Likelihood of Confusion Studies and the Straitened Scope of Squirt

By Jerre B. Swann

Initial Interest Confusion Versus Consumer Sovereignty:
A Consumer Protection Perspective on Trademark Infringement

By Ross D. Petty

Taking Unfair Advantage or Diluting a Famous Mark —
A 20/20 Perspective on the Blurred Differences Between U.S. and E.U. Dilution Law

By Marcus H. H. Luepke

Combining Trademarks in a Jointly Owned IP Holding Company

By Lanning Bryer and Matthew Asbell

Virtual Trademark Use — The Parallel World of Keyword Ads

By Jonathan Moskin
I. INTRODUCTION

The international protection of well-known marks against dilution is of tremendous significance, as it concerns the world's best-known brands, which represent an inestimable commercial value. Distribution of products under these top brands and the consumer's knowledge of these brands are in most cases not limited to specific geographic borders; rather, they often span the entire world, or large parts of it. Companies with international business depend on a solid understanding of the scope of their marks' protection in different markets to ensure protection and enforcement of their trademarks on an international scale. This study examines and highlights the requirements and consequences of dilution protection for well-known marks in the economically strategic markets of the European Union and compares these European requirements and consequences with the current protection against trademark dilution under the Trademark Dilution Revision Act\(^1\) in the United States.

This comparison will show differences that, at first glance, appear quite fundamental. One such difference is that E.U. dilution law includes cases of misappropriation of goodwill, and it determines the eligibility of marks based on their recognition not only by the general consuming public but also by specialized consumer groups. It would therefore appear to offer a much broader scope of protection than the new U.S. law does. This paper, however, will show that the differences are not as great and consequential as they may seem. In order to avoid gaps in the protection for trademarks, E.U. regulations provide for a broader scope of dilution protection, whereas U.S. trademark law provides for broader protection under the likelihood of confusion concept.

---

Greater harmonization of dilution law would therefore also require a greater harmonization of the likelihood of confusion concept.

While a globally active trademark owner might hope for an internationally harmonized broad application of both the dilution concept and the likelihood of confusion concept, in view of the existing national differences, this scenario is not very realistic. Furthermore, an extensive application or interpretation of the dilution concept might not be in the trademark owner’s interest, as it can create the risk that the dilution doctrine loses acceptance among courts and scholars. This may finally lead to a more restrictive dilution law, like the one passed in the United States, where Congress has limited the dilution doctrine to its core concept, allowing dilution protection only for marks that are clearly famous among the general public. In the end, the trademark owner will appreciate a harmonized result when facing use of his well-known trademarks for dissimilar products internationally. As long as this objective is reached, it will ultimately be of little concern to the trademark owner whether it is governed by the confusion or the dilution concept.

II. THE DILUTION CONCEPT—
A BRIEF OVERVIEW FROM A GLOBAL PERSPECTIVE

In the United States, the federal law protecting trademarks against dilution has been redefined by the TDRA. The new law, which clarified and superseded the Federal Trademark Dilution Act of 1995,² protects nationally famous marks against forms of misuse that likely impair their distinctiveness or harm their reputation, irrespective of any likelihood of confusion. While these statutes explicitly governing trademark dilution are relatively new, the dilution concept was developed much earlier. In the United States, the idea of protecting famous trademarks when no likelihood of confusion exists goes back to an article by the renowned law professor Frank Schechter in 1927.³ He refers in this article to an earlier case in Germany⁴ in which the owner of

². Hereinafter FTDA.
⁴. Landgericht (“Regional Court”) Elberfeld, 1924 GRUR 204 — Odol [hereinafter LG Elberfeld]. In the United Kingdom, the 1898 KODAK case (Eastman Photographic Materials Co. Ltd v. John Griffiths Cycle Corp. Ltd, 15 R.P.C. 150 (Ch.)) is frequently cited as the first case in which protection against trademark dilution was granted, because the camera manufacturer was granted injunctive relief against the use of the mark KODAK for bicycles. See Frederick W. Mostert, Famous and Well-Known Marks: An International Analysis 1-75 (2d ed. 2004 & Supp. 2007). However, as Stephanie Chong points out, this was not a mere dilution case, because Eastman had developed cameras for use on bicycles and also presented at bicycle trade shows. The court considered this as a sign of a possible
the mark ODOL, famous for mouthwash, successfully cancelled an identical registration for steel products. The court held that such use of the mark ODOL on non-competing goods was against good morals ("gegen die guten Sitten") and violated the principles of fair trade. The protection was based on the lessening of the mark’s selling power and on the impairment of the owner’s ability to compete. Thus, dilution protection for famous marks was initially based on the general unfair competition law. Professor Schechter’s reference to a German case shows, however, that the dilution theory was not entirely new at that time and that other countries had already applied this concept. Though the terminology might have been different, and the legal basis might not have been as extensively defined as in the federal statutes of the United States, legislators and courts in many European countries have long recognized the need to protect famous or well-known marks against misuse on dissimilar or non-competing goods, and have either created new specific dilution legislation or interpreted the existing trademark and unfair competition laws accordingly. Nowadays, many countries around the world, including Canada, Argentina, South Africa, India, Japan, Singapore, New Zealand and Australia, offer some form of anti-dilution law.

extension of Eastman’s product portfolio to include bicycles, and therefore found the goods sufficiently connected to create a likelihood of confusion. The defendant’s intention to ride the coattails of the reputation and fame of Eastman’s mark appears only to have been an additional justification for granting the injunction. Stephanie Chong, Protection of Famous Trademarks Against Use for Unrelated Goods and Services: A Comparative Analysis of the Law in the United States, the United Kingdom and Canada and Recommendations for Canadian Law Reform, 95 TMR 642, 661 (2005).

5. LG Elberfeld, supra note 4, at 204; see also Schechter, supra note 3, at 832-33.


8. As did South Africa with Sections 10(17) and 34(1)(c) of its 1993 Trade Marks Act, which is based on Article 5(2) of the E.U. Trademark Harmonization Directive (First Council Directive 89/104/EEC of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks) [hereinafter E.U. Directive].

9. See Mostert, supra note 4, at 1-97 n.236, referring to Germany and Austria, where protection against dilution was traditionally provided under their respective unfair competition acts (though the legal basis in Germany changed in 1994 with the enactment of the Law on the Protection of Trade Marks, which implemented the E.U. Directive).

10. See also the INTA Reports The Protection of Well-Known Marks in the European Union, Canada and the Middle East and The Protection of Well-Known Marks in Asia-Pacific, Latin America and Africa (Oct. 2004), available at www.inta.org, for a summary and overview in table format.
A. “Famous,” “Well-Known” and “Mark with a Reputation”

As the trade of branded goods—like the fame of a mark—regularly does not end at national borders, there have been huge efforts to harmonize the protection of well-known marks and to set international standards of minimum protection governed by international agreements, regional and bilateral treaties and supranational law.\(^\text{11}\) The Paris Convention, the TRIPS Agreement and the E.U. Directive all contain provisions for the protection of marks that enjoy an increased recognition or reputation, labeled by the term “well-known mark” or “mark with a reputation.” These provisions, however, neither define these terms nor use them with an identical meaning or the same legal consequences, and, interestingly, they do not use the term “famous mark,” which is used in the TDRA and in the national laws in some other countries.\(^\text{12}\) This suggests that these regimes provide dilution protection at a lower level of recognition than required by the TDRA for the term “famous mark.”

In addition, national laws, courts and commentators use a variety of terms when referring to marks with an increased recognition, including the terms “famous,” “well-known,” “known,” “notorious,” “highly renowned,” “mark with a reputation” and “mark with market recognition.”\(^\text{13}\) The coexistence of these diverse terms may be due to differences in the legal concepts for the protection of well-known marks in the various countries. It could, however, be the result of simple variations in the translation of the terms into English.\(^\text{14}\)

This article defines the meaning of these terms as far as they are relevant to the U.S. and E.U. dilution laws.

---

\(^{11}\) In particular, the Paris Convention, the TRIPS Agreement and the E.U. Directive, the latter discussed infra Part IV.B.

\(^{12}\) Such as in Germany, where the status “famous mark” designates the highest level of recognition, which traditionally allows protection against dilutive uses. See Wolfgang Büscher, in Mostert, supra note 4, at 4-179.

\(^{13}\) See Mostert, supra note 4, at 1-25.

\(^{14}\) Compare Clark W. Lackert, Famous Marks: Dilution from an International Perspective, 10 Int’l Q. 308, 310 (1998), who points out the potential for confusion created by the inconsistent wording used in the international agreements and even between the E.U. Directive and the laws of the E.U. member countries.
B. Characteristics and Relevance of Dilution Concepts

It is important to note that not all jurisdictions use the term “dilution” or a national-language equivalent when referring to the protection of famous or well-known marks against use of identical or similar marks for unrelated goods or services. Although the typical case to be covered by the principle of dilution is one where no likelihood of confusion exists, a dilution claim does not necessarily require the absence of a likelihood of confusion, nor is it limited to cases of dissimilar or non-competing goods.

Some jurisdictions offer protection against dilution also in cases of similar or related goods, but such extended application of the dilution concept has often been criticized. The main criticism on that interpretation is that such extension unnecessarily stretches the dilution concept to cover cases in which the owner of the well-known mark should easily prevail under the traditional likelihood of confusion theory. It appears, in fact, questionable whether the dilution theory as an extraordinary remedy is needed

15. “Dilution,” the commonly used term in the United States, is reflected in the names of the FTDA and the TDRA and defined therein.

16. In Germany, for example, the term “dilution” (“Verwässerung”) has been used for a long time, but only to refer to the specific case of blurring, not to the case of tarnishment (“Rufschädigung”). See Reinhard Ingerl & Christian Rohnke, Kommentar zum Markengesetz (“Commentary on the Trademark Law”) § 14 sidenotes (snn.) 836, 856 (2d. ed. 2003) [hereinafter Ingerl/Rohnke]. Canada now allows protection under the “depreciation of goodwill” theory, which is not limited to famous or well-known marks but requires a showing of goodwill; see Section 22(1) of the Canadian Trade-marks Act and its discussion by Chong, supra note 4, at 684-96.

17. See Welkowitz, supra note 7, at 5; Mostert, supra note 3, at 1-98, 1-99. This was also Frank Schechter’s starting point and his reason to introduce the dilution concept to U.S. trademark law. Cf. Schechter, supra note 3, at 813.

18. By explicitly stating “regardless of the presence or absence of likely confusion or competition,” the TDRA thereby allows that a dilution claim and a parallel infringement claim can both be successful.


20. Such extensive application of the dilution system to cases of competing goods happened in the U.S. already under the FTDA, and the TDRA continues to include such situations. The law has been similarly interpreted in those E.U. member countries that have adopted the language of Article 5(2) of the E.U. Directive because they are bound by the ECJ’s holding in Adidas-Salomon AG v. Fitnessworld Trading Ltd., [2003] E.C.R. I-12537, to follow the reasoning in the Davidoff decision (supra note 19, para. 26), according to which the protection of well-known marks must be at least as extensive for identical and similar goods as for dissimilar goods.

in cases of similar goods or services, because the strength of the well-known mark should in these cases usually suffice to create a likelihood of confusion between the marks. The general need for anti-dilution protection as a weapon against misuse in the absence of product similarity appears even smaller in the 21st century, where broader merchandising programs, common product-range extensions and popular sponsoring activities more often lead to product similarity, than at the beginning of the 20th century, when this theory was introduced in the United States.

Changed market realities not only lead to a similarity or relatedness between goods or services that would not have been considered as similar or competitive a century ago, but also contribute to the creation of new categories of confusion. These categories are confusion of sponsorship or approval, confusion of business affiliation, initial interest confusion and post-sale confusion; each of them has further expanded the theory of trademark confusion and led to an even broader protection of well-known marks. Nevertheless, it is possible to have a situation where likelihood of confusion and dilution coexist. While a single person either is confused (i.e., believes that the products come from the same source) or perceives dilution (i.e., recognizes the parallel use of the same mark), it is possible for significant parts of the relevant public to be confused at the same time as other relevant parts of the public perceive dilution. Moreover, while use of the well-known or a similar mark for similar goods will typically result in a likelihood of confusion, it does not necessarily do so in all cases. Thus, in some cases, application of anti-dilution law could be the only available remedy.

