

**TRADEMARK DILUTION:  
A COMPARATIVE ANALYSIS**

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## ABSTRACT

The thesis investigates the concept of trademark dilution under international and regional trademark law, and under the laws of selected jurisdictions; namely, the United States of America, Germany, the United Kingdom and the Republic of South Africa. The investigation includes measures undertaken to prohibit the internet-based dilution of famous marks through the registration of confusingly similar domain names. It is noted that dilution is imprecisely formulated under international trademark treaty law. In fact, the term “dilution” does not appear in international trademark treaties. To fill the gap of international trademark treaties, various policy initiatives, or ‘soft law’ have been developed, which to some extent clarify both the concept of dilution, the type of mark protected from dilution, and the scope of such protection. The problem is that the policy initiatives are non-binding on States, so that different States have adopted different common law and statutory approaches to the protection of marks against dilution. This is demonstrated, for example, by the fact that the European Union and its Member States provide protection from dilution to “marks with a reputation”, while the United States of America provides such protection only to “famous” marks, and the Republic of South Africa protects “marks which are well-known in the Republic” from dilution. The thesis analyses the protection granted in these jurisdictions, to determine the similarities and differences of approach, and to make appropriate law reform proposals to achieve uniformity of protection. In the final analysis, it is concluded that the burden of enforcing dilution provisions rest on the judiciary. This being so, the judiciary is urged to engage in a balancing exercise in deciding dilution cases. The courts should recognize that dilution provisions are powerful tools at the disposal of owners of trademarks with advertising value. At the same time, the courts should be steadfast in ensuring that protection from dilution does not stultify freedom of trade, or create absolute monopolies or a form of copyright in a trademark.

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## **KEY TERMS**

advertising value of a trademark, causing detriment to a trademark's repute or distinctive character, confusion of sponsorship, dilution by blurring, dilution by genericide, dilution by tarnishment, famous mark, internet-based dilution, mark with a reputation, misappropriation of a trademark's advertising value, reputation and repute of a trademark, trademark dilution, taking unfair advantage of a trademark's repute or distinctive character, well-known mark.

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## ABBREVIATIONS

ANDRC	Asian Domain Name Dispute Resolution Centre, a DRP under the ICANN UDRP
BCJ	Benelux Court of Justice
BTMA	Benelux Trade Marks Act, 1971
Community Regulation	The European Trade Mark Harmonization Regulation (Council Regulation (EC) No. 40/94 of 20 December, 1993 on the Community Trade Mark
CPR	CPR Institute for Dispute Proceedings, a DRP under the ICANN UDRP.
DRP	Dispute Resolution Provider under the ICANN UDRP
ECJ	European Court of Justice
ECR	European Court Reports
EC Trademark Directive	The First Council Directive of 21 December, 1988 to Approximate the Laws of the Member States Relating to Trade Marks
EIPR	European Intellectual Property Review
eRes	eResolutions, a DRP under the ICANN UDRP
ETMR	European Trade Mark Reports
FSR	Fleet Street Reports
GRUR	Deutsche Vereinigung für gewerblichen Rechtsschutz und Urheberrecht
GRUR Int.	Deutsche Vereinigung für gewerblichen Rechtsschutz und Urheberrecht (International Edition)
HARV LR	Harvard Law Review
ICANN	Internet Corporation for Assigned Names and Numbers

IIC	International Review of Industrial Property and Copyright Law
INTA	International Trademark Association
IPLR	Intellectual Property Law Review
NAF	National Arbitration Forum, a DRP under the ICANN UDRP
NSI	Network Solutions Inc.
Paris Convention	Paris Convention for the Protection of Industrial Property, 1883
RPC	Reports of Patent Cases
SA	South Africa
SALJ	South African Law Journal
SA Merc. LJ	South African Mercantile Law Journal
TRADEMARK REP.	Trademark Reporter
TRIPS Agreement	Agreement on Trade Related Aspects of Intellectual Property Rights
UDRP	Uniform Dispute Resolution Policy
UNISA	University of South Africa
US	United States of America
USPQ	United States Patent Quarterly
VAND J. Transnat'L Law	Vanderbilt Journal of Transnational Law
Vol	Volume
WIPO	World Intellectual Property Organization
WTO	World Trade Organization
YALE LJ	Yale Law Journal

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# CONTENTS

## ACKNOWLEDGEMENTS

## SUMMARY

## KEY TERMS

## ABBREVIATIONS

## PART I: THE BACKGROUND AND THEORETICAL FRAMEWORK OF TRADEMARK DILUTION

### CHAPTER 1:INTRODUCTION

### CHAPTER 2:THE FUNCTIONS OF A TRADEMARK

- 2.1 Introduction
- 2.2 The functions of a trademark
  - 2.2.1 The source - origin function
  - 2.2.2 The product differentiation - distinguishing function
  - 2.2.3 The quality guarantee function
  - 2.2.4 The advertising function
- 2.3 Conclusions

### CHAPTER 3: TRADEMARK DILUTION

- 3.1 Introduction
- 3.2 The misappropriation of the advertising value of a trademark
  - 3.2.1 Unconcealed or open misappropriation
  - 3.2.2 Concealed or veiled misappropriation
- 3.3 Trademark Dilution
  - 3.3.1 Generally
  - 3.3.2 Dilution by blurring
  - 3.3.3 Dilution by genericide
  - 3.3.4 Dilution by tarnishment
- 3.4 Confusion of Sponsorship

- 3.5 Elements of the Claims
  - 3.5.1 Elements of a Dilution Claim
  - 3.5.2 Elements of a Confusion of Sponsorship Claim
- 3.6 The Right to the Advertising Image
- 3.7 A Framework for Dilution Protection
- 3.8 Conclusions

## **PART II: TRADEMARK DILUTION UNDER INTERNATIONAL AND REGIONAL TRADEMARK LAW**

### **CHAPTER 4: TRADEMARK DILUTION UNDER INTERNATIONAL TRADEMARK LAW**

- 4.1 Introduction
- 4.2 Protection against trademark dilution under international trademark law
  - 4.2.1 The Paris Convention
  - 4.2.2 The Madrid Agreement and Protocol
  - 4.2.3 The Trademark Law Treaty
  - 4.2.4 The Trips Agreement
  - 4.2.5 The World Intellectual Property Organization Model Provisions for Protection Against Unlawful Competition
  - 4.2.6 The WIPO Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks
- 4.3 International Dimensions of Internet Based Dilution
  - 4.3.1 Conflicts between well-known marks and domain names
  - 4.3.2 History of ICANN's UDRP
  - 4.3.3 The WIPO Internet Domain Name Process Report
  - 4.3.4 ICANN's UDRP in Practice
  - 4.3.5 Special Cases of Internet-Based Dilution Under the UDRP
  - 4.3.6 Defences to Internet-Based Dilution Under the UDRP
  - 4.3.7 Conclusions

4.4 Conclusions and Recommendations

**CHAPTER 5: TRADEMARK DILUTION UNDER REGIONAL TRADEMARK LAW**

5.1 Introduction

5.2 Dilution in the Benelux

5.3 The EC Trademark Directive and the Community Regulation

5.3.1 Objectives and nature

5.3.2 The confusion of association provisions

5.3.3 Anti-dilution provisions

5.3.3.1 The anti-dilution provisions apply to competitors

5.3.3.2 The 'reputation' of a trademark

5.3.3.3 Niche market fame

5.3.3.4 The 'repute' of a trademark

5.3.3.5 Use which would take unfair advantage of, or be detrimental to, the distinctive character or the repute of the earlier trademark

5.3.3.6 Without due cause

5.3.3.7 Actual dilution, or a likelihood of dilution

5.4 Elements of a dilution claim in EU law

5.5 Conclusions and Recommendations

**PART III: A MULTI-JURISDICTIONAL COMPARATIVE ANALYSIS OF TRADEMARK DILUTION**

**CHAPTER 6: UNITED STATES OF AMERICA**

6.1 Introduction

- 6.2 Common Law Protection
- 6.3 State Anti-Dilution Statutes
  - 6.3.1 The legislative texts
  - 6.3.2 Distinctiveness and Fame Necessary to Qualify for Protection under State Law
  - 6.3.3 State Law and Dilution by Blurring
  - 6.3.4 State Law and Dilution by Tarnishment
  - 6.3.5 State Law and Competition
  - 6.3.6 Relief Under State Law
- 6.4 The Federal Trademark Dilution Act (FTDA)
  - 6.4.1 Generally
  - 6.4.2 The legislative text
  - 6.4.3 Dilution in PTO Proceedings
  - 6.4.4 Meaning of Dilution in the FTDA
  - 6.4.5 Fame criteria
  - 6.4.6 How Similar Should the Marks Be?
  - 6.4.7 Requirement of Likelihood of Confusion Under the FTDA
  - 6.4.8 Is Proof of Actual Dilution Required Under the FTDA?
  - 6.4.9 The Elements of a Dilution Claim
  - 6.4.10 Defences to Trademark Dilution Under the FTDA
  - 6.4.11 Remedies Under the FTDA
  - 6.4.12 Conclusions
- 6.5 The Federal Trademark Dilution Revision Act of 2005 (FTDRA)
  - 6.5.1 Introduction
  - 6.5.2 The Legislative Text of the FTDRA
  - 6.5.3 Salient provisions of the FTDRA
- 6.6 Internet-Based Dilution And The Anticybersquatting Consumer Protection Act (ACPA)
  - 6.6.1 Introduction
  - 6.6.2 The Anticybersquatting Consumer Protection Act
  - 6.6.3 Salient Provisions of the ACPA
  - 6.6.4 Elements of a Cybersquatting of a Famous Mark Claim
  - 6.6.5 Bad Faith Intent

- 6.6.6 Defences
- 6.6.7 Remedies
- 6.6.8 Conclusions

6.7 Conclusions and Recommendations

**CHAPTER 7: GERMANY**

7.1 Introduction

7.2 Protection against trademark dilution during the pre-harmonization period

- 7.2.1 Generally
- 7.2.2 The WZG
- 7.2.3 The UWG
- 7.2.4 The Civil Code
- 7.2.5 Case law Protecting Famous Marks from Dilution Under the UWG and the German Civil Code
- 7.2.6 The Fame Criteria Applied Under the UWG and the Civil Code
- 7.2.7 Protection of Well-Known Marks from Dilution
- 7.2.8 Protection from Dilution by Blurring
- 7.2.9 Protection From Dilution by Tarnishment
- 7.2.10 Conclusions

7.3 Protection from trademark dilution during the post EU-harmonization period

- 7.3.1 The Trademarks Act of 1994
- 7.3.2 Marks 'well-known' in Germany
- 7.3.3 Criteria of a Mark which is Well-Known in Germany or Having a Reputation in Germany
- 7.3.4 Without Due Cause
- 7.3.5 Unfair Advantage
- 7.3.6 Detriment to a Trademark's Distinctive Character or Repute
- 7.3.7 The GTMA and Competition
- 7.3.8 Bad faith intent
- 7.3.9 Defences to Trademark Dilution Under the GTMA
- 7.3.10 Remedies to a Dilution Claim
- 7.3.11 Conclusions

7.4 Internet Based Dilution in Germany

- 7.4.1 The GTMA, the UWG and the Civil Code
- 7.4.2 Conclusions

7.5 Conclusions and Recommendations

**CHAPTER 8: UNITED KINGDOM**

8.1 Introduction

8.2 Protection Under Passing-off

- 8.2.1 Introduction
- 8.2.2 Requirements of a Passing Off Action
- 8.2.3 The Requirement of Goodwill
- 8.2.4 The Misrepresentation
- 8.2.5 The Damage
- 8.2.6 Defences
- 8.2.7 Remedies
- 8.2.8 Conclusion

8.3 Passing-off and Cybersquatting

- 8.3.1 Introduction
- 8.3.2 Passing Off and Cybersquatting
- 8.3.3 Passing Off and Cybersquatting In Practice
- 8.3.4 Conclusions

8.4 The 1994 UK Trademarks Act

- 8.4.1 Section 5
- 8.4.2 Section 10
- 8.4.3 Defences
- 8.4.4 Relief

8.5 The UK Trademarks Act and Cybersquatting

8.6 Conclusions

**CHAPTER 9: SOUTH AFRICA**

- 9.1 Introduction
- 9.2 The common law
  - 9.2.1 Passing-off
  - 9.2.2 Misappropriation of a trademark's advertising value and the injuries of confusion of sponsorship and trademark dilution
- 9.3 The Trademarks Act, 194 of 1993
  - 9.3.1 Background and international context
  - 9.3.2 The anti-dilution provisions: sections 10 (17) and 34 (1) (c )
    - 9.3.2.1 Introduction
    - 9.3.2.2 Nature of onus on the Plaintiff
    - 9.3.2.3 Similarity of the trademarks
    - 9.3.2.4 Well-known mark in the Republic
    - 9.3.2.5 Does the anti-dilution provisions apply to competitors?
    - 9.3.2.6 Likely to take unfair advantage of, or be detrimental to, the distinctive character or the repute of the registered trademark
    - 9.3.2.7 Defences and remedies
- 9.4 Internet-Based Dilution
- 9.5 Conclusions and Recommendations

**PART IV: CONCLUSIONS, RECOMMENDATIONS AND LAW REFORM PROPOSALS**

**CHAPTER 10: CONCLUSIONS, RECOMMENDATIONS AND LAW REFORM PROPOSALS**

- 10.1 Introduction
- 10.2 International trademark law
- 10.3 Regional trademark law

- 10.4 The United States of America
- 10.5 Germany
- 10.6 United Kingdom
- 10.7 South Africa
- 10.8 Conclusion

**CASES**  
**TREATIES AND LEGISLATION**  
**BIBLIOGRAPHY**



**PART 1**

**THE BACKGROUND AND THEORETICAL FRAMEWORK  
OF TRADEMARK DILUTION**

**CHAPTER 1**

**INTRODUCTION**

The concept of trademark dilution slowly crept into the consciousness of the legal profession, the legislatures, and the judiciary of many countries, where it has been the subject of academic debate and commentary, statutory protection and judicial decisions. Of late, trademark dilution has received inarticulate recognition under international and regional trademark law, thereby placing ill-defined obligations on States to provide protection against trademark dilution in their domestic jurisdictions. Consequently, the concept of dilution still remains one of the most misunderstood concepts in trademark law. Such misconception necessitated this thesis, which seeks to de-mystify the concept by examining it from an historical and comparative perspective.

This thesis examines the principal international and regional trademark law instruments in order to determine the extent to which they require States to protect the advertising value of trademarks from dilution. Such an examination is necessary because at present, international trademark treaty law imprecisely defines and formulates the obligations placed on States to provide protection in their domestic jurisdictions against trademark dilution. In fact, the term “trademark dilution” is not found in the text of any international trademark treaty, although there is general consensus among academics that international trademark law obliges States to provide protection against dilution. Such imprecise formulation, in turn, has meant that dilution protection differs from jurisdiction to jurisdiction, in terms of the scope of statutory protection granted, the legislative language used to grant such protection, and the types of marks eligible for

protection. The thesis therefore makes appropriate law reform recommendations, in respect of international trademark law, aimed at clarifying the legislative language used to grant protection, the type of marks which should be the subject of dilution protection, and the precise nature of protection States should grant in their jurisdictions against dilution.

The above observations, in turn, necessitate a critical and comparative examination of the laws of selected jurisdictions to determine how far the laws comply with the obligations of international and regional trademark law requiring States to protect the advertising value of trademarks from dilution, and how far they differ from each other. In this respect, the thesis examines both the statutes and the common laws of the United States of America, Germany, the United Kingdom and South Africa to determine the difference and uniformity of approach adopted by the legislation and case law of these countries toward protection against trademark dilution. On a more fundamental level, the thesis also seeks to answer the following questions: what is trademark dilution; how does it differ from the misappropriation of a trademark's advertising value; what forms does it take; how does it occur; historically, where did it come from; what is the rationale informing protection against trademark dilution; and what must be proved in a successful dilution claim? Further, the thesis also seeks to determine, generally, how the courts should balance the interests of the owner of a trademark with advertising value when protecting that value from dilution, and the legitimate interests of the public in ensuring that such protection does not stifle the development of free trade and other constitutionally guaranteed freedoms. This is done through a comparative analysis of the common law, statute law and case law of the jurisdictions under review, and through analyzing the opinions of academic writers.

From these questions, it is axiomatic that, since it is the advertising value of trademarks which is protected against dilution, a study of trademark dilution cannot be undertaken in the abstract, but should commence with an analysis of the functions of trademarks, in order to determine the function protected from dilution, thereby creating a

logical framework to discuss dilution, from both a theoretical and practical perspective, and in its international, regional and domestic context.

The title of the thesis, therefore, is **Trademark Dilution: A Comparative Analysis**. The title is informed by two underlying considerations. The first consideration is the parameters of the thesis, as outlined above. The second consideration is the lack of a textbook which logically and holistically deals with the concept of dilution. At present, there is at least only one textbook which deals with trademark dilution exclusively and even then, the textbook does not deal with dilution holistically from an historical and comparative analysis. The thesis seeks to fill that void.

In terms of layout, Part 1 of the thesis, consisting of Chapters one to three, sets out the background and theoretical framework of trademark dilution. This Part identifies the function of a trademark protected from dilution, the conduct which causes dilution, the concept of dilution, the rationale for protection against dilution, the various forms of dilution and, in general, the elements of a dilution claim. Additionally, this Part, in Chapter 3, develops a framework for the guidance of the courts in appropriately balancing the competing interests of the owner of a trademark and the wider public in dilution cases. This Part is largely based on the views of academic authors.

Part II of the thesis comprises Chapters four and five, and these Chapters critically examine the principal international and regional trademark law instruments to determine the extent to which they require States to provide for protection against trademark dilution, including internet-based dilution in the form of cybersquatting. These Chapters highlight the imprecise formulation of trademark dilution under international trademark treaty law, which has necessitated the development and use of soft law initiatives to fill in the gaps existing in international trademark treaty law.

Part III of the thesis then focuses on the jurisdictions of the United States of America, Germany, the United Kingdom and South Africa, with a view of determining the extent to which the laws of these countries comply with the anti-dilution provisions of

both international and regional trademark law. This Part also highlights the differences and similarities of approach which exist in the jurisdictions under study in their laws providing protection against dilution, including internet-based dilution. Further, this Part seeks to identify the historical origins of dilution as an actionable wrong. In this Part, the thesis also seeks to answer the additional question of whether a proper balance is struck by the judiciaries of these countries in interpreting the anti-dilution provisions so as to ensure that the legitimate interests of the owner of a trademark with advertising value in protecting that value from dilution are legally recognized, while at the same time ensuring that the equally competing interests of the public in ensuring that such protection does not stultify freedom of trade or of expression, for example, are given equal recognition and protection.

Part IV of the thesis comprises Chapter 10, which is a summary of conclusions and recommendations, including law reform proposals, aimed at strengthening the current protection against trademark dilution, but at the same time maintaining an appropriate balance between the rights of the trademark proprietor and the competing interest of the public to free trade. This Chapter draws on the conclusions made in the thesis, and ties them up with the questions posed for answer in the thesis. In the final analysis, it is concluded that although anti-dilution provisions are powerful measures at the disposal of owners of trademarks with advertising value, they should be cautiously applied by the judiciary so as not to create absolute monopolies or a form of copyright in a trademark, or to stifle free trade or stultify legitimate economic activity. Only then will dilution protection serve its legitimate purpose.

Last, a few words on the assumptions made in this thesis. This thesis proceeds on the basis of certain basic assumptions. First, for the sake of brevity, references to a “product” or to “goods” should be read and construed as used interchangeably, and as including references to services, unless otherwise specified. Second, references to a “trademark” or to a “mark” should be read and construed as including references to a “service mark”. This assumption follows both international and regional trademark treaty law. Third, references to a “well-known mark” should be read and construed as

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synonymous with a mark with a reputation. Fourth, references to a “trader”, “trademark owner” or “trademark proprietor” should be read and construed as synonyms. Fifth, the words “plaintiff” or “applicant” are used interchangeably, and have the same meaning. The words are basically used to refer to a party who commences trademark dilution proceedings, while the words “defendant” or “respondent” have an obverse meaning, unless otherwise specified. Sixth, references to “dilution provisions” and “anti-dilution provisions”, when used in the context of legislation, including international and regional trademark law instruments, are used interchangeably to refer to provisions that prohibit trademark dilution.

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## **CHAPTER 2**

### **THE FUNCTIONS OF A TRADEMARK**

#### **2.1 INTRODUCTION**

Trademark dilution cannot be considered in abstract. It should rather be viewed against the backdrop of economic and business reality. As such, an inquiry into trademark dilution must begin with an analysis of the economic functions of a trademark. Such an examination is a prerequisite to understanding the principles of trademark dilution.

#### **2.2 THE FUNCTIONS OF A TRADEMARK**

Trademarks perform a variety of socio-economic functions. Such functions include (a) the source-origin function, (b) the product differentiation-distinguishing function, (c) the quality guarantee function, and (d) the advertising function. Each of these functions is generally examined below, drawing from the views of authors on trademark law, in order to show the role played by a trademark when performing each function.

##### **2.2.1 *The Source-Origin Function***

In terms of this function, trademarks operate as indicators of the trade source from which the goods in respect of which the trademark is used come, or are in some other way connected.<sup>1</sup>

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<sup>1</sup> Cornish and Llewelyn, *Intellectual Property: Patents, Copyright, Trademarks and Allied Rights*, 5<sup>th</sup> Edn (2003), Para. 15 – 22 (i), at 587.

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Friedrich-Karl Beier<sup>2</sup> views the source-origin function as the *only* function of a trademark which should be protected by trademark law. He argues that

A trademark serves to distinguish the goods of one manufacturer from the goods of another. The trademark should identify the origin of the goods with a *particular company*. The exclusive right of use granted to the trademark owner by statute serves to protect *only* this function and is limited by the basic purpose of trademark protection: the trademark owner is protected by his statutory right only against unfair use of his trademark on the goods of others. This right shall prevent others from causing confusion as to the origin of the goods and thereby taking unfair advantage of the goodwill embodied in the trademark (emphasis added).

Dan Shanahan<sup>3</sup>, unlike Friedrich-Karl Beier, views the trademark's source-origin function as the *primary function* of a trademark, and ascribes to the other functions *secondary or derivative* roles. According to Shanahan, current economic and business realities dictate that when a trademark performs the source-origin function, it need not necessarily indicate that a product has been manufactured by *one particular organization*. This is because trademarks are usually licensed, a phenomenon which consumers know very well. Because of licensing arrangements, Shanahan argues that consumers do not expect that the goods on which the trademark is affixed come from one identifiable manufacturer. What they do expect is that some particular organization has ensured that the product on which the trademark is affixed is of the same kind and quality as the product that they previously purchased under the same trademark.

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<sup>2</sup> Friedrich-Karl Beier, "*Territoriality of Trade Mark Law and International Trade*" [1970] International Review of Industrial Property and Copyright Law 48 – 72, at 61.

<sup>3</sup> Dan Shanahan, "*The Trademark Right: Consumer Protection or Monopoly?*" [1982] 72 TRADEMARK REP. 223-250, at 239, citing the *GE Trademark* case [1969] RPC 418, [1970] RPC 339, where Justice Graham stated that

the public ... recognize that the symbol or word in question is being used as a trademark by someone who is responsible for the product being what it is and having the quality which it in fact has.

In defining the origin function of a trademark and the socio-economic purposes it is intended to further, Lord Mackenzie Stuart<sup>4</sup> observes that when the trademark is performing its origin function, the consuming public associate the trademark with the goods they desire. Consumers then become legally entitled to be protected against low quality counterfeits bearing the same trademark. The trademark owner is also entitled to protection against the counterfeit, first because he loses sales, and second because his reputation may be endangered with consequent future economic loss. Lord Mackenzie Stuart argues, in answering the question, “what is the function of a trademark and what socio-economic purposes does a trade mark serve”, that

in the original context of a mark used by *a specific and known manufacturer or distributor with special skills* the reply is easy enough to give. If his goods which bear his mark are consistently of good quality the public in time associate the mark with what they want. They are entitled to be protected against counterfeits which may be of lower quality. The trader or manufacturer is also entitled to protection against the counterfeit, and this not merely because he will lose present sales but because his reputation may be endangered with consequent future economic loss. This function of the mark has always been protected by the law. The owner of the mark can always invoke the law to stop the counterfeiter from circulating, but the right which the law gives him is essentially a defensive one – *a negative right*, the right to protect what has been called the origin function of the mark (emphasis added).

Anselm Kamperman Sanders and Spyros M. Maniatis<sup>5</sup>, on the other hand, conceptualise the origin function as amenable to two distinct interpretations. First, they agree with Beier<sup>6</sup> and Lord Mackenzie Stuart that originally, a trademark was regarded as a badge of origin in a limited sense – that of identifying the actual or concrete source or manufacturer of the product. When interpreted in this way, the trademark performs a *concrete origin* function. Sanders and Maniatis argue that the concrete origin function is identifiable by

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<sup>4</sup> Lord Mackenzie Stuart, “*The Function of Trade Marks and the Free Movement of Goods in the European Economic Community*” [1976] *International Review of Industrial Property and Copyright Law*, 27 – 38, at 30.

<sup>5</sup> Anselm Kamperman Sanders and Spyros M. Maniatis, “*A Consumer Trade Mark: Protection Based on Origin and Quality*” [1993] *EIPR* 406 – 415, at 407.

<sup>6</sup> Note 2 above.

four criteria, namely (a) the trademark equals the product manufacturer's identity; (b) in respect of collective marks, the trademark denotes a certain conglomerate or group of producers; (c) the trademark contains information about its owner; and (d) the trademark does not make a direct reference to its owner, but he is traceable<sup>7</sup>. Second, the authors argue that the origin function can be interpreted, in a more general and expanded sense, to identify a single *unknown* source guaranteeing the quality of the product to which the trademark is affixed. When interpreted in this way, the trademark performs an *abstract origin* function, which Sanders and Maniatis equate with a trademark's quality guarantee function<sup>8</sup>.

Dirk Willem Ryk Hertzog<sup>9</sup> agrees, to some extent, with Sanders and Maniatis in the interpretation to be given to the origin function of trademarks. The author observes that

The origin theory is by no means a single theory, however, since it is amenable to different interpretations. It may be interpreted (a) as relating to origin in the sense of a *specific* (known) business, or (b) as relating to origin in the sense of *some* (unknown) business. Sometimes these two theories are referred to as, alternatively, the *concrete* and the *abstract* theories of origin. In some cases, it may be quite clear that a trade mark is fulfilling a concrete origin function, e.g., in the case of business or factory marks. More often, however, the possibility that the mark is indicating a specific source of origin is completely ruled out – e.g. in the case of so-called fantasy marks. In such a case the mark merely fulfils its distinguishing function without pointing to any specific source of origin. A further problem with regard to the origin function is the question of exactly what is to be understood by the term “origin”. On the one hand, the origin may be seen as the business where the articles are manufactured; on the other hand, it may refer to the business applying the trade marks to the articles – as in the case of large retail firms having different suppliers but one standard trade mark.

Some authors view the source-origin function as an aspect of the product distinguishing function of a trademark. According to the WIPO Intellectual

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<sup>7</sup> Note 5 above.

<sup>8</sup> Note 5 above.

<sup>9</sup> Dirk Willem Ryk Hertzog, *Functional Theory in Trade Mark Law*, 61 Annals, University of Stellenbosch, Vol. 4, Series B, No. 1 (1981) 10-45, at 10-12.

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Property Handbook<sup>10</sup>, for example, the definition of a trademark as a sign that individualises the goods of a given manufacturer and distinguishes them from the goods of other manufacturers incorporates both the origin function of a trademark, and the product distinguishing function of the trademark. In the view of the authors, in order for a trademark to individualise a product for the consumer, the trademark must indicate its source, that is, either in the concrete or the abstract sense. The function of indicating the source, on the other hand, presupposes that the trademark distinguishes the goods of one manufacturer or trader from those of other traders. This interdependence is said to show “that the distinguishing function and the function of indicating the source cannot really be separated”.<sup>11</sup>

Other trademark law authors are of the view that the source-origin function is no longer applicable in the realities of twenty-first century business and economic life. Amanda Michaels<sup>12</sup> points out that while

the origin function may well have been suitable for the economy of the late 19<sup>th</sup> century ... the significant changes in both wholesale and retail trade structures [since then], especially the tendency towards ‘impersonalised’ bulk trading in mass-produced products, have thrown *new* demands upon trade marks, as the consumer is increasingly forced to depend upon his past experience and information gleaned from advertising when choosing between similar products – products which are only too likely to be distinguishable solely by the trade mark upon them. It is undeniable that mass-production and the changes it has wrought upon market structures *have altered the economic character of trade marks* (emphasis added).

A few observations may now be made in concluding the examination of the origin function of a trademark. First, what is protected under this function is the source value of the trademark. Second, originally, the origin function was the

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<sup>10</sup> WIPO Publication No. 489 (E), (Geneva 2001), *WIPO Intellectual Property Handbook*, Para. 2.304 – 2.305, at 66.

<sup>11</sup> Note 10 above.

<sup>12</sup> Amanda Michaels, “*The Function of Trade Marks: The Law and the Reality*” [1980] EIPR 13 – 18, at 13.

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only trademark function which was protected by trademark law. In its original sense, the origin function had a narrow and limited meaning. It referred to a concrete or specific business from which goods emanated. As trade expanded, however, the concrete origin function was expanded, and operated in conjunction with the abstract origin function, which identifies a single unknown source guaranteeing the quality of a product. The abstract origin function was a direct result of economic and business reality, because it was adopted due to the practice of licensing and assignment of trademarks. Third, the origin function seeks to protect the consuming public and the trademark owner. The consuming public is protected against deception or confusion caused by the use of a trademark on counterfeit goods, which are then passed off as the goods of the trademark owner. The trademark owner is protected by trademark law by virtue of the origin function because his competitors cannot use his trademark on their products and pass off their products as those of the trademark owner. In this way the trademark owner does not lose sales, and the reputation of his goods is protected. Fourth, the business and economic realities of the twenty-first century have added other demands on trademarks, so that trademarks no longer only perform the source-origin function. Rather, as economic activity expands, the source-origin function seems to have become an aspect of the product distinguishing function. The research therefore proceeds to analyse the product distinguishing function of a trademark next.

### 2.2.2 ***The Product Differentiation – Distinguishing Function***

When performing the product differentiation or distinguishing function, a trademark distinguishes the goods of one trader from the goods of other traders. The role of a trademark when performing the product distinguishing function was succinctly captured by Shanahan<sup>13</sup> when he pointed out that

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<sup>13</sup> Note 3 above, at 240.

When a customer orders 7UP he does not expect to get sarsaparilla. He knows that he is going to get a particular sort of soft drink – so in that sense the mark has a kind of *descriptive* function. However, the mark is not simply a description. It indicates to all and sundry that the soda bearing the mark owes its formulation and quality to *a particular organization*. It is therefore a trademark.

Hertzog<sup>14</sup> argues that when a trademark performs the product distinguishing function, it *simply indicates, and does not describe the nature of*, the product of one undertaking as opposed to those of other undertakings.

There seems to be no agreement among trademark authors generally as to whether the source-origin function and the product distinguishing function are the same or are separate. According to Robert E. LeBlanc<sup>15</sup>, for example, the *main* function of a trademark is the product identification function. The writer dismisses notions which seek to join the origin function with the product distinguishing function, or to attribute either the concrete origin function or the abstract origin function to a trademark, because (a) the source of most goods is usually anonymous and is not known to the consumer, (b) a trader may have several trademarks for the same goods, and (c) trademarks are usually licensed. On this basis the author ascribes the true function of a trademark as being the product identification function.

Commenting on the 1994 UK Trade Marks Act, Cornish and Llewelyn<sup>16</sup> observe that

The inclusion of capacity to distinguish in the very definition of a trademark [in the 1994 UK Trade Marks Act] ties the system for the most part to its historic basis: that the law's purpose is to protect marks as, in a broad sense, indicators of origin.

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<sup>14</sup> Note 9 above, at 17.

<sup>15</sup> Robert E. LeBlanc, *Trademarks and Unfair Competition*, (Lerner Law Book Co. Inc.) (1966), at 5 – 6.

<sup>16</sup> Note 1 above, Para. 17 – 17, at 652.

Julian Gyngell and Allan Poulter<sup>17</sup> view the source-origin function and the product distinguishing function as two aspects of the same function. Discussing the functions of a trademark in the context of European trademark law, they argue that the requirement that a trademark should distinguish the goods of one trader from those of other traders

is of fundamental importance because it embodies the principle that a trade mark must serve to distinguish the goods or services to which it is applied. The Explanatory Memorandum to the [Community] Regulation states that the purpose of these words is to focus attention on the question whether –

“..... the relevant sign is capable of performing the basic function of a trademark. That function, in economic and legal terms, is to indicate the origin of goods or services and to distinguish them from those of other undertakings”.

The WIPO Intellectual Property Handbook<sup>18</sup> similarly adopts the interpretation of Gyngell and Poulter. After providing the definition of a trademark, as found in section 1 (1) (a) of the WIPO Model Law for Developing Countries on Marks, Trade Names and Acts of Unfair Competition of 1967, the Handbook observes that

The function of indicating source presupposes that the trademark distinguishes the goods of a given enterprise from those of other enterprises; only if it allows the consumer to distinguish a product sold under it from the goods of other enterprises offered on the market can the trademark fulfill this function. This shows that the distinguishing function and the function of indicating source cannot be really separated.

Several observations may now be made in respect of the product distinguishing function of a trademark, and whether that function performs the same function as the source-origin function of a trademark.

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<sup>17</sup> Julian Gyngell and Allan Poulter, *A User's Guide to Trade Marks and Passing Off*, 2<sup>nd</sup> Ed (1998), Para. 1.05, at 9 -10.

<sup>18</sup> Note 10 above, Para 2.305, at.66.

First, a trademark is said to perform the product distinguishing function when it distinguishes the *product* of one *trader* from the *product* of other *traders*. Two possible interpretations may be made in respect of this function. It may be argued that the product distinguishing function is only concerned with a trademark's ability to distinguish *products*; namely the product of the trademark owner and the products of other traders. If this approach is adopted, references to "trader", "enterprise", "manufacturer" and so on, in respect of the product differentiation function, should be taken as *incidental* to sentence construction, and should be given little if any significance. In other words, such references are necessary only to clarify *which* product a trademark should distinguish, and *from what*. This approach is adopted by LeBlanc<sup>19</sup>. As noted by LeBlanc<sup>20</sup>, the source of a product is usually anonymous, and trademarks are liable to be licensed, in which case they cannot indicate source accurately. Further, a trademark owner is not legally obliged by trademark law to use *a single* trademark, and in fact, as noted by LeBlanc, a trademark owner may use different trademarks for the same product. If designation of source was the paramount consideration of trademark law, in order for the trademark to indicate source, then the trademark owner would be obliged to use only one trademark for the same category of products.

The second possible interpretation which may be applied to the product distinguishing function of trademarks is to attach significance to *the owners* of *the products* which are being *distinguished*. When this approach is adopted, the product distinguishing function of a trademark and the source-origin function of a trademark then become merely two aspects of one function. Whichever interpretation is adopted, it is axiomatic that what is protected under this function is a trademark's distinguishing value.

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<sup>19</sup> Note 15 above.

<sup>20</sup> Note 15 above.

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Peter Joachim Kaufmann<sup>21</sup> argues that the second approach is, from a competitive standpoint, the essence of the origin function. The writer notes that when the consumer is able to identify products in a trademark-differentiated market, three things happen, namely, (a) the consumer is in a better position to judge the different *qualities of the products*, because he can tell them apart; (b) the producer is forced to retain consumer loyalty by keeping up the *quality standards* which, until then, he has given to his product; and (c) competitors of the producer are in a better position to try to undermine sales of the producer's product by drawing attention to their own substitute products, either by underselling the producer's product and competing in price, or by comparing the qualities of their products with the trademark owner's product, or both.

The research now logically proceeds to analyse the quality guarantee function, to ascertain if indeed it is an aspect of the source-origin and product differentiation functions as argued by Kaufmann.

### 2.2.3 *The Quality Guarantee Function*

In terms of this function, trademarks symbolize qualities associated by consumers with certain goods and they guarantee that the goods measure up to consumer expectations<sup>22</sup>.

There is no agreement among trademark law authors as to the juridical existence of the quality guarantee function. Four schools of thought are discernible from the views of academic writers.

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<sup>21</sup> Peter Joachim Kaufman, *Passing Off and Misrepresentation: An Economic and Legal Analysis of the Law of Unfair Competition in the United States and Continental Europe*, Studies in Industrial Property and Copyright Law (Max Planck Institute, 1986), at 123.

<sup>22</sup> Note 1 above, Para. 15 – 22 (ii), at 587.

The first school of thought maintains that the quality guarantee function is non-existent, and can only be legally acknowledged if and when a legal obligation is imposed upon the trademark owner to maintain a certain quality and standard for his goods. Beier and Krieger,<sup>23</sup> for example, argue that

Were one to focus only on the quality function and the protection of the public against quality disappointment, the logical consequence would be that the mark owner would never be allowed to change the quality of his marked product, because then every competitor that produces goods of the same nature and quality should be allowed to use the same mark. Therefore the mark would lose its individuality and adopt the character of a common indicator of attribution or certification of quality that everybody should be allowed to use for the same good.

RS Brown<sup>24</sup> dismisses the legitimacy of the quality guarantee function in trademark law. According to the writer

Since the user of a symbol probably guarantees by it nothing more than his hope that the buyer will come back for more, the term [quality guarantee function] smacks of the ad-man's desire to create the illusion of a guarantee without in fact making more than the minimum warranty of merchandisable quality.

Hertzog<sup>25</sup> argues that legislatively, there is little clarity on the legal basis of the quality guarantee function, because it is not mentioned *as such* in trademark legislative provisions. The writer strongly criticises proponents who try to link the quality guarantee function to the source-origin function. In his view, if the admitted *proxima causa* for buying certain products lies in the fact that they have a certain quality, then why should the indirect function, namely the source-origin function, be legislatively protected over the direct quality guarantee function?<sup>26</sup>

The second school of thought recognizes the quality guarantee function as

<sup>23</sup> Friedrich Karl Beier and U. Krieger, "*Wirtschaftliche Bedeutung, Funktionen und Zweck der Marke*" [1976] 3 GRUR Int. 125 – 128, at 127 (English translation from German).

<sup>24</sup> R. S. Brown, "*Advertising and the Public Interest: Legal Protection of Trade Symbols.*", [1948] 57. YALE LJ. 1165 – 1206, at 1187.

<sup>25</sup> Note 9 above, at 12.

<sup>26</sup> Note 9 above, at 33.

an independent trademark function, entitled to be protected as such. Ruth Annand and Helen Norman<sup>27</sup>, for example, seem to recognize this function as an independent category because it is *alluded* to in the 10<sup>th</sup> Recital of the European Communities First Council Directive of 21 December 1988 to Approximate the Laws of the Member States Relating to Trademarks<sup>28</sup>. The 10<sup>th</sup> Recital, however, provides as follows

[Recital 10] Whereas the protection afforded by the registered trademark, *the function of which is in particular to guarantee the trademark as an indication of origin*, is absolute in the case of identity between the mark and the sign and goods or services.....

It is noted here that what is *guaranteed* in the 10<sup>th</sup> Recital of the Council Directive is not *product quality* as such, but the fact that the trademark's function *in particular*, is to indicate the source-origin of the goods in respect of which it is used. Judicially, however, the quality guarantee function of the trademark received some recognition by the European Court of Justice in *SA CNL – Sucal NV v Hag GF AG*<sup>29</sup>, where the court, in stating that a trademark's essential function would be compromised if its owner could not prevent the circulation of goods bearing a confusingly similar name, noted, *obiter*, that

in this situation consumers would no longer be able to identify with certainty the origin of the marked product and *the bad quality* of a product for which he is in no way responsible could be attributed to the owner of the right (emphasis added).

<sup>27</sup> Ruth Annand and Helen Norman, *Blackstone's Guide to the Trade Marks Act 1994* (1998), at 15.

<sup>28</sup> Council Directive 89/104/EEC

<sup>29</sup> Case C-10/89 [1990] ECR I-3711 at Paras 13 and 14. See also *IHT Internationale Heiztechnik GmbH v Ideal-Standard*

*GmbH* (Case C-9/93) Financial Times 28, June 1994. (ECJ)

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R. A. Posner and W. M. Landes<sup>30</sup>, in offering their economic perspective to trademark law, recognize the quality guarantee function as an independent function worthy of protection. They comment that

the benefits of trademarks in reducing consumer search costs, require that the producer of a trademarked good maintain a consistent quality over time and across consumers. Hence trademark protection encourages expenditures on quality.

The third school of thought ties the quality guarantee function of trademarks to the source-origin function. Under this school of thought, a trademark does not only indicate the source of the goods; it also indicates the quality of the goods. Economides<sup>31</sup>, in arguing that the quality guarantee function is a variation of the source-origin function, observes that

the economic role of the trademark is to help the consumer *identify the unobservable features* of the trade-marked product. This information is not provided to the consumer in an analytical form, such as an indication of size or a listing of ingredients, but rather in summary form, through a symbol which the consumer identifies with a specific combination of features. Information in analytic form is a complement to, rather than a substitute for, trademarks.

According to Lionel Bently and Brad Sherman<sup>32</sup>, trademarks create incentives for firms to produce products of desirable qualities even when these are not observable before purchase. In agreeing with Economides, the writers opine that

The information provided by trademarks is particularly important in relation to goods that a consumer cannot judge merely through inspection. (These are known as ‘experience goods’). Where the quality and/or variety of goods is not readily apparent, trademarks enable consumers to choose the product with the

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<sup>30</sup> R. A. Posner and W. M. Landes, “*Trademark Law: An Economic Perspective*” [1989] *Intellectual Property Law Review*, 229 – 273, at 233.

<sup>31</sup> N. S. Economides, “*The Economics of Trademarks*” [1988] 78 *TRADEMARK REP.* 523 – 539, at 526 – 527.

<sup>32</sup> Lionel Bently and Brad Sherman, *Intellectual Property Law*, 2<sup>nd</sup> Edn (2004), at 700.

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desired features. Trademarks also encourage firms to maintain consistent quality and variety of standards and to compete over a wide quality and variety. Consequently, it has been said that ‘the primary reason for the existence and protection of trademarks is that they facilitate and enhance consumer decisions and they create incentives for firms to produce products of desirable qualities even when these are not observable before purchase’.

The “unobservable features” of a trademarked product referred to by Economides, and Bently and Sherman are the inherent qualities of a product guaranteed by the trademark, which will, at the same time, signal the source of the goods to the consumer. This is what Cornish and Phillips<sup>33</sup> mean when they argue that if the consumer “is interested in origin, it is normally because origin imports an expectation about some quality”.

Cornish and Llewelyn<sup>34</sup> significantly build on the argument of Economides, which they adopt, in advancing the reasons for the protection of a trademark’s quality guarantee function as an aspect of the source-origin function. They observe that

In the case of some goods, part of that quality may be bound up with source in a specific way: as, for instance, when the goods will need servicing and the manufacturer or supplier is looked to for the service.

They proceed to argue further that even if the goods do not need servicing after purchase, the function of a trademark before purchase is to designate both the source of the goods and the quality embodied in the goods; what Economides termed the “unobservable features” of the goods. In the view of Cornish and Llewelyn, when after purchase servicing is not required in respect of some goods

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<sup>33</sup> W. R. Cornish and J. Phillips, “*The Economic Function of Trade Marks: An Analysis with Special Reference to Developing Countries*” [1982] 13 *International Review of Industrial Property and Copyright Law*, 41 – 64, at 43.

<sup>34</sup> Note 1 above, at 587 – 589.

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What it [the trademark] does is to enable the purchaser to link goods or services to a range of personal expectations about quality which derive from previous dealings, recommendations of others, attractive advertising and so on.

The trademark owner's interests, according to Cornish and Llewelyn, are to emphasise the qualities of his product, including price, that differentiate his product from those of his competitors. When doing this, there is a tendency to exaggerate the qualities of the product, or to bolster them with appeals to sentiment of one kind or another, or to manipulate consumer feeling through fear or aggression. Cornish and Llewelyn argue that there is a strong case to prohibit unscrupulous claims of advertisers to their goods. They conclude, however, that in designing the appropriate means to prohibit unscrupulous advertising

the continuing importance of being able to distinguish the source of goods and services should not be forgotten. To remove the possibility of differentiation (save for goods that can be tested by inspection) is, indeed, to eliminate the incentive to provide goods of superior quality.

The protection of the quality guarantee function as an aspect of the source-origin function advocated by Economides, Gyngell and Poulter, Cornish and Phillips, and Cornish and Llewelyn was succinctly captured by Lord Mackenzie Stuart<sup>35</sup> when he noted that

the identification with a manufacturer or given trader which, it is said, the mark implies, serves to guarantee the steady quality of the goods – that is to say the mark has a guarantee function.

The last school of thought argues that the quality guarantee function of a trademark is a corollary of the product distinguishing function of a trademark. In terms of this school of thought, the holder of a trademark would have thought it worthwhile to affix his trademark to his goods in order to distinguish them from those of other traders and to acknowledge the goods as his and, therefore, by

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<sup>35</sup> Note 4 above, at 31.

implication, the product should possess certain qualities which protect the reputation of the trademark owner. Hertzog advances this last school of thought.<sup>36</sup>

Some observations may now be made in respect of the quality guarantee function. As shown above, some trademark authors are not *ad idem* as to the juridical status of the quality guarantee function of trademarks. On the one hand, there are those who do not acknowledge the existence of the quality guarantee function as a legal function of trademarks. On the other hand, there are those who do acknowledge the quality guarantee function as a legal function of a trademark. In this group, varying degrees of acknowledgement are found. Some give the quality guarantee function an independent existence; others see it as an aspect of the origin function; and yet still others see it as an aspect of the product distinguishing function. The research proceeds next to analyse the advertising function of trademarks.

#### **2.2.4 The Advertising Function**

The advertising function of a trademark involves the trademark's ability to call to the mind and to draw the attention of the purchasing public to a specific product by virtue of the distinctive quality, uniqueness, selling power and commercial magnetism inherent in the particular trademark<sup>37</sup>. It entails the ability of a trademark to be associated in the public mind with a particular product and to create in the public consciousness an impression or symbol of quality of the particular product in question<sup>38</sup>. The advertising function symbolizes a trademark's ability to imprint upon the public mind an anonymous and

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<sup>36</sup> Note 9 above, at 13.

<sup>37</sup> Frederick Mostert, "*Trademark Dilution and Confusion of Sponsorship in United States, German and English Law*" [1986] Vol. 17 International Review of Industrial Property and Copyright Law 80 – 95, at 86.

<sup>38</sup> Frank I. Schechter, "*The Rational Basis of Trademark Protection*" [1927] 40 HARV L.R. 813 – 833, at 829.

impersonal guarantee of satisfaction, thereby creating a desire for further satisfaction in respect of the goods upon which the trademark is used<sup>39</sup>. A trademark performing the advertising function is an exceptionally potent sales instrument because it is a communication conduit through which the trader communicates the qualities of his product to the purchasing public. In this way, the trademark becomes an important demand stimulant for the product, and actually helps to sell the product and to create and retain custom<sup>40</sup>.

As a concept of trademark law, the advertising function of a trademark is a phenomenon of the 1920s, the genesis of which finds its well-spring in the United States of America from a 1927 article written by Frank I. Schechter<sup>41</sup>. Schechter challenged the orthodox source-origin function of a trademark<sup>42</sup>, and argued that the source-origin function was no longer reflective of the (then) business and economic realities because

A trademark may be affixed to goods by a manufacturer thousands of miles away from the consumer, or by an importer or jobber who has not manufactured but merely selected the goods and put them on the local market, or by a commission merchant who has not even selected the goods or rendered any service relating to them except to sell such as may have been sent to him by the owner<sup>43</sup>.

In rationalizing the functions of a trademark in the realities of modern business, Schechter<sup>44</sup> opined that

The true functions of the trademark are, then, to identify a product as satisfactory and thereby to stimulate further purchases by the consuming public. The fact that through his trademark the manufacturer or importer may “reach over the shoulder of the retailer” and across the latter’s counter straight to the consumer cannot be

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<sup>39</sup> Note 38 above, at 819.

<sup>40</sup> BR Rutherford, “*Misappropriation of the Advertising Value of Trade Marks, Trade Names and Service Marks*” [1990] 2 SA Merc. LJ 151 – 163, at 151 – 152.

<sup>41</sup> Note 38 above.

<sup>42</sup> Note 38 above, at 814, citing *Hanover Star Milling Co v Metcalf* 240 US 403, 412 (1916).

<sup>43</sup> Note 38 above, at 815 – 816.

<sup>44</sup> Note 38 above, at 818 – 819.

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over-emphasised, for therein lies the key to any effective scheme of trademark protection. To describe a trademark merely as a symbol of good will, without recognizing in it an agency for the actual creation and perpetuation of good will, ignores the most potent aspect of the nature of a trademark and that phase most in need of protection ... today the trademark is not merely the symbol of good will but often the most effective agent for the creation of good will, imprinting upon the public mind an anonymous and impersonal guarantee of satisfaction, creating a desire for further satisfaction. The mark actually sells the goods. And, self-evidently, the more distinctive the mark, the more effective is its selling power.

Sanders and Maniatis<sup>45</sup>, in agreeing with Schechter, express the view that the advertising function of a trademark

can be seen as a cumulative result of its origin and quality connotations in all of their guises. The factor that gives it its unique character is the additional advertising effort and the sheer power of a trade mark as an advertising tool. It is obvious that without names, goods could not be advertised as easily, and it is true that “the protection of trademarks is the law’s recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them.”

Recognition of advertising as a separate function of a trade mark merely acknowledges the goodwill which the trade mark can attract to itself independently of the goodwill of the product or its maker.

The authors of the Restatement (Third) of Unfair Competition<sup>46</sup> similarly recognized the importance of the advertising function of trademarks in today’s multi-billion dollar advertising market when they noted that

As the geographic scope of markets expanded and systems of distribution became increasingly complex, trademarks came to function as an important instrument of advertising .... If the trademark owner succeeds in creating a favourable image for its trademark in the marketplace, the mark itself can become a significant factor in stimulating sales. This ability of the mark to generate good will through advertising has also gained recognition under the law of trademarks.

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<sup>45</sup> Note 5 above, at 408.

<sup>46</sup> Restatement (Third) of Unfair Competition (1995), Para. 9, comment (c).

Cornish and Llewelyn<sup>47</sup>, on the other hand, define the advertising function in terms of the investment necessary to promote and market a product through advertising. In their view

Marks are cyphers around which investment in the promotion of a product is built and that investment is a value which deserves protection as such, even where there is no abuse arising from misrepresentations either about origin or quality.

In terms of the theory of the advertising function of trademarks advanced by Cornish and Llewelyn, trademarks which perform the advertising function simultaneously also perform an *investment function*. According to Mostert,<sup>48</sup> the investment function of trademarks is important in terms of the dollar value of trademarks as intellectual property assets. The author observes that

Such a need for protection is particularly significant if one keeps in mind that the brands COCA-COLA, MARLBORO and IBM together have been estimated to be worth close to \$100 billion (US) as intellectual property assets.

The World Intellectual Property Newsletter of September and October, 2003<sup>49</sup>, similarly agrees with Mostert, and Cornish and Llewelyn when it observes that in twenty-first century business realities, the protection of a trademark with advertising value often translates to the protection of a company's market capitalization as well. The Newsletter observes that

Business Week's 2003 annual rankings of top brands finds Coca-Cola at the top once again – valued at US\$70.45 billion. The second and third placed brands are Microsoft at US\$65.17 billion and IBM at US\$51.71 billion. The Apple brand name, at number 50, is valued at US\$5.55 billion. These sums are not only huge on their own, but they often represent as much as 70 to 99 percent of the total market capitalization of the company as well.

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<sup>47</sup> Note 1 above, Para. 15 – 22 (iii), at 587.

<sup>48</sup> Frederick W. Mostert, “*Well-Known and Famous Marks: Is Harmony Possible in the Global Village?*” [1996] 86 TRADEMARK REP. 103 – 141, at 105.

<sup>49</sup> WIPO IP Magazine (Sept-Oct 2003), *Valuation of Intellectual Property: What, Why and How*, heading captioned “*What is the Value of Intellectual Property?*”

A trademark performing an advertising function also performs a *communication function*. Sanders and Maniatis<sup>50</sup> note that

It is true that advertising conveys information. It relates a new product to an existing product that consumers recognize from the shelves of the stores; it facilitates comparison and undermines loyalty to other brands. It creates a package product: that of the advertised marked good, the net worth of which may be higher than the worth of the non-advertised marked good which in turn may be *higher* than that of the generic good.

G. McCracken and R. Pollay<sup>51</sup> succinctly captured the advertising function as a communication function when they observed that

If goods have a symbolic aspect it is largely because advertising gives them one. They plainly do not spring from the factory fully possessed of their ability to communicate. It is advertising that enables them to assume this ability.... It is advertising that makes goods “communicators”.

This communication aspect of the advertising function of a trademark is similarly worthy of the protection of trademark law. This is because, as noted by Justice Frankfurter, “the protection of trademarks is the law’s recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them”<sup>52</sup>.

When a trademark attracts goodwill to itself independently of the goodwill of the product in respect of which it is used, or independently of the goodwill of its maker, the trademark is said to possess an intrinsic value, and a trademark performing the advertising function is referred to by some writers as also

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<sup>50</sup> Note 5 above, at 409.

<sup>51</sup> G. McCracken and R. Pollay, “*Anthropology and the Study of Advertising*” [1981], at 2, Unpublished Paper of the University of British Columbia, as quoted by Sanders and Maniatis, Note 5 above, at 408, Footnote 18.

<sup>52</sup> *Mishawaka Rubber & Woolen Mfg Co. v SS Kresge Co* 316 US 203, at 205 (1942).

performing an *intrinsic value function*. A mark performing an intrinsic value function, in the words of Advocate General Colomer<sup>53</sup>

acquires a life of its own, making a statement about quality, reputation and even, in certain cases, a way of seeing life.

The advertising function of a trademark, therefore, can be seen as embodying several aspects, all of which ultimately contribute to a trademark's ability to call to the mind, and to draw to the attention, of the purchasing public to a specific product by virtue of the distinctiveness, uniqueness, selling power and commercial magnetism inherent in the trademark. The aspects of the advertising function identified above may be summarized briefly as follows: (a) the communication aspect, (b) the investment aspect, and (c) the intrinsic value aspect, all of which give a trademark advertising value. Hörst-Peter Götting succinctly captures these aspects of the advertising function when he observes that

A well-known trade mark embodies the goodwill, meaning the appreciation that the company with its performance in the market place has gained among the consumers. It is an image carrier and as such not only represents the products or services but the company as a whole. Particularly against the background of the continuously spreading mass media, the trade mark plays a central role as a

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<sup>53</sup> See Para. 46 of the Opinion of Advocate General Colomer in the *Arsenal* case [2003] E.T.M.R. 19. In dismissing arguments which seek to protect only the origin function of trademarks, Advocate General Colomer commented in the same paragraph that

It seems to me to be simplistic reductionism to limit the function of the trade mark to an indication of trade origin. The Commission, moreover, took the same view in its oral submissions to the Court. Experience teaches that, in most cases, the user is unaware of who produces the goods he consumes. The trade mark acquires a life of its own, making a statement, as I have suggested, about quality, reputation and even, in certain cases, a way of seeing life.

