

10-1-2013

Coordinating Extensive Trademark Rights and Competition Policy

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Kexin Li, *Coordinating Extensive Trademark Rights and Competition Policy*, 9 Buff. Intell. Prop. L.J. 35 (2013).

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ARTICLES

COORDINATING EXTENSIVE TRADEMARK RIGHTS AND COMPETITION POLICY

KEXIN LI⁺

ABSTRACT

A trademark can be not only a word or logo, but also a color, sound, three-dimensional object, and many other nontraditional items. Corporations are increasingly seeking nontraditional trademark protection instead of or in addition to traditional patents and/or copyrights. They are also enforcing both traditional and nontraditional marks more aggressively and in ways that may lead to significant foreclosure effects. This working paper argues that these trends may raise serious competition policy concerns that should play an important role in the evolution of trademark law. For instance, trademark registration and enforcement should be subject to the same antitrust constraints as other “ordinary” kinds of business conduct.

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I. INTRODUCTION

Intellectual property rights provide different degrees of exclusivity to their owners by law. Antitrust scholars are often skeptical about these rights.¹ For a long time, their skepticism has concentrated on patents and copyrights. Patent and copyright protections are conferred by the Patent and Copyright Clause in the United States Constitution.² As the Supreme Court stated in 1953:

The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in “Science and useful Arts.” Sacrificial days devoted to such creative activities deserve rewards commensurate with services rendered.³

Society grants authors and inventors exclusive rights in their works for a limited period of time. These rights unavoidably suppress competition in exchange for public benefits from the efforts of those innovators “to

¹ See, e.g., Michele Boldrin & David Levine, *The Case Against Intellectual Property*, 92(2) AM. ECON. REV. (Papers and Proceedings) 209–12 (2002).

² U.S. CONST. art. I, § 8, cl. 8.

³ *Mazer v. Stein*, 347 U.S. 201, 219 (1954).

introduce novel ideas and knowledge into the public domain.”⁴ It is difficult to coordinate antitrust law and intellectual property law largely because it is difficult to strike a sound balance between competition and innovation.

Yet, patents and copyrights are not the whole story of intellectual property. There is another important category of intellectual property: trademarks. Unlike patents and copyrights, trademark protection derives from the same constitutional basis as the Sherman Anti-Trust Act (“Sherman Act”): the Commerce Clause of the United States Constitution.⁵ The traditional function of trademarks is “to identify the origin or ownership of the goods to which it is affixed.”⁶ Trademarks can reduce consumers’ search cost and protect them from being confused by similar but inferior products.⁷ Without apparent conflicting values,⁸ it therefore seems at first glance that trademark law and antitrust law should provide a coherent legal regime on business competition.⁹

⁴ *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 975 (4th Cir. 1990). However, even the temporary monopolies authorized by the Patent and Copyright Clause may be challenged. The United States now is reconsidering the patent system: is granting such monopoly the best way to encourage innovation that in turn will benefit public most? For example, Bernard Sanders has recently introduced a bill proposing to replace the current patent system for AIDS drugs with a prize system so that generic versions of new drugs can reach the market more quickly and patients can buy new drugs at lower price. It is a more trademark-like system because it requires proof of actual success before any award can be given. The downside of this idea is: without some temporary monopoly, how can the innovator recoup its investment and have enough resource to finance the marketing before the new product can be proved successful and receive the prize? See Brian Vastag, ‘Radical’ Bill Seeks to Reduce Cost of AIDS Drugs by Awarding Prizes Instead of Patents, THE WASHINGTON POST, May 19, 2012, http://www.washingtonpost.com/national/health-science/radical-bill-seeks-to-reduce-cost-of-aids-drugs-by-awarding-prizes-instead-of-patents/2012/05/19/gIQAEGfabU_story_1.html.

⁵ U.S. CONST. art. I, § 8, cl. 3; *The USPTO: Who We Are*, <http://www.uspto.gov/> (last modified June 10, 2013).

⁶ Frank Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813, 813-14 (1926) (quoting *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 412 (1916)).

⁷ *Qualitex Co. v. Jacobson Prods Co.*, 514 U.S. 159, 163–64 (1995) (quoting 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2.01[2] (3d ed. 1994)).

⁸ Some less visible conflicting values may exist. For example, it is at least arguable that with trademark protection, mark owners may have more incentive to promote and produce their goods, which is similar to the “encouraging innovation” function that patents and copyrights serve. Kexin Li, *Where Is the Right Balance? -- Exploring the Current Regulations on Nontraditional Three-Dimensional Trademark Registration in the United States, the European Union, Japan and China*, 30 No. 2 WIS. INT’L L. J. 428, 438 (2012).

⁹ For example, antitrust misuse defense is frequently asserted in patent and copyright infringement context. See, e.g., *Lasercomb America*, 911 F.2d at 970. However, a court observed “the forces favoring exercise of such power in a trademark suit are much weaker than those calling for its exercise in patent litigation.” *Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena*, 298 F. Supp. 1309, 1314 (S.D.N.Y. 1969). It attributed the distinction to:

However, two emerging trends may overturn that conclusion. First, the scope of trademarkable matter has been expanding. For example, traditionally, a manufacturer might want to register its product shape or packaging as a design patent. But now more and more companies are seeking three-dimensional trademark registrations and have been successful.¹⁰ It is thus difficult to say that the grant of nontraditional trademarks is not a lawful monopoly rewarded for *innovation*, considering the fact that the mark may be potentially patentable as well.

Second, trademark enforcement has become more aggressive. It is now often an important part of a company's branding strategy. A company's branding strategy not only may include words, logos (which can be traditional trademarks), shape and packaging (which can be nontraditional trademarks), but also may include advertising, marketing and the like in the stream of commerce (which can be more than trademarks).¹¹ However, as two scholars have discovered, both trademark and antitrust law "are giving corporate mark holders broad and increasing competitive brand power without either an explicit public policy debate or a conscious attempt to craft an appropriate legal regime to manage brands."¹² As a result, trademark enforcement, especially by owners of famous marks, often becomes an effort to preserve brands even absent consumer confusion. For example, a women's shoe designer owning a famous mark on a red outsole may try to enjoin every competitor from using the color of that red in the outsole of their high heels, even if few consumers would confuse the two designers when seeing the shoes. The potential exclusionary effect must be addressed by carefully crafted competition policies.

This working paper will look into this dilemma between modern trademark practice and competition policy in detail. Having derived from

the fact that a patent represents a grant of a limited monopoly that in most instances would, absent its legalization by Congress, constitute an unlawful restraint of trade. The limited monopoly is granted in exchange for disclosure of the patented invention to the public so that it may be utilized in free competition upon expiration of the patent. *A valid trademark, on the other hand, merely enables the owner to bar others from use of the mark, as distinguished from competitive manufacture and sale of identical goods bearing another mark, or even no mark at all, since the purpose of trademark enforcement is to avoid public confusion that might result from imitation or similar unfair competitive practices rather than to authorize restraints upon trade.*

Id. (emphasis added).

¹⁰ Li, *supra* note 8, at 164.

¹¹ Deven R. Desai & Spencer Waller, *Brands, Competition, and the Law*, 2010 BYU L. REV. 1425, 1498 (2010).

¹² *Id.*

the Commerce Clause, their goals should, in theory, be coherent. Part II will provide a general introduction to trademark law and an economic analysis of trademarks, brands and their impact on competition. In the next part, the paper will examine the expanding scope of trademarkable subject matter. It will discuss why corporations not only register words and logos on their products but also pursue trademark protection for colors, sounds, and three-dimensional shapes and packaging they use as parts of their products, and why corporations turn to trademarks in addition to patents and/or copyrights when they try to secure an advantageous position for their products. This paper will also address the impact on competition brought by these new trends.

Next, this paper will use case law to illustrate the interaction between trademark law and competition policy in the current regulatory regime. The competition issues raised in the three cases show the difficulty in finding a balance between protecting legitimate trademarks and facilitating healthy market competition. Finally in Part IV, this paper will suggest a more effective regulatory framework that ensures that trademark law and competition policy, including antitrust law, operate together coherently to protect consumers, regulate business competition and facilitate interstate commerce.

II. TRADEMARKS IN GENERAL AND A BRIEF ECONOMIC ANALYSIS

A. Introduction to Trademarks

Trademarks are a type of intellectual property. According to the Lanham Act, a mark can consist of “any word, name, symbol, or device, or any combination thereof.”¹³ Additionally, a mark should be used “to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.”¹⁴ It is easy to find what is a word mark¹⁵ or a two-dimensional logo (a traditional “symbol”) mark¹⁶ merely by picking up any branded product nearby and reading its package. But what is a symbol? What is a device? What is “any combination thereof”? A reasonable person might conclude this language potentially can embrace a great number of things. In fact, it does. The Supreme Court declared unequivocally in 1995 that “[t]he language of the Lanham Act describes the

¹³ 15 U.S.C. § 1127 (2006).

¹⁴ *Id.*

¹⁵ For example, the word “Nike” on the sneakers manufactured by Nike. *Wal-Mart Stores v. Samara Bros.*, 529 U.S. 205, 209 (2000).

¹⁶ One example is Nike’s famous “swoosh” symbol. *Id.*

universe of things that can qualify as a trademark in the broadest of terms.”¹⁷ Five years later, the Court again implicitly upheld the broad reading by many courts of appeals to include product design into “trade dress,” which is trademarkable but “originally included only the packaging, or ‘dressing,’ of a product.”¹⁸ In short, almost everything can become a trademark if it identifies and distinguishes a particular source of product (but not the product itself).¹⁹ Trademarks protect producer goodwill (the goodwill of the source of product) rather than product goodwill (the goodwill of the product itself).

Trademarks originated centuries ago “when craftsmen reproduced their signatures, or ‘marks,’ on their artistic or utilitarian products” so that consumers could identify the products as being made by them.²⁰ Trademarks are protected by both statutory and common law in the U.S.²¹ Modern U.S. trademark protection stems from the Commerce Clause in the United States Constitution.²² A law deriving from the Commerce Clause should be intended to facilitate interstate commerce.²³ In short, although no one would doubt that trademarks are intellectual property, trademark protection is designed to facilitate interstate commerce.²⁴ This goal at the minimum arguably includes protecting market competition. The Sherman Act is also based on the Commerce Clause.²⁵ Sharing the same ultimate goal, at least theoretically, federal trademark protection and federal antitrust laws should consistently and coherently facilitate interstate trade and commerce, but in reality there are still many problems.

Admittedly, trademark protection unavoidably has at least some exclusionary impact on the market. A federal registered mark owner can

¹⁷ *Qualitex*, 514 U.S. at 162.

¹⁸ *Wal-Mart*, 529 U.S. at 209.

¹⁹ See *Qualitex*, 514 U.S. at 163.

²⁰ *Trademarks*, WORLD INTELLECTUAL PROP. ORG., <http://www.wipo.int/trademarks/en/trademarks.html> (last visited Dec. 30, 2011).

²¹ *Frequently Asked Questions about Trademarks*, U.S. PATENT & TRADEMARK OFFICE, http://www.uspto.gov/faq/trademarks.jsp#_Toc275426712 (last visited June 10, 2013).

²² “[The Congress shall have Power t]o regulate Commerce with foreign Nations, and among the several States, and with the Indian tribes” U.S. CONST. art. I, § 8, cl. 3.

²³ *Id.*

²⁴ In contrast, as previously noted, patent and copyright protections are conferred by the Patent and Copyright Clause in the United States Constitution. It grants Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” U.S. CONST. art. I, § 8, cl. 8. A patent or copyright grants its owner a monopoly over his or her works to reward and encourage innovation. In contrast, as argued below, a trademark grants its owner a limited exclusive right to use it: to identify and distinguish the owner’s product.