22. Id. However, McCarthy’s argument that the ECJ’s decision in Davidoff reveals its misunderstanding as to why the dilution law was created appears to be based on an interpretation of the ECJ’s opinion that is not mandatory. The ECJ did not compare the scope of protection given to well-known marks with the protection given to lesser-known marks; instead, the ECJ points out that the E.U. Directive cannot be interpreted in a way that would give less protection to well-known marks in cases where another mark is used for similar goods than in cases where that other mark is used for dissimilar goods.

23. See Welkowitz, supra note 7, at 5, 8; compare also Christine Haight Farley, Why We Are Confused About the Trademark Dilution Law, 16 Fordham Intell. Prop. Media & Ent. L.J. 1175, 1180 (2006).

24. Compare Mostert, supra note 4, at 1-77; Welkowitz, supra note 7, at 4-5.

25. See also Welkowitz, supra note 7, at 8.

26. See Mostert, supra note 4, at 1-99.

27. A prominent disclaimer emphasizing the lack of relationship between the junior user and the senior mark could in certain cases prevent confusion. However, this depends on the facts of the case, and many courts have held disclaimers insufficient to avoid a likelihood of confusion; see 3 Thomas J. McCarthy, McCarthy on Trademarks and Unfair Competition § 23:51 (4th ed. 1996 & Supp. 2008) [hereinafter McCarthy on Trademarks].
III. DILUTION LAW IN THE U.S.

A. Brief History of U.S. Dilution Law: From Schechter to the TDRA

As mentioned in the introduction, U.S. dilution law goes back to a 1927 article written by law professor Frank Schechter. Since then, the rationale of protection against trademark dilution has often been applied in federal cases, as well as in cases that were based on state dilution law. Since 1947, about half of the 50 states in the United States have enacted state dilution statutes, which usually protect the commercial value or “selling power” of trademarks against the use by others of similar marks that dilute or tarnish the associations evoked by the famous mark. This dilution law was, however, not used much until about 1980. This was probably one reason why it took nearly 70 years from the publication of Schechter’s article to pass the first federal dilution law, the FTDA, which became effective in January 1996. The FTDA explicitly defined dilution as “lessening of the capacity of a famous mark to identify and distinguish goods or services.” Although seeming to be an uncomplicated cause of action, the FTDA turned out to be a challenge to interpret, and the courts disagreed on nearly all elements that the FTDA required in a dilution claim. The FTDA also was often used in cases for which many experts believed the law was not designed. For example, plaintiffs who often based their claims not only on trademark infringement but also—as an additional basis or backup—on trademark dilution were, in the eyes of many observers and practitioners, inflating dilution cases and discrediting the dilution regime. Judges and attorneys often were uncertain of exactly what dilution meant and how to prove it. This difficulty led to a split between two appellate courts on whether the dilution claim required proof of actual confusion.

28. See supra note 3 and accompanying text.

29. See Welkowitz, supra note 7, at 9, referring to the early U.S. case Yale Elec. Corp. v. Robertson, 26 F.2d 972 (2d Cir. 1928), in which the court cancelled the trademark registration for YALE for batteries and flashlights owing to the repute of the YALE mark for locks.


31. See Welkowitz, supra note 7, at 4.

32. FTDA § 45(c), 15 U.S.C.A. § 1127 (deleted).

33. See Katherine Basile, From Blurred to Bright, 177 Trademark World 27 (May 2005).

34. See McCarthy, supra note 21, at 1167.

35. In Ringling Bros.-Barnum & Bailey Combined Shows Inc. v. Utah Division of Travel Development, 170 F.3d 449 (4th Cir. 1999), the Fourth Circuit rejected Barnum’s
years that the FTDA did not provide the desired solution for the dilution “problem.”

The often-criticized U.S. Supreme Court decision in Moseley v. V Secret Catalogue, Inc. provided the last “incentive” to work on a new law by finding that the plaintiff had to show actual dilution rather than only a likelihood of dilution in order to be successful with an FTDA claim. The Supreme Court’s interpretation, based on the wording of the FTDA (“if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark”), left many owners of famous marks puzzled as to how they should show actual dilution before the third party’s use may have already caused the loss of distinctiveness, which is exactly the situation the dilution law was meant to prevent. The Supreme Court, unfortunately, remained vague about how to establish “actual dilution,” holding that actual dilution did not require the plaintiff to “show actual losses of sales or of profits.” The subsequent uncertainty about whether and how the owner of a famous mark could succeed with a dilution claim finally ended in 2006, when the TDRA came into effect. Not surprisingly, the new law deleted all the vague language and now explicitly states that a “likelihood of dilution” is all that is required. Consequently, the TDRA effectively “overturns” the Supreme Court’s Moseley decision.

B. The TDRA and Its Main Characteristics

Besides implementing the “likelihood of dilution” standard, the TDRA includes several other relevant modifications and clarifications. While it was debated under the old law whether the FTDA covered cases of third-party use that are detrimental to the famous mark’s reputation (“tarnishment”), the new law clarifies that tarnishment of a famous mark is one of the covered dilution scenarios, in addition to the most often discussed dilution scenario, in which the mark’s distinctiveness is likely to be impaired (“blurring”). Thus, the TDRA splits the dilution regime into two

claim for dilution of its mark THE GREATEST SHOW ON EARTH by Utah’s use of the slogan THE GREATEST SNOW ON EARTH because Barnum could not prove actual dilution. The Second Circuit disagreed in Nabisco Inc. v. PF Brands Inc., 191 F.3d 208 (2d Cir. 1999), requiring merely likelihood of dilution and stating that the Fourth Circuit’s “excessive literalism [would] defeat the purpose of the statute.”

37. 537 U.S. 418 (2003). In Moseley, the Supreme Court rejected the claim that the mark VICTORIA’S SECRET faced dilution by the other party’s use of the mark VICTOR’S LITTLE SECRET.
separate categories. However, for both categories, the plaintiff’s mark must be famous.

1. Famous Marks Only

Section 43(c)(2)(A) of the TDRA limits dilution protection to marks that are famous among the general consuming public of the U.S. This includes two restrictions regarding the required level of recognition: (1) it covers, as the FTDA did, only “famous” marks; and (2) only those famous marks that enjoy this reputation among the general consuming public in the U.S. are eligible for dilution protection.

The TDRA thereby intends to limit dilution protection to those household names and truly famous marks that are known to the consuming public at large. The law itself gives in Section 43(c)(2) some guidance on how to determine whether a mark enjoys the required level of public recognition. While it states that all relevant factors may be considered, the TDRA explicitly lists four of them:

1. Duration, extent and geographic reach of advertising and publicity of the mark;
2. Amount, volume and geographic extent of sales under the mark;
3. Extent of actual recognition of the mark; and
4. Whether the mark is registered.

By requiring that the mark must be “widely recognized by the general consuming public of the United States,” the TDRA excludes those marks that have only “niche fame.” This term is most often used to describe marks that enjoy a high level of recognition that is confined to a certain segment of the public, a smaller geographic area, a particular industry or a limited group of specialized purchasers or users. This change in the U.S. law from the ambiguity under the FTDA was meant to reserve the extraordinary right of anti-dilution protection to extraordinary marks, also called “supermarks.”

41. See id.
43. On niche fame, see J. Thomas McCarthy, Proving a Trademark Has Been Diluted, 41 Hous. L. Rev. 713, 731-33 (2004); McCarthy, supra note 21, at 1173-74.
45. Compare William G. Barber, A “Rational” Approach for Analyzing Dilution Claims: The Three Hallmarks of True Trademark Dilution, 33 AIPLA Q.J. 25, 40 (2005), who strongly supports the notion of reserving dilution protection to such supermarks.
The prior mark must have obtained its famous status prior to the first use of the allegedly diluting mark to qualify for dilution protection,46 a fact that can be hard to prove when the defendant’s first use happened some time ago.47

Another question is whether the mark must, in order to be eligible for protection against dilution, not only be famous among the general consuming public in the United States but also be in use there. The U.S. trademark system principally requires use of the mark in U.S. commerce to obtain and maintain trademark rights.48 A famous mark could therefore be without protection or considered abandoned if it were never used or were no longer used in the U.S.49 However, this “territoriality principle” may be subject to an exception called the “famous marks doctrine,” according to which the owner of a mark that is used only outside the U.S., but nevertheless is well known or famous in the U.S., is entitled to protection in the U.S.50 While this doctrine has been recognized by several U.S. courts in trademark infringement proceedings,51 and by the U.S. Trademark Trial and Appeal Board (TTAB) in opposition proceedings,52 all based on likelihood of confusion, a very recent decision held that this doctrine was not supported by the Lanham Act, and was therefore invalid, at least under federal trademark law.53 The U.S. court of appeals also rejected in its decision the argument that Article 6bis of the Paris Convention requires the U.S. to recognize rights in famous foreign marks even if they are unregistered in the U.S.54 Thus, it is not only unclear


47. In view of the convincing sales figures of the NIKE products for a time ten years prior to its decision, the court in the Nike case had no difficulty finding fame prior to the defendant’s first use of NIKEPAL in 1998. However, owners of other “famous” marks might have more difficulty proving the fame of their mark retroactively, particularly if the defendant’s first use dates back more than ten years.


49. Provided the elements of abandonment are fulfilled, namely, (1) non-use and (2) no intention to resume use, the latter of which is—rebuttably—presumed after three years of consecutive non-use. See, e.g., McCarthy on Trademarks, supra note 27, §§ 17:9, 17:21.


53. In ITC Ltd. v. Punchgini Inc., 482 F.3d 135 (2d Cir. 2007), the plaintiffs operated the world-famous BUKHARA restaurant in New Delhi, India, and had previously opened branches in New York and Chicago. The branches had been closed for a period of years, and the mark had been in disuse in the U.S. for longer than the abandonment period when defendants opened a Bukhara restaurant in New York that was a clear imitation of plaintiffs’

54. See the argument in 5 McCarthy, McCarthy on Trademarks, supra note 27, § 29:4.
whether this doctrine applies to dilution claims, but also now questionable whether it applies at all under federal trademark law.\textsuperscript{55} It therefore remains to be seen whether a mark can be famous in the U.S. and obtain protection under the TDRA if it is not being used in the U.S.

2. Acquired Distinctiveness Sufficient

In other respects, the TDRA expands the protection against dilution in comparison to the FTDA by including the degree of “inherent or acquired distinctiveness” as one of the relevant factors for “dilution by blurring.”\textsuperscript{56} Some courts had held that the FTDA applied only to marks that were inherently distinctive.\textsuperscript{57} They thereby entirely excluded descriptive marks from dilution protection irrespective of how famous they had become. The TDRA explicitly extends dilution protection to these descriptive marks. This is even more important in view of the U.S. practice of considering marks descriptive if they are “primarily merely a surname.”\textsuperscript{58} Otherwise, marks whose primary meaning is a surname, such as KRAFT, GALLO, CHRYSLER and PIRELLI, would have been excluded from dilution protection.

3. Dilution by Tarnishment

The TDRA defines dilution by tarnishment as “association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark.”\textsuperscript{59} Dilution by tarnishment happens when “a trademark is portrayed in an unwholesome way or unsavory context likely to evoke unflattering thoughts about the owner’s products.”\textsuperscript{60} This kind of harm is in most cases caused by another’s use of a mark that

\textsuperscript{55} The Second Circuit did leave open the possibility that the “famous marks” doctrine is applicable as a matter of New York state law. The court certified that question to that state’s highest court, the New York Court of Appeals, which supported the viability of the “famous marks” doctrine as a matter of the common law of unfair competition in New York.