The messages it sends out are, moreover, autonomous. A distinctive sign can indicate at the same time trade origin, the reputation of its proprietor and the quality of the goods it represents, but there is nothing to prevent the customer, unaware of who manufactures the goods or provides the services which bear the trade mark, from acquiring them because he perceives the mark as an emblem of prestige or a guarantee of quality. When I regard the current functioning of the market and the behaviour of the average consumer, I see no reason whatever not to protect those other functions of the trade mark and to safeguard only the function of indicating the trade origin of the goods and services.

marketing instrument. Without an attractive trade mark even the best product remains a white elephant. Immediate product-related performance competition has been replaced increasingly by advertising competition. In view of the limited absorption capacity of the consumer it must, first of all, attract attention and establish itself in his consciousness through a recognition effect. With an attractive trade mark, an information channel can be created between the seller and the buyer into which the most variable advertising messages can be fed. Through measures aimed at image shaping, the product can achieve an aura, so that the consumer – far beyond its immediate use – can associate with it immaterial value factors such as prestige, luxury, beauty and success, in other words the attributes of a certain life style. The well-known unregistered trade mark fulfills this advertising function in an ideal way<sup>54</sup>.

### 2.3. CONCLUSIONS

In closing, it may be noted that the realities of economic and business life in the twenty-first century have expanded the reach of the functions performed by a trademark. When performing the source-origin function, the trademark serves as a badge of origin of the goods, and in this way protects consumers against counterfeits which may be passed off as the goods of the trademark owner. This function also protects the trademark owner from loss of sales, both present and future, and from loss of reputation.

The source-origin function, it has been shown, requires some modification or qualification if it is to apply to trading conditions found in the modern world. In fact, it was shown above that business conditions in an economic world where production, distribution and marketing methods are vast and complex resulted in an expansion of the source-origin function from the narrower concrete origin function to the broader abstract origin function. This latter function, though broad, might itself need further modification to align it with current trading realities in the twenty-first century economy. The reasons for a thesis calling for such modification are self-evident: the licensing and assignment of trademarks are now a daily phenomena, especially as manufacturers realize that it might be

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<sup>54</sup> Hörst-Peter Götting “*Protection of Well-Known Unregistered Marks in Europe and the United States*” [2000] Vol. 31 No. 4 International Review of Industrial Property and Copyright Law, 389 – 407, at 390.

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expensive to manufacture goods from one centralized factory and then distribute them all over the world, or where manufacturers seek to take advantage of cheap manufacturing and labour resources in different parts of the world. Manufacturers then outsource the production, distribution and/or marketing of their trademarked goods to different licensees and/or assignees. When this happens, the trademark's primary purpose becomes to distinguish the product in respect of which it is used from the products of other traders. This, as shown above, is the product distinguishing function of trademarks.

The product distinguishing function of a trademark can therefore be viewed in one of two ways, both of which seek to serve the same economic purpose. First, it may be viewed as a shift from the origin function. Second, it may be viewed as subsuming the origin function as one of its aspects. Whichever view is taken, the move from the origin function to the product differentiation function was a direct result of the trading styles of modern business, in particular the phenomena of trademark licensing and assignment.

It has also been argued that when consumers are no longer concerned about the origin of a product, what concerns them is an assurance about the quality of the goods to which the trademark relates. This trademark function was tellingly described by Mostert in the following terms<sup>55</sup>:

A brand itself is a seal of authenticity, a practical method for consumers to appreciate the quality of goods by viewing the mark rather than inspecting each product.

In respect of the consumer, particularly for 'experience goods', a trademark promises the consumer satisfaction and the chance of repeating that satisfaction. In other words, the trademark is a shorthand guarantee of quality.

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<sup>55</sup> Frederick Mostert, "*Authenticity: The Timeless Quest*" [2003] 156 Trademark World, 22, at 24.

It was also argued in this Chapter that the purpose of the advertising function is to fix the identity of goods in the minds of consumers, so that they may afterwards use that knowledge to satisfy their desires for the goods. In this way, the trademark itself becomes a significant factor in stimulating sales for the goods. It is precisely because the trademark will be performing this function that it is sometimes said by trademark authors that the trademark actually sells the goods.

In drawing conclusions on the advertising function of a trademark, it is also useful to answer the following question: What economic injury is caused when the advertising function of a trademark is misappropriated?

As shown in this Chapter, when a trader advertises his product through his trademark, and he becomes successful, then the product will have proved to be acceptable to the consumer. The role of the trademark in the advertising process will then be to identify the product to be of satisfactory quality. It will create an impression or symbol of quality of the product in question. In this way, it will help sell the product, and create and retain custom. It then becomes important for the trader to protect the reputation and unique identity of the trademark and the selling power it evokes, because other traders might wish to misappropriate its selling power and commercial magnetism for the purpose of promoting their own products.

Once a trademark has the ability to call to mind a specific product and to evoke an association of satisfaction and desirability with that product, the trademark possesses advertising value. The advertising function, as shown above, serves to direct public demand to the product. When other traders parasitically misappropriate the advertising value of the trademark, their aim is to promote

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their own goods by using the commercial magnetism, distinctive quality, uniqueness and selling power – in short, the advertising value of the trademark. Such conduct may damage the trademark concerned and the goodwill of the trademark owner’s product. The injury caused is not the usual injury of diversion of custom encountered in orthodox trademark infringement. Where the advertising value of a trademark is misappropriated by its use on competing or non-competing goods, this could lead to the dilution of the trademark. A trademark’s advertising function is therefore worthy of protection under trademark law to prevent the dilution of that trademark. What is protected by prohibiting trademark dilution, in the words of Schechter<sup>56</sup>

Is the gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use on non-competing goods. The more distinctive or unique the mark, the deeper its impress upon the public consciousness, and the greater its need for protection against vitiation or dissociation from the particular product with which it has been used.

The thesis proceeds, having contextualised the economic roles fulfilled by the various functions of a trademark in modern economic life, to look at the injury of trademark dilution, and to set out the principles and forms of trademark dilution, and to give examples of how trademark dilution occurs in practice.

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<sup>56</sup> Note 38, at 825.

## CHAPTER 3

### TRADEMARK DILUTION

#### 3.1 INTRODUCTION

If a trader manages, through advertising efforts, to establish a unique identity and commercial magnetism in his trademark, then an intellectual property asset of considerable economic worth will have been created by the trademark owner<sup>1</sup>. In such a situation, the trademark becomes a potent sales instrument. Its unique distinctiveness enables it to exclusively lure and channel the attention of the purchasing public towards the particular goods on which the trademark is used<sup>2</sup>. The stronger the unique identity and commercial magnetism of the

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<sup>1</sup> See the World Intellectual Property Newsletter (Sept – Oct 2003), *Valuation of Intellectual Property: What, Why and How*, heading captioned “*What is the Value of Intellectual Property?*”, stating that Business Week’s 2003 annual ranking of top brands finds Coca-Cola at the top once again – valued at US\$70.45 billion. The second and third placed brands are Microsoft at US\$65.17 billion and IBM at US\$51.71 billion. The Apple brand name, at number 50, is valued at US\$5.55 billion. These sums are not only huge on their own, but they often represent as much as 70 to 99 per cent of the total market capitalization of the company as well.

See also (1) Frederick W. Mostert, “*Well-Known and Famous Marks: Is Harmony Possible in the Global Village?*” [1996] 86 TRADEMARK REP. 103 – 141, at 105, observing that “the brands COCA-COLA, MARLBORO and IBM together have been estimated to be worth close to \$100 billion (US) as intellectual property assets”. (2) BR Rutherford, “*Misappropriation of the Advertising Value of Trade Marks, Trade Names and Service Marks*” [1990] 2 SA Merc. LJ 151 – 163, at 152, commenting that

The proprietor of the trade mark usually expends vast sums of money through advertising to build up the reputation and selling power or advertising value of his trademark. *The growth of his business is dependent upon the growth of the meaning and importance of his trade mark.* It is therefore only fair that he should be entitled to protect this *valuable asset* against misappropriation (emphasis added).

<sup>2</sup> See Frederick Mostert, “*Trademark Dilution and Confusion of Sponsorship in United States, German and English Law*” [1986] Vol. 17 International Review of Industrial Property and Copyright Law 80 – 95, at 86, observing that

The advertising function of a trade mark entails the ability to call to mind and to draw the attention of the purchasing public to a specific product by means of the distinctive quality, uniqueness and selling power inherent in the particular trade mark. The advertising function of a trade mark includes the identity and the hold that a trademark has on the purchasing public to attract it to a specific product.

See also Frank I. Schechter, “*The Rational Basis of Trademark Protection*” [1927] 40 HARV L.R. 813 – 833, at 818 – 819, commenting that

today the trademark is not merely the symbol of good will but often the most effective agent for the creation of good will, imprinting upon the public mind an anonymous and impersonal guaranty

trademark, the more effective will be its ability to call the attention of the purchasing public to, and to focus exclusively on, the goods in respect of which it is used<sup>3</sup>. Such a trademark will be performing the advertising function of a trademark<sup>4</sup>. This function was tellingly captured by Owen Salmon in answering the question “what does it mean that a trademark has advertising value?” According to Salmon<sup>5</sup>

The significance [of the advertising value], it is submitted, lies in the fact that such commercial magnetism as may exist only follows a campaign designed or randomly executed, as a result of substantial effort and at great expense to the owner of the particular trade mark, whereby the public is educated to the extent that they come to recognize the trade mark as indicating a particular product which has particular attributes, demands a certain price, emanates from a certain manufacturer and which is to be found in certain outlets. Once this stage is reached, it is submitted, the mark has value as an advertisement because it is then that its owner need no longer (expensively) inform the public that his product has such qualities – the trade mark, colloquially speaking, says it all. This, then, represents a substantial and directly beneficial advantage because the need for the manufacturer to promote the product (at increasing expense) to wholesalers, jobbers, importers, buyers, retailers, and the public, is removed. *This is precisely the root of the offensiveness of those who use another’s established mark to springboard their products – competing or otherwise – into the marketplace (emphasis added).*

When another trader misappropriates the advertising value of such a trademark and uses it on his goods, his aim is usually to exploit the commercial magnetism, selling power and unique identity embodied in the trademark for his own financial advantage<sup>6</sup>. In other words, the perpetrator does not create an

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of satisfaction, creating a desire for further satisfactions. The mark actually sells the goods. And, self-evidently, the more distinctive the mark, the more effective is its selling power.

<sup>3</sup> Frank I. Schechter, Note 2 above.

<sup>4</sup> Frederick Mostert, Note 2 above.

<sup>5</sup> Owen Salmon, *Dilution As A Rationale For Trade Mark Protection In South Africa* (LLM Thesis) (Unisa 1990), at 14 – 15.

<sup>6</sup> BR Rutherford, “*Misappropriation of the Advertising Value of Trade Marks, Trade Names and Service Marks*” [1990] 2 SA Merc. LJ 151, at 153 – 156; Van Heerden & Neethling, *Unlawful Competition* (1995), Chapter 8, “*Leaning On; Undue Influencing of Customers*” advance the same thesis, at 201 – 202, in observing that “leaning on” or “misappropriation”

Occurs when one entrepreneur, in order to advertise his performance and in this way promote and expand his goodwill, uses the advertising marks of another entrepreneur. In other words, he misappropriates or utilises the *advertising value* which, for example, the trade name, trade mark or service mark of the other entrepreneur has in connection with the latter’s own undertaking, goods

impression that his goods are those of the other trader.<sup>7</sup> Rather, as pointed out by Van Heerden and Neethling, the perpetrator uses the reputation of the other trader's trademark to endorse his own goods for his own financial gain<sup>8</sup>. Misappropriation, then, can only occur in respect of a mark that possesses advertising value, which must (to possess that value) have a reputation or wide recognition in respect of its goods, and further in respect of which the public must, in a positive light, associate or tie the mark to those goods, since in the absence of such reputation or fame, no advertising value can be misappropriated in respect of the mark.

The misappropriation of the advertising value of a trademark can take the form of either unconcealed or open misappropriation, or concealed or veiled misappropriation<sup>9</sup>. Both forms of misappropriation can occur either inside or outside a competitive relationship between the traders<sup>10</sup>.

When the advertising value of a trademark is misappropriated, two forms of injury can result<sup>11</sup>. First, such conduct can cause the injury of trademark dilution. Trademark dilution is a form of harm or injury which occurs where the advertising value of a trademark is misappropriated and used in respect of the

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or services. Thus he leans on the *reputation* or *good name* of the other performance for his own profit and financial gain.

<sup>7</sup> J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, Vol. 2, Chapter 10, Para 10 : 47 (2004).

<sup>8</sup> Van Heerden and Neethling, Note 6 above.

<sup>9</sup> Van Heerden & Neethling, Note 6 above, at 202 – 208; Karl-Heinz Fezer, “*Trademark Protection Under Unfair Competition Law*” [1988] Vol. 19 [No. 2] *International Review of Industrial Property and Copyright Law*, 192 – 215, at 194 – 195. BR Rutherford, “*Misappropriation of the Advertising Value of Trade Marks, Trade Names and Service Marks*” [1990] 2 SA Merc. LJ 151- 163, at 153 – 158. The terminology “unconcealed or open misappropriation” and “veiled or concealed misappropriation” originated in German law – see Karl Heinz Fezer, Note 20 below. Van Heerden & Neethling, Note 6 above, introduced it into South African law as “leaning on”.

<sup>10</sup> Note 9 above.

<sup>11</sup> Frederick Mostert, “*Trademark Dilution and Confusion of Sponsorship in United States, German and English Law*” [1986] Vol. 17 *International Review of Industrial Property and Copyright Law* 80 – 95, at 81, noting that

The following two forms of injury can be caused by the unauthorized user's parasitic use of a trade mark on non-competing goods: [confusion of sponsorship and trade mark dilution].

See also, generally, Frederick W. Mostert, “*The Parasitic Use of the Commercial Magnetism of a Trade Mark on Non-Competing Goods*” [1986] 11 *European Intellectual Property Review*, 342-348.

perpetrator's non-competing goods<sup>12</sup>, where such unauthorized use erodes or gradually whittles away the reputation, commercial magnetism, distinctive quality and selling power embodied in the trademark owner's trademark. The injury of trademark dilution itself can take the form of either (a) dilution by blurring, (b) dilution by genericide, or (c) dilution by tarnishment. According to Neethling

The perpetrator 'leans on' the *reputation* or *good name* of the other's performance in order to promote his own performance and thus to benefit from it. Such misappropriation may infringe upon the goodwill of the business involved in two ways. First, it may violate or damage the reputation or good name of the performance of the aggrieved party (disparagement). This will be the case where the perpetrator's performance is of a bad or inferior quality and the public, because of their contact with this performance, obtains a lesser opinion of the aggrieved party's performance as a result of the association that exists between the two performances. Secondly, there is a real danger that the conduct complained of may lead to the dilution of the effectiveness or drawing power of the aggrieved party's trade mark. In this way the advertising value of the mark in regard to his performance is decreased and the goodwill of his business accordingly infringed upon<sup>13</sup>.

The misappropriation of the advertising value of a trademark can also result in the injury of confusion of sponsorship, especially where the perpetrator uses the trademark owner's trademark on his *non-competing but related goods*<sup>14</sup>.

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<sup>12</sup> It should also be noted that trademark dilution can occur where the advertising value of a trademark is misappropriated for use in respect of competing goods. In this respect see Jonathan E. Moskin, "*Dilution or Delusion: The Rational Limits of Trademark Protection*" [1983] TRADEMARK REP. 122 – 129. See also J Thomas McCarthy, Note 7 above, Volume 4, Chapter 24, Para 24:70, at 24 – 133, commenting that

It is also important to see that as legal theories, a traditional likelihood of confusion claim and a dilution claim look to separate and distinct harms to a trademark and can be pleaded as alternative legal counts. But both infringement by a likelihood of confusion and dilution can co-exist as legal findings if it is proven that a significant number of customers are likely to be confused and that among a significant number of customers who are not confused, the defendant's use will illegally dilute by blurring or tarnishment.

<sup>13</sup> J Neethling, "*Passing Off and Misappropriation of the Advertising Value of Trade Names, Trade Marks and Service Marks*", [1993] 5 SA Merc. LJ 306 – 313, at 309.

<sup>14</sup> Frederick Mostert, "*Trademark Dilution and Confusion of Sponsorship in United States, German and English Law*" [1986] Vol. 17 International Review of Industrial Property and Copyright Law 80 – 95, at 81, commenting that

Confusion of sponsorship occurs when the plaintiffs' trademark is used by the defendant, without consent, to promote his own non-competing goods. The defendant, by using the plaintiffs' trademark without his consent on the defendant's *own non-competing but related goods*, is likely to create the false impression with the purchasing public that the defendant's goods are of the same origin as the plaintiff's or that the defendant's goods are manufactured under the sponsorship or with the authorization of the plaintiff (emphasis added).

By so doing, the perpetrator may create an impression with the purchasing public that his goods are of the same origin as those of the trademark owner, or are manufactured under the sponsorship or authority of the trademark owner<sup>15</sup>.

This Chapter commences by analyzing the two forms of misappropriation of the advertising value of a trademark. Both forms of misappropriation may cause the injuries of both trademark dilution and confusion of sponsorship. The Chapter analyses, in a general manner, the various forms of trademark dilution, and gives some practical examples of each form of trademark dilution. The Chapter also analyses the injury of confusion of sponsorship, and sets out the elements which must be present in a successful dilution and confusion of sponsorship claim. The Chapter further argues that dilution is an extraordinary remedy outside mainstream orthodox trademark infringement, and the courts should, in dealing with dilution cases, adopt a cautionary approach which seeks to appropriately balance the competing interests of the owner of a trademark with advertising value and the interests of the public to free trade, so as not to create absolute monopolies or a form of copyright in a trademark, or to stifle free trade or stultify legitimate economic activity.

## 3.2 **THE MISAPPROPRIATION OF THE ADVERTISING VALUE OF A TRADEMARK**

### 3.2.1 **Unconcealed or Open Misappropriation**

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<sup>15</sup> Frederick Mostert, “*Trademark Dilution and Confusion of Sponsorship in United States, German and English Law*” [1986] Vol. 17 International Review of Industrial Property and Copyright Law 80 – 95, at 81; B R Rutherford, Note 1 above, at 152; Frederick Mostert and Anton Mostert, “*Protection of Well-Known Trade Marks Under the New Act*” [1995] July *De Rebus* 443 – 449, at 443, arguing that where the advertising value of a trademark is misappropriated, this may lead a consumer to believe that the trade mark owner has some business connection with - or in fact sponsors – the defendant’s goods. This exposes the trade mark owner to the likelihood that the ill-repute of the defendant’s goods will be visited upon the trade mark owner’s goods.

This form of misappropriation may take place *inside* a competitive relationship between traders. This occurs when the advertising value of one trader's trademark in relation to the trader's goods is used by a trade competitor in relation to the competitor's own competing goods. A common example of this type of misappropriation is *comparative advertising*, when a trader states, for instance, that his goods are "a substitute for", "similar to", or "the same as" the goods bearing the trademark owner's trademark<sup>16</sup>.

Van Heerden and Neethling use the term "open leaning on" to describe open misappropriation, and they point to comparative advertising as a typical example of this type of unconcealed misappropriation when they note that

Open leaning on takes place where an entrepreneur - usually through *comparative advertising* - in an overt or unconcealed manner misappropriates the advertising value which for example the trade mark of a rival has in regard to his own product, so that it may serve as a springboard or prestress ("voorspan") for the first entrepreneur's own similar performance; in so doing the perpetrator "diverts the positive association which the trade mark enjoys in relation to the proprietor's product to his own product". Examples of this type of advertising are where an entrepreneur intimates that his undertaking, goods or services are "as good (efficient) as", or "similar to", or "a substitute for", or "manufactured like" the similar performance of a competitor<sup>17</sup>.

OH Dean also defines comparative advertising as a form of unconcealed misappropriation which causes trademark dilution by observing that

Comparative advertising, in general terms, is a practice whereby a trader in extolling the virtues of his wares in advertising draws comparisons between his goods and the goods of another, which goods are usually well-known and held in high regard by the consumer, with a view to stimulating the demand for his own goods in preference to those goods with which the comparison is made. In essence, one who resorts to comparative advertising is attempting to "ride on the back" of a well known and successful product and to use the repute of that product as a platform from which to generate sales of his own product<sup>18</sup>.

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<sup>16</sup> Van Heerden and Neethling, Note 6 above, at 202.

<sup>17</sup> Van Heerden & Neethling, Note 6 above, at 202.

<sup>18</sup> OH Dean, "*Comparative Advertising as Unlawful Competition*" [1990] SA Merc. LJ, 40 - 48, at 40.

In the comparative advertising situation defined by OH Dean, for example, the misappropriation

diverts the positive association which the trade mark enjoys in relation to the proprietor's product to his own product. The positive association is then shared and the selling power which it evokes no longer accrues solely to the established mark. The trade mark becomes diluted and the goodwill of the proprietor is impaired.<sup>19</sup>

In other words, the trader who engages in the misappropriation does so for the purpose of diverting the positive association enjoyed by the trademark owner's trademark in respect of the trademark owner's goods to the perpetrator's goods. The primary purpose of the misappropriation may therefore be seen as seeking to draw customers to the perpetrator's goods, not because of the quality or other provenance of the perpetrator's goods, but because of riding on and sharing in the advertising value of the trademark owner's trademark.

Karl-Heinz Fezer<sup>20</sup> defines open misappropriation in a competitive relationship in the context of German law by observing that

If in advertising his own trademarked goods, a competitor uses another's mark with the aim of participating in the reputation of this mark as an endorsement of his own mark ... this is an unconcealed misappropriation of another's reputation.

Bastian, on the other hand, explains the rationale why comparative advertising, as a form of open misappropriation of the advertising value of a trademark, was prohibited in Germany prior to the European Communities Directive on Comparative Advertising<sup>21</sup> by arguing that, when engaging in critical comparative advertising the "advertiser ... [promotes] the sale of his own goods or services by disparaging the goods or services of one or several competitors to

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<sup>19</sup> BR Rutherford, Note 6 above, at 153.

<sup>20</sup> Karl-Heinz Fezer, "*Trademark Protection Under Unfair Competition Law*" [1988] Vol. 19 [No. 2] *International Review of Industrial Property and Copyright Law*, 192 – 215, at 195.

<sup>21</sup> EC Directive 97/55.

which reference is made in a perceptible manner”<sup>22</sup>. In other words, such misappropriation causes dilution by tarnishment.

According to Van Heerden and Neethling, the prohibition against open misappropriation is qualified in at least one situation, namely, where a competitor cannot inform the public about his goods except by reference to the trademark owner’s goods<sup>23</sup>.

It should also be noted that unconcealed misappropriation can also occur *within a competitive context* through the generic use of a trademark by a competitor. Such use destroys the unique identity of the trademark and results in trademark dilution<sup>24</sup>.

Unconcealed misappropriation may also take place *outside* a competitive context, when the advertising value of a trader’s trademark is used without its owner’s authorization in respect of non-competing goods. This occurs, for example, when a coffee maker manufacturer advertises his appliance by stating that it is assembled with the same precision as a ‘Rolex’,<sup>25</sup> or when a pharmaceutical company states that its medical tablets are manufactured like “mercedes benz” automobiles<sup>26</sup>. This is a form of indirect comparative advertising which may injure an applicant’s goodwill, for example, by tarnishing the good reputation of the applicant’s goods if the respondent’s goods are of an inferior quality, or by transferring the positive association of the applicant’s trademark from the applicant’s goods to the respondent’s non-competing goods, thereby causing dilution by blurring.

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<sup>22</sup> Eva-Marina Bastian, “*Comparative Advertising in Germany – Present Situation and Implementation of EC Directive*” [2000] Vol. 31 [No. 2] International Review of Industrial Property and Copyright Law 151 – 161, at 152.

<sup>23</sup> Van Heerden & Neethling, Note 6, at 204. The authors argue that in such a situation the perpetrator’s conduct should thus be considered to be justified by necessity. A clear example of a situation where open leaning on is justified is where a trader manufactures or markets spare parts for a rival’s product and he brings this fact to the attention of the public in advertisements.

<sup>24</sup> BR Rutherford, Note 6 above, at 154.

<sup>25</sup> BR Rutherford, Note 6 above, at 154.

<sup>26</sup> For further examples see BR Rutherford, Note 6 above, at 154.

### 3.2.2 Concealed or Veiled Misappropriation

Concealed or veiled misappropriation can occur either within or outside a competitive relationship. According to Fezer<sup>27</sup>

Veiled misappropriation, i.e., otherwise denoted as the parasitic use of another's trademark, is considered contrary to honest business practices, if a competitor consciously draws closely upon the well-known elements of another's mark in order to appropriate the reputation of his competitor's mark for the benefit of his own products. This can be paraphrased as covertly assuming the reputation of another's mark.

Concealed misappropriation occurs *within* a competitive context in, for example, the typical passing off or orthodox trademark infringement situation which gives rise to a likelihood of confusion on the part of consumers as to the origin of the goods in question. This, in turn, results in the diversion of custom to the infringing competitor. In this situation, both the source-origin function, the product distinguishing function and the advertising function of the trademark are impaired. Rutherford<sup>28</sup> is of the view that, in this type of situation

As adequate protection of the trade mark on the basis of its origin function is provided by the common-law action for passing off or, in the case of registered marks, the statutory infringement action, reliance on misappropriation of the advertising value of the mark as a cause of action is unnecessary.

Concealed misappropriation of the advertising value of a trademark takes place *outside* a competitive relationship where, for example, an identical or confusingly similar trademark is used in relation to non-competing goods. The non-competing goods may in turn be related or unrelated. In respect of unrelated and non-competing goods, a good example is the case of *Rolls Royce Motors Ltd*

<sup>27</sup> Karl-Heinz Fezer, Note 20 above, at 194.

<sup>28</sup> BR Rutherford, Note 6 above, at 154. Van Heerden & Neethling are also of the same view. In this respect, they say [See Note 6 above, at 204] that

Since the passing-off action usually provides adequate protection for these interests [i.e. protection of the distinguishing value and the origin value of trademarks], reliance on leaning on – or the misappropriation of the advertising value of these marks or names – as an independent cause of action is, as a rule unnecessary.

*v Gramm & Grey GmbH & Co KG*<sup>29</sup>, where the defendant trader used a representation of the highly esteemed Rolls Royce trademark in the background of his advertisement for his new brand of whisky and, in this way, capitalized on the reputation of the Rolls Royce trademark by transferring to his whiskey the positive association of outstanding quality which the trademark enjoys in the mind of the consuming public. In the *Rolls Royce* case, above, a full page, coloured advertisement for American Jim Beam whiskey was published in a weekly journal. The advertisement displayed the front of a Rolls Royce automobile, complete with the automobile's distinctive features, namely: the "spirit of ecstasy" radiator ornament; the interlocking "RR" logo; and the characteristic palladian – style radiator grill, which said features are registered in Germany. The advertisement depicted two Texans seated on the front fenders of the automobile playing cards while three additional persons looked on. In the foreground of the scene, a bottle of the advertised whiskey together with two full glasses were featured. It is submitted that in the *Rolls Royce* case, above, the whiskey merchant parasitically rode on the reputation of the Rolls Royce trademark in order to draw customers to his whiskey, not because of the merits of his whiskey, but by sharing in the excellent reputation of the Rolls Royce trademark. In other words, the whiskey merchant was covertly assuming the reputation of the Rolls Royce trademark in promoting his whiskey.

After analyzing the two forms of misappropriation, the research proceeds next to examine trademark dilution, which is one of the two forms of injury caused by the misappropriation of the advertising value of a trademark<sup>30</sup>.

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<sup>29</sup> [1984] 15 International Review of Industrial Property and Copyright Law 240, a decision of the German Bundesgerichtshof.

<sup>30</sup> Van Heerden & Neethling, Note 6 above, at 214, stating that

The misappropriation of the advertising value of an entrepreneur's trademarks, trade names and service marks creates a real danger of the dilution (the gradual "whittling away or dispersion, blurring, erosion or watering-down) of the magnetism or drawing power and consequently of the effectiveness of the name or mark. In this way the selling power or advertising value of the name or mark in regard to the entrepreneur's performance is decreased and the goodwill of his undertaking is accordingly infringed.

### 3.3 **TRADEMARK DILUTION**

#### 3.3.1 **Generally**

The underlying rationale of a claim for trademark dilution, according to McCarthy

is that a gradual attenuation or whittling away of the value of a trademark, resulting from use by another, constitutes an invasion of the senior user's property right in its mark and gives rise to an independent commercial tort<sup>31</sup>.

The injury of trademark dilution is caused by the misappropriation of the advertising value of a trademark which erodes the reputation, commercial magnetism, distinctive quality and selling power embodied in the trademark<sup>32</sup>.

One reason for protection against dilution is therefore based on the view that the gradual erosion of a mark's commercial magnetism or advertising value is an injury to a proprietary right in the mark, which should be protected in equal measure to the other confusion-based injuries recognized by trademark law<sup>33</sup>. It cannot be over emphasized that in the modern commercial world, a trademark's distinctiveness, its unique identity, helps it to stand apart in the marketplace and in this way, it actually not only helps a trader to create custom, but also to retain custom<sup>34</sup>.

This reason for anti-dilution protection is again tellingly disclosed by Rutherford, in the following terms:

The preservation of the reputation and unique identity of the trade mark and the selling power which it evokes is of vital importance to the trade mark proprietor to protect and retain his goodwill. Other traders will frequently wish to exploit

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<sup>31</sup> J. Thomas McCarthy, Note 7 above, Volume 4, Chapter 24, Para 24:70, at 24 – 131 (2004).

<sup>32</sup> Frederick Mostert, Note 2 above, at 87; BR Rutherford, Note 6 above, at 152.

<sup>33</sup> BR Rutherford, Note 6 above, at 152 – 153.

<sup>34</sup> BR Rutherford, Note 6 above, at 152.

the selling power of an established trade mark for the purpose of promoting their own products. The greater the advertising value of the trade mark, the greater the risk of misappropriation. Any unauthorized use of the trade mark by other traders will lead to the gradual consumer disassociation of the trade mark from the proprietor's product. The more the trade mark is used in relation to the products of others, the less likely it is to focus attention on the proprietor's product. The reputation and unique identity of the trade mark will become blurred. *The selling power becomes eroded and the trade mark becomes diluted.* The proprietor of the trade mark usually expends vast sums of money through advertising to build up this reputation and selling power or advertising value of his trade mark. The growth of his business is dependent upon the growth of the meaning and importance of his trade mark. It is therefore only fair that he should be entitled to protect this valuable asset against misappropriation. Moreover, a misappropriator should not be allowed to obtain a promotional advantage for his product at the expense of the trade mark proprietor. Misappropriation of the selling power or advertising value of a trade mark is commercially injurious to the trade mark proprietor and results in the impairment of the goodwill of his business. It is submitted that such conduct is, in principle, unlawful and constitutes an infringement of his right to goodwill<sup>35</sup>. (emphasis added).

The United States Trade Mark Association Commission Report<sup>36</sup> made a similar rationale for protection against trademark dilution when it observed that

A well known trade mark is *a powerful advertising tool* and source identification. It can fasten a lasting psychological grip on the public consciousness, generating consumer loyalty and goodwill. Once established, this commercial magnetism builds and retains markets and fastens competitive vigour. The value of well-known brand names is incalculable; they can bring an immense premium in the price of corporate acquisition. The unseen but dynamic pull of a famous mark, the essence of many a successful business, should be awarded maximum legal protection [from trademark dilution] (emphasis added).

In the *Quick*<sup>37</sup> case, for example, the German Federal Supreme Court explained why trademarks should be protected from trademark dilution by observing that

The consideration underlying this special anti-dilution protection is that the owner of such a distinctive mark has a legitimate interest in continuing to maintain the position of exclusivity he acquired through large expenditures of time and money and that everything which could impair the originality and

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<sup>35</sup> BR Rutherford, Note 6, at 152.

<sup>36</sup> [1987] 77 TRADEMARK REP. 455.

<sup>37</sup> BGH 1959 GRUR 182, at 186.

distinctive character of his distinctive mark, as well as the advertising effectiveness derived from its uniqueness, is to be avoided ... Its basic purpose is not to prevent any form of confusion but to protect an acquired asset against impairment.

From the foregoing, it is clear that a claim for trademark dilution is aimed at protecting the advertising value of a trademark which functions to direct the purchasing public to its goods<sup>38</sup>. Such an advertising value is an important component in the formation of goodwill in the trademarked goods.<sup>39</sup> A claim for trademark dilution therefore prohibits other traders from parasitically assuming the goodwill built up by a trader in his goods through advertising effort – which involves both time and money – to their own goods, thereby attracting custom not through the merit and quality of their goods, but through sharing in the selling power of the other trader's trademark<sup>40</sup>. Additionally, the protection of the goodwill of the trademark owner's business through a claim for trademark dilution also serves as a reward and incentive for the trademark owner to create goodwill towards his product thereby enabling consumers in the community to have access to quality goods. In this way, a claim for trademark dilution may be seen as protecting both the advertising and quality values of a trademark. Mostert succinctly captured this function of a claim for trademark dilution in observing that :-

a trade mark owner should be entitled to the goodwill built up around his product through his own endeavour and effort. Furthermore, the protection of the goodwill of the trade mark owner's business through a claim for trade mark dilution also serves as a reward and incentive for the trade mark owner to create

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<sup>38</sup> Frederick Mostert, Note 2 above, at 90, stating that

The unauthorized use of a trade mark on a non-competing product is likely to limit the effectiveness of the trade mark in directing the purchasing public to the product. If this happens the goodwill towards that product will be impaired. A claim for trade mark dilution is designed to curb the detrimental effect which may result from the unauthorized use of a trade mark on non-competing and unrelated goods.

<sup>39</sup> BR Rutherford, Note 6 above, at 152.

<sup>40</sup> See *Polaroid Corporation v Polaroid Inc*, 319 F2d 830, at 831 where the court, in granting a claim for trademark dilution, stated that

it was a name which through much effort and the expenditure of large amounts of money had acquired a widespread reputation and much goodwill, which plaintiff should not be required to share with defendant.

goodwill towards his product. This will in turn result in the production of quality goods and quality competition from which society can only benefit<sup>41</sup>.

In cases where the misappropriation of a trademark's advertising value occurs, the advertising value is usually protected only *indirectly* through a claim for trademark dilution<sup>42</sup>. However, South African writers have also made a compelling case for the *direct* protection of the *advertising right as an independent right* worthy of protection<sup>43</sup>.

It may now be appropriate to take a closer look at trademark dilution. Trademark dilution itself can take the form of dilution by blurring, or dilution by genericide, or dilution by tarnishment. Each of these forms of dilution is analysed next.

### 3.3.2 *Dilution by Blurring*

Dilution by blurring is the orthodox type of dilution. A claim for dilution by blurring seeks to protect against the misappropriation of the advertising value of a trademark in the absence of competition or a likelihood of confusion.

Schechter<sup>44</sup> described dilution by blurring as “the gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use upon non-competing goods”. According to Schechter<sup>45</sup>

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<sup>41</sup> Frederick Mostert, Note 2 above, at 92 to 93.

<sup>42</sup> See Part 3.6 below.

<sup>43</sup> Frederick W. Mostert, “*The Right to The Advertising Image*” [1982] 99 SALJ 413, at 424, defined “the advertising image” as follows:

every name, mark, symbol or character that is identified with a particular product, business or person and that harbours potential advertising value and possible goodwill for products or businesses of other entities in various other unrelated fields of commerce

which, he submitted

when used to promote a product or business will have to be associated or connected with the original entity claiming to be the holder of the right.

See generally Part 3.6 below.

<sup>44</sup> Frank I. Schechter, Note 2 above, at 825. See also Nancy S Greiwe, “*Antidilution Statutes: A New Attack on Comparative Advertising*” [1982] 72 TRADEMARK REP, 178, at 180.

<sup>45</sup> Frank I. Schechter, Note 2 above, at 825.

The more distinctive or unique the mark, the deeper is its impress upon the public consciousness, and the greater its need for protection against vitiation or dissociation from the particular product in connection with which it has been used.

According to McCarthy<sup>46</sup>, dilution by blurring

is the classic, or “traditional” injurious impact of the dilution theory as envisioned by its original proponents. Customers or prospective customers will see the plaintiff’s mark used by other persons to identify other sources on a plethora of different goods and services. This unique and distinctive significance of the mark to identify and distinguish one source may be diluted and weakened. But no confusion as to source, sponsorship, affiliation or connection has occurred.

Robert D. Litowitz and Douglas A. Rettew<sup>47</sup> concisely capture the injury of dilution by blurring and give practical examples of (misappropriation) uses which causes this type of damage.

Classic examples of potentially diluting uses might include: Buick aspirin tablets, Schlitz varnish, and Kodak pianos. Blurring dilution was intended to encompass uses like these, where someone usurps (intentionally or unintentionally) the selling power of a famous mark but does so on goods or services that consumers would not ordinarily associate with the famous brand name. The uses eventually detract from the power of the famous mark to identify its goods and “whittle away” its distinctive value as a source identifier.

The most notable form of dilution by blurring in practice is comparative advertising. As already explained, comparative advertising takes place where a product is identified and then compared with competitive products. Such comparative use diverts the positive images of the trademark to the competitor’s goods, enabling the goods of the latter to share in the desirable images already associated with the established mark. According to Greiwe, such “comparative use usurps a quantum of the selling power that the original mark previously

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<sup>46</sup> J. Thomas McCarthy, Note 7 above, Vol. 4, Chapter 24, Para. 24:68, at 24 – 129 (2004).

<sup>47</sup> Robert D. Litowitz and Douglas A. Rettew, “*What is ‘Dilution’ under the New Federal Trademark Dilution Act?*” [1996] 11 European Intellectual Property Review 618 – 620, at 618 - 619.

possessed; because the desirable images are now shared, the selling power they evoke no longer accrues solely to the original trade mark”<sup>48</sup>. According to Owen Salmon<sup>49</sup>, comparative advertising also causes dilution by blurring because

The image of the product which the mark conveys to the customer, whether it be of upward social mobility, visual acceptableness, wealth, or whatever, will be destroyed because comparative advertising will dilute the trade mark’s selling power by encumbering that image. This is simply because the consumer response to that trade mark will no longer be that solely desired by the trade mark owner. Furthermore, the trade mark owner loses [exclusive] control over the image he has created at substantial expense and effort, when the mark is viewed both in its intended context and its unintended context. A particular trade mark will evoke in consumers minds not only its products but that of others as well.

In the case of dilution by blurring, the positive association which the plaintiff’s trademark enjoys in relation to the plaintiff’s goods is transferred to the defendant’s goods. In this way, the advertising value of the plaintiff’s trademark is shared between two or more products, and its ability to exclusively focus on the plaintiff’s product becomes ‘blurred’ or ‘eroded’. The ‘blurring’ that occurs, as a form of injury, is best explained if the word ‘blur’ itself is understood in its ordinary grammatical sense. As a concept, what is meant here is that *the exclusive focus on the trademark owner’s goods, which is brought about by the advertising value, uniqueness, selling power and so on of his trademark, is rendered dim* (and is in this way deformed and rendered less visible in its exclusive focusing function) when that value is *used (or is misappropriated) by another trader* without the trademark owner’s permission in respect of the other trader’s goods. The exclusive focus becomes dim because, instead of being concentrated *only* on the trademark owner’s goods, it becomes concentrated on different goods – competing or non-competing – and this is what is meant by the expressions often-used without adequate explanation that the advertising value becomes “blurred”, “whittled away”, “watered down”, “eroded”, “corroded”, “attenuated” and so on, or “is shared between different products”. This blurring,

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<sup>48</sup> Nancy S. Greive, Note 44 above, at 187.

<sup>49</sup> Owen Salmon, Note 5 above, at 23.

then, *dilutes or lessens* the ability of the trademark to exclusively focus the attention of members of the consuming public on the trademark owner's goods. In other words, the blurring *scatters* that focus to diverse goods of diverse traders.

In concluding this Part of the research, the thesis agrees with Schechter that the injury of dilution by blurring is the dissociation between a trademark's selling power and commercial magnetism from its product. Schechter, in explaining this injury, started at its root – by explaining that it is a trademark's selling power that gives it value – and by then proceeding to explain how this “selling power” which gives a trademark value is attained, namely by the merit of the goods, the uniqueness of the mark, its distinctiveness, and so on, then Schechter explained how that value (brought about by selling power) is diluted (he used the word ‘vitiating’). Schechter observed (1) that the value of the modern trademark lies in its selling power; (2) that this selling power depends for its psychological hold upon the public, not merely upon the merit of the goods upon which it is used, but equally upon its own uniqueness and singularity; and (3) that such uniqueness or singularity is vitiating or impaired by its use upon either related or non-related goods<sup>50</sup>. The last of Schechter's three-point propositions, it is submitted, explains how the injury of dilution by blurring occurs.

### 3.3.3. *Dilution by Genericide*

Some trademark law authors identify genericide as a distinct category of trademark dilution<sup>51</sup>. The correct view, however, seems to be that the generic use of a trademark is a form of misappropriation which causes dilution by blurring. In other words, the distinctive quality and commercial magnetism of a trademark which serves to evoke satisfaction and focus public attention on the goods on which a trademark is used can be diluted by the generic use of the

<sup>50</sup> Frank I. Schechter, Note 2 above, at 831.

<sup>51</sup> Tony Martino, *Trademark Dilution* (1996), at 57 – 63, arguing that Professor Walter J. Derenberg identified at least two other harms which may befall a trademark for which the dilution statutes provide a remedy. The first he described as “death by genericide”, “genericization” or “trademarkicide”.

trademark, particularly in wide-circulating media like national newspapers, magazines, dictionaries, the internet, the television, and so on.

The fact that the generic use of a trademark causes dilution by blurring becomes self-evident if three basic issues are considered. The first consideration relates to the meaning of a generic sign. A sign or word is generic if it is the name of the very goods to which it refers. The words “table”, “chair”, “computer” and so on readily come to mind as unexceptional examples of generic signs. As noted by McCarthy, correctly, it is submitted

Generic designations tell the buyer *what* the product is, *not where* it came from. If the public chooses to call a product a “Thermos” bottle rather than a “Thermos brand vacuum-insulated bottle”, then “Thermos” is not serving as a mark – it is used as a generic name, regardless of the producer’s intentions<sup>52</sup>.

The second consideration relates to the nature of the injury of dilution by blurring. As already noted, dilution by blurring is the gradual whittling away of the uniqueness and distinctiveness of a trademark by its use on other products. If “chair” was once a trademark, its generic use to denote a class of goods – namely furniture used by humans to sit on – divested it of trademark attributes and placed it in the public domain of market language<sup>53</sup>. The singularity and uniqueness of the word “chair”, to follow the example above, became blurred because of its use to signify the category of goods to which it referred, and, rather than being used to focus exclusively on its trademarked goods, it then occupied the public domain of market language because (a) it no longer served to identify its original goods in a trademark sense, but became the name of a class of goods, freely available for use by other market participants, and (b) in this way, it became absorbed into language in the process<sup>54</sup>.

<sup>52</sup> J. Thomas McCarthy, Note 7 above, Vol. 2, Chapter 12, Para. 12:1, p. 12 – 5 (2004).

<sup>53</sup> J. Thomas McCarthy, Note 7 above, Vol. 2, Chapter 12, Para. 12:1, p. 12 – 6 (2004) stating that if one seller develops trademark rights in a term which a majority of the relevant public then appropriates as the name of a product, the mark is a victim of “genericide” and trademark rights may cease. That is, once declared to be a generic name, the designation enters the “linguistic commons” and is free for all to use.

<sup>54</sup> Neil J Wilkoff, “*Trade Marks and the Public Domain: Generic Marks and Generic Domain Names*”

Generic use therefore blurs a trademark's uniqueness and distinctive quality and results in the injury of dilution by blurring. Its only difference with orthodox dilution by blurring cases is that the 'blurring' injury caused by generic use usually occurs in respect of competing goods. Notwithstanding this difference, it produces the same effects as typical dilution by blurring cases in that the resultant injury causes the trademark to fail to exclusively focus on the trademark owner's goods.

### 3.3.4 *Dilution by Tarnishment*

The distinctive quality and commercial magnetism of a trademark which serves to evoke satisfaction and to focus attention in the public mind on the trademark owner's goods can be diluted and tarnished if the trademark is linked to products of inferior quality, or to products of an immoral or unwholesome character, or where the trademark is portrayed in an unsavoury context likely to evoke negative thoughts about the trademark owner's goods. In such situations, the trademark's reputation and commercial value diminishes when the public attributes the negative or undesirable characteristics of the defendant's goods to the trademark owner's goods. This is called dilution by tarnishment.

Jacqueline A. Leimer<sup>55</sup> opines that the remedy against the injury of dilution by tarnishment prevents unauthorized uses of trademarks that tarnish, degrade or create negative associations with the trademark owner's trademark. In this type of dilution, the value of the trademark owner's mark is diluted not only by loss of distinctiveness, but also by loss of positive associational value. Mostert<sup>56</sup> notes that

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[2000] European Intellectual Property Review 571, 572 – 573. See also *Owen Salmon*, Note 5 above, at 25 – 27.

<sup>55</sup> Jacqueline A. Leimer, "*Trademark Dilution in the US*" Trademark World [Nov. 1993] 15 to 19, at 15.

<sup>56</sup> Frederick Mostert, Note 2 above, at 89.

The unauthorized use of a trade mark in an unsavoury context could tarnish the favourable association that it evokes with the purchasing public about a product. If a trade mark is used without consent on noncompeting goods in an offensive and unsavoury connotation, the favourable association which it creates with the purchasing public can be severely tarnished.

According to Owen Salmon, “tarnishing use is undesirable not only because of the peculiarly unwholesome association of ideas created but also because, in itself, such tarnishing use results in dilution of the mark”<sup>57</sup>.

A practical example of dilution by tarnishment is found in *Community Federal Savings and Loan Association v Orordoff*<sup>58</sup>. There, the plaintiff, a savings bank, used the mark “Cookie Jar” and a jar logo on its automated teller machines. The defendant then commenced using the marks “Annie’s Cookie Jar”, “Cookie Jar”, and a jar device with a silhouette of a lady lying on top of the jar device on its topless go-go bar. The plaintiff sought to enjoin the defendant’s use of the “Cookie Jar” mark and associated devices under the State of Florida’s anti-dilution statute. The Court of Appeals remanded the proceedings for a further hearing after finding that defendant’s use of the “Cookie Jar” mark and associated devices for use in respect of a go-go bar was likely to tarnish and degrade plaintiff’s mark for use in respect of its banking activities.

According to P Ginsburg<sup>59</sup>

Dilution may also occur by what is known as *tarnishment*. Here the value of the trade mark is diluted not only by loss of distinctiveness but also by negative association, or conversely ‘by loss of positive associational value’. Examples of this type of dilution were found to exist in the use of GARBAGE PAIL KIDS cards, a parody of CABBAGE PATCH KIDS, and the use of the Dallas Cowboys cheerleaders uniform in a pornographic film. An interesting example of this kind of dilution took place in respect of the KODAK trade mark when a foul-mouthed comedian specializing in humor based on bodily functions and sex took the stage name KODAK. The court found both whittling away of the mark’s distinctiveness, and tarnishment, as a result of mental association between the name and the content of the comedian’s performance. As Professor Rutherford

<sup>57</sup> Owen Salmon, Note 5 above, at 21.

<sup>58</sup> 215 USPQ 26 (11<sup>th</sup> Cir, 1982).

<sup>59</sup> P Ginsburg, “*Trade-Mark Dilution*” in C. Visser (Ed), *The New Law of Trade Marks and Designs* (1996), 35 – 53, at 40.

points out, one of the classical examples of this form of dilution concerned the sale of posters bearing the words enjoy cocaine in the same script, colour, and format as the well-known COCA-COLA advertisement. (footnotes omitted).

### 3.4 CONFUSION OF SPONSORSHIP

The harm of confusion of sponsorship occurs where a defendant misappropriates the advertising value of a trademark and uses it on his non-competing but related goods, where such use is likely to create a *false impression* in the mind of the purchasing public that the defendant's goods come from the same source as those of the plaintiff, or are manufactured or sponsored by, or affiliated or connected with, the plaintiff<sup>60</sup>. If the misappropriation of the advertising value of the plaintiff's trademark and its use on defendant's non-competing but related goods is likely to create a false impression that a *trade relationship* exists between the defendant's goods and the plaintiff's goods, then it is possible that a stigma which clings to the defendant's goods will be transferred to the plaintiff's goods, and may affect the positive association which exists between plaintiff's goods and his trademark<sup>61</sup>. A claim for confusion of sponsorship therefore seeks to prevent the public from being deceived into believing that there is an *association of origin or affiliation* between the plaintiff's goods and the defendant's goods caused by the defendant's misappropriation of the advertising value of the plaintiff's trademark<sup>62</sup>. A claim for confusion of sponsorship also serves to protect the reputation and goodwill of the goods of the trademark owner<sup>63</sup>. This is especially important where the defendant's goods are

<sup>60</sup> Frederick Mostert, Note 2 above, at 81.

<sup>61</sup> Frederick Mostert, Note 2 above, at 82, observing that the unauthorized use of the plaintiff's trade mark on the defendant's non-competing but related goods is likely to create the false impression that a business relationship exists between the defendant's goods and the plaintiff's business. It is possible for a stigma which clings to the defendant's goods to be transferred to the plaintiff's goods. If, for example, a purchaser is dissatisfied with the poor quality of the defendant's computer software which is marketed under the trade mark "Lambda", he will in all likelihood be unwilling to purchase the plaintiff's hardware. The reason for this is that an association of origin or affiliation between the goods of the plaintiff and those of the defendant will be assumed.

<sup>62</sup> Frederick Mostert, Note 2 above, at 83, noting that One of the objectives of a claim for confusion of sponsorship is the prevention of the deception of the purchasing public by this type of unauthorized conduct on the part of the defendant.

<sup>63</sup> Frederick Mostert, Note 2 above, at 83, commenting that

of inferior quality<sup>64</sup>. As observed by Mostert and Mostert, correctly, it is submitted:

Use of a similar trade mark by the defendant on its non-competing goods may lead the consumer to believe that the trade mark owner has some business connection with – or in fact sponsors – the defendant’s goods. This exposes the trademark owner to the likelihood that the ill-repute of the defendant’s goods will be visited upon the trade mark owner’s goods<sup>65</sup>.

The injury of confusion of sponsorship occurs, for example, where persons are likely to think that “Greyhound Tours” or “Greyhound Taxis” are associated with or sponsored by the “Greyhound Bus Company”<sup>66</sup>. Mostert gives the example of non-competing but related computer hardware and software and comments that -

Take the example of the “Lambda” trademark associated with the plaintiff’s computer hardware. If the defendant uses that trademark on his computer software without the consent of the trademark owner, the purchasing public *may infer* that the plaintiff has expanded his business. In doing so, *the false impression is likely to be created that the defendant’s computer software has the same origin as the plaintiff’s computer hardware, or is manufactured under the sponsorship or supervision of the plaintiff*. If a purchaser is dissatisfied with the poor quality of the defendant’s computer software which is marketed under the trademark “Lambda”, he will in all likelihood be unwilling to purchase the plaintiff’s hardware. The reason for this is that an association of origin or affiliation between the goods of the plaintiff and those of the defendant will be assumed. (emphasis added).<sup>67</sup>

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A claim for confusion of sponsorship therefore fulfils the two basic objectives of the law of trade marks. It serves to protect the reputation and goodwill of the goods of the trade mark owner. Secondly, it serves to prevent deception of the purchasing public. Moreover, a claim for confusion of sponsorship makes it possible for the court to consider the likelihood that the plaintiff will expand his business under his trade mark to manufacture goods similar to the goods of the defendant. The court may also consider that, since the defendant is benefiting from the commercial magnetism built up by the plaintiff around his trade mark, the defendant is unjustly enriched at the expense of the plaintiff.

<sup>64</sup> Frederick Mostert, Note 61 above.

<sup>65</sup> Frederick Mostert and Anton Mostert, “*Protection of Well-Known Marks Under the New Act*” [1995] July *De Rebus* 443 – 449, at 443.

<sup>66</sup> *Greyhound Corporation Et al v Goberna Et al* 128 F2d 806.

<sup>67</sup> Frederick Mostert, Note 2 above, at 81.

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*Capital Estate and General Agencies (Pty) Limited and Others v Holiday Inns Inc and Others*<sup>68</sup>, concerned confusion of sponsorship where the “Holiday Inn” trademark, associated with the respondent’s hotels and motels, was used (misappropriated) by the appellants on their non-competing but related business of duplex accommodation. There, although the court dealt with the case on the basis of passing off, it nevertheless agreed that the misappropriation heightened the danger of an impression being created (since the public would conclude) that the words “Holiday Inn” could only have been used for one purpose, namely, to indicate a connection in the course of trade between the appellant and the respondent, leading to confusion in the marketplace.

Another good illustration of confusion of sponsorship is to be found in *Annabel’s (Berkely Square) Ltd v G. Shock*<sup>69</sup>, an English case decided under the tort of passing-off. There, the plaintiffs ran a well-known *night club* called Annabel’s. The defendant then established an *escort agency* under the same name. The court found that since the plaintiffs and the defendant’s respective businesses were both related to “night life” and “night entertainment”, the purchasing public would probably infer that a business relationship existed between the defendant’s escort agency and the plaintiffs night club. Accordingly, the court granted an injunction (under passing off) to protect the goodwill and reputation of the plaintiffs night club business and to prevent the unfavourable connotations which the public associate with escort agencies like the defendant’s from being transferred to the plaintiffs night club.

The research now proceeds to look briefly and generally at the elements necessary for a successful dilution claim and confusion of sponsorship claim.

### 3.5 ELEMENTS OF THE CLAIMS

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<sup>68</sup> 1977 (2) SA 916 (A).

<sup>69</sup> [1972] RPC 838.