²⁵ *Gonzales v. Raich*, 545 U.S. 1, 16 (2005).

exclude others from using the same mark or similar marks that will confuse consumers.²⁶ However, this should not be an absolute traditional property right to exclude or exclusivity of limited terms as granted to patent and copyright owners. Instead, it should be carefully enforced and narrowly tailored to the federal trademark law's policy goals—

[to] reduce[] the customer's costs of shopping and making purchasing decisions' . . . [, to] assure a producer that it (and not an imitating competitor) will reap the financial, reputation-related rewards associated with a desirable product . . . [,] thereby [to] 'encourage[] the production of quality products,'²⁷ . . . and simultaneously [to] discourage[] those who hope to sell inferior products by capitalizing on a consumer's inability quickly to evaluate the quality of an item offered for sale.²⁸

Therefore, federal trademark registration should not create exclusivity similar to patents or copyrights. It is now well-settled law that “[i]t is the province of patent law, not trademark law, to encourage invention by granting inventors a monopoly over new product designs or functions for a limited time”²⁹ The Court also cautioned in *Qualitex* that granting patent-like trademark rights may confer “a monopoly [that] could be obtained without regard to whether they qualify as patents and could be extended forever (because trademarks may be renewed in perpetuity).”³⁰

A trademark is an important category of intellectual property, but it is distinguishable from patents or copyrights. Although the scope of trademarkable subject matter is broad, the scope of the exclusive right is much more limited. The right to exclude should be closely related to the source-identifying function of trademarks. So, for competition concerns, it is appropriate to view trademarks as no more than a normal creature in the stream of commerce, rather than monopoly-granting intellectual property rights entitled to substantial immunity from antitrust oversight.

B. A Brief Economic Analysis on Trademarks and Competition

As emphasized above, a trademark is used to identify and distinguish the product bearing it. The primary economic value of trademarks should

²⁶ See, e.g., 15 U.S.C. § 1125(a) (2006).

²⁷ Please note the language used by the Court here. Trademark protection is used to encourage “production,” while patent and copyright protections are designed to encourage “innovation.” These two concepts are inherently different.

²⁸ *Qualitex*, 514 U.S. at 163–64.

²⁹ *Id.* at 164.

³⁰ *Id.* at 164–65.

thus be in source identification in differentiated good markets. A trademark can differentiate an otherwise generic good if the buyer cares about or can be induced to care about the source, which contrasts with patent and copyright serving to reward and facilitate innovation or creativity with limited term exclusivity. From the differentiation of the product arises the interplay of monopolistic and competitive forces.³¹ Tyson's branded chicken is a good example of a commodity that was marketed as something special through a strategy of trademarking.

Traditionally, as laid out in a famous economics text by Edward Chamberlin, the value of trademarked goods was explained in terms of equilibrium between demand and supply over a field much wider than the market the mark owner actually controlled.³² It was because while patents were understood to provide exclusivity, often accompanied by substantial market power, trademarks were "more often looked upon as conferring a lesser degree of individuality of a product."³³ This should remain so now, despite the ongoing efforts of enforcing trademark rights in the same way as enforcing patent and copyright rights.

A trademark has both monopoly and competitive natures in it. On one hand, trademarks can be seen as "general welfare monopolies."³⁴ A mark can mark off the goods of one manufacturer, and thereby lift its products a little above the dead level of competition.³⁵ Of course, for many well-known brands like Coca-Cola or Nike, the upward shift might generate huge demand.³⁶ Generally each mark is unique in the sense that no others can use it in a way that may cause confusion among consumers. As products are differentiated by different marks, buyers are given a basis for preference, and will therefore be paired with sellers in accordance with these preferences.³⁷ These preferences may to some extent render sellers a certain level of control over supply and price.³⁸

On the other hand, trademarks cannot be pure monopolies. If a mark is used to distinguish one product from products generally, there are likely to be other products. As long as there are others, there cannot be absolute domination.³⁹ Also, even if there are alternatives, there is no comparable economic goal in eliminating them as long as the buyer can distinguish the

³¹ EDWARD HASTINGS CHAMBERLIN, *THE THEORY OF MONOPOLISTIC COMPETITION: A RE-ORIENTATION OF THE THEORY OF VALUE* 56 (8th ed., Harvard Univ. Press 1965).

³² *Id.* at 57.

³³ *Id.*

³⁴ *Id.* at 59.

³⁵ *Id.* at 60.

³⁶ *Id.* at 62.

³⁷ See CHAMBERLIN, *supra* note 32, at 65.

³⁸ *Id.* at 66.

³⁹ *Id.* at 61.

trademarked product from them. Moreover, a seller's control conferred by his ownership of a mark over supply and price is limited, because his control over supply is only partial and he may be facing a highly elastic demand curve and many available substitutes manufactured by his competitors.⁴⁰ For instance, a consumer having a preference for Coca-Cola will surely choose Coke instead of Pepsi if both are sold for \$1.00. He might still pick up a bottle of Coke if its price is \$1.50 while Pepsi is sold for \$1.00. But what if Coke is sold for \$3.00 while Pepsi is still marked as \$1.00, given the fact that Pepsi is also a famous mark indicating good quality?

The limited monopolistic aspect of trademarks can be tolerated, if their use is closely tied to the narrow function of product differentiation. Trademarks and brands are commonly regarded in the business world as means of facilitating more efficient competition because the competitors compete on the merits – consumer recognition and consequently loyalty.⁴¹ There are transactional economies by having good source identification so that customers do not waste search time. Even in a nearly perfect competitive market, driven by the goal of profit maximization, a reasonable market participant will still try to make his product distinguished from and (though this may not always be the case) better than competitors' products to attract more customers and survive the competition. If products in the same market do differ in some way, there may be no need to redirect genuine consumer preference on certain products (and willingness to pay more for them).⁴²

Although to a large extent these explanations seem still valid, they are mere theories. They are based upon the assumption that trademarks are carefully crafted to serve the product differentiation function and limited “quasi-monopolies” – they serve to reward innovation with limited-term

⁴⁰ *Id.* at 66.

⁴¹ *Id.* at 60.

⁴² People should respect genuine consumer choices. A rational consumer may be able to obtain sufficient information. If after weighing all the information he or she still chooses one product over another although objectively the product chosen may not be as good as the other. This choice is rational (in contrast to a signal of diminished capacity) and manufacturers are actually fighting to win such preferences using different branding tools. For example, many consumers claim that they can distinguish the tastes between Coca-Cola and Pepsi and they prefer the taste of Coca-Cola. However, a blind tasting marketing promotion for tens of years by Pepsi, the Pepsi Challenge, showed a consensus that Pepsi was preferred by more Americans and many people mistook the taste of Pepsi for Coke. Mary E. Woolfolk, William Castellan & Charles I. Brooks, *Pepsi Versus Coke: Labels, Not Tastes, Prevail*, *PSYCHOLOGICAL REPORTS* 52, 185-86 (Feb. 1983). Arguably, price differences may reflect current consumer choice. And another interesting question may arise: if it becomes very difficult to affect consumer preference or loyalty about one product by reducing the price of a substitute, will the two products eventually be deemed in two separate markets?

right to exclude). However, in reality, trademarks are often mentioned together with patents and copyrights as the most typical intellectual property rights. One of the most attractive features is that they have the potential to become incontestable and remain valid indefinitely.⁴³ Additionally, they have significant yet unclear overlap with the broad but vague idea of brands, and current antitrust law and competition policy are not paying close enough attention to marks and brands. It is thus understandable why modern corporations (especially well-known ones with strong consumer recognition and loyalty) try to enforce trademark rights vigorously, expand their use of marks as if they are patents or copyrights, and seek trademark protection actively in addition to their existing (or even expired) patents and/or copyrights.

III. THE EXPANSION OF TRADEMARKS: FROM TRADITIONAL INTELLECTUAL PROPERTY TO NONTRADITIONAL TRADEMARKS

According to the USPTO, a trademark is also a brand name.⁴⁴ As previously discussed, it can be “any word, name, symbol, or device, or any combination thereof.”⁴⁵ Many companies see trademarks as an important tool to preserve their brands. Modern trademark rights have become more and more expansive, and mark owners are more vigorously enforcing their rights. Traditionally non-trademarkable items can now be trademarked, and traditionally patentable or copyrightable items can be trademarked as well. This opens the door to the durable exclusionary potential of using expansive trademarks to exclude competition.

A. *From Traditional Trademarks to Nontraditional Trademarks*

As discussed above, a trademark can be any word, name, symbol, or device, or any combination thereof. Although the scope of trademarkable subject matter seems very broad, when talking about trademarks people generally will only refer to words and logos. For example, Coca-Cola Company has the stylized word “Coca-Cola”⁴⁶ on its bottles as a trademark.

⁴³ See 15 U.S.C. § 1065 (2006). In contrast, theoretically the most notable feature should be source-identifying. However, especially with respect to the nontraditional trademarks, the importance of this feature may be declining. For example, Coca-Cola has both trademarks on the stylized word “Coca-Cola” and its glass bottle. See *infra* notes 46–47 and accompanying text. But when you go to buy a bottle of Coca-Cola, why are you able to pick up a bottle of Coke instead of a bottle of Pepsi or Dr. Pepper? Will you identify it by the word “Coca-Cola” on it, or by the fact that its bottle is different from Pepsi or Dr. Pepper’s?

⁴⁴ *Trademarks Home*, U.S. PATENT & TRADEMARK OFFICE, <http://www.uspto.gov/trademarks/index.jsp> (last visited Feb. 23, 2012).

⁴⁵ 15 U.S.C. § 1127 (2006).

⁴⁶ COCA-COLA, Registration No. 022,406 (filed Jan. 31, 1893).

This is a traditional item for which corporations always would like to seek trademark protection. However, can you imagine that the glass Coke bottle is also Coca-Cola Company's trademark?⁴⁷

It might be surprising that in fact nontraditional⁴⁸ marks have existed for a long time. Many decades ago, in addition to the famous Coke bottle, a sound of NBC's three chimes,⁴⁹ and a scent of plumeria blossoms on sewing thread had already been registered as federal trademarks.⁵⁰ But the idea of nontraditional trademarks did not receive very much attention until the Supreme Court's landmark decision in *Qualitex Co. v. Jacobson Products Co.* in 1995.⁵¹ In addition to declaring a green-gold color as trademarkable, the Court held that a trademark might be "almost anything at all that is capable of carrying meaning."⁵² At present, not only is Qualitex's green-gold color a federal trademark,⁵³ but Tiffany's blue jewelry boxes⁵⁴ and bags⁵⁵ also received trademark registrations. The Coke bottle is still a valid mark,⁵⁶ and Kenzo's beautiful fragrance bottles also passed the PTO's examination.⁵⁷ NBC still has exclusive rights over its distinctive three chimes.⁵⁸ However, Motorola failed to secure trademark protection for its ringtone due to the lack of distinctiveness.⁵⁹ Nonetheless, the overall trend seems to be that the scope of trademarkable subject matter is expanding. That means more and more elements embodied in one product may receive

⁴⁷ COCA-COLA, Registration No. 696,147. See also *Qualitex Co. v. Jacobson Prod. Co.*, 514 U.S. 159, 162 (1995).

⁴⁸ Nontraditional marks mean marks that may not fall within common sense. Usually ordinary people may only see words and logos as trademarks.

⁴⁹ THE MUSICAL NOTES G, E, C, PLAYED ON CHIMES, Registration No. 916,522.

⁵⁰ See *In re Clarke*, 17 U.S.P.Q.2d 1238, 1240 (T.T.A.B. 1990). See also *Qualitex*, 514 U.S. at 162.

⁵¹ See generally *Qualitex*, 514 U.S. 159. Prior to this decision, there were only 93 nontraditional trademarks on the United States Patent and Trademark Office (PTO)'s record. Kenneth L. Port, *On Nontraditional Trademarks*, 38 N. KY. L. REV. 1, 2 (2011). Nonetheless, until 2011, there had been 688 nontraditional trademark applications. *Id.* at 3.

⁵² *Qualitex*, 514 U.S. at 162.

⁵³ Registration No. 1,633,711.

⁵⁴ Registration No. 2,359,351.

⁵⁵ Registration No. 2,416,795.

⁵⁶ COCA-COLA, Registration No. 696,147.

⁵⁷ KENZO, Registration No. 3,910,262. KENZO, Registration No. 3,933,848. KENZO, Registration No. 3,919,070.

⁵⁸ THE MARK COMPRISES THE MUSICAL NOTES G, E, C, PLAYED ON CHIMES, Registration No. 916,522.

⁵⁹ *Nextel Commc'ns. Inc. v. Motorola, Inc.*, 91 U.S.P.Q. 2d 1393, 1407 (2009). The PTO crafted its new rule on sound mark registration in the *Vertex Group* case, that "[w]hen a sound is proposed for registration as a mark on the Principal Register, for goods that make the sound in their normal course of operation, registration is available only on a showing of acquired distinctiveness." *In re Vertex Group LLC*, 89 U.S.P.Q. 2d 1694, 1700 (2009).

trademark protection and the manufacturer can thereby exclude its competitors from adopting the same or similar elements to avoid consumer confusion. Such exclusion can lead to barriers to entry and foreclosure of competition, as competitors have to seek alternative compatible elements, which may be more costly and/or less effective. For example, granting trademark registration to a popular red sole used in women's high fashion shoes may be improper, since it may hinder competition by preventing other designers from using the same color (which is essential to fashion designs) in the soles of their shoes. Its main function may not be source-identifying. Instead it may be advancing expressive, ornamental and aesthetic purposes.⁶⁰ And competitors may be free to share such functional features.