\textsuperscript{57} See TCIP Holding Co. v. Haar Comm’ns, Inc., 57 U.S.P.Q.2d 1969 (2d Cir. 2001); Nabisco, Inc. v. PF Brands, Inc., 191 F.3d 208, 216 (2d Cir. 1999) (holding that it “seems most unlikely that the [FTDA] contemplates allowing the owner of a common albeit famous mark to exclude all new entrants”). However, the “degree of inherent or acquired distinctiveness” was listed in the FTDA as the first of eight factors to be considered when determining whether a mark is famous; see also Visa Int’l Serv. Ass’n v. JSL Corp., 533 F. Supp. 2d 1089 (D. Nev. 2007), agreeing with 2 McCarthy, \textit{McCarthy on Trademarks, supra} note 27, § 11:87, that even commonly used marks can be intrinsically strong, depending on the products for which they are used.


\textsuperscript{60} Deere & Co. v. MTD Prods. Inc., 41 F.3d 39, 43 (2d Cir. 1994).
associates the famous mark with unseemly concepts, such as pornography, violence, drugs or other illegal activities. In one of the first tarnishment cases under the TDRA, a defendant who used famous marks (PEPSI, MOUNTAIN DEW and others) on genuine PepsiCo bottles, cans and canisters to create safelike devices with hidden compartments was found to have committed dilution by tarnishment, because consumers could have mistakenly blamed PepsiCo for several detrimental aspects of the products: (1) the safes were commonly associated with the concealment of illicit drugs, (2) the modification created sharp edges that were dangerous for the consumers and (3) the remaining original snack foods got stale because of the container modification.

Cases of parody, however, do not automatically qualify for dilution by tarnishment, although parodies inherently have the goal of criticizing the owner of the famous mark in some way, and they thereby often intend to tarnish the mark’s reputation.

4. Dilution by Blurring

The blurring alternative covers those cases where a famous mark’s distinctiveness is likely “whittled away” through the use of the same or a similar mark on unrelated goods and services. The TDRA defines “dilution by blurring” as “association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark.” It further states that when determining whether a mark or a trade name is likely to cause dilution by blurring, the court may consider all relevant factors, including the following:

1. Degree of similarity between the mark or trade name and the famous mark;
2. Degree of inherent or acquired distinctiveness of the famous mark;
3. The extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark;
4. Degree of recognition of the famous mark;
5. Whether the user of the mark or trade name intended to create an association with the famous mark; and

61. Bernstein, supra note 36.
63. See, in more detail, infra Part III.B.6.
64. Basile, supra note 33, at 29; Bernstein, supra note 36, at 13.
6. Any actual association between the mark or trade name and the famous mark.\textsuperscript{66}

The required level of similarity of the marks, factor 1, had been frequently discussed under the FTDA, and many courts required that the marks must be at least “nearly identical.”\textsuperscript{67} While the marks’ similarity is explicitly listed as a relevant factor, the TDRA does not define a certain level of similarity as threshold, nor does it explicitly limit claims to cases of identical or “nearly identical” marks. Nevertheless, courts appear to continue to require such a high level of similarity between the marks.\textsuperscript{68} However, as in decisions on the likelihood of confusion in infringement cases, there is some flexibility in this determination.\textsuperscript{69} The level of similarity is only one of the relevant dilution factors, and it can be balanced by other relevant factors, such as the famous mark’s level of recognition, the junior user’s intent to create an association between the two marks and the level of exclusivity associated with the owner’s use of its famous mark.\textsuperscript{70}

This said, under factor 3, having a great number of third parties already using identical or highly similar marks can be considered as an obstacle to a dilution claim, because such third-party use will render it less likely that additional third-party use can diminish the distinctiveness of the famous mark.\textsuperscript{71} Conversely, if the defendant can show little third-party use of the famous mark in unrelated fields, the plaintiff will be more likely to succeed.\textsuperscript{72}

Under factor 4, even in cases where it appears evident that the famous mark enjoys a high level of recognition, the owner might

\textsuperscript{66} Id. § (B)(i)-(vi).

\textsuperscript{67} Thane Int’l, Inc. v. Trek Bicycle Corp., 305 F.3d 894, 906 (9th Cir. 2002); Playboy Enters., Inc. v. Welles, 279 F.3d 796, 806 (9th Cir. 2002).


\textsuperscript{69} In Nike, the court considered the marks NIKE and NIKEPAL as “nearly identical,” although the word element NIKEPAL was only part of a logo mark consisting of an NP logo in combination with the company name “Nikepal International, Inc.” and a depiction of five different syringes as a further design element. 84 U.S.P.Q.2d at 1827.

\textsuperscript{70} All these factors supported the dilution claim in the Nike case.

\textsuperscript{71} See Pan American World Airways, Inc. v. Flight 001, Inc., 2007 U.S. Dist. LEXIS 51012 (S.D.N.Y. July 13, 2007), where the use of meridian logos similar to the famous Pan Am logo by several other travel-related companies prompted the district court to reject the dilution claim.

\textsuperscript{72} In Nike, the defendant could only show one single third party using the term NIKE at all, namely, in “Nike Hydraulics, Inc.” 84 U.S.P.Q.2d at 1827. Most owners of famous marks will not be so lucky as to find themselves in that position.
have a better case if it provides survey results that support such a claim, and even go beyond the expected level of recognition.\textsuperscript{73}

Factor 5 refers to the user’s intent to create an association between the marks. While this criterion was not mentioned in the FTDA, it has already played a role under the former law. Some commentators even believe that dilution protection law is motivated only by the perceived sense of bad faith on the defendant’s part.\textsuperscript{74} They see dilution protection as a result of the intention to protect against others’ free rides rather than to protect the property of the owner of the famous trademark.\textsuperscript{75}

5. Dilution by Use on Similar Goods or Services

The TDRA states that dilution of a famous mark can occur “regardless of the presence or absence . . . of competition.” This terminology is not new; it was similarly used in the FTDA, although there with the additional wording “regardless of the presence or absence of—(1) competition between the owner of the famous mark and other parties, or (2) likelihood of confusion, mistake, or deception.”\textsuperscript{76} The FTDA provision had already permitted the application of anti-dilution law in cases of competitive or similar products.\textsuperscript{77} However, some have viewed this as inconsistent with the original rationale for the dilution concept, which intended to reserve it to extraordinary cases to avoid upsetting the balance of free and fair competition.\textsuperscript{78} These critics consider such broad application of the dilution concept unnecessary.\textsuperscript{79} The regular infringement rules supposedly suffice in cases where well-known marks are used for similar goods or services, because, owing to their strength, such marks “should have no difficulty prevailing under the traditional confusion-based rule of law.”\textsuperscript{80}

---

\textsuperscript{73} See id. at 1824 (the plaintiff was able to show that over 87\% of the defendant’s current and prospective customers associated the term NIKEPAL with the plaintiff’s NIKE mark).

\textsuperscript{74} Haight Farley, supra note 23, at 1185.

\textsuperscript{75} Id. This question is discussed in greater detail infra Part V.D.4.

\textsuperscript{76} FTDA § 45(c), 15 U.S.C.A. § 1127 (deleted).

\textsuperscript{77} See McCarthy, supra note 21, at 1179, with further references.

\textsuperscript{78} Id. at 1180.

\textsuperscript{79} Id. at 1179-80.

\textsuperscript{80} See id. at 1178 with respect to the interpretation of Article 5(2) of the E.U. Directive by the ECJ, as McCarthy takes the same view regarding the situation in the E.U. and the U.S.
6. Fair Use as Defense to Dilution Claims

The TDRA explicitly lists three defenses to dilution claims, naming them “exclusions.”81 Besides (1) “all forms of news reporting and news commentary” and (2) “any noncommercial use of a mark,” the statute also excludes (3) “any fair use” from being actionable under the TDRA.82 It further specifies that “fair use” includes “nominative or descriptive fair use,” in particular if made in comparative advertising or when parodying, criticizing or commenting on the famous mark owner or its goods or services.

The superstore Wal-Mart very recently learned that the First Amendment to the U.S. Constitution (the right to free speech) prevented it from stopping the activities of a vocal Wal-Mart critic. Mr. Smith, the defendant, believed that Wal-Mart had a destructive effect on communities, treated workers badly and had a damaging influence on the United States as a whole.83 Therefore, he created various designs and slogans targeting and criticizing Wal-Mart; these incorporated the terms “Walocaust” and “Wal-Qaeda,” both allegedly associating Wal-Mart with the Holocaust and/or the events of September 11, 2001.84 While Mr. Smith did sell some T-shirts that bore the WAL*OCAUST and WAL-QAEDA marks (see below), the court held that his primary intention was to express criticism, whereas selling the shirts and achieving the related commercial success were only secondary motives at best. Dilution, however, applies to cases of parody only if it is “purely commercial speech.”85 Thus, “tarnishment caused merely by an editorial or artistic parody . . . is not actionable under an anti-dilution statute because of the free speech protections of the First Amendment.”86

This does not mean that every parody and all satiric uses are allowed as fair use; satiric use may be dilution if the parody

82. Id. § (3)(B), (C).
84. Id. at 1309.
85. Id. at 1339, referring to Mattel, Inc. v. Walking Mountain Prods., 353 F.3d 792, 812 (9th Cir. 2003).
86. Id.
includes the naming of a commercial product with the famous mark.\textsuperscript{87}

It appears that there is a fine line between allowed parody on one hand and a diluting satiric use on the other. The owner of the famous LOUIS VUITTON mark was not able to stop use of the mark CHEWY VUITTON for pet chew toys and other pet articles because such use was held not to be diluting.\textsuperscript{88} The fact that the defendant’s use of the CHEWY VUITTON mark qualified as parody was considered relevant for the determination of whether the famous mark’s distinctiveness was likely to be impaired. The court also held—to some surprise—that (1) the more famous the mark is, the less likely it is that a parody will impair its distinctiveness;\textsuperscript{89} and (2) the parody was enhanced because CHEWY VUITTON products were sold alongside similar parodies of other luxury brands, such as SNIFFANY & CO., CHEWNEL #5, DOG PERIGNON and FURCEDES.\textsuperscript{90} This decision could leave owners of very famous marks wondering whether they are “punished” for the fact that their marks have such a great reputation. It also seems to suggest to junior users that they are more likely to get away with their mimicking of brands if they parody multiple marks rather than just one. The court, however, did state that a parody may well constitute dilution if the mark “is so similar to the famous mark that it likely could be construed as actual use of the famous mark itself.”\textsuperscript{91} There is no doubt that a parody is impossible without using a logo and/or name similar to the famous mark.\textsuperscript{92} It will be interesting to see where courts will draw the line between successful parodies, on one hand, and, on the other hand, those cases in which the owner of a junior mark, while intending to create an association with a famous mark in a somewhat funny way, merely uses that association to increase sales of its own products rather than to parody the famous mark owner or its products.

\textsuperscript{87} See Bernstein, \textit{supra} note 36, at 15, referring to the TDRA’s definition of fair use, which explicitly excludes from use “as a designation of source.” 15 U.S.C.A. § 1125(o)(3)(A).

\textsuperscript{88} Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC, 84 U.S.P.Q.2d (BNA) 1969 (4th Cir. 2007). The court also rejected an infringement claim by applying the likelihood of confusion factors, which were impacted by the fact that it was a parody use; it further rejected a trade dress and a copyright infringement claim based on “fair use” grounds.

\textsuperscript{89} \textit{Id.} at 1979. The court even stated that “by making the famous mark object of the parody, a successful parody might actually enhance the famous mark’s distinctiveness by making it an icon.”

\textsuperscript{90} \textit{Id.} at 1974. This should mean that, in consequence, such an enhanced parody is less likely to dilute a famous mark.

\textsuperscript{91} \textit{Id.} at 1979.

