Liability in Trademark and Copyright Law*, 21 BERKLEY TECH. L.J. 1363, 1398 (2006) (“[F]ederal trademark protection is a strictly statutory creation.”).

the state's power to inform and protect consumers.<sup>45</sup> A trademark holder may, however, be able to show that a proposed regulation should be prohibited because it is unjustifiably discriminatory,<sup>46</sup> and the state may be able to show that for some product categories, such as digestible goods, it is under no obligation to pay compensation.<sup>47</sup> The close relationship between the latter form of goods and human health entitles the state to partially or wholly prohibit the use of a trademark.<sup>48</sup>

Significant normative implications surround the regulation of trademarks. Some scholars and advocates argue that the state should enjoy wide flexibility to regulate, restrict, or prohibit trademarks when their underlying or suggested messages may mislead consumers, especially with regard to product risks.<sup>49</sup> These arguments arise from the state's essential role of ensuring fundamental constitutional or human rights in health, safety, and information.<sup>50</sup> In contrast, trademark holders, which invest vast sums of money to create an independent value in the minds of consumers,<sup>51</sup> argue that their entire investment deserves protection for the benefit of both firms and consumers.<sup>52</sup>

This Article acknowledges the importance of these normative debates, but nevertheless offers two main reasons for adopting a cost-benefit method of scrutinizing trademark regulation. First, many of the fora in which trademark holders assert their claims, such as international arbitration facilities, are simply more accustomed to calculating objective values than ascertaining

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45. George Miaoulis & Nancy D'Amato, *Consumer Confusion & Trademark Infringement*, 42 J. MARKETING 48, 48 (1978) (recognizing trademarks' role of providing consumers with the tools necessary to make informed decisions when purchasing products); see *supra* note 40 and accompanying text.

46. See *infra* note 329 and accompanying text.

47. See Salazar, *supra* note 43, at 51–52 (contending that regulations aimed at protecting public health, such as food warnings, should be permitted despite NAFTA's prohibition on property expropriation).

48. See *infra* note 337 and accompanying text.

49. See, e.g., McGrady, *supra* note 16, at 59 (“Member States possess the regulatory freedom to cancel existing trademarks [with deceptive terms] and to deny registration of trademarks of this type in the future. It is irrelevant that the terms may also describe taste or have a legitimate non-deceptive purpose.”); see also Joanna Schmidt-Szalewski, *The International Protection of Trademarks After the TRIPS Agreement*, 9 DUKE J. COMP. & INT'L L. 189, 210 (1998) (arguing that even under international trade agreements, governments enjoyed the ability to “include an indication that the product has been manufactured by a licensee or a restriction of the use with certain products such as tobacco”); Valentina S. Vadi, *Trade Mark Protection, Public Health and International Investment Law: Strains and Paradoxes*, 20 EUR. J. INT'L L. 773, 802 (2009) (“Public health or *salus publica* lies at the very heart of state sovereignty, as the basic duty of government is maintaining and enhancing the well-being of its people.”).

50. See *supra* note 49.

51. BR Rutherford, *Misappropriation of the Advertising Value of Trade Marks, Trade Names and Service Marks*, 2 S. AFR. MERCANTILE L.J. 151, 152 (1990).

52. *Id.* (“The growth of his business is dependent upon the growth of the meaning and importance of his trade mark. It is therefore only fair that he should be entitled to protect this valuable asset against misappropriation.”).

subjective rights located in national or international legal instruments.<sup>53</sup> Eventually, a dispute resolution panel—whether it is convened under the NAFTA, the WTO, or another agreement—will issue a judgment in a dispute between a trademark holder and a regulator.<sup>54</sup> Trademark proprietors almost exclusively articulate the standard for such an award, without the benefit of a comprehensive analytical approach.<sup>55</sup> Second, cost-benefit analysis gives regulators a way to analyze the breadth and scope of proposed regulations, especially when those regulations may cause the state to incur substantial costs related to a takings claim or to disadvantage particular trademark holders through misguided or poorly conceived rules.<sup>56</sup> Articulating the compensable value of trademarks through this framework will also assist regulators in domestic jurisdictions, such as the United States, that will grapple with trademark takings.<sup>57</sup>

Part I of this Article briefly reviews the debate surrounding the confrontations between the purpose of trademarks and states' interests in protecting public health and ensuring that accurate and effective product information reaches consumers. Part II addresses the theoretical underpinnings of trademark protection and the current bases upon which trademark value is now determined. Part III outlines the framework for ascertaining the property

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53. See, e.g., Karen Halverson Cross, *Arbitration as a Means of Resolving Sovereign Debt Disputes*, 17 AM. REV. INT'L ARB. 335, 366 (2006) (arguing that creditors hesitate to submit disputes to arbitration because arbitrators issue "split the difference" awards); Jens Dammann & Henry Hansmann, *Globalizing Commercial Litigation*, 94 CORNELL L. REV. 1, 34 (2008) (noting the lack of predictability in arbitration awards and contending that because "arbitrators are commonly chosen (directly or indirectly) and paid by the parties, giving the arbitrators an interest in rendering decisions that will maximize the chances that they will be chosen again in future disputes . . . [provides arbitrators with] an incentive to render compromised judgments that do not badly offend either party"); G. Richard Shell, *Res Judicata and Collateral Estoppel Effects of Commercial Arbitration*, 35 UCLA L. REV. 623, 634 (1988) ("Arbitrators, unlike judges, often have an incentive to make disputants equally happy or unhappy because they are paid by the parties rather than by the state.").

54. See, e.g., NAFTA, *supra* note 36, at arts. 1116–17 (permitting parties to submit investment disputes to arbitration); see also David Elward, *Tribunal Chosen in Uruguay Tobacco Dispute*, GLOBAL ARB. REV. (Mar. 21, 2011), <http://www.globalarbitrationreview.com/news/article/29336/> (reporting that an arbitration panel is already considering a trademark dispute between Philip Morris International and Uruguay involving Uruguay's cigarette-packaging laws).

55. See *infra* notes 240–41 and accompanying text (discussing several proceedings wherein trademark holders have persuaded tribunals that the state must compensate for regulatory "takings" of trademarks).

56. See Quinn & Trebilcock, *supra* note 43, at 135 (suggesting that a cost-benefit analysis would foreclose legislators from regulating according to personal preference and would instead require consideration of the actual costs for the public).

57. Philip Morris, Inc. v. Harshbarger, 159 F.3d 670, 674 (1st Cir. 1998) (challenging a disclosure law for cigarette ingredients as an unconstitutional taking); Robert K. Hur, *Takings, Trade Secrets, and Tobacco: Mountain or Molehill?*, 53 STAN. L. REV. 447, 450 n.18 (2000) (listing the various sources criticizing takings jurisprudence in the United States); Young, *supra* note 20 (reporting that the two largest U.S. tobacco companies allege that the government is "confiscating" half of the package space by requiring new warning labels).

interest in a trademark and allocating to the trademark proprietor and the state their corresponding evidentiary burdens in regulatory-takings claims. Part IV outlines the principles for determining the appropriate range for total prohibitions, including the standard for trademark holders to enjoin regulation or for the state to engage in non-compensable regulatory takings. Finally, Part V concludes that a fact-specific cost-benefit analysis is the best way to balance the interests of trademark proprietors and state regulators of public health.

## I. THE CONFRONTATION BETWEEN TRADEMARKS AND PUBLIC INTEREST REGULATION

### A. Theoretical Justifications for Trademark Protections

Trademarks occupy a legal space that partially overlaps with other intellectual properties like patents and copyrights.<sup>58</sup> Protections for the latter forms of intellectual property are justified in substantial part by the perceived value of securing reasonable and limited incentives for creators to invent.<sup>59</sup> By contrast, trademark law offers incentives for businesses to invest in the quality and uniqueness of their goods and to convey quality through combinations of words, colors, signs, shapes, and other distinguishing marks;<sup>60</sup> however, the purported social goal is focused on consumers' information costs.<sup>61</sup> Trademark law protects distinguishing symbols, images, and logos because consumers benefit from having an inexpensive way to inform themselves about goods and services.<sup>62</sup> When manufacturers successfully associate their products with desirable quality and price in the mind of the consumer, they reduce the consumer's cost of deciding which type or brand of their products to purchase in the future.<sup>63</sup> The basic motivation of trademark law is to protect

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58. See William E. Ridgway, *Revitalizing the Doctrine of Trademark Misuse*, 21 BERKELEY TECH. L.J. 1547, 1557–58 (2006) (discussing the distinctions between trademark law and patent and copyright laws).

59. *Id.* at 1558; see, e.g., *Integra LifeSciences I, Ltd. v. Merck KGaA*, 331 F.3d 860, 873 (Fed. Cir. 2003) (Newman, J., concurring in part and dissenting in part) (discussing the goals of the patent system and the incentive for creators to develop and disseminate scientific knowledge for public benefit), *vacated*, 545 U.S. 193 (2005); *Mannington Mills, Inc. v. Congoleum Indus., Inc.*, 610 F.2d 1059, 1070 (3d Cir. 1979) (providing that the incentives granted to patent holders encourages scientific investments in new inventions).

60. Ridgway, *supra* note 58, at 1557–58.

61. See Lemley, *supra* note 3, at 1690; Miaoulis & D'Amato, *supra* note 45, at 48.

62. J. Shahar Dillbary, *Getting the Word Out: The Informational Function of Trademarks*, 41 ARIZ. ST. L.J. 991, 999 (2009) (“Because a trademark denotes a single (if anonymous) source of manufacture, a trademark assures the consumer that the product is the same as the one she previously experienced. For the first-time consumer, it assures that the product is the same as the one recommended to her. Thus, a trademark, regardless of the information it provides about the product itself, economizes the consumer's search costs.”).

63. See William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 269 (1987) (applying economic efficiency arguments to

this mutually beneficial relationship by prohibiting one economic competitor's encroachment on investments in product distinction made by another.<sup>64</sup> Laws against counterfeiting and trademark infringement, for example, protect the successful trademark holder from "free riders" that may inappropriately benefit from the trademark holder's investments in quality or jeopardize those investments by supplying a product or service of inferior quality.<sup>65</sup> The 1988 film *Coming to America* provides a classic illustration of this relationship.<sup>66</sup> The film showcases Cleo McDowell, the proprietor of "McDowell's" restaurant, who employed "golden arcs" as the restaurant's brand identifier, which provoked conflict with "McDonald's" and its "golden arches."<sup>67</sup> Trademark law is meant to protect McDonald's from Cleo McDowell, as well as protect hungry consumers from being misled about their preferred products. Trademark law, therefore, largely focuses on transactions or relationships between private parties, including transactions among competitors and between competitors and consumers.<sup>68</sup>

Trademark protections stimulate investments in product quality, product advertising, or both,<sup>69</sup> depending on the industry sector and the distorting influence of credit and tax regimes.<sup>70</sup> Advertising investments increase sales and cash flow, and research-and-development investments contribute to firms' creation of improved products and thus enhance their competitive position, although advertising investments tend to materialize as increased sales sooner than investments in research and development.<sup>71</sup> In their study of firms'

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explain the overall design and mechanics of trademark law and its benefits to consumers in the form of low search costs).

64. See Ong, *supra* note 9, at 229, 231 (noting the dependent relationship between consumers relying on trademarks for information and trademark holders relying on consumers for business development); see also Lanham Act, 15 U.S.C. § 1114(1) (2006 & Supp. IV 2010).

65. See Graeme W. Austin, *Tolerating Confusion About Confusion: Trademark Policies and Fair Use*, in TRADEMARK LAW AND THEORY, *supra* note 9, at 368, 372–74 (offering an example to illustrate the problems associated with trademark infringement).

66. COMING TO AMERICA (Eddie Murphy Productions & Paramount Pictures 1988).

67. *Id.*

68. See *infra* note 103 and accompanying text.

69. Miaoulis & D'Amato, *supra* note 45, at 48 ("Having a protected trademark encourages a company to maintain the quality of the product . . . linked to the mark, as well as to promote the image of the product through advertising and other marketing techniques.").

70. See, e.g., J. Walter Elliott, *Advertising and R&D Investments in the Wealth-Maximizing Firm*, 35 J. ECON. & BUS. 389, 389–91 (1983) (explaining that creditors are more likely to issue loans for tangible assets like machinery or factories than for intangible assets like advertising, research, and development).

71. *Id.* at 390. Depending on the product and the sector, a trademark may appear on materials associated with sponsorship of industry, sports and entertainment events, billboards, general and specialized print media, television, film, and points of sale including—and often most importantly—on packaging and labeling. See, e.g., W.C. Howarth, *Are Trademarks Necessary?*, 60 TRADEMARK REP. 228, 228–29 (1970) (describing the wide variety of places in which trademarks appear). Advertising investments may represent a substantial part of trademark value. Dorothy Cohen, *Trademark Strategy*, 50 J. MARKETING 61, 61 (1986). The Campbell Soup

decisions to make either type of investment, Professors Keith W. Chauvin and Mark Hirschey found that investments in quality are more likely “in industries such as industrial machinery and computing equipment, measuring instruments, photography, electronic equipment, and chemicals and allied products,”<sup>72</sup> whereas toy companies, packaged-food manufacturers, tobacco firms, and leather-goods producers are more likely to invest in advertising.<sup>73</sup> In some industry sectors, such as soda and tobacco, a trademark’s value may comprise the majority of a company’s worth precisely because of indivisibility of advertising, promotion, and marketing costs from consumer preference for the trademark.<sup>74</sup> These investments yield even greater gains in states with high rates of illiteracy because symbols or diagrams are more important in product selection than written words.<sup>75</sup> Advocates of greater trademark protection argue that expanding trademark protections gives manufacturers more opportunities to benefit from prudent investments in advertising and quality and, correspondingly, lowers consumer information costs across a wider range of products and services.<sup>76</sup>

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Company, for example, knows that “the average shopper views its red and white cans in supermarkets 76 times a year . . . making the well-known name and package equivalent” to millions in advertising dollars. *Id.* (citations omitted); *see also* Landes & Posner, *supra* note 63, at 270 (“Creating such a reputation requires expenditures on product quality, service, advertising, and so on.”).

72. Keith W. Chauvin & Mark Hirschey, *Advertising, R&D Expenditures and the Market Value of the Firm*, 22 FIN. MGMT. 128, 130–31 (1993) (noting that nearly half of all industry groups conducted zero research-and-development activity).

73. *Id.* at 129.

74. *See* Shawn K. Baldwin, “To Promote the Progress of Science and Useful Arts”: A Role for Federal Regulation of Intellectual Property as Collateral, 143 U. PA. L. REV. 1707, 1704 (1995) (“[T]rademarks may represent as much as eighty percent of a company’s value.”); Eran Kahana, *Protecting Intellectual Capital in Startups: A Guide for the Entrepreneurial Attorney in the New Economy*, 28 WM. MITCHELL L. REV. 1187, 1187 (2002) (noting that intellectual property, such as trademarks, “frequently represents a substantial percentage of the company’s value”); *see also* ROSEMARY J. COOMBE, THE CULTURAL LIFE OF INTELLECTUAL PROPERTIES: AUTHORSHIP, APPROPRIATION, AND THE LAW 79–80 (1998) (discussing the success of Coca-Cola Co. at keeping its trademark associated with its product and avoiding “genericide”).

75. *See* Laura Heyman, *The Reasonable Person in Trademark Law*, 52 ST. LOUIS L.J. 781, 791 (2008) (noting the significance of trademarks as representative symbols that assist the illiterate in product identification); Surendra J. Patel, *Trademarks and the Third World*, 7 WORLD DEV. 653, 653 (1979) (noting that in 1974, nearly three-fourths of all trademarks were registered in developing countries and that more than four billion dollars was spent on promoting these trademarks in developing countries).

76. *See* Graeme B. Dinwoodie, *The International Intellectual Property Roots of Geographical Indicators*, 82 CHI.-KENT L. REV. 1329, 1332 (2008) (observing that trademark law could “protect investments in quality and distinction . . . while also education the public about the goods themselves”); *see also* Frank I. Schechter, *The Rational Basis of Trademark Protection*, 60 TRADEMARK REP. 334, 337–38 (1970) (discussing the importance and significance of trademarks).

For many areas of consumer products, expanding the property protections of trademarks generates benign or welfare-enhancing effects for consumers.<sup>77</sup> For example, consumers who know that a particular brand of work tools or cookware offers them the reasonable balance of quality and price spend less time comparing prices, searching for third-party evaluations, or, for ethically conscious consumers, investigating corporate production practices.<sup>78</sup> Trademark law justifiably acts to protect the expectations that consumers build into those brands from encroachment by competitors.<sup>79</sup> Indeed, robust protections against counterfeiting and infringement exist partly for that reason.<sup>80</sup> Internationally, ensuring stronger trademark protection lowers the costs for manufacturers to do business across national boundaries because their well-known brands facilitate entry into new markets.<sup>81</sup>

### *B. The Global Expansion of Trademark Protections*

Arguments favoring the expansion of trademark holders' rights have persuaded legislators and regulators across the globe.<sup>82</sup> In developed states, national laws place an increasing number of rights into the "bundle" enjoyed by trademark holders.<sup>83</sup> In the United States, for example, the Lanham Act historically provided injunctive and monetary relief for firms able to

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77. See, e.g., Landes & Posner, *supra* note 63, at 275–80; see also Nicholas S. Economides, *The Economics of Trademarks*, 78 TRADEMARK REP. 523, 527 (1988) (discussing consumer identification of "Nabisco Wheat Thins," which identifies the product's quality and its features to encourage purchase); Jeremy Sheff, *Biasing Brands*, 32 CARDOZO L. REV. 1245, 1250 (2011) (discussing the efficient transfer of information between producers and consumers through trademarks).

78. See *supra* notes 61–63 and accompanying text; see also Economides, *supra* note 77, at 527 (emphasizing the variety of information transmitted to the consumer via trademarks).

79. See *supra* note 65 and accompanying text; see also Stephen Wilf, *Who Authors Trademarks?*, 17 CARDOZO ARTS & ENT. L.J. 1, 12 (1999) (discussing the importance of protecting trademark identity).

80. See Graeme W. Austin, *Trademarks and the Burdened Imagination*, 69 BROOK. L. REV. 827, 829–31 (2004).

81. Harold R. Weinburg, *Trademark Law, Functional Design Features, and the Trouble with Traffix*, 9 J. INTELL. PROP. L. 1, 38–39 (2001) ("Trademark protection . . . may be advantageous for a producer seeking to introduce a new product into a limited area and ultimately expand into new products."); see also Keith E. Maskus, *Intellectual Property Challenges for Developing Countries: An Economic Perspective*, 2001 U. ILL. L. REV. 457, 461 ("Recent evidence indicates that product development and entry of new firms is limited by weak trademark protection in poor nations.").

82. See Mark P. McKenna, *Testing Modern Trademark Law's Theory of Harm*, 95 IOWA L. REV. 63, 68 (2009) (examining how "a significant conceptual shift" in trademark law has grown to protect non-competing, non-confusing uses); Robert Gutowski, Comment, *The Marriage of Intellectual Property and International Trade in the TRIPS Agreement: Strange Bedfellows or a Match Made in Heaven?*, 47 BUFF. L. REV. 713, 727–33 (1999) (reviewing laws and court decisions in Chile, Denmark, India, Jamaica, Mexico, and Vietnam, which have expanded trademark protections).