B. *From Patents and Copyrights to Nontraditional Trademarks*

As patents and copyrights are facing increasing skepticism and scrutiny, as well as having only limited duration, a reasonable businessperson would probably like to try to discover another intellectual property right to enjoy a safer and more durable lawful monopoly.

A trademark can be a symbol or device,⁶¹ which can embrace "almost anything at all that is capable of carrying meaning."⁶² Therefore, patentable and/or copyrightable subject matter can potentially be trademarks despite the possible first impression that it may be difficult. Corporations have gradually turned to nontraditional trademarks and the Lanham Act to seek substitutive protection. A few of those efforts have failed, but many have succeeded.

Currently, the Supreme Court is quite skeptical about any effort to secure a trademark registration after the utility patent on the same item has expired. In a landmark trademark case, *TrafFix Devices v. Marketing Displays*, Marketing Displays, Inc. (MDI) tried to extend its exclusive rights on its dual-spring design of a stand mechanism after the utility patent expired.⁶³ It sued TrafFix, which copied the design after the utility patent's expiration and used it in its own products, for trade dress infringement.⁶⁴

As Qualitex's broad holding indicated, a design or packaging is undoubtedly trademarkable.⁶⁵ However, also relying on Qualitex's language that a functional feature was one "the exclusive use of [which]

⁶⁰ *Christian Louboutin S.A. v. Yves St. Laurent Am., Inc.*, 778 F. Supp. 2d 445, 451 (2011).

⁶¹ 15 U.S.C. § 1127 (2006).

⁶² *Qualitex Co. v. Jacobson Prod. Co.*, 514 U.S. 159, 162 (1995).

⁶³ *TrafFix Devices v. Mktg. Displays Inc.*, 532 U.S. 23, 25–26 (2001).

⁶⁴ *Id.* at 26.

⁶⁵ *Id.* at 28.

would put competitors at a significant non-reputation-related disadvantage,” the Court declared that the trademark protection could not be claimed for functional product features,⁶⁶ and an expired utility patent added “great weight to the statutory presumption that features are deemed functional until proven otherwise by the party seeking trade dress protection.”⁶⁷ This is a very heavy burden.

However, design patents and trademarks may coexist. Only a few courts have spoken on this issue since *Traffix*. In *E-Z Bowz, L.L.C. v. Prof'l Prod. Research Co.*, plaintiff E-Z Bowz had one live utility patent and two live design patents in a bow making machine.⁶⁸ It sued defendant Professional Product Research for trade dress infringement by making a similar machine.⁶⁹ The court found that, although some parts of the trade dress were functional and therefore not trademarkable, other parts were purely arbitrary and were designed to help customers distinguish plaintiff's machine from its competitors.⁷⁰ For that reason, the court denied defendant's motion for summary judgment on plaintiff's trade dress claims.⁷¹

Interestingly, in this case when trying to support the position that its trade dress was not functional,⁷² E-Z Bowz presented evidence that “at least 36 different bow making machines exist that utilize dress different from the E-Z Bowz bow maker.”⁷³ The court found that “the existence of these other trade dresses shows that E-Z Bowz's trade dress does not inhibit or prevent companies from entering this market and helps to prevent a finding of functionality.”⁷⁴ And a finding of functionality means that the trade dress protection would “deprive competitors of alternative designs, and, thus, foreclose competition from the relevant market.”⁷⁵ In contrast, the court noted that the existence of a design patent was relevant evidence against functionality.⁷⁶

Copyrights and trademarks can also jointly provide protection for a single item. Mickey Mouse and all other Disney characters are protected not

⁶⁶ *Id.* at 32 (quoting *Qualitex*, 514 U.S. at 165).

⁶⁷ *Id.* at 29-30.

⁶⁸ *E-Z Bowz, L.L.C. v. Prof'l Prod. Research Co.*, 2003 U.S. Dist. LEXIS 15364, at *3-*4 (2003).

⁶⁹ *Id.* at *1.

⁷⁰ *Id.* at *73-*74.

⁷¹ *Id.* at *74.

⁷² To be registered, a trademark shall not be functional. 15 U.S.C. § 1052(e)(5) (2006).

⁷³ *E-Z Bowz*, 2003 U.S. Dist. LEXIS 15364 at *70.

⁷⁴ *Id.* at *71.

⁷⁵ *Id.*

⁷⁶ *Id.* at *59-*60.

only by copyrights but by trademarks as well.⁷⁷ The two types of intellectual property exist concurrently.

However, after the copyright on an item expires, the owner may not be able to register the same item as a mark. Not long after *TrafFix*, the Supreme Court decided this issue.⁷⁸ In *Dastar Corp. v. Twentieth Century Fox Film Corp.*, Twentieth Century Fox (Fox) retained Time, Inc. (Time) to produce a television series called *Crusade in Europe*.⁷⁹ Time assigned the copyright in the series back to Fox, but Fox failed to renew it.⁸⁰ As a result, the television series became part of the public domain in 1977.⁸¹ Dastar purchased eight beta cam tapes of the original version of the *Crusade in Europe*, copied them, and edited the series into a shorter version.⁸² It then released a video set called *World War II Campaigns in Europe* in 1995.⁸³ It had new footage, a new title sequence, and chapter heading sequences.⁸⁴ However, Dastar's video failed to credit Fox or any other related parties.⁸⁵ Instead, it only credited its employees who produced the video.⁸⁶ Fox claimed that "Dastar's sale of Campaigns 'without proper credit' to the *Crusade* television series constitutes 'reverse passing off'"⁸⁷ which would be in violation of § 43(a) of the Lanham Act.⁸⁸ Basically, it alleged that Dastar had confused consumers by falsely designating the origin of *Crusade in Europe*.⁸⁹

However, the Court rejected this claim, reasoning that § 43(a) could not be the basis of a claim by a former copyright owner that its uncopyrighted work was copied, edited, or not credited properly.⁹⁰ The Court held that, once copyright on an item expires, the monopoly on the item ends and it goes into the public domain. Thus Dastar was then free to copy the series and became the *origin* of its own video set.⁹¹

⁷⁷ Joseph Menn, *Whose Mouse Is It Anyway?*, L.A. TIMES, Aug. 22, 2008, <http://articles.latimes.com/2008/aug/22/business/fi-mickey22>.

⁷⁸ *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003).

⁷⁹ *Id.* at 25–26.

⁸⁰ *Id.* at 26.

⁸¹ *Id.*

⁸² *Id.* at 26–27.

⁸³ *Id.* at 26.

⁸⁴ *Dastar*, 539 U.S. at 26–27.

⁸⁵ *Id.* at 27.

⁸⁶ *Id.*

⁸⁷ "'Reverse passing off,' as its name implies, is . . . [t]he producer misrepresents someone else's goods or services as his own." *Id.* at 27 n.1.

⁸⁸ *Id.* at 27.

⁸⁹ See *id.* at 27–28.

⁹⁰ *Dastar*, 539 U.S. at 33.

⁹¹ *Id.* at 33–34.

The *Dastar* case did caution against creation of perpetual copyrights:⁹²

“Federal trademark law ‘has no necessary relation to invention or discovery,’ but rather, by preventing competitors from copying ‘a source-identifying mark,’ ‘reduces the customer’s costs of shopping and making purchasing decisions,’ and ‘helps assure a producer that it (and not an imitating competitor) will reap the financial, reputation-related rewards associated with a desirable product.’”⁹³

In sum, it is clear that federal courts are cautious about the movement from patents and copyrights to trademarks. They keep competition policy in mind. They note that the function of trademarks is product differentiation, and that marks should never be used to put competitors to a significant non-reputation-related disadvantage. However, it could be expected that companies are trying to circumvent these holdings. Furthermore, trademark registration is only one part of the whole story. Once a mark is registered, its owner may have the incentive to enforce it vigorously as if it were a patent or copyright. This article is going to discuss that practice in Part IV B. With this trend, it is difficult for trademarks to actually be construed narrowly to achieve their narrow economic function.

C. From Nontraditional Trademarks to Brands: Expanding the Scope of Rights

As the scope of trademarks and especially nontraditional trademarks is broadening, more items which traditionally might only be considered as parts of brands, like three-dimensional packaging, sounds, scents and colors, can receive trademark protections. The more brands are tied into trademarks, the more they get a kind of legal protection that enhances their foreclosure capacity, which could be quite harmful to competition. It could potentially help a company to obtain the power to raise price and exclude competitors.

Moreover, as two scholars have discovered, both trademark and antitrust law “are giving corporate mark holders broad and increasing competitive brand power without either an explicit public policy debate or a conscious attempt to craft an appropriate legal regime to manage brands.”⁹⁴ This is dangerous. In fact, trademarks and brands always play a hidden yet important role in antitrust law and competition analysis. For example, what

⁹² *Id.* at 37.

⁹³ *Id.* at 34 (quoting *Qualitex*, 514 U.S. at 163–64).

⁹⁴ Desai & Waller, *supra* note 12, at 1498.

is “Microsoft Windows?” Both “Microsoft” and “Windows” are registered trademarks of the Microsoft Corporation. Additionally, they are both famous brands owned by the company. Apple, Google, Amazon and Monsanto are all trademarks. They may have the ability to control a market because they have a high level of consumer recognition and loyalty. These names may differentiate them from other competitors. These names may have the power to deprive competitors of certain important resources if not excluding them entirely, which may well exceed the limits of the federal mark registrations. These are just names, while there could be much more as the scope of trademarks and brands expands. Competition law should watch closely for any of the anticompetitive effects they may cause.

IV. COMPETITION ISSUES IN CURRENT TRADEMARK LAW

A. *Trademarks and (Unfair) Competition in Theory*

The Lanham Act, which is the federal trademark law, shows Congress’s efforts to further trademarks’ source-identifying function while not creating unreasonable (i.e., not reputation related) burdens on competitors. The Supreme Court seems to be cautious on the issue of the expansion of trademarks. It decided 5 trademark cases in the first 6 years of the twenty-first century conveying its disapproval with “the expansive view of trademark protection put forth by many lower courts” and that this “stem[s] from the Court’s conviction that trademark law remains an offshoot of unfair competition rather than a subset of intellectual property law.”⁹⁵ The Court has also expressed its concerns on the anticompetitive effects the expansion of trademark rights might have.⁹⁶ This paper will now discuss in turn both trademark registration and enforcement practices as well as competition policy within them.

⁹⁵ Michael S. Mireles, Jr., *Towards Recognizing and Reconciling the Multiplicity of Values and Interests in Trademark Law*, 44 IND. L. REV. 427, 427 n. 4 (2010) (citing David S. Welkowitz, *The Supreme Court and Trademark Law in the New Millennium*, 30 WM. MITCHELL L. REV. 1659, 1660 (2004)). These five cases are: *Wal-Mart*, 529 U.S. at 205; *Traffix*, 532 U.S. at 23; *Dastar*, 539 U.S. at 23; *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418 (2003) (limited by Trademark Dilution Revision Act of 2006, Pub. L. No. 109-312, 120 Stat. 1730 (codified as amended at 15 U.S.C. § 1125(c))); and *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 119 (2004). The “unfair competition” language here addresses the problem that sometimes a competitor may not comply with the rules of the market and uses illegitimate means to compete, whereas antitrust laws address another competition concern, protection of competition (sometimes competitors may also receive protection, but not always).

⁹⁶ See, e.g., *Qualitex*, 514 U.S. at 169 (quoting *Inwood Labs. v. Ives Labs.*, 456 U.S. 844, 850 n. 10 (1982)).

a. *Trademark Registration*

Under the Lanham Act, in order to receive federal registration, a mark should be (1) used or intended to use in interstate commerce,⁹⁷ (2) distinctive,⁹⁸ and (3) not otherwise barred by § 2 of the Act.⁹⁹ Each of these requirements shows some concerns on its impact on the market and competition.