### 3.5.1 Elements of a Dilution Claim

A plaintiff who alleges that another trader has misappropriated the advertising value of his trademark must, in order to be successful, prove that (a) his trademark has a reputation or advertising value in respect of his goods, (b) the defendant has misappropriated the advertising value of the plaintiff's trademark without the consent of the plaintiff; and (c) as a result of the misappropriation, that the plaintiff's goodwill has been infringed by dilution or tarnishment<sup>70</sup>. In a dilution by blurring claim, the plaintiff must prove that the misappropriation of the advertising value of his trademark by the defendant transferred, or is *reasonably likely to transfer*, to the defendant's goods, the positive association which the plaintiff's trademark exclusively enjoys in relation to the plaintiff's goods. It is submitted that, because of the incipient nature of dilution, a likelihood of dilution by blurring should be sufficient to establish a successful claim. In a dilution by tarnishment claim, on the other hand, the plaintiff must prove that the misappropriation of the advertising value of his trademark has resulted in his goods being linked, *or is reasonably likely to result in his goods being linked*, to the defendant's inferior goods, or to the defendant's goods of an immoral or unwholesome character, or that the misappropriation portrayed the

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<sup>70</sup> Frederick Mostert, Note 2 above, at 91 to 92 states the requirements of a successful dilution claim as follows:-

A claim for trade mark dilution is concerned with the protection of the advertising value of a trade mark. Accordingly the plaintiff should prove that his trade mark possesses commercial magnetism and advertising value. As already stated, a trade mark has advertising value if it calls to mind a specific product and creates an association of satisfaction and desirability with that product. A plaintiff would have to prove that the defendant's unauthorized use of his trade mark on non-competing goods, would be likely to blur [or] tarnish the commercial magnetism and advertising value of his trade mark. In the light of this, it is obviously unnecessary to require that the plaintiff's trade mark be famous since a lesser known trade mark can, in the same way, possess commercial magnetism and advertising value. It cannot be denied, however, that the more renowned a mark is, the easier it would be to prove that such a mark possesses commercial magnetism or advertising value required for a claim for trade mark dilution.

In addition, the proof of the following facts should also be required for a claim of trade mark dilution. The plaintiff should have to prove that the mark involved is in fact used as a trade mark and that there is a substantial similarity between his trade mark and the one used on the non-competing goods. Unless this is proved it would of course not be possible to indicate a vested interest and causal injury.

plaintiff's trademark in an unsavoury context which evoked, or which is reasonably likely to evoke, negative thoughts about the plaintiff's goods.

### 3.5.2 *Elements of a Confusion of Sponsorship Claim*

In order to succeed in a claim of confusion of sponsorship, a plaintiff must prove that (a) his trademark possesses an advertising value in respect of his goods, (b) the misappropriation of the advertising value of his trademark is likely to cause confusion of sponsorship between the plaintiff's goods and the defendant's non-competing but related goods; and (c) the plaintiff's right to goodwill has been infringed by the tarnishment or dilution of the advertising value of his trademark<sup>71</sup>.

## 3.6 THE RIGHT TO THE ADVERTISING IMAGE

In the cases of the misappropriation of the advertising value of a trademark discussed above, the advertising value of the trademark is only protected *indirectly*, where the injuries of either confusion of sponsorship or trademark dilution occur, or are likely to occur.

According to Mostert, the question arises, in the context of the emergence and recognition of character merchandising in South Africa, for example, "whether the advertising image, as a valuable commercial asset, is worthy of legal protection"<sup>72</sup>, in its own right, regardless of the absence of the injuries of dilution

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<sup>71</sup> J Neethling, Note 13 above, at 310, sets out the elements of a confusion of sponsorship claim as follows:- The plaintiff must prove, first, that his trade mark, trade name or service mark has acquired a **reputation or advertising** value in regard to his performance (in the case of passing off the plaintiff must prove that the mark or name has become distinctive and therefore acquired *distinguishing value*); secondly, that the use of his trade mark or name by the defendant creates the misrepresentation that the defendant's performance has the same *origin* or source as that of the plaintiff (in the case of passing off the misrepresentation is created that the defendant's performance is that of the plaintiff); and thirdly, that his goodwill is or will be infringed as a result of the *disparagement or dilution* of the said reputation or advertising value.

See also Van Heerden and Neethling, Note 6 above, at 210.

<sup>72</sup> Frederick Mostert, "*The Right To The Advertising Image*" [1982] SALJ, 413 – 429, at 414, Note 43 above.

or confusion of sponsorship. Accordingly, Mostert poses, and seeks to answer, the questions whether

the advertising image [is] capable of forming the basis of a legal right or interest? Moreover is the possible holder of such a right then entitled to restrain the unauthorized appropriation of the advertising image for promotion purposes?<sup>73</sup>

Van Heerden and Neethling recast Mostert's formulation above, in a more directly pertinent way, by observing that

The question is whether the entrepreneur, just as in the case of the right to the distinctive mark, should not acquire an independent right to the advertising mark so that he may exploit the advertising value thereof exclusively to his own financial advantage<sup>74</sup>.

In the South African context, of course, this question was in issue in the *Lorimar Productions Inc & Others v Sterling Clothing Manufacturers (Pty) Ltd; Lorimar Productions Inc and Others v OK Hyperama Limited and Others; Lorimar Productions Inc and Others v Dallas Restaurant* case<sup>75</sup>, where it was answered in the negative. In this case, the first applicant was the producer of the popular television series *Dallas*. The second applicant was a company whose business subsisted in image or character merchandising. The second applicant licensed manufacturers on behalf of the first applicant to use various advertising images derived from the *Dallas* series. The third applicant was the South African agent of the second applicant. In each of the applications the applicants sought a temporary interdict to restrain the respondents from using, in relation to their goods, services, businesses or publications, advertising images depicted in the *Dallas* series. In the first and second applications, the first and second respondents respectively sold jeans under the name 'Southfork' and marketed goods under the name '*Dallas*'. In the third application, the respondent conducted

<sup>73</sup> Frederick Mostert, Note 43 above, at 413.

<sup>74</sup> Van Heerden and Neethling, Note 6 above, at 216.

<sup>75</sup> Hereafter "the *Lorimar* Case 1981 (3) SA 1129(T). This case is extensively discussed in Chapter 9, Part 9.2.2.

business under the name ‘Dallas Restaurant’ while using names and portraits of some prominent characters from the *Dallas* series to promote its business.

The learned judge came to the conclusion, after reference to English and American authorities, that the facts under consideration founded no cause of action based on ‘passing off’. The court then considered the possibility that the case might fall within the ambit of unlawful competition. Once again it found that the grounds of action rendered no remedy to the applicants. The three applications were therefore dismissed with costs. Since the parties in the *Lorimar* case were not in competition, there was *in casu*, therefore, no question of unlawful competition. As such, it may be presumed that the proper question which the court had to answer in the *Lorimar* case was whether the applicants had acquired a legal right in the advertising image of their fictitious characters and names that was susceptible to legal protection. The judgment of the court in the *Lorimar* case dismissing the applications implicitly was to the effect that the independent right to the advertising image was not protected under South African law.

Mostert<sup>76</sup> and later Van Heerden and Neethling<sup>77</sup>, however, build up a logical case for protecting the right to the advertising image as an independent incorporeal right. Briefly, they argue that before any trademark acquires advertising value, its owner has to expend considerable amounts of time, effort and money in creating a positive repute and reputation in the trademark. In other words, for a trademark to perform the advertising function, there has to be undertaken by its owner, considerable investments – financial, managerial, creative, and so on. As pointed out by Salmon, advertising value, or the commercial magnetism of a mark, follows a campaign involving substantial effort, skill and great expense to the trademark owner whereby

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<sup>76</sup> Frederick Mostert, Note 43 above

<sup>77</sup> Van Heerden and Neethling, Note 6 above, at 216 to 218.

the public is educated to the extent that they come to recognize the trademarks as indicating a particular product which has particular attributes, demands a certain price, emanates from a certain manufacturer and which is to be found in certain outlets. Once this stage is reached, ... the mark has value as an advertisement ...<sup>78</sup>.

In such a situation, Van Heerden and Neethling argue that the owner of the trademark should be accorded, by the law, the independent right to exclusively exploit the advertising value thereof for his own financial benefit, since all he will be doing, metaphorically, is reaping where he has sown<sup>79</sup>. In other words, other traders should use that right (to the advertising image) only with the trademark owner's consent, otherwise they will be reaping where they have not sown<sup>80</sup>.

The rationale for recognising the right to the advertising image, as outlined above, cannot be faulted, and it is unfortunate that South African courts have expressly not recognized the existence of this right, under the common law, as an independent right capable of independent protection. The *Lorimar* case<sup>81</sup>, as already pointed out, represented the high watermark of this judicial denial. As Van Heerden and Neethling poetically puts the case

The door must still be opened for protection of the advertising value against unlawful competition (open and concealed leaning on), against open leaning on outside the competitive context, against dilution as an independent cause of action, and for the recognition of the right to the advertising mark as an independent property right<sup>82</sup>.

### 3.7 A FRAMEWORK FOR DILUTION PROTECTION

Since it is the advertising value of a trademark that is protected from dilution, legal requirements extending such protection only to *famous marks* seem

<sup>78</sup> Owen Salmon, “*Dilution as a Rationale for Trade Mark Protection in South African Law*” (LLM Thesis) (Unisa – 1990), at 14 – 15.

<sup>79</sup> Van Heerden and Neethling, Note 6 above, at 216 and 217.

<sup>80</sup> Van Heerden and Neethling, Note 6 above, at 216.

<sup>81</sup> The *Lorimar* Case, Note 75 above.

<sup>82</sup> Van Heerden and Neethling, Note 4 above, at 219.

to pay scant regard, if any, to that aspect of a trademark most in need of protection against dilution – its value, uniqueness and repute. Marks possessing the advertising value are not, necessarily, famous. Such marks, however, may be viewed as marks possessing a reputation, especially since a mark's reputation is the degree to which the mark is known by the public. It is submitted, therefore, that such marks should, on that basis, be eligible for protection from dilution. As pointed out by Neethling<sup>83</sup>

Since it is the advertising value of trade marks and trade names which is diminished by dilution, all marks and names having such a value - *and not only famous ones* – should be protected.

Rutherford<sup>84</sup> similarly makes a case for extending anti-dilution protection to all trademarks with an advertising value (i.e. well-known marks). In his view

The type of mark susceptible of dilution must also be defined, that is, whether protection should be limited to famous or well-known marks, or should be extended to all trade marks. It is submitted that protection should be available for all trade marks which have acquired an advertising value, irrespective of the nature of the mark or the source of its selling power. Not only marks which are inherently distinctive but also marks which have acquired a selling power through extensive advertising should enjoy protection. A legislative provision of this nature would merely amount to the legal recognition of the valuable asset inherent in the advertising value of a trade mark, a fact which has been recognized by commerce for many years.

Does this mean, then, that there should be untrammelled protection against dilution to all and sundry marks, so long as they possess advertising value?

Dilution protection, it is submitted, is an extraordinary remedy outside the mainstream orthodox trademark infringement which, it is argued, should correspondingly be granted by the courts only in limited specific circumstances. Put differently, the courts should strive, in applying the dilution doctrine to any given case, to appropriately balance the rights of the proprietor of the trademark

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<sup>83</sup> J. Neethling, Note 13 above, at 312.

<sup>84</sup> BR Rutherford, Note 6 above, at 163.

with advertising value against the rights of the public to free trade and other constitutionally guaranteed fundamental freedoms in order to prevent the creation of absolute monopolies or a form of copyright in a trademark. When every trademark proprietor jumps on the bandwagon of dilution protection, and the courts fail to vigilantly engage in the balancing exercise advocated in this thesis

The law [becomes] stretched to cases that do not fit the circumstance. Abuse of this nature is unfortunate because of over-protectionism, as a blunt tool for anti-competitive behaviour, does a disservice to the public interest. More over, the owners [of trademarks which truly have advertising value] loose out in the long run because over zealous claims create a monster that returns to haunt all trademark owners in the inevitable curtailment of existing rights<sup>85</sup>.

It is argued that the courts should realize that, in applying and interpreting a dilution law, they would be failing in their judicial duty if they engage in such interpretation and application in a way which results in the owner of a trademark with advertising value obtaining a right to exclude *any* and *all* uses of similar marks in *all* product lines. Such an approach would upset the free trade principle and does not benefit the public. McCarthy succinctly captures this point when he observes that

[Dilution] ... is a potent legal tool, which must be carefully used as a scapel, not a sledgehammer. The dilution doctrine in its “blurring” mode cannot and should not be carried to the extreme of forbidding the use of every trademark on any and all products and services, however remote from the owner’s usage. Such a result would twist and deform the law of trademarks and most judges immediately intuit this danger to free competition<sup>86</sup>.

The above observations seeking to limit the protection granted by the courts in dilution cases only to deserving cases raises the fundamental question of *how* the courts should go about the balancing exercise. McCarthy acknowledges that, in dilution cases, “it is difficult to know where to draw the line. The cases

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<sup>85</sup> Frederick W. Mostert, *Famous and Well-Known Marks*, 2<sup>nd</sup> Edn (2004), at 1 – 44. See also the comments of Mostert, at 1 – 97 to 1 – 98 in the same text.

<sup>86</sup> J. Thomas McCarthy, Note 7 above, Volume 4, Chapter 24, Para. 24:114, at 24 – 280.

give little guidance, and plaintiffs are continually pressing for more and more protection”.<sup>87</sup>

As a general proposition, it is submitted that the first line of enquiry by a court adopting the balancing of rights approach in a dilution case should be to determine whether the mark is a well-known mark, or has a reputation, or is famous, depending on the type of mark susceptible to protection from dilution in the particular jurisdiction. In other words, the question of whether a mark possesses advertising value is a threshold issue in any dilution case which should be determined by the court at the very outset of any analysis. In the absence of any advertising value, all other dilution elements are rendered moot, and the court should dismiss the dilution claim. To determine whether a mark is well-known, has a reputation or is famous, it is generally recommended that, in those jurisdictions where no domestic legislative or judicial guidelines are prescribed, courts should be guided by the non-exhaustive multiple-factor guidelines contained in the WIPO Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks; namely, (a) the degree of knowledge or recognition of the mark in the relevant sector of the public, (b) the duration, extent, and geographical area of any use of the mark, (c) the duration, extent and geographical area of the promotion of the mark, including advertising or publicity and the presentation at fairs or exhibitions, of the goods and/or services to which the mark applies, (d) the duration and geographical area of any registration, and/or applications for registration, of the mark, to the extent that they reflect use or recognition of the mark, (e) the record of successful enforcements of rights in the mark, in particular the extent to which the mark was recognized as well-known by competent authorities, and (f) the value associated with the mark.<sup>88</sup> In determining whether a mark is well-known for dilution purposes under the balancing of rights approach advocated in this thesis, it would serve the courts well to remember that

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<sup>87</sup> J. Thomas McCarthy, Note 7 above, Volume 4, Chapter 24, Para. 24:114, at 24 – 280 to 24 – 281.

<sup>88</sup> See Chapter 4, Part 4.2.6.

To save the dilution doctrine from abuse by plaintiffs whose marks are not famous and distinctive, a large neon sign should be placed adjacent wherever the doctrine resides, reading: “The Dilution Rule: Only Strong Marks Need Apply...”. Without such a requirement, an anti-dilution statute becomes a rogue law that turns every trademark, no matter how weak, into an anti-competitive weapon.<sup>89</sup>

In practical terms, this means that courts should not *assume* that a mark is famous, has a reputation or is well-known for dilution purposes without any analysis<sup>90</sup> supported by tangible evidence. Rather, in order to promote free trade and weed out unmeritorious claims, courts should insist that the mark should possess a degree of distinctiveness beyond that needed for the mark to qualify for registration purposes. As a general rule, therefore, only marks which retain their source-origin significance when encountered outside the market of the goods on which they are used should qualify for protection.

It should also be stated, at this point, that courts should exclude from protection marks with niche market fame, except in very limited circumstances. The theory of niche fame refers either to trademarks known only in discrete markets, or a specialized market segment, which are relatively unknown outside of those markets, or which are known only in a limited geographic area.

<sup>89</sup> J. Thomas McCarthy, Note 7, Vol. 4, Para. 24:108, at 24 – 259 to 24 – 260.

<sup>90</sup> See for example, *Wham-O v. Paramount Pictures Corp.*, 286 F. Supp. 2d 1254 (N.D. Ca. 2003) (assuming SLIP N’SLIDE to be famous, but finding defendant’s use of the mark did not constitute dilution by tarnishment or blurring); *World Wrestling Fed’n Entertainment, Inc. v Big Dog Holdings, Inc.*, 280 F. Supp. 2d 413 (W.D. Pa. 2003) (assuming fame for purposes of motion, but ultimately denying dilution claim); *Eco Mfg. LLC v Honeywell Int’l Inc.*, 2003 WL 21524860 (S.D. Ind. 2003) (assuming fame for purposes of motion, but denying dilution claims); *Strick v Strickland*, 162F. Supp.2d 372 (E.D. Pa. 2001) (assuming fame for purposes of motion, but granting defendant’s motion for summary judgment on dilution issue); *American Cyanamid Co. v Nutraceutical Corp.*, 54F. Supp. 2d 379 (D. N.J. 1999) (assuming fame for purposes of motion, but finding marks too dissimilar to support claim of dilution); *World Gym Licensing Ltd. v Fitness World, Inc.*, 47 F. Supp. 2d 614 (D. Md. 1999) (assuming that plaintiff’s mark was famous, but finding that plaintiff could not prevail because it failed to submit “hard proof of actual economic harm”); *Blue Cross and Blue Shield Ass’n v American Express Co.*, 1999 WL 1044825 (N.D. Ill. 1999) (describing plaintiff’s mark as famous without discussion, not addressing concept of fame in rejecting dilution claims); *Snap-On Tools Co. v C/Net, Inc.*, *American Dairy Queen Corp v. New Line Productions*, 35 F. Supp. 2d 727 (D. Minn. 1998); *National Board of Certification in Occupational Therapy v. American Occupational Therapy Ass’n* 24F. Supp. 2d 494 (D. Md. 1998) (assuming that mark was famous, but denying summary judgment, finding factual dispute about whether selling power of the mark had been affected.)

Three propositions can be advanced in respect of the applicability of dilution to trademarks with niche market fame. First, where the niche fame is in respect of a limited geographic market, and the goods on which the trademark with niche fame is used are different from the goods on which the junior mark is used, dilution can, in principle, occur. As an example, if the trademark “flower” is known in the Pretoria market in respect of perfumes, and a defendant introduces in the Pretoria market his lawnmower equipment under the trademark “flower”, that trademark, will then come to signify different sources of goods in that market, leading to dilution. Under such circumstances, there will be no justifiable reason why the trademark which is well-known in the geographic niche market should not be susceptible to dilution protection.

Second, where the niche fame is in respect of a discrete market, dilution can occur if the defendant engages in comparative advertising and states, for example, that his goods are “a substitute for”, “similar to”, “the same as” or “manufactured like” the plaintiff’s goods, with a view to stimulating the demand for his own goods in preference to those for which comparison is made<sup>91</sup>. By engaging in such comparative advertising, the defendant rides on the back of the trademark with niche fame as an *entrée* for advertising his own goods, and in this way diverts the positive association between the plaintiff’s trademark and its goods to his own competing goods<sup>92</sup>.

The third proposition speaks to a situation where the plaintiff’s trademark has niche fame, either in the sense of geographic niche fame, or market niche fame, and the defendant uses an identical or similar trademark *outside* the niche market, aimed at a much larger part of the total buying public. In such cases, as a matter of evidence, the plaintiff’s dilution claim should not succeed, because his senior mark will be known only by a relatively small number of consumers in the

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<sup>91</sup> See Part 3.2.1, Notes 16 to 22, and accompanying text.

<sup>92</sup> See Part 3.2.1, Note 23, and accompanying text.

niche market, and the junior user will be using his junior trademark in a much larger market, so that the impact of the junior use on the senior trademark's reputation in the niche market will be *de minimis*. As noted by McCarthy

Niche market fame cannot be applied as to junior use of the mark directed at a different group of potential buyers. This is because if the senior user's mark is known only to a relatively small number of customers in a niche market and the junior user uses the mark on a product directed at a much larger part of the total buying public, the impact on the senior mark will be insignificant<sup>93</sup>.

It is however argued that niche fame should have little if any place in the context of dilution. The point being made here is that the courts should be astute in recognizing that niche fame is an aspect of a trademark's reputation, and only those trademarks which are well-known in an entire country by a significant part of the purchasing public should be susceptible to dilution protection. If courts hold, without qualification, that trademarks with only niche fame can benefit from dilution protection, they would be unduly extending the dilution doctrine at the expense of the competition principle of free trade.

The identity of the trademarks should also be strictly scrutinized by the courts in the balancing of rights approach advocated in this thesis, to ensure that only identical or *truly* similar trademarks benefit from protection. This should be the second limb of inquiry by a court in a dilution case. In this respect, trademarks should be regarded as similar only if they show a *strong or marked resemblance* to each other. In determining the similarity of trademarks for dilution purposes, a global approach which takes into account the aural, visual and conceptual similarity of the marks in question, notwithstanding the absence of confusion, should be adopted. Such an approach will have the effect of disposing of undeserving cases where the trademarks are *incidentally* similar. This approach will, in the final analysis, only benefit the interest of the public to free trade.

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<sup>93</sup> J. Thomas McCarthy, Note 7, Vol. 4, Para. 24: 112, at 24 – 271. See further Restatement (Third) of Unfair Competition (1995), §25, comment e.

Courts should also be guided by, and mindful of, the historical, theoretical and logical basis of dilution in applying the dilution provisions to any given case using the balancing of rights approach advocated in this thesis. As a general proposition, most dilution provisions provide that dilution will be present where the use of a junior sign takes unfair advantage of, or causes detriment to, the repute or distinctive character of the senior well-known trademark. These dilution concepts are still virgin territory to the judiciaries of many countries, and a comparative analysis by the courts to ascertain the meanings attached to these concepts in other countries will greatly assist them in the balancing process<sup>94</sup>. A consideration of these concepts should be the third limb of consideration by a court in a dilution case under the balancing of rights approach advocated in this thesis. It is submitted that courts should find the taking of unfair advantage or the causing of detriment to the distinctive character or repute of a trademark in dilution cases only where such unfair advantage or detriment is substantial and not *de minimis*. In other words, any injury which is *de minimis* should be allowed in the interest of free trade, under the age-old principle that courts do not concern themselves with trivialities.

Courts should also appreciate, in balancing the interests of a trademark proprietor against the interests of the public in dilution cases, that statutory dilution provisions contain important safeguards designed to facilitate the balancing exercise<sup>95</sup>. Thus, according to most dilution provisions, a mark will not be barred from registration, or be considered infringing, if the junior user has “due cause” to use the mark. It is submitted that such due cause should be recognized

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<sup>94</sup> See Frederick W. Mostert, Note 84 above, commenting, in respect of the European Union, at 1 – 110, as follows:

As yet, there has been no detailed consideration of the meaning of “unfair advantage or detriment to distinctive character or repute” by the European Court of Justice, so any attempts at defining these concepts must be somewhat tentative. However, *some guidance can be pieced together from other judgments and tribunals* (emphasis added).

<sup>95</sup> See generally Chapters 5 to 9 for the texts of the dilution provisions in the European Union, the United States of America, Germany, the United Kingdom, and South Africa.

by the courts in either one of two circumstances. First, if the junior user has a prior right to use the mark that takes precedence over the senior user's mark. Second, if the junior user is under such compulsion to use the senior user's mark that he cannot honestly be asked to refrain from using it. If any of these two circumstances are present in any case, then a court should dismiss the dilution claim under the balancing of rights approach advocated in this thesis. This, of course, will be in the interests of free trade, since to do otherwise will inappropriately disturb the competition principles on which trademark law is based.

Finally, courts should seek to strike an appropriate balance in dilution cases between the interests of the proprietor of a trademark and the interests of a defendant invoking a constitutionally guaranteed fundamental right as a defence. In embarking in the balancing exercise, it serves no useful purpose for the courts to question the constitutional validity of dilution provisions, for, as noted by Justice Frank

To the legislatures the Constitution assign the power of enacting statutes; and the legislatures come closest to reflecting popular desires. When a court, then, fails wholeheartedly to enforce a statute, it sets itself against our constitutional scheme, acts undemocratically<sup>96</sup>.

It is further submitted that questioning the constitutional validity of dilution provisions ignores the fact that these provisions find their genesis in the well-spring of international trademark law<sup>97</sup>. For this purpose, ready reference may be made to Article 16 (3) as read with Article 1 (1) of the Agreement on Trade-Related Aspects of Intellectual Property Rights<sup>98</sup>, which incorporated, for the first time within the framework of the General Agreement on Tariffs and Trade, aspects of intellectual property rights in international trade. The focus of the courts where a constitutionally guaranteed right is raised as a defence in a

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<sup>96</sup> Frank, *Courts On Trial* (1949), at 292.

<sup>97</sup> See generally Chapter 4.

<sup>98</sup> See Chapter 4, Part 4.2.4.

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dilution case, it is submitted, should be on *how* they can strike an appropriate balance between that right and the dilution claim of the trademark owner.

The balancing exercise should, in cases where a constitutionally guaranteed right is mounted as a defence, proceed by *first* determining whether there is infringement, and *only if* there is infringement, then balance such infringement against the constitutionally guaranteed right which will be claimed as a defence.

The balancing of rights approach advocated in the thesis should not be construed as meaning that deserving cases should not receive protection in appropriate instances. In other words, courts should not, when engaging in the balancing exercise, lose sight of the interests of the trademark owner, because to do so would render the very basis of dilution hollow and meaningless. In this respect, it is argued that the courts should, as a general proposition, in deserving cases, admit claims of *a likelihood of dilution*, as opposed to actual dilution. This submission is informed by two basic considerations. First, such an approach recognizes the incipient nature of dilution. There is no reason, in principle, why courts should require the owner of a trademark with advertising value not to prohibit the *first* diluting use of his mark, and to wait for the proliferation of multiple third party uses before he can commence a successful dilution claim. Just as a single drop of iodine can dilute a gallon of pure water, so too can a single unauthorized use of a trademark dilute its advertising value. The courts should be cognizant of this fact. Second, dilution cases, are, by their very nature, difficult to prove. Requiring proof of actual dilution may very well mean that dilution is an unprovable cause of action which is worthless to trademark proprietors. Again, the courts should be mindful of this fact.

The balancing exercise advocated for use by the courts in this Chapter will be used, later on in the thesis, to ascertain whether the courts in the jurisdictions under study are, in deciding dilution cases, appropriately balancing the competing

interests present in dilution cases so as not to create absolute monopolies or a form of copyright in a trademark, or to stifle free trade, or stultify other legitimate economic activity, or constitutionally guaranteed fundamental freedoms. In some cases, it will be argued in the thesis that the courts did not pay due regard to the interests of a trademark owner, and overly protected the right to free trade, and so on.

### 3.8 CONCLUSIONS

A claim for trademark dilution is a significant departure from the orthodox view that the true legal functions of a trademark are the source-origin function and the product distinguishing function. What is protected by a claim for trademark dilution is not the source origin function or the distinguishing function of a trademark, but rather its advertising function<sup>99</sup>.

Today, a trader has a variety of advertising techniques at his disposal to market his goods. He can promote the sale of his goods in newspapers, magazines, on television, on the internet and in other media. In advertising his goods, the trader uses his trademark, first, to indicate the origin of his goods; second, to distinguish his goods from the goods of other traders; and last, to enhance the ability of consumers to conceptualise his goods by creating a tie between his goods and his trademark through the persuasive power of his advertising<sup>100</sup>. If the trader's efforts are successful, then his trademark will have the ability to call to the mind of a consumer the trader's specific goods and to evoke associations of satisfaction and desirability with those goods, thereby stimulating further sales<sup>101</sup>. It then becomes important for the trader to protect the trademark's distinctive quality, reputation and commercial magnetism in order to protect his own goodwill<sup>102</sup>. Such protection is of increasing importance in

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<sup>99</sup> BR Rutherford, Note 6 above, at 162.

<sup>100</sup> BR Rutherford, Note 6 above, at 151.

<sup>101</sup> BR Rutherford, Note 6 above, at 151 to 152.

<sup>102</sup> BR Rutherford, Note 6 above, at 152.

today's commercial world where there are tremendous developments in advertising techniques which can be used by a trader to promote his goods in the global market through his trademark. Other traders will inevitably desire to use, or rather to misappropriate, the commercial magnetism or advertising value of the trademark owner's trademark on their non-competing goods without the authority of the trademark owner<sup>103</sup>.

As shown above, the misappropriation of the advertising value of a trademark and its use on non-competing goods<sup>104</sup> can give rise to different forms of injury. Firstly, such use on non-competing goods<sup>105</sup> can cause dilution by blurring of the trademark. This injury leads to the dispersion of the effectiveness of the trademark concerned to lure and to channel the purchasing public towards the particular goods on which the trademark is used. In other words, such injury will lead to the gradual consumer disassociation of the trademark from the trader's goods. The trademark's commercial magnetism or advertising value is eroded or blurred; its distinctive quality becomes diluted and the trader's goodwill in respect of his goods is infringed. The generic use of a trademark similarly produces this injury. Secondly, where the advertising value of a trademark is misappropriated in relation to goods of an inferior, immoral or unwholesome quality, or in an offensive or degrading context, the reputation enjoyed by the trademark may become diluted by tarnishment. To prevent these two forms of injury caused by the unauthorized use of the advertising value of a trademark on non-competing goods<sup>106</sup>, trademark law recognizes a claim for trademark dilution.

Thirdly, where the misappropriation of the advertising value is in respect of non-competing but related goods, such use will give rise to the additional claim of confusion of sponsorship.

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<sup>103</sup> BR Rutherford, Note 6 above, at 152.

<sup>104</sup> See however Note 12 above.

<sup>105</sup> See however Note 12 above.

<sup>106</sup> See however Note 12 above.

Protection against trademark dilution is informed by a realization that the owner of a trademark with advertising value has a legitimate interest in maintaining the position of exclusivity possessed by his trademark in respect of his goods<sup>107</sup>. Such position of exclusivity is usually attained after large expenditures of time and money<sup>108</sup>. Any misappropriation of the advertising value of such a trademark which impairs, injures or damages the distinctive quality of the trademark is therefore prohibited through the claim of trademark dilution. An appreciation of the logical basis informing the protection of marks from dilution is therefore an imperative *sine qua non* to any court engaged in the process of balancing the competing interests available in dilution cases, because, without such an appreciation, deserving cases may be dismissed by the courts, or undeserving cases may be afforded protection. Striking the appropriate balance has become the major challenge to the courts of many countries, and is, at present, an issue which has received little if any academic comment.

Since it is the advertising value of a trademark that is protected from dilution, it was argued in this Chapter that there is no reason, in principle, why only famous marks should be protected from dilution. Rather, all well-known marks should be protected. This should not, however, be viewed as a call for untrammelled protection of all and sundry marks with advertising value from dilution. Courts should rather grant protection from dilution in limited specific circumstances by adopting a balancing of rights approach which appropriately protects the competing interests of the trademark owner in ensuring that the advertising value of his trademark is protected from dilution, while at the same time ensuring that such protection does not create absolute monopolies or a form of copyright in a trademark, or stifles free trade, or other constitutionally guaranteed freedoms. A framework for use by the courts was consequently developed, which takes, as its point of departure, a requirement that only well-known marks, as established by evidence, should be eligible for protection.

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<sup>107</sup> *Quick* case, Note 37 above, and accompanying text.

<sup>108</sup> *Quick* case, Note 37 above, and accompanying text.

Marks with niche market fame, it was argued, should be protected from dilution sparingly, since to do otherwise would distort the competition principle of free trade. Further, only identical and truly similar (as opposed to incidentally similar) marks should benefit from protection from dilution. In determining the similarity of marks for this purpose, courts should adopt a global approach based on the aural, visual or conceptual similarity of the marks in question, in the absence of the likelihood of consumer confusion. It was also argued that the judiciaries of many countries would be better served, when undertaking any dilution analysis, if they undertake a comparative approach which seeks to analyse the meanings attributed to dilution concepts in different jurisdictions, since most dilution provisions are still unexplored *terra firma* in many jurisdictions. The utility of such an approach, for example, becomes axiomatic if it is remembered that, in many countries, courts have steadfastly refused to find dilution *in casu* where the taking of unfair advantage or the causing of detriment to the distinctive character or repute of a well-known mark is *de minimis*. This approach, it was submitted in this Chapter, promotes the principle of free trade. The free trade principle will likewise be protected by the courts in dilution cases if the courts recognize that the owner of a junior mark may have 'due cause' to use the mark, in circumstances where the junior user has a prior right to use the mark which takes precedence over the rights of the owner of the well-known mark, or where the junior user is under such compulsion to use the well-known mark that he cannot honestly be asked to refrain from using it. Last, it was argued that where a constitutionally guaranteed fundamental right is raised as a defence in dilution cases, the courts should, in balancing the rights of the plaintiff and the defendant, first determine whether there is infringement, then, if there is infringement, balance such infringement against the claimed fundamental right. The balancing of rights approach advocated for adoption by the courts in this thesis does not mean, of course, that courts should not appropriately inform themselves of the rationale informing the protection of the advertising value of trademarks from dilution and giving adequate protection in deserving cases.

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**PART II****TRADEMARK DILUTION UNDER INTERNATIONAL  
AND REGIONAL TRADEMARK LAW****CHAPTER 4****TRADEMARK DILUTION UNDER INTERNATIONAL TRADEMARK LAW****4.1 INTRODUCTION**

In Chapter 3, it was noted that a claim for trademark dilution aims at protecting the advertising value of a trademark from being used without the trademark owner's consent on non-competing goods. It was also noted in Chapter 3 that dilution can take one of two forms. First, the unauthorized use of a trademark on non-competing goods may result in the blurring of the distinctiveness, unique identity and the commercial magnetism of the trademark in exclusively focusing a specific product in the mind of the purchasing public<sup>1</sup>. This is dilution by blurring. Second, the unauthorized use of a trademark in respect of goods of an inferior, immoral or unwholesome character, or in an unwholesome, offensive or degrading context may tarnish the reputation of the trademark. In such situations, the trademark's reputation diminishes when the public attributes the undesirable characteristics of the defendant's goods to the plaintiff's goods<sup>2</sup>. This is dilution by tarnishment. In both situations, the effect of trademark dilution is to limit and severely impair the effectiveness of the trademark in directing the purchasing public to its trademarked product. If this happens, the goodwill towards the product is impaired. A claim for trademark dilution is therefore designed, as shown in Chapter 3, to contain the debilitating

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<sup>1</sup> Frank I. Schechter, "*The Rational Basis of Trademark Protection*", [1927] 40 HARV L.R. 813 – 833.

<sup>2</sup> Frederick Mostert, "*Trademark Dilution and Confusion of Sponsorship in United States, German and English Law*" [1986] Vol. 17 International Review of Industrial Property and Copyright Law 80 – 95, at 89.

effects which may result from the unauthorized use of a trademark on non-competing goods<sup>3</sup>.

Where a trademark possesses advertising value, however, it is impossible for the trader to register the trademark for all goods, not just for the goods in respect of which the trademark owner uses the trademark. It is similarly impossible for the trademark owner to register it in all jurisdictions, not just in those jurisdictions where the trader conducts business, in order to protect the trademark from unauthorized uses which cause dilution<sup>4</sup>. It may be prudent, indeed necessary, for the owner of such a trademark to understand the provisions of international trademark law which place obligations on States to protect trademarks from dilution in their domestic jurisdictions. This Chapter seeks to set out, in close detail, the international trademark law framework which places obligations on States to give protection against trademark dilution in their domestic laws. The necessity of such a study was captured by Leaffer in highlighting the prevalence of the piracy of well-known marks in the global market place of the twenty-first century economy<sup>5</sup>.

<sup>3</sup> See Chapter 3, Part 3.3.1.

<sup>4</sup> Frederick W. Mostert, “*Well-Known and Famous Marks: Is Harmony Possible in the Global Village?*” [1996] 86 TRADEMARK REP. 103 – 141, at 104 – 105, noting that

The global village does, however, provide ever increasing temptations to local villagers to trade on the reputation of globally famous trademarks. Such “enterprising entrepreneurs” are equally assisted by modern technology. No longer will these “entrepreneurs” need to attend trade shows elsewhere only to run back to a local jurisdiction ahead of the original trademark owner in order to be the first to register the particular trademark. These days they are more likely to rely on a host of information retrieval resources made possible by digital communication technology. It is not surprising therefore that the World Intellectual Property Organization (“WIPO”) indicated in a recent memorandum that: “National Trademark Offices are often confronted with the problem that so-called ‘trademark parties’ apply for the registration of marks ahead in time of the true owners”. *The reason is that the brand owning companies who own such well-known trademarks frequently find that they have not yet been in a position to expand their business activities under those marks nor have they obtained registrations for their marks in all jurisdictions. Even the most famous marks are not used everywhere, and it is not possible to register and maintain trademark registrations in all international classes in all jurisdictions. (Emphasis added).*

<sup>5</sup> Marshall A. Leaffer, “*Protecting United States Intellectual Property Abroad: Towards A New Multilateralism*” [1991] 76 Iowa Law Review, 281 – 285, noting that

Virtually every major producer of brand name clothing, shoes, jewelry, agricultural chemicals, and pharmaceuticals has been victimized by organized piracy and inadequate protection under trademark law in various Third World countries.

Graeme B. Dinwoodie, William O. Hennessey and Shira Perlmutter<sup>6</sup>, in explaining the reasons why a study of trademark dilution should take into account developments under both international and regional trademark law, observe that

The social, economic and technological changes of the late twentieth century have highlighted the importance of international intellectual property law and policy. One no longer can think or write about, or understand intellectual property law without considering its international dimension; international developments often drive the content and direction of domestic intellectual property law.

It is also important, by way of introduction, to set out the parameters of what is meant by the term “international trademark law” as used in this Chapter. Ernest<sup>7</sup> describes the nature of international trademark law as being essentially a legal contract between contracting states in which they agree to accord in their own countries, to citizens of other contracting states, the same trademark rights as they accord to their own citizens under their domestic laws. Under this theory of international trademark law, the underlying principle is national treatment, that is, the treatment given by a contracting state in its own country to its citizens is also given to the citizens of each contracting state. In this sense, international trademark law is seen not as based upon the idea that a contracting state’s trademark laws should be given extra-territorial application, but rather that each contracting state’s laws should have only territorial application and, in certain prescribed circumstances, their application should then extend to persons who would otherwise be beyond the remit of that contracting state’s jurisdiction.

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<sup>6</sup> Graeme B. Dinwoodie, William O. Hennessey and Shira Perlmutter, *International Intellectual Property Law and Policy*, (2001), at v.

<sup>7</sup> E. Ernest, *Cases and Materials on Patent, Trademark and Copyright Law* (1959), 698. See also *Vanity Fair Mills v T. Eaton Co.* 234F 2d 633, 640 – 641 (2<sup>nd</sup> Cir. 1956). See also Cornish & Llewelyn, *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* (2003), Para. 1 – 29, at 26 stating that

Intellectual property rights have been introduced by nation States in response to economic demands and ideas of moral value which have focused particularly on their own territories and nationals. The rights accordingly arise primarily under national law. Obligations between States in this field, whether regional or wholly international, operate to shape and condition national laws, but not for the most part to displace them.

Dinwoodie, Hennessey and Perlmutter<sup>8</sup>, on the other hand, advocate a broader approach to that adopted by Ernest, which perceives international trademark law as including not just conventions, treaties and agreements, but (a) customary international law<sup>9</sup>, which results from a general and consistent practice of states and which is followed by them from a sense of legal obligation, (b) general principles common to the major legal systems, even if not incorporated or reflected in customary law or treaties, conventions and agreements, and (c) *international trademark policy*, in the form of model laws, recommendations and resolutions<sup>10</sup>.

As used in this Chapter, the term “international trademark law” follows the thesis of Dinwoodie, Hennessey and Perlmutter and is used to denote international treaties, conventions, and agreements that apply in the field of trademark law, as well as initiatives like model laws, recommendations and policy. This approach is similarly adopted in the WIPO Intellectual Property Handbook<sup>11</sup>, which rationalizes the necessity of this approach as follows:

The development of industrial property law has traditionally been based on international treaties between sovereign states. These treaties now form the foundation of the international system for the protection of intellectual property. The pace of change in the field of intellectual property, however, makes it necessary to consider new options for accelerating the development of international harmonized common principles and rules. An outstanding example is WIPO’s response to the challenge increasingly faced by trademark owners because of abusive registration and use of internet domain names by third parties: WIPO has undertaken a process of international consultation which has produced a series of recommendations on mechanisms to combat such practices. This has led to the adoption of the Uniform Domain Name Dispute Resolution Policy.

In the field of harmonization of industrial property principles and rules, a more flexible approach, or the coordination of administrations, could produce more rapid results, thus ensuring earlier practical benefits for administrators and users

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<sup>8</sup> Graeme B. Dinwoodie, William O. Hennessey and Shira Perlmutter, Note 6 above, at 36 – 38.

<sup>9</sup> For a practice of states to become a rule of customary international law it must appear that the states follow the practice from a sense of legal obligation (*opinio juris sive necessitatis*). This may be inferred from acts or omissions. See Dinwoodie, Hennessey and Perlmutter, Note 6 above, at 37.

<sup>10</sup> In the view of Dinwoodie, Hennessey and Perlmutter, Note 6 above, at 37, resolutions, if made by international organizations empowered to do so by their constitutive charters, may “be seen as ‘secondary sources’ of international law for their members”.

<sup>11</sup> WIPO Publication No. 489 (E) (WIPO 2001), 359 – 360.

of the industrial property system. Such approaches have been referred to on occasion as “soft law” instruments.

Several options exist in this respect: projects of an essentially administrative nature could, for example, culminate in a Memorandum of Understanding (MOU), rather than a formal treaty; activities aimed at harmonization of national laws could be advanced through the adoption of a resolution by the WIPO General Assembly (or another WIPO Assembly), recommending that Member States and interested intergovernmental Organizations adopt and implement particular principles and rules. Work requiring a rapid, interim result could, pending further agreements, be achieved through the publication of model principles and rules that would be available to any legislator or other authority seeking guidance on how to solve specific problems.

This Chapter therefore examines the principal instruments under international trademark law in order to ascertain the extent to which they place obligations on States to provide for the protection of trademarks against dilution. Such an examination is important to both the owner of a trademark with advertising value, who will know the extent States are required under international law to provide protection to the advertising value of his trademark in their domestic jurisdictions. Such an examination is also important to the States themselves, upon which is placed the obligation by international trademark law to protect against the misappropriation of a trademark’s advertising value in their domestic laws. In this respect, States may be interested to know, for example, if international trademark law obliges them to provide protection in their domestic jurisdictions against the advertising value of *all* trademarks, or only well-known marks, or only famous marks, and the applicable criteria developed under international trademark law to assist States in determining whether a trademark is well-known. States may similarly be interested to know the extent of protection they are obliged to provide in their domestic jurisdictions – whether it is protection against trademark dilution only, or both trademark dilution and confusion of sponsorship.

The concept of a well-known mark – the trademark which States are required by international trademark law to provide protection against dilution in their domestic jurisdictions – is not well defined in international trademark treaty law, and is described using different terminology in different jurisdictions. While

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international trademark treaty law has consistently used the term “well-known mark”, it has not exhaustively defined that term. It is therefore necessary, for the benefit of both trademark owners and States, to determine the criteria of a well-known mark, so that there will be greater certainty and clarity of instances when a trademark may be regarded not only as well-known, but rather, also as *not* well-known, and therefore unable to benefit from the anti-dilution provisions of international trademark law transposed by States into their domestic laws. Further, it is also necessary to determine whether the concept of “well-known marks” as used in international trademark law is synonymous with the concept of “marks with a reputation”, a relatively new concept introduced into the trademark law of Europe, and “famous marks”, a designation of notorious trademarks largely peculiar to American trademark jurisprudence.

A study of the protection offered against trademark dilution under international trademark law is also important because it shows the international trademark initiatives being taken to deal with trademark dilution in the context of developments in digital communication technologies, especially the internet, which inevitably transcend national geographic borders and often lead to the increasing exploitation of trademarks in global, as opposed to regional or national, markets. Such an examination is done in this Chapter. The focus of the examination is four-fold. First, the analysis examines the international initiatives undertaken to protect the advertising value of trademarks from internet-based diluting activities like cybersquatting and cyberpiracy. Second, the analysis examines the policy measures adopted for the implementation of such international initiatives. Third, the analysis seeks to distill coherent principles developed in applying the *policy* measures to specific cases where there are conflicts which cause dilution between well-known marks and domain names. Last, the examination then offers some recommendations on how international trademark law can best be shaped to adequately respond to internet-based dilution, and on how States, particularly Germany, the United Kingdom and South

Africa, can use these international initiatives in developing *domestic legislation* holistically prohibiting cybersquatting and cyberpiracy.

## 4.2 PROTECTION AGAINST TRADEMARK DILUTION UNDER INTERNATIONAL TRADEMARK LAW

### 4.2.1 The Paris Convention

The Paris Convention<sup>12</sup> is the basic source of international protection of **all** forms of intellectual property, including trademarks. The provisions of the Paris Convention which are directly relevant for the purposes of this discussion are Article *6bis* (1), and Article *10bis*.

Article *6bis* (1) introduces a hierarchical categorization of trademarks based on notoriety, and provides additional protection for *well-known marks* by requiring contracting states

*ex-officio* if their legislation so permits, or at the request of an interested party, to refuse or to cancel the registration, and to prohibit the use, *of a trademark* which constitutes a reproduction, an imitation, or a translation, liable to create confusion, *of a mark* considered by the competent authority of the country of registration or use to be *well-known* in that country as being already the mark of a person entitled to the benefits of this Convention and used for *identical or similar goods* (emphasis added).

Four basic features of protection were introduced by Article *6bis* (1). First, the protection extended to well-known marks under Article *6bis* (1) is against the *registration or use* of a trademark that constitutes a reproduction, imitation, or translation, *liable to create confusion*, of a well-known mark, or an essential part thereof. By predicating the likelihood of confusion on either the registration or use of the well-known mark, it may be argued that the scope of protection in Article *6bis* (1) focuses on the source-origin function and the

<sup>12</sup> The Paris Convention has been revised several times after its signature in 1883. Revision Conferences were held in Rome in 1886, in Madrid in 1890 and 1891, in Brussels in 1897 and 1900, in Washington in 1911, in The Hague in 1925, in London in 1934, in Lisbon in 1958, and in Stockholm in 1967.

product distinguishing function of a trademark. Second, the protection afforded under Article 6bis (1) extends only to *well-known trademarks*, as opposed to service marks. This article does not require registration in the country where protection is sought. Third, the protection under Article 6bis (1) incorporates the principle of specialty: it extends to registration or use in respect of identical or similar goods. Last, Article 6bis does not define *when a mark is to be regarded as well-known*, leaving it open for the determination of the competent authorities of contracting states. In summary, Article 6bis (1) may be taken for the purposes of this discussion as focusing its protection on the source-origin function and the product distinguishing function of a trademark,<sup>13</sup> and not the trademark's advertising function.

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<sup>13</sup> **Collection of Papers on Intellectual Property**, WIPO Publication No. 773 (E) (WIPO 2001), Paras 89 – 93, commenting that

[The Paris Convention] deals with well-known trademarks in Article 6bis. This Article obliges a member country to refuse or cancel the registration and to prohibit the use of a trademark that is liable to create confusion with another trademark already well-known in that member country for identical or similar goods. The effect of this Article is to extend protection to a trademark that is well-known in a member country even though it is not registered or used in that country. The protection of the well-known trademark results not from its registration, which prevents the registration or use of a conflicting trademark, but from the mere fact that it is well-known.

The protection of well-known trademarks is deemed justified on the grounds that a trademark that has acquired goodwill and a reputation in a member country ought to give rise to a right for its owner and because the registration or use of a confusingly similar trademark would, in most cases, amount to an act of unfair competition and be prejudicial to the interests of the public who would be misled by the use of a conflicting trademark for the same or identical goods than those in connection with which the well-known trademark is registered.

The trademark that is protected by Article 6bis must be a “well-known” trademark. Whether a trademark is well known in a member country will be determined by its competent administrative or judicial authorities. A trademark may not have been used in a country, in the sense that goods bearing that trademark have not been sold there, yet that trademark may be well-known in the country because of publicity there or the repercussions in that country of advertising in other countries.

The protection of a well-known trademark under Article 6bis exists only where the conflicting trademark has been filed, registered or used for *identical or similar* goods. Whether the condition is fulfilled will be determined by the administrative or judicial authorities of the country in which protection is claimed.

The protection of a well-known trademark under Article 6bis results from the obligation of a member country to take *ex officio* where its legislation so permits, or at the request of an interested party, the following type of action.

*First*, a member country must refuse the application for registration of the conflicting trademark.

*Second*, the member country must cancel the registration of a conflicting trademark. A member country is required at least a period of five years from the date of registration within which a request for cancellation of the conflicting trademark may be made, unless that trademark was registered in bad faith, in which event no time limit may be fixed.

Article 10*bis* provides that the countries of the Paris Union are bound to assure to persons entitled to benefit from the Paris Convention effective protection against unfair competition<sup>14</sup>. The Paris Convention does not, however, specify in Article 10*bis* the manner in which such protection should be granted, leaving this aspect to the determination of the countries of the Paris Union<sup>15</sup>. Acts which generally constitute unfair competition are defined in Article 10*bis* (2) as acts of competition contrary to honest practices in industrial or commercial matters. Further, the Article sets out some examples which, “in particular”<sup>16</sup>, constitute prohibited acts of unfair competition<sup>17</sup>. Article 10*bis* (1), (2) and (3) therefore provides that

- (1) The countries of the Union are *bound* to assure to nationals of such countries effective protection against unfair competition.
- (2) Any *act of competition* contrary to honest practices in industrial or

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*Third*, the member country must prohibit the use of the conflicting trademark. A member country is free to prescribe a period within which that request must be made; however, no time limit may be fixed for such a request in the case of a conflicting trademark used in bad faith. See further (1) H. C. Bodenhausen, *Guide to the Application of the Paris Convention for the Protection of Industrial Property* (BIRPI Publication No. 611 (E) (Geneva 1967), 89 – 93; (2) Stephen P. Ladas, *Patents, Trademarks and Related Rights: National and International Protection* (1975), Vol. II, 1250 – 1263; (3) John B. Pegram, “*Trademark Law Revision: Section 44*” [1988] 78 TRADEMARK REP. 153 – 154.

<sup>14</sup> Article 10*bis* (1).

<sup>15</sup> Note that the Board of Directors of the International Trademark Association adopted on 3 March, 1998 an *Unfair Competition Resolution*, available at [www.inta.org/boardresolutions](http://www.inta.org/boardresolutions), last visited on 1<sup>st</sup> March, 2004, which calls for members of the Paris Union and the WTO TRIPS Agreement to enact *specific legislation* to give effect to Article 10*bis* of the Paris Convention. The Resolution provides that

WHEREAS, countries which are parties to the Paris Convention and the WTO TRIPS Agreement have obligated themselves to prohibit unfair competition pursuant to Article 10*bis* of the Paris Convention and Article 2 of the WTO TRIPS Agreement.

WHEREAS, many countries which are parties to the Paris Convention and the WTO TRIPS Agreement have no unfair competition law, or provide inadequate protection only under other laws;

BE IT RESOLVED, that it is the position of the International Trademark Association that all countries, and particularly those which are parties to the Paris Convention and WTO TRIPS Agreement, which currently have no unfair competition law or have inadequate protection under other laws, *adopt specific legislation* implementing Article 10*bis* of the Paris Convention, or equivalent legislation. (emphasis added).

<sup>16</sup> Article 10*bis* (3).

<sup>17</sup> Frauke Henning-Bodewig, “*International Protection Against Unfair Competition – Article 10bis Paris Convention, TRIPS and WIPO Model Provisions*” [1999] Vol. 30, *International Review of Industrial Property and Copyright Law*, 166, at 187 – 188.

- commercial matters constitutes an act of unfair competition.
- (3) The following in particular shall be prohibited:
1. all acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, *of a competitor*;
  2. false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial commercial activities, *of a competitor*;
  3. indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods. (emphasis added).

Article 10*bis* was not drafted as a single provision. Article 10*bis* (1) was introduced at the Brussels Revision Conference of 1900 to the Paris Convention<sup>18</sup>. It introduced the principle of national treatment to acts constituting unfair competition: contracting states were *obliged* to grant to nationals of other contracting states the same protection against *acts* of unfair competition as they granted to their own nationals. At the Washington Revision Conference of 1911 to the Paris Convention, Article 10*bis* (1) was expanded to *oblige* contracting states to ensure effective protection against unfair competition. Further, Article 10*bis* (2) was added at that Conference, specifically recognizing protection against unfair competition as one of the objects of the protection of industrial property. Article 10*bis* (2), however, is limited to *dishonest acts of competition*, not to all dishonest industrial or commercial acts. At the Hague Revision Conference of 1925 to the Paris Convention, Article 10*bis* (3) was introduced. It is a *non-exhaustive* exemplification of acts specifically constituting unfair competition. It exemplifies three types of such acts: (a) acts likely to cause confusion<sup>19</sup>, (b) misleading allegations likely to discredit a competitor's performance<sup>20</sup>, and (c) misleading allegations or indications as to one's own product<sup>21</sup>.

<sup>18</sup> Ludwig Baeumer, "*International Legislative History within the Framework of WIPO, and the Recognition and Protection of Famous and Well-Known Marks*" in Frederick W Mostert (Ed), *Famous and Well-Known Marks*, 2<sup>nd</sup> Edn (2004) Chapter 3, Part IIB, at 3 – 10.

<sup>19</sup> Article 10*bis* (3) 1.

<sup>20</sup> Article 10*bis* (3) 2.

<sup>21</sup> Article 10*bis* (3) 3.

Article 10bis (2) and (3) is open to two possible interpretations. First, if the *ejusdem generis* principle is used, even though Article 10bis (2) and (3) contains no more than an open-ended exemplification of acts constituting unfair competition, for any other act to fall under Article 10bis (2) and (3), it must belong to the genus of acts enumerated in Article 10bis (2) and (3) 1 – 3. Second, and in the alternative, it may however be argued that while Article 10bis (2) and (3) 1 and 2 refer to unfair acts of competition in respect of *a competitor*, Article 10bis (3) 3, on the other hand, falls in a class of its own, since it prohibits, in effect, false or misleading designations of not a competitor's, but one's own, products. This in turn means that the *ejusdem generis* principle does not apply to Article 10bis (2) and (3). If this view is correct, then Article 10bis (2) and (3) should be interpreted as *open-ended*, admitting the prohibition of acts dilutive of the reputation or goodwill of any trader.<sup>22</sup> This interpretation may be supported on another ground. Attempts to introduce more specific anti-dilution provisions to protect a trademark's advertising function against dilutive acts of unfair competition in the Paris Convention were attempted at the Lisbon Revision Conference of 1958, but were rejected, leaving the only open option to be Article 10bis (2) and (3). Specifically, three drafts were proposed which, were they accepted, would have protected "marks of high reputation",<sup>23</sup> or marks of "unique

<sup>22</sup> Rudolf Callman, *The Law of Unfair Competition, Trademarks and Monopolies*, 4<sup>th</sup> Ed (1994) Para. 2610, seems to hold the same view by commenting that –

Article 10 bis is not premised upon the narrow meaning of "unfair competition" as it is understood in American common law, but adopts the more liberal construction of the European countries such as France, Germany and Switzerland..... The statement that unfair competition is competition "contrary to honest practice" is not a definition; it merely expresses the concept that a particular act of competition is to be condemned as unfair because *it is inconsistent with currently accepted standards of honest practice*. It impliedly affirms that unfair competition is too broad a concept to be limited to any narrow definition such as for instance, passing off (emphasis added).