\textsuperscript{92} See Dan Bereskin, \textit{Afterthoughts}, 193 Trademark World 66 (2007), with reference to the \textit{Louis Vuitton} case.
7. Application of the TDRA to Pending Cases

The TDRA applies to claims that arose after its implementation in October 2006 (i.e., if the mark’s first use commenced after that date) and to those claims arising prior to its implementation if only an injunction is sought. Instead, the FTDA applies to those pre-October 2006 claims if damages are also sought. This leaves owners of famous marks with the option to drop damages claims in “old” suits in order to enjoy the more favorable TDRA requirements.

IV. THE “ANTI-DILUTION” LAW IN THE E.U.

The European Union is a dynamic and growing community of countries becoming more and more relevant, not only as a strong economic power, but also as an enlarging territory with increasingly harmonized law. At this writing, the E.U. includes Bulgaria and Romania, which were admitted in 2007, and totals 27 member countries. It now encompasses a significantly larger territory and force than the E.U.’s initial circle of ten countries—and Turkey, Croatia and the Former Yugoslav Republic of Macedonia are already lined up as the next member countries.

All E.U. member countries have their own national laws, including national trademark law. However, these laws are affected by two different types of E.U. acts, which are legally binding on them: (1) E.U. regulations, which are directly applicable (self-executing) law in the member countries; and (2) E.U. directives, which require implementation into national law by each member country to achieve a certain level of harmonization within the E.U.

With respect to trademark law, the E.U. Council has passed two laws that are of specific relevance: the Community Trade Mark Regulation and the E.U. Directive. Both laws include provisions on the protection of “marks with a reputation” against misuse on dissimilar goods or services that “takes unfair

94. When the E.U. Directive passed in 1998, the E.U. was called the European Community; nevertheless, the statute is widely referred to as the E.U.-Directive, and this is therefore the name used here.
95. Of the European countries, only Switzerland, Norway, Iceland, the remaining former Yugoslavian states, Belarus, Ukraine and Russia are neither E.U. member countries nor current candidate countries.
96. See Chong, supra note 4, at 664.
98. See supra note 8.
advantage of or is detrimental to the distinctive character or the repute of the trade mark.”99 While these provisions do not make use of the term “dilution,” they encompass the typical scenarios covered by the dilution laws existing in several European countries when the provisions were enacted and later in the United States, and are therefore commonly referred to as E.U. “anti-dilution laws.”100 These statutes are highly relevant to the dilution laws in the member countries. Although most of the dilution provisions are optional, all pre-2004 E.U. member countries have adopted their wording.101 As the decisions of the European Court of Justice (ECJ) interpreting these provisions are binding for the member countries, the adoption of these optional provisions can limit the member countries to a greater extent than the wording may have suggested.102 With further decisions of the ECJ to come, the room for interpretation of the adopted laws by the national courts is likely to become more and more limited, raising the degree of harmonization among the E.U. member countries.

A. The Community Trademark Regulation of 1994

The CTMR has created a new, centralized system of unitary trademark registrations that enjoy E.U.-wide protection, called the Community Trade Mark or CTM. Although it is possible to link the CTM system with the national trademark registration systems in the E.U. member countries,103 the CTM is mainly an alternative or additional option to national trademark applications and to the possibility of extending protection through the Madrid Agreement and Protocol. Except for the persuasive value of decisions by the E.U. Trademark Office104 on the registrability of marks as CTMs, the CTMR and its registration system have no direct impact on the

99. See CTMR arts. 8(5), 9(1)(c); E.U. Directive arts. 4(4)(a), 5(2).
100. See McCarthy, supra note 21, at 1164. This term will also be used here when referring to the relevant E.U. provisions, although they include the aspect of “taking unfair advantage,” which is, strictly speaking, not a situation of dilution as understood under U.S. law, as it does not require any negative impact on the mark’s distinctiveness or reputation.
101. See id. at 1163. Most of the newer members have also some form of dilution protection in their laws, though not necessarily the wording of Article 5(2) of the E.U. Directive, which is mirrored in the law of Turkey, a country that is not yet a member of the E.U. See Welkowitz, supra note 7, at 176-77 (Supp. 2006).
102. See Adidas-Salomon AG v. Fitnessworld Trading Ltd., supra note 20, para. 20, in which the ECJ required all member countries that implemented Article 5(2) of the E.U. Directive to interpret this provision despite its wording, which covers only dissimilar goods, in a way that mandates that dilution protection is also given to similar goods. See Welkowitz, supra note 7, at 171 (Supp. 2006).
103. A CTM application may be based on prior registrations in E.U. member countries and claim their priority (Article 29) or seniority (Article 34); it may also be converted into national applications when refused by the CTM Trademark Office (Articles 108–10).
104. Office for Harmonization in the Internal Market (OHIM).
national trademark laws of the E.U. member countries. Furthermore, the dilution provisions in CTMR Article 8(5) (allowing opposition to a CTM application that dilutes a prior national or CTM right) and CTMR Article 9(1) (providing the owner of a CTM registration with the right to prevent dilutive uses of its E.U.-wide registered mark)\(^{105}\) are virtually identical to the parallel provisions in the E.U. Directive. Also, when implementing the CTMR, the OHIM follows precedent from the ECJ in interpreting the E.U. Directive.\(^{106}\) For these reasons, this discussion of the E.U. dilution law concentrates on the relevant provisions in the E.U. Directive.


Articles 4 and 5 of the E.U. Directive are the provisions most relevant to dilution protection. Article 5(2) covers the protection against dilutive use by a junior mark, while Article 4 deals with dilution as a ground for rejection of a trademark application. Article 4 differentiates between the dilution of national marks and the dilution of CTMs. Paragraph 3 of that article makes dilution a mandatory ground for rejection of a mark that is identical or similar to an earlier CTM that has a reputation in the Community.\(^{107}\) Paragraph 4(a) makes it optional for E.U. member countries to refuse registration on the ground of dilution of an earlier national mark that has a reputation in the E.U. member country concerned. The relevant language in the infringement provision relating to dilution, Article 5(2),\(^{108}\) is virtually identical to that in the dilution provision regarding registration. Like Article 4(4)(a), it makes clear that it is optional for the E.U. member countries to provide protection against dilutive uses. Article 5(2) states:

---

105. A claim that has to be brought into those national courts of the E.U. member countries that they have designated as “Community Trade Mark Courts,” depending on the location of the defendant, or alternatively, on the location of the plaintiff or the place of infringement. See E.U. Directive, Arts. 91-94.


107. The term “reputation in the Community” has not yet been defined by the ECJ, but it should suffice that the required reputation exists in a substantial part of the E.U. and is not be required to exist throughout the entire E.U. See Mostert, *supra* note 4, at 1-31, n.83.

108. The mandatory protection under Article 5(1)(b) was also considered as offering dilution protection because of its language “likelihood of association,” but the ECJ made clear in its decision in Sabel BV v. Puma AG, Rudolf Dassler Sport, [1997] E.C.R. I-6191 (E.C.J. 1997), that this likelihood of association is merely a subtype of likelihood of confusion, and therefore does not waive the need for confusion. See Welkowitz, *supra* note 7, at 170 (Supp. 2006).
Any Member State may also provide that the proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade any sign which is identical with, or similar to, the trade mark in relation to goods or services which are not similar to those for which the trade mark is registered, where the latter has a reputation in the Member State and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.

These provisions limit dilution protection to registered marks only, and thereby require from the E.U. member countries a lower level of protection than that suggested in the Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks, which requires protection of well-known marks irrespective of whether they are in use or registered in the respective country. The E.U. member countries are, however, free to offer a higher level of protection against dilution and grant such protection to unregistered marks as well.

1. Marks Having a Reputation

According to Article 5(2), only a mark that “has a reputation in the Member State” qualifies for the broader protection against misuse in relation to dissimilar goods. While Article 5(2) does not provide a definition for the term “having a reputation,” nor specify how this term compares to the terms “well-known” and “famous” as used in the Paris Convention and the TDRA, it does not appear to include a qualitative aspect that would require a “positive” reputation regarding the high quality of the products concerned. It can be concluded, from the choice of words in the German-language version (“bekannt,” meaning “known,” instead of “notorisch bekannt,” meaning “well-known”) and the French-language version (“renommée,” meaning “known,” instead of “noirement connue,” meaning “well-known”) of the E.U. Directive, that, by contrast with Article 6bis of the Paris Convention, the protection was not intended to be limited to well-known and famous marks only, but should also apply to “known” marks with a slightly lower level of reputation or market


111. See, for example, the German trademark law, recognizing the possibility for unregistered marks to acquire trademark status and the extended protection as known marks through market recognition.
recognition. However, the relevant ECJ decision, however, stated only that the mark needs to be known by a significant part of the public, without specifying any specific percentage of the relevant public as a requirement. Instead, the court mandated that all the relevant facts of the case must be considered, and in particular the following five factors: (1) the market share held by the trademark; (2) the intensity, (3) geographical extent and (4) duration of its use; and (5) the size of the investment made by the undertaking in promoting it. This approach leaves it open to the courts to consider further factors and accept surveys as direct evidence of a high level of reputation.

The ECJ has given a clear interpretation of the E.U. Directive with respect to the relevant circles of consumers and the territory in which the mark has to have a reputation: The mark must be "known by a significant part of the public concerned by the [covered] products or services . . . in a substantial part of [the nation].” Because of this clarification by the ECJ, it appears mandatory for the E.U. member countries to provide protection under the concept of “niche fame.” Thus, reputation throughout the entire nation cannot be required by the E.U. member countries that have adopted Article 5(2). Also, E.U. member countries may not exclude from anti-dilution protection those marks that have the required reputation only among a “specialized public” consisting only of the trading circles for a specific product. However, the ECJ requires a balancing of all relevant facts of the case. As there are no precise directives regarding the required level of reputation—within whatever area or consumer circles—the E.U. member countries and their courts appear to have some flexibility as to the degree of a mark’s reputation that they require for protection against dilution. Letting recognition among specialized consumers suffice, it appears justified to require a

112. See, e.g., Mostert, supra note 4, at 1-32, citing the decision in General Motors Corp. v. Yplon S.A., [1999] E.C.R. I-5421 (E.C.J. 1999), which states that a “well-known” mark is clearly distinguished from a “mark with a reputation”; similarly, Sabine Casparie-Kerdel, Dilution Disguised: Has the Concept of Trade Mark Dilution Made Its Way into the Laws of Europe, 4 EIPR 185, 192 (2001).

113. General Motors, para. 27.

114. See McCarthy, supra note 21, at 1173.

115. Id. In Germany, for example, some see the relevant minimum threshold of recognition at around 30% (Ingerl/Rohnke, supra note 16, sn.810); others require a minimum recognition of 50% (Wolfgang Berlit, Markenrecht (“Trademark Law”) sn.193 (6th ed. 2002), and German courts have granted dilution protection to marks that were known to 30% to 56% of the concerned public (see Büscher, in Mostert, supra note 7, at 4-178).


117. Id. at para. 24. However, the relevant goods in that case were general consumer goods. See McCarthy, supra note 21, at 1173-74.
higher entry level of actual recognition than the sometimes accepted recognition levels of only 30 percent.

Furthermore, courts in Europe have ways to prevent the misuse of the niche market concept. The German Supreme Court, for example, denied dilution protection to a mark that was sufficiently known only among a “specialized” group of buyers of luxury articles. Although the senior mark FABERGE, protected for “soaps, perfumery, glasses, [and] jewellery items,” was used only in the luxury segment of the market for such goods, the court required sufficient reputation among the public at large to be the relevant universe for such household products.118 This shows that courts can reject the trademark owner’s efforts to create artificially narrow consumer groups that would allow them to apply dilution protection in cases where the mark is not sufficiently known among the broader relevant consumer circles.