First, a trademark must be used or intended to be used in commerce.¹⁰⁰ This shows the fact that trademark protection derives from the Commerce Clause. A company can hold a patent without using it and preclude its competitors from using it, but this foreclosure effect is not tolerable in trademark law. The Seventh Circuit made it clear that a mark could not give its owner an absolute monopoly.¹⁰¹ “By insisting that firms use marks to obtain rights in them, *the law prevents entrepreneurs from reserving brand names in order to make their rivals' marketing more costly.*”¹⁰²

Second, to receive federal registration, a mark must be distinctive. A mark must be capable of distinguishing the applicant's goods from those of others.¹⁰³ Classified by increasing distinctiveness, classically trademarks may be (1) generic, (2) descriptive, (3) suggestive, (4) arbitrary, or (5) fanciful.¹⁰⁴ A suggestive, arbitrary or fanciful mark will be inherently distinctive and its owner will not need to further prove distinctiveness in order to receive registration.¹⁰⁵ On the other hand, generic marks will generally be denied registration because of the lack of distinctiveness.¹⁰⁶ With respect to descriptive marks, it is now well settled that they may acquire distinctiveness allowing them to be protected under the Lanham Act.¹⁰⁷ The acquired distinctiveness is generally called “secondary meaning.”¹⁰⁸ That is, the public views its primary significance as

⁹⁷ SHUBHA GHOSH ET AL., *INTELLECTUAL PROPERTY: PRIVATE RIGHTS, THE PUBLIC INTEREST, AND THE REGULATION OF CREATIVE ACTIVITY* 463 (2007).

⁹⁸ *Id.*

⁹⁹ *Id.* Most notably, a trademark shall not be functional. 15 U.S.C. § 1052(e)(5) (2006).

¹⁰⁰ 15 U.S.C. § 1127 (2006).

¹⁰¹ *Ctr. Mfg., Inc. v. Brett*, 492 F.3d 876, 881 (7th Cir. 2007).

¹⁰² *Id.* (quoting *Zazu Designs v. L'Oreal, S.A.*, 979 F.2d 499, 503 (7th Cir. 1992)) (emphasis added).

¹⁰³ GHOSH ET AL., *supra* note 97, at 484.

¹⁰⁴ *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir. 1976).

¹⁰⁵ *See id.*

¹⁰⁶ *Id.*

¹⁰⁷ *See id.* at 10.

¹⁰⁸ *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 769 (1992). *See also* Li, *supra* note 8, at 441.

identifying the source rather than the product itself.¹⁰⁹ Most of the nontraditional trademarks, like the green-gold color in *Qualitex*,¹¹⁰ fall within the category of descriptive marks.

The distinctiveness requirement indicates the primary function of trademark protection: identifying and distinguishing the source of product. Ideally, the distinctiveness of a mark can help its owner more efficiently compete with other market participants by attracting and creating preferences in certain consumers.¹¹¹ However, this is not always the case. Almost every farmer knows John Deere tractors' signature green color,¹¹² but does it actually add anything to help them identify a John Deere tractor and distinguish it from a yellow Caterpillar tractor¹¹³ if the black words "JOHN DEERE" are large and bold? As the Supreme Court mentioned in *Qualitex*, colors are in unlimited supply,¹¹⁴ and one can always pick up one to use in commerce. But if the dominance over one mark can effectively secure consumer recognition, do those companies need those many other marks? For example, do many consumers know Coca-Cola's glass bottle is different from any other beverage producers' bottles and these producers are prohibited from using an identical bottle?¹¹⁵ If not, does it really make sense to allow this foreclosure effect? What if this foreclosure also raises Coca-Cola's rivals' costs? These questions can only be answered in connection with the next paragraph.

Third, to receive registration a trademark shall not be otherwise barred by the Lanham Act. The mark cannot be in violation of § 2 of the Act. Most importantly, a trademark can never be functional.¹¹⁶ Justice Breyer in *Qualitex* clarified the utilitarian functionality standard:

The functionality doctrine, as we have said, forbids the use of a product's feature as a trademark where doing so *will put a competitor at a significant disadvantage* because the feature is "essential to the use or purpose of the article" or "affects [its] cost or quality." The functionality doctrine thus protects

¹⁰⁹ *Yankee Candle Co. v. Bridgewater Candle Co.*, 259 F.3d 25, 38 (1st Cir. 2001). See also Li, *supra* note 8, at 441.

¹¹⁰ See *Qualitex Co. v. Jacobson Products Co.*, 514 U.S. 159, 163–64 (1995).

¹¹¹ CHAMBERLIN, *supra* note 32, at 60. Will need to check out substance because although earlier cite included his pages, this associate said he could not find the book.

¹¹² See, e.g., DEERE & CO., Registration No. 3,132,124.

¹¹³ "Caterpillar Yellow" is a trade dress owned by Caterpillar. *Cat Products: Legal Notices*, CAT.COM <http://www.cat.com/cda/layout?m=37321&x=7>. One can easily find this special yellow color on Caterpillar's official website.

¹¹⁴ *Qualitex*, 514 U.S. at 166-68.

¹¹⁵ COCA-COLA, Registration No. 0,696,147. See also *Qualitex*, 514 U.S. at 162.

¹¹⁶ 15 U.S.C. § 1052(e)(5) (2006).

*competitors against a disadvantage (unrelated to recognition or reputation) that trademark protection might otherwise impose, namely their inability reasonably to replicate important non-reputation-related product features.*¹¹⁷

The Court has set a really low standard. Back to the tractor example, the use of John Deere green is not essential to the production of tractors. And there is no evidence that the John Deere green paint would be significantly less costly than other colors, or green tractors are of better quality than others. So it is easy to prove that the John Deere green is not functional and thus trademarkable.¹¹⁸

The Coke bottle can also meet this test. A bottle is of course essential to the production of bottled beverages. But “the” bottle is not, and Coca-Cola’s competitors are free to design their own bottles. Also, there is no evidence that Coca-Cola has the most cost effective glass bottle or the bottle is of better quality. However, although the bottle is not functional in a legal sense, it is arguably functional in common sense, for it functions as a container. As one could imagine, the application of the registration rules (in light of competition policy) can be very complicated in the real world. We discuss a famous case in the fashion industry in the following case law section.

b. Trademark Enforcement

No corporation would like to share Xerox’s fate: its mark “Xerox,” though arbitrary or even fanciful at the very beginning, became generic and thus invalid.¹¹⁹ Although they potentially could have their marks perpetually, mark owners have the responsibility to police their rights, or they may otherwise lose their marks.¹²⁰ The main causes of action available to mark owners are trademark infringement and trademark dilution.

Section 43 of the Lanham Act forbids false designation of origin, false description and dilution.¹²¹ Under this section, mark owners can seek to enjoin unauthorized uses of their marks. Traditional trademark infringement

¹¹⁷ *Qualitex*, 514 U.S. at 169 (quoting *Inwood Labs. v. Ives Labs.*, 456 U.S. 844, 850 n.10 (1982)) (emphasis added).

¹¹⁸ Color is not always an easy case. The colors used in the fashion industry can be aesthetically functional. This article is going to discuss aesthetic functionality doctrine in the subsequent case law section. See *infra* Part IV (B)(a).

¹¹⁹ Ronald R. Butters, *A Linguistic Look at Trademark Dilution*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 507, 512–13 (2007–2008).

¹²⁰ 15 U.S.C. § 1125(B)(2006). On the other hand, patents and copyrights cannot become generic and enter public domain earlier than the end of their terms simply because the owners fail to go after some infringers.

¹²¹ 15 U.S.C. § 1125 (a)(1)(2006).

doctrine has been codified in subsection (a).¹²² The burden on a mark owner suing for trademark infringement under § 43(a) is: to prove the likelihood of consumer confusion.¹²³

In the trademark infringement context, even if there is likelihood of confusion, concurrent mark users are still able to assert several defenses. These defenses are carefully drafted to condition mark owners' right to exclude, to preserve market competition and to facilitate interstate commerce. And many of them are analogous to the defenses raised in patent and/or copyright infringement cases. This leads me to introduce an important defense that has embedded genuine competition considerations (although not widely recognized): trademark misuse, in the coming case law section.¹²⁴

Scholars have challenged the consumer confusion rationale behind infringement actions, arguing that "the real injury caused by concurrent uses of a mark was not consumer confusion but '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.'"¹²⁵ Under the dilution theory, a "likelihood of dilution" to the *distinctiveness* of the mark rather than a "likelihood of confusion" of end purchasers is required to strike down the unauthorized use of the mark.¹²⁶ Congress enacted the Federal Trademark Dilution Act (FTDA) in 1995, and amended it in 2006. This statute has been codified in § 43(c) of the Lanham Act.¹²⁷ Generally, after the owner's mark has become famous,¹²⁸ he can enjoin any use of a mark or trade name

¹²² 15 U.S.C. § 1125(a) (2006). Please note, a mark owner can also bring a lawsuit against an infringer under § 32 of the Lanham Act. *See* 15 U.S.C. § 1114 (2006). It is a more classic and narrower cause of action. However, they have the same set of factors for trademark infringement lawsuits. The *KP Permanent* case discussed later was brought under § 32, but this fact does not affect any part of our analysis on trademark infringement, likelihood of confusion, or fair use defense.

¹²³ GHOSH ET AL., *supra* note 98, at 513–14. Infringement actions can also be brought under § 32(1). *Supra* note 97.

¹²⁴ Apart from these two, modern trademark law also recognizes the "first sale doctrine." The purchaser of a trademarked and/or branded product or service can resell it without infringing the mark. *See generally* GHOSH ET AL., *supra* note 98, at 558–566. In other words, the limited quasi-monopoly exhausts upon the sale in commerce made by the mark owner and cannot live on to the second generation. *See above*.

¹²⁵ Gerard N. Magliocca, *One and Inseparable: Dilution and Infringement in Trademark Law*, 85 MINN. L. REV. 949, 951 (2001) (quoting Schechter, *supra* note 6, at 825).

¹²⁶ *Id.* at 951–52 (emphasis added).

¹²⁷ Pub. L. No. 104-98, 109 Stat. 985 (codified at 15 U.S.C. §§ 1125, 1127).

¹²⁸ "[A] mark is famous if it is widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark's owner." 15 U.S.C. §1125(c)(2)(A) (2006). To decide whether a mark has the requisite degree of recognition, the court may adopt a case-by-case analysis. The following factors may be considered: (i) The duration, extent, and geographic reach of advertising and publicity of the

in commerce “that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition”¹²⁹ This cause of action potentially can be very harmful to market competition, as the next section will discuss. It will surely draw more attention and debate as more large companies bring dilution claims to defend their famous marks.

B. Difficulties in Reality: The Interaction between Trademark Rights and Competition Policies

The trademark enforcement theories are already not easy. When it comes to real life practice, the complexity may be well beyond common expectations, which in part explains the need for a more coherent regulatory framework.

a. The Louboutin Mystery: Aesthetic Functionality in the Fashion Industry

The federal courts in New York recently decided a heated issue in the fashion industry: whether a single color can become a trademark (to put it in another way, whether a single color is necessarily aesthetically functional and therefore cannot be trademarked). Christian Louboutin designed his signature high fashion women’s shoes with “glossy vivid red” soles sometime around 1992.¹³⁰ Those shoes have won him great success and the red sole received federal trademark registration in the year of 2008.¹³¹ Introduce defendant Yves Saint Laurent (YSL). Four models of YSL’s 2011 collection – the Tribute, Trib Too,¹³² Palais and Woostock – could have “a bright red outsole as part of a monochromatic design in which the shoe is entirely red.”¹³³ Christian Louboutin sued YSL for, among other claims, trademark infringement and dilution and asked for a preliminary injunction preventing YSL from marketing during the pendency of the suit any shoes using the same or similar red.¹³⁴ The district court refused to do so, for “in the fashion industry color serves ornamental and aesthetic functions vital to

mark, whether advertised or publicized by the owner or third parties; (ii) The amount, volume, and geographic extent of sales of goods or services offered under the mark; (iii) The extent of actual recognition of the mark; and (iv) Whether the mark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register. *Id.*

¹²⁹ 15 U.S.C. §1125(c) (2006).

¹³⁰ *Louboutin*, 778 F. Supp. 2d at 447.