See also Ludwig Baeumer, Note 18 above, Part IIIA2, at 3 – 22, commenting that

More recently, it has been recognized [in the context of Article 10bis] that protection against unfair competition does not require a competitive relationship between the two parties. Thus the case of dilution of the distinctive character, commercial magnetism, or advertising value of a mark has been considered as a case of unfair competition.

<sup>23</sup> This was the text proposed by the Drafting Committee at the Lisbon Conference as New Article 10ter, the old Article 10ter would then have become Article 10quarter. The text provided that :

1. The registration or the use by a third party for products which are not identical or similar of a mark or a trade name of *high reputation* shall be prohibited if this leads to an

character” and “celebrity”<sup>24</sup>, or marks with a “distinctive character”<sup>25</sup>. The first and third formulations would have prohibited the misappropriation of the advertising value of trademarks on non-competing goods, even in the absence of confusion. This historical window of opportunity at protecting the advertising value of trademarks against dilution was however lost, because, in the context of the Paris Convention, all formulations were not adopted at the Lisbon Conference, or ever since thereafter. The importance of the formulations also lies in the fact that they sought to create a third hierarchical category of marks, namely, distinctive marks with a *reputation*, and marks with a *high reputation*, as opposed to well-known marks. As discussed in Chapter 5, the concept of marks with a reputation is now a firm fixture of European trademark jurisprudence. The question which is not settled is in respect of the origin of that concept. It is arguable that its roots can be traced back to these provisions. Marks with a high reputation, on the other hand, may be viewed as famous marks – the marks susceptible to dilution protection under the trademark law of the United States of America.

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unjustified advantage for the said third party **or** either to a risk of confusion *or to a weakening of the distinctive or attractive character of the said mark or trade name.* (emphasis added).

2. This provision is without prejudice to rights which the said third party acquired in good faith.

<sup>24</sup> This text was proposed by the delegations of Italy and the USA to the Lisbon Conference, and it provided that –

The registration or use of a mark or trade name of a third party for dissimilar products shall be prohibited as contrary to honest commercial practices where there is sufficient evidence that the mark, because of *its unique character and of its celebrity*, has acquired such a *reputation* that it leads those who use the mark in commerce or the public in general to establish a *commercial link* between the user or applicant for registration of the mark in respect of dissimilar products and the owner of the mark which benefits of an exceptional reputation. (Here, the focus was on confusion as to sponsorship, association or origin) (emphasis added)...

<sup>25</sup> This text was proposed by the International Association for the Protection of Industrial Property (AIPPI). It provided that-

The protection provided for by the present Article extends, with reservation of rights acquired in good faith, *to products which are not identical or similar* if there is either a risk of confusion or *an unjust advantage or substantial weakening of the distinctive character or the attractiveness of the mark* (emphasis added).

For comments in respect of all three formulations, see Ludwig Baeumer, Note 18 above, Part IIIA, at 3 – 19 to 3 – 22.

In conclusion, it is submitted that Article 6*bis* of the Paris Convention does not protect the advertising value of well-known trademarks against trademark dilution. In terms of Article 10*bis* (2) and (3), however, these provisions may be read purposively as prohibiting *all* acts of unfair competition, including acts dilutive of another trader's goodwill or reputation, since the examples listed therein may be read as non-exhaustive. A generous and purposive reading of Article 10*bis* (2) and (3) may therefore be used as a basis of anti-dilution protection for the advertising value of trademarks and other business identifiers. It is suggested, in light of the developments of international trademark law as shown below, that clearer language is needed, in the form of an amendment to both Articles 6*bis* and 10*bis*, to protect the advertising value of a trademark from dilution.

#### 4.2.2 *The Madrid Agreement and Protocol*

Both the Madrid Agreement<sup>26</sup> and Protocol<sup>27</sup> do not provide for the protection of a trademark's advertising value against dilution. Neither do they create an "international trademark" consisting of a distinct category to the trademark categories outlined in the discussion of Articles 6*bis* and 10*bis* of the Paris Convention above. The legal effect of both international trademark instruments is to establish "a bundle of national rights", not "one homogeneous right for the compound area of all member

<sup>26</sup> The Madrid Agreement Concerning the International Registration of Marks, was concluded on 14 April, 1891, and revised at Brussels on 14 December, 1900; at Washington on 2 June, 1911; at The Hague on 6 November, 1925; at London on 2 June, 1934; at Nice on 15 June, 1957; at Stockholm on 14 July, 1967; and amended on 28 September, 1979.

<sup>27</sup> The Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks was adopted at Madrid on 27 June, 1989. Both the Madrid Agreement and the Madrid Protocol have Regulations which came into force on 1 April, 2002, and Administrative Instructions which came into force on 1 April, 2002. For a text of the Madrid Agreement and the Madrid Protocol, see WIPO Publication No. 204 (E) (2002). For a discussion of the Madrid Agreement and Madrid Protocol, see (1) Peter J Groves, *Source Book On Intellectual Property Law* (1997), Chapter 6, "Trademarks", 627 – 632; (2) Cornish and Llewelyn, *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* (2003), Paras 15:14 and 17:10; (3) *WIPO Intellectual Property Handbook* (WIPO Publication No. 489 (E) (2001)), 286 – 291; (4) *Collection of Papers on Intellectual Property* (WIPO Publication No. 773 (E) (2001)), Part 1, "Introduction to the Madrid Agreement Concerning the International Registration of Marks and the Protocol Relating to the Agreement: Objectives, Main Features, Advantages".

states”<sup>28</sup>, because a prerequisite for registration under both instruments is that, for Madrid Agreement applications, a mark must first be registered in the country of origin, and for Madrid Protocol applications, the application for registration must first have been made in the office of origin, in order for the application to qualify as an international application<sup>29</sup>. Both instruments are therefore procedural rather than substantive in nature<sup>30</sup>, and are designed to simply facilitate the easier registration of marks in all the contracting countries<sup>31</sup>. As such, they are of exceptionally limited assistance in determining the protection of the advertising value of a trademark from dilution under international trademark law. No subsequent reference is made to either of them in this research.

### 4.2.3 *The Trademark Law Treaty*

The Trademark Law Treaty was adopted on 27<sup>th</sup> October, 1994, at a Diplomatic Conference in Geneva. Its basic purpose is to simplify and harmonize *the administrative procedures* in respect of national applications and the protection of trademarks. Its importance to the extant discourse lies within a narrow compass found in Articles 15 and 16 of the Treaty. Article 15 requires each contracting state to

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<sup>28</sup> Dirk Willem Ryk Hertzog, *Functional Theory in Trade Mark Law*, (1979), Chapter II, at 25. See also *Collection of Papers on Intellectual Property*, Note 27 above, at Para. 5, observing, in respect of the Madrid system, that its objectives

are two-fold. Firstly, it facilitates the obtaining of protection for marks (trademarks and service marks). The registration of a mark in the International Register produces, in the Contracting Parties designated by the applicant, the effects described in paragraph 26 below. Further Contracting Parties may be designated subsequently. Secondly, since an international registration is *equivalent to a bundle of national registrations*, the subsequent management of that protection is made much easier. (emphasis added).

<sup>29</sup> *Collection of Papers on Intellectual Property*, Note 27 above, at Para. 8, commenting that under the Madrid system

A mark may be the subject of an international application only if it has already been registered (or, where the international application is governed exclusively by the Protocol, if registration has been applied for) in the Trademark Office of the Contracting Party with which the applicant has the necessary connection. This Office is referred to as the Office of origin.

<sup>30</sup> Gerd F. Kunze “*The Madrid System for the International Registration of Marks as Applied under the Protocol*” [1994] 6 EIPR 223 – 226.

<sup>31</sup> Jose Barreda, “*The Madrid Protocol: Does it Require a Revision*” [1999] 118 Trademark World 29 – 33.

comply with the provisions of the Paris Convention concerning marks.<sup>32</sup> Article 16 requires contracting parties expressly to register service marks and apply to such marks the protection granted to trademarks under the Paris Convention. It may therefore be concluded, in respect of the Trademark Law Treaty, that (a) the legislative protection granted to the functions of a trademark under that Treaty are *pari passu* those granted under the Paris Convention, and (b) such protection is extended to cover service marks. It should also be noted that the advertising function is not expressly or impliedly protected under the Trademark Law Treaty.

#### 4.2.4 *The Trips Agreement*

The Uruguay Round of multilateral trade negotiations held under the framework of the General Agreement on Tariffs and Trade<sup>33</sup> was concluded on December 15, 1993. The agreement embodying the results of those negotiations, the Agreement Establishing the World Trade Organization<sup>34</sup> was adopted on 15<sup>th</sup> April, 1994, in Marrakech, Morocco. Those negotiations included, for the first time within the GATT, discussions on aspects of intellectual property rights in international trade. The result of those negotiations, contained in an Annex to the WTO Agreement, was the Agreement on Trade-Related Aspects of Intellectual Property Rights<sup>35</sup>, which entered into force on 1 January, 1995, subject to some transitional provisions applicable to least developed and developing countries, which are not relevant to this discussion.

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<sup>32</sup> Article 2 (2) (a) of the Trademark Law Treaty provides that the treaty applies to “marks relating to goods (*trademarks*) or services (*service marks*) or both goods and services”.

<sup>33</sup> Hereafter called “GATT”.

<sup>34</sup> Hereafter called “WTO”.

<sup>35</sup> Hereafter called “TRIPS Agreement”. For a general discussion of the TRIPS Agreement, see (1) Ian Jay Kaufman, “*The Impact of the Trade Related Aspects of Intellectual Property Rights Agreement on Trademarks*” [1997] *Trademark World* (September) 30 – 36; (2) Joanna Schmidt – Szalewski, “*The International Protection of Trademarks After the TRIPS Agreement*” [1989] 9 *Duke Journal of Comparative and International Law*, 193 – 201.

Specifically, Articles 15 to 21 of the TRIPS Agreement are devoted exclusively to trademark-related issues<sup>36</sup>. However, only Articles 15 and 16 are relevant to this discussion in terms of (a) the criteria of what constitutes a trademark, (b) the hierarchical categorization of trademarks based on notoriety, and (c) the scope of protection granted to the advertising value of trademarks against dilution.

Unlike the Paris Convention, the Madrid Agreement and Protocol, and the Trademark Law Treaty, Article 15 (1) of the TRIPS Agreement commences with a broad non-exhaustive definition of the protectable subject matter constituting a trademark, which is defined as -

Any sign, or any combination of signs, *capable of distinguishing* the goods or services of one undertaking from those of other undertakings, shall be capable of constituting a trademark ... Where signs are not inherently capable of distinguishing the relevant goods or services, Members may make registrability depend on distinctiveness acquired through use. Members may require, as a condition of registration, that signs be visually perceptible (emphasis added).

From this definition, it may be concluded that Article 15 (1) defines a trademark in terms of its product distinguishing function, as opposed to its advertising function. Trademarks must be capable of distinguishing the products of one undertaking from those of other undertakings. Distinctiveness, *and* optionally, the mark's ability to be represented graphically, are therefore basic elements defining each trademark, including well-known marks. A proprietor of such mark is then given the right to prevent third parties not having the proprietor's consent from using, in the course of trade, identical or similar signs for goods or services which are identical or similar to those in respect of which the trademark is registered, where such use would result in a *likelihood of confusion*<sup>37</sup>. In the case of the use of an identical sign for identical goods or services, a likelihood of confusion *is presumed*. As already stated,

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<sup>36</sup> The text of the TRIPS Agreement is available in WIPO Publication No. 223 (E) (2002).

<sup>37</sup> Article 16 (1).

the focus of protection in both Articles 15 (1) and 16 (1) of the TRIPS Agreement is on the product distinguishing function of *registered* trademarks<sup>38</sup>.

Article 16 (2) of the TRIPS Agreement then extends the protection granted under Article 6*bis* of the Paris Convention to service marks<sup>39</sup>. Further, Article 16 (2) requires contracting states, in determining whether a trademark is well-known, to –

take account of the knowledge of the trademark in the relevant sector of the public, including knowledge in the Member concerned which has been obtained as a result of the *promotion* of the trademark (emphasis added).

In terms of Article 16 (2), *promotion* of a trademark is therefore made a determinative element of a mark’s notoriety. Put differently, the effect of Article 16 (2) is to cast *the promotion* of a mark as a *guideline* which may legitimately be used by contracting states in ascertaining a mark’s notoriety. Mostert argues that this language evinces the drafters’ intention that the trademark need not be well-known to the entire population of a country where protection is sought, but only to the trademark’s target audience.<sup>40</sup>

Article 16 (3)<sup>41</sup> of the TRIPS Agreement, on the other hand, extends the protection granted by Article 6*bis* of the Paris Convention to well-known marks in respect of goods or services which are *not similar* to those in respect of which the well-known mark is registered on condition that (a) the unauthorized use of the well-known mark on the dissimilar goods or services “would indicate a connection between those goods or services and the owner of the registered [well-known] trademark”, *and*

<sup>38</sup> See, however, Note 54 below and accompanying text, especially the arguments of Dr. Annette Kur.

<sup>39</sup> Note that Article 15 (1) extends the definition of a “trademark” to cover service marks.

<sup>40</sup> Frederick Mostert (Ed) *Famous and Well-Known Marks*, 2<sup>nd</sup> Edn (2004), at 1 – 38.

<sup>41</sup> Article 16 (3) of the TRIPS Agreement provides that –

3. Article 6*bis* of the Paris Convention (1967) shall apply, *mutatis mutandis*, to goods or services which are *not similar* to those in respect of which a trademark is registered, provided that use of that trademark in relation to those goods or services *would indicate a connection between those goods or services and the owner of the registered trademark and provided that the interests of the owner of the registered trademark are likely to be damaged by such use.* (emphasis added).

(b) “ the interests of the owner of the registered trademark are likely to be damaged by such use”.

The first condition of Article 16 (3) seeks to protect the source-origin function and advertising function of well-known marks by prohibiting confusion as to sponsorship. As pointed out in Chapter 3, a risk of confusion as to sponsorship, association or affiliation occurs when the consuming public is likely to believe that the infringing goods bearing the well-known mark are authorized, licensed or otherwise officially approved by the proprietor of the well-known mark<sup>42</sup>. By establishing a causal nexus that the infringing goods should indicate a connection between those goods *and* the owner of the registered well-known trademark, this condition prohibits confusion of sponsorship and, as such, principally protects both the well-known mark’s source-origin function and advertising function.

The two conditions of Article 16 (3) *may* however be read disjunctively, despite the use of the conjunctive “and” in the text of Article 16 (3). In terms of Article 1 (1) of the TRIPS Agreement, the provisions of that Agreement are *minimum standards of protection* of intellectual property rights, including trademark rights. Article 1 (1) therefore leaves it open to WTO contracting states to implement higher standards of intellectual property rights protection than those provided in the TRIPS Agreement<sup>43</sup>. When Article 16 (3) of the TRIPS Agreement is read together with

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<sup>42</sup> See Paul J. Heald, “*Trademarks and Geographical Indications: Exploring the Contours of the TRIPS Agreement*” [1996] 29 VAND J. TRANSNAT’L LAW 635 – 55, stating that

TRIPS protection of well-known marks against uses on dissimilar goods appears limited to situations involving what the Lanham Act describes as “confusion – as to – sponsorship”. In a false sponsorship case, the trademark owner must prove that consumers are likely to believe that the infringing goods are authorized, licensed, or officially approved by the trademark owner. This differs from state law causes of action for trademark dilution, which do not require confusion or mistaken belief, but purport to provide relief for the “tarnishment” or “dilution” of the trademark’s intrinsic value. Article 16 of TRIPS requires that a dissimilar use “indicate a connection between the infringing goods or services and the owner of the registered trademark”. The requirement of a mistaken belief in a “connection between those goods” seems much closer to the traditional Lanham Act false sponsorship cause of action than to a cause of action for dilution.

<sup>43</sup> Article 1 (1) of the TRIPS Agreement provides that –

1. Members shall give effect to the provisions of this Agreement. *Members may, but shall not be obliged to, implement in their law more extensive protection than is required by*

Article 1 (1), the two *provisos* of Article 16 (3) can then be read disjunctively, thereby allowing WTO contracting states to grant *additional protection* under Article 16 (3) in circumstances where only one of the two conditions specified therein is met. As pointed out by Ludwig Baeumer<sup>44</sup>

The provision, according to Article 1 (1) of the TRIPS Agreement, establishes a minimum standard of protection. Therefore countries are free to grant protection in accordance with Article 16 (3) of the TRIPS Agreement not only to registered trademarks but also to unregistered trademarks. The provision also serves to grant protection where both conditions of Article 16 (3) are not fulfilled (namely an indication of a connection between the dissimilar goods and/or services and the owner of the well-known mark *and* likelihood of damage to the interests of the owner of the well-known mark), but also where only one of those conditions is fulfilled.

If Baeumer's proposition is correct, then the effect of the second *proviso* to Article 16 (3), when implemented by WTO contracting states desirous of granting higher standards of intellectual property rights protection pursuant to Article 1 (1), would be to protect the advertising value of a well-known mark by prohibiting the misappropriation of the advertising value of such well-known mark in respect of goods which are not similar to those in respect of which the well-known mark is registered, if the interests of the owner of the registered well-known mark are likely to be damaged by such misappropriation. Further, countries are free to extend such protection to *unregistered* well-known marks. In short, such an interpretation prohibits a misappropriation of a mark's advertising value which causes dilution. Such an interpretation of Article 16 (3) of the TRIPS Agreement is supported by Frederick Mostert<sup>45</sup>, who observes that –

[Article 16 (3)] will probably serve as a basis for legal action founded on a likelihood of confusion of business connection or sponsorship, [but] *it is also*

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*this Agreement*, provided that such protection does not contravene the provisions of this Agreement. Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice (emphasis added).

<sup>44</sup> Ludwig Baeumer, Note 18 above, Part III B1, at 3 – 23 to 3 – 24.

<sup>45</sup> Frederick W. Mostert, "*Well-Known and Famous Marks: Is Harmony Possible in the Global Village?*" [1996] 86 TRADEMARK REP. 103, at 130.

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*possible that this provision will form the grounds, where appropriate, of an action of trademark dilution in the absence of any confusion but where some association of the well-known mark with the goods or services of the registered owner is present (emphasis added).*

Such an interpretation also broadly gives effect to the jurisprudence developed by the WTO Appellate Body in interpreting other WTO Agreements, notably the Agreement on Agriculture. The Appellate Body has consistently referred to Article 31 (1) of the Vienna Convention on the Law of Treaties of 1969 in interpreting WTO Agreements. Article 31 (1) of the Vienna Convention provides that

A treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose.

In the *Japan-Alcoholic Beverages Case*<sup>46</sup>, the Appellate Body, applying Article 31 (1) of the Vienna Convention in the context of the Agreement on Agriculture, held that

One of the corollaries of the ‘general rule of interpretation’ in the Vienna Convention is that interpretation must give meaning and effect *to all the terms of the treaty*. An interpreter is not free to adopt a reading that would result in *reducing whole clauses or paragraphs of a treaty to redundancy or inutility*.

In the *Canada-Dairy Case*<sup>47</sup>, the Appellate Body similarly held that the task of the treaty interpreter is to ascertain and give effect to a legally operative meaning for the terms of the treaty. It held that

the applicable fundamental principle of *effet utile* is that a treaty interpreter is not free to adopt a meaning that would reduce parts of a treaty to redundancy or inutility.

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<sup>46</sup> WR/D 58/AB/E, Report of the Appellate Body, WT/DS10/AB/R and WT/DS11/AB/R, 4 October, 1996.

<sup>47</sup> *Canada-Measures Affecting the Importation of Milk and the Exportation of Dairy Products*, Report of the Appellate Body, WT/DS103/AB/R and WT/DS113/AB/R, 13 October, 1999, Para. 133.

In *United States – Standards for Reformulated and Conventional Gasolene Case*<sup>48</sup>, the Appellate Body emphasized that the rules advanced above have attained the status of “customary or general international law”.

The objectives and purpose of the TRIPS Agreement are (a) to promote effective and adequate protection of intellectual property rights<sup>49</sup>, (b) by introducing *adequate minimum standards* and principles concerning the availability, scope and use of such rights<sup>50</sup>, (c) while expressly providing that contracting states may implement in their domestic laws more extensive protection than those required by the Agreement<sup>51</sup>. If the *effet utile* principle is then applied to Article 16 (3) in this context, the second *provisio* should be read independently as prohibiting trademark dilution in order to give effect to Article 1 (1). From this premise, that *provisio* may now be closely scrutinized to ascertain its scope and extent.

The second *provisio* of Article 16 (3) extends Article 6*bis* of the Paris Convention to goods or services which are not similar to those in respect of which the well-known mark is registered, provided the interests of the owner of the registered trademark are *likely* to be damaged. Article 16 (3) is therefore premised on likelihood of damage, and not on actual damage. The interests of the owner of the registered well-known trademark are likely to be damaged (a) if the use of the conflicting mark is likely to impair or dilute in an unfair manner<sup>52</sup> the unique position of the registered well-known mark in the market, (b) if the use of the conflicting mark is used on goods or services which are of an inferior quality, or of an immoral, unwholesome or obscene nature, thereby diminishing by tarnishment the advertising value of the registered well-known mark in the eyes of the public, (c) if the use constitutes a free ride on the

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<sup>48</sup> *United States – Standards for Reformulated and Conventional Gasolene*, Report of the Appellate Body, WT/DS2/9, 20 May, 1996, 23.

<sup>49</sup> First Preamble and Article 7, TRIPS Agreement.

<sup>50</sup> Second Preamble, Para. (b) and Article 1 (1) TRIPS Agreement.

<sup>51</sup> Article 1 (1), TRIPS Agreement.

<sup>52</sup> What may constitute fair use, and hence become a defence under Article 16 (3), are the exceptions in Article 17, namely “fair use of descriptive terms” which take account of the legitimate interests of the owner of the trademark and third parties, or acquiescence by the trademark owner, or honest concurrent use, or use on spare parts.

back of the registered well-known mark, or (d) if the use of the conflicting mark genericises the registered well-known mark. When purposively construed, this *provisio* therefore prohibits dilution by blurring, by tarnishment and by genericisation, since they all damage the interests of the trademark owner in the mark<sup>53</sup>.

It may also be noted that Article 16 (3), when literally interpreted, extends protection only to *registered*, as opposed to unregistered, well-known marks. Such an interpretation, however, seems self-contradictory and anomalous because Article 6*bis* of the Paris Convention, which Article 16 (3) seeks to extend, governs protection without registration or use, provided the mark is well-known. Such an interpretation also does not give adequate effect to the ‘minimum protection’ provisions of Article 1 (1). This presumably explains why Dr. Annette Kur<sup>54</sup> argues that the references to “registered [well-known] marks” in Article 16 (3) *is a drafting error*. Dr. Kur notes that early drafts of the TRIPS Agreement contained a provision which required registration as a condition for protection, but that this provision was not included in the final text. Therefore, the inclusion of registration in Article 16 (3) was *an oversight* when the text was finalized. Dr. Kur’s approach, it is submitted, gives effect to Article 1 (1) of the TRIPS Agreement.

In conclusion, it is submitted that Article 16 (3) of the TRIPS Agreement provides for protection that extends beyond the principle of specialty enshrined in Article 6*bis* of the Paris Convention. When the two *provisos* to Article 16 (3) of the TRIPS Agreement are read disjunctively, the second *provisio* protects the advertising value of well-known registered trademarks from dilution. When the two *provisos* are read conjunctively, Article 16 (3) is limited to prohibiting misappropriation likely to cause confusion as to sponsorship, association or affiliation. While the jurisprudence favours the former interpretation, there may be a need to amend Article 16 (3) of the TRIPS Agreement to pellucidly separate the two *provisos*. Opportunity may then also

<sup>53</sup> See Chapter 3, Parts 3.3.1, 3.3.2, 3.3.3 and 3.3.4.

<sup>54</sup> Dr. Annette Kur “*TRIPS and Trademarks Law*” in Friedrich – Karl Beier and Gerhard Schricker (Eds) [1996] 18 *Studies in Industrial Property and Copyright Law*, 93, at 108.

be taken to delete references to *registered* well-known marks in Article 16 (3), and to clearly define the meaning of trademark dilution, possibly using the legislative text of Article 3 of the World Intellectual Property Organization Model Provisions for Protection Against Unlawful Competition, discussed below, as a legislative precedent. Although the TRIPS Agreement defines, for the first time in international trademark law, when a mark may be regarded as well-known, such a definition is narrow and not all encompassing. It is argued that the TRIPS Agreement should also be amended to provide clearer guidelines of when a mark should be regarded as well-known. The salutary effects of such an amendment becomes self-evident if it is remembered that all WTO member countries have to comply with the TRIPS Agreement and that some countries, notably, the United States of America, protect only *famous marks* from dilution, while the TRIPS provisions require protection for well-known marks.

#### **4.2.5 The World Intellectual Property Organization Model Provisions For Protection Against Unlawful Competition**

In 1996, the World Intellectual Property Organization<sup>55</sup> published its Model Provisions for Protection Against Unfair Competition<sup>56</sup>, which were accompanied by Explanatory Notes. The Model Provisions do not constitute binding international standards, but rather act as guidelines or soft law which countries affiliated with WIPO can use in drafting or improving legislation governing unfair competition in their jurisdictions. Article 3 of the Model Provisions is of particular importance to this discussion because it provides for anti-dilution protection. Article 3 (1) of the Model Provisions provides that

Any act or practice, in the course of industrial or commercial activities, that damages, or is likely to damage, the goodwill or reputation of another's enterprise shall constitute an act of unfair competition, regardless of whether such act or practice causes confusion.

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<sup>55</sup> Hereafter called "WIPO".

<sup>56</sup> Hereafter called "the Model Provisions".

In terms of Article 3 (1), any act or practice by a trader that damages another trader's goodwill or reputation constitutes unfair competition, even in the absence of confusion. Such acts or practices, according to the Explanatory Notes, should exceed what is necessary to protect the trader's legitimate interest<sup>57</sup>, and Article 3 (1) does not apply to cases of truthful and non-misleading comparative advertising. As pointed out by Gielen<sup>58</sup>

In Article 3 [ of the Model Provisions] any act or practice that damages, or is likely to damage, the goodwill or reputation of another's enterprise will constitute an act of unfair competition, regardless of whether such an act or practice causes confusion. Of course, it will immediately be said that rather a lot of the trading on the market leads to competitors being damaged, without this being capable of being considered an act of unfair competition. Neither is it the intention that all damage be conceived as such. In the notes, it is stated that when the damage is legitimately done, for example, in comparative advertising that is not misleading, there can be no question of unfair competition.<sup>59</sup>

Article 3 (2) then exemplifies instances where damaging another's reputation or goodwill may, in particular, result in dilution. It provides that

- 3 (2) [Examples of Damaging Goodwill or Reputation]
- (a) Damaging another's goodwill or reputation may, in particular, *result from the dilution of the goodwill or reputation* attached to
    - (i) a trademark, whether registered or not;
    - (ii) a trade name;
    - (iii) a business identifier other than a trademark or trade name;
    - (iv) the appearance of a product;
    - (v) the presentation of products or services;
    - (vi) a celebrity or well-known functional character.

The Explanatory Notes then observe, in respect of the list of examples set

<sup>57</sup> Explanatory Note 3.01 to Article 3.

<sup>58</sup> Charles Gielen, "*WIPO and Unfair Competition*" [1997] 2 European Intellectual Property Review 78 – 80, at 79.

<sup>59</sup> For an overview of the WIPO Model Provisions, see (1) Charles Gielen, "*WIPO and Unfair Competition*" [1997] 2 EIPR 78 – 80; (2) "*Protection Against Unfair Competition: An Analysis of the Present World Situation*", WIPO Publication No. 725 (E) (1994); (3) Frauke Henning – Bodewig, "*International Protection Against Unfair Competition – Article 10bis Paris Convention, TRIPS and WIPO Model Provisions*" [1999] Vol. 30 International Review of Industrial Property and Copyright Law, 166.

out in Article 3 (2) (a) (i) to (vi), that they should be protected from dilution because of the desire of other traders to take unfair advantage of their uniqueness<sup>60</sup> by engaging in acts or practices which cause the dilution of such signs by blurring or by tarnishment. As such, the Explanatory Notes correctly distinguish the conduct of misappropriation from the damage of dilution.

The Model Provisions note that the damage of dilution can occur outside a competitive relationship between traders, and in respect of non-competing goods, even in the absence of confusion as to the source of the goods<sup>61</sup>.

The Model Provisions then set out useful guidelines to be used in determining whether a trader has diluted the advertising value of any of the business signs specified in Article 3 (2) (a) (i) to (vi). In terms of these guidelines, due regard should be taken of (a) the similarity of the defendant's and the plaintiff's signs, (b) the circumstances under which the defendant used [ or misappropriated] the advertising value of the plaintiff's sign without authorization, and (c) the extent of such use<sup>62</sup>.

Distinctive trade dress is similarly protected from dilution under the Model Provisions. It is recognized that where a product is distinctive because of its nonfunctional aesthetic features, the unauthorized copying or adoption of such features may dilute the product dress distinctive character<sup>63</sup>. Likewise, where a service is presented by a particular trader through marketing techniques like advertising, any imitation of the method of presentation is recognized as having the potential of diluting the advertising value of the method of presentation by blurring<sup>64</sup>.

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<sup>60</sup> Explanatory Notes 3.02 on Article 3.

<sup>61</sup> Explanatory Note 3.03 on Article 3.

<sup>62</sup> Explanatory Note 3.05 on Article 3.

<sup>63</sup> Explanatory Note 3.08 on Article 3, referring to Article 3 (2) (a) (iv) and (v).

<sup>64</sup> See the definition of dilution by blurring in Chapter 3, Part 3.3.

Article 3 (2) (b) of the Model Provisions then defines the term “dilution of goodwill or reputation” for the purpose of the Model Provisions as

*the lessening of the distinctive character or advertising value of a trademark, trade name or other business identifier, the appearance of a product or the presentation of products or services or of a celebrity or well-known fictional character (emphasis added).*

In terms of this definition, dilution may *not* totally destroy the distinctive character or advertising value of a trademark or other business sign. It might have only a “lessening” effect on such distinctive character or advertising value<sup>65</sup>. This is what Schechter termed “the gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use upon non-competing goods”<sup>66</sup>.

In respect of comparative advertising, the Model Provisions note that such a practice should be permitted only to the extent that the advertisement does not unduly damage the goodwill or reputation attached to the relevant business sign<sup>67</sup>. From this, it may be observed that the dilution of the advertising value of a business sign may be caused, for example, by untruthful and misleading comparative advertising, because such practices are unconcealed misappropriation which unduly damage the goodwill or reputation attached to the relevant business sign.

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<sup>65</sup> Explanatory Note 3.10 on Article 3.

<sup>66</sup> Frank I Schechter, Note 1 above, at 825.

<sup>67</sup> Explanatory Note 3.06 on Article 3. This position also reflects the position of the International Trademark Association Board of Directors **Resolution on Comparative Advertising** of 3 March, 1998, available at [www.inta.org/boardresolutions](http://www.inta.org/boardresolutions), last visited on 27<sup>th</sup> September, 2004, which provides in part that

*BE IT RESOLVED, that the International Trademark Association endorses permitting comparative advertising of goods and services so long as such advertising exists within a framework which:*

- (a) *prevents comparative advertisements that are explicitly or implicitly false or misleading; cause a likelihood of confusion or association with the marks or trade names of competitors, or otherwise violate principles of fair competition;*
- (b) *provides effective enforcement mechanisms including preliminary and permanent injunctions, corrective advertising and damages; and*
- (c) *encourages self-regulatory mechanisms if possible (emphasis added).*

Article 3 of the Model Provisions therefore deals with trade practices which damage another trader's reputation or goodwill. In particular, any act or practice in the course of trade that damages, or is likely to damage, another trader's goodwill or reputation in his business sign constitutes unfair competition, regardless of whether it causes confusion. A claim for damaging another trader's reputation or goodwill, in terms of Article 3 (2) (a) and (b) of the Model Provisions, may be based on the dilution of the advertising value or distinctive character of a trademark, whether *registered or not*.

#### 4.2.6 *The WIPO Joint Recommendation Concerning Provisions On The Protection Of Well-Known Marks*

In 1999, the Assembly of the Paris Union for the Protection of Industrial Property, and the General Assembly of the World Intellectual Property Organization jointly adopted, at the Thirty-Fourth Series of Meetings of the Assemblies of the Member States of WIPO which took place in Geneva from 20 to 29 September, 1999, a Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks<sup>68</sup>. The policy justification of the Joint Recommendation is found in its preface, which states that

The Recommendation is the first implementation of WIPO's policy to adapt to the pace of change in the field of industrial property by considering new options for accelerating the development of international harmonized common principles.<sup>69</sup>

<sup>68</sup> Hereafter called the "Joint Recommendation".

<sup>69</sup> See also Gerd Kunze, "*Improving the Protection of Well-Known Marks: Introduction to the New WIPO Provisions*" [1999] 119 Trademark World, 22 – 24, at 22, commenting that

It is believed that such a joint recommendation, supported by a large number of countries, belonging to one or both of the [Paris Union or the World Intellectual Property Organization], will have more impact in the foreseeable future than trying to have a new treaty adopted by a diplomatic conference (perhaps in one or two years) which would take many years to enter into force and to be ratified by a substantial number of countries.

See also Annette Kur, "*The WIPO Recommendations for the Protection of Well-Known Marks*" [2000] 7 – 8 International Review of Industrial Property and Copyright Law, 824 – 845.

The Joint Recommendation was therefore an international harmonization initiative. It should be noted, however, that the Joint Recommendation is not a treaty and has no binding effect. It arose from a realization that although WIPO and WTO member states are obliged, as a matter of law, to implement both Article 6*bis* of the Paris Convention and Article 16 (3) of the TRIPS Agreement, there was no consistency of approach in national laws in respect of the protection of well-known marks. The meaning of, and the terminology used to describe, a well-known mark in most cases differed from jurisdiction to jurisdiction<sup>70</sup>. This divergence of approach, meaning and terminology was exacerbated by the impact of developments in information technology, because domain names were increasingly coming into conflict with well-known marks. To remedy the divergence, WIPO convened a Committee of Experts in 1995, which ultimately became the Standing Committee on the Law of Trademarks, Industrial Designs and Geographical Indications<sup>71</sup>. The SCT then produced a draft Recommendation, which was adopted in 1999 as the Joint Recommendation.

<sup>70</sup> See Gerd Kunze, “*Improving the Protection of Well-Known Marks: Introduction to the New WIPO Provisions*”, Note 69 above, at 22, commenting that

The [Joint Recommendation] provisions are an important step forward, compared to the minimum standards of protection provided by Article 6*bis* of the Paris Convention and Article 16 (2) and (3) of the TRIPS Agreement. They clarify certain points which were open to interpretation, and *they considerably improve the protection of well-known marks against dilution*. With their adoption, the academic discussion on the differences between well-known marks in the (restrictive) sense of Article 6*bis* Paris Convention, so-called famous marks, marks of high renown (and other proposed denominations) should belong to the past.

See also the International Trademark Association’s Board of Directors *Resolution on Well-Known Marks Protection* of 18 September, 1996, available at [www.inta.org/boardresolutions](http://www.inta.org/boardresolutions), last visited on 27th September, 2004, which provides that

WHEREAS, lack of consistency in protection of “well-known” marks, including imposition of use requirements within a particular jurisdiction, fosters public deception and commercial dishonesty, as well as poses an untoward risk that a company will be precluded from doing business under its own mark in a jurisdiction precisely because the strength of its reputation led to a pirating of its mark; and

WHEREAS, despite international convention and multilateral treaty provisions, many countries do not extend sufficient protection to well-known marks; and

WHEREAS, *many countries apply different and conflicting criteria for determining what constitutes a well known mark;*

BE IT RESOLVED, that the International Trademark Association endorses protection of well-known marks without requiring registration and/or actual use in the form of sales of goods or services bearing the mark in the jurisdiction in question if such mark has sufficient local reputation to be considered “well-known”.

The first salient feature of the Joint-Recommendation is that it provides specific criteria for use in determining whether a mark is well-known. It will be remembered that Article 6bis of the Paris Convention had left open the question of when a mark is to be regarded as well-known to the competent authorities of member states. Article 16 (2) of the TRIPS Agreement simply requires WTO member states, in determining whether a trademark is well-known, to

take account of the knowledge of the trademark in the relevant sector of the public, including knowledge in the Member concerned which has been obtained as a result of the promotion of the trademark.

The lack of uniform international criteria of what is a well-known mark meant in turn that different countries used different criteria. In some countries, a numerical threshold of recognition was required to establish that a mark is well-known<sup>72</sup>, while other countries used less mathematical formula. In other countries, a

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BE IT FURTHER RESOLVED, that the International Trademark Association endorses consideration of the following factors as criteria for establishing a “well-known” mark:

- (a) The amount of local or worldwide recognition of the mark
- (b) The degree of inherent or acquired distinctiveness of the mark
- (c) The local or worldwide duration of use and advertising of the mark
- (d) The local or worldwide commercial value attributed to the mark
- (e) The local or worldwide geographical scope of the use and advertising of the mark
- (f) The local or worldwide quality image that the mark has acquired
- (g) The local or worldwide exclusivity of use and registration attained by the mark, and the presence or absence of identical or similar third party marks validly registered for or used on identical or similar goods and services.

<sup>71</sup> Hereafter called “the SCT”.

<sup>72</sup> See Geert Wolfgang Seelig, “*Protecting ‘Famous Brands’ in Germany*” [1989] 5 EIPR, 158 – 161, citing the *Asbacher Landbrox case* of 12 October, 1972, a decision of the *Hamburg Hanseatic Oberlandesgericht*, published in GRUR 1973, page 94, and commenting that in that case the court

concluded that 100 per cent awareness could practically never be achieved, because some purchasers take little or no interest in what is happening in the market or are not concerned about the identifiability of a product’s origin. These purchasers can, according to the experience of opinion researchers, amount to about 20 per cent of people interviewed. Seventy to eighty per cent awareness is therefore generally adequate to acquire an outstanding reputation. The appellate court division in this case accepted a total result of over 80 percent for *Asbach* brandy and consequently affirmed it as a ‘famous brand’.

distinction is drawn between famous marks, well-known marks and marks with an outstanding reputation. According to Mostert<sup>73</sup>.

Courts and Commentators use a variety of terms to refer to well-known marks, including “notorious”, “famous”, “highly renowned”, “highly reputed”, and “exceptionally well-known” marks. These terms have such a large degree of overlap and inter-connection that their multiple use has caused a fair amount of confusion. In fact, an illustrious panel of experts on well-known marks indicated that such “usage reflects no more than a linguistic muddle”.<sup>74</sup>

Basile Catomeris echoes the views of Frederick Mostert in more lyrical language by observing that

The expression “well-known” has been used for decades in Article 6*bis* of the Paris Convention. It seems to have no ancestor, nor has it, so far, any nomenclature descendant capable of being adopted with no ambiguity in the world of trademarks.<sup>75</sup>

The Joint Recommendation therefore seeks to achieve harmonization by providing non-exhaustive criteria to assist WIPO member states in determining when a mark is well-known in the member state. According to Article 2 of the Joint Recommendation, all relevant circumstances “from which it may be inferred that a mark is well-known” should be taken into account<sup>76</sup>. The onus is on the owner of the well-known mark to produce information from which it may be inferred that the mark is well-known<sup>77</sup>.

By way of example, Article 2 (1) (b) sets out a number of interrelated guidelines which may be considered, conjunctively or disjunctively, depending on

<sup>73</sup> Note 45 above, at 115. See also Andre R. Bertrand, “*French Trademark Law: From Well-Known Brand to the Famous Brand*” [1993] 4 EIPR, 142, stating that under French law, there are varying degrees of brand status, at the apex of which are (a) major [grand] brands, followed in descending order by (b) well-known brands, which may either be (i) very well-known, (ii) exceptionally well-known, (c) illustrious brands, and so on; Michael Blakeney “*Well-Known Marks*” [1994] 11 EIPR 481, at 482, commenting that the “situation has become confused because over time judicial and legislative practice has thrown up a hierarchy of concepts of fame or repute, in relation to which different strengths of protection are available”.

<sup>74</sup> Note 45 above, at 115.

<sup>75</sup> Basile Catomeris, “*The Riddle of Well-Known Marks and Other Goodwill Carriers*” [1995/96] Trademark World, 20 – 23, at 21.

<sup>76</sup> Article 2 [1]. See also the guidelines in the INTA Resolution, Note 70 above.

<sup>77</sup> Explanatory Note 2.1 on Article 2.

the particular circumstances of each case, in determining whether a mark is well-known. These include –

(i) *The degree of knowledge or recognition of the mark in the relevant sector of the public:* The degree of knowledge or recognition contemplates consumer surveys and opinion polls, without setting out the quantitative results from such surveys or polls necessary for a mark to attain the status of a well-known mark<sup>78</sup>. In this context, the relevant sector of the public includes the interested sector within which the particular goods or services are purchased, or sold, or are distributed, or traded. This is a factual inquiry which depends, (a) on the type of goods or the nature of the services offered, and (b) the economic sphere in which there is a knowledge of the mark. Knowledge by the public at large is not required<sup>79</sup>, except where there is a dispute that the use, registration or application for registration of a mark conflicts with a well-known mark either by impairing or diluting in an unfair manner the distinctive character of the well-known mark, or by taking unfair advantage of the distinctive character of the well-known mark, in which case a WIPO contracting state may “require that the well-known mark be well-known by the public at large”.<sup>80</sup>

(ii) *The duration, extent, and geographical area of any use of the mark:* According to the Explanatory Notes, these are integral indicators in determining whether a mark is, or is not, well-known<sup>81</sup>. Actual use of the mark in the member state is, however, not a requirement<sup>82</sup>. The focus of enquiry is on use of the mark in neighbouring territories, in territories in which the same language or languages is or are spoken, in territories which are covered by the same electronic or print media, in territories with

<sup>78</sup> Explanatory Note 2.3 on Article 2.

<sup>79</sup> Frederick Mostert, Note 45 above, at 119. See also Article 2 (2).

<sup>80</sup> Article 4 (1) (c).

<sup>81</sup> Explanatory Note 2.4 on Article 2.

<sup>82</sup> Article 2 (3) (a) (i).

close trade relations with the state undertaking the enquiry, and use on the internet<sup>83</sup>, and so on.

- (iii) *The duration, extent and geographical area of any promotion of the mark, including advertising or publicity and the presentation at fairs or exhibitions, of the goods and/or services to which the mark applies:* Promotion of the mark is to be considered as a category independent of use, and includes both print and electronic advertising, internet-based advertising, and promotion at exhibitions and fairs<sup>84</sup>.
- (iv) *The duration and geographical area of any registrations, and/or any applications for registration, of the mark, to the extent that they reflect use or recognition of the mark:* Registrations are relevant insofar as they reflect use of the trademark in different countries, by the proprietor or with his licence or approval<sup>85</sup>.
- (v) *The record of successful enforcement of rights in the mark, in particular the extent to which the mark was recognized as well-known by competent authorities.* Here, enforcement covers opposition proceedings. This guideline underscores the applicability of the principle of territoriality: if a well-known mark is successfully protected against infringement as such, or is recognized as such, in a neighbouring state, this strengthens general perception and acceptance of the mark as a well-known mark in that geographic area. It may also apply in respect of the mark being the subject of attempts by non-authorized third parties to register the same or confusingly similar names as domain names<sup>86</sup>.

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<sup>83</sup> Explanatory Note 2.4 on Article 2.

<sup>84</sup> Explanatory Note 2.6 on Article 2. See also Article 16 (2) of the TRIPS Agreement.

<sup>85</sup> Explanatory Note 2.7 on Article 2.

<sup>86</sup> Explanatory Note 2.8 on Article 2. See also Para. 284 of the WIPO Final Report, Note 109 below.

- (vi) *The value associated with the mark:* In Chapters 2 and 3, it was noted that the valuation of marks is now big business, and this fact was advanced as a socio-economic reason necessitating the protection of a mark's advertising value. The same rationale informs this legislative guideline, which *ex industria* validates the earlier proposition made *ex hypothesi*.

In order to prevent the competent authorities of a country from erroneously considering that **all** the factors specified in Article 2 (1) (b) need to be satisfied, or that other factors not specified in Article 2 (1) (b) cannot be considered, in determining whether a trademark is well-known, Article 2 (1) (c) expressly states that the factors in Article 2 (1) (b) are only guidelines to assist the competent authority to determine whether a trademark is well-known. As such, it is open to the competent authority to take other factors into account.

The second salient feature of the Joint Recommendation is found in Articles 3 and 4, namely the protection accorded to well known marks in cases of conflicts with other business identifiers.

In terms of Article 3 (1) of the Joint Recommendation, WIPO contracting states who at their discretion choose to be guided by the Joint Recommendation to grant a well-known mark protection against conflicting marks, business identifiers and domain names should do so, at least with effect from the time the mark becomes well-known in the contracting state. This means that a contracting state is *not obliged* to grant protection to *an internationally well-known mark*, if that mark is not well-known in that state, unless it opts to grant a higher level of protection than that required under the Joint Recommendation<sup>87</sup>. The scope of protection granted to a well-known mark in cases of conflict with other marks is then set out in Article 4.

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<sup>87</sup> Explanatory Note 3.2 on Article 3.

In terms of Article 4 (1) (a), a mark is to be deemed in conflict with a well-known mark if the mark, or an essential part thereof, constitutes a reproduction, an imitation, a translation or a transliteration, *liable to create confusion*, of the well-known mark, and if the mark, or an essential part thereof, is used, or is the subject of an application for registration, or is registered, in respect of goods and/or services which are identical or similar to the goods and/or services to which the well-known mark applies. By prohibiting the use or registration of a sign which is the same, or essentially the same, as a well-known mark for identical or similar goods and/or services, this Article in effect protects the product-distinguishing function of the well-known mark and broadly corresponds to Article 16 (1) of the TRIPS Agreement and Article *6bis* (1) of the Paris Convention. As noted by Kunze<sup>88</sup>

Paragraph 1 (a) corresponds to the traditional concept of protection against the use or registration of a conflicting mark for similar goods or services, which is liable to create confusion, as contained in Article *6bis* [of the Paris Convention].

In terms of Article 4 (1) (b), a mark is to be deemed to be in conflict with a well-known mark if the mark, or an essential part thereof, constitutes a reproduction, an imitation, a translation or a transliteration of the well-known mark, *regardless of the goods and/or services for which the mark is either used*, or is the subject of an application for registration, or is registered, if (i) the use of the mark is liable to create *a connection* between the well-known mark and the goods and/or services of a third party, *and* where such use would be likely to damage the interests of the proprietor of the well-known mark, or (ii) the use of the mark is likely to *impair or dilute in an unfair manner* the distinctive character of the well-known mark, or (iii) the use of the mark would take unfair advantage of the distinctive character of the well-known mark. A few brief comments are proffered in respect of Article 4 (1) (b).

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<sup>88</sup> Gerd Kunze, Note 69 above, at 23.

First, article 4 (1) (b) applies to non-competing goods or services<sup>89</sup>.

Second, Article 4 (1) (b) (1) seeks to prohibit confusion of sponsorship or association, and broadly corresponds to the first proviso of Article 16 (3) of the TRIPS Agreement. Third, Article 4 (1) (b) (ii) seeks to prohibit the dilution of the well-known mark. Dilution occurs where the use of the conflicting mark is likely to impair or dilute in an unfair manner the distinctive character, advertising value or unique position of the well-known mark in the market place. Article 4 (1) (b) (ii) focuses on dilution by blurring, but equally applies where the conflicting mark is used on goods or services which are of an inferior quality or of an immoral or obscene nature. Thus, dilution by tarnishment is also covered under Article 4 (1) (b) (ii). In its present form, Article 4 (1) (b) (ii) broadly corresponds to the second proviso of Article 16 (3) of the TRIPS Agreement, when read with Article 1 (1) of the TRIPS Agreement. More significantly, however, is the use of the expression “in an unfair manner”, in Article 4 (1) (b) (ii) to qualify the “impairment” or “dilution” of the well-known mark by the use of the conflicting mark. This creates an exception which would admit as legitimate fair uses of a conflicting mark such as are mentioned in Article 17 of the TRIPS Agreement, namely (a) fair use of descriptive terms which take account of the legitimate interests of the trademark owner and third parties; (b) acquiescence of use by the trademark owner; (c) honest concurrent uses; and (d) use on spare parts<sup>90</sup>. What is prohibited by the qualification in Article 4 (1) (b) (ii) are injurious and unjustified misappropriations like untruthful, misleading and disparaging comparative advertising or disparaging parodies of another’s well-known mark<sup>91</sup>, which erodes the mark’s advertising value and causes dilution.

Article 4 (1) (b) (iii) applies where there is, in the mind of the purchasing public, no wrong connection between the source of the goods or services in respect of which the conflicting mark is used, and the owner of the well-known

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<sup>89</sup> See Explanatory Note 4.2 on Article 4, which states that Article 4 (1) (b) applies irrespective of the nature of the goods and/or services to which the conflicting mark applies.

<sup>90</sup> See Note 52 above.

<sup>91</sup> Explanatory Note 4.3 on Article 4.

mark. In other words, Article 4 (1) (b) (iii) does not address the harm of confusion of sponsorship. Article 4 (1) (b) (iii) likewise does not apply in cases of dilution by blurring or tarnishment. Rather, according to the Explanatory Notes, it applies where the use of the conflicting mark amounts to a free ride on the goodwill of the well-known mark for the person who uses the conflicting mark. It seeks to give effect to the principle that a person should not reap where he has not sown. Article 4 (1) (b) (iii) is therefore subject to the fair use defences set out in Article 17 of the TRIPS Agreement<sup>92</sup>. It should also be noted that WIPO member states have a discretion to require that for a well-known mark to benefit under the extended protection offered under Article 4 (1) (b) (ii) and (iii), the well-known mark should be known to the public at large<sup>93</sup>. Article 4 (1) (b) overall corresponds to Article 3 of the WIPO Model Provisions for Protection Against Unfair Competition, and to Article 16 (3) as read with Article 1 of the TRIPS Agreement.

The third salient feature of the Joint Recommendation relates to the element of bad faith in using or registering a well-known mark. In terms of Article 4 (1) (d), Article 4 (1) (a) and (b) of the Joint Recommendation does not apply where rights in an otherwise conflicting mark were acquired *prior* to the time when the mark became well-known in a WIPO contracting state. However, there is one important exception from this principle, namely, when a mark was used or registered, or the application for its registration was filed, in bad faith<sup>94</sup>. It may be noted that Article 6*bis* (3) of the Paris Convention provides for no time limit for the cancellation of a mark registered in bad faith. Bodenhausen<sup>95</sup> defined bad faith in the context of Article 6*bis* (3) of the Paris Convention, protecting the distinguishing and source values of a mark, as normally existing

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<sup>92</sup> See Explanatory Note 4.3 on Article 4, to the effect that the expression “unfair advantage” in Article 4 (1) (b) (iii) should be read as excluding commercially legitimate uses such as, for example, the sale of spare parts. See further Note 52 above and accompanying text.

<sup>93</sup> See Explanatory Note 4.6 on Article 4.

<sup>94</sup> Explanatory Note 4.7 on Article 4.

<sup>95</sup> GHC Bodenhausen, *Guide to the Application of the Paris Convention for the Protection of Industrial Property* (Geneva: BIRPI, 1967), at 93.

when the person who registers or uses the conflicting mark knew of the well-known mark and presumably intended to profit from the possible confusion between that mark and the one he has registered.

As defined by Bodenhausen, bad faith uses or registrations of a trademark are prohibited because they conflict with a well-known mark's product distinguishing function or source function. Predatory intent or bad faith, on the other hand, signifies an infringer's intent to trade upon the reputation, goodwill or advertising value of a well-known mark by adopting an identical or similar junior mark for dissimilar goods or services<sup>96</sup>. In respect of conflicting marks which are registered but not yet used, or which are the subject of an application for registration, Article 4 (1) (d) of the Joint Resolution should be read as applying not only to applications for the cancellation of the registered mark whose registration was made in bad faith, but equally to refusals of applications where the applicant evidently cannot claim ignorance of a well-known mark as belonging to an owner established or domiciled in a WIPO contracting state and likely to cause confusion of association or dilution<sup>97</sup>. Lastly, it should be noted that the existence of bad faith is judged by a subjective test, and is normally proven by circumstantial, rather than direct, evidence.

In conclusion, it may be noted that the Joint Recommendation (a) contains pellucid guidelines of when a mark may be regarded as well-known, (b) extends protection to (i) the product-distinguishing function of well-known marks in Article 4 (1) (a) by prohibiting the use, registration or application for registration of conflicting marks liable to create confusion with the well-known mark, (ii) the

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<sup>96</sup> Julie Arthur Garcia, "*Trademark Dilution: Eliminating Confusion*" [1995] 85 TRADEMARK REP. 489, at 511. See also generally (1) Frederick W. Mostert, "*Is Goodwill Territorial or International? Protection of the Reputation of a Famous Trademark Which Has Not Been Used in the Local Jurisdiction*" [1989] 12 EIPR, 440; (2) James A. Carney, "*Setting Sights on Trademark Piracy: The Need for Greater Protection Against Imitation of Foreign Trademarks*" [1992] 81 TRADEMARK REP. 30; (3) Jose Antonio Faria Correa, "*World Trademark Symposium: Additional Comments to Famous Trademarks Discussion Group Assignments*" [1992] 82 TRADEMARK REP. 991; (4) Thomas J. Hoffmann and Susan E. Broinstone, "*Protection of Trademark Rights Acquired by International Reputation Without Use or Registration*" [1981] 71 TRADEMARK REP. 1.

<sup>97</sup> Article 4 (2) and (3). Note that in terms of Article 4 (3), invalidation proceedings should be initiated within five years of registration, but WIPO contracting states may, in terms of Article 4 (5), prescribe no time limit within which invalidation may be initiated.

advertising function of a well-known mark in Article 4 (i) (b) (ii) by prohibiting the use, registration or application for registration of conflicting marks which may dilute or tarnish the distinctive character, reputation or advertising value of a well-known mark, (iii) well-known marks by prohibiting acts which amount to a free-ride on the goodwill of the well-known mark, and; (iv) well-known marks against bad faith uses, registrations and applications for registration.

### 4.3 **INTERNATIONAL DIMENSIONS OF INTERNET BASED DILUTION**

#### 4.3.1 **Conflicts Between Well-Known Marks and Domain Names**

In terms of Article 6 (1) of the WIPO Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks, a domain name is deemed to be in conflict with a well-known mark at least where the domain name, or an essential part thereof, constitutes a reproduction, an imitation, a translation, or a transliteration of the well-known mark *and* the domain name has been registered or used in bad faith. A domain name is an alphanumeric string that corresponds to a numerical address on the internet<sup>98</sup>. Bad faith use or registrations of domain names may conflict with a well-known mark's (a) product-distinguishing function, or (b) advertising function, if it is accompanied by predatory intent to ride on the reputation of the well-known mark. In such cases, the owner of the well-known mark may request the competent authorities of a WIPO contracting state to either (a) cancel the registration of the domain name, or (b) transfer it to him<sup>99</sup>. An obvious lacunae of the Joint Recommendation is that it does not address the nebulous issue of jurisdiction on the internet<sup>100</sup>. To date, outside the context of the Joint Recommendation, the most authoritative international initiative to regulate conflicts between well-known marks and domain names is

<sup>98</sup> Article 1 (v) of Joint Recommendation.