83. See Austin, *supra* note 80, at 830 (noting that trademark rights "continue to expand").

demonstrate that a competitor's mark created a "likelihood of confusion" as to the origin of trademarked goods or services.<sup>84</sup> In 1995 and 2006, Congress strengthened protections for well-known marks through the Federal Trademark Dilution Act and the Trademark Dilution Revision Act, which enabled trademark holders to enjoin activities that damaged certain trademarks even absent the "likelihood of confusion."<sup>85</sup> Under French law, trademarks have the same protections as copyrights and patents, and "the [trademark] proprietor must be entitled to enjoin any kind of unauthorized use, no matter for which purpose."<sup>86</sup> In 1979, the German Federal Constitutional Court ruled that trademarks constituted "property" under the Constitution, which elevated them to the same position as copyrights and patents.<sup>87</sup> Because trademarks are an "expression of an entrepreneur's achievement motivation,"<sup>88</sup> German law now protects artists, holding companies, and advertising firms as trademark holders.<sup>89</sup>

Moreover, developed states are pressing developing countries to follow suit through TRIPS and bilateral and multilateral treaties.<sup>90</sup> Long frustrated at what

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84. 15 U.S.C. §§ 1114, 1125 (2006 & Supp. IV 2010); see Austin, *supra* note 65, at 381 ("The 'ordinarily prudent consumer' whom trademark law protects against the likelihood of confusion and against changes to mental impressions of famous brands, is not a real person. She is both a legal construct and a conglomeration of judicial impressions. . . ."); Austin, *supra* note 80, at 830–31.

85. See *supra* note 7; see also 141 CONG. REC. 38,559 (1995) (stating that under the Federal Trademark Dilution Act, "the use of DuPont shoes, Buick aspirin, and Kodak pianos would be actionable").

86. Annette Kur, *Fundamental Concerns in the Harmonization of (European) Trademark Law*, in TRADEMARK LAW AND THEORY, *supra* note 9, at 151, 151; see also Alain Michelet & Eric Le Bellour, 1 TRADEMARKS THROUGHOUT THE WORLD § 58:12 (2011) (providing an overview of French trademark law); Kate Goldwasser, Comment, *Knock it Off: An Analysis of Trademark Counterfeit Goods Regulation in the United States, France, and Belgium*, 18 CARDOZO J. INT'L & COMP. L. 207, 221–25 (2010) (comparing French courts' strict application of domestic trademark laws to Belgian courts' less stringent approach toward trademark laws in Belgium); Christian Derambure, *The IP Guide to . . . France*, NEWLEGAL REV. (Oct. 24, 2006), [http://www.cpaglobal.com/newlegalreview/1175/the\\_ip\\_guide\\_to\\_france](http://www.cpaglobal.com/newlegalreview/1175/the_ip_guide_to_france) (explaining that French intellectual-property law mirrors the "likelihood of confusion" standard used in the United States and the United Kingdom, and also finds infringement "if the defendant reproduces the characteristic elements of the mark, or uses the mark in any commercial competition, which impacts the owner's goodwill or reputation").

87. Rudolf Rayle, *The Trend Towards Enhancing Trademark Owners' Rights—A Comparative Study of U.S. and German Trademark Law*, 7 J. INTELL. PROP. L. 227, 235–36 & n.40 (2000).

88. *Id.* at 236 (footnote omitted) (internal quotation marks omitted).

89. *Id.* at 270.

90. See generally, e.g., TRIPS Agreement, *supra* note 36. The U.S. Congress approved the establishment of the WTO, the TRIPS Agreement, and the rest of the General Agreement on Tariffs and Trade (GATT) on December 8, 1994. Uruguay Round Agreements Act, Pub. L. No. 103-465, 108 Stat. 4809 (1994). Trademark protections are also enhanced through an extensive web of bilateral investment and trade treaties. See, e.g., UNITED NATIONS CONFERENCE ON TRADE & DEV. (UNCTAD), INTELLECTUAL PROPERTY PROVISIONS IN INTERNATIONAL

they viewed as insufficient protections for trademarks and trade names in developing countries, developed states introduced a set of uniform protections for trademarks at the 1986 Uruguay Round of negotiations for the WTO.<sup>91</sup> TRIPS, as those protections collectively came to be codified, grants trademark holders rights to prevent confusing uses of an identical or similar mark on identical or similar goods.<sup>92</sup> TRIPS also allows trademark holders to sell and share their trademarks with greater ease than under some common law jurisdictions like the United States.<sup>93</sup> Member states may pass protections greater than those detailed in TRIPS,<sup>94</sup> but additional protections must be extended to nationals of other member states.<sup>95</sup> In addition to substantive provisions, TRIPS also outlines minimal enforcement obligations of member states.<sup>96</sup> Remedies include injunctions, money damages, and the use of border restrictions.<sup>97</sup> In cases of willful counterfeiting, TRIPS requires criminal penalties.<sup>98</sup>

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INVESTMENT ARRANGEMENTS 5 (2007) (“A sizable proportion of these [investment] treaties include provisions obligating the contracting parties to meet [intellectual-property] standards that are more stringent than the ones found in the TRIPS Agreement.”); Ong, *supra* note 9, at 234–35 (discussing difficulties in reaching an international consensus with trademark laws and the increasing reliance on bilateral investment treaties (BITs), which contain stricter intellectual-property provisions than those in TRIPS); *see also* Sam Foster Halabi, *Efficient Contracting Between Foreign Investors and Host States: Evidence from Stabilization Clauses* 31 NW. J. INT’L L. & BUS. 261, 263 (2011) (describing the abundance of bilateral investment treaties).

91. *See generally* TRIPS Agreement, *supra* note 36.

92. *See id.* at art. 16(1). Owners of well-known marks receive additional protection against uses of their marks on dissimilar goods. *Id.* at art. 16(2)–(3). Article 20 limits the encumbrances that can be placed on trademarks. *Id.* at art. 20. According to Nuno Pires de Carvalho, Article 20 did not contemplate restrictions on health, food, or security measures; rather, restrictions specifically related to a course of trade required, for example, that a foreign trademark be associated with a domestic licensee. NUNO PIRES DE CARVALHO, *THE TRIPS REGIME OF TRADEMARKS AND DESIGNS* § 20.16, at 331 (2006); *see also* Schmidt-Szalewski, *supra* note 49, at 210 (“Such [justifiable Article 20] conditions might include an indication that the product has been manufactured by a licensee or a restriction of the use with certain products such as tobacco.”).

93. *Compare* TRIPS Agreement, *supra* note 36, at art. 21 (allowing trademark holders “the right to assign [a] trademark with or without the transfer of the business to which the trademark belongs”), with Irene Calboli, *Trademark Assignment “with Goodwill”: A Concept Whose Time Has Gone*, 57 FLA. L. REV. 771, 777–79 (2005) (discussing the historical requirement that trademark assignments include a business’s goodwill and the codification of this requirement in the Lanham Act).

94. *See* TRIPS Agreement, *supra* note 36, at art. 1(1).

95. *See id.* at art. 3 (providing the caveat that this provision is subject to any Paris Convention exceptions). The Lanham Act provides this protection to foreign nationals in the United States. *See* 15 U.S.C. § 1126(b) (2006).

96. TRIPS Agreement, *supra* note 36, at art. 41.

97. *Id.* at arts. 44–45, 57.

98. *Id.* at art. 61.

Although the WTO's TRIPS Council compiles relevant intellectual-property laws from member states and provides opportunities for comment,<sup>99</sup> a comprehensive and systematic evaluation of developing countries' compliance with TRIPS is unavailable. Notably, the Office of the U.S. Trade Representative monitors trade barriers to U.S. companies through other countries' intellectual-property laws and uses TRIPS as an important, but not exclusive benchmark.<sup>100</sup> Based on somewhat limited data, it appears that many developing countries have brought their laws into compliance with TRIPS and that incentives exist for additional developing countries to continue this trend.<sup>101</sup> Regional integration, trade treaties such as NAFTA, MERCOSUR, and EU Council directives, as well as trademark-specific international treaties, also have increased trademark protections in participating states.<sup>102</sup>

### C. Trademarks, Public Health, and Consumer Information Costs

Regardless of national and international lawmakers' motivations and rationales for adopting strong trademark protections, it is fair to say that they intended those protections to operate primarily against private conduct.<sup>103</sup> For example, statutory schemes in Belgium, the Netherlands, Luxembourg,<sup>104</sup> the European Union,<sup>105</sup> South Africa,<sup>106</sup> Taiwan,<sup>107</sup> the United States,<sup>108</sup> and the

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99. See, e.g., UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT & INT'L CTR. FOR TRADE AND SUSTAINABLE DEV., RESOURCE BOOK ON TRIPS AND DEVELOPMENT 739, 748 (2005), available at [http://www.iprsonline.org/unctadictsd/docs/6.3TRIPS\\_COUNCIL\\_UPDATE.pdf](http://www.iprsonline.org/unctadictsd/docs/6.3TRIPS_COUNCIL_UPDATE.pdf).

100. See, e.g., OFFICE OF THE U.S. TRADE REPRESENTATIVE, 2009 SPECIAL 301 REPORT 3, 8-9, 17, 20, 25, 31 (2009).

101. See Carsten Fink & Beata K. Smarzynska, *Trademarks, Geographical Indications, and Developing Countries*, in DEVELOPMENT, TRADE AND THE WTO: A HANDBOOK 403, 410 (Bernard Hoekman, Aaditya Mattoo & Philip English eds., 2002).

102. See NAFTA, *supra* note 36, at art. 1708 (outlining NAFTA's trademark regime); Madrid Agreement Concerning the International Registration of Marks, art. 1(2), Apr. 14, 1891, as revised at Stockholm on July 14, 1967, 828 U.N.T.S. 389 [hereinafter Madrid Agreement]; Paris Convention for the Protection of Industrial Property, art. 6quinquies, Mar. 20, 1883, as revised at Stockholm on July 14, 1967, 21 U.S.T. 1583, 828 U.N.T.S. 305 [hereinafter Paris Convention]; *supra* note 36.

103. See Glynn S. Lunney, Jr., *Trademark Monopolies*, 48 EMORY L.J. 367, 369-70 (1999) (discussing the purposes of trademark protection and stating that such protection can create monopolies by giving individual producers complete product control in a given market, but can also satisfy the desires of consumers); see also Lynne Beresford, *Geographical Indications: The Current Landscape*, 17 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 979, 980-81 (2007) (discussing trademark law's purpose of protecting consumer expectations).

104. Protocol Amending the Benelux Uniform Law on Marks, Belg.-Lux.-Neth., art. 13(A)(1)(c), Aug. 7, 1996, 2110 U.N.T.S. 258 [hereinafter Benelux Act].

105. Markenrechtsreformgesetz [Trade Mark Reform Law], Oct. 25, 1994, Bundesgesetzblatt [BGBl.] at 6, § 6 (Ger.).

106. Trade Marks Act 1993 § 1(2)(xxiii) (S. Afr.).

United Kingdom,<sup>109</sup> as well as Article 20 of TRIPS, specify protection of trademarks “in the course of trade” or “in commerce.”<sup>110</sup> Many states’ statutes explicitly associate trademark protection with fair competition between sellers.<sup>111</sup> France, for example, has extended criminal and civil liability for trademark infringement to third-party sellers.<sup>112</sup> Although both domestic and international law define certain public interests to justify trademark legislation,<sup>113</sup> scholarly authority largely supports the view that trademark protection exists to ensure fair competition between firms and accurate information to consumers.<sup>114</sup>

Yet trademark holders are increasingly using trademark law not only against private acts of dilution or infringement, but also to thwart public-interest

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107. See Andy Sun, *From Pirate King to Jungle King: Transformation of Taiwan’s Intellectual Property Protection*, 9 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 67, 101 & n.81 (1998) (describing Taiwan’s trademark regulations within the context of TRIPS).

108. 15 U.S.C. § 1127 (2006 & Supp. IV 2010); see also Kenneth L. Port, *The Expansion Trajectory: Trademark Jurisprudence in the Modern Age*, 92 J. PAT. & TRADEMARK OFF. SOC’Y 474, 476 (2010) (describing how original trademark limitations are enabling moral rights to attribution present in many civil-law jurisdictions).

109. Trade Marks Act, 1994, c. 26, § 10 (Eng.) [hereinafter U.K. Trade Marks Act].

110. See TRIPS Agreement, *supra* note 36, at art. 20; see also McGrady, *supra* note 16, at 60–61 (discussing the scope of TRIPS’ Article 20).

111. Bruce W. Slayden II, *Recent Developments in Trademark Law*, 3 TEX. INTELL. PROP. L.J. 125, 133–35 (1995) (noting such explicit associations in Mexico’s and the United Kingdom’s statutes); see also Ley de Protección a la Propiedad Industrial [LPI] [Industrial Property Protection Law], art. 90 § XVII, Diario Oficial de la Federación [DO], 2 de Agosto de 1994 (Mex.); CELIA LURY, BRANDS: THE LOGOS OF THE GLOBAL ECONOMY 108–09 (2004) (discussing the shifting focus of trademark law from consumer confusion to dilution by other producers).

112. See Allison N. Ziegler, Comment, *Online Auction House Liability for the Sale of Trademark Infringing Products*, 14 MARQ. INTELL. PROP. L. REV. 215, 229–30 (2010) (observing that under French tort law, online auction houses such as eBay may be liable for negligent conduct resulting in contributory trademark infringement); *French Trademarks*, INTELL. PROP. INFO., <http://www.casalonga.com/French-Trademarks?&lang=en> (last visited Mar. 15, 2012) (outlining the various penalties for trademark infringement and noting that criminal infringement may result in four years in jail).

113. See TRIPS Agreement, *supra* note 36, at art. 8(1) (“Member[] [states] may adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development . . . .”); Paris Convention, *supra* note 102, at art. 6quinquies(B)(3) (providing that governments may refuse to register trademarks that are “contrary to morality or public order and, in particular, of such a nature as to deceive the public.”).

114. See, e.g., *Ty Inc. v. Perryman*, 306 F.3d 509, 510 (7th Cir. 2002) (“The fundamental purpose of a trademark is to reduce consumer search costs by providing a concise and unequivocal identifier of the particular source of particular goods.”); ROBERT P. MERGES, PETER S. MENELL & MARK A. LEMLEY, *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 559 (2000) (“[T]he fundamental principles of trademark law have essentially been ones of tort: the tort of misappropriation of the goodwill of the trademark owner, and the tort of deception of the consumer.”); *supra* Part I.A.

regulations intended to inform consumers about product risks and attributes.<sup>115</sup> In 1994, Canadian legislators considered imposing a “plain packaging” regime on cigarettes.<sup>116</sup> This requirement provided that only the manufacturer’s name could appear in standardized black font, and that the remainder of the package must remain an entirely uniform color, except for government-mandated health warnings.<sup>117</sup> A broad coalition of tobacco firms mounted a campaign to convince Canadian legislators that plain packaging would violate various intellectual-property norms, as well as trademark protections under NAFTA and other international agreements.<sup>118</sup>

In 2001, tobacco companies organized similar campaigns against the prohibition of “light” and “mild” as product descriptors.<sup>119</sup> Between 2008 and 2010, Philip Morris International (PMI) challenged cigarette-pack labeling regulations imposed by Uruguay based on its recently adopted, TRIPS-compliant trademark law.<sup>120</sup> The regulations require that pictorial warnings cover eighty percent of a cigarette pack’s surface and permit the sale of only one variety of cigarettes per brand under the so-called single presentation requirement.<sup>121</sup> This part of the law prevents PMI from selling Marlboro “Reds,” Marlboro “Greens,” and Marlboro “Blues,” which leaves

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115. See *infra* Part I.B.1–3.

116. PHYSICIANS FOR A SMOKE-FREE CAN., *THE PLOT AGAINST PLAIN PACKAGING* 3 (2008), available at [http://www.smoke-free.ca/pdf\\_1/plotagainstplainpackaging-apr1.pdf](http://www.smoke-free.ca/pdf_1/plotagainstplainpackaging-apr1.pdf).

117. GARFIELD MAHOOD, WORLD HEALTH ORG., *CANADA’S TOBACCO PACKAGE LABEL OR WARNING SYSTEM: “TELLING THE TRUTH” ABOUT TOBACCO PRODUCT RISKS* 7 (2003).

118. See PHYSICIANS FOR A SMOKE-FREE CAN., *supra* note 116, at 26.

119. Steven Chase, *Tobacco Firm Warns “Mild” Cigarette Ban May Violate NAFTA*, *GLOBE & MAIL*, Mar. 16, 2002, at 6, available at 2002 WLNR 12047568; Submission by Philip Morris Int’l, Inc., in Response to the Nat’l Ctr. for Standards and Certification Info., Foreign Trade Notification No. G/TBT/N/CAN/22, available at <http://www.takingontobacco.org/pmresponsetonoi.pdf>.

120. See Raphael Lenucha, *Philip Morris Versus Uruguay: Health Governance Challenged*, 376 *LANCET* 852, 852–53 (2010); Gustavo R. Fischer, *Uruguay: The New Patent Legislation: An Overview*, *MONDAQ.COM* (Dec. 18, 2000), <http://www.mondaq.com/article.asp?articleid=9568> (stating that Uruguay acceded to TRIPS by law No. 16.671 on December 13, 1994 and modified its Trademarks Act to conform to TRIPS and the Paris Convention). The revised Uruguayan trademark laws, passed in 1998 and 1999, retain the essential features of the prior laws, but expand rights for property holders. *Id.* Uruguayan law allows trademark holders to challenge the registration of another mark that may confuse the public, but otherwise imposes criminal liability on violators, with punishments ranging from six months of imprisonment to three years of confinement in a penitentiary. *Establishing Provisions on Trademarks*, Law No. 17.011, c. XIV, art. 83 (1998) (Uru.), available at <http://www.wipo.int/wipolex/en/details.jsp?id=3946>. Authorities may seize and destroy infringing goods, except when they may be donated to a charity. *Id.* at c. XIV, art. 84. In addition, trademark holders may sue for damages and request judicial injunctions, which were unavailable under the pre-TRIPS law. See *id.* at c.XIV, arts. 87–88. Indeed, Uruguay’s record for protecting foreign investment is strong. Jonas Bergstein, *Foreign Investment in Uruguay: A Law and Development Perspective*, 20 *MIAMI INTER-AM. L. REV.* 359, 380 & n.104 (1989).

121. Uru., Ministry of Public Health Ordinance No. 514 (Feb. 14, 2009); Uru., Presidential Decree No. 287/009 (Dec. 2, 2009).

“Marlboros” as its only authorized variety.<sup>122</sup> PMI claims that the regulations effectively expropriate its trademarks and has demanded compensation.<sup>123</sup> In 2011, PMI announced a virtually identical suit against the Australian government for its proposed plain-packaging regime.<sup>124</sup>

Similar conflicts have arisen over food and alcohol regulation. For example, when the Guatemalan legislature sought to prohibit images of infants on baby formula packaging—following guidelines adopted by the World Health Organization (WHO)—the Gerber baby-formula manufacturer argued that the prohibition amounted to an indirect expropriation of its valuable infant image.<sup>125</sup> In January 2010, Thailand proposed legislation requiring that graphic warning labels cover thirty percent of the surface of beer, wine, and spirits containers.<sup>126</sup> Subsequently, alcohol companies began organizing a worldwide effort to discourage the plan, partly based on the concern that the proposed restrictive labeling requirements could diminish their trademarks’ distinctive properties.<sup>127</sup>

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122. Fernando Cabrera Diaz, *Philip Morris Initiates Arbitration Against Uruguay over New Labeling Requirements, Taxes*, INV. TREATY NEWS (May 11, 2010), <http://www.iisd.org/itn/2010/05/11/philip-morris-initiates-arbitration-against-uruguay-over-new-labeling-requirements-taxes/>.