Application of the niche market concept is also geographically restricted, as the E.U. member countries have to grant anti-dilution protection only to marks that have a reputation in a substantial part of the member country.119 A high reputation only in the “old” German states (the pre-reunification states as of 1990) has been considered as sufficient for nationwide protection as a known mark.120 A reputation that is limited to a city and its surroundings, however, has been held insufficient.121 The ECJ has not yet clarified whether marks with a reputation in only one member country or a substantial part of it are granted dilution protection only in that specific territory or E.U.-wide.122

119. See General Motors, para. 28. As far as the reputation of a CTM registration is concerned, several E.U. courts, particularly in the United Kingdom and Germany, as well as the OHIM let suffice that the mark has such reputation in one E.U. member country, whereas courts in other E.U. member countries require that the mark is sufficiently known at least in two E.U. member countries. See Verena von Bomhard, Wo muss die Gemeinschaftsmarke bekannt sein, um bekannt zu sein? - Zur “Pago International” Vorlage zum EuGH, Lovells IPunkt Newsletter Sept./Oct. 2007, available at http://www.lovells.com/Lovells/Publications/Newsletters/1149/listing.html, referring to a decision of the [French] Tribunal de Grande Instance of January 11, 2006—CLINIQUE. In view of this inconsistency among E.U. courts, the Austrian Supreme Court (“Österreichischer Oberster Gerichtshof” [OGH]) recently submitted this question to the ECJ for its decision.
122. See, for CTMs, Bomhard, supra note 119, who suggests limiting the rights in these cases to the specific E.U. member country in which the mark enjoys the reputation.
2. Level of Similarity Between the Marks

With respect to the level of similarity between the marks that Article 5(2) requires, the ECJ has only held that the marks must be sufficiently similar to cause the relevant public to establish a link between the marks, but that this link does not have to create a likelihood of confusion. The ECJ has, however, not yet defined which level of similarity is sufficient to cause such a “dilution-relevant” link. Thus, the courts in each E.U. member country are free to interpret this requirement. This has led to different European courts’ requiring different degrees of similarity for dilution claims, some requiring identity of the marks and others requiring a sliding degree of similarity, as in cases of trademark infringement.

3. Inclusion of Cases of Similar Goods and Services

While Article 5(2) explicitly provides protection for marks with a reputation against use of a junior mark “in relation to goods or services which are not similar to those for which the [senior] mark is registered,” the ECJ held in Davidoff that a member country is entitled to provide protection under Article 5(2) also in cases where the goods covered under the respective marks are identical or similar. The court stated that a mark with a reputation must enjoy at least the same scope of protection when used for similar goods as when it is used for non-similar goods or services. In its Adidas decision, the ECJ went even one step further and made this extension of Article 5(2) to cases of similar goods mandatory for those E.U. member countries that had adopted the optional Article 5(2). Thus, all pre-2004 E.U. member countries are barred from excluding “similar goods” cases from dilution protection.

It has to be noted, however, that “similar” goods might have a different meaning under E.U. law than it does under U.S. law. This difference results from the category of “related” goods, i.e., those goods that in the narrow meaning of the term “similar” are not similar to the goods of the famous mark but that can nevertheless create a likelihood of confusion. The ECJ stated in its Canon decision that likelihood of confusion under E.U. law is not limited to cases where the public believes that the products have the same source of origin, but also includes cases in which the

---

125. See Adidas, in particular paras. 20-22.
126. Welkowitz, supra note 7, at 171 (Supp. 2006).
The public believes that the products come from “economically linked undertakings.”\textsuperscript{127} The court did not explain, however, which situations would establish such an economic link. Although the term “economically linked” could be understood to include cases of confusion as to sponsorship, affiliation and business connection, as the U.S. law does,\textsuperscript{128} a more restrictive interpretation that excludes cases of assumed sponsorship or licensing and limits the confusion concept to cases of organizational economic ties (\textit{i.e.}, subsidiaries, corporate affiliates, dealerships) appears possible as well.

Such a restrictive interpretation leaves marks without protection against uses that are not confusing as to the source of the products. This void can be compensated for through application of the dilution concept, which requires that the senior mark be well known and, therefore, excludes uses by others that “only” invoke an assumption of sponsorship, licensing or other authorization.\textsuperscript{129}

\section*{4. Unfair Advantage or Detriment to Distinctiveness or Repute}

The core of the dilution concept as implemented by the E.U. Directive is reflected in the wording “takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.” Thus, four different cases are paramount:

\begin{itemize}
  \item Taking unfair advantage of the distinctive character;
  \item Being detrimental to the distinctive character;
  \item Taking unfair advantage of the reputation; and
  \item Being detrimental to the reputation.
\end{itemize}

The ECJ, besides stating that detriment is more likely the higher the mark’s reputation,\textsuperscript{130} has not yet given further interpretation to any of these categories of dilution.\textsuperscript{131} Because there is no bright line separating these cases from one another, a violation of more than one dilution category through the same

\begin{thebibliography}{9}
\bibitem{128} McCarthy, supra note 21, at 1171-72.
\bibitem{129} German courts have applied this restrictive interpretation of the ECJ decision and consider the licensing practice in the respective industry—with the exception of functionally related products—as irrelevant for a likelihood of confusion; instead, these cases are covered solely under the German dilution principle. See the more detailed discussion \textit{infra} Part IV.B.6.
\bibitem{130} See General Motors Corp. v. Yplon S.A., [1999] E.C.R. I-5421, para. 30 (E.C.J. 1999); Mostert, supra note 4, at 1-111 & n.258, who applies this rule also to cases of unfair advantage in view of decisions by the OHIM in opposition proceedings.
\bibitem{131} See Welkowitz, supra note 7, at 172 (Supp. 2006); Mostert, supra note 4, at 1-110.
\end{thebibliography}
activity appears possible. However, the four categories can be split into two groups. Those cases that require “detriment” are similar to the cases that fall into the dilution categories of “blurring” and “tarnishment” under the U.S. dilution law. Those involving the concept of “taking unfair advantage” (of the distinctive character or repute of the mark) appear similar to the notion of “misappropriation” and “unjust enrichment,” as they include “instances where there is clear exploitation and free-riding on the coattails of a famous mark or an attempt to trade upon its reputation.” Nevertheless, in the absence of pertinent ECJ decisions, it is still under the authority of the national courts of the E.U. member countries that have adopted Article 5(2) to define these terms.

a. Detrimental to Distinctiveness (Blurring)

This category protects the attractiveness and marketing value of the known mark rather than its esteem. A lower level of inherent distinctiveness can be compensated for by a higher degree of recognition. Blurring is impossible if the mark is already blurred by third-party uses of the mark; however, use by a few others in remote product categories does not prevent a claim for blurring against a use in a closer product category. Blurring requires a higher degree of mark similarity; typically, the marks are identical or virtually identical.

With respect to the category of blurring (but also for the other category of detriment, the tarnishment category), it is prohibited to use a mark in a way that is detrimental to the distinctiveness (or, in the tarnishment category, to the esteem) of the reputed mark. While this wording suggests that actual harm must have already materialized, it is predominantly held as blurring if the harm to

132. Compare, for the German law, Karl-Heinz Fezer, Markenrecht (“Trademark Law”) § 14 sn.440 (2d ed. 1999), referring to the decision of the Regional Court of Hamburg in Ferrari, in which misuse of the FERRARI mark was considered as both unfair exploitation of the reputation and as detrimental to the distinctiveness.

133. Mostert, supra note 4, at 1-112.

134. Id. at 1-115.


136. In order to give these terms some meaning, and as it is impossible within this article to discuss the interpretation and application of Article 5(2) under the laws of all E.U. member countries, the focus in this discussion will be on its current interpretation under German law.

137. Fezer, supra note 132, sn.427.


139. Id. sn.872.

140. Id. sn.871.
the mark’s distinctiveness is of a high likelihood (i.e., if it is, so to speak, “tangible”).\(^{141}\) This requirement is meant to exclude cases of a more theoretical, remote likelihood of harm from the scope of this category.\(^{142}\)

A specific intent of the junior user to harm the known mark’s distinctiveness is not required for this category.\(^{143}\) It is argued, however, that such intent can be considered as an indication that use of the junior mark is capable of harming the known mark’s distinctiveness where the junior user plans to affect negatively the business under the senior mark.\(^{144}\) Such an exception would be similar to blurring factor 5 under the TDRA, which considers the intent to create an association between the marks as one of the possibly relevant blurring factors.

**b. Taking Unfair Advantage of Distinctiveness**

A mark takes unfair advantage of a known mark’s distinctiveness if its use creates an association with the senior mark, and thereby gets attention it would not have attracted otherwise.\(^{145}\) This category is of relevance because it prohibits such use by a junior mark without requiring evidence of the high esteem of the senior mark.\(^{146}\) It therefore can cover cases in which the junior user does not even intend to create a positive association (as in the category of exploitation of the esteem), but merely intends to get attention, which can happen through decorative use of known marks, by making fun of a known mark or even through tarnishing use.\(^{147}\) Creating the incorrect impression of an economic connection between the junior and the senior user, such as an authorized reseller or a cosponsor, can be sufficient for this type of dilution.\(^{148}\)

Trademark parodies also fall into this category—or, as well, into the category of misappropriation of esteem—unless the use of the known mark appears merely nominative.\(^{149}\) However, parodies

---

143. *Id.* sn.865.
144. *Id.*
145. *Kleiner Feigling, supra* note 141, at 341 (referring to BGH, 2000 GRUR 875, 877 — *Davidoff*).
147. *Id.*
148. BGH, 2006 GRUR 329, 332 — *Ferrari* Horse.
can be justified on constitutional grounds, specifically the right to free speech.\textsuperscript{150}

Cases of domain name grabbing can fall into this category, because a known trademark typically is used as a third party’s domain name to take advantage of the senior mark’s marketing value, that is, its distinctiveness, in order to attract customers.\textsuperscript{151} The inherent misdirection of customers by the domain name can at the same time fulfill the requirements for the blurring category. In a case in which customers looking for the website of the senior mark’s owner unknowingly accessed the junior owner’s website, resulting in the fact that the senior owner was prevented from using his own trademark as his website address, the court held that the junior owner’s misdirection of customers harmed the senior mark’s distinctiveness.\textsuperscript{152}

c. Taking Unfair Advantage of Repute/Esteem

The esteem (or “repute,” as it is termed in the E.U. Directive) of a mark encompasses the goodwill that the public attaches to a mark (in other words, the positive image that exists in the consumer’s mind as a result of good experiences and positive connotations).\textsuperscript{153} Esteem can be based on the product quality; positive characteristics of the manufacturer/distributor (such as size, history, tradition, success or production potential); or expectations of luxury, exclusivity or prestige.\textsuperscript{154} Such positive image also requires a high recognition of the senior mark, because it is this high recognition that allows for the commercialization of the esteem.\textsuperscript{155}

A mark takes unfair advantage of the senior mark’s esteem if it creates an “image transfer,” that is, the transfer of the senior mark’s positive connotation to the products offered under the junior mark.\textsuperscript{156} To be deemed as taking unfair advantage, this image transfer must result in the consumer’s expectation that the product under the junior mark is of the same quality or offers the same characteristics as the senior mark’s products.\textsuperscript{157} For the

\textsuperscript{150.} Compare Fezer, supra note 132, sn.436. This is discussed in more detail in the section on due cause; see infra Part IV.B.5.

\textsuperscript{151.} Ingerl/Rohnke, supra note 16, sn.106.

\textsuperscript{152.} See the German Supreme Court, BGH, 2002 GRUR 622, 625 — shell.de.

\textsuperscript{153.} Büscher, in Mostert, supra note 4, at 4-188.

\textsuperscript{154.} Ingerl/Rohnke, supra note 16, sn.847.

\textsuperscript{155.} Kleiner Feigling, supra note 141, at 341 (referring to Ingerl/Rohnke, supra note 16, sn.848).

\textsuperscript{156.} Fezer, supra note 132, sn.425; Ingerl/Rohnke, supra note 16, sn.850.