<sup>99</sup> Article 6 (2) of Joint Recommendation.

<sup>100</sup> Explanatory Note 6.1 on Article 6.

found in the Uniform Dispute Resolution Policy<sup>101</sup> of the Internet Corporation for Assigned Names and Numbers<sup>102</sup>.

### 4.3.2 History of ICANN's UDRP

It should be noted that the internet was created under the control of several United States governmental organizations in an effort to allow dissimilar computer systems, largely in the military and universities, to communicate with each other<sup>103</sup>. Before long, the internet became the hub of modern commerce. To assist users in locating resources on the internet, a hierarchical domain name addressing system was developed consisting of easy-to-remember, alphanumeric domain names to difficult to remember, internet protocol addresses made up of a string of numbers representing the physical computer where the domain name information is being stored<sup>104</sup>. The domain name system itself contains a hierarchy of names. The highest level is called “the root”. Off the root branches Top Level Domains (TLDs), which are divided into (a) global Top Level Domains (gTLDs), and (b) country Top Level Domains (ccTLDs) like **.za** for South Africa, **.bz** for Belize, **.uk** for the United Kingdom, and so on<sup>105</sup>.

<sup>101</sup> Hereafter called the “UDRP”.

<sup>102</sup> Hereafter called “ICANN”.

<sup>103</sup> For a history of the domain name system, see <http://www.isoc.org/internet-history>, last visited on 27<sup>th</sup> September, 2004.

<sup>104</sup> Alberto Castelli and Lucia Salaverry Galbarini, “*Domain Names, Trademarks and Cybersquatting*”; (WIPO – University of Torino Post Graduate Specialization Course in Intellectual Property), [www.wipo.int/academy](http://www.wipo.int/academy), last visited on 1<sup>st</sup> October, 2004, commenting at p.4 that

The main purpose of Domain Names is the possibility to identify an internet site where a specific company or enterprise is located. By this website, a particular enterprise is assigned a unique address on a computer, connected to a network, which is able to identify the computer user. The domain names of alphanumeric addresses represent the address of a computer on the internet, and their most relevant feature is that they are unique. Each Domain Name has a unique code, or address to be accessed. As it was difficult to remember those digits, it became necessary to have an alphanumeric representation that was easily decoded and interpreted. In order to make it work in a proper way, internet engineers created the Domain Name System, which relates these difficult-to-remember-IP numbers to easy-to-remember-IP numbers to easy-to-remember-domain names chosen by the registrant user.

<sup>105</sup> For a history of gTLDs, ccTLDs, etc., see Lisa E. Cristal and Neal S. Greenfield (Ed), *Trademark Law and the Internet*, 2<sup>nd</sup> Ed (2001). Note also the International Trademark Association Board of Directors **Resolution on Support for an Authoritative Root for the DNS and Domain-Naming Systems that Accurately Convey All of the Levels of a Domain Name** of 7th November, 2001, available at [www.inta.org/boardresolutions](http://www.inta.org/boardresolutions), last visited on 27<sup>th</sup> September, 2004, which provides that

In 1992, the US government granted Network Solutions Inc.<sup>106</sup> the right to conduct registration of three gTLDs namely, **.com**, **.net**, and **.org**. NSI registered domain names on a first-come, first-served basis and placed no substantive restrictions on the use of a domain name. As domain names grew in popularity, NSI found itself as a co-defendant in a number of lawsuits initiated by trademark owners who were arguing that NSI had a duty to monitor who was registering domain names incorporating well-known marks and to require that such domain names not be registered for improper purposes. Of particular concern to the owners of well-known marks were (a) cybersquatters, who registered well-known marks as domain names for the purpose of selling them to the owners of the well-known marks at a substantial profit, and (b) people who used well-known marks as domain names of pornographic sites<sup>107</sup>. In both of these cases, the interests of

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WHEREAS, both the technical and commercial sectors of the Internet community generally agree that there are significant benefits in the maintenance of an authoritative root for the DNS, especially universal connectivity and resolvability and uniqueness of the namespace, which among other things, permits proper reception of e-mails and consistent answers to DNS queries, thereby helping to prevent consumer confusion online and promote consumer confidence in the Internet; and

WHEREAS, the DNS Governance Subcommittee has determined that domain naming systems that accurately convey to the Internet user all of the levels of a domain name are consistent with the goals of the intellectual property community concerning the addition of new gTLDs and promote online accountability that helps to prevent consumer confusion.

BE IT RESOLVED, that INTA supports the use of domain-naming systems that accurately convey to the Internet user all of the levels of a domain name.

<sup>106</sup> Hereafter “NSI”.

<sup>107</sup> See Cornish & Llewelyn, *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* (2003), Paras 19 – 92 and 19 – 93 at 816, observing that

The Net is an extraordinary pathway to the sharing of ideas of innumerable kinds. As a result, there are many closely similar names which a registrant can have unless exactly the same is already registered. Partly, however, the scramble involves those who seek to grab a name with some commercial or celebrity status so that it can be sold on to the person or firm or other organization with the status. Early tales of very large sums being made out of such cybersquatting brought a cloud of operators eager for similar pickings, which were to be made on the modest outlay of a registration fee. The result was a cyber-market in domain names, only part of which involved the operations of identifiable cyber-squatters. Against them, however, established individuals and organizations were insistent that there should be some form of manageable recourse.

In 1998 ICANN became the registrant body for the major generic TLDs. All who register domain names and those who take over their registrations do so under a contractual relationship which gives ICANN power to vary the terms in various ways. Accordingly it was able to establish

the trademark owner in his well-known mark were damaged, either because he had to pay high prices to regain his trademark for internet use, or the mark itself was tarnished by internet-based pornographic associations. NSI, in response to the lawsuits, began to suspend the use of a domain name by domain name registrants if a trademark owner provided proof of a valid identical trademark. Such suspension occurred without the benefit of a hearing. Domain name registrants, in turn, complained that trademark owners who were late in the business of registering domain names were engaging in reverse cybersquatting by stealing their domain names through the NSI system of suspensions.

In response to complaints from both sides of the divide, the US government invited WIPO to develop recommendations for a process by which trademark owners and domain name registrants could resolve disputes over ownership of a domain name<sup>108</sup>. This resulted in the Final Report of the WIPO Internet Domain Name Process<sup>109</sup> of 30<sup>th</sup> April, 1999.

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relations with other independent bodies for adjudicating disputes over domain name registrations and to bind registrants to accept this jurisdiction. This process is governed by its Uniform Domain Name Dispute Resolution Policy and Rules.

<sup>108</sup> The intensity of the seriousness of internet-based dilution is reflected in the International Trademark Association Board of Directors **Resolution on Anti-Cybersquatting** of 26th May, 1999, available at [www.inta.org/boardresolutions](http://www.inta.org/boardresolutions), last visited on 27th September, 2004, which provides that

WHEREAS, trademark infringement and dilution problems have increased exponentially over the past few years, in large part, due to acts of “cybersquatting”, which generally refer to the registration and trafficking of internet domain names with the bad-faith intent to benefit from another’s trademark.

WHEREAS, existing domain name regulations do not expressly prohibit cybersquatting, which has produced inconsistent judicial decisions and created extensive monitoring obligations and uncertainty for trademark owners; and

WHEREAS, cybersquatting damages the growth of electronic commerce, results in consumer fraud and confusion as to the true source of products and service, and deprives legitimate trademark owners of substantial revenues and consumer goodwill.

BE IT RESOLVED, that *INTA condemns* cybersquatting; and

BE IT FURTHER RESOLVED, that INTA urges the development of appropriate national legislative, regulatory, administrative, *or international mechanisms, including treaties, to combat cybersquatting, which mechanisms must, at a minimum, include the following:-*

1. Provisions that prohibit and provide sanctions against cybersquatting.
2. Clear remedies for trademark holders, including the availability of injunctive and other appropriate relief.

### 4.3.3 The WIPO Internet Domain Name Process Report

Chapter 4 of the WIPO Report deals specifically with the protection of well-known marks on the internet. It observes that well-known marks have been the special target of predatory and parasitical practices on the internet. According to the WIPO Final Report<sup>110</sup>

Fame brings with it attention in many forms, amongst them imitation, by those who wish to benefit from its perceived advantages; association, on the part of those who wish to share in its perceived benefits; and criticism, by those who wish to question the status given to the one who enjoys fame. Not surprisingly, therefore, on the open and efficient medium of communication that the Internet is, fame attracts attention and provokes various forms of reactions.

In the commercial area, fame is most often manifested in reputation, and reputation is most often attached to the expression of identity of the enterprise: its trademarks. *Famous and well-known marks have been the special target of a variety of predatory and parasitical practices on the Internet.* The consultations held throughout the WIPO Process and the submissions made in them have confirmed the singular nature of these predatory and parasitical practices with respect to famous and well-known marks (emphasis added).

The WIPO Final Report proceeds to comment, in respect of predatory and parasitical practices, that<sup>111</sup>

One clear source of the problems has been those persons who register domain names that are identical or similar to trademarks, with a view to selling them at a profit to the trademark owner... Other persons have registered domain names that are identical or similar to trademarks in order to create the false impression that the owner of the mark in some way endorses the goods or services the third party offers... Still others have registered domain names not to cause any confusion regarding the source or origin of the goods or services offered, but in an effort to attract increased traffic to their own websites to tarnish the reputation

3. To the extent that they are recognized in relevant jurisdictions, protection of the public interest, including the legitimate uses of domain names that meet fair use/freedom of expression standards (emphasis added).

<sup>109</sup> *Management of Internet Names and Addresses: Intellectual Property Issues* (WIPO Publication No. 439(E)). Available at <http://wipo2.wipo.int>. last visited on 27<sup>th</sup> September, 2004. Hereafter called “the WIPO Final Report”.

<sup>110</sup> Note 109 above at Paras 245 to 246.

<sup>111</sup> Note 109 above at Para.318 and 320.

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of a mark. Certain persons have also made it a practice to register domain names corresponding to trademarks in order to hoard them, thus intentionally frustrating the trademark owner's desire to reflect its mark in a domain name.

The WIPO Final Report notes four areas of current conceptual difficulty in considering the protection of well-known marks on the internet.

First, the WIPO Report notes that both the Paris Convention and the TRIPS Agreement are directed at protecting well-known marks against registration or use of other conflicting marks<sup>112</sup>. Domain names, on the other hand, are not trademarks, and serve a variety of purposes, including the purpose of identifying goods or services with their producer or seller. They are alike trademarks in that they discharge the source-origin function of a mark. As noted by the WIPO Final Report<sup>113</sup>

... the provisions of the Paris Convention and the TRIPS Agreement are directed at the protection of famous and well-known marks against the registration or use of other infringing marks. Domain names, of course, are not the same thing as marks and are used for many purposes other than the identification of a producer or seller of goods or services. They are, however, also used as a means of identifying goods and services with the producer or seller of those goods and services.

Second, according to the WIPO Final Report, the consideration of whether a mark is well-known is left by international trademark treaty law for determination by the competent authority of a country<sup>114</sup>. In respect of gTLDs, however, there is no territory because the internet is virtual.

Third, the WIPO Final Report noted that there is no internationally established treaty definition of a well-known mark<sup>115</sup>. As shown above, the most comprehensive guidelines of determining whether a mark is well-known are

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<sup>112</sup> Note 109 above, at Paras 252 – 258.

<sup>113</sup> Note 109 above, at Para 258.

<sup>114</sup> Note 109 above, at Para. 259.

<sup>115</sup> Note 109 above, at Para. 260.

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found in the WIPO Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks, which has no legally binding effect.

Fourth, the WIPO Final Report noted that<sup>116</sup>

while the protection of famous marks has increasingly been implemented at the national level by laws directed at prohibiting any use of famous marks by third parties that dilutes the integrity and reputation of such marks, the protection of well-known marks exists often only in respect of the registration or use of a confusingly similar mark in relation to the same goods or services as those for which the well-known mark is registered or used. At the present time, the gTLDs [on the other hand], are largely undifferentiated. Insofar as some differentiation does exist, there is no enforcement mechanism to ensure that those who have registered domain names in open gTLDs confine their use of the domain name to the broad purposes of the gTLD. Thus, one can have a domain name registered in **.com** without undertaking any commercial activity, or a domain name registered in **.net** while undertaking commercial activity that is completely unrelated to the provision of Internet or network services. There is a lack of connection between the underlying theoretical foundations of differentiation in the registration and use of trademarks and differentiation in the registration and use of domain names, since differentiation is intended to serve a different purpose in each case.

The WIPO Final Report then considered two mechanisms to address the four conceptual difficulties. First, a disciplined and rigorous mechanism for determining when a mark can be deemed to be well-known across a widespread geographical area and different classes of goods and services in order to be eligible for exclusion from registration by a third party as a domain name is recommended<sup>117</sup>. In this way, not any mark would qualify. Second, in view of the undifferentiated geographical space of gTLDs, the WIPO Report recommended that a mark should qualify for exclusion based on an evidentiary mechanism for ensuring that the protection afforded by an exclusion can be extended to misleadingly similar, as well as to identical, domain names<sup>118</sup>. The WIPO Final Report further recommended that the mechanisms be implemented by an *administrative panel of experts* who determine whether an exclusion should be granted in respect of a particular mark in some or all open gTLDs.

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<sup>116</sup> Note 109 above, at Para. 261.

<sup>117</sup> Note 109 above, at Paras. 262 to 278.

<sup>118</sup> Note 109 above, at Para. 262.

By the time the WIPO Final Report was published in 1999, the US Department of Commerce had entered into a Memorandum of Understanding with ICANN<sup>119</sup>, a not-for-profit organization for the management of domain names, and the development of a dispute resolution policy, taking into account the WIPO Final Report. Consequently, the WIPO Final Report recommended that

- (i) ICANN adopt a policy providing for a mechanism for obtaining and enforcing exclusions in open gTLDs for famous and well-known marks; and
- (ii) Registration authorities agree, in the chain of contractual authorities from ICANN, to implement determinations made for exclusions of famous and well-known marks in gTLDs<sup>120</sup>.

Specifically, the WIPO Final Report recommended that the mechanism for obtaining and enforcing exclusions should provide for

- (i) publication of any application for an exclusion and all determinations on a centralized website;
- (ii) the maintenance of a published list of well-qualified decision-makers and the appointment of ad hoc panels of three persons from that list to make determinations in respect of any particular application;
- (iii) the participation of interested third parties in proceedings on an application for an exclusion, and
- (iii) the centralized administration of the procedure<sup>121</sup>.

Further, the WIPO Final Report recommended that determinations on applications for exclusions for famous or well-known marks should have no binding effect on national or regional industrial property offices or national courts in their implementation of international norms for the protection of famous or well-known marks<sup>122</sup>.

Finally, the WIPO Final Report adopted the guidelines in Article 2 (1) (b) of the WIPO Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks, which was then in the process of finalization, but noted the

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<sup>119</sup> Memorandum of Understanding Between the US Department of Commerce and Internet Corporation for Assigned Names and Numbers, available at <http://www.ntia.doc.gov/ntiahome/domainname/icann-memorandum.htm>, last visited on 1<sup>st</sup> July, 2004.

<sup>120</sup> Note 109 above, at Para. 278.

<sup>121</sup> Note 109 above, at Para. 280.

<sup>122</sup> Note 109 above, at Para. 282.

guidelines which were being developed as non-exhaustive in character, and that the developments were being carried out<sup>123</sup>

with reference to well-known marks in general and without particular reference to problems encountered through domain name registrations. In order to accommodate the specificities of the protection of famous and well-known marks in relation to domain names, it is suggested that a further factor be added to the list [set out in Article 2 (1) (b) of the Joint Recommendation by the addition of a new paragraph 7 as follows].

7. evidence of the mark being the subject of attempts by non-authorized third parties to register the same or misleadingly similar names as domain names.

A few brief comments may now be made in respect of the evidentiary presumption resulting from an exclusion under the WIPO Final Report. First, it should be noted that exclusions under the WIPO Final Report protect only the exact name of the famous or well-known mark. As stated in the WIPO Final Report<sup>124</sup>.

As a means of giving expression to the protection of famous and well-known marks, exclusions suffer from an important limitation. *They provide protection only for the exact name of the famous or well-known mark. They are thus not effective against close phonetic and spelling variations of the famous or well-known mark that are registered as domain names in bad faith in an endeavour to benefit from the reputation of the famous or well-known mark.* In respect of such close variations, the owner of the famous or well-known mark would be obliged, even after obtaining an exclusion, to resort to either litigation or the administrative procedure in order to seek to cancel or otherwise remedy the damage being done by the close variation that is registered as a domain name (emphasis added).

The WIPO Final Report took account of these limitations and recommended introducing an evidentiary presumption resulting from the granting of an exclusion. The presumption would operate in favour of the holder of an exclusion for a famous or well-known mark. In a dispute resolution proceeding, the holder of the exclusion would then be required to show (a) that a domain

<sup>123</sup> Note 109 above, at Paras. 284 – 285.

<sup>124</sup> Note 109 above, at Para. 288.

name is the same as, or misleadingly similar to, the mark which is the subject of the exclusion, and (b) that the use of the domain name is likely to damage the holder's interests in the well-known mark, whereafter the onus shifts to the domain name registrant to justify the registration of the domain name<sup>125</sup>.

#### 4.3.4 ICANN UDRP In Practice

The ICANN UDRP was adopted on 24<sup>th</sup> October, 1999. The UDRP's policy is to provide cost-effective, time-sensitive, and a fair forum for the resolution of disputes between domain name registrants and trademark owners, especially the owners of well-known trademarks<sup>126</sup>.

<sup>125</sup> Note 109 above, at Para. 291, recommending that

the granting of an exclusion give rise to an evidentiary presumption, in favour of the holder of an exclusion, in the administrative procedure in such a way that, upon showing that the respondent held a domain name that was the same as, or misleadingly similar to, the mark that was the subject of an exclusion and that the use of the domain name was likely to damage the interests of the holder of the exclusion, the respondent would have the burden of justifying the registration of the domain name.

<sup>126</sup> Ned Banthover, "*UDRP – A Success Story: A Rebuttal to the Analysis and Conclusions of Professor Milton Mueller in 'Rough Justice'*", International Trademark Association Internet Committee [6 May, 2002], available at [www.inta.org](http://www.inta.org), last visited on 1<sup>st</sup> October, 2004, commenting, on p. 7, that

INTA wholeheartedly disagrees with Professor Mueller's assessment that attempts to use the UDRP to broaden the scope of trademark coverage can only increase the number and intensity of disputes, and thereby undermine the security of users." "*Rough Justice*" at 26. It has been estimated that, as of fall 2000, *over 17.7 million domain names were registered and between 2 – 3 thousand cases filed under the UDRP*. Under these figures, only .01% of all domain names have been contested or about one in ten thousand registrations. Such a small percentage of contested domain names provides no rationale for the theory that the number of disputes will rise. Professor Mueller's use of the word "intensity" is simply hyperbole; all contested cases are "intense" to the litigants, but no more or less so because they are UDRP cases.

Professor Mueller also fails to acknowledge that UDRP cases serve a critical function directly related to increasing Internet stability and security. *Because the UDRP provides cost-effective and efficient procedures for challenging domain names registered in bad faith and reduces the financial incentives for cybersquatters, over time the UDRP should curtail the number of disputes not increase them. Professor Mueller's own statistics show that the number of newly-filed cases is declining. WIPO also recently reported a decrease in UDRP cases: the total number of UDRP cases filed with WIPO in 2001 was 1,506, as compared to 1,841 in 2000. WIPO believes that the figures suggest that the UDRP "has been effective in dissuading Internet pirates from hijacking names". In other words, the UDRP is meeting its objectives and ensuring a more secure Internet.*

*The UDRP increases consumer confidence in the Internet because it ensures that trademark owners are identified by domain names corresponding to their legitimate brand names. This in turn fosters confidence among Internet users, who have learned to rely on these brand names in the marketplace and expect that they are not going to be deceived when accessing*

In terms of the Rules for Uniform Domain Name Dispute Resolution Policy<sup>127</sup>, a complainant desirous of bringing a dispute for determination should (a) select a Dispute Resolution Provider<sup>128</sup> from the current five DRPS, namely (i) the World Intellectual Property Organization's Arbitration and Mediation Centre<sup>129</sup> (ii) the National Arbitration Forum<sup>130</sup>, (iii) eResolutions<sup>131</sup>, (iv) the CPR Institute for Dispute Proceedings<sup>132</sup>, and the Asian Domain Name Dispute

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*websites bearing those brand names. Without the UDRP and similar measures to protect consumers, Internet users risk being confused or exploited by the deceptive and bad faith practices of those intending to benefit from legitimate trademark owners' efforts. Moreover, Professor Mueller's study fails to show that the UDRP has any adverse effect on the ability of Internet users to adopt reliable domain names quickly without conflicting with other's trademark rights (emphases added).*

See further Para. 150 of the WIPO Final Report, Note 109 above, recommending that the UDRP should be based upon the following principles:

The procedure should permit the parties to resolve a dispute *expeditiously and at low cost*.

The procedure should allow all relevant rights and interests of the parties to be considered and ensure *procedural fairness for all concerned parties*.

The procedure *should be uniform or consistent across all open gTLDs*. If different procedures were available in different domains, there might be a danger of some domains, where procedures are weaker or do not lead to binding, enforceable decisions, becoming havens for abusive registrations. Uniform or consistent procedures, however, do not necessarily mean that the dispute-resolution service provider must be the same for all procedures (emphasis added).

<sup>127</sup> Available at [www.icann.org/udrp/udrp-rules - 24 Oct. 99.htm](http://www.icann.org/udrp/udrp-rules - 24 Oct. 99.htm), last visited on 1<sup>st</sup> October, 2004.

<sup>128</sup> Hereafter called a "DRP".

<sup>129</sup> Each of the DRPS have their own Supplemental Rules. For WIPO's Supplemental Rules see <http://arbiter.wipo.int/domains/registrar/index.html>, last visited on 1<sup>st</sup> September, 2004.

<sup>130</sup> For NAF Supplemental Rules see <http://www.arbforum.com/domain/domain-guide.asp>, last visited on 1<sup>st</sup> September, 2004.

<sup>131</sup> For the Supplemental Rules of eResolutions see <http://www.eresolution-ca/services/dnd/arb.htm>, last visited on 1<sup>st</sup> September, 2004.

<sup>132</sup> For the Supplemental Rules of the CPR Institute for Dispute Proceedings, see <http://www.cpradr.org/ICANN-Menu-htm>, last visited on 1<sup>st</sup> September, 2004. For a brief background on each DRP, see Ned Banthover, Note 126 above, at pp. 2 – 3, commenting that

Since its approval of the UDRP in October 1999, ICANN has accredited *five arbitration service providers* to hear UDRP cases: (1) the World Intellectual Property Organization Arbitration and Mediation Center ("WIPO"); (2) the National Arbitration Forum ("NAF"); (3) eResolutions ("eRes"); (4) the CPR Institute for Dispute Resolution ("CRP"); and (5) the Asian Domain Name Dispute Resolution Centre ("ADNDRC"). All of these arbitration service providers currently provide such services except eRes, which stopped accepting UDRP proceedings commenced after November 30, 2001.

## WIPO

- **WIPO** is based in Geneva, Switzerland. The parent body and its successors, the United International Bureau for the Protection of Intellectual Property, have been in existence since 1893. In 1970, **WIPO** was founded, and in 1974 became a specialized agency for the United Nations, with a mandate to administer intellectual property matters recognized

Resolution Centre, a joint undertaking between the China International Economic and Trade Arbitration Commission and the Hong Kong International Arbitration Centre. ICANN selects each DRP based on the availability of neutral panelists of the DRP, a good record of handling clerical aspects of dispute resolution proceedings, solid training programs, the existence of supplemental rules and internal procedures of the DRP which complement the UDRP and the Rules for Uniform Domain Name Dispute Resolution Policy<sup>133</sup>, (b) file a complaint with the DRP<sup>134</sup>, noting in particular (i) that the burden of proving the complaint lies on the complainant; (ii) that the UDRP does not provide for oral arguments, supplemental evidence, or motions to be presented to panelists, and (iii) that all evidence to be presented must be presented in the complaint itself to prove to the panelists that the domain name must be cancelled or transferred to the

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by the member states of the United Nations. WIPO was approved for arbitrating UDRP cases on December 1, 1999.

#### **NAF**

- **NAF** was founded in 1986, and is based in Minneapolis, Minnesota. It has been an arbitration forum for banks, insurance companies, and computer makers. The panelists are largely retired judges and attorneys. NAF was accredited by ICANN for UDRP arbitration cases on December 23, 1999.

#### **eRes**

- **eRes** was a relatively new organization based in Montreal, Canada. It came into existence in 1999 with the primary objective of specifically arbitrating domain name disputes. eRes was approved by ICANN as a forum for UDRP cases on January 1, 2000. The eRes panelists were primarily attorneys from Canada and the United States. As stated above, eRes no longer accepts UDRP cases

#### **CPR**

- **CPR** was established in 1979 and is located in New York City. CPR is a group comprised of the general counsel of five hundred international corporations and the partners of numerous major law firms. Its initial purpose was to integrate the concepts of alternate dispute resolution into the mainstream of law departments and law firms. ICANN approved CPR as a forum for arbitrating UDRP cases on May 22, 2000.

#### **ADNDRC**

- **ADNDRC** is a joint undertaking between the China International Economic and Trade Arbitration Commission and the Hong Kong International Arbitration Centre. According to the ADNDRC website, the panel of arbitrators are selected Chinese and foreign specialists in trade, economics, law and science. ICANN approved ADNDRC as a forum for UDRP arbitration cases on December 3, 2001.

<sup>133</sup> Hereafter called “the Rules”

<sup>134</sup> According to Rule 3 (b) (i) of the Rules, the very first paragraph of the complaint should request that the complaint be submitted by the DRP to a panel for decision pursuant to the UDRP, the Rules, and the DRP’s Supplemental Rules

complainant<sup>135</sup>. The UDRP spells out everything that needs to be included in a complaint, and any owner of a well-known mark desirous of filing a complaint should familiarize himself with the UDRP, the DRP's Supplemental Rules, and the Rules for Uniform Domain Name Dispute Resolution Policy, since these documents contain all the elements necessary for filing a complaint.

After the complaint is filed, the DRP reviews the complaint, and if satisfied that the complaint is in order, forwards it to the respondent within three days of receiving appropriate fees. The respondent has twenty-one days to respond. The DRP has five days thereafter to appoint a panel to consider the complaint. The panel should render a decision within fourteen days of the panel's appointment. The panel has three days to notify the parties of the decision, and the respondent has ten days to file an action in a court of mutual jurisdiction<sup>136</sup> specified in the complaint. If an action is not filed, the domain name registrar will implement the panel's decision.

The UDRP can be used by a holder of trademark rights which flow either from registration or from the common law. In most cases, DRP panelists look to the jurisdiction of the complainant to determine whether or not a right to the mark exists. This was the case, for example, in *Port of Helsinki v Paragon International Projects Ltd*<sup>137</sup>, where the panel found that the complainant did not have trademark rights to 'Port of Helsinki' under the Finnish Trademark Act.

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<sup>135</sup> Stephen Jones, "A Child's First Step: The First Six Months of Operation – The ICANN Dispute Resolution Procedure for Bad Faith Registration of Domain Names [2001] EIPR 66, at 69, commenting that

Even in the case where a response is not filed to a complaint, that default does not mean that the complainant is freed from the burden of proof. It must still establish a *prima facie* case that the elements of paragraph 4 (a) have been made out. This is so even though a failure to respond in appropriate circumstances may be construed by the panel as an admission of the complaint in *toto*.

<sup>136</sup> Rule 1 of the Rules define "Mutual Jurisdiction" as

[A] court jurisdiction at the location of either (a) the principal office of the Registrar (provided the domain-name holder has submitted in its Registration Agreement to that jurisdiction for court adjudication of disputes concerning or arising from the use of the domain name) or (b) the domain-name holder's address as shown for the registration of the domain name in the Registrar's WHOIS database at the time the complaint is submitted to the Provider.

<sup>137</sup> WIPO Case No. D2001 – 002. *Ingersoll –Rand Co. v Frank Gully* D2000 - 0021.

The complainant will have to prove three elements to succeed. The complainant must show (a) that the domain name is identical or confusingly similar to a trademark in which the complainant has rights<sup>138</sup>, (b) that the respondent has no rights or no legitimate interests in the domain name,<sup>139</sup> and (c) that the domain name was registered and used in bad faith<sup>140</sup>. Each element is considered in turn.

The UDRP and the Rules state that a complainant must prove that the domain name is identical or confusingly similar to a trademark in which the complainant has rights. To meet the burden of proof, the domain name need not be a Chinese copy of the mark. The trademark need not at least from a literal interpretation of Policy 4 (a) (i) of the UDRP, be registered. This position seems correct if it is remembered that the complaint in the context of the UDRP derives from the misappropriation of the reputation or advertising value of the trademark and its use in respect of the domain name.<sup>141</sup> Five principles can be distilled from the decisions of panels in respect of this element. The first principle is that the mere addition of a TLD and nothing more to a trademark does not make the mark

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<sup>138</sup> Rule 3 (b) (ix) of the Rules.

<sup>139</sup> Rule 3 (b) (ix) (2) of the Rules and UDRP 4 (c).

<sup>140</sup> Rule 3 (b) (ix) (3) of the Rules and UDRP 4 (b). See also Stephen Jones, Note 135 above, at 69, commenting, in respect of the UDRP, that

A complainant must prove each of three elements in order to seek relief under the policy:

- That the domain name is identical or confusingly similar to a trade mark or service mark in which the complainant has rights;
- That the respondent has no rights or legitimate interests in respect of the domain name; and
- That the domain name has been registered, and is being used, in bad faith

The terms of any complainant must specifically address any aspect of paragraphs 4 (b) and 4 (c) of the policy that may be applicable which deal with the elements of bad faith and legitimate interests. While neither paragraph purports to be an exclusive code for how those issues will be determined, they each enumerate a number of circumstances which, if found to be present, will be evidence going towards proof of bad faith or legitimate interests, as the case requires. Any response must address all statements and allegations in the complaint, together with elucidating all bases by which the respondent claims to retain registration and use of the name.

<sup>141</sup> *Bennett Coleman & Co. Ltd v Lalwani* D2000 – 0014/0015.

and the domain name significantly different. Thus in *Shirmax Retail Ltd v CES Marketing Group Inc*<sup>142</sup>, the panel stated that

[W]here the addition of a TLD is the only difference, such virtual identity seems sufficient to satisfy the [identical test].

Likewise, in *Accor v Association Entre-Ensemble*<sup>143</sup>, the use of the sign “E-“ before a mark was found not to be sufficient to make the domain name not identical or confusingly similar to the trademark. The same basic test is used under the American Anticybersquatting Consumer Protection Act<sup>144</sup>. The guiding principle distilled from these panel decisions is that the domain name will be held to be identical or confusingly similar to the trademark in which the complainant has rights if the domain name is found to be the primary, distinctive element of the trademark in question. The second principle is that the lack of a space or some form of punctuation does not, *per se*, render the trademark and the domain name dissimilar. In *Automatic Data Processing Inc v Access Electronics Registrars.Com*<sup>145</sup>, the panel held that *automaticdataprocessing.com* was identical to “Automatic Data Processing Inc.”. Likewise, in *Land O’Lakes Inc v Offbeat Media Inc*<sup>146</sup>, the panel found that the use of the expression “land o” followed by one consonant word that starts with the letter “L” and the lack of space between the words rendered the domain name confusingly similar to the trademark. In *Victoria’s Secret, Et Al v. Powerbiz*<sup>147</sup>, the panel concluded that the addition of hyphens to a trademark did not distinguish the mark from the domain name. The third principle is that use of a trademark together with a generic term as a domain name does not sufficiently differentiate the trademark from the domain name to render the two dissimilar. Thus, in *Space Imaging LLC v Brownwell*<sup>148</sup>, the panel found confusing similarity where the domain names *satellitekonos.com*, *spaceimagingsatellite.com*, *ikonospacephoto.com*, and

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<sup>142</sup> Case No. NAF 0104.

<sup>143</sup> WIPO Case No. D2001 – 0039.

<sup>144</sup> See Chapter 6.

<sup>145</sup> NAF Case No. FA – 96483.

<sup>146</sup> NAF Case No. FA 96451.

<sup>147</sup> NAF Case No. 96497.

<sup>148</sup> eRes Case No. AF – 0298.

*ikonossatellitephoto.com* combined the complainant's trademarks "Spaceimaging" and "Ikonos" with generic terms that had obvious relationships with complainant's business. In *Victoria's Secret, Et Al v Hostdifferent.net/Hostmaster*<sup>149</sup>, the panel found that the addition of the generic word "shop" to the victoria's secret trademark was not sufficient to render the trademark and the domain name dissimilar. The fourth principle is that the combination of two or more trademarks to create a domain name is not sufficient to make the marks and the domain name dissimilar. In *Audi AG v Hans Wolf*<sup>150</sup>, the combination of the trademarks "Audi" and "Lamborghini" was held not sufficient to distinguish the resultant domain name from the two trademarks, because consumers who saw the name "Audi" at the beginning of the domain name would presume that the name signified the complainant who owned the "Audi" trademark. According to the panel

because that term [Audi] stands at the beginning of the combination of these two well-known marks – [e]ven if an internet user does not know that "Lamborghini" is owned by the complainant he is likely to understand the addition of "Lamborghini" as a reference to some relationship or association between the respective companies, which are the owners of the respective trademarks.

The last principle seeks to prevent initial interest confusion in a consumer. This was the issue, for example, in *Victoria's Secret, Et Al v Serbjeet Ahluwalia*<sup>151</sup>. There, respondent's domain name *victoriasecretsex.com* was deemed so confusingly similar to complainant's mark that the panelists felt a reasonable internet user would assume that the domain name was related, affiliated or sponsored by Victoria's Secret, thereby causing confusion of sponsorship.

The second element a complainant must prove is that the respondent has no rights or legitimate interests in the domain name<sup>152</sup>. The Rules specify that the

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<sup>149</sup> NAF Case No. 96500

<sup>150</sup> WIPO Case No. DZ001 – 0148.

<sup>151</sup> NAF Case No. FA – 96559.

<sup>152</sup> See Stephen Jones, Note 135 above, commenting that

As with other elements of the cause of action, the onus of proof lies on a complainant to show that no rights or legitimate interests exist in the respondent so far as the domain name is concerned; however, given that whether the presence of rights or legitimate interests is information controlled

complainant should describe why the respondent should be considered as having no rights or legitimate interests in respect of the domain name<sup>153</sup>. Some principles can be drawn on how panelists make a finding in this respect.

First, panelists usually find that an offer to sell or transfer the domain name (cybersquatting) is sufficient evidence that the respondent has no legitimate right to use the domain name<sup>154</sup>. Second, panelists also usually find that the passive holding or non-use of a domain name, called domain name warehousing, evidences no legitimate right or use of the domain name<sup>155</sup>. Thus in *Ziegenfelder Co v VMH Enterprises Inc*<sup>156</sup>, the panelists found that respondent's failure to provide a product or service or develop the site in relation to the domain name demonstrated respondent's lack of legitimate interest in the domain name. Third, panelists usually find a willingness to cancel or transfer a domain name as indicative of no legitimate right to use, or interest in, the domain name<sup>157</sup>. Also, the panels usually rely on histories of complaints filed against respective respondents in finding that a respondent has no legitimate right to use a domain name. This was the case in *Schott Glas and NEC/Schott Components Corp. v Necschott*<sup>158</sup>, where the panel found respondent's history of filing domain names incorporating merging companies' names as indicative of respondent having no legitimate right to the domain name. Last, panelists often find no legitimate right to use a domain name representing a well-known mark that a respondent cannot be said to have been unaware of, and which is used without a licence or other

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by the respondent, burden of proof is "relatively light". Generic trade marks – with particular emphasis on those that are single, short, common words, will not be favoured in the interest test (given the narrow scope of the policy). Coined terms are, however, in a much stronger position. The use in connection with a business of a domain name where that use pre-dates registration of the marks by the complainant is usually a telling factor in proceedings, making it very difficult for the complainant to show that no legitimate interest has been established.

<sup>153</sup> Rule 3 (b) (ix) (2) of the Rules and Policy 4 (c) of the UDRP.

<sup>154</sup> See *Land O'Lakes Inc v Offbeat Media Inc*. NAF Case No. FA – 96451, Note 146 above; and *Colgate Palmolive Co. v Domains For Sale*, NAF Case No. NAF – 96248.

<sup>155</sup> *Victoria's Secret v The Domain Name For Sale*, NAF Case No FA – 96486.

<sup>156</sup> WIPO Case No. D 2000 – 0039.

<sup>157</sup> See *Vapor Blast Manufacturing v R & S Technologies*, NAF Case No. FA 96577, where the respondent, upon learning of the complaint, changed its domain name and informed complainant of the change. The panel found the respondent's willingness to transfer the domain name to the complainant was evidence that respondent had no right or legitimate interests in the domain name.

<sup>158</sup> WIPO Case No. 2001 – 0127.

agreement. Thus, in *Nike Inc v B.B. de Boer*<sup>159</sup> the panel examined the domain name *nike-shoes.com* and concluded that the respondent must have known of the well-known ‘nike’ trademark before adopting the domain name. The panel accordingly held that

In the present case, complainant already alleged that it has not granted any permission of any kind to respondent to use its trademark, and that it has no relationship with respondent. In addition, given that complainant’s trademark is distinctive and famous to the point where it may not be used by other persons even in fields or industries unrelated to complainant’s activities, one would be hard pressed to find a person who may show a right or legitimate interest in a domain name containing complainant’s trademark. The panel is unable to find how the respondent, or any person for that matter beside the complainant, could claim a right or a legitimate interest with respect to the domain name *nike-shoes.com*

The third element the claimant has to prove is bad faith registration and use. The UDRP contains four separate definitions of bad faith.

First, Policy 4 (b) (i) of the UDRP provides that bad faith is present in circumstances where the respondent has registered or acquired a domain name primarily for the purpose of selling, renting, or otherwise transferring the domain name registration to the complainant where the complainant is the owner of an identical or confusingly similar trademark, or to a competitor of that complainant, for valuable consideration in excess of the respondent’s documented out-of-pocket costs directly related to the domain name. In *World Wrestling Federation Entertainment Inc v Bosman*<sup>160</sup>, for example, the panelists stated that the activities specified in Policy 4 (b) (i) of the UDRP, namely the registering or acquisition of a domain name for the purpose of selling, renting, or otherwise transferring it, are evidence of registration and use of a domain name in bad faith. That case concerned a respondent cybersquatter who contacted the complainant and requested one thousand United States dollars to transfer the domain name to

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<sup>159</sup> WIPO Case No. D2000 – 1397. See also *Victoria’s Secret, Et Al v Atchinson Investments Ltd*, NAF Case No. 96496, where the panel found that respondent could not have been unaware that ‘victoria’s secret’ was a well-known famous mark and that respondent had no legitimate right to register a domain name containing that trademark.

<sup>160</sup> WIPO Case No. D99 – 0001.

the complainant. In determining what constitutes “consideration in excess of respondent’s documented out-of-pocket costs” for the purposes of Paragraph 4 (b) (i) of the UDRP, the panel found that one thousand United States dollars was a sufficient amount to find bad faith use of the domain name. Other panelists have, however, found a mere offer to sell the domain name<sup>161</sup>, combined with no legitimate use of the domain name, as constituting bad faith. Additionally, panelists have also found domain name registrants who run web sites dedicated to the sale of domain names to be in bad faith use<sup>162</sup>.

Second, Policy 4 (b) (ii) of the UDRP defines bad faith in circumstances where the respondent registers a domain name in order to prevent the trademark owner from reflecting the trademark in a corresponding domain name, provided the domain name registrant has engaged in a pattern of such conduct. The first principle developed by panelists is that the offending domain name registrations must be of so many variations of the trademark to fall afoul of Policy 4 (b) (ii) of the UDRP that the trademark owner will have no options for registering his trademark as a domain name<sup>163</sup>. The panelists, however, have moved away from this principle, and have found bad faith registration and use under Policy 4 (b) (ii) of the UDRP in cases of only one or a few registrations<sup>164</sup>.

The third factor by which a complainant may show bad faith under the UDRP is where a respondent has registered a domain name basically for the purpose of disrupting the business of a competitor. This is regulated under Policy 4 (b) (iii) of the UDRP. This Policy was interpreted by the panelists in

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<sup>161</sup> *Educational Testing Service v TOEFL*, WIPO Case D2000 – 0044.

<sup>162</sup> *Automatic Data Processing Inc v CSME Inc*, NAF Case No. FA 96484, and *General Electric Co. v Forddirect.com.Inc* WIPO Case No D2000 – 0394, where the panelists found that the respondent registered and used the domain name in bad faith by directing users to a general site offering the domain names for sale.

<sup>163</sup> *Bruce Springstein v Jeff Burgar and Bruce Springstein Club*, WIPO Case No. D 2000 – 1532.

<sup>164</sup> *L. L. Bean v Cupcake Patrol*. NAF Case No. FA – 96504, where the panelists found the registration of the domain name *Lbean.com* sufficient under Paragraph 4 (b) (ii) to determine respondent registered the domain name in order to prevent complainant from using its mark in the domain name. See also *Judy Larson v Judy Larson Club*, NAF Case No. FA – 96488, rejecting the principle *in Bruce Springstein*.

*Euroconsult Inc v Euroconsult*<sup>165</sup>. There, the respondent registered a domain name and put the name up for sale through an auction site at a price of two hundred thousand United States dollars. In analyzing the effect that the respondent's offer to sell the domain name would have on complainant's site, the panelists observed that

Customers of complainant may well suspect the complainant's business was for sale and/or complainant was in need of the 200,000 sought as the price of the domain name. This would disrupt the complainant's business and cause confusion

This was also the case in *Quantum Instruments Inc v Tim Dodge*<sup>166</sup>. There, the respondent worked for a competitor of the complainant, who manufactured batteries under the trademark "quantum". Respondent then registered the domain name *quantumbatteries.com*. The panelists found that since the respondent worked for complainant's competitor, the respondent had to be aware of the complainant's mark and the confusion and disruption he would create to complainant's business and, as a result, had registered and used the domain name in bad faith.

Lastly, bad faith is defined under the UDRP to cover situations where the respondent, by using a domain name, attempts to attract for his own financial gain, internet users to his website by creating a likelihood of confusion with the complainant's trademark as to the source, sponsorship, affiliation or endorsement of respondent's website or of a product offered on respondent's website<sup>167</sup>.

This was the case in *Christie's Inc v Tiffany's Jewelry Auction Inc.*<sup>168</sup> There, the respondent registered the domain name *christiesauction.com* for use in connection with the online resale of jewelry. The respondent argued before the panelists that it was not trying to associate itself with the famous Christie's

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<sup>165</sup> NAF Case No. FA – 93555.

<sup>166</sup> NAF Case No. FA – 96499.

<sup>167</sup> Policy 4 (b) (iv) of the UDRP.

<sup>168</sup> WIPO Case No. D 2001 – 0075.

Auction House and, even if consumers confused it with Christie's Auction House, the respondent sold low-priced jewelry unlike Christie's. The panelists found that the respondent was using the complainant's well-known mark in bad faith to attract web traffic for commercial gain contrary to Policy 4 (b) (iv) of the UDRP. In the view of the panelists, the respondent did not just chance on the name "Christie's" for use in selling jewelry and the fact that respondent's jewelry was low-priced was unimportant because the respondent was essentially marketing the same goods as the complainant.

Even though a complainant is required under the UDRP to show both bad faith registration *and* use of a domain name, there are instances when panelists were satisfied with proof of bad faith registration alone in ordering either the cancellation of a domain name or its transfer to the owner of the identical or similar well-known trademark. Thus, in *Automatic Data Processing Inc v Access Electronics Registrars.com*<sup>169</sup>, the panelists came to this conclusion in finding that the passive holding of a domain name without use was indicative of bad faith registration. Again, in *Zale Delaware Inc v Vincent Esposito*<sup>170</sup>, the panelists similarly determined that the respondent's passive holding of a domain name and the respondent's history of registering domain names using well-known trademarks resulted in bad faith registration.

#### 4.3.5 *Special Cases of Internet-Based Dilution Under the UDRP*

Special cases of internet-based dilution occur in respect of pornographic domain names. For example, in *Land O'Lakes Inc v Offbeat Media Inc*<sup>171</sup>, the respondent was using the domain name *land-o-lez.com* to route web traffic to the site *lezweb.com* which contained pornographic material. The panelists found that respondent used the complainant's trademark as a domain name in bad faith and

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<sup>169</sup> NAF Case No FA – 96483.

<sup>170</sup> NAF Case No. FA – 96534.

<sup>171</sup> NAF Case No FA - 96451

in an offensive manner. In *Ty Inc v O.Z. Names*<sup>172</sup>, the panelists found, for example, that absent any evidence to the contrary, linking domain names of well-known trademarks to graphic, adult oriented web sites is *per se* evidence of bad faith. In *CCA Indust. Inc v Dailey*<sup>173</sup>, the panelists held that the “association [of a well-known mark] with a pornographic site can itself constitute bad faith”.

#### 4.3.6 Defences to Internet-Based Dilution Under the UDRP

Basically, the UDRP sets forth three defences to internet-based dilution. Each defence is discussed in turn. The defences provided under the UDRP correspond broadly to defences against cybersquatting and cyberpiracy under the American Anticybersquatting Consumer Protection Act.

First, in terms of Policy 4 (c) (i), a respondent can show that the respondent has *bona fide* rights to a domain name if, before the respondent had notice of the dispute, the respondent had used, or made demonstrable or reasonable preparations to use, the domain name in respect of a legitimate offering of goods. Two issues have fallen for the determination of panelists under this defence. The first issue relates to the interpretation to be given to the expression “demonstrable preparation to use” the domain name. In *Columbine JDS Systems Inc v Jin Lu*<sup>174</sup>, the panelists interpreted this to mean actual use of the domain name, not mere intention to use the domain name. In the words of the panelists

Although the respondent claims that there was an intent to use the domain name in furtherance of his partner’s business activities, he does not show that any such activities were actually carried out. Indeed, he admits that he was not actually using the domain name and that it has been ‘warehoused’.

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<sup>172</sup> WIPO Case No D2000 - 0370

<sup>173</sup> WIPO Case No. D2000 - 0148

<sup>174</sup> eRes. Case No. AF – 0137.

This approach should be contrasted with the approach adopted by the panelists in *Breakthrough Software Inc v Hendrick Huigen*<sup>175</sup>, where the panelists found that the respondent's post-registration activities in respect of the domain name constituted demonstrable preparations to use the domain name, because the respondent had tried to register the domain name as a trademark, and to set up a business to use the domain name. A similar approach was adopted in *America Online Inc v Frank Albanese*<sup>176</sup> where the respondent had registered the domain name *aoltrader.com* and used the site as an online brokerage site for AOL stock. The panelists found this to constitute *bona fide* use under Policy 4 (c) (1) of the UDRP.

The second defence is provided under Policy 4 (c) (ii) of the UDRP. In terms of this defence, if the domain name registrant has been commonly known by the domain name, even if there was no corresponding acquisition of trademark rights to the domain name, then the domain name registrant has a legitimate right to the domain name. This defence was successfully deployed in *Penguin Books Limited v The Katz Family*<sup>177</sup> where the respondent was popularly known as "Penguin" for several years, and the panelists found that he had a legitimate right to the domain name *penguin.org* under Policy 4 (c) (ii) of the UDRP, notwithstanding objections by the owner of the well-known "penguin" trademark used in respect of books.

The third defence relates to legitimate noncommercial or fair use of the domain name as provided in Policy 4 (c) (iii) of the UDRP. In terms of this defense, if a respondent makes a legitimate noncommercial or fair use of a domain name, and the respondent has no intent to gain commercially or misleadingly divert customers of the complainant or tarnish or degrade complainant's trademark, then the respondent has a legitimate right to the domain

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<sup>175</sup> eRes. Case No. AF - 0122

<sup>176</sup> WIPO Case No. D 2000 - 1604

<sup>177</sup> WIPO Case No D 2000 – 0204. See also *Avnet Inc v Aviation Network Inc*, WIPO Case No. D 2000 – 0046 finding that the use of a name for ten years prior to the registration of the domain name was sufficient to satisfy Policy 4 (c) (ii) of the UDRP.

name. This defence has been used in several specific cases, like in defence of “sucks” sites and the generic use of domain names.

In respect of “sucks” sites, it was successfully used, for example, in *Lockheed Martin Corp v Dan Parisi*<sup>178</sup>, where the respondent had registered the domain names *lockheedsucks.com* and *lockheedmartinsucks.com* as non-commercial web-sites where individuals could register complaints about corporate America. The panelists found that consumers would be able to distinguish these sites with Lockheed’s official site because the sites contained material which was negative to Lockheed. As such, the panelists found that there was no likelihood of consumer confusion, and no tarnishment because the site was for criticism only.

The *Lockheed Martin* case should however be contrasted with *Wal-Mart Stores Inc v Walsucks and Walmarket Puerto Rico*<sup>179</sup>, where the panelists found that consumers conducting online searches would be likely confused by the similarity of the famous Walmart trademark and the domain name. There, the panelists developed an eight-factor test to determine likelihood of consumer confusion which included (a) the strength of the complainant’s trademark, (b) the proximity of the complainant’s and the respondent’s goods, (c) the similarity of the domain name and the trademark, (d) evidence of actual confusion, (e) marketing channels used by the complainant and the respondent, (f) the type of goods and the degree of care likely to be exercised by the purchaser, (g) the respondent’s intent in selecting the domain name, and (h) the likelihood of the complainant expanding his product lines.

Generic words or strings of generic words contained in a domain name generally fall within the legitimate use exception of Policy 4 (c) (iii) of the

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<sup>178</sup> WIPO Case No. D 2000 – 1015.

<sup>179</sup> WIPO Case No. D2000 – 0477.

UDRP<sup>180</sup>. The reason for the exception is that a trademark holder should not be allowed to have a monopoly over words in the public domain.

#### 4.3.7 Conclusion

The efficacy of the UDRP as a relatively inexpensive dispute resolution procedure which is a viable alternative to trademark dilution litigation is now statistically confirmed<sup>181</sup>. According to a WIPO Report dated 18<sup>th</sup> February, 2005<sup>182</sup>, the total number of cases received by WIPO as a DRP under the UDRP in 2004 were 1,179, representing an increase of 79 cases, or 6.6%, as compared to 2003. As of 2004, WIPO's UDRP and UDRP-based cases filed since 1999 covered over 12,500 separate domain names<sup>183</sup>. Again, as of 2004, WIPO had resolved 6,783 cases, of which 4,512 cases were in favour of the complainant<sup>184</sup>. The remainder of the cases were settled by the parties<sup>185</sup>.

As more decisions are handed down, the UDRP process will hopefully become more streamlined, effective and certain both for domain name holders and the holders of well-known marks who believe their trademarks have been diluted by domain name registrants. Further, UDRP cases are increasingly being cited in other UDRP cases, thereby creating uniformity of application. Such an approach will hopefully create *stare decisis* not only for UDRP panelists, but for country domain name registrars, and may ultimately have a persuasive influence on national courts in resolving conflicts between well-known marks and domain

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<sup>180</sup> *American Home Products Corporation v Eagle Spirit Adventures*, WIPO Case No. D 2000 – 1239; *City Utilities of Springfield, Missouri v Ed Davidson*, WIPO Case No. D 2000 – 0407.

<sup>181</sup> For example, Cristal and Greenfield, Note 105 above, at 324, report that by 10<sup>th</sup> October, 2001, 4,500 UDRP cases had been filed. Ned Banthover, Note 126 above, on the other hand, reports that by 2000, over 17.7 million domain names had been registered.

<sup>182</sup> WIPO Update 239, “*WIPO Continues Efforts to Curb Cybersquatting*” [February 18, 2005], 1 – 3, available at [http://www.wipo.int/edocs/prdocs/en/2005/wipo\\_upd\\_2005-239.html](http://www.wipo.int/edocs/prdocs/en/2005/wipo_upd_2005-239.html), last visited on 28<sup>th</sup> October, 2005.

<sup>183</sup> Note 182 above, at 2.

<sup>184</sup> Note 182 above, at 2.

<sup>185</sup> Note 182 above, at 2.

names<sup>186</sup>. The UDRP also serves as a model guideline to countries desirous of creating effective mechanisms to regulate internet-based dilution issues through a statutory or quasi-statutory regime.

The advantages of the UDRP were tellingly made by David H. Bernstein in observing that<sup>187</sup>

The UDRP has many advantages in comparison to traditional litigation. First, the process is quick and inexpensive. The electronic alternative dispute resolution (ADR) process is remarkably fast, resulting in decisions within 45 – 60 days. The process is also quite inexpensive in relation to traditional litigation, because UDRP proceedings generally require only one filing from each side, with no discovery or live hearing.

Second, participating in the UDRP is simple. Each side generally makes one submission, which can include both factual submissions and legal argument. Most ADR providers provide model complaints and responses on their websites, making it easy for even *pro se* parties to “fill in the blanks” and prepare an appropriate submission. Filing and serving the complaint or response is a snap; a party need only click to send the document by email to the ADR provider, with a confirmatory hard copy (with exhibits) to follow by mail.

Third, to help ensure consistency in panel rulings, ICANN has promulgated bright-line rules for the standards governing domain name disputes and has provided illustrative (but not exclusive) examples of conduct consistent with a legitimate interest and conduct that constitutes bad faith. Significantly, panelists need not make difficult factual findings on complicated, contested factual issues.

Fourth, to help streamline the procedure, ICANN provide for just two remedies; transfer of the domain name to the complainant or cancellation of the registration. Although the stakes can still be quite high, the elimination of any dispute regarding damages avoids many monetary issues that could otherwise complicate both the submissions and the panel’s decision.

Fifth, the UDRP has an escape valve: either party can pursue a claim in court, and if the respondent challenges a transfer order, the UDRP decision will be stayed while the final decision on the disposition of the domain name is made under national laws. This practice ensures that all parties can take advantage of due process rights if they feel that a particular decision is incorrect or that adjudication of the dispute will benefit from the more detailed information available in discovery and the credibility determinations that can be made at a live hearing.

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<sup>186</sup> See, however, Note 122 above and accompanying text.

<sup>187</sup> David H. Bernstein, “*UDRP: Online and On Target*”, INTA Bulletin Special Report [August 2002], at 6.

According to Bernstein, “less than one percent of all [UDRP] cases have been followed by a court challenge”, and this, in his view, “is a testament to the fact that the vast majority of parties believe the decisions to be sufficiently fair that further review is not warranted”<sup>188</sup>. Further, Bernstein applauds the fact that “panelists now provide detailed, fully-reasoned decisions that explain the bases for their conclusions”<sup>189</sup>. Where there are conflicting decisions from panels, ICANN should, it is submitted, seriously consider the establishment of an appellate body to resolve such conflicts in order to create uniformity among the decisions of panels<sup>190</sup>.