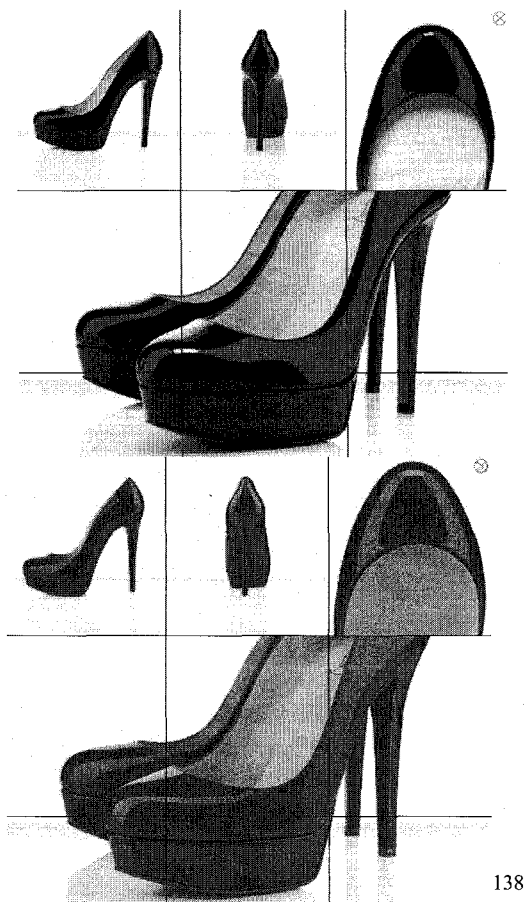
¹³¹ *Id.* at 448.

¹³² *Id.* at 449. The court used the word “Tribtoo” while the real name of the model is “Trib Too.”

¹³³ *Id.*

¹³⁴ *Id.*

robust competition” and therefore the court found that “Louboutin is unlikely to be able to prove that its red outsole brand¹³⁵ is entitled to trademark protection, even if it has gained enough public recognition in the market to have acquired secondary meaning.”¹³⁶ According to the district court, “functionality” in the fashion industry is to be determined by an inquiry into whether the mark “serves ornamental and aesthetic functions vital to robust competition.” It is basically the same standard as “essential to use or purpose.”¹³⁷ And the district court found aesthetic functionality in the red sole.



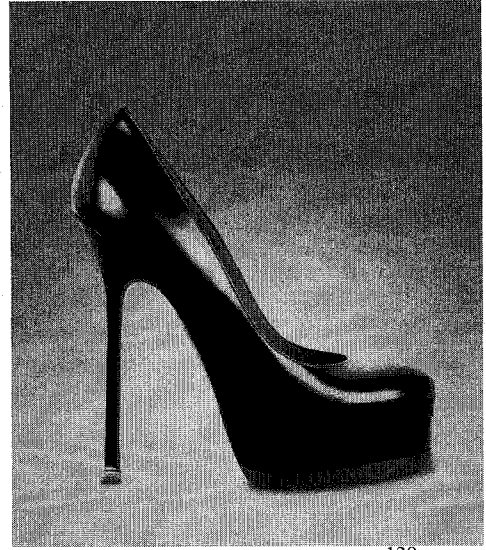
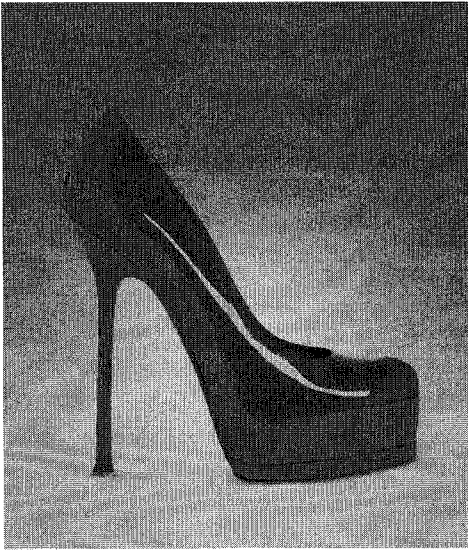
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¹³⁵ *Id.* Notice here, the court failed to distinguish brands from trademarks.

¹³⁶ *Id.*

¹³⁷ *Id.* at 450.

¹³⁸ This picture shows the design of Christian Louboutin’s Bianca women’s pumps in black and in the “glossy vivid red.” See *Christian Louboutin*, <http://us.christianlouboutin.com/>.



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As *Qualitex* illustrates, color marks can be functional and thus have anticompetitive effects: “[I]f a design’s ‘aesthetic value’ lies in its ability to ‘confer a significant benefit that cannot practically be duplicated by the use of alternative designs,’ then the design is ‘functional.’”¹⁴⁰

The *Qualitex* Court went on to declare the upshot of aesthetic functionality:

[W]here a color serves a significant nontrademark function – whether to distinguish a heart pill from a digestive medicine or to satisfy the “noble instinct for giving the right touch of beauty to common and necessary things,” – courts will examine whether its use as a mark would permit one competitor (or a group) to interfere with legitimate (nontrademark-related) competition through actual or potential exclusive use of an important product ingredient. That examination should not discourage firms from creating aesthetically pleasing mark designs, for it is open to their competitors to do the same.¹⁴¹

¹³⁹ This picture shows the design of YSL Trib Too women’s pumps in red and in black. See *YSL Official Site*, <http://www.ysl.com/us>.

¹⁴⁰ *Qualitex Co. v. Jaconsn Prod. Co.*, 514 U.S. 159, 170 (quoting RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 17, cmt. c (1993)).

¹⁴¹ *Id.* (quoting in part G. CHESTERTON, *SIMPLICITY AND TOLSTOY* 61 (1912)).

The Seventh Circuit once said: “[g]ranting a producer the exclusive use of a basic element of design (shape, material, color and so forth) impoverishes other designers’ palettes. . . . [T]he more rudimentary and general the element . . . the more likely it is that restricting its use will significantly impair competition.”¹⁴² In other words, there should be a balance between confusion and dominance. If there is no consumer confusion, the mark owner should give the color back to others’ palettes.

On September 5, 2012, the Second Circuit finally made its choice after eight months’ careful consideration.¹⁴³ The opinion struck the right point. It sided with Louboutin because it rejected the lower court’s broad holding that a single color may never serve as a legally protected trademark in the fashion industry.¹⁴⁴ Instead, it held that the red sole mark has acquired secondary meaning and thus is valid as long as it is limited to the uses in which the “red outsole contrasts with the remainder of the shoe (known as ‘upper’).”¹⁴⁵ At the same time, it sided with YSL because its *monochromatic* design is not a use of the modified red sole mark and therefore is legitimate. The court recognized Louboutin’s trademark rights, but also wanted to reduce false positives and preserve market competition by affirming the district court’s order rejecting Louboutin’s motion to enjoin YSL from marketing its monochrome red shoes.

The Second Circuit also clarified the standard of aesthetic

¹⁴² Jay Franco & Sons, Inc. v. Franek, 615 F.3d 855, 860 (7th Cir. 2010).

¹⁴³ Christian Louboutin S.A. v. Yves Saint Laurent America Holding, Inc., 696 F.3d 206 (2d Cir. 2012). Louboutin’s request may be just a beginning of the Second Circuit’s headache. The United States District Court for Southern District of New York just issued another opinion on May 21, 2012 reaching an opposite conclusion. See Gucci Am., Inc. v. Guess?, Inc., 868 F. Supp. 2d 207 (2012). It found that Guess has copied several trademarked designs for clothing and accessories made by Gucci and ordered Guess to pay Gucci \$4.66 million in damages. Don Jeffery, *Guess? Copied Gucci Logo On Clothes, Accessories, Judge Says*, BLOOMBERG.COM, (May 21, 2012, 4:26 PM). <http://www.bloomberg.com/news/2012-05-21/guess-copied-gucci-logo-on-clothes-accessories-judge-says-1-.html>. Notably, Guess’ lawyer emphasized in his closing argument that “[Gucci has] no evidence of actual confusion and they have no lost sales or diverted sales.” *Id.* The parties finally settled the case. Trademark rights have prevailed over the freedom of design. However, this may not bring peace and there will probably be another designer after YSL and Guess subject to similar lawsuits and the Second Circuit may have to speak again.

¹⁴⁴ Louboutin, 696 F.3d at 212.

¹⁴⁵ *Id.* The PTO later proposed a modification to the mark as a red sole “that contrasts with the color of the adjoining remaining portion of the shoe (known as the ‘upper’).” Louboutin opposed this modification and proposed its own amendment, arguing that the PTO’s language would unnecessarily limit its trademark protection. YSL supported the PTO’s new language. The PTO rejected Louboutin’s amendment on January 16, 2013. Ryan Davis, *USPTO Rebuffs Louboutin Bid to Broaden Red Sole Mark*, LAW360 (Jan. 18, 2013), <http://www.law360.com/articles/408586/uspto-rebuffs-louboutin-bid-to-broaden-red-sole-mark>.

functionality. First, if the mark is (1) essential to the use or purpose of the article, or if it (2) affects the cost or quality of the article, the mark is functional and there is no need to go further.¹⁴⁶ Second, and more importantly, when “the aesthetic design of a product is itself the mark for which protection is sought, a court may still deem the mark functional if giving the markholder the right to use it exclusively ‘would put competitors at a significant non-reputation-related disadvantage.’”¹⁴⁷ To put it another way, a mark can never undermine competitors’ ability to compete in the relevant market.¹⁴⁸ The second part of the test embraces strong competition policy considerations. From the perspective of trademark law, Louboutin and all the markholders in the fashion industry won, because the court left the door open for source-identifying colors to receive trademark protections. From the perspective of competition policy, YSL and consumers did not lose, because the validity of the red sole mark will not preclude YSL’s monochromatic shoes from competing in the women’s luxury heels market and consumers can still choose freely between Louboutin’s shoes and YSL’s shoes.

Meanwhile, there are a few more interesting observations. First, Louboutin’s monochromatic red shoes are left outside the trademark protection. But it does not seem likely that Louboutin would be disadvantaged because of the reasons advanced by the Second Circuit. Second, although courts have the power to invalidate or modify a trademark,¹⁴⁹ it should be the job of the PTO at the very beginning. If the examining attorneys can keep competition policies in mind and carefully craft the scope of marks, it may save the judges a lot of time.¹⁵⁰ Third, the court did not emphasize the trademarks’ function to facilitate commerce and its difference from other intellectual property rights. Louboutin’s appellate brief stated that trademarks are used, among other things, to reward

¹⁴⁶ Louboutin, 696 F.3d at 220. This is the traditional utilitarian functionality test.

¹⁴⁷ *Id.* at 219-20.

¹⁴⁸ *Id.* at 220.

¹⁴⁹ *Id.* at 217, 228.

¹⁵⁰ It is recognized that the PTO is understaffed and overwhelmed. Jake Meyer, *Patent Law Reforms Could Lead to More Money for the Patent Office, Better Patents*, ON THE EDGES OF SCIENCE AND LAW (Apr. 24, 2009), <http://blogs.kentlaw.edu/islat/2009/04/patent-law-reforms-could-lead-to-more-money-for-the-patent-office-better-patents.html>.

Considering the caseload each examiner faces, this proposal may not be highly practical. However, as the PTO has been increasing the number of patent examiners, it could also try to increase the number of trademark examiners. Sean Tu, *Luck/Unluck of the Draw: An Empirical Study of Examiner Allowance Rates*, 2012 STAN. TECH. L. REV. 10 (2012), available at <http://stlr.stanford.edu/pdf/tu-luckunluckofthedraw.pdf>. Although the PTO’s limited budget may not permit it to provide competition policy training to its examiners, allowing them more time on each case by hiring more examiners seems relatively more feasible, which may enable them to make more deliberated decisions.

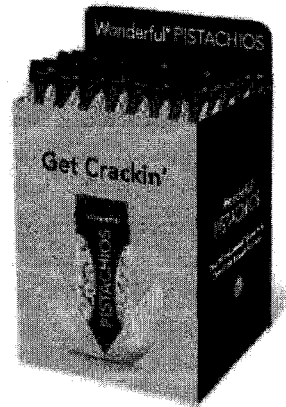
innovation,¹⁵¹ which is wrong and misleading. This misunderstanding may lead to more improper enforcement efforts, exclusionary conduct, and foreclosure effects.

A federal district court in California recently addressed a similar issue in November 2012. It denied the defendant's motion for summary judgment in a trademark infringement claim.¹⁵² In *Paramount Farms International LLC v. Keenan Farms Inc.*, Paramount alleged that Keenan infringed its trade dress, a bin consisting of "(1) the prominent use of a unique bright green color; (2) the thin, sans serif font for the word 'pistachios', which is displayed in all capital letters; (3) the vertical orientation of the word pistachios, which is written from bottom to top; (4) use of the color black, as trim or otherwise, drawing contrast to the unique bright green color; (5) images of pistachios."¹⁵³ Keenan moved for summary judgment, claiming, among other things, that the trade dress is functional.