123. *Philip Morris Makes Demands of Uruguay at the International Centre for Settlement of Investment Disputes*, NETWORK FOR JUST. GLOBAL GOV’T (Apr. 13, 2010), <http://justinvestment.org/2010/04/philip-morris-makes-demands-of-uruguay-at-the-international-centre-for-settlement-of-investment-disputes/>. PMI eventually resorted to arbitration and claimed violations of a broadly worded investment treaty between Switzerland and Uruguay. See Agreement Between the Swiss Confederation and the Oriental Republic of Uruguay on the Reciprocal Promotion and Protection of Investments, Switz.-Uru., art. 5, Apr. 22, 1991, 575 U.N.T.S. 159, available at [http://untreaty.un.org/unts/120001\\_144071/26/2/00021341.pdf](http://untreaty.un.org/unts/120001_144071/26/2/00021341.pdf); FTR Holding S.A. v. Uruguay, ICSID Case No. APRB/10/17, Request for Arbitration, ¶ 32 (Feb. 19, 2011) [hereinafter Request for Arbitration], available at [http://www.smoke-free.ca/eng\\_home/2010/PMIvsUruguay/PMI-Uruguay%20complaint0001.pdf](http://www.smoke-free.ca/eng_home/2010/PMIvsUruguay/PMI-Uruguay%20complaint0001.pdf).

124. Bloomberg News, *Philip Morris Sues Australia Over Cigarette Packaging*, N.Y. TIMES, June 27, 2011, at B8.

125. Letter from Mario Permut to Gustavo Hernandez, Ministry of Pub. Health (Feb. 16, 1994) (on file with author) (“The Gerber Executive explained that they will fight with all their strength for the application and enforcement of their industrial property rights in Guatemala and, at this moment, the major damages affecting them derive from the fact that they have not been able to sell the [infant image-labeled] product in Guatemala.”).

126. Patrick Barta & Christina Passariello, *Global Liquor Makers Fight Graphic Labels in Thailand*, WALL ST. J., Sept. 17, 2010, at B1; see also Committee on Technical Barriers to Trade, *Notification*, G/TBT/N/THA/332, at 2 (Jan 21, 2010), available at <http://docsonline.wto.org/imrd/directdoc.asp?DDFDocuments/t/G/tbtn10/THA332.doc> (altering WTO members of proposed Thai regulations).

127. Barta & Passariello, *supra* note 126, at B1; *Tobacco and Alcohol Technical Barriers Among Members’ Trade Concerns*, WORLD TRADE ORG. (Mar. 24–25, 2010), [http://www.wto.org/english/news\\_e/news10\\_e/tbt\\_24mar10\\_e.htm](http://www.wto.org/english/news_e/news10_e/tbt_24mar10_e.htm).

In some of these cases, firms alleged a regulatory taking of private property.<sup>128</sup> Furthermore, firms asserted that compensation should be based on their trademark's value on the regulatory implementation date and take into account sales tied to the trademark and investments in trademark improvement.<sup>129</sup> Trends in public-health regulation suggest that confrontations between states and trademark holders will become more frequent as states increasingly bear health-related costs for their populations' consumption decisions.<sup>130</sup> Indeed, in many economic sectors closely related to health, trademarks comprise a disproportionately large share of firms' value.<sup>131</sup>

### 1. Alcohol

Alcohol consumption, for example, not only results in greater harm to third parties relative to other drugs like cocaine and heroin,<sup>132</sup> but also has substantial deleterious effects on users, such as increased risks of cancer and heart disease, and plays a causal role in traffic accidents, burns, poisonings, falls, and drownings.<sup>133</sup> Additionally, alcohol consumption may facilitate risky

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128. See Been & Beauvais, *supra* note 37, at 133–34 (discussing tobacco companies' claims that packaging regulations expropriate their trademarks and goodwill).

129. See Letter from Wayne W. Juchatz, Senior Vice President, Gen. Counsel, & Sec'y, RJR Reynolds Tobacco Co., to the Standing Comm. on Health, House of Commons, Ottawa, Ont. (May 3, 1994) [hereinafter Juchatz Letter], available at <http://legacy.library.ucsf.edu/tid/mrm97c00> (calculating the value of RJR Nabisco, Inc. at eight billion dollars and asserting that "proper and full compensation in the hundreds of millions of dollars, would have to be paid" as a result of the expropriation of trademarks through plain-packaging regulations); Request for Arbitration, *supra* note 123, ¶¶ 93–94.

130. See Sam Foster Halabi, *Participation and the Right to Health: Lessons from Indonesia*, 11 HEALTH & HUM. RTS. J. 49, 53–54 (2009) (arguing that health-system distribution should emphasize low-cost, high-impact public-health interventions); Nan D. Hunter, *Risk Governance and Deliberative Democracy in Health Care*, 97 GEO. L.J. 1, 3 (2008) (explaining the relationship between risk management and distributive healthcare decisions).

131. See Benjamin M. Arrow, *Real-Life Protection for Fictional Trademarks*, 21 FORDHAM INTEL. PROP. MEDIA & ENT. L.J. 111, 123 (2011) ("[T]he estimated value of Coca-Cola's trademark . . . independent of any of its tangible assets is estimated to be approximately \$24 billion." (citing *Legislation Industry Calls for Stiffer Enforcement of Anti-Counterfeiting Laws*, 44 PAT. TRADEMARK & COPYRIGHT J. (BNA) 585, 586 (1992))); Juchatz Letter, *supra* note 129 ("Trademarks are the most valuable assets of [tobacco manufacturers] Reynolds and McDonald.").

132. David J. Nutt et. al., *Drug Harms in the UK: A Multicriteria Decision Analysis*, 376 THE LANCET 1558, 1560–61 (2010). Alcohol consumption and its corresponding negative effects are increasing worldwide. See *Alcohol-Related Ills Increasing Worldwide*, U.S. NEWS & WORLD REP. (June 25, 2009), <http://health.usnews.com/health-news/family-health/brain-and-behavior/articles/2009/06/25/alcohol-related-ills-increasing-worldwide>; see also Charles D.H. Parry, *Alcohol Problems in Developing Countries: Challenges for the New Millennium*, 2 SUCHTMEDIZIN IN FORSCHUNG UND PRAXIS 216, 217–18 (2000), available at <http://www.sahealthinfo.org/admodule/Suchtmed.pdf>.

133. DIETARY GUIDELINES ADVISORY COMM., U.S. DEP'T OF AGRIC., REPORT OF THE DIETARY GUIDELINES ADVISORY COMMITTEE ON THE DIETARY GUIDELINES FOR AMERICANS D7-9-10, D7-12-13 (2010); WORLD HEALTH ORG., ALCOHOL AND INJURIES: EMERGENCY

sexual behavior.<sup>134</sup> By proposing large graphic warnings on alcohol containers, the Thai government has indicated a reduced tolerance for “safe” levels of consumption and has now focused on preventing both low-risk and high-risk consumption.<sup>135</sup>

Alcohol manufacturers’ dominant value is in their brands, which they use as a part of their broader advertising and marketing campaigns to appeal to consumers.<sup>136</sup> Manufacturers and advertisers encourage consumption through sponsorship of sports and entertainment events, billboards, print media, and point-of-sale cues like packaging and labeling.<sup>137</sup> The goal of these advertising efforts is for the brand to become the “real product” in the consumer’s mind.<sup>138</sup>

Moreover, many alcohol trademarks appear to be designed to encourage children or adolescents to engage in early consumption.<sup>139</sup> A study of Anheuser-Busch’s 1995 Budweiser advertising campaign, which featured croaking frogs, found that eighty-one percent of nine- to eleven-year-olds recognized the Budweiser frogs and that more children recalled the Budweiser slogan than slogans of other products advertised during the same viewing period.<sup>140</sup> Additionally, alcohol manufacturers developed flavored alcoholic beverages like wine coolers—a cross between alcohol, fruit juices, flavorings, and soft drinks—to provide sweet, but low-alcohol options for entry-level

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DEPARTMENT STUDIES IN AN INTERNATIONAL PERSPECTIVE, at iv (2009), available at [http://www.who.int/substance\\_abuse/publications/alcohol/en/](http://www.who.int/substance_abuse/publications/alcohol/en/).

134. Lori A.J. Scott-Shelden et al., *Alcohol Consumption, Drug Use and Condom Use Among STD Clinic Patients*, 70 J. STUDS. ON ALCOHOL & DRUGS 762, 762–63 (2009).

135. Barta & Passariello, *supra* note 126, at B1.

136. See, e.g., Sally Casswell, *Alcohol Brands in Young Peoples’ Everyday Lives: New Developments in Marketing*, 39 ALCOHOL & ALCOHOLISM 471, 471–72 (2004) (discussing how alcohol manufacturers use brand marketing to make their product part of consumers’ everyday life).

137. *Id.*; Sally Casswell & Anna Maxwell, *Regulation of Alcohol Marketing: A Global View*, 26 J. PUB. HEALTH POL’Y 343, 343–44 (2005) (discussing advertising campaigns targeted at youths, which included cell phone use, e-mail, sports, and music).

138. NAOMI KLEIN, NO SPACE, NO CHOICE, NO JOBS, NO LOGO: TAKING AIM AT THE BRAND BULLIES 21 (2000); see also Judith A. Garretson & Scot Burton, *Alcoholic Beverage Sales Promotion: An Initial Investigation of the Role of Warning Messages and Brand Characters Among Consumers over and Under the Legal Drinking Age*, 17 J. PUB. POL’Y & MARKETING 35, 35–38 (1998) (discussing the effectiveness of alcohol promotion through brands).

139. See DIANE MCKENZIE, ASS’N TO REDUCE ALCOHOL IN ONT., UNDER THE INFLUENCE? THE IMPACT OF ALCOHOL ADVERTISING ON YOUTH 6–9 (2000), available at [http://www.apolnet.ca/resources/pubs/rpt\\_AdImpactYouth.pdf](http://www.apolnet.ca/resources/pubs/rpt_AdImpactYouth.pdf). Budweiser, for example, trademarked a party-happy bull terrier featured in campaigns many viewed as targeting adolescents, children, and young adults. *Id.* at 5–6.

140. *Id.* at 7; see also *Alcohol Advertising Reaching Too Many Teens on Cable TV, Researchers Say*, UCLA HEALTH SYS. (Aug. 20, 2009), <http://www.uclahealth.org/body.cfm?id=403&action=detail&ref=1264> (finding evidence to suggest that alcohol advertisements air more frequently during programming aimed at teens).

drinkers.<sup>141</sup> Manufacturers purposefully shape the bottle design and images of flavored alcoholic beverages to mimic their spirits product lines.<sup>142</sup>

## 2. *Packaged Food and Bottled Beverages*

Obesity levels are rising in both developed and developing countries and play a causal role in heart disease, diabetes, certain cancers, osteoarthritis, and strokes.<sup>143</sup> The WHO partly attributes the emerging global obesity pandemic to processed fatty and sugary foods, which are heavily marketed to and consumed by children.<sup>144</sup> To advertise these food and beverage products, manufacturers invest in visual elements like vivid graphics because these products are “low involvement”—that is, frequently purchased low-cost items that consumers select with little search-and-decision effort—and aspects like color and package size may facilitate repeat purchases because consumers quickly identify familiar color and shape schemes.<sup>145</sup>

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141. In the United States, for example, one study indicates that almost “one-third of youths begin drinking before age 13.” U.S. DEP’T OF HEALTH & HUMAN SERVS., THE SURGEON GENERAL’S CALL TO ACTION TO PREVENT AND REDUCE UNDERAGE DRINKING 5–9 (2007) (citation omitted), available at <http://www.surgeongeneral.gov/topics/underagedrinking/calltoaction.pdf>; James F. Mosher & Diane Johnsson, *Flavored Alcoholic Beverages: An International Marketing Campaign that Targets Youth*, 26 J. PUB. HEALTH POL’Y 326, 326–27 (2005); see also AM. MED. ASS’N, GIRLIE DRINKS . . . WOMEN’S DISEASES (2004), available at [http://www.alcoholpolicysolutions.net/alcoholpolicymd/press\\_room/girlie\\_drinks\\_release.htm](http://www.alcoholpolicysolutions.net/alcoholpolicymd/press_room/girlie_drinks_release.htm) (indicating that sweet malt liquor drinks attract teen girls, rather than adult women, largely as a result of marketing practices).

142. Mosher & Johnsson, *supra* note 141, at 328 (“According to a spokesperson for Diageo, the company that markets Smirnoff Ice: ‘It is no accident that the Smirnoff Ice bottle looks like the vodka bottle. . . . We’ve got it working on both ends (malt beverage and spirits).’” (footnote omitted)); see also Margaret C. Jackson et al., *Marketing Alcohol to Young People: Implications for Industry Regulation and Research Policy*, 95 ADDICTION S597, S600 (2000) (discussing the increasing trend of “flavoured alcoholic beverage[s]” targeted toward young people in the United Kingdom).

143. ORG. FOR ECON. COOPERATION & DEV., EXECUTIVE SUMMARY: OBESITY AND THE ECONOMICS OF PREVENTION: FIT NOT FAT 15 (2010), available at <http://www.oecd.org/dataoecd/21/19/46004918.pdf>. Obesity also increases health expenditures in these countries. *Id.* at 16; see also *The Day of Diabetes: Coming Soon to a Person Near You*, 376 LANCET 1513, 1513 (2010), available at <http://download.thelancet.com/pdfs/journals/lancet/PIIS0140673610620120.pdf> (“Obesity cost the Australian Government Aus\$58.2 billion in 2008, according to Diabetes Australia, which comprised Aus\$8.3 billion of financial costs and Aus\$49.9 billion in lost wellbeing—due to disability or shorter life span.”).

144. WORLD HEALTH ORG., WHO TECHNICAL REPORT SERIES NO. 916, DIET, NUTRITION AND THE PREVENTION OF CHRONIC DISEASES 64–66 (2003), available at [http://www.who.int/dietphysicalactivity/publications/trs916/en/gsfao\\_obesity.pdf](http://www.who.int/dietphysicalactivity/publications/trs916/en/gsfao_obesity.pdf).

145. Pinya Silayoi & Mark Speece, *Packaging and Purchase Decisions: An Exploratory Study on the Impact of Involvement Level and Time Pressure*, 106 BRITISH FOOD J. 607, 610–12 (2004); see also Aron M. Levin & Irwin P. Levin, *Packaging of Healthy and Unhealthy Food Products for Children and Parents: The Relative Influence of Licensed Characters and Brand Names*, 9 J. CONSUMER BEHAVIOUR 393, 393–94 (2010), available at <http://onlinelibrary.wiley.com/doi/10.1002/cb.326/abstract> (discussing an empirical study on the use of cartoon characters on packaging and the effects on children’s food preferences); David A. Marshall, Mark Stuart

Although regulators in developed and middle-income countries often require disclosure of nutritional information on food packaging, that information is generally provided in small print, obscured by trademarks, and fails to detail the product's actual effect on consumers.<sup>146</sup> Governments in Australia, New Zealand, and the United Kingdom have found that front-of-package, graphic warnings more effectively communicate nutritional information to consumers than nutritional-information boxes.<sup>147</sup> One Australian report concluded that "the most cost-effective interventions for obesity prevention were a 10% tax on junk food, restricting unhealthy food advertising to children, and the labeling of food packaging with a[n] [easier-to-understand] traffic-light system."<sup>148</sup> The last of these options has prompted analogies to be drawn between cigarette labeling restrictions and those proposed for packaged food.<sup>149</sup>

### 3. Tobacco

Tobacco consumption, which annually kills approximately five million people worldwide, represents the principal preventable threat to individual and public health in both developed and developing countries.<sup>150</sup> Both users and

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& Rick Bell, *Examining the Relationship Between Product Package Colour and Product Selection in Preschoolers*, 17 *FOOD QUALITY & PREFERENCE* 615, 615 (2006) (noting the importance of color in food choice); Ike-Elechi Ogba & Rebecca Johnson, *How Packaging Affects the Product Preferences of Children and the Buyer Behaviour of Their Parents in the Food Industry*, 11 *YOUNG CONSUMERS* 77, 79–80 (2010) (noting the importance of packaging in children's food preferences).

146. Gill Cowburn & Lynn Stockley, *Consumer Understanding and Use of Nutrition Labelling: A Systematic Review*, 8 *PUB. HEALTH NUTRITION* 21, 21–22 (2005).

147. See CAROLYN L. ENGELHARD, ARTHUR GARSON, JR. & STAN DORN, *REDUCING OBESITY: POLICY STRATEGIES FROM THE TOBACCO WARS* 34–35 (2009), available at [http://www.urban.org/uploadedpdf/411926\\_reducing\\_obesity.pdf](http://www.urban.org/uploadedpdf/411926_reducing_obesity.pdf).

148. *The Day of Diabetes*, *supra* note 143, at 1513. The traffic-light warning system uses red, yellow, and green signs on food packaging to indicate the product's level of sugar, salt, and fat. Michael Skapinker, *Europe Must Think Again on Food Labels*, *FT.COM* (June 29, 2010, 11:22 PM), <http://www.ft.com/intl/cms/s/0/3b1e26bc-83af-11df-b6d5-00144feabdc0,s01=1.html> (suggesting that the European Parliament erred by rejecting the application of traffic-light warnings on food packaging).

149. See *IP in the Media*, COMPLETE IP NEWS (Complete IP, Boronia, Victoria (Austl.)), Sept.–Oct. 2010, at 1–2, available at [http://www.completeip.com.au/attachments/File/Issue\\_22.pdf](http://www.completeip.com.au/attachments/File/Issue_22.pdf) (addressing the plain-packaging debate with regard to tobacco productions, but also observing that "fast food/junk food" is part of the "trend toward stripping trademarks from certain products, with a view that there is some benefit to removing them"); see also David A. Kessler & David C. Vlodeck, *A Critical Examination of the FDA's Effort to Preempt Failure-to-Warn Claims*, 96 *GEO. L.J.* 461, 462–63, 467–68, 470–73 (2008) (discussing regulatory and tort-based regimes to incentivize accurate labeling in the context of prescription drugs).