The UDRP will be used in this thesis as a measuring yardstick to determine the adequacy of protection offered by the jurisdictions under study against the internet-based dilution of well-known trademarks in *a legislative context* similar to the American Anticybersquatting Consumer Protection Act.

#### **4.4 CONCLUSIONS AND RECOMMENDATIONS**

In this Chapter, an examination of the principal international trademark law instruments was undertaken in order to show the obligations placed on States by such instruments to provide protection against trademark dilution in their domestic jurisdictions. In the main, such obligations were shown to be imprecise in several respects. First, there is no definition of trademark dilution under international trademark treaty law. Second, although Article 16 (3) of the TRIPS Agreement arguably provides for protection against the dilution of well-known marks, the concept of a well-known mark is not pellucidly defined, except in very limited fashion in Article 16 (2) of the TRIPS Agreement. This lack of a definition, it was submitted, created a loophole allowing some countries to provide for protection against dilution to well-known marks, while others, notably the United States of America, provide such protection only to famous marks in

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<sup>188</sup> Note 187 above.

<sup>189</sup> Note 187 above.

<sup>190</sup> Note 187 above. See also Stephen Jones, Note 135 above, at 78.

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compliance with TRIPS provisions. In Chapter 3 it was argued that there is no reason, in principle, why only famous, as opposed to well-known, marks should be protected from dilution. It was therefore argued in this Chapter that in the context of international trademark *treaty* law, guidelines should be introduced into the Paris Convention, by way of an amendment to Article 6*bis* (1), providing clear criteria of what constitutes a well-known mark. In respect of Article 10*bis* of the Paris Convention, it was proposed that the provisions of Article 3 of the WIPO Model Provisions for Protection Against Unlawful Competition may need to be incorporated into Article 10*bis* in order to clearly place an obligation on States to prohibit trademark dilution. Member States should be required, through the proposed amendment, to prohibit in their domestic laws, through legislation, any act or practice, in the course of industrial or commercial activities, that damages, or likely damages, the goodwill or reputation of another's enterprise, regardless of whether such act or practice causes confusion. The imprecise obligations placed on states by international trademark treaty law to prohibit dilution in their domestic jurisdictions may arguably be viewed as having greatly contributed to the difficulties encountered by national courts in formulating and applying a coherent legal framework in dilution cases that appropriately balances the interests of the trademark owner, on the one hand, and the interest of the public, on the other hand.

In respect of the TRIPS Agreement, it was noted in this Chapter that Article 16 (3) provides for protection that extends beyond the specialty principle. The protection enshrined in Article 16(3) may be read as requiring States to prohibit any misappropriation of a mark's advertising value likely to cause confusion of sponsorship. It is therefore proposed that Article 16 (3) should be amended so that it obliges States to provide protection against any misappropriation of a trademark's advertising value that causes or likely causes *both* trademark dilution and confusion of sponsorship. Opportunity may also be taken, when amending the TRIPS Agreement, to delete references to "registered" well-known trademarks occurring in Article 16 (3), so as to clearly and

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unambiguously broaden the scope of protection to cover both registered and unregistered trademarks. The guidelines of what constitutes a well-known trademark will also have to be incorporated into the TRIPS Agreement, using the criteria in the WIPO Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks.

It is also proposed that international trademark law should continue using the term “well-known” mark. However, this term should be defined in the Paris Convention and the TRIPS Agreement to make it clear that the term represents the threshold criteria of marks eligible for protection from dilution under international trademark law, so that States, in complying with their obligations under the Paris Convention and the TRIPS Agreement, will know that the substantive provisions relating to well-known marks under international trademark law apply equally to them, regardless of the nomenclature used to describe well-known marks in their jurisdictions. In the final analysis, such an amendment may encourage States to uniformly use the term “well-known mark” in their anti-dilution legislative provisions, thereby eliminating much of the existing confusion caused by terminology like “famous marks”, “marks with a reputation”, “marks of high reputation”, and so on.

The Chapter also looked at developments in international domain name law designed to provide guidelines to States in prohibiting internet-based dilution, particularly the phenomena of cybersquatting and cyberpiracy. This was principally done in the context of ICANN’s UDRP. Such analysis will be used in later Chapters, particularly in respect of Germany, the United Kingdom and South Africa, to propose that these jurisdictions should use the UDRP as a blueprint in enacting legislation prohibiting cybersquatting and cyberpiracy, since there is no legislative provisions in these jurisdictions holistically dealing with the internet-based dilution of well-known marks. It was suggested that to create uniformity in the decisions of panels under the UDRP, ICANN should seriously consider

establishing an appellate body with a mandate to determine issues emerging in conflicting panel decisions, whose decisions will be binding on the panels.

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**CHAPTER 5**  
**TRADEMARK DILUTION**  
**UNDER REGIONAL TRADEMARK LAW**

**5.1 INTRODUCTION**

This Chapter analyses the provisions of regional trademark law which require States to grant protection against trademark dilution in their domestic jurisdictions<sup>1</sup>. The necessity of such a study for the present purposes is self-evident, because, for example, Germany<sup>2</sup> and the United Kingdom<sup>3</sup>, two of the countries dealt with in this thesis, are members of the European Union<sup>4</sup>, and are

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<sup>1</sup> As used here, the term “regional trademark law” is consciously limited to the European Trade Mark Harmonization Directive (The First Council Directive of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks) (Hereafter the “*EC Trademark Directive*”) and the European Trade Mark Harmonization Regulation (Council Regulation (EC) No. 40/94 of 20 December 1993 on the Community Trade Mark) (Hereafter “*the Community Regulation*”).

<sup>2</sup> See Wolfgang Büscher in Frederick W. Mostert (Ed), *Famous and Well-Known Marks* 2<sup>nd</sup> Edn (2004), Chapter entitled “*Germany*”, at 4 – 169, to 4 - 193, at 4 – 169 commenting that, in Germany

The essential legal basis for the protection of trademarks in Germany is the Trademark Act which came into force on 1 January 1995, superseding its 100-year-old predecessor, the *Warenzeichengesetz* (WZG), and which provides a comprehensive reform of German trademark law. *The primary function of the Act is to implement the European Trademark Harmonization Directive* (emphasis added).

<sup>3</sup> See Christopher Morcom in Frederick W. Mostert (Ed), *Famous and Well-Known Marks* 2<sup>nd</sup> Edn (2004), Chapter entitled “*United Kingdom*”, 4 – 447 to 4 – 466, at 4 - 455, commenting that

The CTM Regulation contains provisions, defining infringement, and for grounds for opposition to registration and cancellation, which are very similar to corresponding provisions in the Harmonization Directive, mentioned above, and the 1994 [United Kingdom Trademarks] Act which implements those provisions. The infringement provisions of the Regulation are for practical purposes the same as s. 10 (1) – (3) of the 1994 Act.

See also, Cornish and Llewelyn, *Intellectual Property: Patents, Copyright, TradeMarks and Allied Rights* 5<sup>th</sup> Edn (2003), Para. 15 – 16, p. 582, observing that, in the context of the European Union

a measure requiring the considerable (but not complete) harmonization of national laws was enacted in 1988 and has now been given effect in all Member States. In parallel a system for the grant of Community Trade Marks (CTMs) was developed and introduced: In April 1996 the inelegantly-titled Office for the Harmonization in the Internal Market (Trade Marks and Designs) in Alicante (OHIM or the CTM Registry, for short) opened its doors for CTM applications. In the UK it was these cognate EU initiatives, together with adherence to the Madrid Protocol, which led to the Trade Marks Act 1994, an Act which rewrites much of the form and substance of trade mark law as it was known previously.

<sup>4</sup> It must be emphasized here that EU trademark law has had an influence outside the EU. For example, OH Dean “*Quo Vadis South African Trade Marks?*” 1998 SAMerc. LJ 89 – 110, at 91, commented, in respect of the South African Trade Marks Act 1993, that

When the 1993 Act was drafted, it was intended that it should bring South African trade-mark law into line with developments elsewhere in the world, in particular in the European Community. With a view to harmonizing the national trade-mark laws of the members of the Community, the

obliged at their discretion, to transpose<sup>5</sup> the regional European Union anti-dilution provisions into their domestic laws.

This Chapter first analyses the protection against trademark dilution in the Benelux countries during the pre-EU harmonization period, because most writers<sup>6</sup>

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European Commission had issued a Trade Mark Directive. Our law makers sought to have our new Act conform substantially with the European Directive. At the same time, the British legislature was preparing the British Trade Marks Act 1994; its main object was to bring British trade-mark law into conformity with the European Directive. An early draft of the 1994 Act was made available to the South African law makers during the drafting phase of the South African statute; our law makers borrowed substantially from the work of their British counterparts. Both law makers were working from similar departure points and were seeking essentially to attain the same objectives.

See also Graeme B. Dinwoodie, William O. Hennessey and Shira Perlmutter, *International Intellectual Property Law and Policy* (2001) at 47, stating that

The EU, and the intellectual property law that it develops, has over the past decade become a significant variable in the intellectual property law making process internationally. The imprint of EU legislation can be found not only on the intellectual property laws in the member states of the union; EU legislation has also influenced the shape of national intellectual property laws outside the EU, as well as multinational intellectual property agreements. This influence arises in various ways. Non EU countries that are within the European Economic Area (“EEA”) ... must also comply with various laws of the EU including its intellectual property laws.

<sup>5</sup> In respect of the transposition of EU Directives and Regulations on intellectual property into the domestic laws of member states, Dinwoodie, Hennessey and Perlmutter, Note 4 above, comment at 50 that

The legislation of the EU may take two primary forms. A *Regulation* has general application, is binding in its entirety and is directly applicable in all member states. It does not require national implementing legislation to become effective in member states. It is essentially a federal law of Europe. A *Directive* in contrast, is not directly applicable in the member states. Its provisions normally require positive implementation (called “transposition”) in the domestic laws of the member states.

<sup>6</sup> See Sabine Casparie-Kerdel, “*Dilution Disguised: Has the Concept of Trade Mark Dilution Made its Way into the Laws of Europe?*” [2001] EIPR 185 – 195, at 194, commenting, in the context of the EC Trademark Directive, that –

At present, however, only parts of the Benelux [anti-dilution] provisions have been directly copied [into the EC Trademark Directive], whereas other parts have been left out or were adapted as a compromise with the other legal systems in Europe.

See also Hazel Carty, “*Do Marks With a Reputation Merit Special Protection?*” [1997] EIPR 684 – 688, at 685, noting that

The actual inclusion of a dilution claim into the EC Directive appears to be due to the heavy lobbying of the Dutch delegation who vigorously defended the important progress which was made in the field of trade mark law in the Benelux countries.

See also Cornish and Llewelyn, Note 3 above, at Para. 17 – 99, p. 711, commenting that Article 9 (1) (c) of the Community Regulation and Article 5 (2) of the Trademark Directive allow for protection against dilution, and are inspired from “Article 13A of the Benelux Trade Mark Law”.

See also Advocate General Jacobs’ comments in *General Motors Corporation v Yplon SA* [1999] 3 CMLR 427, at Para. 28 that

[ I]n the course of negotiations in the Council, a provision protecting marks ‘with a reputation’ was included at the request of the Benelux countries, and became Article 5 (2) of the Directive.

See further Tony Martino, *Trademark Dilution* (1996), at 89, stating that the anti-dilution provisions in section 10 (3) of the UK Trade Marks Act 1994 were “Dutch-inspired”.

agree that the Benelux anti-dilution provisions inspired the anti-dilution provisions of the EC Trademark Directive and the Community Regulation. The Chapter then proceeds to give a rationale for the EC Trademark Directive and the Community Regulation. Basically, it is argued that these two instruments, including their anti-dilution provisions, are designed to facilitate the operation of the European internal market. The research then proceeds to analyse the anti-dilution provisions of the EC Trademark Directive and Community Regulation, as interpreted by the European Court of Justice<sup>7</sup> and the Board of Appeal of the Office for Harmonization in the Internal Market<sup>8</sup>, and draws some conclusions and recommendations in closing.

## 5.2 DILUTION IN THE BENELUX

The Netherlands, Belgium and Luxembourg agreed in 1971 to enter into an economic union of the Benelux<sup>9</sup>. To give effect to the objectives of the economic union, the three countries agreed to share one uniform trademark law in their national laws, the basis of which was provided in the Benelux Treaty on Trade Marks<sup>10</sup>, which was transposed into the Benelux Trade Marks Act<sup>11</sup> of 1 January, 1971. The BTMA provided that in instances where there were uncertainties in the interpretation or application of its provisions, the national courts in the three countries and the Dutch Supreme Court had to submit questions regarding such uncertainties to the Benelux Court of Justice<sup>12</sup>, the highest judicial body established to interpret questions of law relating to the BTMA<sup>13</sup>.

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<sup>7</sup> Hereafter “the ECJ”.

<sup>8</sup> Hereafter “the OHIM Board of Appeal”.

<sup>9</sup> Charles Gielen in Frederick W. Mostert (Ed) *Famous and Well-Known Marks* 2<sup>nd</sup> Edn (2004), Chapter entitled “*Benelux*”, 4 – 61 to 4 – 80, at 4 – 61.

<sup>10</sup> Trb. 1962. No. 58.

<sup>11</sup> Hereafter “the BTMA”. The BTMA was amended to give effect to the EC Trademark Directive, and the amendments entered into force on 1 January, 1996. See Charles Gielen, Note 9 above, at 4 - 61.

<sup>12</sup> Hereafter “the BCJ”.

<sup>13</sup> Sabine Casparie – Kerdel, Note 6 above, at 188.

The anti-dilution provisions of the BTMA were contained in Article 13A, which provided that

Without prejudice to the possible application of ordinary civil law in matters of civil liability, the proprietor of a mark may, by virtue of his exclusive rights, oppose:

- (1) any use made of the mark or a similar sign for the goods or services in respect of which the mark is registered, or for similar goods or services;
- (2) any other use in the course of trade, of the mark or a similar sign made without due cause under circumstances likely to cause damage to the proprietor of the mark<sup>14</sup>

In terms of Article 13A (1) of the BTMA, the owner of a trademark could oppose use of his trademark or a similar sign for the same or similar goods as those of his registered trademark. Casparie – Kerdel<sup>15</sup> argues that Article 13 A (1) was intended not only to prohibit the likelihood of consumer confusion in a narrow sense, but also in a broader sense encompassing confusion of sponsorship or association, extending further in appropriate cases to instances where a connection existed between the trademark and the sign without confusion being present, when as a result of this connection the distinctiveness and reputation of the mark is diminished. Casparie-Kerdel argues in this respect that the BTMA did not specify the degree of similarity required to constitute infringement, and left the determination of similarity to the courts<sup>16</sup>. Casparie-Kerdel cites the *Monopoly case*<sup>17</sup> as the first case by a Dutch court to shed some light on the meaning of the similarities between a trademark and a later sign required for the purpose of Article 13A (1) of the BTMA. There, the trademark *Monopoly* was found to have been infringed by the parodic use of the trademark Anti-Monopoly, even though the latter trademark meant the opposite of the earlier trademark and

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<sup>14</sup>See Frederick W. Mostert (Ed), *Famous and Well-Known Marks* (1997), Appendix 23A, at p. 606; Sabine Casparie – Kerdel, Note 6 above, Appendix, at p. 195; Peter Joachim Kaufmann, *Passing Off and Misappropriation* [1986] Vol. 9. Studies In Industrial Property and Copyright Law, 128 – 136, at 131.

<sup>15</sup> Sabine Casparie-Kerdel, Note 6 above, at 188 – 189.

<sup>16</sup> Sabine Casparie-Kerdel, Note 6 above, at 188 – 189.

<sup>17</sup> *Monopoly/Anti-Monopoly* Case, Dutch Supreme Court (Hoge Raad), June 24, 1977 [1978] N.J. 83.

therefore eliminated all source-origin confusion. In *Union-Soleure*<sup>18</sup>, the BCJ dealt for the first time with the concept of similarity in the context of the BTMA and held that similarity was established when, reviewing the trademark and the sign in a holistic manner and in correlation, the auditive, visual and conceptual components of the trademark and the sign evoked associations of marked resemblance. Casparie-Kerdel consequently opines that

This is how the infamous concept of association came into being in Benelux. And although in this specific case the court did not expand on the underlying *ratio* for the new formula, its aim was generally explained as giving trade mark owners the broadest protection possible, not only against confusion but also against dilution of the trade mark. It was argued that the connection made by the public between mark and sign can cause damage to the trade mark owner merely if the public thinks that mark and sign have the same origin; the trade mark is affected in its function of indicating origin. In addition, however, such a connection between mark and sign can be damaging without confusion being present when as a result of this connection the distinctiveness or reputation of the mark is diminished. When associated with similar signs, the mark gradually loses its distinctive power and becomes diluted, thereby damaging the trade mark's additional function of symbol of goodwill and reputation. Thus it can be said that, albeit implicitly, dilution was generally understood to be included as a basis for action in the provision governing use of a trade mark on *competing* goods, through the concept of "association".

In later cases, the concept of association has been refined, and three important conditions were read into the Act. First of all, the degree of distinctiveness is an important factor in considering association, as the less distinctive the mark, the less its ability to evoke association in the minds of the public. In the *Juicy Fruit*<sup>19</sup> case, the owners of "Juicy fruit" chewing gum could not stop a competitor using the mark *juicy* on his chewing gum, as the distinctiveness of the earlier mark was not such that it could evoke strong associations in the minds of the public. Secondly, the mark's reputation is considered a particular circumstance to be taken into account, as a strong reputation would contribute to the mark being distinctive enough to evoke the required association. Finally, for association to be established in the case of conceptual similarity, there must be also some degree of visual or auditive resemblance between the two marks. (footnotes added).

It can be argued, then, that Article 13A (1) of the BTMA, as interpreted by the BCJ, is *in pari pasu* with Article 5 (1) (b) of the EC Trademark Directive, and Article 9 (1) (b) of the Community Regulation, in that all three provisions do

<sup>18</sup> *Union/Union Soleure* Case, Benelux Court of Justice, May 20, 1983 [1984] N.J. 72.

<sup>19</sup> *Juicy Fruit* Case, Benelux Court of Justice, October 5, 1982 [1984] N.J. 71. See also the *Boitex* Case, Benelux Court of Justice, June 28, 1987 [1988] N.J. 147, where conceptual association was established between the trademarks "Boitex" and "Biomarc".

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not state the degree of similarity required to constitute infringement, and leave the scope of protection in the case of identical or similar goods for determination by the court. What remains to be determined, therefore, is whether the ECJ, in interpreting either Article 5 (1) (b) of the EC Trademark Directive, or Article 9 (1) (b) of the Community Regulation, has interpreted these provisions in a similar manner to the interpretation given to Article 13A (1) of the BTMA. As noted by Casparie-Kerdel above<sup>20</sup>, Article 13A (1) was interpreted by Benelux courts –

- (a) in a way establishing similarity based on a global assessment of the mark and the sign in commercial activity, to include instances of confusion of association or connection;
- (b) to give trademark owners the broadest possible protection, not only against confusion but also against dilution of the trademark arising from use of the trademark on competing goods through the concept of association or connection;
- (c) to require a high degree of distinctiveness in a trademark in order to ground a successful claim of confusion of association, because the less distinctive the trademark, the less its ability to evoke an association in the minds of the purchasing public;
- (d) to require a strong degree of reputation in a trademark in order to ground a successful claim of confusion of association, because reputable marks were considered *ipso facto*, distinctive enough to evoke the proscribed degree of association; and
- (e) to require that in cases of conceptual similarity, there must have been *in casu* some appreciable degree of visual or auditive resemblance between the mark and the sign.

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<sup>20</sup> Notes 15 and 16 above.

Likelihood of association under Article 13A (1) of the BTMA could therefore arise in one of three situations. First, in circumstances of likelihood of *direct* confusion, where the public confuses the sign and the trademark in question. This gives rise to the typical passing off or traditional trademark infringement action. Second, in circumstances of *indirect* confusion or association, where the public makes a connection between the proprietors of the sign and the proprietors of the trademark, and as a consequence of that connection, is confused. It is submitted that it is this form of confusion by association which ultimately found its way into the EC Trademark Directive and the Community Regulation. Third, association could also be found to exist under Article 13A (1) in the strict sense explained in Chapter 3; that is mere association, where the public consider the sign to be similar to the trademark, and perception of the sign calls to the mind of the purchasing public the memory of the trademark. In this third type of strict association, it is the advertising function of the trademark that is protected from dilution. In *Jullien v Verschuere*<sup>21</sup>, it was this third (strict) type of association that was in issue.

The BCJ *Verschuere* decision is based on the idea that, where a sign is likely to give rise to association with a trademark, the public makes a connection between the sign and the trademark. Such a connection (or an association) may be prejudicial to the trademark in the absence of confusion, because the perception of the sign calls to mind the memory of the trademark, and results in the goodwill attached to the trademark being transferred to the sign, and the trademark being consequently diluted by blurring. Conversely, where the association created is such that the ill-repute of the goods on which the sign is used are visited on the goods of the trademark proprietor, dilution by tarnishment occurs.

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<sup>21</sup> *Jullien v Verschuere*, Judgment of the BCJ of 20 May 1983 in Case A 82/5. See Jur. 1983, Vol. 4, P.36, cited in arguments before the ECJ in *Sabel BV v Puma AG, Rudolf Dassler Sport* Case C-251/95, Judgment dated 11 November, 1997, downloaded from <http://www.curia.eu.int>., visited on 30<sup>th</sup> October, 2005, at Paras 14 to 16, reproduced at Note 71 below.

Article 13A (2) of the BTMA, on the other hand, provided the trademark owner with the exclusive right to oppose “any other use” of his trademark or a sign similar to his trademark<sup>22</sup>. The significance of Article 13A (2), however, lay in the fact that it contained the additional requirements that the “other use” should have been use in trade, without due cause, and likely to cause damage to the trademark owner<sup>23</sup>. Casparie-Kerdel argues that the expression “any other use” in Article 13A (2) of the BTMA was interpreted by the courts to cover two different situations:

first of all it covers use of the trade mark or a similar sign *on dissimilar goods*, and secondly it includes *non-trade mark use*, a concept described in case law as use “other than for the purposes of distinguishing one’s goods and services”. It was thought that in these two situations, mere similarity of the marks was not sufficient. Where there was no direct competition between the products of the trade mark owner and the user of the allegedly similar sign, additional criteria had to be fulfilled<sup>24</sup>.

In respect of the first instance of “any other use” identified by Casparie-Kerdel, namely, use on dissimilar goods, an oft-cited illustration in Benelux trademark legal literature is the *Klarein v Claeryn* case<sup>25</sup>, a decision of the Benelux Court of Justice. There, Lucas Bols, the owner of a well-known Dutch gin marketed under the trademark ‘Claeryn’ requested Colgate to refrain from using the confusingly similar trademark ‘Klarein’ in respect of Colgate’s detergent. Colgate refused and Lucas Bols instituted the proceedings to restrain Colgate from using that trademark in respect of detergents. When the proceedings reached the Dutch Supreme Court, that court referred the following questions to the BCJ for clarification in respect of the interpretation of Article 13A (2) of the BTMA.

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<sup>22</sup> Sabine Casparie-Kerdel, Note 6 above, at 189.

<sup>23</sup> Sabine Casparie-Kerdel, Note 6 above, at 189.

<sup>24</sup> Sabine Casparie -Kerdel, Note 6 above, at 189.

<sup>25</sup> Benelux Court of Justice, March 1, 1975; [1975] N.J. 472; [1977] A.A. 664; [1975] B.I.E. 183. For legal literature discussing this case, see (1) Peter Joachim Kaufmann, *Passing Off and Misappropriation*, Note 14 above, at 132 - 33; (2) Sabine Casparie Kerdel, Note 6 above, at 189 – 190.

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- (1) Does Article 13A (2) allow the opposition of the trademark owner against the use of the trademark for, *inter alia*, other kinds of products than those for which the mark is registered in circumstances where
    - (a) through that use the distinctive power of the mark, for which protection is claimed, is diminished?
    - (b) through that use danger of confusion may arise for the public with regard to the origin of the products, or advantage is taken in an unfair way of the reputation of the trademark, for which protection is claimed?
  - (2) Is it possible that the damage, mentioned in Article 13A (2) consists exclusively or among other things of the use of the trademark ... for a certain different kind of product than the registered one, through which the attractive power of the trademark for the latter product diminishes, in such a way that the other sort of product appeals so to the senses of the public, that the trademark is damaged in its purchase appeal for the kind of product for which it is registered?<sup>26</sup>

In answer to the first question, the BCJ held that Article 13A (2) applied equally in respect of consumer confusion and the taking of advantage of the trademark's goodwill and reputation<sup>27</sup>. It is submitted that in so holding, the BCJ acknowledged that Article 13A (2) *also* applied to the protection of the source-origin value and product-distinguishing value of a trademark, both of which primarily serve to prohibit the likelihood of consumer confusion<sup>28</sup>.

In answer to the second question, the BCJ held that the attractive power of the trademark

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<sup>26</sup> Peter Joachim Kaufmann, Note 14 above, at 132 – 133. See, in respect of the answer to question 2, the decision of the Court of Appeal, Amsterdam, 8 March, 1984, BIE 1986/42 (*Apple*) where the world famous trade mark Apple for computers was held to be infringed by the use of the trade name Apple for advertising, because the power to attract and the exclusivity of the mark were used and by doing so the associative power of the mark could be prejudiced.

<sup>27</sup> According to Peter Joachim Kaufmann, Note 14 above, at 133 (providing the translation from Dutch to English), the BCJ held that

There is no legal basis for the requirements as set out under (a) and (b) because according to the text no other conditions may be put to the opposition of the trademark holder against the use therein mentioned, than that this use takes place (a) without a justified reason, (b) in commerce and (c) under such circumstances that damage may be inflicted to the holder of the mark. Moreover the fact that the legislator has described trademarks as distinctive signs *does not mean that he wanted to restrict the extent of the protection of the exclusive right ... to the distinctive function of the mark* (emphasis from text).

<sup>28</sup> See Chapter 2, Notes 1 to 21, and accompanying text.

belong[ed] to the assets [of] the holder of the trademark connected with his exclusive right in his trademark, what may be described as purchase-inducing power. That damage may be caused, when persons other than the trademark holder use the mark for another kind of product. The damage may consist of the fact *that the trademark, through the loss of exclusivity, cannot any longer draw the immediate association with the products for which it is registered*; it is also possible, that the product to which ‘the other use’ of the trademark is referred to, appeals in such a way to the senses of the public, *that the trademark for the registered products is damaged in its attractiveness and purchase stimulating power*<sup>29</sup> (emphasis added).

This answer to the second question speaks to the fact that Article 13A (2) also protected the advertising function of a trademark<sup>30</sup>. What the BCJ described as “purchase-inducing power” is in fact the advertising value of a trademark. Commenting on the BCJ’s answer to the second question in the *Claeryn* case, Kaufmann observes that

The Benelux Court in this last answer spells out exactly what happens in a dilution situation. Either the trademark is used on different products which, though of good quality, detract from the immediate association with the products of the trademark holder, or the reputation of the trademark is tarnished, because the dissimilar products are of inferior quality and the attractiveness of the trademark is diminished. The answers of the Benelux Court were totally incorporated by the Dutch Supreme Court in its ultimate decision; and the rulings in the *Klarein* case are generally accepted in the Dutch literature in a very positive light.

Cohen Jehoram, in a note on the decision, points to the fact that this expansion of the trademark right is severely criticized abroad. He quotes Krasser, who fears that the *Klarein* decision gives trademark holders the possibility of approaching the Court on every occasion, when they fear that their clients may be displeased in any way by the use of the trademark on totally dissimilar products. *In the same note, attention is given to the fact that the EEC Commission, in its Memorandum on the creation of a European trademark, explicitly rejects the Benelux development re extensive protection of trademarks as giving much more than the real goal of the trademark law protection.* However, the criticism leave the Dutch viewpoint that extensive protection of trademarks is a necessity unchanged. It is even proclaimed that *the Benelux view should be an enlightening example for Common Market trademark legislation* (emphasis added)<sup>31</sup>.

<sup>29</sup> As translated by Peter Joachim Kaufmann, Note 14 above, at 133.

<sup>30</sup> See Chapter 2, Notes 37 to 54, and accompanying text.

<sup>31</sup> Peter Joachim Kaufmann, Note 14 above, at 133.

In the *Claeryn* case, the BCJ also took the opportunity to comment on what would constitute due cause for the user of the later mark. The court held that such due cause could only be assumed “if there was such a necessity on the part of the alleged infringer to use the mark, that he could reasonably not be required to abstain from that use”<sup>32</sup>. An obvious example, as noted in Chapter 3, is where the user of the later mark markets spare parts for the trademark owner’s goods<sup>33</sup>. Further, the BCJ in the *Claeryn* case held that a use will also be with due cause where the user is entitled to use the mark in his own right and does not have, as a matter of law, to yield this right to the owner of the trademark.

Article 13A (2) of the BTMA was also applied by Benelux courts in respect of non-trademark uses particularly in the media, in respect of famous marks<sup>34</sup>, where such marks were portrayed in a negative context. In respect of these cases, Casparie-Kerdel<sup>35</sup> comments that

the cases related to use of the *Shell* trade mark and device on a picture of a fabric on fire<sup>36</sup>, use of the *Philips* trade mark and device surrounded by swastikas, implying a connection with the company’s conduct in the Second World War<sup>37</sup>; and use of the *Coke* bottle in an obscene context in a film<sup>38</sup>. *There has been severe criticism of these cases of non-trade mark use, and it was asserted that such a broad protection of a trade mark could not be in the interests of the buying public and society at large.* First, it was queried whether use in the media could constitute use “in the course of trade”, and more importantly, there were pleas to consider the freedom of speech as a “due cause” for any person to use someone else’s trade mark. *The cases are still cited in other countries as examples of the broad protection of trade marks in Benelux, but their credibility must be strongly diminished as they are all very dated, and the Benelux Court of Justice has never had a chance to give its judgment on the issue.* It would be interesting to see how these cases of non-trade mark use would be interpreted by the Benelux court or by the ECJ today (footnotes added).

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<sup>32</sup> Sabine Casparie-Kerdel, Note 6 above, at 190.

<sup>33</sup> See Chapter 3, Note 23, and accompanying text.

<sup>34</sup> Sabine Casparie-Kerdel, Note 6 above, at 190.

<sup>35</sup> Sabine Casparie-Kerdel, Note 6 above, at 190

<sup>36</sup> *Shell v Vrij Nederland*, District Court Amsterdam, January 8, 1977; [1975] N.J. 399.

<sup>37</sup> *Phillips v Haagse Post*, District Court Amsterdam, July 28, 1981; [1982] B.I.E. 41.

<sup>38</sup> *Coca Cola v Alicia*, Court of Appeal Amsterdam, December 18, 1975; [1977] N.J. 59.

Casparie-Kerdel strongly criticizes the interpretation of the Benelux anti-dilution provisions by Benelux courts, and argues that in fact “there is no such thing as a dilution doctrine under Benelux law, as the least that a doctrine or a theory would require is to be defined”<sup>39</sup>. Casparie-Kerdel argues further that if a theory of dilution can be gleaned from Benelux case law, all that is shown by the case law is that dilution is “not a separate action but has been submerged in the general trademark infringement section and interwoven with notions of traditional trademark infringement”<sup>40</sup>. She continues to comment that her position is validated<sup>41</sup>

when looking at the association principle of Article 13A (1). First of all, association is interpreted as covering both confusion and dilution, although this is not clear from either the Act or the case law. Whereas in the United States confusion and dilution are thought to be principles with a different rationale, the former based on harm to the reputation and goodwill of the trade mark owner’s business, and the latter based on harm to reputation and goodwill of the trade mark itself, in the Benelux they appear under one common denominator – “association”. Moreover, whereas in the case of “any other use” under Article 13A (2) there is a requirement of damage, which has been defined as detriment to exclusivity, uniqueness, reputation – the typical damage in a dilution action – in the case of similar goods under Article 13A (1) the mere association between mark and sign is thought to be sufficient. Unlike the United States where association is only considered a prerequisite for dilution, it is implied that in the case of similar goods a mark is diluted simply when called to mind through use of an identical or similar sign for identical or similar goods, without the need to prove that the mark’s exclusivity or reputation is impaired *de facto*.

It can be concluded therefore that the dilution concept itself has been diluted under Benelux law by making it part of the traditional trade mark infringement section, the result being that, because of the difficulty in distinguishing the dilution rationale from the confusion rationale, the theory of dilution has never had the chance to develop in its own right. In any event, the Benelux provision will now have to be interpreted in line with the decisions of the ECJ following the coming into force of the Harmonisation Directive, so that its particular interpretation may soon be of mere historical interest.

It is submitted, contrary to Casparie-Kerdel’s comments above, that a dilution theory *can* be gleaned from Benelux case law, particularly from the *Claeryn* case, above. It is obvious from that case, however, that the dilution

<sup>39</sup> Sabine Casparie-Kerdel, Note 6 above, at 190.

<sup>40</sup> Sabine Casparie-Kerdel, Note 6 above, at 190.

<sup>41</sup> Sabine Casparie-Kerdel, Note 6 above, at 190 – 191.

concept was not clearly divided into dilution by blurring<sup>42</sup> and dilution by tarnishment<sup>43</sup>, but the description in that case of the damage resulting from loss of exclusivity and uniqueness<sup>44</sup> is dilution by blurring<sup>45</sup>, while the description of the damage resulting from loss of the attractiveness of the mark through improper associations<sup>46</sup> is in fact dilution by tarnishment<sup>47</sup>. Further, the cases show that only marks with a reputation were protected from dilution<sup>48</sup>, and the concept of “trademarks with a reputation” found its way into the EC Trademark Directive and the Community Regulation, where such marks are protected, in language similar to Article 13A (2) of the BTMA, from dilution. Consequently, it is submitted that the concept of dilution found its way into the laws of Europe by incorporation into the EC Trademark Directive and the Community Regulation.

Casparie-Kerdel’s critique further pays little regard to the fact that confusion of sponsorship or association can result in injury to the origin and distinguishing functions of a trademark. In addition, it can also affect the advertising function of a trademark and give rise to the dilution of the advertising value of the trademark. In other words, the one form of injury does not exclude the other. From this, it may be appropriate to answer a few questions in respect of the anti-dilution provisions of the BTMA, namely, whether in fact, it was appropriate to use trademark law to afford trademark owners the extended protection in the anti-dilution provisions, or whether the BTMA anti-dilution provisions went too far in the scope of protection as argued by Casparie-Kerdel<sup>49</sup>. The answer to these questions, it is submitted, speaks to the functions of a trademark, and seeks to balance, through trademark law, the exclusive rights of the trademark owner on the one hand, and the interests of the public in free trade

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<sup>42</sup> See Chapter 3, Part 3.3.2.

<sup>43</sup> See Chapter 3, Part 3.3.4.

<sup>44</sup> See Note 29 above.

<sup>45</sup> See Chapter 3, Part 3.3.2.

<sup>46</sup> See Note 29 above.

<sup>47</sup> See Chapter 3, Part 3.3.4..

<sup>48</sup> See Note 20 above, and Para. (c) of accompanying text.

<sup>49</sup> See the text of Note 35 above.

on the other hand. Kaufmann<sup>50</sup> answers these questions, correctly, it is submitted, in the context of Benelux trademark law as follows:

this introduction of the protection of the goodwill function into the statutory law has hardly met with any resistance in the Dutch jurisdiction, and in a recent treatise on the Benelux trademark protection, this extensive protection was explained by showing that the trademark law has a *double* function. On the one hand, it has to protect the interests of the consumer in such a way, that they will not be confused by similar trademarks for the same goods. On the other hand, the interests of the trademark owner have to be protected, so that others cannot profit from the goodwill of the trademark; this goodwill is obtained after high investment and efforts on the part of the trademark owner.

In weighing both interests Mak and Molijn make it clear that the right of the trademark owner should prevail in their opinion<sup>51</sup>:

... it has to be admitted, that the consumer in that case (in protecting the goodwill) is not confused, but the other side of trademark protection should not be lost from sight, that is the interest of the trademark owner to maintain without any limitation his rights in the mark (footnote added).

In conclusion, it is submitted that there is strong credibility in propositions which seek to place the origins of the European Union's anti-dilution provisions in Benelux trademark law. As will be shown below, the Advocate Generals of the ECJ in their opinions on cases before the ECJ<sup>52</sup> have looked to the pre-EU harmonization Benelux case law on dilution in providing opinions seeking to interpret the anti-dilution provisions of the EC Trademark Directive and the Community Regulation.

## 5.3 THE EC TRADEMARK DIRECTIVE AND THE COMMUNITY REGULATION

### 5.3.1 Objectives and Nature

<sup>50</sup> Peter Joachim Kaufmann, Note 24 above, at 131.

<sup>51</sup> W. Mak and H. Molijn, "*Merkenbescherming in de Benelux*" (1980), at 49.

<sup>52</sup> See, for example, the Opinion of Advocate General Jacobs in *Adidas-Salomon AG v Fitnessworld Trading Limited*, Case C-408/01 at Paras 36 to 40, cited in Note 106 below.

The objective of the EC Trademark Directive was to harmonize significant aspects of the national trademark laws of EU member states to achieve full community economic integration<sup>53</sup>. The need for the Directive stemmed from a realization that increases in intra-EU trade could be streamlined by harmonized trade identity laws that facilitated EU-wide marketing and distribution of goods and services<sup>54</sup>. However, the different national trademark laws of EU member states served instead to impede the free movement of goods and services throughout the EEC by imposing legal complexities and uncertainties, which were negatively reinforced by the territorial nature of trademark rights<sup>55</sup>. This threatened to partition the EEC common market into separate national markets. As a direct consequence of these problems, the Directive was adopted as a harmonization initiative in 1988, and EU member states were required to implement its mandatory provisions in their national trademark laws by 1992.<sup>56</sup>

The EC Trademark Directive produced two significant legal consequences on EU trademark law. First, the Directive deliberately did not address various issues of national trademark law. Thus the Directive addresses issues related to registered trademarks, but does not address trademark rights based upon use, and procedures as to registrability, nullity and invalidity of trademarks<sup>57</sup>. These issues are left for regulation by EU member states. Second, the Directive contains both

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<sup>53</sup> Recital 1 of the EC Trademark Directive provides that  
whereas, the trade mark laws at present applicable in the Member States contain disparities which may impede the free movement of goods and freedom to provide services and may distort competition within the common market...

<sup>54</sup> Recital 7 of the EC Trademark Directive provides that  
whereas attainment of the objectives at which this approximation of laws is aiming requires that the conditions for obtaining and continuing to hold a registered trade mark are, in general, identical in all Member States ...

<sup>55</sup> Recital 9 of the EC Trademark Directive provides that  
whereas it is fundamental, in order to facilitate the free circulation of goods and services to ensure that henceforth registered trade marks enjoy the same protection under the legal system of all the Member States ...

<sup>56</sup> Dr. Annette Kur, "*Harmonization of Trademark Laws in Europe*" [1997] Vol.28 International Review of Industrial Property and Copyright Law, 1.

<sup>57</sup> Recital 5 of the EC Trademark Directive, for example, leaves it open to Member States to fix the provisions of procedure concerning the registration, the revocation and the invalidity of trade marks acquired by registration.

mandatory<sup>58</sup> and optional provisions<sup>59</sup>, and the latter may be excluded from an EU member state's trademark legislation at the discretion of that state.

The Community Regulation, on the other hand, basically established an administrative machinery under which an applicant for trademark registration may, by filing a single application, obtain a Community Trademark Registration, in terms of which he acquires trademark rights throughout the entire compound territory of the EU<sup>60</sup>. In addition, the Community Regulation makes detailed provision regarding the process of trademark application, examination, opposition, cancellation and enforcement.<sup>61</sup>

### 5.3.2 The Confusion of Association Provisions

Article 4 (1) of the EC Trademark Directive provides that

<sup>58</sup> Mandatory provisions in the EC Trademark Directive provide that “*Member States shall...*”

<sup>59</sup> Optional provisions in the EC Trademark Directive provide that “*Member States may ...*”

<sup>60</sup> Recitals 1, 2 and 3 of the Community Regulation provide that

[Recital 1] Whereas it is desirable to promote throughout the Community a harmonious development of economic activities and a continuous and balanced expansion by completing an internal market which functions properly and offers conditions which are similar to those obtaining in a national market; whereas in order to create a market of this kind and make it increasingly a single market, not only must barriers to free movement of goods and services be removed and arrangements be instituted which ensure that competition is not distorted, but, in addition, legal conditions must be created which enable undertakings to adapt their activities to the scale of the Community, whether in manufacturing and distributing goods or in providing services; whereas for those purposes, trade marks enabling the products and services of undertakings to be distinguished by identical means throughout the entire Community, regardless of frontiers, should feature amongst the legal instruments which undertakings have at their disposal;

[Recital 2] Whereas action by the Community would appear to be necessary for the purpose of attaining the Community's said objectives; whereas such action involves the creation of Community arrangements for trade marks whereby undertakings can by means of one procedural system obtain Community trade marks to which uniform protection is given and which produce their effects throughout the entire area of Community; whereas the principle of the unitary character of the Community trade mark thus stated will apply unless otherwise provided for in this Regulation;

[Recital 3] Whereas the barrier of territoriality of the rights conferred on proprietors of trade marks by the laws of the Member States cannot be removed by approximation of laws; whereas in order to open up unrestricted economic activity in the whole of the common market for the benefit of undertakings, trade marks need to be created which are governed by a uniform Community law directly applicable in all Member States;

<sup>61</sup> Mario Franzosi (Ed), *European Community Trademark: Commentary to the European Community Regulation* [1997]; Ruth Annand & Helen Norman, *Blackstone's Guide to the Community Trade Mark* (1998).

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- (1) A trade mark shall not be registered or, if registered, shall be liable to be declared invalid
    - (a) if it is identical with an earlier trade mark, and the goods or services for which the trade mark is applied for or is registered are identical with the goods or services for which the earlier trade mark is protected;
    - (b) if because of its identity with, or similarity to, the earlier trade mark and the identity or similarity of the goods or services covered by the trade marks, there exists a likelihood of confusion on the part of the public, *which includes a likelihood of association with the earlier trade mark* (emphasis added).

Article 5 (1) of the EC Trademark Directive then confers on the proprietor of a trademark the right to prevent all third parties not having his consent from using, in the course of trade

- (a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered;
- (b) any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the sign, there exists a likelihood of confusion on the part of the public, *which includes the likelihood of association between the sign and the trade mark* (emphasis added).

It is submitted that the wording in Article 5 (1) (b) is substantially the same as in Article 4 (1) (b), except that the latter states the grounds on which a trademark may be refused registration or, if registered, declared invalid. Article 4 (1) (b) of the EC Trademark Directive finds its counterpart in Article 8 (1) (b) of the Community Regulation<sup>62</sup>, while Article 5 (1) (b) of the EC Trademark Directive finds its counterpart in Article 9 (1) (b) of the Community Regulation<sup>63</sup>.

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<sup>62</sup> Article 8 (1) of the Community Regulation provides as follows

- (1) Upon opposition by the proprietor of an earlier trade mark, the trade mark applied for shall not be registered:
  - (a) if it is identical with the earlier trade mark and the goods or services for which registration is applied for are identical with the goods or services for which the earlier trade mark is protected;

A comparison of these provisions with Article 13A (1) of the BTMA shows that, with some variations, the provisions are *in pari passu*. However, the BTMA provisions required, in some instances, only proof of similarity (but not likelihood of confusion) because confusion and association in pre-EU harmonization Benelux trademark law were distinct and separate concepts, each of which was sufficient, on its own, to give rise to liability. The ECJ has held that an interpretation of Article 5 (1) (b) applies, *mutatis mutandis*, to Article 4 (1) (b)<sup>64</sup>, which was definitively interpreted by the ECJ in *Sabel BV v Puma AG, Rudolf Dassler Sport*<sup>65</sup>. The facts of this case are well-known, but will briefly be recounted here to enable the relevant principles to be easily distilled. Sabel, a Dutch company, wanted to register a figurative sable (cheetah) trademark with stylistic wording in Germany in class 18 for leather products, bags and handbags, and in class 25 for clothing and footwear. Puma, a German company, opposed such registration on the ground, *inter alia*, that it was the owner of a figurative bounding puma trademark which was of earlier priority in Germany, which it used for, among other things, leather goods and articles of clothing. The German Patent Office rejected the opposition after finding no resemblance for the

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- (b) if because of its identity with or similarity to the earlier trade mark and the identity or similarity of the goods or services covered by the trade marks there exists a likelihood of confusion on the part of the public in the territory in which the earlier trade mark is protected; *the likelihood of confusion includes the likelihood of association with the earlier trade mark* (emphasis added).

<sup>63</sup> Article 9 (1) (a) and (b) of the Community Regulation provide as follows

- (1) A Community trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:
- (a) any sign which is identical with the Community trade mark in relation to goods or services which are identical with those for which the Community trade mark is registered;
  - (b) any sign where, because of its identity with or similarity to the Community trade mark and the identity or similarity of the goods or services covered by the Community trade mark and the sign, there exists a likelihood of confusion on the part of the public; the likelihood of confusion includes *the likelihood of association between the sign and the trade marks* (emphasis added).

<sup>64</sup> *Marca Mode CV v Adidas Benelux BV*, Case C-425/98, Judgment dated 22 June 2000, downloaded from <http://www.curia.eu.int>, last visited on 30<sup>th</sup> October, 2005, at Paras 27 and 28.

<sup>65</sup> *Sabel BV v Puma AC, Rudolf Dassler Sport* Case C-251/95, Judgment dated 11 November, 1997, downloaded from <http://www.curia.eu.int>, last visited on 30<sup>th</sup> October, 2005.

purposes of trademark law between the two trademarks. Puma appealed to the Bundespatentgericht, the German Federal Patent Court, which held that there was a resemblance between the two trademarks with respect to Sabel's goods in classes 18 and 25, which it regarded as being identical or similar to the goods on the list of articles covered by the Puma mark. Sabel then appealed the decision to the Bundesgerichtshof, the German Federal Supreme Court.

The Bundesgerichtshof provisionally considered that, applying the principles of German trademark law to determine whether there was a likelihood of confusion for trademark purposes *in casu*, no such likelihood existed. In order to reach the provisional conclusion, the Bundesgerichtshof developed four principles. First, it held that in determining whether there is a likelihood of confusion, a court must focus on the overall impression made by the respective signs. It is not permissible to isolate one element out of a graphic ensemble and to restrict examination of the likelihood of confusion to that element alone. However, an individual component may be recognized as having a particularly distinctive character which characterises the sign as a whole, and, consequently, a likelihood of confusion may be found to exist if another party's sign resembles the whole of the sign so characterized. Even in such a case, however, the two signs must be compared in their entirety and the comparison must not be confined to their individual characterizing elements<sup>66</sup>.

Second, the Bundesgerichtshof held that a sign may have a particularly distinctive character *per se* or because of the reputation the mark enjoys with the public. The more distinctive its character, the greater the risk of confusion<sup>67</sup>. The starting point for examining similarity is to presume that the earlier mark has normal distinguishing characteristics.

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<sup>66</sup> *Sabel* case, Note 65 above, at Para. 6.

<sup>67</sup> *Sabel* case, Note 65 above, at Para. 6

Third, the Bundesgerichtshof held that the assessment of whether an element has such significance as to characterize the sign as a whole is, essentially, a matter for the trial court<sup>68</sup>.

Fourth, the Bundesgerichtshof held that strict criteria must be applied with respect to the likelihood of confusion between pictorial components which are basically descriptive and have little imaginative content.

The Bundesgerichtshof, however, referred to the ECJ for a preliminary ruling the question whether, in terms of Article 4 (1) (b) of the EC Trademark Directive, “the mere association which the public might make between the two marks, through the idea of a bounding feline (the cheetah and the puma), justifies refusing protection to the Sabel mark in Germany for products similar to those on the list of articles covered by Puma’s priority mark”<sup>69</sup>.

Specifically, the question posed was

With reference to the interpretation of Article 4 (1) (b) of the First Council Directive of 21 December 1988 to approximate the laws of the Member States relating to trade marks, is it sufficient for a finding that there is a likelihood of confusion between a sign composed of text and picture and a sign consisting merely of a picture, which is registered for identical and similar goods and is not especially well-known to the public that the two signs coincide as to their semantic content (in this case, a bounding feline)?

What is the significance in this connection of the wording of the Directive, in terms of which the likelihood of confusion includes the likelihood that a mark may be associated with an earlier mark?<sup>70</sup>

The ECJ took the opportunity to define the scope of the concept of likelihood of consumer confusion, including the likelihood of association, and referred to arguments in the course of judgment from Benelux countries that Article 4 (1) (b) was derived from Article 13A (1) of the BTMA<sup>71</sup>.

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<sup>68</sup> *Sabel* case, Note 65 above, at Para. 10.

<sup>69</sup> *Sabel* case, Note 65 above, at Para. 7

<sup>70</sup> *Sabel* case, Note 65 above, at Para. 10.

According to the ECJ, the concept of likelihood of association is not an alternative to that of likelihood of confusion, but serves to define its scope<sup>72</sup>. Likelihood of association therefore does not arise where there is no likelihood of confusion<sup>73</sup>. To determine the presence of confusion, a “global appreciation of the visual, aural or conceptual similarity of the marks in question”<sup>74</sup> must be made, based on “the overall impression given by the marks, bearing in mind, in particular, their distinctive and dominant components”<sup>75</sup>. The global assessment implies some interdependence between the relevant factors, and in particular a similarity between the trademarks and between the goods or services covered. Accordingly, a lesser degree of similarity between those goods or services may be

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<sup>71</sup> *Sabel* case, Note 65 above, at Paras 14 – 16, stating that

14. The Belgian, Luxembourg and Netherlands Governments claimed that the term ‘likelihood of association’ was included in those provisions of the Directive at their request, in order that they should be construed in the same manner as Article 13A of the Uniform Benelux Law on Trade Marks which adopts the concept of resemblance between marks, rather than that of likelihood of confusion, in defining the scope of the exclusive right conferred by a trade mark.
15. Those governments refer to a judgment of the Benelux Court holding that there is resemblance between a mark and a sign when, taking account of the particular circumstances of the case, in particular the distinctiveness of the mark, the mark and the sign, considered separately and together, present, aurally, visually or conceptually, a similarity such as to establish an association between the sign and the mark (judgment of 20 May 1983 in Case A 82/5 *Jullien v Verschuere*, Jur. 1983, Vol. 4, p.36). The decision is based on the idea that, where a sign is likely to give rise to association with a mark, the public makes a connection between the sign and the mark. Such a connection may be prejudicial to the earlier mark not only if it gives the impression that the products have the same or a related origin, but also where there is no likelihood of confusion between the sign and the mark. Since perception of the sign calls to mind, often subconsciously, the memory of the mark, associations made between a sign and a mark can result in the ‘goodwill’ attached to the earlier mark being transferred to the sign and dilute the image linked to that mark.
16. According to those governments, the likelihood of association may arise in three sets of circumstances: (1) where the public confuses the sign and the mark in question (likelihood of direct confusion); (2) where the public makes a connection between the proprietors of the sign and those of the mark and confuses them (likelihood of indirect confusion or association); (3) where the public considers the sign to be similar to the mark and perception of the sign calls to mind the memory of the mark, although the two are not confused (likelihood of association in the strict sense).

<sup>72</sup> *Sabel* case, Note 65 above, at Paras 18 and 22.

<sup>73</sup> *Sabel* case, Note 65 above, at Para. 19, referring to the Tenth Recital of the EC Trademark Directive, according to which ‘the likelihood of confusion ... constitutes the specific condition [for the protection of a trademark].’

<sup>74</sup> *Sabel* case, Note 65 above, at Para. 23.

<sup>75</sup> *Sabel* case, Note 65 above, at Para. 23

offset by a greater degree of similarity between the marks and vice versa<sup>76</sup>. An assessment must therefore be made, among other things, between the nature of the goods or services, their end users, their method of use, and whether they are in competition with each other or are complementary<sup>77</sup>. The appreciation to be derived from the assessment must use the yardstick of the “average consumer of the type of goods or services in question”<sup>78</sup>. The more distinctive the earlier mark, the greater the likelihood of confusion. In other words, the perception of the marks in the mind of the average consumer of the goods or services in question plays a decisive role in the global assessment of the likelihood of confusion. For the purposes of the global assessment, the average consumer of the category of the goods concerned is deemed to be reasonably well-informed and reasonably observant and circumspect. However, account should be taken of the fact that the average consumer only rarely has the chance to make a direct comparison between the different marks but must place his trust in the imperfect picture of them that he keeps in his mind<sup>79</sup>. Where the earlier mark has a particular distinctive character, *per se* or because of the reputation it enjoys with the public, conceptual similarity could result from the fact that the two marks use images with analogous semantic content<sup>80</sup>.

The ECJ answered the question of the Bundesgerichtshof by holding that the criterion of likelihood of confusion which includes the likelihood of association with the earlier mark contained in Article 4 (1) (b) of the EC Trademark Directive does not mean “the *mere* association which the public might make between two trade marks as a result of their analogous semantic content”<sup>81</sup>. However, the risk that “the public might believe that the goods or services in

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<sup>76</sup> *Vedial SA v Office for Harmonisation in the Internal Market (Trademarks and Designs) and France Distribution*, Case T-110/01, Judgment dated 12 December, 2002, downloaded from <http://www.curia.eu.int>, last visited on 30<sup>th</sup> October, 2005. This case concerned the interpretation of Article 8 (1) (b) of the Community Regulation.

<sup>77</sup> *Vedial SA* case, Note 76 above, at Para. 42.

<sup>78</sup> *Sabel* Note 65 above, at Para. 23

<sup>79</sup> *Vedial SA* case, Note 76 above, at Para. 39.

<sup>80</sup> *Sabel* Note 65 above, at Para. 24

<sup>81</sup> *Sabel* case, Note 65 above, at Para. 26

question come from the same undertaking or, as the case may be, from economically-linked undertakings constitutes a likelihood of confusion”<sup>82</sup>. This means, it is submitted, that a likelihood of confusion by association in the context of Article 4 (1) (b) and Article 5 (1) (b) of the EC Trademark Directive, and Article 8 (1) (b) and Article 9 (1) (b) of the Community Regulation, must be read as including a likelihood of confusion of sponsorship, affiliation, or connection, the indirect confusion or association under Benelux pre-EU harmonization trademark jurisprudence developed in the context of Article 13A (1) of the BTMA<sup>83</sup>.

In the *Sabel* case, above, the ECJ therefore refused to give “association” a distinct conceptual standing, but treated it as a component of “confusion”. The ECJ was correct in making this determination. However, it is not entirely clear why the ECJ refused to find dilution *in casu*. At the pain of sounding repetitious, it should be noted that dilution can take place *even* where there is confusion or association. Dilution, in other words, is not precluded by the existence of confusion of sponsorship in the same case, since the source-origin function, the product distinguishing function and the advertising function of a trademark may be simultaneously impaired. In the *Sabel* case, above, the ECJ held correctly, that confusion in the context of the EC Trademark Directive should be interpreted more widely to include a likelihood of association of sponsorship. That being the case, the earlier trademark, a drawing of a springing puma, did not give rise to an objection on relative grounds to the registration of a junior mark comprising of a springing cheetah with the word “Sabel”. This was because no danger of confusion to the relevant public could be found, as it was not enough to find that the public might merely *assume* an “association” between the two marks.