Plaintiff's



**Defendant's Bin (2011)
Bin (2007)**



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The court correctly pointed out that although each individual element of the mark might be generic (and thus not trademarkable), a combination

¹⁵¹ Louboutin, 696 F.3d at 220. This is the traditional utilitarian functionality test.

¹⁵² Gregory Gabriel, *When Trade Dress Laws Extend Too Far*, LAW360.COM (Jan. 2, 2013 12:39 PM), available at <http://www.law360.com/ip/articles/401590/when-trade-dress-laws-extend-too-far>.

¹⁵³ *Paramount Farms Int'l LLC et al. v. Keenan Farms Inc. et al.* 2012 WL 5974169, at *1 (C.D. Cal. 2012).

¹⁵⁴ *Id.*

of them might be unique and entitled to trademark protection.¹⁵⁵ It is similar to the Louboutin mark, where the unique red itself may not be trademarkable, but the red outsole that contrasts with the remainder of the shoe is. In the fashion industry, it is important for each top-end designer brand to have its own distinctive style (including color), and a special design of outsole may be seen more as an identification of the designer, but less as a functional feature. A competitor may not be competitively disadvantaged if it cannot adopt a truly distinctive and not overbroad feature of the shoe. Instead, it will be disadvantaged if it cannot come up with its own distinctive design.

However, this case is weaker. In the food industry, the quality of the product is much more important than the design of the container. A bin that is a combination of highly generic elements may be seen more as a functional feature (to hold pistachios), but less as an identification of source. It will certainly put competitors to a great non-reputation-related competitive disadvantage and raise their costs if they can no longer use an ordinary bin and have to switch to something else. The court may also be wrong in refusing to grant summary judgment on the issue of inherent distinctiveness since, as discussed before, most nontraditional marks are descriptive and not inherently distinctive,¹⁵⁶ and it is not difficult to conclude that this ordinary bin is not fanciful, arbitrary, or suggestive. Although Keenan may still prevail at trial, it would be time-consuming and costly. Whether they win or lose, this trademark enforcement action has already raised their costs and may affect market competition. The court has failed to act as a gatekeeper. It should not permit companies to use trademark laws to harm market competition.

As the Louboutin case shows, a trademark case may concern the special features of a particular market, the procompetitive and anticompetitive effects brought by the use or enforcement of the mark to exclude others, and/or the distinctiveness or even uniqueness of the mark. They are well beyond the traditional issue of consumer confusion, and trademark law alone may not provide an adequate solution. Antitrust law and competition policies can potentially help solve a lot of problems.¹⁵⁷

When a company's use and/or enforcement of its mark(s) is not for the purpose of avoiding consumer confusion, nor is it based on the new dilution

¹⁵⁵ *Id.* at *5.

¹⁵⁶ *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir. 1976).

¹⁵⁷ Here, however, YSL's counterclaims only concerns the validity of the red sole mark and common law business torts. *Christian Louboutin, S.A. v. Yves St. Laurent America Holding, Inc.*, 778 F. Supp. 2d 445, 449. So the courts will have to wait for another chance to speak on the antitrust issues surrounding trademarks.

doctrine,¹⁵⁸ such conduct should be deemed as normal branding strategies in the stream of commerce which would receive similar antitrust scrutiny despite the existence of the mark(s). Louboutin's mark is still valid but its vigorous enforcement efforts went beyond the scope of its trademark rights in a way appearing to be anticompetitive.¹⁵⁹

The use of competition policy derived from antitrust law will help in the construction of trademark rights.¹⁶⁰ The analysis should always start with consumers. Are they confused by similar goods? Do they benefit from the mark at issue, which designates superior product source? Or are they in fact harmed because their choices are limited as one seller tries to exclude another from the market based on alleged violations of trademark law? A mark should never put competitors at a significant non-reputation-related disadvantage, or more broadly, undermine the competitor's ability to compete in the market. The Supreme Court and the Second Circuit have set strong and consistent precedents to that effect. Trademarks may be innovative but they have nothing to do with the promotion of innovation. They are rooted in the Commerce Clause, and designed to facilitate commerce, preserve market competition, and protect consumers. Courts should always balance, with trademarks on one hand, and competition policy on the other. Mistakes are unavoidable. An important policy consideration will then be the choice between avoiding false positive and avoiding false negative. In the Louboutin case, a false positive (the court wrongfully sides with Louboutin) can potentially render substantial foreclosure effects because a reputable competitor's several product lines would be driven out of the market. On the other hand, a false negative (the court wrongfully sides with YSL) might not be that dangerous. Louboutin's shoes are still perceived as beautiful and of high quality. They still enjoy great reputation, consumer recognition and loyalty, and thus have a very good chance to succeed in the marketplace.

¹⁵⁸ See *infra* Part IV(A)(b)(ii). Whether the dilution doctrine is consistent with trademark law is still under debate and many scholars are arguing that it goes too far from the original idea of trademark protection. There could be dilution cause of action in this case and Louboutin actually raised it. But the discussion of dilution will be saved for later sections of this article.

¹⁵⁹ A potential hurdle against challenging these assertion activities, however, would be the *Noerr-Pennington* doctrine, which in general grants immunity to acts of petitioning in court. *E. R. R. Presidents Conf. v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 142 (1961).

¹⁶⁰ For example, the reason why functional marks cannot receive registration is not simply that the Lanham Act prohibits such registration. It should be because such registration would affect significantly other competitors' ability to compete in the same market. All courts and trademark practitioners should always keep the competition rationale behind trademark law in mind.

b. *The Georgia-Pacific Scheme: When Marks Meet Tying*

Trademark misuse is a familiar but not widely known term. It is analogous to its much more heatedly debated cousin, patent misuse. Patent misuse is an affirmative defense used in patent litigation when a defendant has been accused of infringing a patent.¹⁶¹ Similarly, trademark misuse is a defense against meritless efforts to enforce trademark rights.¹⁶² One scholar proposed an equitable definition of trademark misuse: a trademark holder's (1) incorrect assertion of rights (2) with an improper purpose.¹⁶³

There is very little case law on the issue of trademark misuse. Although courts may mention this doctrine, they seldom decide cases on its basis. The reason may be their correct but rigid recognition of the difference between trademarks, and patents and copyrights, and the belief that trademarks infrequently generate market power (which may no longer be true). For example, one court, although acknowledging that courts might deny enforcement of a trademark based on antitrust violations in the exercise of its equity powers, observed "the forces favoring exercise of such power in a trademark suit are much weaker than those calling for its exercise in patent litigation."¹⁶⁴ It attributed the distinction to:

the fact that . . . [a] valid trademark . . . merely enables the owner to bar others from use of the mark, as distinguished from competitive manufacture and sale of identical goods bearing another mark, or even no mark at all, since the purpose of trademark enforcement is to avoid public confusion that might result from imitation or similar unfair competitive practices rather than to authorize restraints upon trade.¹⁶⁵

However, this court's reluctance does not mean that there cannot be any misuse of trademarks.

In *Georgia-Pacific Consumer Products v. Von Drehle*¹⁶⁶ and *Georgia-Pacific Consumer Products v. Myers Supply*,¹⁶⁷ the Fourth and Eighth Circuits faced suspicious "tying" conduct by Georgia-Pacific (G-P), a leading designer and manufacturer of "paper products and dispensers for

¹⁶¹ See *Carl Zeiss Stiftung v. V.E.B. Carl Zeiss*, 298 F. Supp. 1309, 1314 (S.D.N.Y. 1969).

¹⁶² See *id.*

¹⁶³ William E. Ridgway, *Revitalizing the Doctrine of Trademark Misuse*, 21 BERKELEY TECH. L.J. 1547, 1566 (2006).

¹⁶⁴ *Carl Zeiss Stiftung*, 298 F. Supp. at 1314.

¹⁶⁵ *Id.*

¹⁶⁶ *Ga.-Pac. Consumer Prods. LP v. Von Drehle Corp.*, 618 F.3d 441 (4th Cir. 2010).

¹⁶⁷ *Ga.-Pac. Consumer Prods. LP v. Myers Supply, Inc.*, 621 F.3d 771 (8th Cir. 2010).

such products for the home and the away-from-home setting.”¹⁶⁸ G-P launched its enMotion-brand paper towel dispenser bearing several enMotion trademarks in 2002.¹⁶⁹ It also manufactured a 10-inch-wide, paper-towel roll for use in the enMotion dispenser.¹⁷⁰ “The towels have no trademarks printed on them.”¹⁷¹ G-P did not sell the enMotions dispensers but leased them to distributors, who in turn subleased the enMotion dispensers to their end-user customers.¹⁷² Each distributor was supposed to require sublessees to fill the dispenser with G-P towels.¹⁷³ In addition, a sticker and warranty card inside the dispensers stated that only Georgia-Pacific towels shall be used.¹⁷⁴ G-P received a small payment from its distributors and expected profits from its sale of the G-P towels.¹⁷⁵ In 2005 Von Drehle started selling to distributors a lower quality paper towel, 810-B Towel, sized for use within G-P’s enMotion dispensers.¹⁷⁶ In 2007, Myers began selling the 810-B Towel manufactured by Von Drehle.¹⁷⁷ G-P claimed that both Von Drehle and Myers committed contributory trademark infringement.¹⁷⁸

The appellate courts reached different results. The Fourth Circuit analogized G-P’s new business model to a soda fountain labeled with the Coca-Cola trademarks, which the end users would expect to dispense only genuine Coca-Cola products.¹⁷⁹ The Fourth Circuit disagreed with the district court’s conclusion that no reasonable jury would find a likelihood of confusion.¹⁸⁰ The court held that confusion among the non-purchasing

¹⁶⁸ *Von Drehle*, 618 F.3d at 444.

¹⁶⁹ *Myers Supply*, 621 F.3d at 773.

¹⁷⁰ *Id.*

¹⁷¹ *Id.*

¹⁷² *Id.*

¹⁷³ *Id.*

¹⁷⁴ *Id.*

¹⁷⁵ *Id.* The scheme adopted by G-P may enable it to set different leasing payments in different geographic markets for its dispensers, which may result in price discrimination in the dispenser market. In addition, the “tying” may harm the towels market for the obvious exclusionary effects on generic towel makers.

¹⁷⁶ *Ga.-Pac. Consumer Prods. LP v. Von Drehle Corp.*, 618 F.3d 441, 445 (4th Cir. 2010).

¹⁷⁷ *Myers Supply*, 621 F.3d at 773.

¹⁷⁸ *Von Drehle*, 618 F.3d at 445. Von Drehle moved for summary judgment on all G-P’s claims and the district court granted. *Myers Supply*, 621 F.3d 771, 774. “After a bench trial, the district court ruled for Myers on the contributory infringement claim, finding no likelihood of confusion by consumers.” Contributory trademark infringement exists, “if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.” *Inwood Laboratories*, 456 U.S. at 853–54.

¹⁷⁹ *Von Drehle*, 618 F.3d at 446.

¹⁸⁰ *Id.* at 455.

public could be considered by a jury if it could “be shown that public confusion will adversely affect the plaintiff’s ability to control his reputation among its laborers, lenders, investors, or other groups with whom plaintiff interacts.”¹⁸¹ If G-P cannot have the ability to keep up the high quality of towels placed in the enMotions dispensers, it would face the risk of injury to its enMotion trademarks.¹⁸²

In the Eight Circuit’s case, the court focused much more on other evidence. In addition to the enMotion dispensers, G-P manufactured “universal” towel dispensers which also bore G-P trademarks.¹⁸³ Besides, it is “common practice in the industry, and not improper, to put one brand of towels in an unleased, universal dispenser displaying a different manufacturer’s trademarks.”¹⁸⁴ And G-P sold towels to be used in other manufacturers’ trademarked dispensers as well.¹⁸⁵ Thus, the Eight Circuit did not find clear error in the district court’s holding that there was no likelihood of confusion.¹⁸⁶

Notably, neither the majority opinion by the Fourth Circuit nor the one by the Eighth Circuit addressed federal antitrust law issues. However, probably many antitrust scholars will immediately connect G-P’s business plan with a tying arrangement. Also, the Fourth Circuit failed to give enough consideration to competition policies. The tying-like scheme is inherently suspicious. It interferes with the towels market and has no strong justification in trademark law. The Coke soda fountain analogy is weak and cannot justify the foreclosure. It may be true that once a consumer sees a Coke soda fountain he or she will expect only sodas made by Coca-Cola Company will come from the fountain, but does he or she have a similar expectation on what comes from a towel dispenser? Does he or she really care if the towels are G-P’s high quality ones or merely some generic ones? What he or she needs is simply to dry his or her hands. The most likely situation is, even if the towels are of worse quality, the consumer will just pull out more towels, and once his or her hands are dried he or she will be equally happy no matter what towels he or she has used. If consumers with adequate information still do not care at all, they are not confused and do not need protection. Accordingly, there is no need for trademark law to take any action.