150. THEODORE H. TULCHINSKY & ELENA A. VARAVIKOVA, *THE NEW GLOBAL PUBLIC HEALTH* 23 (2d ed. 2009); WORLD HEALTH ORG., WHO REPORT ON THE GLOBAL TOBACCO EPIDEMIC, 2008: THE MPOWER PACKAGE 7 (2008), available at [http://www.who.int/tobacco/mpower/mpower\\_report\\_full\\_2008.pdf](http://www.who.int/tobacco/mpower/mpower_report_full_2008.pdf); see Allyn L. Taylor, *An International Regulatory Strategy for Global Tobacco Control*, 21 *YALE J. INT'L L.* 257, 260–61 (1996).

non-users share the burden of disease from tobacco consumption.<sup>151</sup> Although direct consumption of tobacco products causes various cancers, cardiovascular disease, and chronic obstructive pulmonary disease,<sup>152</sup> second-hand smoke increases the risks of these diseases in nonsmokers as well.<sup>153</sup> Tobacco manufacturers and their affiliated advertisers use strategies to frame the information on packaging, including the shape and size of the package itself.<sup>154</sup> Framing includes minimizing or obfuscating mandatory health warnings,<sup>155</sup> using descriptors like “mild,” “light,” and “ultra-light,” and shaping cigarette containers—for example, to mimic famous perfume packaging—to appeal to target populations.<sup>156</sup> Cigarette manufacturers also use package colors and images to shape health perceptions.<sup>157</sup> For example, “[r]efinements in the

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151. WORLD HEALTH ORG., *supra* note 150, at 11, 15; see Lawrence O. Gostin, *The “Tobacco Wars”—Global Litigation Strategies*, 298 J. AM. MED. ASS’N 2537, 2537 (2007) (discussing litigation involving both smokers and those exposed to environmental tobacco smoke for compensatory damages stemming from tobacco-related illnesses and death).

152. WORLD HEALTH ORG., *supra* note 150, at 9, 11.

153. Gro Harlem Brundtland, Dir.-Gen., World Health Org., *Burden of Disease and Best Practices: High-Level Roundtable on Tobacco Control and Development Policy* (Feb. 3, 2003), available at <http://www.who.int/dg/speeches/2003/brussels/en/>.

154. CTRS. FOR DISEASE CONTROL & PREVENTION, *REDUCING TOBACCO USE: A REPORT OF THE SURGEON GENERAL* 166 (2000), available at [http://www.cdc.gov/tobacco/data\\_statistics/sgr/2000/complete\\_report/pdfs/Chapter5.pdf](http://www.cdc.gov/tobacco/data_statistics/sgr/2000/complete_report/pdfs/Chapter5.pdf) (describing the various marketing tactics of tobacco companies that have prompted regulatory action); McGrady, *supra* note 16, at 57 (“[A]dolescents view those who would smoke cigarettes from a plain pack as being ‘wimpy, boring . . . [and] geeky’ compared with those who smoke from a branded pack as being ‘fun, popular, cool, with it [and] good looking.’”); Joe B. Tye, Kenneth E. Warner & Stanton A. Glantz, *Tobacco Advertising and Consumption: Evidence of a Causal Relationship*, 8 J. PUB. HEALTH POL’Y 492, 494–95 (1987) (emphasizing cigarette manufacturers’ interest in advertising and promotion to maintain brand loyalty).

155. CTRS. FOR DISEASE CONTROL & PREVENTION, *supra* note 154, at 169 (noting that Canadian tobacco companies circumvented broadly worded regulations, which resulted in warning labels that were less prominent than intended). When PMI was trying to shape consumer perceptions of “light” and “ultra-light” cigarettes as healthier alternatives, it was also studying how to “overprint” mandatory Uruguayan warnings on cigarette packs. Memorandum from Hugo Castro on Uruguay Warnings to Ramon Colon (Oct. 16, 1984), available at <http://legacy.library.ucsf.edu/tid/cpe28a00/pdf>.

156. See AM. HEART ASS’N ET AL., *DEADLY IN PINK: BIG TOBACCO STEPS UP ITS TARGETING OF WOMEN AND GIRLS I* (2009), available at [http://www.tobaccofreekids.org/content/what\\_we\\_do/industry\\_watch/deadly\\_in\\_pink/deadlyinpink\\_02182009\\_FINALE.pdf](http://www.tobaccofreekids.org/content/what_we_do/industry_watch/deadly_in_pink/deadlyinpink_02182009_FINALE.pdf) (describing PMI’s deliberate marketing effort to make its cigarettes more appealing to women by using colors and packaging that resemble cosmetics); McGrady, *supra* note 16, at 55–56 (discussing the regulatory measures intended to restrict the use of “light” and “mild” on cigarette packaging); see also Amir H. Khoury, *Three Dimensional Objects as Marks: Does a “Dark Shadow” Loom over Trademark Theory?*, 26 CARDOZO ARTS & ENT. L.J. 335, 336–37 (2008) (discussing examples of products that use container shape as functional equivalents of trademarks).

157. See WORLD HEALTH ORG., *GENDER, WOMEN, AND THE TOBACCO EPIDEMIC* 106 (2010), available at [http://whqlibdoc.who.int/publications/2010/9789241599511\\_eng.pdf](http://whqlibdoc.who.int/publications/2010/9789241599511_eng.pdf) (“The

[p]ackage consist[ing] mainly of increasing the amount of white space on the pack and lightening the brown color tones . . . [gave] the revised package the appearance of reduced strength.”<sup>158</sup>

#### 4. *Credence Claims and Manufacturing Processes*

Alcohol, processed food, and tobacco represent product categories associated with well-established, non-communicable disease burdens that governments have an interest in regulating.<sup>159</sup> Yet the interest in regulating trademarks may not be limited to products or services with a direct and immediate relationship with human health. Manufacturers may use trademarks to imply or suggest the existence of product attributes that are either difficult or impossible to verify.<sup>160</sup> Logically, through these implications and suggestions, manufacturers raise consumers’ information costs.

As a general matter, consumers spend time and money searching for reasonably priced goods and services.<sup>161</sup> Both buyers and sellers engage in behavior aimed at reducing these costs.<sup>162</sup> Buyers, for example, visit more than one seller to find a favorable price.<sup>163</sup> Some goods lend themselves to relatively inexpensive searches because they may be easy to inspect before purchase.<sup>164</sup> These “search” goods, like clothing,<sup>165</sup> are characterized by ease of substitution and stiff price competition.<sup>166</sup> Manufacturers’ trademarks are

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attraction of a particular brand of cigarettes is affected by its name, logo, and package colors . . .”).

158. E.C. ETZEL ET AL., CONSUMER RESEARCH PROPOSAL: CAMEL FILTER REVISED PACKAGING TEST STUDY 5 (1979), available at <http://legacy.library.ucsf.edu/tid/qxb79d00>. For example, cigarette manufacturers first marketed menthol cigarettes as a remedy for a cold or flu, and the green color of menthol-flavored cigarette packs preserved the original association. Melanie Wakefield et al., *The Cigarette Pack as Image: New Evidence from Tobacco Industry Documents*, 11 TOBACCO CONTROL i73, i77 (Supp. I 2002).

159. See TULCHINSKY & VARVIKOVA, *supra* note 150, at 181–82 (discussing the health burdens associated with certain lifestyle habits, poor nutrition, and tobacco use); *supra* Part I.C.1–3. “Non-communicable” disease, as used in this Article, tracks the relatively narrow view of a “communicable” disease now prevalent among public-health experts. In a forthcoming article, I challenge this orthodoxy.

160. See Goldman, *supra* note 18, at 498–500; Ross D. Petty, *FTC Advertising Regulation: Survivor or Casualty of the Reagan Revolution?*, 30 AM. BUS. L.J. 1, 23 (1992).

161. See George J. Stigler, *The Economics of Information*, 69 J. POL. ECON. 213, 214–15 (1961) (arguing that consumers’ efforts to acquire information about the quality or performance of products and vendors depend on perceptions of expected benefits and costs).

162. *Id.* at 213 (“A buyer (or seller) who wishes to ascertain the most favorable price must canvass various sellers (or buyers) . . .”).

163. *Id.* at 214.

164. Goldman, *supra* note 18, at 495.

165. Donald S. Siegal & Donald F. Vitaliano, *An Empirical Analysis of the Strategic Use of Corporate Social Responsibility* 6 (Rensselaer Polytechnic Inst., Working Paper No. 0602, 2006), available at <http://www.economics.rpi.edu/workingpapers/rpi0602.pdf>.

166. Petty, *supra* note 160, at 22–23.

less likely to frustrate consumers' efforts to obtain relevant and accurate product information for search goods.<sup>167</sup>

However, other goods have qualitative characteristics that buyers cannot ascertain before purchasing the item,<sup>168</sup> because information about the product's quality or performance is obtainable only through buying and using the good.<sup>169</sup> For example, a consumer may have to purchase several brands of tuna fish to determine which brand she prefers.<sup>170</sup> These "experience goods" include products like beer, packaged food, cigarettes, wine,<sup>171</sup> and soda.<sup>172</sup> For such goods, trademarks, especially those displayed at the point of sale, play a key role in earning and maintaining customers.<sup>173</sup> Manufacturers invest in trademarks so that a consumer will associate a given product with its brand and spend less time searching for that good in the future.<sup>174</sup> Once consumers find a satisfactory experience good, such as a favorite cereal, they generally will not expend their "scarce time and mental energies to identify alternative products that may prove marginally better or to incur the risk and uncertainty involved with switching. Because of these costs and the uncertainties involved in switching, the information a trademark provides can 'lock-in' a consumer to products bearing that trademark."<sup>175</sup>

Consumers may not effectively evaluate certain other goods and services even after purchase and consumption.<sup>176</sup> Assessing one's satisfaction with these goods and services "requires additional costly information."<sup>177</sup> For

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167. *Id.*; see Lillian R. BeVier, *Competitor Suits for False Advertising Under Section 43(a) of the Lanham Act: A Puzzle in the Law of Deception*, 78 VA. L. REV. 1, 9 (1992) ("[L]ittle purpose could be served by falsely advertising about search qualities.").

168. See Goldman, *supra* note 18, at 495 (indicating that products known as experience goods can only be evaluated after purchase); Petty, *supra* note 160, at 9 (stating that there is no cost-effective way to evaluate an experience good except through purchase).

169. Arthur S. Leahy, *Search and Experience Goods: Evidence from the 1960's and 70's*, 21 J. APPLIED BUS. RES. 45, 45 (2005); Siegal & Vitaliano, *supra* note 165, at 6.

170. Phillip Nelson, *Information and Consumer Behavior*, 78 J. POL. ECON. 311, 312 (1970).

171. See *id.* at 326 tbl.6.

172. See, e.g., Lunney, *supra* note 103, at 425–27 (discussing Coca-Cola and Pepsi as examples for trademarks protecting and capturing consumer loyalty).

173. See *id.*; see also Ralph H. Folsom & Larry L. Teply, *Trademarked Generic Words*, 89 YALE L.J. 1323, 1344–45 (1980) (noting that point-of-sale advertising is a particular way of marketing experience goods).

174. See Lunney, *supra* note 103, at 428 ("[A]fter sufficient experience, a consumer's association of a trademark with certain desirable features may become so ingrained as to pass below conscious thought . . . . Once the response reaches that level, a consumer may no longer stop to think about which brand she buys; her purchasing decisions will become merely a habit.").

175. *Id.* at 427–28; see also Bo-Hyun Cho & Neal H. Hooker, *The Cost of 'Peace of Mind': Signaling Food Safety* 16 (St. Joseph's Univ., Haub Sch. of Bus., Working Paper No. 11-6, 2011) (analyzing the importance consumers place on product labeling in the food-safety context).

176. Michael R. Darby & Edi Karni, *Free Competition and the Optimal Amount of Fraud*, 16 J.L. & ECON. 67, 68–69 (1973).

177. *Id.* at 69.

example, in a given repair or replacement scenario, the consumer's experience with the good will likely be the same both pre- and post-repair or replacement.<sup>178</sup> Most consumers have "to rely on third-party judgments or on the seller's credentials" to ascertain the good's quality.<sup>179</sup> Because it is so costly to verify the qualities of these "credence goods" or credence claims about search and experience goods, sellers may be encouraged to engage in deception or fraud.<sup>180</sup>

Trademark holders can create credence qualities in products through design suggestion and implication, which allows manufacturers to circumvent prohibitions against deceptive representations.<sup>181</sup> For example, in the case of cigarette manufacturers, selling a "mild" version of a cigarette creates a credence quality because some consumers may believe that smoking a "mild" cigarette constitutes a positive health measure,<sup>182</sup> even though consumers have

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178. *See id.* (observing that most consumers are not familiar enough with these types of products to evaluate their effectiveness); *see also* Henry Schneider, *Agency Problems and Reputation in Expert Services: Evidence from Auto Repair 2–3* (Johnson Sch. of Mgmt., Cornell Univ., Research Paper No. 15-07, 2007), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1022204](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1022204)## (reporting that when a car was taken to forty garages, twenty-seven percent of garages suggested unnecessary repairs, whereas seventy-seven percent of garages missed real faults).

179. Esben Sloth Andersen & Kristian Philipsen, *The Evolution of Credence Goods in Customer Markets: Exchanging 'Pigs in Pokes' 2* (rev. Jan. 10, 1998) (unpublished manuscript), available at <http://www.business.aau.dk/evolution/esapapers/esa98/Credence.pdf>. Nongovernmental monitoring groups may certify credence qualities by their compliance with certain products' environmental, economic, and social factors. *See, e.g.*, Errol Meidinger, *Multi-Interest Self-Governance Through Global Product Certification Programmes*, in *RESPONSIBLE BUSINESS: SELF-GOVERNANCE AND LAW IN TRANSNATIONAL ECONOMIC TRANSACTIONS* 259, 259 (Olaf Dilling, Martin Herberg & Gerd Winter eds., 2008) (discussing participation by some timber producers in voluntary programs in which nongovernmental organizations monitor logging and certify compliance with sustainable practices).

180. *See* Goldman, *supra* note 18, at 496 ("Sellers seemingly have a great incentive to falsely advertise [credence] goods because purchasers will never learn of the deception." (citing BeVier, *supra* note 167, at 13)); *see also* *Sawbones, Cowboys and Cheats*, *ECONOMIST*, Apr. 15, 2006, at 78 (discussing situations in which customers may get overcharged for things they either did not need or did not get). Under U.S. law, for example, the Food and Drug Administration regulates vitamin supplements as a specialized kind of "food." *See Overview of Dietary Supplements*, U.S. FOOD & DRUG ADMIN., <http://www.fda.gov/Food/DietarySupplements/ConsumerInformation/ucm110417.htm> (last visited Jan. 20, 2011).

181. *See* Rebecca Tushnet, *Running the Gamut From A to B: Federal Trademark and False Advertising Law*, 159 U. PA. L. REV. 1305, 1318–19 (2011) (discussing firms' methods to suggest or imply product qualities and observing that even truthful advertisements can be misleading); *see also* Mark Armstrong, *Interactions Between Competition and Consumer Policy*, 4 *COMPETITION POL'Y INT'L* 97, 106 (2008) (commenting on firms' fine line between technical accuracy and "outright deception").

182. *See, e.g.*, *United States v. Philip Morris USA, Inc.*, 449 F. Supp. 2d 1, 476 (D.D.C. 2006) (discussing consumers' belief that "mild" cigarettes were better for their health); *see also* Tom W. Bell, *Virtual Trade Dress: A Very Real Problem*, 56 MD. L. REV. 384, 407 (1997) (pointing out that trademarks transmit certain product qualities to consumers that would otherwise be unknown until after purchase); McGrady, *supra* note 16, at 56 ("Internal tobacco industry

no means of verifying it.<sup>183</sup> In this way, trademark holders may essentially enjoy benefits obtained by misrepresentation.

The line between search goods, experience goods, and credence goods is not always clear. A consumer may purchase a food product because it represents both search and experience qualities, such as taste, and because the consumer believes the food product is made in a manner consistent with ethical treatment of animals or workers—a credence quality.<sup>184</sup> This latter quality is costly or impossible to verify. For example, the clothing manufacturer and retailer American Apparel built its brand reputation on “sweat-shop free” labor practices, which implies that its competitors sell goods manufactured in poor labor conditions.<sup>185</sup> The word “American” in its trademark subtly suggests comparative product information.<sup>186</sup> States have an interest in protecting sources of accurate and relevant information, but traditional laws against deceptive trade practices may not cover these kinds of suggested product attributes.<sup>187</sup>

As consumers increasingly demand stricter standards for the processes that create products, states will increasingly scrutinize trademarks and associated

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documents show that tobacco companies have deliberately marketed products such as ‘light’ and ‘mild’ type products to alleviate the health concerns of consumers. Additionally, scientific studies demonstrate that the use of such terms fosters a perception amongst consumers that the products with which the terms are associated are less harmful to health than ‘regular’ tobacco products.”). These descriptors are now prohibited in the United States. See Family Smoking Prevention and Tobacco Control Act, Pub. L. No. 111-31, 123 Stat. 1776 (2009). Indeed, exposing the myth of the “light” cigarette required years of expensive public-interest litigation in the United States. See Office of Consumer Prot. Litig., *Litigation Against Tobacco Companies*, U.S. DEP’T OF JUST., <http://www.justice.gov/civil/cases/tobacco2/index.htm> (last visited Jan. 15, 2011).

183. See *In The Spotlight*, U.S. DEP’T OF VETERANS AFF. (Oct. 30, 2007), [https://www.myhealth.va.gov/mhv-portal-web/anonymous.portal?\\_nfpb=true&\\_nfto=false&\\_pageLabel=inTheSpotlightCurrent](https://www.myhealth.va.gov/mhv-portal-web/anonymous.portal?_nfpb=true&_nfto=false&_pageLabel=inTheSpotlightCurrent) (observing that it may take years for smokers to verify the effects of tobacco use firsthand).

184. See Douglas A. Kysar, *Preferences for Processes: The Process/Product Distinction and the Regulation of Consumer Choice*, 118 HARV. L. REV. 526, 529 (2004) (describing how consumers are often motivated by “process information” credence qualities like social, environmental, or economic processes that are related to a product).

185. Stephanie Kang, *American Apparel Seeks Growth Through an Unusual Deal*, WALL ST. J., Dec. 19, 2006, at B1, B6.

186. See PRACTITIONER’S TRADEMARK MANUAL OF EXAMINING PROCEDURE § 1209.03(n) (James E. Hawes & Amanda V. Dwight eds., 7th ed. 2011) (regulating the use of “American” in trademarks); see also Louise Story, *American Apparel Lands in Political Controversy*, N.Y. TIMES, Jan. 18, 2008, at C2 (stating that although American Apparel produces all of its clothing in Los Angeles, it has come under fire for hiring significant numbers of undocumented immigrants). However, the “American” in the brand, according to American Apparel’s CEO, refers to the entirety of the Americas, not just the United States of America. *Id.*

187. See *supra* note 181 and accompanying text.

advertising for suggestive messages that, although deceptive, fall short of misrepresentations generally proscribed by law.<sup>188</sup>

### 5. *Ex-Ante and Ex-Post Trademark Regulation*

Although scholars have addressed how misleading trademarks may survive review under consumer-protection statutes and regulations,<sup>189</sup> there has been relatively modest research regarding how trademark regulation itself might better protect consumers. There are two principal forms trademark regulation might take: *ex ante*, regulations through the trademark registration system, or *ex post*, regulations through a trademark monitoring-and-compensation system.<sup>190</sup>

#### a. *Ex Ante*

Many jurisdictions inquire into whether a proposed trademark may mislead or deceive consumers before issuing a mark's registration.<sup>191</sup> For example, in the United Kingdom, regulators denied the trademark "Nugrape" because the beverage was not made from grapes.<sup>192</sup> Yet those investigations are often narrow in scope and focus on the trademark application under consideration, not how the trademark may appear across product lines.<sup>193</sup> Even reviewed in isolation, trademark examiners face high thresholds for determining that a trademark misleads or deceives consumers.<sup>194</sup>

The trademark registration system may be altered to better protect consumers. For example, legislators may require that examiners undergo more extensive training in consumer psychology to assess whether trademarks are deceptive or misleading,<sup>195</sup> or examiners may be authorized to require

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188. See Kysar, *supra* note 184, at 531–32, 579–640 (suggesting growing consumer interest in how products are brought into market); *supra* notes 184–86 and accompanying text.

