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What Is Dilution, Anyway?

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WHAT *IS* DILUTION, ANYWAY?

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Ever since the Supreme Court decided *Moseley v. V Secret Catalogue, Inc*. in 2003, an amendment to the Federal Trademark Dilution Act ("FTDA") has appeared inevitable. Congress almost certainly meant to adopt a "likelihood of dilution" standard in the original statute, and the 2006 revisions correct its sloppy drafting. Substituting a "likelihood of dilution" standard for "actual dilution," however, does not resolve a deeper philosophical question that has always lurked in the dilution debate: what *is* dilution, and how does one prove or disprove its probability? The statutory definition notwithstanding, this issue remains largely unanswered, leaving the courts with the responsibility—and the power—to delineate dilution's scope.

Judging from the ambiguous legislative history and the messy history of dilution in the states, courts will have broad discretion in exercising their authority. The absence of any consistent normative vision for dilution means that judges will shape that vision, along with the doctrinal framework for pursuing it. In doing so, they face a stark choice between one approach that largely comports with traditional trademark theory, and another that transforms the law's purpose and effect. Because the more radical option imposes substantial costs without any obvious social benefits, courts would do well to adopt the more modest version.

I.

Dilution, as originally conceived, referred to the harm that occurs when a famous, distinctive mark loses its singular meaning. Frank Schechter, the first American proponent of the theory, described it as "the gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use upon non-competing goods." In Schechter's view, the law should protect against "the possibility of *vitiation of identity*" of unique marks. His concern, in other words, was about the loss of individuality for marks that could claim that feature.

Schechter's theory of dilution came with important limitations. He expressly limited the proposed protection to fanciful or coined terms, for only these had the "uniqueness and singularity" that he sought to protect. The dilution claim that Schechter envisioned, moreover, would apply only when another party adopted *the same mark* on a non-competing product. These two limitations made sense in light of the harm that Schechter was

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concerned about: when a mark starts out with a unique meaning, its strength and singularity undoubtedly suffer through the use of the same mark by unrelated vendors.

When defined this way, Schechter's theory fits comfortably within the dominant theoretical model of trademark law. That model, first articulated by William Landes and Richard Posner some twenty years ago, suggests that trademark protection exists in order to reduce consumer search costs. By providing reliable short-hand information about the source and quality of products, trademarks make it easier for consumers to identify products with desired qualities, and thereby reduce transaction costs and enhance competition. Under this approach, protecting famous marks against dilution makes good sense. Dilution of a unique mark increases consumer search costs by making consumers who once associated any mention of the mark with its owner look further for context.

Over time, however, the dilution theory has evolved into a more complicated beast. While many of its advocates remain loyal to Schechter's original vision, others take a decidedly different view of the harms that dilution law seeks to prevent. Rather than a surgical tool to avoid "vitiation" of the singular meaning of unique marks, these proponents view dilution as an overarching mechanism to prevent free-riding on famous marks' reputations. Under this view, the inquiry in dilution cases is not whether a defendant's use destroys a mark's uniqueness, but whether the defendant has somehow profited by evoking the famous mark in the minds of the public.

This broader view of dilution occasionally cropped up in case law and legislative history surrounding the FTDA. The original House Report stated that the FTDA was creating "a federal cause of action to protect famous marks from unauthorized users that attempt to trade upon the goodwill and established renown of such marks *and, thereby*, dilute their distinctive quality." Courts applying the statute before *V Secret* frequently quoted that language and recognized claims based on the defendant's attempt to trade on the fame of the protected mark. Indeed, the Ninth Circuit described Congress's goal in passing the FTDA as preventing "out-of-market free riding." Even when they did not explicitly mention free-riding, courts often presumed dilution based solely upon a "mental association" between a defendant's mark and the plaintiff's. Proof of dilution, under this approach, was oddly defendant-centric, focused on whether the defendant intended to evoke the plaintiff's trademark, rather than on the impact of the use on the power of the plaintiff's mark.

The Supreme Court's *V Secret* opinion put an end (albeit temporarily) to this conclusory form of dilution analysis. By requiring plaintiffs to prove harm to the distinctiveness of their marks, the Supreme Court returned the focus of dilution claims to the original Schechter formulation: will the challenged use spoil the singularity of plaintiff's unique mark? Critics, seizing on the "actual dilution" language, have charged the Supreme Court with adopting an insurmountable evidentiary standard, and that charge is appealing if one doesn't look beyond the "actual dilution" nomenclature. The Court's analysis, however, is more nuanced than the actual dilution designa-

tion alone would suggest. While no model of clarity, the opinion appears primarily concerned with forcing plaintiffs to *prove* the likely consequences of a challenged use of their mark. An actual dilution standard, the Court held, "does not mean that the consequences of dilution, such as an actual loss of sales or profits, must also be proved." In some cases, circumstantial evidence—such as identity of marks—will suffice, because third-party use of a unique mark will indeed impair that mark's singularity. What it *does* mean is that the plaintiff must prove more than a mental association between the defendant's mark and its own, for "such mental association will not necessarily reduce the capacity of the famous mark to identify the goods of its owner, the statutory requirement for dilution under the FTDA." "Blurring" held the Court, "is not a necessary consequence of mental association."