\textsuperscript{157.} Kleiner Feigling, supra note 141.
determination of whether the positive image is transferable, the following criteria can be relevant:

- Similarity of goods or services;
- Overlap of consumer circles;
- Similar price range;
- Whether characteristics of positive image relate to junior products; and
- Joint marketing presentations.\(^{158}\)

An image transfer should be less likely among specialized consumers who realize the lack of connection between the products and/or companies.\(^{159}\) While such consumer awareness is capable of blurring the mark’s distinctiveness, it should prevent the exploitation of the mark’s esteem.

Transferability does not necessarily require a lower quality of the junior mark’s products, as products that are equally high in quality to the senior mark’s products can also gain esteem or attractiveness.\(^{160}\) This distinction shows clearly that harm to the senior user’s reputation or to his mark’s distinctiveness is not required for this dilution category, which is based on the “harmless” concept of free-riding.

d. Detriment to Esteem/Tarnishment (“Rufschädigung”)

This category requires a negative image transfer to the senior mark by evoking associations that reflect negatively on the known mark.\(^{161}\) Although courts have required a concrete risk of such negative image transfer rather than a merely remote possibility,\(^{162}\) tarnishment is considered the dilution category that can be most easily evidenced.\(^{163}\) Typical cases are use of the mark for inferior products, use of the mark for products that do not fit with the products marketed under the known mark (e.g., condoms/candy or condoms/cosmetics)\(^{164}\) or use in a disparaging form or context or by a company that “enjoys” a clearly negative image.\(^{165}\) By contrast with the other dilution categories, here, not only are the buyers or

---

159. *Id.*, citing OLG Frankfurt, 1995 GRUR 154, 155 — *Boss*.
160. *Id.* sn.850.
162. *See* BGH, 1999 GRUR 161 — *MAC Dog*.
users of the junior mark’s products relevant, but the consumers of the senior mark’s products are relevant as well.

5. Without Due Cause

All four categories of dilution are limited by the possibility that the junior user may show due cause justifying the dilutive use of the mark. Such justifications can arise from constitutional rights, such as freedom of speech or artistic expression, or from E.U. principles of law, such as the free movement of goods.\(^{166}\) The ECJ has not yet decided whether a referential use of another’s trademark (“nominative use” under U.S. law) shall be considered as a non-trademark use or as a due cause defense.\(^{167}\) Thus, liability for a “nominative” use of a trademark within a parody may already be denied based on a lack of “use as a trademark,” provided there is no substantial part of the public that considers the parody as originating from the trademark owner or as authorized by him.

Particularly in cases of trademark parodies, satires and criticism, use of the mark may be allowed under the right to free speech, provided such use does not cross the border of being merely disparaging.\(^{168}\) This difficult distinction requires basically a balancing of the trademark owner’s property rights and the constitutional right of free speech or artistic expression. To be successful, the parody defense requires, first, that the junior user deal with the product or company identified by the mark, rather than use the mark only to gain attention.\(^{169}\) All relevant factors of the individual case should be considered, such as the form, length of time, intensity and addressees of the criticism, as well as the degree of truth, the reason for the criticism and the public interest in a dispute of the topic.\(^{170}\) It can also become relevant whether the parody or satire argument only pretends to initiate a discussion but is obviously used solely to sell a product that would otherwise be nearly unsellable.\(^{171}\)

---

166. Fezer, supra note 132, sn.429.

167. Compare Ingerl/Rohnke, supra note 16, snn.157-63, promoting that such use be considered under German law as a non-trademark use rather than using the fair use defense.

168. Compare Fezer, supra note 132, snn.429, 436.


171. See Christian Born, Zur Zulässigkeit einer humorvollen Markenparodie — Anmerkung zum Urteil des BGH “Lila Postkarte,” 2006 GRUR Int’l 419, 424, interpreting the BGH decision in Lila Postkarte and referring to a decision of the OLG Hamburg (1998 NJW-RR 1121 — Shell Skull and Bones) in which the criticism defense was denied owing to the length of time that had passed since the public discussion about the practices of the Shell company.
If the parody or criticism is more harmless than defaming, the decision will likely favor the free speech defense. 172 The free speech right tends to prevail particularly when the parody or satire is likely to be understood by the audience and considered as funny or as a reasonable criticism rather than as disparaging. 173 This nuance might not always be definable, as it depends on the perspective of the relevant audience and its particular sense of humor (i.e., whether the parody is good for a laugh or beyond the limits of good taste). However, it appears that the quality of the parody, criticism or referential work does influence the decision. The fact that the user uses the parody predominantly for commercial purposes should not weigh against the justification of the parody. 174

6. Dilution Protection and Related Goods Doctrine

It is important to note that at least some E.U. member countries do not recognize the concept that use of marks for dissimilar goods or services can create confusion in cases where the goods or services can be considered as being related as a result of assumed sponsorship or licensing. 175 According to this view, there is an “absolute limit of product similarity,” which cannot be overcome or moved by the strength of a mark; 176 a licensing practice common in that specific industry does not, on principle, affect the determination of whether goods are considered similar, and therefore can not be the basis for a confusion-based infringement claim. 177 A narrow exception could be made where the products are either “functionally related” (i.e., where the consumer will not only assume an image transfer but also a know-how transfer), 178 or aesthetically complementary (i.e., where one product is indispensable or important for the use of the other and

172. Compare Born, supra note 171, at 194.
173. See BGH, 2005 GRUR 583, 584 — Lila Postkarte.
174. See the German Supreme Court, id. Contra Ingerl/Rohnke, supra note 16, sn.174; Rohnke, Bott, Jonas & Asschenfeldt, supra note 170, at 424.
175. See BGH, 2002 GRUR 544, 546 — Bank 24, interpreting the decision of the ECJ in Canon Kabushiki Kaisha v. Metro-Goldwyn Mayer, Inc., [1998] E.C.R. I-05507, para. 29 (E.C.J. 1998), as supporting the absolute limit of product similarity. The German Supreme Court held that perfume and leather products are dissimilar, and that the outer boundary of similarity cannot be overcome by a licensing practice in the leather industry that includes perfumes; see BGH, 2006 GRUR 941, 942 para. 14 — Tosca Blu.
176. Tosca Blu, supra note 175.
177. Id. The European Court of First Instance has “confirmed” this view holding that there can only be a likelihood of confusion when consumers believe that the products originate from the same or an affiliated company, Mühlhens GmbH & Co. v. OHIM, Case T-150/2004, paras. 33-34 (2007).
178. Tosca Blu, supra note 175.
where the consumer considers it ordinary and natural to use these products together). A common licensing practice alone—even if known to the consumers—is not sufficient to create the product similarity that is required for an infringement claim.

While European courts do recognize the need to protect the owner’s ability to make use of its mark’s positive reputation by licensing it for use on dissimilar goods, these cases have been excluded from the confusion concept and referred to the dilution concept as the only available remedy. A possible business relationship between a reseller and the famous trademark owner, and the potential impression of cosponsoring, have then to be considered under the dilution regime and not under the confusion concept. This shows why a broader dilution concept under E.U. law is highly important: Otherwise, marks would remain unprotected against misuse for dissimilar but “related” goods that merely lead to the consumer’s assumption of sponsorship or licensing by the owner of the senior mark. The E.U. dilution concept offers a way to close this gap for those marks that enjoy an increased reputation or market recognition. It does not, however, protect marks against misuse outside the limited range of product similarity if the mark lacks an increased level of recognition. The implications of this solution in comparison to the U.S. concept, and the question of which approach appears more appropriate, are discussed in the following section.

V. THE TDRA AND EUROPEAN DILUTION LAW COMPARED

This section contrasts the TDRA with the European dilution concept. The comparison shows that some of the seemingly obvious differences have limited consequences, and that the concepts are closer than a first view suggests.

A. Eligible Marks

The TDRA differs from E.U. law in that it limits dilution protection to marks that are famous among the general consuming public of the entire country.

179. See the European Court of First Instance, Mühlhens, paras. 35-37, for perfumes on one hand versus leather and clothing products on the other hand.
180. Id. paras. 37-38.
181. See, for example, the German Supreme Court in Tosca Blu, supra note 175.
182. Id.
1. Famous Marks

Compared to the broader terminology used in E.U. law, it is striking that U.S. dilution law covers only famous marks. This appears to exclude marks that are only known or well known or that have a reputation. However, there is no clear distinction between these categories of marks, which all have a higher level of distinctiveness or recognition than the average mark. It is not even clear that a famous mark under U.S. law must necessarily be more widely known than a mark with a reputation under E.U. law. While surveys help to determine the level of actual market recognition and to decide whether a mark is eligible for the extended protection, there is no specific percentage that indicates “yes” or “no.”

Nonetheless, even taking the lack of preciseness of the terminology into account, the limitation to “truly famous” marks only under U.S. law creates a considerable difference with E.U. law. The relevance of this difference becomes more obvious when one considers the further limitation under U.S. law that a mark must be “widely recognized by the general consuming public of the United States.”

2. Niche Fame

The law in the European Union tends more toward the other end of the scale, as it also provides protection against dilution for marks that are only broadly known among specialized consumer circles.

a. Protection for Investment in Famous Niche Marks?

There is no doubt that niche market fame does actually exist. It appears mainly a question of public policy whether the special remedy of anti-dilution law covers such cases. While the purpose of U.S. trademark law is the protection of both trademark owners and consumers against the consumers’ confusion about the origin of products, the justification of anti-dilution law lies in the protection of the trademark owner’s goodwill and the mark’s value beyond source identification. Considering dilution law as

---

185. Similarly, 4 McCarthy, McCarthy on Trademarks, supra note 27, § 24:105, who believes that the niche fame doctrine could “deform and displace” the traditional likelihood of confusion concept.
186. See Welkowitz, supra note 7, at 4-5.
protection for the owner’s investment in his mark,187 a limitation of eligible marks to those known among the general consuming public, excluding niche fame marks, does not appear mandated.

The owner of a mark that is “only” widely known among a specialized public must also have invested considerably in his mark to achieve the status of a well-known mark in the relevant market segment. The absolute amounts spent on marketing such niche brands are likely smaller than those invested in a “supermark” that is known to the public at large. The owner of the niche mark might nevertheless deserve protection, considering his investment in the mark in relation to the size of his business. The question of whether famous niche marks should be protected will therefore depend on whether the owner’s interest in protecting his investment deserves protection by the dilution law. The answer must consider that protection for famous niche marks will take the respective marks out of the public domain, and that this will limit both competitors and others in their use of a similar or identical mark. In order to balance the respective rights appropriately, we first need to define which cases the niche fame concept encompasses.

b. No Need for Niche Fame Protection?

In the United States, the niche fame concept has been applied to prevent use of a similar mark in the same niche, namely, in the same discrete industry or small geographic area.188 Critics of the niche fame concept argue that in such cases the owner of the famous niche mark could prevent use of a junior mark by using traditional infringement rules; applying the dilution doctrine would not be necessary and could only compromise the viability of the entire dilution principle.189

This criticism, while valid under this narrow definition of niche markets and the limitation to the same niche market, does not necessarily require that the fame must exist in the broadest possible audience, the consuming public at large. First, limiting the protection of marks with niche fame only to cases where similar marks are used in the same market does not appear adequate. Use of a junior mark in a different segment of the public than in the niche of fame could also impair the distinctiveness of a famous niche product. The image of the niche mark can become blurred by use in the different market segment as long as there is some overlap between the respective consumers. If the consumers

187. See id.
189. Id. at 1122, with reference to 4 McCarthy, McCarthy on Trademarks, supra note 27, § 24:105.
of the famous niche product notice that there are other products available under the same or similar mark that are unrelated to the famous product, the niche mark’s distinctiveness can be harmed. In particular, if the mark with niche fame is used for a new household product, such use might not result in confusion but could very well impair the distinctiveness of the famous niche mark.\(^{190}\) The argument that niche fame protection is unnecessary because the relevant cases are covered by the confusion concept is therefore not convincing. It is based on too narrow a definition of the scope of protection.