189. See *supra* Part I.C.1–4.

190. See Sheff, *supra* note 77, at 1306 (discussing marketing regulations that "control the flow of information regarding products that are permitted in the marketplace" and that may be enforced *ex post* or *ex ante*); see also Efthimios Parasidis, *Patients over Politics: Addressing Legislative Failure in the Regulation of Medical Products* 37–38, 64–65 (St. Louis Univ. Sch. of Law, Legal Studies Research Paper Series, Paper No. 2011-31, 2011), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1964025](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1964025) (explaining the benefit of *ex-post* monitoring incentive systems in the medical-device context).

191. See, e.g., Lanham Act, 15 U.S.C. § 1052(a) (2006) (stating that deceptive trademarks may be refused registration).

192. McGrady, *supra* note 16, at 59.

193. See, e.g., PRACTITIONER'S TRADEMARK MANUAL OF EXAMINING PROCEDURE, *supra* note 186, § 1209.04.

194. See *id.* (placing the burden of proof on the examining attorney to show that a trademark's misdescription is material to a consumer's election to buy the product).

195. See Thomas R. Lee, Eric D. DeRosia & Glenn Christensen, *An Empirical and Consumer Psychology Analysis of Trademark Distinctiveness*, 41 ARIZ. ST. L.J. 1033, 1036–39 (2009) (using consumer psychology models as a means to determining a trademark's effect).

applicants to disclose surveys and other consumer-research data when registering their marks.

Even with these enhancements, legal and practical limitations arise that impede the effectiveness of ex-ante regulations. First, regardless of examiner competency or application enhancements, the process still pits overburdened regulators against parties that generally possess better information and resources to frame trademark applications.<sup>196</sup> Second, application enhancements themselves may be challenged as barriers to trade under bilateral, regional, or multilateral trade agreements.<sup>197</sup>

*b. Ex Post*

Ex-post solutions offer an alternative or complementary course for reconciling conflicting interests in trademark protection and consumer information costs.<sup>198</sup> Ex-post solutions offer the benefit of observing a trademark's functionality before tailoring a regulation based on the trademark's effects on consumers in the market.<sup>199</sup> This Article focuses on one particular ex-post approach: compensation for regulatory expropriation of trademark proprietors' marks or trade names.<sup>200</sup> In the limited number of relevant cases, trademark proprietors assert a broadly interpreted "fair market value" standard of compensation for regulatory takings.<sup>201</sup>

## II. CONDEMNING TRADEMARKS

This Article argues that the fair-market-value standard, as it is now articulated, unhinges trademarks from the social utility they are intended to promote. The purpose of trademark protection is not to subsidize every dollar invested in product distinction or advertising; rather, trademark protections aim to provide a relatively modest incentive for manufacturers and service providers to invest in the competitive desirability of their products—that is, a trademark's property interest is limited to the extent that a *trademark actually causes consumers to prefer one product over another*.<sup>202</sup> When the state

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196. See Kenneth L. Port, *The Congressional Expansion of American Trademark Law: A Civil Law System in the Making*, 35 WAKE FOREST L. REV. 827, 850–52 (2000) (discussing the increased amount of time between the filing and approval of trademark registrations at the U.S. Patent and Trademark Office).

197. See Ong, *supra* note 9, at 229–31 (noting that the purposes of such agreements are to encourage commerce between states by eliminating barriers to trade and that "inadequate protection of intellectual property rights may serve as a non-tariff barrier to free trade").

198. See *supra* note 190 and accompanying text.

199. See William McGeeveran, *The Trademark Fair Use Reform Act*, 90 B.U. L. REV. 2267, 2287 (2010) ("The ultimate liability standard in trademark law certainly operates ex post—as an empirical examination of the way consumers actually perceived the mark . . .").

200. See *infra* Part II.B.

201. See *supra* note 129.

202. William P. Kratzke, *Normative Economic Analysis of Trademark Law*, 21 U. MEM. L. REV. 199, 204–05 (1991) (discussing the source of a trademark's value).

encumbers or “takes” a trademark by partially or totally prohibiting its use or by requiring additional product information (including warnings),<sup>203</sup> it has concluded that some or all of the mark *as it appears to consumers* must be taken for a public purpose: to better inform consumers.<sup>204</sup> As such, the trademark holder is not entitled to its investments in trademark quality or advertisements, but to only the narrow interest in distinguishing its product from others.<sup>205</sup> In a condemnation proceeding for a trademark taking, a trademark holder therefore must demonstrate that the government regulation causes consumers to switch to competitors’ versions of similar goods or services.<sup>206</sup>

Even if trademark holders successfully demonstrate this effect, the ultimate rationale behind trademark protection is still the reduction in consumer-search costs.<sup>207</sup> Consequently, a regulating authority could introduce evidence of the disclosed information’s value and set that value against the value allocated to the trademark holder by virtue of the loss of product distinction.<sup>208</sup> Based on these principles, each party has the evidentiary burden that they are best positioned to bear and each burden conforms to the underlying rationales of trademark protection.<sup>209</sup> Additionally, this regime incentivizes firms to invest in product quality, as opposed to advertising, as the source of value in a trademark.<sup>210</sup>

#### *A. Remedies for Competitors’ Violations of Trademark Rights*

Because regulatory takings claims for trademarks, at least of the type herein discussed, are relatively new, it is useful to address the aim of trademark protections in the context of private transactions. As a preliminary matter, many states sensibly require trademark holders to police the use of their

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203. *Commonwealth Brands, Inc. v. United States*, 678 F. Supp. 2d 512, 531 (W.D. Ky. 2010) (noting Congress’s purpose in requiring large warnings on cigarette packs); Joseph J. Lewczak & Angela M. Bozzuti, *Will Federal Food Ad “Guidelines” Tread on Brand Trademarks?*, 20 L. OPINION LETTER (Wash. L. Found., Washington, D.C.), Oct. 21, 2011, at 1–2, available at [http://wlf.org/Upload/legalstudies/legalopinionletter/10-21-11LewczakBozzutti\\_LegalOpinionLetter.pdf](http://wlf.org/Upload/legalstudies/legalopinionletter/10-21-11LewczakBozzutti_LegalOpinionLetter.pdf) (discussing the negative impact on trademarks of regulatory guidelines dealing with nutritional content for food marketed to children).

204. See Roseann B. Termini, *The Family Smoking Prevention and Tobacco Control Act and Public Health*, 81 PA. B. ASS’N Q. 147, 149 (2010) (describing the need to inform consumers of smoking’s ill effects as being the impetus for the first warning-label regulations).

205. See Barton Beebe, *The Semiotic Analysis of Trademark Law*, 51 UCLA L. REV. 621, 625 (2004) (suggesting that courts should determine a trademark’s distinctiveness to establish the scope of protection it should receive).

206. See *supra* text accompanying note 41.

207. See *supra* note 40 and accompanying text.

208. See Howard Beales, Richard Craswell & Steven Salop, *The Efficient Regulation of Consumer Information*, 24 J.L. & ECON. 491, 492–93, 502 (1981); *supra* note 43 and accompanying text.

209. See *supra* notes 44–45 and accompanying text.

210. Bone, *supra* note 4, at 555–56.

trademarks.<sup>211</sup> Because trademarks ultimately grant the holder a monopoly over the use of a particular form of communication, trademark holders abandon the right to that monopoly when the trademark becomes synonymous with the underlying product.<sup>212</sup> “aspirin” and “thermos” are examples of trademarks that the state may not protect because they have become generic and no longer meaningfully distinguish the product.<sup>213</sup>

Trademark holders are also obligated to police their marks aggressively to show that consumers may be confused by similar marks and, in some cases, to prove damages like lost sales.<sup>214</sup> For these reasons, trademark holders are best positioned to survey consumers about the relationship between trademarks and underlying products and to assert claims against parties that attempt to free ride.<sup>215</sup> Indeed, many trademark holders have elaborate trademark policing systems in place to guard against infringement, as well as counterfeiting.<sup>216</sup> Assuming that the trademark holder effectively polices attempts to encroach upon the marks that distinguish its products, the holder may justifiably look to the state’s coercive power to prevent a rival from stealing its investments through infringement, mimicry, or injurious association.<sup>217</sup>

When a private actor misappropriates a trademark holder’s mark or trade name through infringement or counterfeit, the infracting party essentially

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211. Katherine E. Gasperek, Comment, *Applying the Fair Use Defense in Traditional Trademark Infringement and Dilution Cases to Internet Meta Tagging or Linking Cases*, 7 GEO. MASON L. REV. 787, 821–22 (1999) (“One solution is to continue imposing the burden of discovery on the trademark owner, because the owner is in the best position to monitor possible infringing uses of his trademark.”); Goldwasser, *supra* note 86, at 211 (discussing the burden on trademark holders to police Internet sites selling counterfeit goods); *see also* E. Brooke Brinkerhoff, Comment, *International Protection of U.S. Trademarks: A Survey of Major International Treaties*, 2 RICH. J. GLOBAL L. & BUS. 109, 110 (2001) (discussing the complexities of policing marks in international markets).

212. Landes & Posner, *supra* note 63, at 291.

213. *Id.* at 293. Xerox famously fought to save its trademark through an extraordinarily expensive campaign. *See* Sarah Randag, *Xerox Enlisting Hollywood in Fight Against “Genericide” with Ad*, ABAJOURNAL.COM (Mar. 11, 2010, 10:34 AM), [http://www.abajournal.com/news/article/xerox\\_enlisting\\_hollywood\\_in\\_fight\\_against\\_genericide\\_with\\_ad/](http://www.abajournal.com/news/article/xerox_enlisting_hollywood_in_fight_against_genericide_with_ad/) (describing Xerox’s ad campaign to avoid becoming a generic, non-protected term, such as “zipper”).

214. *See* Michael S. Mireles, Jr., *Towards Recognizing and Reconciling the Multiplicity of Values and Interests in Trademark Law*, 44 IND. L. REV. 427, 451–52, 470–72 (2011).

215. *See id.* at 457–65 (discussing reasons to police heavily).

216. *See, e.g.*, COOMBE, *supra* note 74, at 79–80 (outlining Coca-Cola’s trademark preservation strategy); *see also* Mireles, *supra* note 214, at 473 (noting the development of companies that provide trademark holders with monitoring services).

217. Fred S. McChesney, *Deception, Trademark Infringement, and the Lanham Act: A Property-Rights Reconciliation*, 78 VA. L. REV. 49, 54 (1992) (contending that “the law should seek the eradication” of trademark infringement); Mireles, *supra* note 214, at 461 (noting that courts are less likely to protect a trademark from third-party use when the holder inadequately policed its usage); *see also* Port, *supra* note 196, at 879–81 (outlining the justification for “dilution” causes of action).

forces the trademark holder into an involuntary sale or license of its property.<sup>218</sup> In the case of counterfeit, the trademark holder may also lose the ability to control the quality of goods sold under its name. The trademark holder is thus deprived of its ability to determine the price for which it might have transferred its property interest (if any), so the state intervenes to determine an objective value for the trademark holder's interest. That measure may be determined by statutorily established damages,<sup>219</sup> the lost sales attributable to the defendant's conduct,<sup>220</sup> imposition of a royalty similar to plaintiff's royalty agreements with other licensees,<sup>221</sup> or the profits derived from the sale of the infringing goods over an applicable claims period.<sup>222</sup> Article 45 of TRIPS, for example, ties damages to a level "adequate to compensate for the injury the right holder has suffered."<sup>223</sup> With any of these aforementioned solutions, the state is able to gauge its interests in promoting trademark holders' investments in their products, as well as consumer expectations, and then tailor remedies to further those interests.

### *B. Compensation to Trademark Holders for a Regulatory Taking*

In jurisdictions that require governments to compensate property owners for regulatory or eminent-domain takings,<sup>224</sup> adjudicators are authorized to examine a wide range of information to calculate the award.<sup>225</sup> In the United States, for example, adjudicators may ascertain the amount of compensation owed to the property owner through negotiation, expert testimony, analysis of comparable property sales, offsetting benefits to the owner, and third-party

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218. See McChesney, *supra* note 217, at 54 ("Trademark infringement, however, is essentially theft.")

219. See Lanham Act, 15 U.S.C. § 1117(c) (2006 & Supp. IV 2010) (providing that in lieu of actual damages, a plaintiff may opt for statutory damages within a prescribed range).

220. See BeVier, *supra* note 167, at 19–20; McChesney, *supra* note 217, at 51–53 (discussing data regarding lost sales).

221. Adidas Am., Inc. v. Payless Shoesource, Inc., No. CV 01-1655-KI, 2008 WL 4279812, at \*12 (D. Or. Sept. 12, 2008) ("A reasonable royalty . . . can be a measure of actual damages in a trademark infringement case." (citing Sands, Taylor & Wood v. Quaker Oats Co., 343 F.3d 1340, 1350 (7th Cir. 1994); Playboy Enters., Inc. v. Baccarat Clothing Co., 692 F.2d 1272, 1274–75 (9th Cir. 1983))).

222. See 15 U.S.C. § 1117(a) (providing for recovery of defendant's profits for trademark violations); see also Coach, Inc. v. Asia Pac. Trading Co., 676 F. Supp. 2d 914, 922–25 (C.D. Cal. 2009) (stating that Lanham Act recovery "is limited to an accounting period beginning after the defendant receive[s] actual notice of the plaintiff's [trademark] registration").

223. See TRIPS Agreement, *supra* note 36, at art. 45.

224. See David Schneiderman, *NAFTA's Takings Rule: American Constitutionalism Comes to Canada*, 46 U. TORONTO L.J. 499, 499, 529–30 (1996) (discussing the "regulatory" taking doctrine as idiosyncratically American, although other jurisdictions have crafted analogous legal doctrines); see also Been & Beauvais, *supra* note 37, at 58–59 (describing the United States's compensation requirement for "takings" as "among [one of] the most protective in the world").

225. See Christopher Serkin, *The Meaning of Value: Assessing Just Compensation for Regulatory Takings*, 99 NW. U. L. REV. 677, 678 (2005).

appraisal, among other methods.<sup>226</sup> In France, special administrative courts may value taken property through “comparable sales, income or capitalization methods, replacement cost, attorney’s fees, and benefits offset.”<sup>227</sup> In Canada, private-property owners may be compensated for the market value of the expropriated property, injurious effect to the remainder of the property, disturbance damages, and business loss.<sup>228</sup>

Similarly, arbitration and dispute-settlement panels adjudicate expropriation disputes under NAFTA, bilateral investment and trade treaties, and other multilateral and regional instruments.<sup>229</sup> These panels enjoy wide authority to admit or reject documents supporting or refuting claims, call witnesses, or consider other evidence relating to a claim’s value.<sup>230</sup> This Article’s framework is principally aimed at international forums that are still in the process of forming appropriate approaches to investment disputes.<sup>231</sup> It may, however, provide a useful model for national jurisdictions that struggle to craft optimal takings regimes.<sup>232</sup> One U.S. review of takings jurisprudence noted

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226. See *id.* at 683 (citing *United States v. Toronto, Hamilton & Buffalo Navigation Co.*, 338 U.S. 396 (1949)); see also Glynn S. Lunney, Jr., *Compensation for Takings: How Much Is Just?*, 42 CATH. U. L. REV. 721, 725–29 (1993) (discussing courts’ use of market value for guiding compensation judgment); *Real Estate Acquisition Guide for Local Public Agencies*, FED. HIGHWAY ADMIN., <http://www.fhwa.dot.gov/realestate/lpaguide/index.htm> (last visited Nov. 16, 2011) (describing the real-property condemnation process for eminent-domain actions and emphasizing negotiation and consultation with expert appraisers in resolving a government takings dispute over property value).

227. Erin Darling, Liz Skillen & Minming Wu, *Just Compensation Valuation Schemes After a Flood Disaster in France, California, and Louisiana* 30 (April 28, 2006) (unpublished manuscript), available at [http://www.law.berkeley.edu/library/disasters/Darling\\_Skillen\\_Wu.pdf](http://www.law.berkeley.edu/library/disasters/Darling_Skillen_Wu.pdf).

228. Denstedt & Rodier, *supra* note 29, at 355.

229. See Gustavo Carvajal Isunza & Fernando González Rojas, *Evidentiary Issues in NAFTA Chapter 11 Arbitration: Inquiring the Truth Between States and Investors Under NAFTA Chapter 11*, 3 ASPER REV. INT’L BUS. & TRADE L. 121, 121–22, 124 (2003) (discussing the nature of NAFTA and the United Nations Commission on International Centre for Settlement of Investment Disputes (ICSID Convention)); see also Susan D. Franck, *The Legitimacy Crisis in Investment Treaty Arbitration: Privatizing Public International Law Through Inconsistent Decisions*, 73 FORDHAM L. REV. 1521, 1522–23 (2005) (discussing BITs and the significance of broad networks with interrelated rights); Jeswald W. Salacuse & Nicholas P. Sullivan, *Do BITs Really Work?: An Evaluation of Bilateral Investment Treaties and Their Grand Bargain*, 46 HARV. INT’L L.J. 67, 86–87 (2005) (discussing the function of BITs and how most BITs with developing countries adopt the “western view” of international law regarding regulatory takings).

230. See Isunza & Rojas, *supra* note 229, at 135–36; see also International Centre for Settlement of Investment Dispute [ICSID], *ICSID Convention, Regulations and Rules*, at art. 43, ICSID/15 (Apr. 2006) [hereinafter ICSID Arbitration Rules], available at <http://icsid.worldbank.org/ICSID/ICSID/RulesMain.jsp> (“[T]he Tribunal may, if it deems it necessary at any stage of the proceedings, . . . call upon the parties to produce documents or other evidence . . .”).