A key fact of the case is that Von Drehle’s towels were inferior to G-P’s towels, so there could theoretically be some harm to the G-P brand

¹⁸¹ *See id.* at 453.

¹⁸² *Id.*

¹⁸³ *Myers Supply*, 621 F.3d at 773.

¹⁸⁴ *Id.*

¹⁸⁵ *Id.*

¹⁸⁶ *Id.* at 779 or 777-79.

and/or the enMotion trademarks, as well as consumers (though they may not care). What if Von Drehle's towels are in fact better? But it is clear that allowing better towels manufactured by G-P's competitors may (1) not increase consumers' shopping cost, (2) encourage the production of quality products, (3) facilitate competition on the merits, and (4) not encourage manufacturers of inferior products to free ride. Both consumers and the market are better off by better products and more vigorous competition on the quality of products. Von Drehle would be better off by being able to place its towels in G-P's dispensers and make more sales. And one cannot say G-P is worse off simply because it has a strong competitor. In addition, obviously, the "likelihood of confusion" theory is an ill fit in this hypothetical because consumers likely do not care about confusion and they are in fact better-off. Arguably, no trademark protection is necessary in this situation. G-P's conduct may be an effort trying to exploit the market by tying and excluding competitors. The so-called trademark protection or enforcement here may merely be a means to the end of exploitation.

As the previous hypothetical has shown, in the broad context of trademark infringement, the idea of "likelihood of confusion" may not be quite compatible with facilitating competition and commerce. "Reasonable interchangeability" is used to determine the relevant market. It is arguable that when two products are reasonably interchangeable, it may be likely that they will cause consumer confusion as to the sources of products. Preventing likelihood of confusion may also lead to exclusion of competitors in the market and eventually a more concentrated market. Does the market need some weapons to police such exclusionary effects? The answer is undoubtedly yes, and the cooperation of trademark law and competition policy is once again needed. Competition policy and consumer protection need to play a vital role in shaping the scope of the right to exclude. It is generally better to have vigorous market competition and more competitors. As long as a competitor will not confuse consumers with inferior goods bearing similar marks, it should be allowed to stay in the market. When consumers care about confusion but there is no likelihood of confusion, the competitor should not be excluded. For example, YSL can still introduce all-red women's shoes and compete with Louboutin. When consumers do not care whether they would get confused (and therefore they do not get confused), the competitor should also stay in the market. And thus Von Drehle should have been able to compete with G-P.

Another issue concerning this case is whether there is any potential federal antitrust law violation. Von Drehle counterclaimed against G-P for violations of § 1 of the Sherman Act and § 3 of the Clayton Act, alleging

that G-P had engaged in illegal tying arrangements.¹⁸⁷ Neither the Fourth nor the Eighth Circuit mentioned federal antitrust law issues in their majority opinions. But the answer could be “yes” as Judge Wilson observed in his concurrence opinion in the Fourth Circuit *G-P* case:

The district court granted Georgia-Pacific's motion for summary judgment on the Clayton Act claim because “end users [were] purchasing paper towels for the enMotion dispenser from von Drehle,” and consequently there was no “evidence of actual coercion by the seller that forced the buyer to accept the tied product.” . . . It granted summary judgment on the Sherman Act claim because “von Drehle has competed favorably with G[-]P in the sale of paper towels for the enMotion dispenser” and could show no injury. . . . But von Drehle did not cross-appeal on this issue, and the matter will have to play out (if it is to play out at all) on another day and, perhaps, on a different stage.¹⁸⁸

What if Von Drehle clearly raised antitrust trademark misuse as its defense? Unfortunately, it likely would have still lost. If Von Drehle could succeed in defending the trademark infringement case by alleging G-P's new business model was in violation of federal antitrust laws, then:

any antitrust violation in the distribution of such merchandise would result in a forfeiture of the trademark with a consequent unnecessary frustration of the policy underlying trademark enforcement. An essential element of the antitrust misuse defense in a trademark case is proof that *the mark itself* has been the basic and fundamental vehicle required and used to accomplish the violation.¹⁸⁹

What if Von Drehle raised federal antitrust *counterclaims* and did cross-appeal? This article agrees with Judge Wilson that it might be a different story and it is an important issue that needs to be resolved some day. It makes sense to limit any defense to trademark infringement actions to the mark itself. But it may not make any sense to grant the branding

¹⁸⁷ *Von Drehle*, 618 F.3d at 458 (Wilson J., concurring).

¹⁸⁸ *Id.*

¹⁸⁹ *Carl Zeiss Stiftung*, 298 F. Supp. at 1315 (emphasis added). And this is not the case in this case. The towels had no mark. The court must assume that the hand washer has an expectation about the manufacturer of the towels as otherwise the hand washer would wipe his hands on his pants rather than use the towels provided. Yet there may be still something wrong. What might be in violation of the Sherman Act and/or the Clayton Act was the potential “tying” scheme, but not the ownership of the trademarks.

strategies and business plans of the mark owner immunity simply because of the validity of the trademarks as part of them in some other contexts.¹⁹⁰ Courts should bear in mind that trademarks are just normal creatures in interstate commerce, and they should be used in a way that facilitates commerce and efficient competition. Competition policy should work together with trademark law to deal with the foreclosure effects, even if they are not serious or extreme enough to give rise to antitrust claims. There can always be improper trademark enforcement against competition policy that courts should find invalid.

c. The Victoria's Secret's Secret: Dilution or Commerce

Trademark dilution is more controversial than infringement. If consumers do not become confused and as a result can still distinguish products, there should be no infringement. Yet there could still be dilution if the mark is famous. So is it necessary to grant certain companies additional rights against their competitors simply because their trademarks are famous?

The Supreme Court once tried to narrow the dilution doctrine by requiring plaintiffs in a dilution action to prove actual economic loss. In *Moseley v. V Secret Catalogue*, the owners of the Victoria's Secret retail chain and the "VICTORIA'S SECRET" trademark, sought to compel Victor and Cathy Moseley to stop using the name "Victor's Little Secret" for their single retail store in Kentucky, and claimed dilution in violation of the FTDA.¹⁹¹ The Supreme Court said that the purpose of FTDA is to protect famous trademarks from subsequent uses that blur the mark's distinctiveness or tarnish or disparage it, even absent a likelihood of confusion.¹⁹² It is the mark's uniqueness, not consumers, that the trademark dilution laws are protecting.¹⁹³ The Court recognized the "VICTORIA'S SECRET" mark was famous and valuable.¹⁹⁴ However, it held, its owners failed to provide sufficient objective proof of actual injury to the economic value of a famous mark (as opposed to a presumption of harm arising from a subjective "likelihood of dilution" standard).¹⁹⁵ This decision is also

¹⁹⁰ If Eastman Kodak could not extend its market power in high-volume photocopier and micrographic equipment to the after-market, how could G-P extend its market power (if there is any) in the dispenser market to the towels market simply because it has trademarks, brands, and/or goodwill to protect? Aren't they essentially the same thing? *See generally* Image Tech. Servs. v. Eastman Kodak Co., 125 F.3d 1195 (9th Cir. 1997).

¹⁹¹ 537 U.S. 418, 422-24 (2003).

¹⁹² *Id.* at 428-31.

¹⁹³ *Id.* at 429.

¹⁹⁴ *Id.* at 432.

¹⁹⁵ *Id.* at 434.

consistent with the Court's cautious efforts to limit the expansion of trademark rights.

However, Congress reacted quickly by amending the statute and adding the unequivocal language "or of actual economic injury" in 2006, only three years after the *Moseley* case.¹⁹⁶ Now the owner of a famous mark can bring a federal trademark dilution lawsuit "regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury." This amendment may give these owners more power to exclude competitors and non-competitors.

The Court in *Moseley* reviewed in dicta the legislative history of the FTDA and found that it was intended "to protect famous trademarks from subsequent uses that blur the distinctiveness of the mark or tarnish or disparage it."¹⁹⁷ Additionally, it was clearly not motivated by consumer protection, since the mark holder can pursue the cause of action "regardless of the presence or absence of actual or likely confusion."¹⁹⁸ These two ideas may not be consistent. As this article has discussed, the distinctiveness requirement for trademarks exists because customers need to identify and distinguish the source of product by recognizing its trademark. In other words, if there is no likelihood of confusion among consumers, a famous trademark is still distinctive despite others' use of it.¹⁹⁹ Senator Hatch's use of "distinctiveness"²⁰⁰ to support FTDA seems less like the "distinctiveness" required for federal mark registration, yet it seems more like Frank Schechter's use of "uniqueness."²⁰¹ Without the clear goal of protecting consumers, trademark dilution actions may protect the "uniqueness" that is more analogous to innovative "Writings and Discoveries"²⁰² protected by patents and copyrights. Is it exactly what was cautioned against by the Court in *Qualitex* that granting patent-like trademark rights may confer "a monopoly . . . [that] could be obtained without regard to whether they qualify as patents and could be extended

¹⁹⁶ 15 U.S.C. § 1125(c)(1) (2006).

¹⁹⁷ *Moseley*, 537 U.S. at 431; 141 Cong. Rec. 38559-38561 (1995).

¹⁹⁸ 15 U.S.C. § 1125(c)(1) (2006).

¹⁹⁹ One could still argue that the determination of a "famous" mark requires an assessment of consumer recognition of the source of product. 15 U.S.C. § 1125(c)(2)(A) (2006). But it does not mean once you have received the required consumer recognition you can exclude your competitors from any use of your famous mark. In contrast, the goal of trademark protection only permits such exclusion when the competitors' use will be likely to cause consumer confusion. If consumers do not get confused, there is no need to take actions to protect them.

²⁰⁰ 141 Cong. Rec. 38559-38561 (1995).

²⁰¹ Schechter, *supra* note 7, at 831. He claimed that "the preservation of the uniqueness of a trademark should constitute the only rational basis for its protection . . ."

²⁰² U.S. CONST. art. I, § 8, cl. 8.

forever (because trademarks may be renewed in perpetuity).”²⁰³

There are not many limitations in trademark law on the application of the dilution doctrine. The three conditions specified by the statutes are: (1) the mark has to be famous;²⁰⁴ (2) there should be dilution by blurring or tarnishment; and (3) the application is subject to principles of equity.²⁰⁵ Fair use of marks, noncommercial use of marks, and news reporting and news commentary are not actionable.²⁰⁶ These limitations seem relatively narrow compared to the broad language “regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.”²⁰⁷

This problem raises the following question: is the amendment going so far that it may give rise to some constitutional concerns? To answer this question, first it is necessary to determine how to construe this statute. The Federal Trademark Dilution Act is special interest legislation carefully crafted to protect the distinctiveness of famous marks.²⁰⁸ It can be seen as an exception to the general infringement rule requiring proof of likelihood of confusion. Judge Easterbrook once stated that “[w]hen special interests claim that they have obtained favors from Congress, a court should ask to see the bill of sale. Special interest laws do not have ‘spirits,’ and it is inappropriate to extend them to achieve more of the objective the lobbyists wanted.”²⁰⁹ And “[t]he limitation is part of the price of the victory achieved, a concession to opponents who might have been able to delay or block a bill even slightly more favorable to the proponents.”²¹⁰ The special interest legislation “enshrines results rather than principles.”²¹¹

Admittedly, there are potential conflicts between the amended FTDA and the goal of the Lanham Act, but they may be reconciled given the principle that special interest legislation should be construed carefully, strictly and narrowly. The statute defines “famous,” “dilution by blurring,”

²⁰³ *Qualitex*, 514 U.S. at 164–65.

²⁰⁴ 15 U.S.C. § 1125(c)(1) (2006). It is true that in order to become famous, a mark need to possess the general consumer recognition as source-identifying. However, as this article has asked: when you buy a bottle of Coca-Cola, do you associate the word mark “Coca-Cola” with the beverage itself or the Coca-Cola Company? If not only you, but average consumers in the United States all associate the mark with the taste of the beverage (i.e., the product itself), theoretically it is not famous. But in reality, clearly, the Coke mark is famous. So is it fair to equip Coca-Cola with this dilution weapon here? Maybe not.