Under this interpretation, the Supreme Court may well have suggested a likelihood of dilution standard under the guise of an actual dilution test. Whatever the true nature of the *V Secret* inquiry, however, the "actual dilution" designation perplexed lower courts and incensed trademark holders and their friends in Congress. As a result, shortly after the *V Secret* opinion, Congress began drafting legislation to reverse the "actual dilution" standard. Last month, a bill finally passed in the form of the Trademark Revisions Act of 2006, which explicitly adopts a "likelihood of dilution" test.

While making "likelihood of dilution" the new benchmark for liability, the revised statute does not abandon the Schechter formulation for defining dilution's nature. The statute retains a harm-focused approach to dilution, defining both tarnishment and blurring with reference to injury to a famous mark. Blurring, the statute states, "is association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark." Tarnishment is defined as "association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark." On its face, then, the statute appears to require trademark holders to establish that a defendant's use will likely harm the distinctiveness or reputation of its trademark—not merely that the defendant has evoked its mark or taken a free-ride on its good standing. Nonetheless, the legislative history of the revisions again reflects an occasional anti-free-riding impulse. The statute's use of the term "association," moreover, has led courts to focus their analysis solely on the existence of mental association between two marks, rather than the likelihood of harm to the famous one. If experience is any guide, some courts will feel tempted to make the causal leap between mental association and dilution, and conclude that any use that calls to mind a famous mark will probably dilute it.

II.

Courts interpreting the revised FTDA, then, will have to choose between two dueling visions of the meaning of dilution and the evidence required to prove it. A harm-based approach to dilution would protect the meaning of famous trademarks and promote the goal of reducing consumer search costs. An unjust-enrichment-based approach, in contrast, would view trademark-

related goodwill as the famous mark-holder's property, protected against free-riding unless a particular statutory defense applies.

Numerous scholars and speech advocates have written about the dangers of such a property-based view of trademark law. Unlike copyright and patent law, trademark law has never aimed to provide exclusive rights in marks, but has focused on preserving informational clarity in the marketplace. When a use does not impair that clarity, there is no concrete social benefit to enjoining it. While commentators have occasionally suggested that free-riding might impair the incentive to invest in high prestige marks, there is no evidence to support that proposition. An anti-free-riding presumption, moreover, would put the burden on defendants in numerous contexts to justify behavior that has important economic and expressive benefits. Trademark law is replete with examples of "free-riding" that promotes, rather than thwarts, the law's informational objectives. Pepsi clearly took a ride on Coca-Cola's reputation when it launched the Pepsi Challenge many years ago. By using the draw of the Coca-Cola name, Pepsi attracted substantially more attention than it would have in an ad campaign without the Coke reference. Andy Warhol similarly derived economic benefit from the fame of the Campbell's Soup brand. Supermarkets and drug stores draw from the popularity of famous trademarks when they locate generic versions of drugs and other consumer products immediately beside their branded counterparts. Advertisers in magazines and newspapers derive benefits from placing ads next to articles about famous brands. Each of these uses brings economic benefits to society by enhancing consumer choice and increasing competition. While some of them fall within a specific statutory exemption in the FTDA, not all of them do; putting the burden on the defendants to establish that their particular "free-ride" was justifiable would inevitably chill speech—and competition—at the margins.

III.

Given the significant costs associated with a free-riding-based standard, courts would do well to follow the harm-based approach that informed Schechter's original vision, and that the literal language of the revised FTDA seems to require. In evaluating the likelihood of dilution under such a standard, courts should consider whether the plaintiff has proven that the defendant's use is likely to impair the singular meaning of its famous trademark. The following principles should guide courts in making this determination:

The inquiry must distinguish between injury to the trademark, on the one hand, and unjust enrichment of defendant, on the other. As the Supreme Court held in *V Secret*, a use that merely evokes a famous trademark will not necessarily harm that mark's distinctiveness or reputation. Nor does the fact that a defendant obtained some benefit from the evocation establish, by itself, probable injury to the famous mark.

As the statute suggests, the burden of proof lies firmly with the plaintiff to establish that the use at issue is likely to harm the singularity of its mark.

The plaintiff, in other words, bears the burden of establishing not only that the defendant has created an association between its mark and the plaintiff's, but that the association will likely blur or tarnish the meaning of the plaintiff's mark in the minds of the public. In the case of a unique mark adopted, in identical form, by a third party, the harm may logically follow. In other cases involving mere evocation, however, plaintiffs must go further and present evidence of the causal relationship between that evocation and a reduction in their mark's selling power. As Professor McCarthy has argued in his treatise, judges applying a likelihood of dilution standard "should demand persuasive evidence that dilution is likely to occur. . . . Even the probability of dilution should be proven by evidence, not just by theoretical assumptions about what possibly could occur or might happen."

IV.

Congress had good reason to correct its drafting error and restore a likelihood of dilution standard to the FTDA. While the precise legal standard adopted by the Supreme Court in *V Secret* has been overruled, however, its opinion contains important wisdom about the meaning of dilution and the evidence required to prove it. That wisdom applies with equal force to the revised statute, and we can only hope that courts will heed it.