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<sup>82</sup> *Vedial SA* case, Note 76 above, at Para. 36.

<sup>83</sup> See the passage appearing directly above the accompanying text of Note 21 above for the Benelux position.

Although the genesis of Article 4 (1) (b) of the EC Trademark Directive may be traced to Article 13A (1) of the BTMA,<sup>84</sup> the ECJ in the *Sabel* decision departed from Benelux jurisprudence on likelihood of association, which in the Benelux may mean likelihood of direct confusion, or likelihood of indirect confusion or association, or, in very restricted circumstances where a trademark enjoys wide reputation, mere association. This last incidence of likelihood of association under Benelux pre-harmonization law is the typical dilution situation covered by Article 5 (2) of the EC Trademark Directive. The Tenth Recital to the EC Trade Mark Directive played a not insignificant role in influencing the decision of the ECJ in the *Sabel* case, and it is submitted that this was a recognition on the part of the ECJ that a balance must be struck between the rights of a trademark owner in his registered trademark, on the one hand, and the rights of the purchasing public that trademarks should correctly designate the source of goods, on the other hand. The *Sabel* decision therefore did not favour extended protection to the rights of the trademark owner based on the reputation of his trademark, as it was found not to be enough that the public might *merely* associate the reputable earlier trademark with the less known junior trademark. Positive proof of likelihood of confusion under Article 5 (1) is required, since this Article protects the source-origin value and the distinguishing value of a trademark, a function fulfilled by a claim of confusion of sponsorship.

In the final analysis, it may be argued that the concept of association in the EC Trademark and Community Regulation, as an extension of the concept of confusion, was derived from German law, because in the *Sabel* case, the ECJ adopted the reasoning of the Bundesgerichtshof which rejected *mere* association and required *proof of the existence of a likelihood of confusion*.

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<sup>84</sup> Cornish and Llewelyn, Note 3 above, at Para. 17 – 94, P. 707 observe, in respect of section 10 (2) of the 1994 UK Trademarks Act, that the provision “a likelihood of confusion on the part of the public ... *include[ing]* the likelihood of association with the trade mark” is derived from the EC Trademark Directive, where it found its way “from Benelux trade mark law as it stood before implementation of the Directive”. The authors state, at footnote 51 that

“An unpublished (but well-known) Council and Commission Minute records cryptically that ‘likelihood of association’ is a concept which in particular has been developed by Benelux case law”.

Another decision of the ECJ may be used to illustrate the approach of the ECJ to likelihood of confusion, including likelihood of association. In *Marca Mode*<sup>85</sup>, the facts were as follows: Adidas registered at the Benelux Trade Mark Office the famous ‘adidas’ trademark, consisting of three parallel stripes, for use in respect of sports clothes and articles connected with sports. Marca Mode put up for sale in its shop in Breda, Netherlands, a sports clothes collection, in which a number of clothes bore on their sides two parallel stripes running longitudinally. The clothes were white with black stripes or black with white stripes. Marca Mode also sold a white t-shirt bearing three black, vertical stripes which ran in parallel down the entire length of the t-shirt, edged on the outside with a narrow white border and broken by a medallion showing a picture of a cat and bearing the words “TIM”. On 26 June, 1996, Adidas applied for an injunction in the Rechtbank te Breda, the Breda District Court, seeking to restrain Marca Mode from using the signs composed of triple or double stripes in the future in the Benelux. The relief was granted and Marca Mode appealed first to the Gerechtshof te’s Hertogenbosch, the Hertogenbosch Regional Court of Appeal, which upheld the order of the court *a quo*, and later to the Hoge Raad, the Dutch Supreme Court, which referred the following questions to the ECJ for a preliminary ruling:

Where:

- (a) a trade mark has a particularly distinctive character, either *per se* or because of the reputation it enjoys with the public, and
- (b) a third party, without the consent of the proprietor of the mark, uses, in the course of trade, goods or services which are identical with, or similar to, those for which the trade mark is registered, a sign which so closely corresponds to the mark as to give rise to the possibility of its being associated with that mark,

must Article 5 (1) (b) of Directive 89/104/EEC be interpreted as meaning that the exclusive right enjoyed by the proprietor entitles him to prevent the use of the

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<sup>85</sup> *Marca Mode* Case, Note 64 above.

sign by that third party if the distinctive character of the mark is such that the possibility of such association giving rise to confusion cannot be ruled out?

In other words, the Dutch Supreme Court was asking for an interpretation whether Article 5 (1) (b) of the EC Trademark Directive should be interpreted as meaning that, a likelihood of confusion, including a likelihood of association, between the mark and the sign may be *presumed* where the earlier mark has a particularly distinctive character, especially because of its reputation, and where the sign used by the third party in respect of identical or similar goods so closely corresponds to the earlier mark as to give rise to the possibility of its being “associated” with that mark. The significance of the question posed by the Dutch Supreme Court lies in the fact that it sought to extend protection under Article 5 (1) (b) of the EC Trademark Directive not on the basis of a positive finding of likelihood of confusion, as the ECJ had stated in the *Sabel* case, but on a presumption (or possibility) of confusion because of the reputation of the earlier trademark. What was in fact being asked, it is submitted, was whether the likelihood of confusion criterion in Article 5 (1) (b) of the EC Trademark Directive extended to the Benelux concept of “mere association” in cases of trademarks with a reputation.

The ECJ held that Article 5 (1) (b) of the EC Trademark Directive did not extend to cases of the *possibility* of confusion<sup>86</sup>. According to the ECJ, the reputation of a mark, where it is demonstrated, is an important element in deciding the existence of confusion. However, that reputation alone does not give

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<sup>86</sup> *Marca Mode* case, Note 64, above, at Para. 42, where the ECJ held that Accordingly, the answer to the question must be that Article 5 (1) (b) of the Directive *cannot* be interpreted as meaning that where

- a trade mark has a particularly distinctive character, either *per se* or because of the reputation it enjoys with the public; and
- a third party, without the consent of the proprietor of the mark, uses, in the course of trade in goods or services which are identical with, or similar to, those for which the trade mark is registered, a sign which so closely corresponds to the mark as to give rise to the possibility of its being associated with that mark,

the exclusive right enjoyed by the proprietor entitles him to prevent the use of the sign by that third party if the distinctive character of the mark is such that the *possibility* of such association giving rise to confusion cannot be ruled out.

grounds for *presuming* the existence of a likelihood of confusion simply because of the existence of a likelihood of association in the strict (Benelux) sense<sup>87</sup>.

The case of *Arsenal Football Club Plc v Matthew Reed*<sup>88</sup> is also important for the purposes of the present discussion because it defined what constitutes “use of a trademark in the course of trade” in the context of Article 4 (1) (b) and Article 5 (1) (b) of the EC Trademark Directive, which by extension may be applied with equal force to Article 8 (1) (b) and Article 9 (1) (b) of the Community Regulation. Although the facts of that case turned on Article 5 (1) (a) of the EC Trademark Directive, the analysis of the scope of protection under Article 5 (1) (a) of the Directive was done in the context of the entire Article 5, and some useful pronouncements were made in respect of Article 5 (1) (b) of the Directive, which prohibits likelihood of confusion, including likelihood of confusion as to association.

In the *Arsenal* case, Arsenal Football Club, a well-known British soccer club which owns the word trademarks “Arsenal” and “Arsenal Gunners”, and two graphic trademarks, “The Crest Device” and “The Cannon Device” for clothing and sports footwear in class 25, sued a trader, Mr. Reed, who since 1970 had been selling souvenirs and articles of clothing connected with Arsenal Football Club within the vicinity of Arsenal Football Club’s stadium. The items sold by Mr. Reed bore the signs which Arsenal Football Club registered as trademarks, including scarves prominently marked with the word ‘Arsenal’. Mr. Reed advertised his wares as ‘unofficial’, with a large notice stating that the said wares did not imply or indicate any affiliation or relationship with the manufacturers or

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<sup>87</sup> *Marca Mode* case, Note 64, at Para. 41, where the ECJ stated that

The reputation of a mark, where it is demonstrated, is thus an element which, amongst others, may have a certain importance. To this end, it may be observed that marks with a highly distinctive character, in particular because of their reputation, enjoy broader protection than marks with a less distinctive character. Nevertheless, the reputation of a mark *does not give grounds for presuming the existence of a likelihood of confusion* simply because of the existence of a likelihood of association in the strict sense.

<sup>88</sup> *Arsenal Football Club Plc v Matthew Reed*, Case C-206/01, Judgment dated 12 November, 2002, downloaded from <http://www.curia.eu.int>, last visited on 30<sup>th</sup> October, 2005.

distributors of any other products, and that only goods with official Arsenal merchandise logos were authentic Arsenal merchandise.

Arsenal sued Mr. Reed for passing off and trademark infringement. The passing off action was dismissed by the High Court because Arsenal Football Club did not show actual confusion on the part of consumers and, in particular, failed to show that the unofficial merchandise sold by Mr. Reed were regarded by the public as coming from Arsenal Football Club or marketed with its authorization. In respect of trademark infringement, the High Court rejected Arsenal Football Club's argument that the use by Mr. Reed of the indications and symbols registered as trademarks was perceived by consumers as a use indicating the origin of the goods; that is, that the use was a trademark use. According to the High Court, the signs and logos affixed to the goods offered for sale by Mr. Reed were perceived by the public as badges of support, loyalty or affiliation. With this finding, the High Court referred two questions to the ECJ for preliminary ruling, namely:

1. Where a trade mark is validly registered and
  - (a) a third party uses *in the course of trade* a sign identical with that trade mark in relation to goods which are identical with those for whom the trademark is registered; and
  - (b) the third party has no defence to infringement by virtue of Article 6 (1) of the Council Directive of 21<sup>st</sup> December 1988 to approximate the laws of the Member States relating to trade marks (89/104 EEC);does the third party have a defence to infringement on the ground that the use complained of does not indicate trade origin (i.e. a connection in the course of trade between the goods and the trade mark proprietor)?
2. If so, is the fact that the use in question would be perceived as a badge of support, loyalty or affiliation to the trade mark proprietor a sufficient connection?

The ECJ took the opportunity to revisit Article 5 of the EC Trademark Directive. According to the Opinion of Advocate General Ruiz-Jarabo

Colomer<sup>89</sup>, Article 5 (1) (a) of the Directive covers imitation and passing off and offers protection against copying<sup>90</sup>. Article 5 (1) (b), on the other hand

Envisages three situations: *identical* signs and *similar* goods or services; conversely, *similar* indications and *identical* goods or services; and finally, *similar* signs for *similar* goods or services. In those cases, protection depends on whether there exists a likelihood of confusion, which includes a likelihood of association<sup>91</sup>.

Advocate General Colomer stated that Article 5 (1) (b) of the Directive protected the product-distinguishing function of a trademark, and where the symbols *in casu* are identical, the person committing the infringement will be using the trademark proper (the registered sign), while in cases where the symbols are similar, the person committing the infringement will be using a similar indication which, by definition, will not be the registered trademark<sup>92</sup>. The *raison d'être* of both Article 5 (1) (a) and (b) of the Directive, according to Advocate General Colomer, is to protect the accuracy of the information which the registered sign provides on the goods which it represents and, *ipso facto*, their identification<sup>93</sup>, in order to

enable the consumer to distinguish between the goods and services which various undertakings offer him, enabling him to select freely between the many choices available to him and promoting competition in the internal market<sup>94</sup>.

Advocate General Colomer then concluded by advising the ECJ, in answer to the first question referred by the UK High Court, that the ECJ should state that

according to Article 5 (1) (a) of the Directive, the registered proprietor is entitled to prevent third parties from using, in relation to the same goods or services, signs identical with those of which the trade mark consists, which are capable of

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<sup>89</sup> Opinion of Advocate General Ruiz-Jarabo Colomer in *Arsenal Football Club Plc v Matthew Reed*, Case C-206/01, delivered on 13 June, 2002 downloaded from <http://www.curia.eu.int>, last visited on 30<sup>th</sup> October, 2005.

<sup>90</sup> Note 89 above, at Para. 17.

<sup>91</sup> Note 89 above, at Para. 18.

<sup>92</sup> Note 89 above, at Para. 19.

<sup>93</sup> Note 89 above, at Para. 39.

<sup>94</sup> Note 89 above, at Para. 44.

giving a misleading indication as to their origin, provenance, quality or reputation.

To put it in the negative and more restrictive terms in which the High Court has framed its question, anyone who uses another's trade mark may claim in defence to the proprietor's objection that his use of it does not indicate the origin of the goods or of the services or give rise to confusion over their quality and reputation<sup>95</sup>.

Advocate General Colomer also took the opportunity to define what constitutes "use of a trademark in the course of trade" in Article 5 (1) of the EC Trademark Directive. Such use, according to the Advocate General, is "use which occurs in the world of business, in trade, the subject of which is, precisely, the distribution of goods and services in the market. In short, use in trade"<sup>96</sup>. Such use does not include use for educational purposes<sup>97</sup>, or use by others for non-commercial purposes<sup>98</sup>. Uses expressing support, loyalty or affiliation constitute use as a trademark in the course of trade<sup>99</sup>, because football is an

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<sup>95</sup> Note 89 above, at Paras 49 and 50. At Para. 54, Advocate General Colomer concluded that  
In the light of my arguments up to this point, I would propose that the Court, in its answer to the first of the questions referred for a preliminary ruling, reply as follows:

- (1) Article 5 (1) (a) of the Directive must be interpreted as meaning that, on the basis of that provision, the proprietor of a registered trade mark is entitled to prevent third parties from using, in relation to the same goods or services, identical signs which are capable of giving a misleading indication as to their origin, provenance, quality or reputation.
- (2) Where such identity exists, there is a presumption *iuris tantum* that the use by a third party of the trade mark is use of the mark as such.

<sup>96</sup> Note 89 above, at Para. 62.

<sup>97</sup> Note 89 above, at Para. 63

<sup>98</sup> Note 89 above, at Para. 64.

<sup>99</sup> Note 89 above, at Para. 64. Advocate General Colomer reasoned as follows at Para. 66

I consider that the uses to which the High Court refers in its second question *are methods of using the trademark which, as that court itself acknowledges, express a connection between the goods, the sign and its proprietor, between the scarves bearing the trade marks at issue and Arsenal*. The broad interpretation which I have proposed for the reply to the first question permits me to make that statement (emphasis added).

and at Para. 68 noted that

It does not matter whether the reason for the decision to purchase is that the purchaser sees the trade mark as a sign of distinction or as a guarantee of quality or whether, on the contrary, he engages in an act of rebellion as an adherent to the cult of bad taste. In short, for the purposes of resolving the dispute, it is irrelevant whether a football fan buys the shirt of a particular team, bearing the relevant trade mark, because it is his cherished club and he wants to wear the shirt or because, since he is a fan of the rival team, his intention is to burn it. *The key to the problem is that he has decided to purchase it on account of the fact that the article is identified with the trade mark and, through it, with its proprietor, that is to say with the team.*

and then observed at Para. 68 that

*It is not the reason for which a person buys goods or uses services that I must examine but the reason which has led the person who is not the proprietor of the trade mark to place the goods on the market or to provide the service using the same distinctive sign.* If, regardless of the reason

economic phenomenon of the twenty-first century, which, according to the Advocate General, should be legally recognized as such<sup>100</sup>.

The ECJ agreed with Advocate General Colomer that it was immaterial that the trademark was perceived as a badge of support, loyalty or affiliation, because of the exclusive nature of the rights granted to the trademark proprietor under Article 5 (1) (a) of the EC Trademark Directive, whose *raison d'être* is to protect

the essential function of a trademark ... to guarantee the identity of origin of the marketed goods or services to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the goods or services from others which have another origin. For the trademark to be able to fulfill its essential role in the system of undistorted competition, it must offer a guarantee that all the goods or services bearing it have been manufactured or supplied under the control of a single undertaking which is responsible for their quality<sup>101</sup>.

The importance of the *Arsenal* case, it is submitted, lies in the definition of “use of a trademark in the course of trade” in the context of Article 5 (1) of the EC Trademark Directive, because that phrase applies equally to the provisions of

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which motivates him, *he attempts to exploit it commercially, then he can be said to be using it as a trade mark* and the proprietor will be entitled to object, within the limits and to the extent allowed under Article 5 of the Directive (emphasis added).

<sup>100</sup> Note 89 above, at Paras 80 and 81, stating that

It is true that the clubs' sources of finance have increased in recent years. Traditional income from sales of tickets at the turnstiles or from shares have become less significant by comparison with other, more considerable, sources of income, such as television rights, the sale of products related to the team, the exploitation of rights to images of the players and the internet. European clubs also earn money in other ways; these include the benefits they obtain through participating in the championships organized by the European Union of Football Associations (UEFA), holding friendly matches, or the operation of facilities (shops, bars, conference centres).

*One of the sources of income to have increased in importance in recent years is, in fact, the sale of goods related to the team, an activity commonly known as merchandising. That business, the object of which is the sale, either directly or through intermediary undertakings, of scarves, banners, articles of clothing or any other article which identifies the club, has proved to be one of the most profitable, hence its transformation into a priority for those managing the business side of the clubs.* According to Real Madrid's marketing director, one of the reasons for the success of merchandising is simple: loyalty to football team is very strong. The level of loyalty of supporters to their team is such that it would be a dream for brands in any other sector, which are always much more exposed to the vagaries of the market (emphasis added).

<sup>101</sup> *Arsenal* case, Note 89 above, at Para. 48.

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the EC Trademark Directive and the Community Regulation providing protection against the likelihood of confusion of association and dilution.

### 5.3.3 Anti-Dilution Provisions

Article 4 (4) (a) of the Directive provides that

Any Member State may furthermore provide that a trademark shall not be registered or, if registered, shall be liable to be declared invalid where, and to the extent that :-

the trademark is identical with, or similar to, an earlier national trademark within the meaning of paragraph 2 and is to be, or has been, registered for goods or services which are not similar to those for which the earlier trademark is registered, where the earlier trademark *has a reputation in the Member State concerned and where the use of the later trademark without due cause would take unfair advantage of, or be detrimental to, the distinctive character or the repute of the earlier trademark.* (emphasis added).

Article 8 (5) of the Community Regulation is to the same effect<sup>102</sup>.

Article 4 (4) of the Directive and Article 8 (5) of the Community Regulation are anti-dilution provisions designed to protect the advertising function of earlier registered national trademarks with a reputation in an EU member state. They prohibit the registration of an identical or similar mark in respect of goods or services which are either not similar to, or are similar to, those in respect of which the earlier trademark is registered. The salient elements of these Articles are that (a) the applicant's trademark is similar or identical with a

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<sup>102</sup> Article 8 (5) of the Community Regulation similarly provides that

Furthermore, upon opposition by the proprietor of an earlier trade mark within the meaning of paragraph 2, the trade mark applied for shall not be registered where it is identical with or similar to the earlier trade mark and is to be registered for goods or services which are not similar to those for which the earlier trade mark is registered, where in the case of an earlier Community trade mark the trade mark has a reputation in the Community and, in the case of an earlier national trade mark, the trade mark has a reputation in the Member State concerned and where the use without due cause of the trade mark applied for would take unfair advantage of, or be detrimental to, the distinctive character or the repute of the earlier trade mark.

registered earlier national trademark, and (b) the earlier registered national trademark has a reputation in an EU member state, and (c) the use of the applicant's trademark (being the later trademark) without due cause would either (i) take unfair advantage of, or (ii) be detrimental to, *either* (i) the distinctive character, or (ii) the repute of the *earlier* trademark.

Article 5 (2) of the Directive then proceeds to 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 trademark in relation to goods or services which are not similar to those for which the trademark is registered, where the latter has *a reputation* in the Member State and where use of the sign *without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trademark* [emphasis added].

Article 9 (1) (c) of the Community Regulation makes similar provision.<sup>103</sup>

Articles 5 (2) of the Directive and 9 (1) (c) of the Community Regulation are also anti-dilution provisions aimed at protecting the advertising function of a registered trademark from infringing uses of signs in respect of goods or services which are either not similar to, or are similar to, the goods or services in respect of which the trademark is registered. The Articles prohibit the misappropriation of the advertising value of registered trademarks which cause dilution. Infringement is established under these Articles by showing that (a) the third party has used a sign in the course of trade (i) which is either identical with or similar to the proprietor's registered trademark; and (ii) that the third party has used the sign in relation to goods or services which are either *not* similar to, or *are* similar to, those covered by the proprietor's registered trademark; (b) that the proprietor's

<sup>103</sup> Article 9 (1) (c) of the Community Regulation provides that

A Community trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade

(c) any sign which is identical with or similar to the Community trade mark in relation to goods or services which are not similar to those for which the Community trade mark is registered, where the latter has a reputation in the Community 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 Community trade mark.

registered trademark has a reputation in an EU member state; (c ) that the third party has used the sign without due cause; and (d) that such use *either* (i) takes unfair advantage of, or (ii) is detrimental to *either* the distinctive character *or* the repute of the proprietor's registered trademark.

A striking feature of these anti-dilution provisions is that the word "dilution" itself is never mentioned in any of them. The ECJ seems equally steadfast in refusing to use the word, or to refer in any significant manner to its historical, logical and theoretical foundations. It was first in the *Sabel* case<sup>104</sup> that the ECJ stated that

Those governments [Benelux, Luxembourg and The Netherlands] refer to a judgment of the Benelux Court holding that there is resemblance between a mark and a sign when, taking account of the particular circumstances of the case, in particular the distinctiveness of the mark, the mark and the sign, considered separately and together, present, aurally, visually or conceptually, a similarity such as to establish an association between the sign and the mark (judgment of 20 May 1983 in Case A 82/5 *Jullien v Verschuere*, Jur, 1983, Vol. 4, p.36). That decision is based on the idea that, where a sign is likely to give rise to association with a mark, the public makes a connection between the sign and the mark. Such a connection may be prejudicial to the earlier mark not only if it gives the impression that the products have the same or a related origin, but also where there is no likelihood of confusion between the sign and the mark. Since perception of the sign calls to mind, often subconsciously, the memory of the mark, *associations made between a sign and a mark can result in the 'goodwill' attached to the earlier mark being transferred to the sign and dilute the image linked to that mark.* (emphasis added).

In *Adidas-Salomon AG v Fitnessworld Trading Limited*<sup>105</sup>, Advocate General Jacobs provided what may be seen as the most extensive examination of trademark dilution by the ECJ, including the historical, logical and theoretical foundations of the dilution concept. Advocate General Jacobs stated that<sup>106</sup>

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<sup>104</sup> *Sabel* case, Note 65 above, at Para. 15

<sup>105</sup> *Adidas-Salomon AG v Fitnessworld Trading Limited*, Case C-408/01, Opinion of Advocate General Jacobs delivered on 10 July, 2003 downloaded from <http://www.curia.eu.int>, last visited on 30<sup>th</sup> October, 2005.

<sup>106</sup> Note 105 above, at Paras 36 to 40.

Article 5 (2) protects the proprietor of a mark with a reputation against use of an identical or similar sign 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. There are thus in principle *four types of use* which may be caught: use which takes unfair advantage of the mark's distinctive character, use which takes unfair advantage of its repute, use which is detrimental to the mark's distinctive character, and use which is detrimental to its repute.

*The concept of detriment to the distinctive character of a trade mark reflects what is generally referred to as dilution.* That notion was first articulated by Schechter, who advocated protection against injury to a trade mark owner going beyond the injury caused by use of an identical or similar mark in relation to identical or similar goods or services causing confusion as to origin. Schechter described the type of injury with which he was concerned as the gradual whittling away or dispersion of the identity and hold upon the public mind of certain marks. The courts in the United States, where owners of certain marks have been protected against dilution for some time, have added richly to the lexicon of dilution, describing it in terms of lessening, watering down, debilitating, weakening, undermining, blurring, eroding and insidious gnawing away at a trade mark. The essence of dilution in this classic sense is that the blurring of the distinctiveness of the mark means that it is no longer capable of arousing immediate association with the goods for which it is registered and used. Thus, to quote Schechter again, for instance, if you allow Rolls Royce restaurants and Rolls Royce cafeterias, and Rolls Royce pants, and Rolls Royce candy, in 10 years you will not have the Rolls Royce mark any more.

*In contrast, the concept of detriment to the repute of a trade mark, often referred to as degradation or tarnishment of the mark, describes the situation where – as it was put in the well-known **Claeryn/Klarein** decision of the Benelux Court of Justice, – the goods for which the infringing sign is used appeal to the public's senses in such a way that the trade mark's power of attraction is affected.* That case concerned the identically pronounced marks 'Claeryn' for a Dutch gin and 'Klarein' for a liquid detergent. Since it was found that the similarity between the two marks might cause consumers to think of detergent when drinking 'Claeryn' gin, the 'Klarein' mark was held to infringe the 'Claeryn' mark.

*The concepts of taking unfair advantage of the distinctive character or repute of the mark in contrast must be intended to encompass instances where there is clear exploitation and free-riding on the coattails of a famous mark or an attempt to trade upon its reputation.* Thus by way of example Rolls Royce would be entitled to prevent a manufacturer of whisky from exploiting the reputation of the Rolls Royce mark in order to promote his brand. It is not obvious that there is any real difference between taking advantage of a mark's distinctive character and taking advantage of its repute; since however nothing turns on any such difference in the present case, I shall refer to both as free riding.

In the present case, it appears from the order for reference that Adidas is claiming that the use by Fitnessworld of the two-stripe motif takes unfair advantage of the repute of Adidas' trade mark (free-riding) and is detrimental to the distinctive character of that mark (dilution). Against that background, the Hoge Raad has referred two questions on the interpretation of Article 5 (2) (emphasis added).

What is interesting to note from Advocate General Jacobs' rationalization of dilution is that he had to go back in time to the United States of America; to the writings of Schechter; in order to find the genesis of the dilution theory. Advocate General Jacobs however failed to look closer home, to German jurisprudence, where he would in fact have found that as a concept, dilution was first articulated in the *Odol* case<sup>107</sup>, in the context of German unfair competition law, and that Schechter only borrowed the concept from that source and adapted it to American jurisprudence.

In the *Fitnessworld* case, above, the ECJ did not seek to identify a rationale for the theory of dilution, and the only reference to the word "dilution" by the court occurs where the court referred to the arguments of the Commission:

According to the Commission, Article 5 (2) of the Directive concerns protection against the use of a sign which is similar to the mark with a reputation to such an extent that the use in question involves *a likelihood of dilution of or detriment to the mark's reputation*. It is in fact difficult to imagine that a sign bearing such a similarity to a mark with a reputation can be regarded as a mere embellishment. Conversely, by definition, a mere embellishment cannot be similar, within the meaning of Article 5 (2) of the Directive, to a mark with a reputation<sup>108</sup>.

It is therefore imperative, because of the absence of a clear pronouncement by the ECJ in respect of the historical, theoretical and logical foundations of the dilution doctrine in the European Union, to take a close look at the meaning of the anti-dilution provisions in the EC Trademark Directive and the Community Regulation. A logical departure point, in this respect, is to answer the question whether the dilution provisions of the EC Trademark Directive and the Community Regulation apply in respect of competitors, since the text of Article 4 (4) (a) and Article 5 (2) of the EC Trademark Directive, and Article 8 (5) and 9

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<sup>107</sup> See Chapter 7, Note 29, and accompanying text.

<sup>108</sup> *Adidas-Salomon AG v Fitnessworld Trading Limited*, Case C-408/01, Judgment delivered on 23 October, 2003, downloaded from <http://www.curia.eu.int>, last visited on 30<sup>th</sup> October, 2005.

(1) (c) of the Community Regulation, are cast in terms of dissimilar goods or services.

### 5.3.3.1 *The Anti-Dilution Provisions Apply To Competitors*

The ECJ had occasion to answer the question whether the dilution provisions of the EC Trademark Directive and the Community Regulation apply to competitors for the first time in *Davidoff & Cie SA Zino Davidoff SA v Gofkid*<sup>109</sup>. There, Davidoff & Cie SA and Zino Davidoff SA<sup>110</sup>, two linked Swiss companies who own the trademark “Davidoff” in Germany in class 14 for precious metals, jewellery, precious stones, and horological and chronometric instruments; and in class 34 for tobacco, (largely cigars), smokers articles and matches, sued Gofkid Limited<sup>111</sup>, a Hong Kong company which owns the German registered trademark “Durfee” in classes 14 and 34, alleging that the trademark “Durfee” was deliberately designed to take advantage of the reputation enjoyed by the “Davidoff” trademark, and at the same time damaged it because the goods sold under the “Durfee” trademark, being competing products, were cheaper and of lower quality than those sold under the “Davidoff” trademark. Davidoff therefore objected to the registration of “Durfee” by the German Patent and Trademark Office and, following rejection of Davidoff’s objection, brought proceedings in 1996 which sought an order restraining Gofkid from using the “Durfee” trademark.

Davidoff was unsuccessful in its action. On appeal to the Bundesgerichtshof, the German Federal Supreme Court, that court found that the two trademarks were similar, and, after examining Article 4 (4) (a) and Article 5 (2) of the EC Trademark Directive, the Bundesgerichtshof referred two questions to the ECJ for preliminary ruling as follows:

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<sup>109</sup> *Davidoff & Cie SA Zino Davidoff SA v Gofkid*, Case C-292/00, Judgment delivered on 21 March 2002, downloaded from <http://www.curia.eu.int>, last visited on 30<sup>th</sup> October, 2005.

<sup>110</sup> Hereafter “Davidoff” collectively.

<sup>111</sup> Hereafter “Gofkid”.

(1) Are the provisions of Article 4 (4) (a) and Article 5 (2) of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks (OJ 1989 L 40, p.1) to be interpreted (and where appropriate applied) as also entitling the Member States to provide more extensive protection for marks with a reputation in cases where the later mark is used or to be used for goods or services identical with or similar to those in respect of which the earlier mark is registered?

(2) Are the grounds mentioned in Articles 4 (4) (a) and 5 (2) of the Trade Mark Directive (use which without due cause which takes unfair advantage of, or is detrimental to, the distinctive character or repute of the earlier mark) exhaustive in regulating when it is permissible for provisions protecting marks with a reputation to be retained under national law, or may those articles be supplemented by national rules protecting marks with a reputation against later signs which are used or to be used in respect of identical or similar goods or services?

In his Opinion<sup>112</sup>, Advocate General Jacobs noted that the scope of Article 4 (4) (a) and Article 5 (2) of the EC Trademark Directive had not fully come for consideration before the ECJ<sup>113</sup> and, in seeking to give an answer as to whether the Articles applied in respect of similar goods or services, concluded that<sup>114</sup>:

I find very persuasive the argument of Gofkid and the United Kingdom that the proposed broader interpretation of Articles 4 (4) (a) and 5 (2) would blur the clear outlines of the protection afforded by the Directive, which is based essentially on the existence of a likelihood of confusion, by allowing in certain circumstances a concurrent or alternative protection based on other criteria and thus entailing legal uncertainty. Competitors wishing to use similar marks for similar products (and it must be remembered that a degree of similarity between marks may be justified or even conditioned by the nature of the product) would not only need to be satisfied that they had avoided any likelihood of confusion but would also have to ensure that no claim could lie against them under Articles 4 (4) (a) or 5 (2). Such a result would introduce a regrettable degree of confusion in the system itself.

Also important, as the United Kingdom Government has pointed out, is the 'knock-on' effect for Community trade marks. Under Article 8 (5) of the Regulation, a sign may not be registered as a Community trade mark if an earlier national trade mark has a reputation in the Member State concerned and, essentially, the conditions of Article 4 (4) (a) of the Directive are fulfilled. Thus,

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<sup>112</sup> Opinion of Advocate General Jacobs in *Davidoff & Cie SA Zino Davidoff SA v Gofkid Ltd*, Case C-292/00, delivered on 21 March, 2002, downloaded from <http://www.curia.eu.int>, last visited on 30<sup>th</sup> October, 2005.

<sup>113</sup> Note 112 above, at Para. 31.

<sup>114</sup> Note 112 above, at Paras 55 to 58.

a finding by a national court in a single Member State that a trade mark has a reputation there and that the use of a competing sign would take unfair advantage of, or be detrimental to, the distinctive character or the repute of that mark in that Member State is sufficient to preclude any registration of that competing sign as a Community trade mark. In those circumstances, it would seem undesirable to extend the scope of Articles 4 (4) (a) and 5 (2) of the Directive further than is necessary.

In the context of both those considerations, it may be borne in mind that the Directive was adopted on the basis of Article 100a of the EC Treaty (now, after amendment, Article 95 EC) – and thus for the achievement of the objectives set out in Article 7a of the Treaty (now, after amendment, Article 14 EC), namely the establishment of the internal market – and specifically seeks to eliminate disparities which may impede the free movement of goods and freedom to provide services. To interpret its provisions in a way not only contrary to their literal wording but such as to increase the scope for objecting to the use or registration of marks or signs in circumstances where there is no likelihood of confusion does not appear particularly compatible with those aims.

I therefore conclude on the first question that the optional protection specified in Articles 4 (4) (a) and 5 (2) of the Directive relates only to situations *in which the goods or services in question are not similar* to those for which the (earlier) trade mark is valid. Where goods or services are similar, the national court must examine, in the light of the Court's case-law concerning the protection enjoyed by marks with a highly distinctive character, whether there exists a likelihood of confusion.

In its decision in the *Davidoff* case, the ECJ correctly, it is submitted, appreciated the question which it had to answer: whether the wording of Articles 4 (4) (a) and 5 (2) of the EC Trademark Directive preclude their application in cases where a sign is used for identical goods or services, given that both Articles refer *expressly* only to the use of a sign for non-similar goods or services<sup>115</sup>. Again, correctly it is submitted, the ECJ recognized that Article 5 (2) of the Directive allows stronger protection to be given to trademarks with a reputation than that conferred by Article 5 (1) (a) or (b)<sup>116</sup>. The ECJ then proceeded to observe that “Article 5 (2) of the Directive must not be interpreted solely on the basis of its wording, but also in light of the overall scheme and objectives of the system of which it is a part”. According to the ECJ, to make a literal interpretation of Article 5 (2) of the Directive:

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<sup>115</sup> *Davidoff* case, Note 109 above, at Para. 23.

<sup>116</sup> *Davidoff* case, Note 109 above, at Para. 19.

would lead to marks with a reputation having *less* protection where a sign is used for identical or similar goods or services than where a sign is used for non-similar goods or services<sup>117</sup>.

This observation led the ECJ to hold that Articles 4 (4) (a) and 5 (2) of the EC Trademark Directive are to be interpreted as *entitling* EU member states to provide specific protection for registered trademarks with a reputation in cases where a later mark or sign, which is identical with or similar to the registered trademark, is intended to be used or is used for goods or services identical with or similar to those covered by the registered trademark<sup>118</sup>. In this way, the ECJ rejected the arguments of Advocate General Jacobs.

The ECJ's decision in the *Davidoff* case, however, seems to be based on a major inarticulate premise. Since the ECJ sought to ground the basis of its decision on the "overall scheme and objectives" of the system of which Article 5 (2) is a part – namely the scheme of the EC Trademark Directive as a whole – it may be necessary to revisit that scheme and distil the underlying objectives informing the protection of trademarks. Although the discussion here is limited to the scheme of Article 5 of the EC Trademark Directive, it applies equally to Article 4 of the Directive and to corresponding provisions of the Community Regulation.

First, Article 5 (1) (a) grants an absolute right to the trademark owner to prevent imitation and passing off and offers protection against copying<sup>119</sup>. It protects the source-origin value of the trademark. Second, Article 5 (1) (b) offers broader protection than Article 5 (1) (a), in that it prohibits the likelihood of consumer confusion, including likelihood of association, which includes situations where the public might believe that the goods or services in question come from the same undertaking, or an economically linked undertaking<sup>120</sup>. In

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<sup>117</sup> *Davidoff* case, Note 109 above, at Para. 25.

<sup>118</sup> *Davidoff* case, Note 109 above, at Para. 30.

<sup>119</sup> Note 90 above.

<sup>120</sup> Note 82 above.

such situations, the reputation of a mark, where it is proved, is an important element in deciding the likelihood of the existence of confusion, including the likelihood of the existence of confusion by association<sup>121</sup>, because the more distinctive the earlier trademark, the greater the likelihood of confusion. In other words, in such situation, the trademark proprietor will not have to cross a higher evidentiary bar to prove likelihood of confusion, including likelihood of confusion by association. Third, in terms of the ECJ's decision in the *Davidoff* case, if Article 5 (2) of the Directive is not extended to protect marks with a reputation where a sign is used for identical or similar goods or services, this would result in *less* protection than where a sign is used for non-similar goods. One is left to wonder how such marks can get less protection if Article 5 (2) of the Directive is not extended to them, because Article 5 (1) (b) creates an expanded category of likelihood of confusion for similar goods – the category of likelihood of association. Having benefited from the expanded protection under Article 5 (1) (b), and bearing in mind the scheme of Article 5 – that it protects first against direct confusion in the sense of passing off, and progresses to an expanded protection against likelihood of confusion which includes likelihood of indirect confusion by association – it is only logical that in the sequence of this scheme Article 5 (2) offers more (or expanded) protection in the sense of the prohibition of dilution for (dis)similar goods or services. It is only where Article 5 (1) (a) or (b) cannot apply, it is respectfully submitted, that the owner of a trademark with a reputation would then use the broader (expanded) protection available under Article 5 (2) of the Directive. The rational basis, it is submitted, lies in a recognition that dilution can occur in respect of identical or similar goods and services, just as it does in respect of dissimilar goods and services.

It should also be noted that the ECJ did not address crucial elements of Article 5 (2) of the EC Trademark Directive in the *Davidoff* decision<sup>122</sup>. Specifically, the ECJ refrained from defining what constitutes (a) use of a sign

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<sup>121</sup> Note 87 above.

<sup>122</sup> *Davidoff* case, Note 109 above.

without due cause, (b) use which takes unfair advantage of the distinctive character or the repute of the trademark with a reputation; and (c ) use which is detrimental to the distinctive character or the repute of the trademark with a reputation.

In *Adidas – Salomon AG v Fitnessworld Trading Limited*<sup>123</sup> the ECJ had occasion to revisit the issue it had decided in the *Davidoff* case. There, Adidas – Salomon AG – the owner of a triple-style motif registered as a Benelux trademark in respect of sporting gear and clothes, and its exclusive Benelux licensee, Adidas Benelux BV, sought to enjoin Fitnessworld Trading Limited from using in the Benelux any sign similar to the triple-style motif of Adidas. Before the commencement of the proceedings, Fitnessworld marketed fitness clothing under the name ‘Perfetto’, bearing a double-stripe motif running parallel to the side seams of the clothing in equal width and contrasting in colour to the colour of the clothing. The adidas trademark, on the other hand, is characterized by three very striking vertical stripes of equal width, running parallel, on the side seams down the whole length of the clothing, and contrasting with the colour of the clothing. The allegations of Adidas in the proceedings was that the offering for sale by Fitnessworld of clothing with the double-stripe motif created a likelihood of confusion on the part of the relevant public in that that section of the public might associate those articles of clothing with Adidas clothing bearing the triple-style motif, and that Fitnessworld was relying on the recognition and popularity enjoyed by the triple-style trademark of Adidas, with the consequence that the exclusivity of the Adidas trademark might be impaired. The goods of the two parties were, as can be easily seen, in competition<sup>124</sup>.

One of the appellate courts hearing the case found that Fitnessworld was using the double-stripe motif on its clothing as an *embellishment*. On appeal to

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<sup>123</sup> *Fitnessworld* case, Note 108 above and Note 105 above.

<sup>124</sup> *Fitnessworld* case, Note 108 above.

the Netherlands Supreme Court, the Hoge Raad der Nederladden, that court referred the following questions to the ECJ for preliminary ruling:

1 (a) Must Article 5 (2) of the Directive be interpreted as meaning that, under a national law implementing that provision, the proprietor of a trade mark which has a reputation in the Member State concerned may also oppose the use of the trade mark or a sign similar to it, in the manner and circumstances referred to therein, in relation to goods or services which are identical with or similar to those for which the trade mark is registered?

(b) If the answer to Question 1 (a) is in the negative: where Article 5 (2) of the Directive is implemented in a national law, must the concept of likelihood of confusion referred to in Article 5 (1) (b) of the Directive be interpreted as meaning that there exists such a likelihood if a person other than the proprietor of the trade mark uses a trade mark with a reputation or a sign similar to it, in the manner and circumstances referred to in Article 5 (2) of the Directive, in relation to goods or services which are identical or similar to those for which the trade mark is registered?

2. If the answer to Question 1 (a) is in the affirmative:

(a) Must the question concerning the similarity between the trade mark and the sign in such a case be assessed on the basis of a criterion other than that of (direct or indirect) confusion as to origin, and if so, according to what criterion?

(b) If the sign alleged to be an infringement in such a case is viewed purely as an embellishment by the relevant section of the public, what importance must be attached to that circumstance in connection with the question concerning the similarity between the trade mark and the sign?

In answer to the first question, the ECJ adopted its *Davidoff* decision<sup>125</sup> and held that

A Member State, where it exercises the option provided by Article 5 (2) of the Directive, *is bound* to grant the specific protection in question in cases of use by a third party of a later mark or sign which is identical with or similar to the registered mark with a reputation, both in relation to goods or services which are not similar and in relation to goods or services which are identical with or similar to those covered by that mark<sup>126</sup>.

In respect of the similarity which must exist between the sign and the trademark with a reputation for the purposes of Article 5 (2) of the Directive, the

<sup>125</sup> *Davidoff & Cie SA Zino Davidoff SA v Gofkid Ltd*, Note 109 above.

<sup>126</sup> *Fitnessworld* case, Note 108 above, at Para. 22.

ECJ held that the protection conferred by Article 5 (2) of the Directive is not conditional on a finding of a degree of similarity between the mark with a reputation and the sign such that there exists a likelihood of confusion between them on the part of the relevant section of the public. It is sufficient for the degree of similarity between the mark with a reputation and the sign to have the effect that the relevant section of the public establishes a link between the sign and the mark<sup>127</sup>. The required degree of similarity will be ascertained taking into account, in particular, elements of visual, aural or conceptual similarity between the mark and the sign<sup>128</sup>, which cause the public to establish a link between the mark and the sign, even though the link does not confuse the public<sup>129</sup>. The existence of such link must be appreciated globally, just like in the case of the likelihood of confusion, including likelihood of confusion by association, using the principles in the *Sabel*<sup>130</sup> case and the *Marca Mode*<sup>131</sup> case<sup>132</sup>. Implicit in the judgment of the ECJ in the *Fitnessworld* case is that similarity for dilution purposes means “striking similarity” or a marked resemblance in the sense of a very strong resemblance between the sign and the mark.

In answer to the third question, the ECJ held that the fact that a sign is viewed as an embellishment by the relevant section of the public is not, in itself, an obstacle to the protection conferred by Article 5 (2) of the Directive where the degree of similarity is none the less such that the relevant section of the public establishes a link between the sign and the mark. Where, on the other hand, the relevant section of the public views the sign purely as an embellishment, this does not necessarily establish a link with a registered mark, with the result that one of the conditions of protection conferred by Article 5 (2) of the Directive will not be satisfied<sup>133</sup>. In other words, the decision of the ECJ in this respect should be read as meaning that if the relevant section of the public views the sign purely as an

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<sup>127</sup> *Fitnessworld* case, Note 108 above, at Para. 31.

<sup>128</sup> *Fitnessworld* case, Note 108 above, at Para. 28.

<sup>129</sup> *Fitnessworld* case, Note 108 above, at Para. 29.

<sup>130</sup> *Sabel* case, Note 65 above.

<sup>131</sup> *Marca Mode* case, Note 64 above.

<sup>132</sup> *Fitnessworld* case, Note 108 above, at Para. 30.

<sup>133</sup> *Fitnessworld* case, Note 108 above, at Para. 41.

embellishment, without necessarily establishing a link between the mark and the sign, then the similarity between the mark and the sign will only be incidental, not marked, with the result that one of the conditions of protection conferred by Article 5 (2) of the Directive will not be satisfied. Under the balancing of rights approach advocated for adoption by the courts in this thesis, where a court finds that the trademarks *in casu* are only incidentally similar, that should be the end of the dilution analysis, and the court should dismiss the claim, in the interest of free trade.

It is submitted that in *Davidoff*<sup>134</sup> and *Fitnessworld*<sup>135</sup>, the ECJ correctly held that anti-dilution protection extends to cases of competing goods or services, but used the wrong rationale to base its decision. As explained in Chapter 3<sup>136</sup>, a significant number of customers may not be confused where a sign which is similar or identical to a trademark with a reputation is used on competing goods. They nevertheless establish the link between the sign and the trademark with a reputation, notwithstanding the lack of confusion on their part. When this occurs, there is a real danger that the trademark will be diluted either by blurring or tarnishment. This, it is submitted, should have been the rationale advanced by the ECJ to ground its decisions in these two cases.

### 5.3.3.2 The ‘Reputation’ of a Trademark

The question of the ‘reputation’ needed by a trademark to qualify for protection under Article 5 (2) of the EC Trademark Directive was decided by the ECJ in *General Motors Corporation v Yplon SA*<sup>137</sup>. There, General Motors, the proprietor of the Benelux trademark ‘chevy’ registered in 1971 in classes 4, 7, 9, 11 and 12 for vehicles, sued Yplon, also the proprietor in the Benelux of the trademark ‘chevy’ registered in 1988 in classes 1, 3 and 5 for detergents and

<sup>134</sup> *Davidoff* case, Note 109 above.

<sup>135</sup> *Fitnessworld* case, Note 108 above.

<sup>136</sup> See Chapter 3, Note 12, and accompanying text.

<sup>137</sup> *General Motors Corporation v Yplon SA*, Case C-375/97, Judgment dated 14 September, 1997, downloaded from <http://www.curia.eu.int>, last visited on 30<sup>th</sup> October, 2005.

various cleaning agents, seeking to restrain Yplon from using the sign ‘chevy’ to designate detergents or cleaning products on the ground that such use entailed dilution of the ‘chevy’ trademark of General Motors, and thus damaged the advertising function of the ‘chevy’ trademark. In reply, Yplon argued that General Motors had not shown that its trademark had a ‘reputation’ in the Benelux countries.

The Tribunal de Commerce, the court hearing the case, took the view that the determination of the case required clarification by the ECJ of the concept of a “trademark having a reputation”, and whether the reputation was required to exist throughout the Benelux countries, or whether it sufficed if the reputation existed only in a part of that territory. As a result, the Tribunal de Commerce stayed the proceedings and referred the following question to the ECJ for preliminary ruling:

On reading Article 13 (A) (1) (c ) of the Uniform Benelux Law introduced pursuant to the amending protocol in force since 1 January 1996, what is the proper construction of the term “repute of the trade mark” and may it also be said that such “repute” applied throughout the Benelux countries or to part thereof?<sup>138</sup>

According to the ECJ, the following criteria applied in determining whether a trademark has a reputation for the purposes of protection under Article 5 (2) of the EC Trademark Directive, namely:

- (a) *knowledge by the public*: The focus of attention under EU law is knowledge of the mark by a *significant part of the public* concerned for the product or service which the mark covers<sup>139</sup>.

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<sup>138</sup> *General Motors* case, Note 137 above, at Para.11.

<sup>139</sup> *General Motors* case, Note 137 above, at Paras 23 to 26, where the ECJ said:

Such a requirement is also indicated by the general scheme and purpose of the Directive. In so far as Article 5 (2) of the Directive, unlike Article 5 (1), protects trade marks registered for nonsimilar products or services, its first condition implies a certain degree of knowledge of the earlier trade mark among the public. It is only where there is a sufficient degree of knowledge of that mark that the public when confronted by the later trade mark, may possibly make an association between the two trade marks, even when used for non-similar products or services, and that the earlier trade mark may consequently be damaged.

- (b) *duration and extent of use of the mark*: The focus of attention here is on the intensity, geographical extent, and duration of use of the trademark<sup>140</sup>.
- (c) *the geographical extent of the fame of the mark*: The ECJ held that the reputation of the mark must exist in a ‘substantial part’ of the EU territory<sup>141</sup>.
- (d) *the size of the investment in promoting the mark*:<sup>142</sup> This guideline provides that the notoriety of a mark may be determined by the duration, extent and geographical area of any promotion of the mark, including promotion by both print and electronic internet-based advertising, and promotion at exhibitions and fairs.
- (e) *recognition of the mark in specific trade circles (niche market fame)*: The ECJ addressed this guideline in *General Motors* by holding that reputation may be acquired in the eyes of the public at large or a *more specialized public*, like traders in a specific trade circle<sup>143</sup>.

<sup>140</sup> *General Motors* case, Note 137 above, at Paras. 27 to 29, where the ECJ stated that

In examining whether this condition is fulfilled, the national court must take into consideration all the relevant facts of the case, in particular *the market share* by the trade mark, *the intensity, geographical extent* and *duration of its use*, and the *size of the investment* made by the undertaking in promoting it.

Territorially, the condition is fulfilled when, in the terms of Article 5 (2) of the Directive, the trade mark has a reputation ‘in the Member State’. In the absence of any definition of the Community provision in this respect, a trademark cannot be required to have a reputation ‘throughout’ the territory of the Member State. It is sufficient for it to exist in *a substantial part* of it.

As far as trade marks registered at the Benelux Trade Mark Office are concerned, the Benelux territory must be treated like the territory of a Member State, since Article 1 of the Directive regards Benelux trade marks as trade marks registered in a Member State. Article 5 (2) must therefore be understood as meaning a reputation acquired ‘in’ the Benelux territory. For the same reasons as those relating to the condition as to the existence of a reputation in a Member State, a Benelux trade mark cannot therefore be required to have a reputation throughout the Benelux territory. It is sufficient for a Benelux trade mark to have a reputation in a substantial part of the Benelux territory, *which part may consist of a part of one of the Benelux countries* (emphasis added).

<sup>141</sup> *General Motors* case, Note 137 above, at Para. 27.

<sup>142</sup> *General Motors* case, Note 137 above, at Para. 27.

<sup>143</sup> *General Motors* case, Note 137 above, at Para. 26.

According to the ECJ guidelines in the *General Motors* case<sup>144</sup>, national courts should *first* be satisfied of the existence of reputation for a trademark claiming protection under Article 5 (2) of the EC Trademark Directive, before proceeding to enquire on the other conditions of protection; namely, whether the complained use of the sign is without due cause, or takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trademark<sup>145</sup>. This formulation of the approach to be adopted by the courts in dilution cases is of singular importance in balancing the competing interests present in dilution cases: if a court finds that the senior trademark does not have a reputation, that should, in practical terms, put an end to the dilution analysis. The answer of the ECJ therefore was that a mark with a reputation was a mark that is known by *a significant part of the public concerned* with the products or services it covers. In the Benelux countries, it is sufficient for the purpose of determining reputation that the trademark is known by a significant part of the public concerned in a substantial part of the Benelux, which part may consist of a part of one of the countries composing that territory.

### 5.3.3.3 Niche Market Fame

It is important to note that in the *General Motors* case, above, the ECJ refrained from imposing a numerical percentage threshold necessary to determine whether a trademark has a reputation. The ECJ decision, however, stated that a mark will have reputation for the purposes of protection under Article 5 (2) of the EC Trademark Directive if it is known “by a significant part of the public concerned by the products or services covered by that trademark<sup>146</sup>”, including “a more specialized public, for example traders in a specific sector”.<sup>147</sup> These statements, it is submitted, means that a trademark known only in a niche market may satisfy the reputation requirements under Article 5 (2) of the EC Trademark

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<sup>144</sup> *General Motors* case, Note 137 above.

<sup>145</sup> *General Motors* case, Note 137 above, at Para. 30.

<sup>146</sup> *General Motors* case, Note 137 above, at Para. 26.

<sup>147</sup> *General Motors* case, Note 137 above, at Para. 24.

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Directive. The niche fame may be market-based or territory-based. It is submitted that trademarks with a reputation in a niche market should qualify for protection under Article 5 (2) of the Directive *only* in exceptional circumstances where the trademark is in fact well-known, otherwise a blanket application will result in over protecting the interests of trademark owners and defeating the free trade objectives of the internal market. The argument advanced here is that the ECJ, by making pronouncements which in effect extended unqualified protection in dilution cases to marks enjoying niche market fame, failed to appropriately balance the competing interests of the owner of the trademark with a reputation against the principle of free trade which forms the bedrock of the European Union.

It is argued that the ECJ should have concisely differentiated between niche fame in a geographic sense, and niche fame in the sense of a discrete market, and outlined general principles, for the guidance of lower courts, on how dilution can occur in each case. In respect of niche fame in a geographic market, the ECJ should, it is submitted, have specified that where a trademark is well-known in a geographic niche market as specifying one type of products (for example, perfumes), its distinctive character or repute would be diluted by a junior use in respect of other product lines in the same geographic niche market (for example, lawnmowers). Where the niche fame is in respect of a discrete market, the ECJ should have specified the general proposition, for the guidance of lower courts, that dilution can occur if a defendant engages in comparative advertising and states, for instance, that his goods are “a substitute for”, “similar to”, “manufactured like” or “manufactured with the same precision as” the plaintiff’s goods, with a view to stimulating the demand for his own goods in preference to the plaintiff’s goods. In this way, the defendant would be riding on the back of the trademark with niche market fame as an *entrée* for advertising his own goods, and will be diverting the positive association between the plaintiff’s trademark and the plaintiff’s goods to the defendant’s own goods. The niche market reputation (fame) of the plaintiff’s trademark will be shared between

different products, and its distinctive character will be blurred. Here, dilution by blurring will be in issue. If the defendant's goods are of an inferior quality, the reputation of the plaintiff's trademark will be tarnished, leading to dilution by tarnishment. Third, the ECJ should have pronounced, as a general proposition, that if the junior user's sign is directed at a much larger market than the niche market in which the trademark with a reputation is known, then, in principle, the dilution claim should not succeed. In other words, the ECJ should have made the pronouncement that niche market fame cannot, as a rule, be applied as to a junior use of the mark directed at a different group of potential buyers, because if the senior user's mark is only well-known in a niche market, and the junior user's mark is directed towards a much larger market, the impact of the junior use on the reputation of the senior trademark's reputation in the niche market will be *de minimis*.

Finally, the ECJ should, it is submitted, have sounded the caution to lower courts that any analysis of niche market fame should be undertaken in the context of an overall analysis of the trademark's reputation for dilution purposes. It is argued that in practice, niche market fame should have little if any place in the context of dilution, and even then only in exceptionally limited cases, where the mark is indeed well-known, as demonstrated by the evidence. Untrammelled protection of marks with niche fame would otherwise distort the free trade principle which forms the basis of the common market.