231. Franck, *supra* note 229, at 1523 (observing that “investment arbitration is still in its infancy”).

232. See, e.g., NAFTA, *supra* note 36, at art. 1110 (noting that NAFTA arbitration panels enjoy significant discretion under the treaty’s standard for compensation for indirect

that “the [Supreme] Court’s present interpretation of ‘regulatory takings’ sits upon a shaky foundation of split decisions; the Court’s construction of ‘constitutional property’ remains a work in progress.”<sup>233</sup> Indeed, in the United States, where trademark holders have historically favored characterizing their marks as speech for First Amendment protections, there are hints of more aggressive use of expropriation principles.<sup>234</sup> When the U.S. Food and Drug Administration (FDA) released its proposed pictorial and graphic warnings for cigarette packaging, one tobacco firm asserted that “by confiscating” part of the cigarette pack, the labels would violate its First and Fifth Amendment Rights.<sup>235</sup>

Typically, trademark holders assert that when state regulations—like large warnings or prohibitions on certain aspects of trademarks—“take” their trademarks, they are entitled to compensation for the fair market value of

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expropriations, which is “equivalent to the fair market value of the expropriated investment immediately before the expropriation took place . . . . Valuation criteria shall include going concern value, asset value including declared tax value of tangible property, and other criteria, as appropriate, to determine fair market value” (emphasis added). NAFTA’s compensation standard has prompted disagreement between industrialized and third-world states. See Salacuse & Sullivan, *supra* note 229, at 86–87 (“Despite opposition by some developing nations in various multilateral forums, virtually all BITs with developing countries adopt some variation of the traditional Western view of international law that a state may not expropriate property of an alien except: (1) for a public purpose, (2) in a non-discriminatory manner, (3) upon payment of just compensation, and in most instances, (4) with provision for some form of judicial review. *The various elements of the traditional rule have taken different formulations in different treaties, some more and some less protective of investor interests.*” (emphasis added)); Timothy Ross Wilson, *Trade Rules: Ethyl Corporation v. Canada (NAFTA Chapter 11) Part II: Are Fears Founded?*, 6 NAFTA L. & BUS. REV. AM. 205, 210 (2000). Moreover, neither scholars, arbitration panels, nor governments have been able to reach any predictable standard for the threshold over which a regulatory measure constitutes an indirect expropriation, much less what the right standard for compensation should be if that threshold is passed. See Christopher Gibson, *A Look at the Compulsory License in Investment Arbitration: The Case of Indirect Expropriation*, 25 AM. U. INT’L L. REV. 357, 384 n.96 (2010); see also Gloria L. Sandrino, *The NAFTA Investment Chapter and Foreign Direct Investment in Mexico: A Third World Perspective*, 27 VAND. J. TRANSNAT’L L. 259, 318 (1994) (noting third-world countries’ opposition to a fair-market-value standard because they prefer an ‘appropriate’ compensation standard based on the “circumstances giving rise to the expropriation”).

233. Garrett Power, *Regulatory Takings: A Chronicle of the Construction of a Constitutional Concept*, 23 BYU J. PUB. L. 221, 223 (2009); see also Marla E. Mansfield, *Tahoe-Sierra Returns Penn Central to the Center Track*, 38 TULSA L. REV. 263, 263 (2002) (describing the Supreme Court’s inability to describe regulatory takings “crispily”).

234. *Commonwealth Brands, Inc. v. United States*, 678 F. Supp. 2d 512, 539 (W.D. Ky. 2010) (“Finally, Plaintiffs [tobacco firms] contend that the [Tobacco Control] Act’s mandated warning requirement ‘deprives [them] of their trademarks, trade dress, packaging, and advertising without just compensation,’ and is ‘no different than if the Government confiscated half of every billboard for a message on any other issue of public policy.’” (alteration in original) (citations omitted)); Young, *supra* note 20.

235. Young, *supra* note 20 (internal quotation marks omitted).

trademarks.<sup>236</sup> Contesting Australia's abandoned 1992 effort to require tobacco manufacturers to sell cigarettes in plain packaging, British American Tobacco argued before the Australian Senate that the Paris Convention for the Protection of Industrial Property and Australian law would require compensation for the value of its cigarette brands.<sup>237</sup> Persuaded by the tobacco industry, the Australian government rejected the proposed regulations.<sup>238</sup> The Ministry of Health announced that "[u]nfortunately, [the proposal] is just not feasible . . . . We would have to buy the tobacco companies' trademarks, and that would cost us hundreds of millions of dollars."<sup>239</sup>

In 1994, Philip Morris and RJR Reynolds engaged former U.S. and Canadian trade negotiators to persuade Canadian legislators that the "unlawful expropriation" of their trademarks under plain packaging would amount to hundreds of millions of dollars in compensation under a NAFTA Chapter 11 proceeding.<sup>240</sup> In its claim against Uruguay for its packaging regulations, PMI asserted a similar argument.<sup>241</sup> Indeed, PMI argues that it is entitled to compensation, or "restitution," in the amount of a fifteen percent decrease in sales experienced after regulatory implementation.<sup>242</sup> In his review of

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236. See Serkin, *supra* note 225, at 678 ("For all the disagreement and uncertainty in the rest of takings jurisprudence, compensation is considered straightforward; it is measured by the fair market value of the property taken."); Supplementary Submission from W.D. & H.O. Wills (Aust.) Ltd. to Senate Cmty. Affairs References Comm., Generic Packaging: Inquiry into Tobacco Industry and the Costs of Tobacco-Related Illness 4 (Feb. 1995) [hereinafter Generic Packaging, Supplementary Submission to Senate Comm.], available at <http://legacy.library.ucsf.edu/tid/qnd14a99/pdf?search=%22generic%20packaging%20supplementary%20submission%20to%20senate%22> (arguing that the proposals would lead to substantial claims for compensation).

237. See Generic Packaging, Supplementary Submission to Senate Comm., *supra* note 236, at 3; Submission to the Industry Inquiry from W.D. & H.O. Wills (Aust.) Ltd., The Tobacco Growing and Manufacturing Industries 32 (Jan. 1994) [hereinafter Tobacco Growing and Manufacturing Industries' Submission to Industry Commission], available at <http://legacy.library.ucsf.edu/tid/kpk33a99/pdf> (noting that the proposed packaging regulations "amount to a severe infringement of internationally-registered intellectual property rights").

238. See Adam Harvey, *Doctors' Plan to Put Cigarettes in Plain Wrap Fails*, SYDNEY MORNING HERALD, July 24, 1995, at 2 (quoting the spokeswoman for the Ministry of Health as stating that "[u]nfortunately, [the proposal] is just not feasible . . . . We would have to buy the tobacco companies' trademarks, and that would cost us hundreds of millions of dollars").

239. See *id.* at 2.

240. See Juchatz Letter, *supra* note 129 (contending that a regulatory taking necessitated "proper and full compensation").

241. See *supra* note 123 and accompanying text.

242. Request for Arbitration, *supra* note 123, ¶¶ 45, 89 ("As of 31 December 2009, Article 3 of Ordinance 514 has resulted in an approximately 15 per cent decrease in Abal's sales. The hardest hit brand has been 'Marlboro,' of which the discontinued 'Marlboro Gold,' 'Marlboro Blue' and 'Marlboro Green (Fresh Mint)' varieties represent 40.5 per cent of total sales in 2008. . . . It should be noted that Philip Morris affiliates worldwide have invested significant amounts of time and money in developing a revision of the three sub-brands of the Marlboro family. As a result of Ordinance 514, Philip Morris has been prevented from introducing these innovations in Uruguay and accordingly has been deprived of the use of its intellectual property.").

compensable claims under NAFTA, Professor Alberto Salazar suggests that food packaging restrictions and warnings may result in compensation claims based on expropriation of package space and content because they limit “food corporations’ ability to profit from the use of their physical and intellectual property rights.”<sup>243</sup> In his analysis of alcohol manufacturers’ participation in trade and investment treaties, Dr. Donald Zeigler observes parallels between the tobacco companies’ property claims and those alcohol manufacturers advocate in trade and investment instruments.<sup>244</sup>

Advocates and scholars contesting trademark holders’ claims focus on human rights, public health, and even textual reasons to justify expansive public-interest regulations.<sup>245</sup> In the context of tobacco control, scholars and advocates invoke the WHO’s Framework Convention on Tobacco Control<sup>246</sup> and the International Covenant on Economic, Social and Cultural Rights to justify strong laws limiting the use of tobacco trademarks.<sup>247</sup> According to

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243. Salazar, *supra* note 43, at 51.

244. Donald W. Zeigler, *The Alcohol Industry and Trade Agreements: A Preliminary Assessment*, 104 ADDICTION 13, 20–21 (2009).

245. See, e.g., Oscar A. Cabrera & Alejandro Madrazo, *Human Rights as a Tool for Tobacco Control in Latin America*, 52 SALUD PÚBLICA DE MÉXICO S288, S289–91 (2010) (referring to international treaties and a government’s obligation to advance public health and human rights as a basis for enacting tobacco-control regulations); Carolyn Dresler & Stephen Marks, *The Emerging Human Right to Tobacco Control*, 28 HUM. RTS. Q. 599, 599 (2006) (advocating for health regulations based on human rights).

246. See TODD WEILER, PHYSICIANS FOR A SMOKE-FREE CAN., PHILIP MORRIS V. URUGUAY: AN ANALYSIS OF TOBACCO CONTROL MEASURES IN THE CONTEXT OF INTERNATIONAL INVESTMENT LAW 4 (2010), available at [http://www.smoke-free.ca/eng\\_home/2010/PMIvsUruguay/Opinion-PMI-Uruguay.pdf](http://www.smoke-free.ca/eng_home/2010/PMIvsUruguay/Opinion-PMI-Uruguay.pdf) (noting Uruguay’s increased tobacco regulation following its ratification of the Framework Convention on Tobacco Control (FCTC)). The FCTC’s implementing guidelines recommend that graphic warnings cover fifty percent or more of a cigarette package. See WHO FRAMEWORK CONVENTION ON TOBACCO CONTROL, GUIDELINES FOR IMPLEMENTATION 53 (2011), available at <http://apps.who.int/ctc/reporting/database>.

247. See Cabrera & Madrazo, *supra* note 245, at S292 (“For the purposes of linking human rights and tobacco control, one of the most relevant treaties is the International Covenant on Economic, Social and Cultural Rights . . . .”). Article 12 of The International Covenant on Economic, Social and Cultural Rights (ICESCR) ensures “the right of everyone to the enjoyment of the highest attainable standard of physical and mental health.” International Covenant on Economic, Social and Cultural Rights art. 12(1), Dec. 16, 1966, 993 U.N.T.S. 3. Moreover, “the right to health, like all human rights, imposes three types or levels of obligations on States parties: the obligations to *respect, protect and fulfil* [sic]. . . . The obligation to *protect* requires States to take measures that prevent third parties from interfering with article 12 guarantees.” U.N. Econ. & Social Council, Substantive Issues Arising in the Implementation of the International Covenant on Economic, Social and Cultural Rights: General Comment No. 14, ¶ 33, U.N. Doc. E/C.12/2000/4 (Aug. 11, 2000). The *General Comment* further states that “violations of the right to health can occur through the direct action of States or other entities insufficiently regulated by States.” *Id.* ¶ 48. In addition,

Violations of the obligation to protect follow from the failure of a State to take all necessary measures to safeguard persons within their jurisdiction from infringements of the right to health by third parties. This category includes such omissions as . . . the

these scholars, because human rights are inviolable, a trademark holder's property interest is necessarily subordinate in the case of a conflict.<sup>248</sup> For example, Professor G.C. Christie argues that if a prohibition concerning the use of property "can be justified as being reasonably necessary to the performance by a State of its recognized obligations to protect the public health, safety, morals or welfare, then it would normally seem that there has been no 'taking' of property."<sup>249</sup> Yet prominent international lawyers dispute that view,<sup>250</sup> and international adjudicators have demonstrated little predictability when balancing investment or takings claims with international human-rights instruments.<sup>251</sup>

At the very least, they argue that an investor's expectations should be tempered by knowledge that a state's various treaty obligations, including human-rights or public-health provisions, will be construed in a manner to avoid conflicts.<sup>252</sup> However, the language of multilateral and human-rights treaties tends to impose few concrete obligations.<sup>253</sup> Moreover, the unpredictability of arbitration and judicial decisions on the appropriate extent of regulation without compensation<sup>254</sup> suggests that scholars, judges, and regulators should consider the appropriate way to compensate trademark holders if normative debates fail to give adequate guidance.

### C. Trademark Holders' Burden to Show Consumer Switching

Using fair market value as a compensation standard for regulatory takings of trademarks could unhinge trademark protection from the intended

failure to discourage production, marketing and consumption of tobacco, narcotics and other harmful substances . . . .

*Id.* ¶ 51.

248. Cf. Vadi, *supra* note 49, at 795 (pointing out that "property is not an end in itself . . . . [I]t must . . . contribute[] to the higher objective of human society" (quoting Jakob Cornides, *Human Rights and Intellectual Property, Conflict or Convergence?*, 7 J. WORLD. INTELL. PROP. 143 (2004))).

249. Schneiderman, *supra* note 224, at 530 n.168.

250. *Id.* (citing Rosalyn Higgins, *The Taking of Property by the State: Recent Developments in International Law*, 176 RECUEIL DES COURS 259, 330-31 (1982) ("Is the distinction intellectually viable? Is not the State in both cases . . . purporting to act in the public good? And in each case has the owner of property not suffered a loss? Under international law standards, a regulation that amounted (by virtue of its scope and effect) to a taking, would not be 'for a public purpose' (in the sense of in the general, rather than for a private, interest). And just compensation would be due.")).

251. Franck, *supra* note 229, at 1523.

252. See Vienna Convention on the Law of Treaties art. 31(3)(c), May 23, 1969, 1155 U.N.T.S. 331 (providing that treaties shall be interpreted to take international laws into account).

253. See Sam Foster Halabi, *The World Health Organization's Framework Convention on Tobacco Control: An Analysis of Guidelines Adopted by the Conference of the Parties*, 39 GA. J. INT'L & COMP. L. 121, 125-28 (2010).

254. See Been & Beauvais, *supra* note 37, at 107-08 (noting the unequal treatment by arbitration panels comprised of investors).

welfare-enhancing function of trademarks.<sup>255</sup> Trademarks, unlike copyrights and patents, are not protected because lawmakers desire to reward trademark creation in a vacuum; rather, trademark protection is tied to investments in product distinction and the reduction of consumer search costs.<sup>256</sup> As a matter of definition, trademarks are protected only to the extent that they effectively distinguish their products.<sup>257</sup>

When a state determines that a trademark must either be restricted or its visual display affected, such as a warning, the state is exercising a “taking” only to the extent that the basis for the trademark—the ability to distinguish between goods and services—is diminished.<sup>258</sup> Although the state might be obligated to show the taking’s extent, for the reasons articulated below, trademark holders are better positioned to bear this initial evidentiary burden.<sup>259</sup> Accordingly, trademark holders should be entitled to compensation only to the extent they are able to make such a showing.<sup>260</sup> A regulating authority, of course, may rebut that initial showing by establishing, for example, that consumers are not switching to competitors’ goods or services, but rather decreasing or ceasing consumption.<sup>261</sup>

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255. See *supra* note 77 and accompanying text.

256. See *supra* notes 4, 76 and accompanying text. By contrast, copyrights protect an author’s original works and patents protect an inventor’s particular inventions. U.S. PATENT & TRADEMARK OFFICE, GENERAL INFORMATION CONCERNING PATENTS 1–2 (2011), available at [http://www.uspto.gov/patents/resources/general\\_info\\_concerning\\_patents.pdf](http://www.uspto.gov/patents/resources/general_info_concerning_patents.pdf) (“Trademark rights may be used to prevent others from using a confusingly similar mark, but not to prevent others from making the same goods or from selling the same goods . . . under a clearly different mark.”); see also MERGES, MENELL & LEMLEY, *supra* note 114, at 559 (“[T]rademark protection is awarded merely to those who were first to use a distinctive mark in commerce.”).

257. See *supra* notes 213–14 and accompanying text. In the United States, for example, a trademark is “any word, name, symbol, or device, or any combination thereof . . . to identify *and distinguish his or her goods . . . from those manufactured or sold by others* and to indicate the source of the goods.” See 15 U.S.C. § 1127 (2006 & Supp. IV 2010) (emphasis added). Under TRIPS, “[a]ny sign, or any combination of signs, *capable of distinguishing the goods or services of one undertaking from those of other undertakings*, shall be capable of constituting a trademark.” TRIPS Agreement, *supra* note 36, at art. 15(1) (emphasis added). In Uruguay, a trademark is “any sign *capable of distinguishing goods and services of one natural or legal person from those of other natural or legal persons*.” Law No. 17.011, Sept. 25, 1998, Dictanse Normas Relativas a las Marcas [Establishing Provisions on Trademarks] (Uru.), translated in *WIPO Resources*, WORLD INTELL. PROP. ORG., [http://www.wipo.int/wipolex/en/text.jsp?file\\_id=130087](http://www.wipo.int/wipolex/en/text.jsp?file_id=130087) (last visited Jan. 20, 2011).

258. See *supra* note 257 and accompanying text.

259. See *supra* notes 211, 214–15 and accompanying text.

260. See *infra* Part II.C.1–5.

261. See *supra* text accompanying note 43.

*1. The Property Interest in Trademarks Is the Extent to Which the State Protects Them*

As the aforementioned examples show, lawmakers extend protections to trademark holders in order to distinguish their goods or services.<sup>262</sup> The extent to which trademarks are valuable is *precisely* the extent to which the state decides to protect them. The state, as the provider of the trademark entitlement,<sup>263</sup> has the authority to attach whatever limits are necessary to maintain the fundamental interest in consumer search costs, including a requirement that trademark holders show a public-interest regulation's effect on a consumer's distinction between products.<sup>264</sup> Before modern trademark protections emerged, Felix Cohen observed that a trademark's value is entirely dependent on the state's willingness to determine that investments in quality or advertising qualify as property:

There was once a theory that the law of trade marks and tradenames was an attempt to protect the consumer against the "passing off" of inferior goods under misleading labels. Increasingly the courts have departed from any such theory and have come to view this branch of law as a protection of property rights in divers[e] economically valuable sale devices . . . . The current legal arguments runs: One who by the ingenuity of his advertising or the quality of his product has induced consumer responsiveness to a particular name, symbol, form of packaging, etc., has thereby created a thing of value, a thing of value is property; the creator of property is entitled to protection against third parties who seek to deprive him of his property. . . . The vicious circle inherent in this reasoning is plain. It purports to base legal protection upon economic value, when, as a matter of actual fact, the economic value of a sales device depends upon the extent to which it will be legally protected.<sup>265</sup>

A similar argument might apply to other intellectual properties like copyrights and patents.<sup>266</sup> The theoretical reason to grant creators temporary

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262. See *supra* note 257 and accompanying text.

263. See *supra* note 257 and accompanying text.

264. See *S.C. Johnson & Son, Inc. v. Johnson*, 116 F.2d 427, 429 (2d Cir. 1940) ("We are nearly sure to go astray . . . as soon as we lose sight of the underlying principle that the wrong involved is diverting trade . . .").

265. Cohen, *supra* note 43, at 815 (footnote omitted). In 1999, Mark Lemley criticized the trend of federal courts giving expansive protections to trademarks as "things" and allowing trademark holders to sell or transfer trademarks divorced from their underlying products. See Lemley, *supra* note 3, at 1687–88. He urged courts to restore commonsense to American trademark law by focusing on the incentives trademark protections create and the ways in which infringing or diluting behavior actually injures consumers. *Id.* at 1688.

266. *William Sloan Coats & Jennifer L. Co, Location, Location, Location: The Impact of Omega v. Costco on the Applicability of the First Sale Doctrine in the Grey Market*, 1063 PLI/PAT 407, 411 (2011) ("Exclusive rights granted to copyright, trademark, and patent owners

monopolies over their creations is to provide an incentive for additional creative or inventive works that may benefit society.<sup>267</sup> As an empirical matter, this theoretical premise has always been difficult to answer: if there were no copyright or patent protection, would creators still invent?<sup>268</sup> If so, would they invent less? Indeed, in some jurisdictions, substantive property rights originate with the state.<sup>269</sup> Therefore, even real property might be subject to whatever conditions the state deems appropriate for its ownership and management.<sup>270</sup>

## *2. Trademark Holders Already Aggressively Monitor Relevant Markets and Trademarks*

Trademark holders are best positioned to monitor a regulation's effect on market share because many trademark holders—especially those that make significant investments in the advertising component of trademark value—already maintain elaborate policing systems to protect against private encroachment as well as regulation.<sup>271</sup> As a result, requiring holders to adduce evidence as to the competitive effect of regulations adds only marginal costs to existing monitoring systems and structures. Tobacco firms, for example, long ago adopted worldwide trademark registration, policing, and exploitation programs.<sup>272</sup> In 1995, British American Tobacco established an entirely separate entity, BATMark, designed to

protect the [global] trade marks and other intellectual property assets of the British American Tobacco group and to facilitate their exploitation. Lawyers and Trade Mark Managers advise and handle all trade mark and copyright matters, including anti-counterfeiting

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are limited in order to maintain a balance between the interests of rights owners and economic and/or public interest concerns.”).