That a famous niche mark can be harmed by its use outside the niche might be even more obvious in cases of tarnishment, which are now explicitly listed in the TDRA as the second dilution alternative, beside cases of blurring. The high esteem of the niche mark can obviously be harmed only in the minds of the consumers and buyers within the specialized niche market. While a competitor in the same niche could be interested in harming the niche product’s reputation, tarnishing is often, if not typically, caused by non-competitors. Thus, there is no reason to limit the protection of niche fame marks against tarnishment to only tarnishing uses by competitors in the same niche. As long as the specialized consumers become aware of the tarnishing use outside the niche, the mark’s high reputation can be harmed. Thus, in view of the tarnishment alternative, there is even less reason to limit the protection for famous niche marks to misuse in the same niche.

c. Niche Fame Concept and the Specialized Public Standard

The niche fame concept, as applied by some courts in interpretation of the FTDA, offers significant flexibility. The question is broader than just whether to grant dilution protection extensively to marks that enjoy fame only in a small area or a discrete industry, or to limit such protection narrowly by reserving it to only those marks that are known by the public at large. There are also intermediate options within that spectrum. Focusing on a specialized public does not necessarily mean basing dilution

\(^{190}\) But see 4 McCarthy, McCarthy on Trademarks, supra note 27, § 24:105, with reference to Restatement (Third) of Unfair Competition, § 25 cmt. (e) (1995), who appears to consider use of a mark in a market that is directed at a much broader audience as insufficient for dilution because most of the broader audience will not know the mark with niche fame. However, only looking at a broader—or even a different—audience as a whole would make the concept of niche fame irrelevant because it does not appear possible to blur a distinctiveness that does not sufficiently exist in that audience. Instead, we should look at the specialized audience and consider whether the image in this audience’s mind can be blurred by the junior use. This should be possible if the specialized public is also a relevant public for the product of the junior user.
protection on recognition in a remote area or a discrete industry segment. European law requires recognition in substantial geographic areas and significant industry segments.\textsuperscript{191} This should prevent the niche fame concept from being taken to its extreme and thereby undermined. It is also worth noting that some courts in Europe have denied dilution protection in cases where the high level of recognition existed only in a portion of the public that appeared artificially tailored.\textsuperscript{192} Thus, a more balanced application of the niche fame concept in the U.S. could have resulted in a higher level of acceptance of the dilution concept. This might have avoided the quite restrictive step taken by the TDRA—the limitation of the relevant universe to the general consuming public.

There is an additional reason under European trademark law to afford dilution protection also to marks known only among a specialized public. The confusion concept in the E.U. differs from U.S. law because it does not protect trademarks against use for “related goods.” If the products are dissimilar, trademark law in European countries does not necessarily offer protection under the traditional infringement theory for trademark confusion, even if the products are considered “related” under U.S. law.\textsuperscript{193} Cases that are covered under U.S. law as “confusion of sponsorship” or “confusion of approval” are thus actionable under European law only if the senior mark qualifies as a known mark. This makes it necessary to apply a more flexible standard than the TDRA’s “public at large” standard so that cases of assumed sponsorship or approval have a remedy if the mark is not well known among the general consuming public. Thus, a broader application of the dilution concept is reasonable, to prevent gaps of protection that would have otherwise been created by the more limited confusion concept.

However, this argument does not speak for application of the niche concept under U.S. law. The TDRA leaves no room for an interpretation that allows dilution protection for niche fame marks, and the niche fame concept is not as necessary under U.S. law because the relevant cases of assumed sponsorship or approval can be covered under the confusion doctrine. The solution under the TDRA also has the advantage of clarity, as it leaves no doubt as to which marks are eligible for dilution protection. Taking the public at large as the relevant universe represents a bright-line test that is easy to apply, produces clear results and should help to increase the general acceptance of the dilution concept. Thus,

\textsuperscript{191} Compare the similar requirements under E.U. law, supra Part IV.B.1.
\textsuperscript{192} See BGH, 2002 GRUR 340, 341 — Fabergé.
\textsuperscript{193} Compare supra Part IV.B.6.
under U.S. law, the general consuming public standard strikes an appropriate balance between the interest of the trademark owner in the protection of his investment in the mark and the desire of others to make use of the same or a similar mark, as long as such use does not confuse the consumers as to the origin of the products. This rationale is also supported by the Joint Recommendation, which explicitly allows E.U. member countries to adopt this more restrictive approach with respect to dilution protection.194

B. Dilution by Use on Similar Goods or Services

The wording of Article 5(2) of the E.U. Directive, covering only cases of goods or services that are not similar, seems to support a limitation of the dilution concept to cases where there is no likelihood of confusion. However, as the ECJ interprets Article 5(2) to include similar goods cases, it ends with the same result as the U.S. anti-dilution law.195 Still, this does not necessarily speak against a restrictive interpretation of the broad language in the TDRA, because the scope of the confusion concept in the E.U. is not identical to the U.S. concept. As indicated above,196 the meaning of “dissimilar” is not exactly the same under U.S. and E.U. law. Because the category of “related” goods falls under the confusion concept only if the consumer is likely to believe that the products come from “economically linked undertakings,”197 cases of assumed sponsorship or licensing might not be covered under the confusion doctrine. The European Court of First Instance, for example, has adopted this interpretation and denies protection under the confusion concept in cases of possible sponsorship or licensing even if the public is aware of a licensing practice that encompasses the products concerned.198 Thus, there are cases that under U.S. law would fall into the category of “related goods,” and therefore are encompassed in the likelihood of confusion standard, but that under E.U. law are considered as dissimilar, unrelated and beyond the scope of the confusion concept. This means that an extension of the dilution concept to cases of similar goods creates an overlap with the confusion concept that is more limited under the interpretation of the E.U. law199 than under the U.S. law.

The rationale behind this extension, however, is similar under both laws: A well-known or famous mark should not enjoy less

194. See Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks, supra note 110, art. 4(1)(c).
195. See supra Part IV.B.3.
196. See id.
197. ECJ in Canon, supra note 127, para. 29.
198. See supra Part IV.B.6.
199. See supra Part IV.B.3.
protection against its misuse for similar goods than for dissimilar goods. While this appears to be a just view, McCarthy is also right when he states that we do not need the dilution concept in most of these cases because they should qualify for protection under the confusion concept. Nevertheless, it may happen that the junior user takes precautions and successfully avoids a likelihood of confusion despite the similarity of the products and despite the reputation of the senior mark. Such cases appear quite possible, in particular when the marks are not identical.

**C. Related Goods: Coverage by Confusion or Dilution Concept?**

While Section 43(a) of the Lanham Act covers related goods cases under the confusion concept, the E.U. trademark law covers cases of assumed sponsorship or licensing under the dilution concept. The different treatment of these cases raises the question of whether they are more appropriately covered under the confusion or the dilution concept.

By granting protection only under the dilution concept, the E.U. law limits eligible marks to those that are known, that is, those marks that have an increased level of market recognition. This limitation sounds more drastic than it really is, because the European dilution concept does not limit the protection to the famous “supermarks,” as the TDRA does, but also grants dilution protection to marks that “only” have a reputation but that are not necessarily famous. By including even marks that enjoy this recognition only among specialized consumer circles, it offers much more flexibility to cover these cases under the broader dilution concept. Nevertheless, marks with just an average level of market recognition remain unprotected under E.U. trademark law against use by third parties for dissimilar products. This raises the question of whether the exclusion of marks with average distinctiveness is appropriate.

In cases of assumed sponsorship, a consumer will more often, if not always, assume that the owner of the senior mark has sponsored the junior mark’s use if the senior mark is well known or famous. Sponsoring is typically done by well-known companies; therefore, sponsorship is unlikely if the senior mark is not known to the public. Thus, confusion of sponsorship appears more correctly categorized as a type of protection for well-known marks.

---

200. McCarthy, supra note 21, at 1178.
201. See supra Part IV.B.6.
202. Compare, for example, 4 McCarthy, McCarthy on Trademarks, supra note 27, §§ 24:6, 24:7, citing many cases in which the confusion of sponsorship doctrine was applied to protect well-known or famous marks.
marks rather than a type of standard confusion protection that is available to all marks irrespective of their strength. Confusion of sponsorship is not a confusion regarding the product’s origin, but rather a confusion regarding the junior user’s authorization by the trademark owner.\textsuperscript{203} The object of confusion is the possible endorsement of the junior product by the senior user, the consumer’s assumption that the senior user gave permission to use its name in the marketing of the junior mark’s product, or that it even supports the junior product. Thus, the incorrect consumer assumption can be relevant only if use of the mark conveys a message against which the trademark deserves protection, either under consumer protection aspects or for the purpose of goodwill protection. Sponsorship or endorsement usually conveys the message that the sponsor or the endorsing party gives its good name and reputation for the marketing of the junior product. This will be particularly true when the possibility of a connection between the dissimilar junior product and the owner of the senior mark is triggered by the similarity or identity of the marks. The consumer will in most cases assume a connection through sponsorship or endorsement only if he is aware of the well-known senior mark and believes that this mark’s high reputation reflects positively on the products under the junior mark. He will be tempted to buy the junior product only because he assumes that the good name of the senior mark guarantees a high quality or otherwise positive characteristic of the product. While this still includes the aspect of consumer protection, it appears less relevant than in traditional infringement cases.

This relationship between confusion of sponsorship and the mark’s reputation or goodwill must be why some commentators point out that confusion of sponsorship relies heavily on potential impairment of reputation and loss of goodwill.\textsuperscript{204} This view suggests that cases of sponsorship are in reality cases of blurring or tarnishment, and that it would be more appropriate to enjoin them under the dilution concept than under the confusion concept.

However, as U.S. law limits the dilution concept to supermarks only, it is too restrictive to cover all of these cases. This fact suggests that cases of sponsorship should, even if considered under the confusion concept, also require that the senior mark enjoy sufficient recognition and/or reputation.

\textsuperscript{203} See, e.g., Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd., 604 F.2d 200, 203 (2d Cir. 1979).

\textsuperscript{204} Welkowitz, supra note 7, at 6; similarly, 3 McCarthy, McCarthy on Trademarks, supra note 27, § 23:5, for the category of “post-sale confusion,” in which the use can damage the goodwill and reputation of a “prestige product.”
D. The Harm-Based Principle and the Free-Riding Aspect

As far as the concepts of blurring and tarnishment as defined in the TDRA are concerned, dilution protection in the E.U. does not differ much from the U.S. dilution law. The most significant difference between the dilution concepts lies in the inclusion or exclusion of misappropriation cases, that is, cases in which the junior mark takes unfair advantage of the distinctiveness or the esteem of the well-known or famous mark.

1. Free-Riding Notion Too Vague?

Applying dilution remedies to cases in which the junior mark takes unfair advantage of the distinctive character or the esteem of the well-known mark seems unsettling to U.S. lawyers, as these options are perceived as based on “vague and undefined notions of unfair competition and free riding.” However, there is a body of case law and other legal authority in foreign jurisdictions that has helped significantly to define these notions. European courts have developed criteria that can be relevant in determining whether an image transfer is likely in cases where the esteem of the mark is being misappropriated. These factors include similarity of goods, overlapping of consumer circles, similar price ranges, matching characteristics of products and joint marketing activities of both companies. This technique of defining a misappropriation category by a list of non-exclusive factors is similar to the U.S. law’s definition of the blurring category. Even if there is still room for interpretation of the notions of misappropriation, a lack of preciseness should be no surprise in the field of dilution law. The dilution concept is supposedly still unclear to judges and lawyers in the United States, and this is the reason why so many courts have found ways to work around the dilution law and effectively “nullify” it. The likelihood of harm to a mark’s distinctiveness does not appear more tangible or more precisely determinable than the unfairness of a “free ride.” Therefore, the E.U. law appears to be just a different, but not less

205. See McCarthy, supra note 21, at 1165.
206. See, for example, the explanations on the category of misappropriation of the mark’s esteem that has a considerable tradition stemming from German law, supra Part IV.B.4.c.
207. See Ingerl/Rohnke, supra note 16, sn.850.
208. See McCarthy, supra note 21, at 1167.
defined, approach to dealing with the difficult and “dauntingly elusive concept of trademark dilution.”