²⁰⁵ *Id.*

²⁰⁶ 15 U.S.C. § 1125(c)(3) (2006).

²⁰⁷ 15 U.S.C. § 1125(c)(1) (2006).

²⁰⁸ 141 Cong. Rec. 38559-38561 (1995).

²⁰⁹ *Chicago Prof'l Sports Ltd. Partnership v. Nat'l Basketball Assoc.*, 961 F.2d 667, 671 (7th Cir. 1992).

²¹⁰ *Id.*

²¹¹ *Id.*

and “dilution by tarnishment.”²¹² Besides, Congress indicated unequivocally in the definition of “famous” that the mark should function “as a designation of source of the goods or services of the mark’s owner.”²¹³ It is therefore not easy to argue that the statute is going too far considering the limited special purpose of the statute. It is true that it may have anticompetitive effects, but without actual foreclosure effects or other unintended results, it may not be appropriate to speculate.

The dilution doctrine is at least controversial, if not unconstitutional.²¹⁴ Antitrust and competition policy should inform the interpretation of the scope of trademark entitlement including the new protections against trademark dilution. There is a role for antitrust when the exclusion or exploitation reaches some serious and significant level. However, the primary concern is for trademarks to serve their historic and economically important function with as little adverse side effect as possible. As previously discussed, the monopolistic aspects of marks can be tolerated because there are economies achieved through them. But the economies will only be achieved if the use of marks is closely tied to the limited function of product differentiation. Therefore, I advocate that proof of a real threat of confusion or unfair competition, and some resulting economic injury should be required. Otherwise, this part of trademark law may obstruct competition and the free flow of commerce.

Conceivably, large companies would like to push Congress to provide more protection for their businesses.²¹⁵ The FTDA may remain as it is, but competition policy should always be considered together with the clearly

²¹² 15 U.S.C. § 1125(c)(2) (2006). A mark is famous if “it is widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark’s owner.” Dilution by blurring is “association arising from the similarity between a mark or trade name and a famous mark that impairs the *distinctiveness* of the famous mark.” Dilution by tarnishment is “association arising from the similarity between a mark or trade name and a famous mark that harms the *reputation* of the famous mark.” *Id.*

²¹³ 15 U.S.C. § 1125(c)(2)(A)(2006).

²¹⁴ The Supreme Court’s new healthcare holding may give this constitutional challenge a few more teeth. According to Chief Justice Roberts, Congress exceeded its authority under the Commerce Clause by regulating inactivity in the healthcare insurance market, i.e., forcing people to buy health insurance. *Nat’l Fed’ of Indep. Bus. v. Sebelius*, 132 S. Ct. 2566, 2622 (2012). Following the same logic, the trademark dilution doctrine may not stand because if the defendant is not in the same geographic or product market as plaintiff (in other words, the defendant does not have any activity in any of the markets where the plaintiff plays, like Victor’s Little Secret versus Victoria’s Secret), Congress cannot regulate this defendant’s inactivity in the relevant market under its commerce power either. The FTDA may cross the line if viewed under the Supreme Court’s 2012 reading of the Commerce Clause.

²¹⁵ FTDA may in fact favor big companies more as they are more likely to have famous trademarks.

stated Congressional goal in the FTDA. If the FTDA is not amended or repealed, courts need to keep in mind competition concerns and the narrow purpose of the FTDA when deciding dilution cases, to avoid reaching bad results that may contradict the goal of the Lanham Act or even the Commerce Clause.

V. TOWARDS A MORE COHERENT REGULATORY FRAMEWORK

All traditional marks, nontraditional marks, as well as other branding tools and strategies in the business world should subject to antitrust scrutiny. Unless trademark law specifically grants them some immunity, they should be considered together with competition policy. And any immunity should be closely and narrowly tied to the original policy goals of the Lanham Act: to protect consumers and facilitate interstate commerce.

With respect to trademarks, courts and administrative agencies should pay close attention to two major areas: trademark registration and trademark enforcement. First, the more rigorous the registration standard and the evidentiary standard for infringement, the less harm trademarks (and the idea of branding and goodwill behind them) would have on competition and markets. The focus of the regulation should to some extent lean towards avoiding false positives. To receive federal trademark registration, a mark must be used or intended to be used in interstate commerce and must also be distinctive and nonfunctional. An examiner should keep competition policy in mind in the entire examination process. Trademark protection is based on the Commerce Clause and a mark can only further the goal of consumer protection and facilitate interstate commerce by actual use in commerce. And even if a mark is valid, the foreclosure or exclusionary effect it can exert on its owner's competitors should be limited only to prevent consumers from confusing the source of the product bearing the mark. A court should keep these in mind and should recognize that sometimes marks may be wrongfully granted or overbroad and ownership of trademarks can never be determinative in deciding competition issues.

A mark should also be distinctive and nonfunctional. A mark must either be fanciful, arbitrary, or suggestive (so that it can become inherently distinctive), or acquire secondary meaning through its use in commerce (so that it can acquire distinctiveness). The term "distinctiveness" shall be evaluated in light of the purpose of helping consumers identify and distinguish the source of the product, i.e., the manufacturer, in contrast to the product itself.

One should analyze the requirement of distinctiveness together with the requirement of nonfunctionality. A mark should not be technically or aesthetically (however distinctive the mark may be) functional. A mark

cannot excessively interfere with a competitor's ability to compete.²¹⁶ The (non)functionality doctrine is designed to protect competitors against a disadvantage unrelated to recognition or reputation.²¹⁷ This disadvantage is the competitors' inability to reasonably replicate important non-reputation-related product features.²¹⁸ Courts and the PTO should not ignore this important competition policy embodied in the nonfunctionality requirement when deciding if the mark is functional. The foreclosure effects and increasing costs may drive existing competitors out of the market and/or build high entry barriers blocking potential new market participants, while a healthy and robust market wants them to come and stay.

Reconciliation of competition policy and antitrust law is also necessary in trademark enforcement actions. It is true that a mark owner has the duty to police its trademark and such policing efforts require at least some exclusionary conduct, but the scope of such exclusionary right should be carefully shaped by competition policy. There are two major enforcement actions: trademark infringement and trademark dilution. From a competition law perspective, traditional infringement actions may impose less danger since the key element that a plaintiff needs to prove is the likelihood of consumer confusion. In other words, an infringement cause of action is designed to protect consumers from being confused about the product source, which is the original goal of the Lanham Act.

Competitors need defenses against infringement claims. The problem with the potential trademark misuse defense is more unclear and complex. Analogous to the patent misuse doctrine, trademark misuse can be established only when the mark itself has been the "basic and fundamental vehicle required and used to accomplish the [antitrust] violation."²¹⁹ It is rarely the case as discussed above. However, it is not necessary to have a trademark misuse defense. A practitioner may urge the court to consider competition policy or even raise antitrust counterclaims. Once an enforcement effort is not aimed to prevent any possible consumer confusion, or to preserve the distinctiveness of the trademark at issue (i.e., not to protect the mark against dilution), it probably runs so far that it may fall outside trademark protection. It therefore becomes an ordinary business conduct like price discrimination or market allocation to be evaluated under antitrust law.

For example, if no consumer cares about what brand of towels will come out of a dispenser when trying to dry hands, G-P's carefully designed

²¹⁶ *Christian Louboutin, S.A. v. Yves Saint*, 778 F. Supp. 2d 445, 450 (S.D.N.Y. 2011).

²¹⁷ *Qualitex v. Jacobson*, 514 U.S. 159, 169 (1995).

²¹⁸ *Id.*

²¹⁹ *Carl Zeiss Stiftung*, 298 F. Supp. at 1315.

business plan may simply be an ordinary price discrimination or tying scheme. Once the trademark related conduct clearly falls outside the scope of trademark protection, the fact of the ownership of a valid mark becomes irrelevant. Defense lawyers may even try to bring antitrust counterclaims and courts have to consider those counterclaims using the same or similar level of scrutiny as the Ninth Circuit decided in the *Eastman Kodak* case. Even if the conduct may not clearly exceed the scope of trademark rights, a court should not simply assume a mark as a signal of a strong lawful right to exclude, but should always balance the competition policy and trademark protection.

The dilution doctrine is young and controversial. It offers a more patent- and copyright-like protection to preserve the *distinctiveness* of a famous mark. The mere fact that it is special interest legislation does not mean there are serious constitutional problems with it. But it may not be consistent with the goal of deterring false positives and may have significant foreclosure effects. Taking the FTDA as it is, courts must keep in mind all competition policy considerations and the narrow purpose of the FTDA when deciding dilution cases. And if it turns out to be that courts fail to do so, it would be better to take the FTDA out of the Lanham Act to have a more coherent regulatory framework. For now, I advocate that a proof of a real threat of confusion or unfair competition, and some resulting economic injury should be required. Otherwise, this part of trademark law may hinder competition and interstate commerce.

Improper acquisition or enforcement of trademarks could potentially result in violations of several antitrust laws at least in theory. This includes Section 1 of the Sherman Act, which requires proof of two elements: (1) concerted action, and (2) unreasonable restraint of trade.²²⁰ G-P's tying arrangements with its distributors may fall within this category. However, as trademark-related branding and/or business strategies like these agreements are often ancillary to a legitimate joint venture, courts are more likely to adopt a rule of reason analysis and uphold the scheme unless it is proved to be pretextual or the mark owner possesses market power.

Second, there could be potential violations of Section 2 of the Sherman Act.²²¹ There are two possible causes of action under this section: monopolization and attempted monopolization.²²² A claim for monopolization is established when the defendant (1) possesses monopoly power in the relevant market, and (2) willfully acquired or maintained that power as distinguished from growth or development as a consequence of a

²²⁰ See 15 U.S.C. § 1 (2004).

²²¹ 15 U.S.C. § 2 (2004).

²²² *Id.*

superior product, business acumen, or historic accident.²²³ For example, if the leading manufacturer in a highly concentrated market brings a trademark infringement suit against one of its competitors that has launched a similar competitive product after the expiration of the leading manufacturer's utility patent on its own product, the defendant could try to counterclaim for antitrust violations under section 2 of the Sherman Act because the leading manufacturer arguably has market power and tried to willfully maintain it. An attempted monopolization occurs when the defendant has engaged in predatory or anticompetitive conduct with (1) a specific intent to monopolize, and (2) a dangerous probability of achieving monopoly power.²²⁴ The previous example would fall into this category if the market is only moderately concentrated and the manufacturer is not yet in the leading position. G-P's "tying" arrangements may constitute an attempt to monopolize as well.

Additionally, as Von Drehle's counterclaims show, Section 3 of the Clayton Act targets practices like tying and exclusive dealing.²²⁵ It requires a complainant to prove (1) conditioned sale, and (2) a likelihood of substantial lessening of competition.²²⁶ The FTC may challenge such practices under Section 5 of the FTC Act.²²⁷ One final reminder: even absent an antitrust violation, competition policy should always play an important role in guiding trademark law to achieve its original goal of product differentiation and source identification.

VI. CONCLUSION

Trademarks are important intellectual property rights. They do not reward innovations or creativity, but seek to protect consumers from being confused about product sources. Trademark protection is based on the Commerce Clause, which is also the basis of the Sherman Act. Therefore federal trademark law should work coherently with competition laws and policies to facilitate interstate commerce and competition. However, as the scope of trademarkable subject matter is expanding, as well as the current efforts by corporations to seek trademark protection instead of or in addition to patents and/or copyrights, trademarks start to raise competition concerns as well.

There is no need to stop vigorous and creative trademark practice, but both courts and administrative agencies (and even legislators) need to

²²³ *Id.*

²²⁴ *Id.*

²²⁵ 15 U.S.C. § 14.

²²⁶ *Id.*

²²⁷ 15 U.S.C. § 45.

understand the importance of trademarks in the business world and must carefully police the use of them. This article argues that they should be aware that traditional marks, nontraditional marks, as well as other branding tools and strategies are normal creatures in the business world. They should be considered in light of competition policy. Any enforcement efforts should be closely analyzed in light of the original policy goals of the Lanham Act: to protect consumers and facilitate interstate commerce. Trademark law, competition policy and antitrust law are coherent theoretically, and they should be coherent in reality. Re-visitation and reconciliation of both trademark law and competition policy in detail are important and necessary efforts towards a more coherent regulatory framework to preserve competition and boost interstate commerce.