267. See, e.g., Charles W. Adams, *Allocating Patent Rights Between Earlier and Later Inventions*, 54 ST. LOUIS U. L.J. 55, 56 (2009) (describing the need to maintain incentives for new creations in the context of patent law).

268. See Eugene C. Lim, *Dilution, the Section 22 Debacle, and the Protection of Business Goodwill in Canada: Some Insights from U.S. Trademark Law and Policy*, 101 TRADEMARK REP. 1232, 1268 (2011) (articulating the incentive rationale underlying patent and copyright protection); see also Benjamin N. Roin, *Unpatentable Drugs and the Standards of Patentability*, 87 TEX. L. REV. 503, 506 (2009) (describing how inability to obtain patents thwarts drug development). But see MICHELE BOLDRIN & DAVID K. LEVINE, *AGAINST INTELLECTUAL MONOPOLY* 11 (2008) (arguing that intellectual-property protections do not motivate the development of new innovations or increase creativity).

269. See *supra* note 27 and accompanying text.

270. See Lunney, *supra* 226, at 724 (noting one view that regards societal goals as superior to the government's need to compensate for takings).

271. See *infra* notes 211–15 and accompanying text.

272. See generally, e.g., Memorandum by British American Tobacco, Strategic Management of Trade Marks and Other Intellectual Property (undated), available at <http://legacy.library.ucsf.edu/tid/riq34a99> (outlining the tobacco company's efforts to monitor and protect its trademark).

the drafting of licences [sic] and other commercial agreements . . . .<sup>273</sup>

A single monthly trademark-monitoring report from 1999 showed that Philip Morris's parent corporation contested trademark registrations or other actions relating to its food, alcohol, and tobacco brands in Argentina, Ecuador, the European Union, France, Germany, Ireland, Japan, Peru, the United Kingdom, the United States, and closely monitored actions in Bolivia, Croatia, the Dominican Republic, and Indonesia.<sup>274</sup> These systems are part of a larger strategy to monitor "mature" product markets—that is, markets in which consumption levels are relatively stable so a small number of players vie for the segment of the consuming public willing to switch.<sup>275</sup> Trademark holders, especially of trademarks that represent significant advertising investments, are served by global consultancies that report the (admittedly subjective) value of trademarks as a function of competitors' market share.<sup>276</sup> Regular quantitative and survey-based research into consumer preferences often accompanies trademark monitoring.<sup>277</sup> Similar infrastructure exists for alcohol and packaged-food brands.<sup>278</sup>

Manufacturers and their trademark developers excel in gathering information as to what causes consumers to prefer one brand, image, or logo over another.<sup>279</sup> Given the regularity with which many trademark holders submit survey evidence against private infringers or even trademark

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273. BRITISH AM. TOBACCO, EFFECTIVE TRADE MARK MANAGEMENT 29-06 (1998), available at <http://legacy.library.ucsf.edu/tid/rcn93a99/pdf>.

274. Memorandum from Robert J. Eck on September Trademark Activities to J. Bongter et al., Philip Morris Mgmt. Corp. (Oct. 11, 1999), available at <http://legacy.library.ucsf.edu/tid/rhm62c00/pdf>.

275. See Jennifer A. Lesny, Note, *Tobacco Proves Addictive: The European Community's Stalled Proposal to Ban Tobacco Advertising*, 26 VAND. J. TRANSNAT'L L. 149, 164–65 (1993) ("In a mature market products are firmly established, widely distributed, easily recognized by consumers, and available for a relatively low price . . . . Advertising for mature products . . . is directed at building brand loyalties and luring consumers away from competing products.").

276. See Alexander Ourusoff, *What's in a Name? (Brand Name Valuation)*, FIN. WORLD, 1–4 (1992), available at <http://legacy.library.ucsf.edu/tid/xkd42d00/pdf>.

277. See, e.g., LANDOR ASSOC., THE MARLBORO TRADEMARK ESSENCE PROGRAM 1–4 (1993), available at <http://legacy.library.ucsf.edu/tid/ofg89a00/pdf> (outlining a plan to strengthen Marlboro's trademark using consumer data and research).

278. See, e.g., KRAFT GEN. FOODS INT'L, KRAFT GENERAL FOODS INTERNATIONAL: FIVE YEAR PLAN 1–4 (1992), available at <http://legacy.library.ucsf.edu/tid/dsm42e00/pdf>; MILLER BREWING CO., MILLER BREWING COMPANY FIVE-YEAR PLAN 1992-1996, at 1–6 (1992), available at <http://legacy.library.ucsf.edu/tid/psm42e00>.

279. See Ross D. Petty, *The Codevelopment of Trademark Law and the Concept of Brand Marketing in the United States Before 1946*, 31 J. MACROMARKETING 87, 90, 93–94 (2011) (tracing the history of brand marketing, or trademark advertising, and the various studies conducted on consumer beliefs); see also *supra* notes 277–78. See generally L. R. Geissler, *Association-Reactions Applied to Ideas of Commercial Brands of Familiar Articles*, 1 J. APPLIED PSYCHOL. 275 (1917) (studying consumers' associations between brands and products).

registrants,<sup>280</sup> trademark holders are likely the best party to bear the cost of understanding whether or not a regulatory measure actually causes consumers to switch brands.

### 3. *Trademark Regulation Necessarily Affects Consumption*

Requiring trademark proprietors to show that consumers are switching to competitors' goods or services furthers the presumptive goal of trademark restrictions: better-informed consumers. As trademark restrictions and warning labels create better-informed consumers, the natural result is downward-sloping demand curves. For example, Thailand's proposed graphic warnings would cover thirty percent of alcohol containers.<sup>281</sup> If, as a result of the warnings, a consumer drinks one fewer beer per day, then certainly an alcohol manufacturer will experience a decrease in sales. Yet, that decrease *is not tied to product distinction*; rather, it *is tied to a consumer acting on better information*, which, therefore, has no effect on trademark competition, but presumably aids the objective of providing information. If, on the other hand, a consumer switches to a competing beer, then the trademark holder has a more justifiable claim to compensation.

When the United States banned the descriptors "light" and "low" from cigarette brands, it recognized that the elimination might lead some consumers to quit smoking and prevent others from starting to smoke.<sup>282</sup> In a condemnation proceeding, requiring cigarette manufacturers to show that a regulation caused consumers to move to a competitor's product would balance a state's interest in better informing consumers with trademark proprietors' interest in maintaining product distinction in the minds of consumers.<sup>283</sup> Even if regulations ultimately engender distributional effects on market players (as regulations invariably do), they are unlikely, without more, to affect consumers' positive associations with existing trademarks.<sup>284</sup>

Determining the proper regulations for trademarks by placing the burden on trademark holders to show "consumer switching" may provide a superior standard to the now-prevailing paradigm, which essentially analogizes

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280. See *supra* notes 211–15, 272–75 and accompanying text.

281. SUKANYA SIRIKERATIKUL, USDA FOREIGN AGRIC. SERV., GAIN REPORT: DRAFT REGULATION ON ALCOHOL GRAPHIC WARNING LABELING 3 (2010), available at [http://www.puntofocal.gov.ar/notific\\_otros\\_miembros/tha332\\_t.pdf](http://www.puntofocal.gov.ar/notific_otros_miembros/tha332_t.pdf).

282. *FDA Seeks Comments on Misleading Labeling*, ACTIONTOQUIT (Jan. 26, 2010), [http://actiontoquit.org/monthly\\_briefings/item/fda-seaks-comments-on-misleading-labeling/](http://actiontoquit.org/monthly_briefings/item/fda-seaks-comments-on-misleading-labeling/).

283. See, e.g., *RJR-MacDonald v. Attorney General of Canada*, [1995] 3 S.C.R. 199, 209 (Can.) (discussing Canadian courts' need to balance "between individual rights and community needs" in deciding whether a trademark regulation is an unlawful infringement).

284. See, e.g., Timothy P. Carney, *Obama Teams with Philip Morris to Beat "Tobacco Industry"*, WASH. EXAMINER, June 23, 2009, <http://washingtonexaminer.com/politics/2009/06/obama-teams-philip-morris-beat-tobacco-industry> (discussing the minimal effect that tobacco regulations will have on major cigarette manufacturers).

trademarks to land for compensation purposes.<sup>285</sup> Under that analogy, trademark holders would be entitled to compensation for lost sales of an associated product, even when those sales are not attributable to the trademark's distinctive capacity.<sup>286</sup> For example, a 1987 survey conducted by Forbes showed that only twenty-one percent of regular Marlboro smokers would purchase Marlboro cigarettes when offered in a plain brown package at half the cost.<sup>287</sup> One might explain the phenomenon as consumers' valuation of a brand name or disbelief that the cheaper, unmarked cigarettes actually were Marlboro cigarettes, rather than a cheap or counterfeit brand, which supports the source-identification function of trademarks. In a regime under which all cigarette manufacturers are required to offer their products in plain packages, it is reasonable to assume that smokers will associate the origin of any given brand of cigarettes with the only distinguishing mark allowed: the manufacturer's name in plain black font.<sup>288</sup> If the trademark holder can show that its ability to compete was unlawfully harmed by a generally applicable plain-packaging regulation, only then does a compensable claim arise.<sup>289</sup>

#### *4. Requiring Trademark Holders to Show Consumer Switching Encourages Firms to Internalize the Costs of Suggested or Implied Messages Across Product Lines*

Manufacturers and trademark holders in the tobacco, alcohol, and food industries shape implied or suggested messages across product lines.<sup>290</sup> Medical evidence shows, for example, that many smokers adopted a "light" version of a cigarette as a health measure, often as an alternative to quitting—a decision intentionally shaped by cigarette manufacturers.<sup>291</sup> In the alcohol industry, brewers introduced "Ice," "Lite Ice," and "Lite" versions of their beer product lines to implicitly convey product qualities.<sup>292</sup> Consumers associate

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285. See *supra* notes 32–39 and accompanying text.

286. See Lanham Act, 15 U.S.C. § 117(a) (2006) (permitting a plaintiff to recover profits in the case of trademark infringement).

287. Jeffrey A. Trachtenberg, *Here's One Tough Cowboy*, FORBES, Feb. 9, 1987, at 108, 109.

288. See *id.* at 109 (discussing the importance of image and Marlboro packaging to consumers); see also Schechter, *supra* note 76, at 355–37 (relating the historical source-identification justification for trademarks, but rejecting its rationale in modern contexts).

289. See Becky Freeman, Simon Chapman & Matthew Rimmer, *The Case for the Plain Packaging of Tobacco Products*, 103 ADDICTION 580, 581 (2008).

290. See *infra* notes 291–307 and accompanying text.

291. Jean-François Etter et al., *What Smokers Believe about Light and Ultra Light Cigarettes*, 36 PREV. MED. 92, 92 (2003) (concluding that smokers believe that advertising phrases like "light" mean that such cigarettes are safer); see also *United States v. Phillip Morris USA, Inc.*, 449 F. Supp. 2d 1, 430–31 (D.D.C. 2006) (finding that cigarette manufacturers introduced the words "light" and "ultra-light" and similar terms into their brands with the explicit intention "to keep smokers smoking; to stop smokers from quitting; and to encourage people, especially young people, to start smoking").

292. MILLER BREWING CO., MILLER BREWING COMPANY FIVE-YEAR PLAN 1992-1996, at 8–10 (1994), available at <http://legacy.library.ucsf.edu/tid/hyi95g00.pdf>.

“Ice” with a beer that might taste better when served particularly cold, although the brewers’ real intent is to offer product lines with significantly higher alcohol content.<sup>293</sup> Consumers may intuit that Bud Light has fewer calories and lower alcohol content than Budweiser, but may not guess that Bud Select has fewer calories, but higher alcohol content, than Bud Light.<sup>294</sup>

Trademarks in the packaged food industry similarly imply health messages across product lines. Kraft and Nestle offered frozen entrees styled “right” in an effort to lead consumers into choosing healthier, “nutritionally controlled” alternatives.<sup>295</sup> Explaining Kraft’s decision to introduce its “Eating Right” brand, a Kraft report noted that consumers are “ignorant of actual levels of [sodium, fat, and cholesterol] which are appropriate or even too much. [Consumers want] a simple way to show them ‘what’s right.’”<sup>296</sup> That product line competed with Nestle’s “Right Course” entrees.<sup>297</sup> Descriptive terms like “right” or “select” may not reach the often-high “false” or “misleading” threshold set by deceptive-advertising laws.<sup>298</sup>

The risk that trademark holders will imply health or other product attribute messages across product lines increases as global consolidation accelerates.<sup>299</sup> For example, only a few industry players dominate the global alcohol industry.<sup>300</sup> In the beer market, for example,

SABMiller controls roughly 15% of global volume and was once the largest brewer in the world, until 2008 when second-place InBev acquired third-place Anheuser-Busch to control about one fourth of global volume. Still, SABMiller retains considerable scale. Six of

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293. *Id.* at 8, 10.

294. See *How Many Calories in Beer?*, BEER100.COM, <http://www.beer100.com/beer-calories.htm> (last visited Oct. 17, 2011) (listing the caloric amounts and alcohol content of domestic beers in the United States).

295. COLLEEN C. WELKE, ALL AM. GOURMET/BIRDSEYE, DRIVING FROZEN MEAL DEVELOPMENT THROUGH COMPETITIVE ASSESSMENT: KRAFT EATING RIGHT 2 (1990), available at <http://legacy.library.uscf.edu/tid/axt71f00/pdf>.

296. *Id.* at 9.

297. *Id.* at 15.

298. See Brian Wansink & Pierre Chandon, *Can “Low-Fat” Nutrition Labels Lead to Obesity*, 45 J. MARKETING RES. 605, 605–06 (2006) (detailing studies showing that relative nutritional claims, such as “low fat,” may lead to over-consumption).

299. See Jon D. Hanson & Douglas A. Kysar, *Taking Behavioralism Seriously: Some Evidence of Market Manipulation*, 112 HARV. L. REV. 1420, 1552 (1999) (suggesting that a reduction in the number of competing enterprises diminishes the chance that they will advertise negative health information); see also Henry N. Butler & Jason S. Johnson, *Reforming State Consumer Protection Liability: An Economic Approach*, 2010 COLUM. BUS. L. REV. 1, 62–63 (asserting that when the “quality” of certain products cannot be easily ascertained by consumers, “profit-driven” informational sources like consumer reports may fill the informational void).

300. See David H. Jernigan, *The Global Industry: An Overview*, 104 ADDICTION 6, 7 tbl.10, 10 (Supp. I 2009) (showing the market share for the ten largest beer marketers and discussing how “a small group of large corporations . . . are able to promote their points of view effectively in global forums”).

[SABMiller's] brands are among the top 50 in the world, and the firm has the number-one or number-two spot in more than 90% of the markets in which it competes, including China, India, the United States, and South Africa.<sup>301</sup>

Similarly, in the tobacco industry, although there are seven major cigarette manufacturers, Philip Morris and British American Tobacco dominate the global market.<sup>302</sup> In the global packaged and processed foods market, giants like Nestle, Danone, Unilever, Pepsi, and Kraft dominate.<sup>303</sup> These industries are not always distinct. Until 2007, Kraft shared its ownership structure with Philip Morris.<sup>304</sup>

Regulators can force firms to internalize the costs that implied or suggested messages otherwise place on consumers by requiring trademark holders to show brand switching. If regulators limit beer trademarks, for example, to a single variety per brand, the loss of one variety, such as "light," will not injure a market player if consumers move to an alternative product line offered by the same player. Awareness of the rule *ex ante* gives regulators an incentive to draw optimal boundaries around markets and players and places firms in a superior position to contest poorly drawn lines.<sup>305</sup> Indeed, knowing that regulators will be free to condemn trademarks that *do not* affect market share may stimulate investments in higher quality products, instead of colorful or visceral imagery.<sup>306</sup>

##### *5. Requiring Trademark Holders to Show Brand Switching Facilitates the Exposure of Regulatory Capture*

Regulation of images, words, signs, colors, and other distinguishing product features inevitably conflicts with the interests trademarks are meant to

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301. Ann Gilpin, *SABMiller and A-B InBev Can Coexist*, HEMSCOTT.COM (July 10, 2009, 1:27 PM), <http://www.hemscott.com/news/comment-archive/item.do?id=77809>.

302. JUDITH MACKAY & MICHAEL ERIKSEN, WORLD HEALTH ORG., THE TOBACCO ATLAS 50–51 (2002), available at <http://www.who.int/tobacco/en/atlas18.pdf>.

303. ANITA REGMI & MARK GEHLHAR, U.S. DEP'T OF AGRIC., AGRICULTURE INFORMATION BULLETIN 794: NEW DIRECTIONS IN GLOBAL FOOD MARKETS app. at 74 (2005), available at <http://www.ers.usda.gov/publications/aib794/aib794App.pdf>.

304. See Michael Arndt, *It Just Got Hotter in Kraft's Kitchen*, BUS. WK., Feb. 12, 2007, at 36 (discussing Altria's spin off of Kraft Foods Inc. in 2007).

305. See, e.g., Vadi, *supra* note 49, at 801 (noting that *ex-ante* legislative approaches are more effective at achieving public-health goals than litigation); see also Comm'n of the European Cmty., *Commission Recommendation on Relevant Product and Service Markets Within the Electronic Communications Sector Susceptible to Ex Ante Regulation in Accordance with Directive 2002/21/ED of the European Parliament and the Council on a Common Regulatory Framework for Electronic Communication Networks and Services*, at 2–5 (2007), available at [http://ec.europa.eu/information\\_society/policy/ecom/doc/library/proposals/rec\\_markets\\_en.pdf](http://ec.europa.eu/information_society/policy/ecom/doc/library/proposals/rec_markets_en.pdf) (discussing the purpose and benefits of *ex-ante* regulations in the context of electronic communications networks); *supra* Part I.C.5.a.

306. See *supra* notes 69–73 and accompanying text.

protect.<sup>307</sup> Because authorities cannot designate all possible combinations of letters, colors, frames, fonts, shapes, or characteristics in which manufacturers must disclose information, the framing of that information remains a key area in which manufacturers can and will compete.<sup>308</sup>

These regulations are therefore subject to capture.<sup>309</sup> Theories of regulatory capture predict that competitors endeavor to influence regulations in a way that either advantages one business interest or disadvantages a competitor.<sup>310</sup> Indeed, PMI made this allegation against Uruguay's cigarette-packaging regulations.<sup>311</sup> PMI's chief competitor in Uruguay is an entirely domestic manufacturer.<sup>312</sup> PMI therefore asserts that the law required it to withdraw seven of its twelve product lines from the market, but that its Uruguayan competitor merely renamed its brands in order to keep all of its variations on the market.<sup>313</sup> PMI argues that the law effectively penalized PMI and subsidized its competitor.<sup>314</sup> Using this Article's proposal, if PMI can show that consumers are indeed switching to its competitors' brands instead of switching to alternative PMI product lines, PMI can simply and inexpensively expose the regulations as unjustifiably benefiting the Uruguayan tobacco manufacturer over PMI.