2. Trademark-Related Goodwill as Property Right

Another concern to U.S. lawyers is the fact that misappropriation cases do not require any harm to the owner of a well-known mark. If the dilution law’s purpose were to prevent unfair advantage resulting from non-confusing use, then the dilution concept would be, as far as some legal commentators are concerned, more like an unfair competition law. Such protection against unfair competition would risk turning the trademark right into a “right in gross” if there were not strict boundaries. Turning the trademark-related goodwill into a property right would put a heavy burden on a defendant to justify a behavior that, so the critics claim, enhances consumer choice and increases competition, thereby bringing economic benefits to society. This argument, though, could be used to justify nearly any kind of trademark infringement, and it appears to distract from a more important aspect—whether the free ride is justified or unfair. Contrary to this criticism, treating the trademark’s goodwill as a property right would be consistent with the origins of trademark dilution (which were premised on a theory of trespass) and thus include the unjust enrichment of those who trade upon the commercial magnetism of another’s mark. This comparison of dilution protection to a trespass-like protection suggests a similarity between, on the one hand, goodwill and distinctiveness as the objects of dilution protection and, on the other hand, absolute property right. It would therefore not be a great stretch to grant this type of property-like protection to famous marks.


212. See Haight Farley, supra note 23, at 1186.

213. Id.

214. Dogan, supra note 211, at 105-06.

3. Unjust Enrichment Concept as Part of U.S. Dilution Law?

While the theory of unjust enrichment might have less significance in U.S. law, it does have a recognized place in modern U.S. trademark law. One way of accounting for damages is based on the extent to which the infringing defendant is unjustly enriched. The dilution concept similarly provides support for the notion of covering cases of unjust enrichment. According to Congress, the anti-dilution law recognizes the substantial investment of the trademark owner in the mark and the commercial value and aura of the mark itself, and it protects against those who appropriate the mark for their own gain. This misappropriation to which Congress refers appears very close to the exploitation of a brand’s positive associations. These associations are labeled by supporters of the free-ride concept as “brand equity,” which should be protected without further requirements and not be limited to cases in which the brand equity may be damaged.

The purposes of these different concepts provide further support for the relevance of the free-riding aspect under the U.S. dilution law. The purpose of the misappropriation concept is to prevent third parties from “reaping where one has not sown.” This unjust enrichment aspect has also often been cited in U.S. decisions as a justification for providing protection to trademark owners when the junior use was perceived as “riding their coat-tails.” Some commentators even see the desire to punish the free rider as the true driving force in many dilution cases. Moreover, this reasoning has not been limited to dilution cases. The aspect of misappropriation is also a “strong undercurrent” in the expanded confusion concept, particularly for confusion of sponsorship and post-sale confusion. These concepts as well as initial interest

216. 5 McCarthy, *McCarthy on Trademarks*, supra note 27, § 30:64, with further references to the inconsistent views of the different circuit courts.


220.  See Mostert, supra note 4, at 1-80 & n.218, citing a decision of the Supreme Court of Alaska, Alderman v. Iditarod Props., Inc., 32 F.3d 373 (Alaska 2001).

221.  See David J. Franklyn, *Debunking Dilution Doctrine: Toward a Coherent Theory of the Anti-Free-Rider Principle in American Trademark Law*, 56 Hastings L.J. 117, 166 (2004), who argues that U.S. dilution law focuses too much on harm and therefore distracts from the ultimate issue in dilution cases of whether the plaintiff’s property interests are outweighed by the defendant’s interests in sharing the language and free speech.

222.  See Welkowitz, supra note 7, at 6, without giving further explanation.
confusion are at least partly based on the rationale of allowing the trademark owner control over its mark’s reputation or goodwill.\textsuperscript{223} This shows that the free-riding aspect has been utilized in U.S. trademark law and that it is not alien to this system, and there are good reasons to rely on this aspect in U.S. trademark law, in particular for the confusion of sponsorship.

One reason is that cases of assumed sponsorship are, as just outlined,\textsuperscript{224} more appropriately categorized as dilution protection cases, because they typically arise when the senior mark enjoys a high recognition. The second reason is that “confusion of sponsorship” is based on the same image transfer that the category “misappropriation of esteem” under European law requires.\textsuperscript{225} As stated earlier, confusion of sponsorship is not a confusion regarding the product’s origin, but rather a confusion regarding the junior user’s authorization by the trademark owner.\textsuperscript{226} The consumer will in most cases assume a connection through sponsorship or endorsement only if he is aware of the well-known senior mark and believes that this mark’s high reputation reflects positively on the products under the junior mark. He will be tempted to buy the junior product only because he assumes that the good name of the senior mark guarantees a high quality or otherwise positive characteristic of the product.

While this expectation still includes the aspect of consumer protection, the purpose of consumer protection appears less relevant than in traditional infringement cases. The consumer protection is coupled with the more dominant free-riding aspect because the junior user takes advantage of the senior mark’s goodwill irrespective of any damage.\textsuperscript{227} The quality or image transfer is the main reason for the consumer to consider the junior product in such cases of sponsorship or endorsement,\textsuperscript{228} and from the junior user’s perspective, this incorrect consumer assumption often will be the exact motivation for the use of the senior mark. The intention to make use of the senior user’s success or reputation is nothing other than the intention to free-ride on the

\begin{itemize}
  \item \textsuperscript{223} Compare id. at 8-9.
  \item \textsuperscript{224} See supra Part V.C.
  \item \textsuperscript{225} Compare supra Part IV.B.4.c.
  \item \textsuperscript{226} See, e.g., Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd., 604 F.2d 200, 203 (2d Cir. 1979).
  \item \textsuperscript{227} See the reasoning of the Third Circuit in Univ. of Pittsburgh v. Champion Prods., 686 F.2d 1040 (3d Cir. 1982), basing the desire to associate on the success or notoriety of the entity as a result of this entity’s efforts.
  \item \textsuperscript{228} See id., stating for a case of assumed endorsement and licensing, in which the mark of the university was used on clothing, that the “crucial element” is the consumer’s desire to associate with the trademark owner based on the latter’s success or notoriety.
\end{itemize}
mark’s goodwill.229 Thus, the misappropriation of goodwill is inherent to the “confusion of sponsorship” concept. This shows, on the other hand, that the free-riding aspect is already a factor that has been considered under all categories of trademark violations, under the confusion concept as well as under the dilution concept. It is, therefore, necessary also to consider this aspect under the revised U.S. dilution law.

4. “Intent to Create an Association” as the Door to a Free-Riding Concept

The TDRA does not explicitly recognize the free-riding concept as a basis for dilution protection. It offers, however, the possibility of including the aspect of misappropriation in the determination of whether a mark is likely diluted by a junior user.

Blurring factor 5 in the TDRA explicitly refers to “whether the user ... intended to create an association with the famous mark.”230 Relying on the junior user’s intent in order to establish “dilution by blurring” appears inconsequential for a harm-based approach. This factor establishes a connection between the junior user’s bad intent and the free-riding concept, and thereby imports into the blurring category an aspect that is characteristic of the misappropriation concept.

The effect of blurring occurs in the consumer’s mind based on his or her awareness that there are similar or identical marks owned by different and unrelated entities. Intent would coincide with blurring in those cases only where the intent was successfully implemented. It would, however, be totally irrelevant if the junior user were unsuccessful in his efforts to create an association or to harm the distinctiveness, even if he had tried very hard to do so. It appears that any dilution would typically be a side effect of the junior user’s efforts, as he usually wants to make use of the known mark for his own benefit rather than the owner’s detriment. Difficulties in determining blurring, whether actual or likely, should not allow for the consideration of factors that can be totally irrelevant for the effect of blurring. It appears, therefore, more appropriate to rely exclusively on extrinsic factors when determining dilution by blurring. Intrinsic aspects, such as the junior user’s intent, should be reserved as indications of the misappropriation categories, including dilution by tarnishment.

229. Compare the Ninth Circuit in Academy of Motion Pictures Arts & Sciences v. Creative House Promotions, Inc., 944 F.2d 1446, 1456 (1991), stating that “where evidence shows that one company deliberately adopted another’s name to obtain advantage from the other’s good will, we may infer a likelihood of confusion,” and holding that this confusion as to sponsorship also establishes a dilution of the mark.

The intent to take unfair advantage of the reputation or distinctiveness of a known mark is a better indicator in these cases, because the intent to exploit is more likely to be relevant.231

Furthermore, Section 43(c)(5) of the TDRA, in connection with Sections 35 and 36 of the Lanham Act, entitles a trademark owner to damages if the junior user “willfully intended to trade on the recognition of the famous mark.”232 Thus, the entitlement to damages depends, according to this provision, on the junior user’s intentional trading on—that is, on the intentional taking advantage of—the famous mark’s recognition. This language clearly refers to an intentional free ride and not to the intention to harm the mark’s distinctiveness. Thus, the “trade on” terminology shows that the free-riding aspect is inherent also to the harm-based approach under the TDRA.

Besides the fact that factor 5 will necessarily import the free-riding concept into the determination for blurring, the other five listed blurring factors could be considered as relevant indications for an unfair exploitation of the mark’s distinctiveness or esteem. This shows a further overlap between the harm-based approach and the free-riding concept. Finally, it is worth noting in this context that the list of blurring factors is non-exclusive. This allows for consideration of all those factors that the European practice generates to determine whether there is a misappropriation of goodwill or esteem under European dilution law.233

All aspects discussed in this section are signs that the free-riding concept is not separable from the harm-based approach. Because the TDRA gives sufficient opportunities to include free-riding considerations in the determination of whether a famous mark is likely blurred, it can be expected that U.S. courts will continue to rely, at least additionally, on the free-riding component. The “intent to create an association” factor is an invitation to do so.

VI. CONCLUSION

In summary, the differences between the U.S. and the E.U. dilution concepts are smaller than they initially appear. Misappropriation of goodwill or reputation as a legal basis for dilution claims is not limited to E.U. law. Under the TDRA, the

231. See also Ingerl/Rohnke, supra note 16, sn.839, allowing consideration of the intent as an indication for actual exploitation in misappropriation cases.

232. It remains unclear, though, how the intention to trade on the recognition can be anything else than willful.

233. See, for example, the factor whether an image transfer is possible that appears decisive under the German interpretation of the E.U. law.
free-riding concern is also an element that can and likely will have an impact on the decision of whether a famous mark is likely to be diluted. In such cases, the junior user's intent to create an association with the famous mark is explicitly listed as one possibly relevant factor. Because such intent typically is motivated by and coupled with the intention to take unfair advantage of the distinctiveness or esteem, the free-riding aspect is already part of the determination of whether a mark is likely to be blurred.

The remaining differences between the E.U. and the U.S. systems have valid foundations that will prevent their harmonization in the near future. The current dilution concept in the E.U. is not subject to the strong criticism experienced by the U.S. dilution law. Europe has a long history of dilution law, and the courts appear to take care that the niche fame concept remains within appropriate boundaries. Furthermore, the broader application of the dilution concept in the E.U. is necessary to balance its narrower confusion concept, which excludes most of the “related goods” cases under U.S. law. Considering specialized consumer circles and accepting a lower degree of market recognition gives the European courts the necessary flexibility to determine whether a mark is eligible for dilution protection.

Thus, despite a lack of harmonization, multinational companies will not face great differences when trying to enforce their trademark rights on both sides of the Atlantic. In addition, while the higher requirements regarding the fame of the mark may in some cases prevent dilution protection under the TDRA, the modern confusion concept should offer a way to enjoin the use of the mark under the “related goods” doctrine.