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307. See Young, *supra* note 20; *supra* Part II.B.

308. See *supra* notes 154–58 and accompanying text; see also Hanson & Kysar, *supra* note 299, at 1466 (“When consumers are at least partially aware of health and safety risks, manufacturers have incentives to manipulate risk perceptions in the manner that benefits them most . . .”).

309. See Stacey L. Dogan & Mark A. Lemley, *Antitrust Law and Regulatory Gaming*, 87 TEX. L. REV. 685, 698–99 (2009) (providing an overview of the various forms of regulatory capture). The concept of capture encapsulates the notion that agencies are often subject to influence or control by the industries that they regulate. *Id.* at 698. Capture may take the form of bribes in exchange for regulators' support. *Id.* Capture may also occur when parties with a concentrated and particularized interest lobby regulators and lawmakers and capture them through public-choice theory. *Id.* at 699. Moreover, in certain cases, regulators may be able to obtain accurate information about the market and may become susceptible to the information disseminated by lobbyists on behalf of a particular entity. *Id.*

310. See *id.* at 698–99; see also Lawrence G. Baxter, “Capture” in *Financial Regulations: Can We Channel It Toward the Common Good?*, 21 CORNELL J.L. & POL'Y 175, 176 (1992) (observing that capture “conveys a sense of illegitimate expropriation, performed by one powerful group over others, of the resources we might have thought were provided for a broader social benefit”).

311. See *Philip Morris International Responds to Blatant Mischaracterization of Uruguayan Lawsuit*, BUS. WIRE (Nov. 20, 2010, 12:19 PM), <http://www.businesswire.com/news/home/20101120005010/en/Philip-Morris-International-Responds-Blatant-Mischaracterization-Uruguayan>.

312. See WEILER, *supra* note 246, at 15.

313. See *id.* at 17; *Philip Morris International Responds to Blatant Mischaracterization of Uruguayan Lawsuit*, *supra* note 311.

314. WEILER, *supra* note 246, at 14–15; *Philip Morris International Responds to Blatant Mischaracterization of Uruguayan Lawsuit*, *supra* note 311.

#### D. Limitations and Qualifications

##### 1. Initial, Not Final Burdens

For the reasons articulated above, placing an initial evidentiary burden on trademark holders to show that a regulation causes consumers to switch to competing versions of goods or services makes good economic sense.<sup>315</sup> Trademark holders know the most about relevant markets and how to shape consumer perceptions; however, trademarks' visual appeal may play an independent role in consumers' decisions to purchase goods or services. A consumer may participate in a market because he or she has an idiosyncratic affinity for a particular trademark's colors, emotive content, or other aesthetic.<sup>316</sup> Presumably, without that visual appeal, the consumer could decide to stop participating in the market, not because of a decision based on better information.<sup>317</sup>

The short answer is that such a scenario is likely to take place in a relatively narrow range of products or services. Consumers are unlikely to stop purchasing packaged food, automobiles, shoes, tools, cookware or a wide range of ultimately necessary items. When considering regulations of less fundamental products like cigarettes and alcohol, both trademark holders and the state may submit evidence that, like all evidence in a condemnation proceeding, must be weighed in light of numerous factors.<sup>318</sup> Regulators are likely to push for trademark restrictions on precisely these kinds of products—the ones that impose direct costs on governments.<sup>319</sup> Also, regulators may be motivated to act because of a market failure, such as in the cigarette and alcohol industries, in which no player has an interest in exposing relevant consumer information.<sup>320</sup> Regardless of regulators' motivations in

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315. See *supra* Part II.C.

316. See Lunney, *supra* note 103, at 478 (observing the idiosyncratic nature of consumer preferences and the distinct affinity that individuals have regarding style and color).

317. See *supra* Part II.C.3.

318. See *supra* notes 224–28 and accompanying text.

319. Daryl J. Levinson, *Making Government Pay: Markets, Politics, and the Allocation of Constitutional Costs*, 67 U. CHI. L. REV. 345, 346–47 (2000) (arguing that governments are poor substitutes for firms when discussing monetary incentives to guide behavior); see *supra* notes 115–27 and accompanying text (detailing proposed alcohol and tobacco regulations and industry responses). See *generally* Vadi, *supra* note 49 (discussing the interplay between the need for public-health regulations and the use of trademark protections to combat such regulations). Nevertheless, money might be more fungible with politics than Levinson's analysis suggests. Governments have considered, and then rejected, proposed trademark regulations challenged on the basis of falling afoul of international intellectual-property instruments because of the potential cost of compensating trademark holders for their intellectual-property rights. See *supra* notes 237–40 and accompanying text.

320. See, e.g., Mark Armstrong, *Interactions Between Competition and Consumer Policy*, 4 COMPETITION POL'Y INT'L 97, 103–08 (2008) (discussing that cigarette-packaging regulations are necessary to inform consumers about the health effects of smoking partly because the

restricting trademarks or in requiring warnings that affect trademarks, it is reasonable to require that the state make reasonable efforts to investigate the market implications of such regulations. In other words, the state may rebut trademark holders by submitting evidence of the value of the disclosed information to consumers.

## 2. *Defining the Relevant Market*

This Article's thesis depends on an implied, but not fully explored condition: that the relevant market for the goods and services represented by trademarks may be easily ascertained or determined.<sup>321</sup> In jurisdictions that define and analyze markets before firm mergers or acquisitions as a measure to guard against anticompetitive effects, regulators scrutinize whether products or services are substitutable within a given geographic market.<sup>322</sup> In the trademark context, the question becomes whether trademark holders would be able to show that a trademark restriction caused consumers to switch to a "substitutable" good or service. For example, what if strong restrictions on cigarette trademarks caused consumers to switch to smokeless tobacco products? Such a concern seems to pose little threat to the administration of the process outlined above because in markets regulators are likely to target—such as tobacco, alcohol, and processed food—the same industry players that dominate one product line dominate another.<sup>323</sup> Indeed, trademark holders in these "mature" product markets appear to concede that their marks and trade names play a substantive role in retaining current consumers and causing other consumers to switch within the same product line.<sup>324</sup>

It is entirely possible that trademark holders in mature product markets may attempt to introduce evidence that trademark restrictions or warning labels negatively affect a broader scope of products, beyond those specifically regulated. Given adjudicators' wide discretion with respect to evidence and disputed market realities, trademark holders' attempts to expand relevant markets appear to be manageable.

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competitive market alone will not provide that information and because no cigarette manufacturer benefits from exposing rivals' smoking-related risks).

321. *See supra* Part II.C.2.

322. *See* Ioannis Kokkoris, *Do Merger Simulation and Critical Loss Analysis Differ Under the SLC and Dominance Test?*, 27 EUR. COMPETITION L. REV. 249, 252 (2006).

323. *See supra* notes 300–05 and accompanying text.

324. Nobeza Piccardo Unconstitutionality Claim, *supra* note 21, at 10 ("Products known as 'mature' are those with a long trajectory on the market. These are products known by the general public and especially by those consuming them. They are products that do not need advertising to be known . . . . The importance of advertising, in this type of products, stems from the distinguishing of the brand itself from that of the competitor. The purpose of such distinction is to attract to the brand clients that already consume the products of the competition, while at the same time maintaining the clients that use their own products.").

## III. PROHIBITIONS: DISCRIMINATION AND IMMEASURABILITY

As indicated in the beginning of this Article, the confrontation between protecting trademarks and regulating in the interest of consumer information costs has been played out extensively in the context of the corporate-speech debate.<sup>325</sup> In the context of speech, the conversation quickly becomes both binary and strident and leaves inadequate room for compromise. A trademark is either speech or it is not.<sup>326</sup> Speech is either misleading or it is not.<sup>327</sup> Yet even in the context of a regulatory taking, it is worth exploring some principles that might guide an adjudicator to conclude that a proposed regulation or a trademark may simply not be allowed.<sup>328</sup>

## A. Discrimination

For trademark holders, the driving principle for prohibiting a regulation depends on proof of arbitrary discrimination.<sup>329</sup> The benefit of imposing a burden on trademark holders to show consumer switching partly assists in exposing regulations that unjustifiably advantage or disadvantage competitors.<sup>330</sup> Identifying the point at which a trademark holder's right to compensation for such a loss reaches a sufficiently high level to justify a

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325. See *supra* note 19.

326. See Jude A Thomas, *Fifteen Years of Fame: The Declining Relevance of Domain Names in the Enduring Conflict Between Trademark and Free Speech Rights*, 11 J. MARSHALL REV. INTELL. PROP. L. 1, 10–14 (2011) (surveying the historical context and current debate over trademarks as constitutionally protected speech).

327. Rebecca Tushnet, *Trademark Law as Commercial Speech Regulation*, 58 S.C. L. REV. 737, 741 (2007) (articulating the Supreme Court's standard that to be deemed false or misleading, commercial speech must be "actually or inherently misleading").

328. This discussion has greater relevance for domestic regimes, such as regulatory-takings jurisprudence in the United States because, as a practical matter, international arbitration tribunals disfavor specific performance or equitable remedies. See M. SORNARAJAH, *THE INTERNATIONAL LAW ON FOREIGN INVESTMENT* 428 (2d ed. 2004); Nicholas DiMascio & Joost Pauwelyn, *Nondiscrimination in Trade and Investment Treaties: Worlds Apart or Two Sides of the Same Coin?*, 102 AM. J. INT'L L. 48, 56 (2008). But see Christoph Schreuer, *Non-Pecuniary Remedies in ICSID Arbitration*, 2 ARB. INT'L 325, 326 (2004) (observing that the International Court of Justice has rendered judgments for specific performance in many instances).

329. Indeed, NAFTA as well as many other trade and investment agreements include this as an explicit requirement. See NAFTA, *supra* note 36, at art. 1110 (requiring that an expropriation be nondiscriminatory); Agreement Between the Swiss Confederation and the Oriental Republic of Uruguay On the Reciprocal Promotion and Protection of Investments, Switz.–Uru., art. 5(1), Apr. 22, 1991, 1976 U.N.T.S. 389, available at [http://untreaty.un.org/unts/120001\\_144071/26/2/00021341.pdf](http://untreaty.un.org/unts/120001_144071/26/2/00021341.pdf) (requiring that expropriation be conducted only "for the public benefit as established by law, on a non-discriminatory basis, and under due process of law, and provided that provisions be made for effective and adequate compensation"); see also Agreement Between the Swiss Confederation and the Oriental Republic of Uruguay On the Reciprocal Promotion and Protection of Investments, *supra*, at art. 3 (providing that neither party to an investment contract "shall . . . impair by unreasonable or discriminatory measures the management, maintenance, use, enjoyment, extension, sale and, should it so happen, liquidation of such investments").

330. See *supra* notes 283, 315 and accompanying text.

prohibition or injunction against state action is complicated, but entirely manageable.

Consider the example of a market in which three firms' trademarks compete: Eating Right, Healthy Choice, and Right Course.<sup>331</sup> Let us say, a state prohibited the use of the word "Right" in connection with food because the regulator was concerned that the descriptor may mislead consumers as to one or more product qualities. Such a regulation would disproportionately burden two of the three competitors in the relevant market. One option would be to simply rely on the default rule and compensate "Right" trademark holders for any losses they can prove attributable to consumers switching brands as a result of the regulation. A second option would be to empower dispute-settlement authorities to revise the regulation in light of competition in the relevant market. A third option would be simply to prohibit the state from imposing a regulation that appears to discriminate so forcefully on two of the three market players. As with defining relevant markets, there may be some peccadilloes in terms of manageability, but it appears that a compensation rule alone would create the right incentive for regulators to address both the "Right" and "Healthy" brand modifiers.

### *B. Immeasurability of Social Costs*

Partial or total prohibition of a trademark without compensation to an owner may be justified where a trademark imposes excessive or immeasurable costs.<sup>332</sup> In such cases, a regulation against the use or sale of property represents a state's decision that the costs overwhelmingly outweigh any potential economic benefits or the process of measuring the benefits and costs itself is unrealistic or unwise.<sup>333</sup>

Indeed, in the speech context, this is precisely the basis upon which states justify trademark or other advertising prohibitions.<sup>334</sup> Using the example of prohibitions of "light" or "mild" cigarettes, smokers may believe that these

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331. See generally WELKE, *supra* note 295 (comparing Kraft's Eating Right frozen meals to competing products Right Course and Healthy Choice).

332. See Vadi, *supra* note 49, at 782 (observing that "in some cases excessive trade mark protection may have a negative impact on public health policies," and further examining "the emerging trend in retaliating against trade marks for alleged violations of public policy norms").

333. See OFFICE OF INFO. & REGULATORY AFFAIRS, OFFICE OF MGMT. AND BUDGET, 2011 REPORT TO CONGRESS ON THE BENEFITS AND COSTS OF FEDERAL REGULATIONS AND UNFUNDED MANDATES ON STATE, LOCAL, AND TRIBUNAL ENTITIES 4 (2011) ("[C]areful consideration of costs and benefits is best understood as a way of ensuring that regulations will improve social welfare . . .").

334. See Lindsey Sacher, Comment, *From Stereotypes to Solid Ground: Reframing the Equal Protection Intermediate Scrutiny Standard and Its Application to Gender-Based College Admissions Policies*, 61 CASE W. RES. L. REV. 1411, 1429 (2011) (noting that to restrict commercial speech, the government must show that the benefits of infringing on the speech outweigh the costs and that restriction will materially further the government's purpose in remedying a purported harm).

cigarettes are healthier than “full-flavor” alternatives,<sup>335</sup> and consumers’ use of “light” or “low-tar” cigarettes as a health measure reduces the chance of quitting.<sup>336</sup> With respect to trademarks, the messages, images, and framing on product packaging may create credence qualities related to health that justify significant regulation or total prohibition.<sup>337</sup> Therefore, this kind of speech is undeserving of protection. In the property or takings context, the standard is translated into a cost-benefit analysis in which the costs are too large to be ascertainable.<sup>338</sup> Measuring the value of individual health is too difficult or morally complex,<sup>339</sup> thus, short of a trademark prohibition, an arbiter or judge must engage in the ghoulish enterprise of assigning a value to the health and lives of those who would have quit smoking instead of switching to a “light” or “low-tar” cigarette.<sup>340</sup>

Even where it has decided to adopt a compensatory regime for trademark holders whose products affect human health, a state may nevertheless have a justifiable basis to “take” trademarks that have the effect of enticing children or adolescents.<sup>341</sup> Partial or total trademark prohibitions are justified when they appeal to children for the same reasons that most jurisdictions prevent minors from entering into legally binding contracts, consenting to marriage, or

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335. See *supra* note 291 and accompanying text.

336. See *supra* note 291 and accompanying text.

337. See *supra* notes 178–88 and accompanying text; see also Guido Calabresi & Douglas Melamed, *Property Rules, Liability Rules and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089 (1972); Colin Camerer et al., *Regulation for Conservatives: Behavioral Economics and the Case for “Asymmetric Paternalism,”* 151 U. PA. L. REV. 1211, 1222 (2003) (discussing how consumers need information through regulation to help them make the correct purchase decisions regarding their health).

338. See *supra* note 332 and accompanying text.

339. See, e.g., FRANK ACKERMAN & LISA HEINZERLING, PRICELESS: ON KNOWING THE PRICE OF EVERYTHING AND THE VALUE OF NOTHING 207 (2004) (arguing that cost-benefit analyses systematically undervalue human life and health).

340. Alternatively, a type of “sin tax” could be levied on these products to recover the costs they impose. See, e.g., Jon D. Hanson & Kyle D. Logue, *The Costs of Cigarettes: The Economic Case for Ex Post Incentive-Based Regulation*, 107 YALE L.J. 1163, 1255 (1998). One difficulty with that option is the measuring of intangibles like “discomfort, pain, and suffering,” which may accompany diseases associated with consumption of these products. RESEARCH FOR INT’L TOBACCO CONTROL, AT WHAT COST? THE ECONOMIC IMPACT OF TOBACCO USE ON NATIONAL HEALTH SYSTEMS, SOCIETIES, AND INDIVIDUALS: A SUMMARY OF METHODS AND FINDINGS 24–25 (2003).

341. See Joseph R. DiFranza et al., *Tobacco Promotion and the Initiation of Tobacco Use: Assessing the Evidence for Causality*, 117 PEDIATRICS e1237, e1238–45 (2006) (discussing evidence from the United States and other countries to show that children and adolescents are a key target of tobacco industry branding). The overwhelming majority of adolescents who smoke prefer the most heavily advertised brands. See Ctrs. for Disease Control, *Changes in the Cigarette Brand Preference of Adolescent Smokers—United States, 1989–1993*, 43 MORBIDITY & MORTALITY WKLY. REP. 577 (1994), available at <http://www.cdc.gov/mmwr/preview/mmwrhtml/00032326.htm>.

working in hazardous occupations.<sup>342</sup> These restrictions stem from the view that children should be able to make decisions without being subject to the full range of long-term consequences imposed on adults for similar choices.<sup>343</sup>

#### IV. CONCLUSION

As governments increasingly bear the costs of their citizens' consumption decisions or seek to facilitate the communication of accurate and relevant product information, trademarks will face increasing regulation. Although regulations may take a number of forms like limiting certain graphics or colors or requiring that pictorial warnings cover large portions of product packaging, regulatory action must ultimately address consumers' information costs. Pictorial warnings emerged in the alcohol, packaged food, and tobacco sectors because written, government-mandated labels warnings failed to communicate relevant health information effectively.<sup>344</sup> Through pictorial, rather than written warnings, regulators attempt to bring information about long-term health effects as close to the time of purchase or consumption as possible.<sup>345</sup> Both warnings and trademark restrictions will ultimately generate disputes with trademark holders as to the holders' rights to distinguish their products.

This Article presents a basic framework for determining the state's compensation for the condemnation of trademarks for a public purpose. Although in some jurisdictions, that debate occurs squarely within the context of permitted versus prohibited speech, many international forums are more likely to consider "property" or "investment" perspectives on trademarks and will need to develop frameworks for handling this unique form of intellectual property. The standard now being articulated—an ambiguous but broadly defined "fair market value"—unhinges trademarks from the social benefits they are meant to provide. Instead, trademark holders should be required to show that trademark restrictions cause consumers to switch to competitors' versions of goods or services. Trademark holders can adduce this information relatively inexpensively with an added benefit that such private policing will help check efforts to capture regulators. This framework provides one method by which to determine the appropriate balance between trademark holders' property rights, which permit them to distinguish their products, and the state's interest in ensuring fully informed consumer decisions.

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342. Robert L. Rabin & Stephen D. Sugarman, *Overview*, in *SMOKING POLICY: LAW, POLITICS, AND CULTURE* 3, 8 (Robert L. Rabin & Stephen D. Sugarman eds., 1993).

343. *Id.*

344. *See* Required Warnings for Cigarette Packages and Advertisements, 75 Fed. Reg. 69,524, 69,530–34 (Nov. 12, 2010).

345. *See id.* at 69,530–31 (noting that graphic warnings are more effective at alerting consumers to health warnings than textual warnings).