#### 5.3.3.4 The 'Repute' of a Trademark

In terms of Article 5 (2) of the EC Trademark Directive, the proprietor of a trademark is entitled to prevent third parties not having his consent from using, in the course of trade, any sign which is identical with, or similar to the trademark in relation to goods or services which are not similar to those for which the trademark 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 trademark. According to EU trademark jurisprudence developed in the *General Motors* case<sup>148</sup>, the reputation of the trademark is the knowledge of the trademark among a substantial portion of the relevant public. The *repute* of the trademark, on the other hand, is its image. For example, the fact that most people drink coca-cola because they view it as a delicious, soft tasting drink testifies to its *repute* – its image. This distinction between reputation and *repute* was made by the OHIM Third Board of Appeal in *Hollywood SAS v Souza Cruz SA*<sup>149</sup> where it was stated that:

The fact that a trademark has a reputation means that it is known by a significant part of the relevant public. On the other hand, a trademark's reputation in the sense of recognition of the sign does not decide in advance the particular significance this reputation may have, in the sense of 'repute' or 'image', to which registration of the contested trademark would be detrimental.

In the context of the anti-dilution provisions of both the EC Trademark Directive and the Community Regulation, therefore, *repute* speaks to the positive image of the trademark, while reputation speaks to the knowledge of the trademark among a substantial portion of the relevant public.

#### **5.3.3.5 Use Which Would Take Unfair Advantage Of, Or Be Detrimental To, The Distinctive Character Or The Repute of The Earlier Trademark**

In the *Fitnessworld* case<sup>150</sup>, Advocate General Jacobs sought to define “use which is detrimental to a mark’s distinctive character” as dilution; “use which is detrimental to a trademark’s *repute*” as tarnishment; “use which takes unfair advantage of a trademark’s distinctive character or *repute*” as “instances where there is a clear exploitation and free-riding on the coattails of a famous mark or an attempt to trade upon its reputation”. The Advocate General did not,

<sup>148</sup> *General Motors* case, Note 137 above.

<sup>149</sup> *Hollywood SAS v Souza Cruz SA*, Case R 283/1999-3 [2002] ETMR, 705, at Para. 61.

<sup>150</sup> *Fitnessworld* case, Note 105 above.

however, attempt to define the concept of “use without due cause”. The ECJ did not define any of these concepts<sup>151</sup>.

For dilution to occur under both the EC Trademark Directive and the Community Regulation, the use of a sign by a third party must be “without due cause”, and must “take unfair advantage of” or “be detrimental to” the distinctive character or the repute of the earlier trademark. At present, these terms are largely unexplored *terra firma* in ECJ trademark jurisprudence. It is, however, useful to provide tentative meanings to these concepts, because, without any theoretical scope of their meanings, it may be difficult for the ECJ, in dilution cases, to usefully engage in an exercise which appropriately balances the competing interests of the owner of a mark with a reputation, on the one hand, and the interest of the public to free trade, on the other hand.

According to Mostert, the terminology in Article 5 (2) of the EC Trademark Directive proscribing use which is detrimental to the distinctive character or the repute of the earlier trademark seem to be aimed at prohibiting both dilution by blurring and dilution by tarnishment<sup>152</sup>. The concept of “detriment to distinctive character” was addressed by the OHIM Third Board of Appeal in *Hollywood SAS v Souza Cruz SA*<sup>153</sup>. There, it was held that use of a junior sign causes detriment to the distinctive character of an earlier trademark when consumers identify the earlier trademark with different goods coming from different sources due to the use of the junior sign. Such use of the junior sign reduces the distinctive impact (character) of the earlier trademark, rendering it less effective in exclusively luring and channeling the attention of the purchasing public towards the particular goods in respect of which the earlier trademark is registered. Detriment to distinctive character, in the context of Article 5 (2) of the EC Trademark Directive, may therefore be equated with dilution by blurring. The decision of the OHIM Third Board of Appeal in *Hollywood SAS v Souza Cruz*

<sup>151</sup> *Fitnessworld* case, Note 108 above.

<sup>152</sup> Frederick W. Mostert, *Famous and Well-Known Marks* 2<sup>nd</sup> Edn (2004), at 1 – 112.

<sup>153</sup> *Hollywood SAS v Souza Cruz SA*, Note 149 above, at Paras 105 - 112.

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SA, above, is also of singular importance in the approach which should be adopted by a court in evaluating evidence necessary to prove that use of a junior sign is detrimental to the distinctive character of the earlier trademark with a reputation. The OHIM Third Board of Appeal stated that the first limb of analysis in a dilution claim is to establish whether the earlier (or senior) trademark has a reputation. The second limb of enquiry, according to the OHIM Third Board of Appeal, should be to determine the identity of the trademark and the sign *in casu*; that is, whether they are identical or similar for dilution purposes. The third limb would then involve evaluating evidence to determine if there is detriment to distinctive character. The evidence required for this purpose, according to the OHIM Third Board of Appeal, can only be deductive and logical in nature, resulting from a probability analysis taking account of all the circumstances of a case. Such evidence should not be limited to the existence of the reputation of the earlier trademark or to its identity with or similarity to the later sign, since to do so would involve automatic and indiscriminate recognition of a likelihood of dilution for *all* trademarks of repute and would negate the condition of proving detriment. In other words, this would create a monopoly or form of copyright in a trademark. Rather, according to the OHIM Third Board of Appeal, the approach to be adopted by the courts should be to determine whether there is evidence that the use of the junior sign produces the effect that the earlier trademark is no longer capable of evoking in the minds of the public an immediate association with the goods for which it is registered and used. Further, in determining whether there is detriment to distinctive character, courts should ascertain whether there is evidence that the use of the identical junior sign for another type of product

would make the trade mark less attractive for the products for which it is registered. This would be the case when this other type of products, although not *per se* having a negative influence on the public's perception, nevertheless influences it in such a way that the trademark is detrimentally affected in terms of its capacity to stimulate the desire to purchase the goods for which it was registered. This leads to an erosion of distinctive character caused by the proliferation of 'parasitic' trade marks which, although not debasing the original

trade mark, are so numerous that they deprive the trade mark of its distinctive character and hence its impact<sup>154</sup>.

In *Hollywood SAS v Souza Cruz SA*, above, the OHIM Third Board of Appeal also identified three possible definitions of detriment to the repute of an earlier trademark. In holding that the equivalent of detriment to the repute of an earlier trademark is dilution by tarnishment, which occurs when the image of the earlier trademark is sullied or degraded by negative associations with something inappropriate, the OHIM Third Board of Appeal said detriment to repute occurs (a) when the earlier trademark is linked with poor quality goods, or goods that evoke negative undesirable mental associations or which conflict with the image of the trademark built up by its owner through use, or (b) when the earlier trademark is linked with goods that are incompatible with the quality and prestige associated with the earlier trademark, even though there is no inappropriate use of the trademark in itself, or (c) when the word or figurative elements of the earlier trademark are varied negatively by the junior user, like in cases of gratuitous parodies<sup>155</sup>. Mostert argues that factor (b) in the definition above is peculiar to EU trademark jurisprudence, since it is based on the notion of EU law on the exhaustion of rights in trademarks, and is therefore wider than the concept of dilution by tarnishment as encountered, for example, under United States law<sup>156</sup>. Accordingly, Mostert argues that “detriment to repute” in the context of Article 5 (2) of the EC Trademark Directive

occurs when a mark is sullied or debased by its association with something inappropriate, either through use in an unpleasant, obscene or degrading context or in a context that is not inherently unpleasant, but is incompatible with the image of the trademark. Junior use that causes the senior user to lose control of the way that his mark is promoted has also been recognized as causing detriment that is caught under Article 5 (2)<sup>157</sup>.

<sup>154</sup> *Hollywood SAS v Souza Cruz, SA*, Note 149 above, at Paras 105 to 112.

<sup>155</sup> *Hollywood SAS v Souza Cruz SA*, Note 139 above, at Paras 85 to 86.

<sup>156</sup> Frederick W. Mostert, *Famous and Well-Known Marks*, 2<sup>nd</sup> Edn (2004), at 1 – 114, Footnote 266.

<sup>157</sup> Frederick W. Mostert, *Famous and Well-Known Marks* 2<sup>nd</sup> Edn (2004), at 1 – 114 to 1 – 115.

In the *Fitnessworld* case, Advocate General Jacobs was of the opinion that the concept of “unfair advantage of distinctive character or repute”, as found in Article 5 (2) of the EC Trademark Directive, was

intended to encompass instances where there is clear exploitation and free-riding on the coattails of a famous mark or an attempt to trade upon its reputation<sup>158</sup>.

Mostert is of the view that the inclusion of this concept in Article 5 (2) of the EC Trademark Directive points to a possibility that Article 5 (2) was intended by its framers to extend beyond orthodox dilution to include notions of misappropriation and unjust enrichment<sup>159</sup>. Mostert argues in this respect that

Taking “unfair advantage” is probably meant to cover instances where there is clear exploitation and free-riding on the coattails of a famous mark or an attempt to trade upon its reputation. Unlike “detriment”, which requires an investigation into the damage to the goodwill of the senior mark, unfair advantage involves an enquiry into the benefit to be gained by the junior user through using the mark<sup>160</sup>.

The repute of an earlier trademark is taken unfair advantage of when its positive image is transferred to the goods of the later sign<sup>161</sup>. A few pre-EU harmonization and post – EU harmonization case law can be used to explain the point advanced here.

In *Dimple*<sup>162</sup>, the German Bundesgerichtshof had occasion to consider the concept of taking unfair advantage to a trademark’s repute. There, it was held that it was

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<sup>158</sup> *Fitnessworld* Case, Note 105 above.

<sup>159</sup> Frederick W. Mostert, *Famous and Well-Known Marks*, 2<sup>nd</sup> Edn (2004), at 1 – 115 to 1 – 116.

<sup>160</sup> Frederick W. Mostert, *Famous and Well-Known Marks*, 2<sup>nd</sup> Edn (2004), at 1 – 115 to 1 – 116.

<sup>161</sup> Frederick W. Mostert, *Famous and Well-Known Marks*, 2<sup>nd</sup> Edn (2004), argues, at 1 – 116 to 1 – 117 that

The image transfer can only succeed if the senior user’s mark is known to the junior user’s market and is less likely to occur if the mark is in some way descriptive or non-distinctive because consumers will see the junior user’s use as referring to the mark’s descriptive or non-distinctive meaning, rather than the senior user’s image.

<sup>162</sup> *Dimple* [1985] 17 GRUR, 529.

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An act of unfair competition [to] associate the quality of one's goods or services with that of a prestigious competitive product for the purpose of exploiting the good reputation of a competitor's goods or services in order to enhance one's promotional efforts<sup>163</sup>.

The OHIM Third Board of Appeal considered the scope and meaning of the concept of taking unfair advantage of a trademark's repute in *Hollywood SAS v Souza Cruz SA*, above, in which the owner of the trademark "Hollywood" for chewing gum was opposing the registration of the same trademark for cigarettes, tobacco products, lighters and matches. In allowing the opposition, the OHIM Third Board of Appeal held that<sup>164</sup>:

Moreover, tobacco consumption has negative connotations in as much as it leads to bad breath and causes yellowing of smokers' teeth and fingers. Furthermore, in view of the harm caused not only to active smokers but also to passive smokers, cigarette smoking may involve restricted access to certain places such as restaurants and cinemas, and may be poorly tolerated by other people.

Therefore the negative connotation conveyed by tobacco contrasts strikingly with the 'HOLLYWOOD' trade mark's image. No worse association can be imagined for a confectionery manufacturer than one with products capable of causing death. Use of the 'HOLLYWOOD' trade mark in correlation with tobacco products would produce a regrettable association with the health risks and other negative feelings just mentioned by the Board of Appeal.

This conclusion is not contradicted by the fact that, in the commercial practice of promotional sponsorship, cigarette trade marks are often associated with the world of sport, vitality and joie de vivre. One need only think of the Marlboro, Fortuna, Camel, Gauloises and Merit trade marks. The fact that the proprietors of these trade marks have endeavoured to give them an image of sportsmanship, vitality, etc., does not mean that they have succeeded. In particular, this does not prove that, in the country concerned, tobacco is not associated with a negative image, an image which is precisely the opposite of that conveyed by the 'HOLLYWOOD' trade mark. Instead, it illustrates the dual need to circumvent statutory prohibitions on direct advertising of tobacco and to make tobacco products more attractive, in an attempt to overcome a negative image and to reassure consumers.

The concept of taking unfair advantage of a trademark's distinctive character used in Article 5 (2) of the EC Trademark Directive eludes exact

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<sup>163</sup> *Dimple*, Note 162 above.

<sup>164</sup> *Hollywood SAS v Souza Cruz SA*, Note 149 above, at Paras 94 to 96.

definition. A possible meaning of this concept is that the user of the junior sign should derive some benefit from the association of the junior sign with the distinctive character (not the repute or image) of the earlier trademark with a reputation. Put differently, the concept may be viewed as speaking to instances where there is an exploitation (or feeding off) and free-riding by the junior sign on the coattails of the earlier trademark's distinctiveness<sup>165</sup>. On closer analysis, therefore, the concept of taking unfair advantage of a trademark's distinctive character may well refer to misappropriations of the advertising value of a trademark that causes dilution by blurring. When other traders parasitically exploit a trademark's distinctive character, its selling power is simultaneously eroded, leading to a gradual consumer disassociation of the trademark from the proprietor's goods. The unique identity of the trademark, in the sense of its distinctive character, will become blurred as consumers come to associate the trademark *not only* with the trademark proprietor's goods, but with several sources of goods.

#### 5.3.3.6 Without Due Cause

In *Hollywood SAS v Souza Cruz SA*, above, the OHIM Third Board of Appeal had occasion to interpret the meaning of the concept of "due cause" in the context of the Community Regulation's dilution provisions. There, it was held that

The Board of Appeal considers that it must generally be imposed as a condition for due cause that the trade mark applicant should be obliged to use the sign in question, such that, notwithstanding the detriment caused to the proprietor of the earlier trade mark, the applicant cannot reasonably be required to abstain from using the trade mark, or that the applicant has a specific right to use this sign, over which the right of the earlier trade mark's proprietor does not take precedence. In particular, the condition of due cause is not fulfilled merely by the fact that (a) the sign is particularly suitable for identifying the products for which it is used, (b) the applicant has already used this sign for these products or similar products within and/or outside the relevant territory of the Community, or

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<sup>165</sup> Frederick W. Mostert, *Famous and Well-Known Marks*, 2<sup>nd</sup> Edn (2004), at 1 – 117 to 1 – 118.

(c) the applicant invokes a right ensuing from a filing over which the filing by the proprietor of the opposing trade mark takes precedence<sup>166</sup>.

The three factor non-exhaustive list of factors which do not constitute 'due cause' are helpful guidelines which may be used by the courts in balancing the competing interests present in dilution cases. In other words, if a defendant's reliance on 'due cause' use is predicated on one of the three conditions, the court should reject the 'due cause' defence and find in favour of the trademark proprietor.

This interpretation, it is submitted, follows the one in the pre-harmonization case of *Klarein v Claeryn*, above<sup>167</sup>, where the concept was interpreted strictly to mean that a use was with due cause only in one of two circumstances. First, where there was such a necessity on the part of the alleged infringer to use the mark that he could not reasonably be required to abstain from that use. Second, where the junior user has prior rights which take precedence over, and do not yield to, the rights of the owner of the earlier trademark with a reputation.

### **5.3.3.7 Actual Dilution, Or A Likelihood of Dilution**

It is also necessary to determine whether proof of actual dilution, as opposed to a likelihood of dilution, is required under the anti-dilution provisions of both the EC Trademark Directive and the Community Regulation. A *literal* interpretation of Article 5 (2) of the EC Trademark Directive, for example, favours a position requiring proof of actual dilution, since the use of a sign without due cause must take (*not* likely take) unfair advantage of, or be detrimental to, the distinctive character or the repute of the trademark. Advocate General Jacobs in the *General Motors* case above, came to a similar conclusion, holding that:

<sup>166</sup> *Hollywood SAS v Souza Cruz SA*, Note 149 above, at Para. 101.

<sup>167</sup> *Klarein v Claeryn*, Notes 25 to 33 above, and accompanying text.

It is to be noted in particular that Article 5 (2), in contrast to Article 5 (1) (b), does not refer to a mere risk or likelihood of its conditions being fulfilled. The wording is more positive: ‘*takes unfair advantage of, or is detrimental to*’ (emphasis added). Moreover, the taking of unfair advantage or the suffering of detriment must be properly substantiated, that is to say, properly established to the satisfaction of the national court: the national court must be satisfied by evidence of *actual detriment*, or of unfair advantage. The precise method of adducing such proof should in my view be a matter for national rules of evidence and procedure, as in the case of establishing likelihood of confusion: see the tenth recital of the preamble<sup>168</sup>.

The ECJ did not, however, address this issue in its judgment, so that a determination of the question is still open. It is submitted, however, that a literal interpretation which favours proof of actual dilution ignores the incipient nature of dilution, and fails to adequately protect the advertising value of trademarks. There is no justifiable reason, in principle, why the owner of a trademark with a reputation should not be granted relief in a *quia timet* application. Rather, the owner of such a mark should obtain relief against the *first* offending use of the junior mark or sign, and should not be required to wait until multiple third party uses compound the harm such that the distinctive character and/or the repute of his mark are permanently impaired. A proposal will accordingly be made that EU law should provide for a likelihood of dilution, not actual dilution. This will not necessarily open the floodgates to litigation, since EU courts can, by adopting the framework of the balancing of rights developed in Chapter 3 above, weed out unmeritorious and undeserving claims, while at the same time providing adequate protection in deserving cases.

#### **5.4 ELEMENTS OF A DILUTION CLAIM IN EU LAW**

It must be noted that the ECJ is yet to be presented with a case seeking a determination of whether dilution has occurred. It is only then, it is submitted,

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<sup>168</sup> *General Motors Corporation v Yplon*, Note 137 above, Opinion of Advocate General Jacobs delivered on 26 November, 1998, at Para. 43, downloaded from <http://www.curia.eu.int>, last visited on 30<sup>th</sup> October, 2005.

that the elements of a successful dilution claim, and the nature of the evidence that needs to be put before a trial court, will emerge. From the current state of the law, it can be argued that a trademark owner who seeks to protect the repute and/or distinctive character of his trademark from dilution using the anti-dilution provisions of the EC Trademark Directive, as transposed into national law, or the Community Regulation, must prove two factors. First, he must prove that his trademark has a reputation<sup>169</sup>. Second, he must prove that the defendant, by registering or using an identical or similar trademark for (dis)similar goods, is *taking* unfair advantage of the repute and/or distinctive character of his trademark, or that such use or registration is *detrimental* to the repute and/or distinctive character of his trademark<sup>170</sup>. If the owner is simply objecting to the registration of the later trademark under this head, he need prove only a simple probability that the registration of the later trademark *would* take unfair advantage of, or would be detrimental to, to the repute or the distinctive character of his trademark with a reputation<sup>171</sup>. If, on the other hand, the objection is to the use of the later trademark, Article 5 (2) of the EC Trademark Directive, and Article 9 (1) (c) of the Community Regulation seem to indicate that he must prove *actual* unfair advantage or detriment.

## 5.5 CONCLUSIONS AND RECOMMENDATIONS

Although the word “dilution” is not used in the text of Articles 4 (4) (a) and 5 (2) of the EC Trademark Directive and Articles 8 (5) and 9 (1) (c) of the Community Regulation, these provisions are anti-dilution provisions which seek

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<sup>169</sup> *General Motors Corporation v Yplon*, Note 137 above, at Para. 30.

<sup>170</sup> See in particular the text of Article 5 (2) of the EC Directive. See also Jeremy Phillips, *Trademark Law: A Practical Anatomy* (2003) at 375, Para. 11.48, posing the interesting observation that

Once the proprietor of an earlier mark is put to proof that an adverse application or use of another's mark takes unfair advantage of his trade mark or is detrimental to it, great care should be taken in determining the evidential standard which this proof must satisfy. If the level is too high, then proprietors will not be able to enjoy the benefit of the extended protection which is given to marks which have established a reputation; if however the level is too low, then the scope for the registration and use of trade marks by others will be unreasonably restricted. How high should the civil burden of proof be in such cases?

<sup>171</sup> *Hollywood SAS v Souza Cruz SA*, Note 149 above, at Para.88.

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to protect the advertising function of trademarks with a reputation in EU member states from misappropriations which cause or take unfair advantage of, or are detrimental to, their distinctive character or repute.

The United Kingdom transposed Articles 4 (4) (a) of the EC Trademark Directive and 8 (5) of the Community Regulation into domestic law under section 5 (3) of its Trade Marks Act 1994. Similarly, the German Trade Marks Act 1994 transposed these Articles into domestic law under section 9 (1), providing for the cancellation of the registration of a trademark based on a dilution claim, and section 42, providing for opposition proceedings based on a dilution claim. In respect of Article 5 (2) of the EC Trademark Directive and Article 9 (1) (c) of the Community Regulation, these two were similarly transposed into domestic legislation in section 14 (2) 3 of the German Trade Marks Act 1994 and in section 10 (3) of the United Kingdom Trade Marks Act 1994. The South African Trademarks Act of 1993, taking its cue from the United Kingdom Trademarks Act, similarly contains anti-dilution provisions in sections 10 (17) and 34 (1) (c), containing wording similar to the anti-dilution provisions in the EC Trademark Directive and the Community Regulation. All these domestic statutory provisions may be seen, therefore, as products of the anti-dilution provisions of the EC Trademark Directive and the Community Regulation.

It has been argued that in its *Davidoff* and *Fitnessworld* decisions, the ECJ used a wrong rationale in holding that Article 5 (2) of the EC Trademark Directive applies in respect of competing goods. The correct rationale, it has been submitted, would have been one that recognizes that even in cases of competing goods, members of the public may not be confused by the similarity of the mark with a reputation and the junior sign, but may nevertheless establish a link between the mark and the sign, so that the advertising value of the mark may thereby be damaged either by dilution by blurring or by dilution by tarnishment. In this respect, the development of the dilution remedy in the EU may better be served if the ECJ pays greater attention to the historical, logical and theoretical

basis of dilution. A significant consequence of the ECJ *Davidoff* and *Fitnessworld* decisions is the fact that they resulted, at least in the United Kingdom, in the amendment of the UK Trade Marks Act 1994, extending the anti-dilution provisions in section 10 (3) of the UK Trade Marks Act 1994 to cases of *similar goods or services*<sup>172</sup>.

There remains significant elements of the anti-dilution provisions in the EC Trademark Directive and the Community Regulation which are yet to be interpreted by the ECJ. These elements include the interpretation to be given to ‘use of a sign without due cause’, ‘taking unfair advantage of the distinctive character or the repute of a trademark’, and ‘use of a sign without due cause which is detrimental to the distinctive character or the repute of the trademark’. In respect of the reputation necessary for a trademark to qualify for anti-dilution protection in terms of the EC Trademark Directive or the Community Regulation, the ECJ in the *General Motors* case included *niche market fame* as a criteria which should be taken into account by national courts in determining reputation. This, however, is contrary to the recommendations of the Report of the International Trademark Association’s Dilution and Well-Known Marks Committee of 2004, which criticizes the adoption of the niche market theory by the courts in the United States of America in the following terms:

Another common criticism is that the niche market theory of fame can be used as a tactic to avoid the more rigorous requirements of a trademark infringement claim. Critics maintain that when courts require both parties to be competitors in the same niche market, the real issue is consumer confusion as to the two trademarks, which should be addressed in the context of a trademark infringement suit. In fact, the narrow definition of market segment boundaries applied by courts considering niche fame under a dilution analysis often resembles the comparison of goods and channels of trade applied under a standard likelihood of confusion analysis for trademark infringement claims. Critics assert that this comparison, combined with the requirement that marks subject to a dilution analysis be identical, or nearly identical, can make a court’s

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<sup>172</sup> See Trade Marks (Proof of Use, Etc) Regulations, 2004 (No. 946), which provides at Para. 7, that

A person infringes a registered trade mark if he uses in the course of trade in relation to goods or services a sign which is identical or similar to the trade mark where the trade mark has a reputation in the United Kingdom and the use of the sign, being without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.

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criteria for dilution within a niche market too close to the elements of confusion in an infringement claim, notwithstanding that confusion is irrelevant to a dilution analysis under the FTDA. As a result, there has been growing concern that broad application of the FTDA could create rights-in-gross in trademarks that are neither widely famous nor create consumer confusion.<sup>173</sup>

The above comments, it is submitted, raise, in a pointed fashion, the underlying tension present in dilution cases, namely; that an equitable balance should be struck between the interests of the trademark owner on the one hand, and the interests of the public in free trade, on the other hand.

The comments of the INTA Dilution and Well-Known Marks Committee, above, are not themselves free from criticism. The first striking error in the INTA Committee's comments is that they state that the requirements of orthodox trademark infringement are more rigorous than the requirements of trademark dilution. In fact, the opposite is the truth, because of the extraordinary nature of dilution, and the difficulty in proving the existence of actual dilution. Second, the INTA Committee's comments seek to dismiss outright, without qualification, the applicability of niche fame in dilution cases. Most dilution statutes do not require the existence of confusion as a requirement of protection. It is simple, if not simplistic, to ascribe the existence of likelihood of consumer confusion to every situation where niche fame is *in casu*. Where a trademark is well-known in a niche geographic market, its distinctive character or repute can, in appropriate cases, be diluted by a junior user in respect of different products in the niche geographic market. In such situations, consumers and potential consumers of the goods of the proprietor of the mark which is well-known in the niche market will come to realize that the trademark signifies different sources of goods in the niche

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<sup>173</sup> INTA Dilution and Well-Known Marks Committee, "*What It Takes To Be Famous*", p. 1 – 35, at 22, downloaded from [www.inta.org/dilution](http://www.inta.org/dilution), last visited on 1<sup>st</sup> January, 2005.

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market, leading to dilution<sup>174</sup>. Where the niche fame is in respect of a discrete market, dilution can occur if a defendant engages in comparative advertising, for example. Courts should, however, strictly evaluate the reputation of marks with niche fame, to see if it meets the threshold requirements of reputation in dilution cases, because a blind judicial acceptance of the niche fame theory in the context of dilution will lead to an overprotection of the rights of trademarks owners.

It is the courts which inevitably have to strike the right balance between the competing interests present in dilution cases, and the ECJ should be cognizant of this underlying tension when dealing with dilution cases. Several approaches to the balancing exercise can, however, be gleaned from decisions of the ECJ and the OHIM Third Board of Appeal. The thesis will therefore briefly examine these approaches next.

In *Fitnessworld*, above, the ECJ was of the view that in comparing the similarities between a trademark with a reputation and a later sign for dilution purposes, a global approach should be adopted, based on the visual, aural and conceptual similarity of the mark and the sign, notwithstanding the absence of the likelihood of consumer confusion. Implicit in the judgment of the ECJ is that similarity for dilution purposes under the EC Trademark Directive and the Community Regulation means a ‘striking similarity’ or a ‘marked resemblance’ between the sign and the mark. Such strict interpretation will, it is submitted, balance the competing interests present in dilution case in favour of free trade, since where there is only incidental similarity between the mark and the sign, this should, in principle, put an end to the dilution analysis, with the result that the court should dismiss the dilution claim.

In *General Motors*, above, the ECJ also took the view that the first point of analysis in a dilution claim should be a determination whether the earlier

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<sup>174</sup> This is the typical case of perfumes and lawnmowers traded under identical or similar trademarks in a niche geographic market referred to in Part 5.3.3.3 above.

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trademark has a reputation. This is an important guideline for national courts to use in the balancing of rights approach advocated in this thesis, because, if the earlier trademark does not possess a reputation, an analysis of all the other conditions of protection, namely, whether the complained use of the sign is without due cause, or takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the earlier trademark become moot, and the court should, at that point, dismiss the dilution claim, in the interests of free trade.

In *General Motors*, the ECJ was of the view that the reputation of a trademark for dilution purposes under the EC Trademark Directive and the Community Regulation extends to reputation in a niche market. It is submitted, however, that marks with a reputation in a niche market should sparingly be granted protection under the dilution provisions. In other words, protection of trademarks with niche fame, if undertaken outside an overall analysis of the trademark's reputation, will result in over protecting the interests of the trademark owner and defeat the objectives of free trade which underpin the internal market.

The decision of the OHIM Third Board of Appeal in *Hollywood SAS v Souza Cruz*, above, contains important guidelines of the application of the balancing of rights approach in dilution cases advocated in this thesis. First, it lays down the steps which should be used by national courts in any dilution analysis, namely, the determination of the reputation of the earlier trademark, as a first step, a consideration of the similarities between the earlier trademark with a reputation and the sign as a second step, then a consideration of the other dilution elements, if the first two conditions of protection have been satisfied. Second, the judgment defines the concept of "detriment to distinctive character" as used in the Community Regulation, and provides, in a broad manner, the type of evidence which should be present *in casu* in order for a plaintiff to succeed in a claim that the use of a junior sign has caused detriment to the distinctive character of his earlier trademark. Third, the judgment also defines the concept of 'detriment to the repute' of an earlier trademark as used in the Community Regulation. Fourth,

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the judgment further defines the concept of ‘taking unfair advantage of a trademark’s repute’ as used in the Community Regulation. Fifth, the judgment defines not only what constitutes use with ‘due cause’ in the context of the anti-dilution provisions of the Community Regulation, but also importantly provides guidelines, which may be used by national courts, of what *does not* constitute use of a mark with due cause.

In respect of the proof needed to establish a dilution claim under EU law, it has been shown that this issue has not yet been determined by the ECJ, and that, if a literal approach to interpretation is adopted, what will be required will be proof of actual dilution. Such an approach, however, is *not* recommended, as it ignores the incipient nature of dilution.

The Chapter concludes by recommending that both the EC Trademark Directive and the Community Regulation may need to be amended to incorporate the guidelines developed by the ECJ in respect of trademarks with a reputation in the *General Motors* case. Such guidelines will need to be compared to the guidelines developed within the framework of the World Intellectual Property Organisation to ensure that this area of EU trademark law develops in harmony with international trademark initiatives and that marks with a reputation are legislatively defined as synonymous with well-known marks.

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**PART III****A MULTI-JURISDICTIONAL COMPARATIVE ANALYSIS  
OF TRADEMARK DILUTION****CHAPTER 6****UNITED STATES OF AMERICA****6.1 INTRODUCTION**

This Chapter examines and analyses the protection granted to trademarks against dilution under the common law, state statutes and the federal trademark statute of the United States of America. The level of such protection is compared to the obligations imposed on States by international trademark law to provide, in their domestic trademark laws, for protection against dilution. The Chapter also analyses the statutory protection granted to trademarks against internet-based dilution in the United States, and compares such protection to that granted against dilution under the Uniform Dispute Resolution Policy of the Internet Corporation for Assigned Names and Numbers and the jurisprudence developed by the panels which implement that Policy. The Chapter closes by making some law reform recommendations to strengthen the protection granted to trademarks against dilution under United States law.

In Chapter 2, it was shown that in 1927, Frank I. Schechter<sup>1</sup> introduced into United States jurisprudence a theory of trademark protection fundamentally different from the likelihood of confusion injury which was then the only trademark claim recognized in the United States. It was also shown in that Chapter that the essence of Schechter's theory was that strong, well-recognised trademarks should be protected against the injury of "gradual whittling away or

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<sup>1</sup> Frank I. Schechter, "*The Rational Basis of Trademark Protection*" [1927] HARV. LR 813 - 833.

dispersion of [their] identity and hold upon the public mind ... by (their) use upon non-competing goods”<sup>2</sup>.

Schechter argued that the notion of the function of a trademark as solely indicating source was outmoded<sup>3</sup>, and he presented the alternative theory that it was the creation and retention of custom, rather than source-origin designation, that was the primary function of the trademark, and that the preservation of the uniqueness or individuality of the trademark was of paramount importance to its owner<sup>4</sup>. He concluded that the more distinctive or unique the trademark, the deeper its impress upon the public consciousness, and the greater its need for protection against vitiation or dissociation from the particular product in connection with which it is used<sup>5</sup>. Schechter drew from practical examples of his time to fortify his theory, and observed that

a firm of fruitgrowers has recently popularized as its mark another animal of no well known or common-place characteristics, the “blue goose”. When the public hears or sees the phrase “Blue Goose” it thinks, not of “a North American wild goose having a grayish plumage resembling that of the young snow goose found chiefly during its migrations in the Mississippi Valley” but of oranges or grapefruit with a certain trademark and certain meritorious qualities. This entirely arbitrary symbol would soon lose its arresting uniqueness and hence its selling power if it could also be used on pianos, shaving cream, and fountain pens<sup>6</sup>.

Schechter’s theory, in short, was encapsulated in principles which recognized (1) that the value of the modern trademark lies in its selling power, (2) that this selling power depends for its psychological hold upon the public, not merely upon the merit of the goods upon which it is used, but equally upon its own uniqueness and singularity; (3) that such uniqueness or singularity is vitiated or impaired by its use upon either related or non-related goods; and (4) that the degree of its protection depends in turn upon the extent to which, through the efforts or ingenuity of its owner, it is actually unique and different from other

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<sup>2</sup> Note 1 above, at 825.

<sup>3</sup> Note 1 above, at 822.

<sup>4</sup> Note 1 above, at 822.

<sup>5</sup> Note 1 above, at 825.

<sup>6</sup> Note 1 above, at 830.

marks<sup>7</sup>. From this, Schechter concluded that “the preservation of the uniqueness of a trademark should constitute the only rational basis for its protection”<sup>8</sup>.

To support his theory, Schechter referred to case law which had afforded protection against use of trademarks on non-competing goods, such as *Wall v Rolls Royce of America*<sup>9</sup>, *Eastman Kodak Co. v Kodak Cycle Co.*<sup>10</sup> and *American Fruit Growers Inc v John Braadland Ltd*<sup>11</sup>. Schechter however did not coin the term “dilution”, but there is general consensus that the concept of the injury he articulated in his article gave rise to the protection of trademarks against dilution in the United States<sup>12</sup>.

## 6.2 COMMON LAW PROTECTION

There was no ready acceptance by the courts to protect trademarks against dilution under the common law following Schechter’s article. In fact, Schechter himself noted the hesitancy of the courts to extend common law protection against dilution, because in 1932, he is said to have sought legislative protection against trademark dilution by appearing before the Congressional Committee on Patents and by urging the Committee to legislatively recognize the concept of dilution, submitting that

<sup>7</sup> Note 1 above, at 831.

<sup>8</sup> Note 1 above, at 831.

<sup>9</sup> 4F 2d.333, cited in Schechter’s Article at Footnotes 37 and 74.

<sup>10</sup> 15 RPC 105, cited in Schechter’s Article at Footnotes 37 and 72.

<sup>11</sup> 151 MD 239, cited in Schechter’s Article at Footnote 80.

<sup>12</sup> J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, Vol. 4, Chapter 24, § 24:67, at 24 - 128 (2004) commenting that

The concept [of dilution] was first introduced into the United States in the 1920s and 1930s through the writings and congressional testimony of Frank Schechter.

See also Tony Martino, *Trademark Dilution* (1996), Chapter 1, page 1, arguing that trademark dilution was discovered by a brilliant trademark attorney who liked what he saw and introduced him to a new audience. [Trademark dilution’s] debut came in 1927 when [its] blurred silhouette was unveiled by Dr. Frank I. Schechter in the pages of the Harvard Law Review.

See also Beverly W. Pattishall, “*The Dilution Rationale For Trademark – Trade Identity Protection, its Progress and Prospects*” [1977] 67 TRADEMARK REP 607, stating that –

Almost fifty years ago, Frank I. Schechter’s article, *The Rational Basis of Trademark Protection*, proposed a theory of trade identity protection fundamentally different from the likelihood of confusion basis recognized in the United States and inherited from the British common law.

I think there is not only the question of deception of the public, but I believe from the reasoning of this German Court I have quoted, the person who has the trademark should be able to prevent other people from vitiating the originality, the uniqueness of that mark. If you take Rolls Royce – for instance, if you allow Rolls Royce restaurants and Rolls Royce cafeterias, and Rolls Royce pants, and Rolls Royce candy, in 10 years you will not have the Rolls Royce mark any more<sup>13</sup>.

Commentators argue that the first judicial decisions that appeared to extend common law protection against trademark dilution in the United States did no more than pay lip service to the concept of dilution, because in each case the courts ultimately relied upon the element of confusion of identity and the defendant’s wrongful intent to confuse in establishing liability, and did not ground their decisions upon the misappropriation of the advertising value of a trademark which results in its dilution<sup>14</sup>.

The first reason why United States courts were skeptical in extending common law protection to trademarks against dilution is probably because there was no precise common law definition of dilution<sup>15</sup>. In this situation, the courts were hesitant to extend common law protection to dilution claims because they perceived dilution claims

as inviting abuse by monopoly-inclined interests, exposing small businesses to harassment, diminishing the available free use of the language and, as one court feared, “swallowing up all competition in the claim of protection against trade name infringement”<sup>16</sup>.

<sup>13</sup> Quoted by Tony Martino, *Trademark Dilution*, Note 12 above, Chapter 6, at 28.

<sup>14</sup> This was the case, for instance, in *Bulova Watch Co. v Stolzberg* 69F Supp 543, 72 USPQ 72 (D Mass 1947), where the dispute related to Bulova watches and shoes. This was also the case in *Tiffany & Co. v Tiffany Productions Inc* 147 Misc 679,264 NYS 459 (Sup Ct 1932), cited by Beverly W. Pattishall, Note 12 above, and commenting at 608 that

The Rolls Royce and Tiffany decisions generally are considered the cornerstones of the dilution concept in United States law, but in each there was reliance upon the element of confusion of identity and the defendant’s wrongful intent to confuse. In fact, in all of the cases listed by the numerous dilution theory commentators as supportive of the concept, there appears at least lip service reliance on likelihood of source confusion.

<sup>15</sup> Cyd B. Wolf, “*Trademark Dilution: The Need for Reform*” [1984] 74 TRADEMARK REP., 311.

<sup>16</sup> Beverly W. Pattishall, Note 12 above, at 615 – 616

This judicial approach is commonly called the monopoly phobia of the courts. However, as noted by Rudolf Callmann<sup>17</sup>, such hesitancy by the courts was misconceived, because what is sought to be protected under a dilution claim is the distinctiveness and commercial magnetism of the mark, which may be the result of its extraordinary uniqueness, or a considerable advertising effort. The courts therefore failed to recognize that the right in a trademark protected from trademark dilution is not the trademark *per se*, but rather the mark's distinctiveness, its unique identity, its commercial magnetism – in short, that which serves to focus the mind of the public exclusively to its goods and to draw in custom.

The second reason why United States courts were hesitant to extend common-law protection against dilution relates to the origins of the misappropriation doctrine itself as part of the United States general law of unfair competition. Apparently, the doctrine of misappropriation was born in 1918 in the United States Supreme Court decision in *International News Service v Associated Press*<sup>18</sup>. This case occurred during World War 1, and Associated Press<sup>19</sup>, the plaintiff, and International News Service<sup>20</sup>, the defendant, were competitors in the news gathering business. AP used to gather “hot news” from Europe, which it would send to its subscribing newspapers in the American East Coast and West Coast. The “hot news” items usually first appeared in New York newspapers that subscribed to the AP system. INS used to take AP's hot news items from publicly distributed New York newspapers that subscribed to the AP system, and then telegraph them to newspapers on the West Coast that subscribed to the INS system. AP's complaint was that INS was misappropriating its hot news items which AP had gathered at great expense and effort.

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<sup>17</sup> Rudolf Callmann, “*Trademark Infringement and Unfair Competition*” [1949] 14 Law and Contemporary Problems 185, at 188 – 90.

<sup>18</sup> 248 US 215 (1918).

<sup>19</sup> Hereafter called “AP”.

<sup>20</sup> Hereafter called “INS”.

The misappropriation in *INS v AP* did not at that time fit into any identifiable category of unfair competition. It was not an appropriation of confidential information, since INS took the hot new items from publicly distributed newspapers which were already sold in New York. It was not misrepresentation or palming off, because INS did not misrepresent the true source of the hot news items. Moreover, the conduct of INS did not amount to copyright infringement, because the news items were not copyrightable, since what INS appropriated was the underlying news items, not the method of expression in the news items. The United States Supreme Court concluded that INS actions constituted a new form of misappropriation and held that

It is no answer to say that complainant spends its money for that which is fugitive or evanescent to be the subject of property... In a court of equity, where the question is one of unfair competition, if that which complainant has acquired fairly at substantial cost may be sold fairly at substantial profit, a competitor who is misappropriating it for the purpose of disposing of it to his own profit and to the disadvantage of complainant cannot be heard to say that it is too fugitive or evanescent to be regarded as property. It has all the attributes of property necessary for determining that a misappropriation of it by a competitor is unfair competition because it is contrary to good conscience.

The misappropriation doctrine first developed in *INS v AP* produced a lot of controversy. For example, in a case of the alleged misappropriation of dress designs which were not protected under both copyright and patent law, Justice Learned Hand refused to recognise the doctrine as law, holding that the case of *INS v AP* was confined to its own facts<sup>21</sup>. The doctrine seemed to have been judicially abandoned in *Sears, Roebuck & Co v Stiffel & Co*<sup>22</sup>, when the United States Supreme Court held that if an article was not protected by a federal patent or copyright statute, state courts could not forbid others to appropriate that article under unfair competition laws. In *Goldstein v California*<sup>23</sup>, a case which dealt with the constitutionality of California's record and tape piracy statute, the United States Supreme Court however resiled from its *Sears* decision, and held that the

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<sup>21</sup> *Cheney Bros v Doris Silk Corp* 35 F2d 279 (2d Cir 1929).

<sup>22</sup> 376 US 225 (1964).

<sup>23</sup> 412 US 546 (1973); 93 S. Ct. 2303; 37 L.Ed. 2d 163 (1973).

misappropriation doctrine applied where Congress had not indicated that it wished to regulate a subject by federal statute.

In respect of trademarks, McCarthy observes that the misappropriation doctrine cannot be used *in ordinary* trademark infringement cases as a shortcut around the trademark law's standards of protection<sup>24</sup>. He comments that

one cannot dispense with the carefully constructed requirements for trademark protection by blithely claiming that defendant "misappropriated" some symbol of plaintiff which may or may not be capable of trademark protection.

Although some opinions make imprecise use of the term "misappropriation" to avoid having to explain how a result fits into traditional trademark criteria, it is hard to believe that such statements should be taken literally. *If there can be such a thing as "misappropriation" of another's trademark, irrespective of distinctiveness and likelihood of buyer confusion, then a big step has been taken to wipe out the law of trademarks.*

*Thus, it is a misnomer to talk of "misappropriation" of trademarks or trade symbols of any type.* The courts have recognized that if plaintiff has failed under classic trademark law to prove trademark ownership and infringement, then plaintiff cannot claim that defendant has "misappropriated" the labour expended in creating the trademark... While there neither is nor should be such a thing as "misappropriation" of a trademark, the closest concept that in fact exists in the law is the theory of "dilution" of a mark (emphasis added).

According to Mostert, in the United States "there is currently no independent legal right [under the common law] protecting the commercial magnetism of a trademark"<sup>25</sup>. Such lack of common law protection is unfortunate, and fails to distinguish the legal basis of the protection granted to the traditional functions of a trademark, on the one hand, from the advertising function of a trademark, on the other hand.

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<sup>24</sup> Note 12 above, Vol. 2, at § 10:72, pp 10 – 141 to 10 – 142. See also Beverly W. Pattishall, David C. Hilliard and Joseph N. Welch II, *Trademarks and Unfair Competition Deskbook* (2003), Chapter 8, Part 8:04, at 303 to 307.

<sup>25</sup> Frederick W. Mostert, "*The Parasitic Use of the Commercial Magnetism of a Trade Mark on Non-Competing Goods*" [1986] 11 EIPR, 342, at 343.

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As noted earlier<sup>26</sup>, in its traditional form, a trademark serves to identify the goods on which it is used as coming from one source, and to distinguish those goods from the goods of other traders. In addition, a trademark may also symbolize qualities associated by consumers with certain goods and guarantees that the goods measure up to consumer expectations. Finally, a trademark with advertising value has the ability to call to the mind and to draw the attention of the public to a specific product by virtue of its distinctive quality, uniqueness, selling power and commercial magnetism. When misappropriation of the advertising value of a trademark occurs, what is misappropriated is not the trademark *per se*, but its distinctiveness, uniqueness, commercial magnetism and selling power. Since there is a substantial difference between the orthodox functions of a trademark on the one hand, and its advertising function on the other hand, it is only fair that under United States common law, the misappropriation of the advertising value of a trademark performing the latter function should be protected by the misappropriation doctrine, because it may ultimately result in the dilution of the trademark.

McCarthy observes that while in theory a State in the United States is free to protect trademarks from dilution under its common law, apart from statute, in practice such a holding is rare<sup>27</sup>.

### **6.3 STATE ANTI-DILUTION STATUTES**

#### **6.3.1 The Legislative Texts**

Several United States<sup>28</sup> have enacted anti-dilution statutes modeled on the language of section 12 of the 1964 Model State Trademark Bill, which provides that

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<sup>26</sup> See Chapter 2; Notes 1 to 21 and accompanying text.

<sup>27</sup> Note 12 above, Vol. 4, at § 24:78, p. 24 – 137, noting at Footnote 1 that only the States of Ohio and Illinois recognize the dilution theory at common law.

Likelihood of injury to business reputation or of dilution of the distinctive quality of a mark registered under this Act, or a mark valid at common law, or a trade name valid at common law, shall be a ground for injunctive relief notwithstanding the absence of competition between the parties or the absence of confusion as to the source of goods or services.

The Model State Trademark Bill was in turn revised in 1992, and the 1992 revision incorporated anti-dilution provisions in sections 1 (k) and 13 which provide that

- 1 (k) The term “dilution” as used herein means the *lessening* of the capacity of a mark to identify and distinguish goods or services, regardless of the presence or absence of (a) competition between the parties, or (b) likelihood of confusion, mistake or deception.(emphasis added).

Section 13 of the 1992 Bill, on the other hand provides that

13. *Injury to Business reputation: Dilution (The provisions of this section may be preempted in the event that federal dilution legislation is enacted).*

The owner of a mark which is famous in this state shall be entitled, subject to the principles of equity, to an injunction against another’s use of a mark, commencing after the owner’s mark becomes famous, which causes dilution of the distinctive quality of the owner’s mark, and to obtain such other relief as is provided in this section. In determining whether a mark is famous, a court may consider factors such as, but not limited to:

- (a) the degree of inherent or acquired distinctiveness of the mark in this state;

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<sup>28</sup> **Alabama**, Ala Code § 8 - 12 - 17, (Supp 1983); **Arkansas**, Ark Stat Ann §70 – 550 (1979); **California**, Car Bus & Prof. Code §14330 (West Supp 1984); **Connecticut**, Conn Gen Stat Ann §35 – 111 (c) (West 1981); **Delaware**, Del Code Ann Tit. 6 - §3313 (Supp 1982); **Florida**, Fla Stat Ann §495.151 (West 1972); **Georgia**, Ga Code §10 – 1 – 451 (b) 1982); **Idaho**, Ida Code §48 – 512 (1977); **Illinois**, Ill Rev Stat Ch 140, §22 (1984); **Iowa**, Ia Code Ann §548.11 (2) Supp 1983); **Maine**, Me Rev Stat Ann Tit 10, §1530 (1980); **Massachusetts**, Mass Gen Laws Ann. Ch 110B, §12 (West Supp 1983); **Missouri**, Mo Ann Stat §417.061 (Vernon 1979); **Montana**, Mont Code Ann §30 – 13 – 334 (1983); **Nebraska**, Neb Rev Stat §87 – 122 (1981); **New Hampshire**, N.H. Rev Stat Ann §350 – A:12 (Supp 1981); **New Mexico**, N.M. Stat Ann §57 – 3 – 10 (1978), **New York**, N.Y. Gen Bus Laws §368-d (McKinney 1968); **Oregon**, Or Rev, Stat §647 – 107 (1981); **Pennsylvania**, 54 Pa Cons Stat Ann §1124 (Purdon Supp 1983); **Rhode Island**, R.I. Gen, Laws §6 – 2 – 12 (Supp 1983), **Tennessee**, Tenn Code Ann §47 – 25 – 433 (Supp. 1983).. As of the time of writing, the following states had not adopted an anti-dilution statute: Colorado; Indiana; Kentucky; Maryland; Michigan; Nevada; North Carolina; North Dakota; Ohio; Oklahoma; South Dakota; Vermont; Virginia; and Wisconsin. Information obtained from INTA website [www.inta.org](http://www.inta.org), last visited 10<sup>th</sup> July, 2004.

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- (b) the duration and extent of use of the mark in connection with the goods and services;
  - (c) the duration and extent of advertising and publicity of the mark in this state;
  - (d) the geographical extent of the trading area in which the mark is used;
  - (e) the channels of trade for the goods or services with which the owner's mark is used;
  - (f) the degree of recognition of the owner's mark in its and in the other's trading areas and channels of trade in this state; and
  - (g) the nature and extent of use of the same or similar mark by third parties.

The owner shall be entitled only to injunctive relief in this state in an action brought under this section, unless the subsequent user willfully intended to trade on the owner's reputation or to cause dilution of the owner's mark. If such willful intent is proven, the owner shall also be entitled to the remedies set forth in this chapter, subject to the discretion of the court and the principles of equity.

The provisions of the revised Model State Trademark Bill corresponds with the provisions of section 25 of the Restatement [Third] of Unfair Competition, which provides that<sup>29</sup>

- (1) One may be subject to liability under the law of trademarks for the use of a designation that resembles the trademark, trade name, collective mark, or certification mark of another without proof of a likelihood of confusion only under an applicable anti-dilution statute. An actor is subject to liability under an anti-dilution statute if the actor uses such a designation in a manner that is likely to associate the other's mark with the goods, services, or business of the actor and:
  - (a) the other's mark is highly distinctive and the association of the mark with the actor's goods, services, or business is likely to cause a reduction in that distinctiveness; or
  - (b) the association of the other's mark with the actor's goods, services, or business, or the nature of the actor's use, is likely to disparage the other's goods, services, or business or tarnish the images associated with the other's mark.

### **6.3.2 Distinctiveness and Fame Necessary to Qualify for Protection under State Law**

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<sup>29</sup> §25 (1995).

Most state anti-dilution statutes do not expressly require a mark to be “famous”, “strong”, or “well-known” for the dilution doctrine to apply, but some judicial opinions seem to have “read in” such a requirement. A few examples illustrate this judicial approach. Thus ACCURIDE for drawer slides was held to be insufficiently distinctive to be diluted<sup>30</sup>. MISS U.S.A. was held not famous enough to be diluted by MISS VENUS U.S.A.<sup>31</sup> FREEDOM for savings and loans was held not strong enough to be diluted by FREEDOM for real estate service<sup>32</sup>. ASTRA for local anesthetic was held to be too weak to be diluted by ASTRA for blood analyzer<sup>33</sup>. ALLIED MAINTENANCE for maintenance of large office buildings was similarly found not to have been diluted by ALLIED MECHANICAL TRADES INC for installation and repair of heating, ventilating and air conditioning equipment, where “Allied” was used by at least 300 New York City businesses and when plaintiff failed to show that its name had acquired a secondary meaning<sup>34</sup>. Likewise, the use of the mark “Sally Gee” on handmade women’s clothing was held not to be dilutive of the same mark for mass-produced women’s clothing, because, to be a candidate for dilution protection, in the view of the court, a mark should be “truly of distinctive quality” or one that “has acquired secondary meaning in the mind of the public”, resulting in a diminution of the mark’s selling power<sup>35</sup>. If plaintiff’s mark is strong only in a small segment of the population and the defendant’s use is directed more broadly, dilution might not exist. For example, a distinctive selling power and wide recognition in the legal and computerized legal research fields do not constitute sufficient strength for a successful dilution claim in another product category like cars<sup>36</sup>. Similarly, strong marks in a particular trade or geographic area may not qualify for protection from dilution if they are weak in other areas<sup>37</sup>.

<sup>30</sup> *Accuride International Inc v Accuride Corp.* 871 F. 2d 1531; 10 USPQ2d 1589 (9<sup>th</sup> Cir. 1989).

<sup>31</sup> *Miss Universe Inc v. Patricelli* 753 F 2d 235 ; 225 USPQ 272 (2<sup>nd</sup> Cir. 1985).

<sup>32</sup> *Freedom Savings and Loan Association v Way* 757 F. 2d 1176; 226 USPQ 123 (11<sup>th</sup> Cir. 1985).

<sup>33</sup> *Astra Pharmaceutical Products Inc v Beckman Instruments Inc.* 718 F. 2d 1201; 220 USPQ 786 (1st Cir. 1983).

<sup>34</sup> *Allied Maintenance Corp v Allied Mechanical Trades Inc.*, 369 N.E. 2d. 1162; 42 NY2d538 (N.Y. 1977).

<sup>35</sup> *Sally Gee Inc v Myra Hogan Inc.*, 699 F2d 621; 217 USPQ 658 (2<sup>nd</sup> Cir. 1983).

<sup>36</sup> *Mead Data Central Inc. v Toyota Motor Sales USA Inc.*, 875 F2d 1026 (2nd Cir. 1989); See Lisa M. Brownlie, “*Mead Data Central v Toyota and Other Contemporary Dilution Cases: High Noon for*

However, nationally famous marks like KODAK and TIFFANY have been held to clearly qualify as strong and inherently distinctive candidates for dilution relief<sup>38</sup>. Also, secondary meaning in a mark, like TOYS “R” US, has been held to be a criterion enabling a mark to qualify for dilution relief<sup>39</sup>. Extensive use of a mark like HYATT, which is inherently non-distinctive, can also allow for protection from dilution<sup>40</sup>.

There is general consensus, however, that *the courts* have failed to authoritatively espouse a uniform set of guidelines to determine the degree of fame and distinctiveness necessary for a mark to qualify for dilution protection, or to precisely specify when a mark may be deemed to possess such fame, under state anti-dilution statutes. According to Jacqueline A. Leimar<sup>41</sup>,

Most dilution statutes only apply to marks that are of a “distinctive” quality. Unfortunately, the courts are not in agreement as to what that means.

Cyd B. Wolf<sup>42</sup> also points out this short-coming by observing that courts have refused to award relief because the plaintiff’s mark was not “distinctive”, a term not used or defined in state statutes. Beverly W. Pattishall<sup>43</sup> notes that

the concept seemingly has remained so misunderstood or unpalatable to the judicial taste that it largely has been ignored by the courts despite the plain dictates of the statutes and the voluminous urgings of the academics.

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*Trademark Law’s Misfit Doctrine?*” [1989] 79 TRADEMARK REP. 471. Jacqueline A. Leimer, “*Trademark Dilution in the US*” Trademark World [Nov. 1993] 15, at 16.

<sup>37</sup> *Amstar Corp v Domino’s Pizza Inc.* 615 F. 2d. 252; 205 USPQ 969 (5<sup>th</sup> Cir), 449 US 899 (1980), where the court found that the trademark DOMINO had limited strength outside its product category and was, therefore, not diluted by DOMINO’S PIZZA.

<sup>38</sup> *Eastman Kodak Co. v Rakow*, 739 F. Supp. 116, 15 USPQ 2d 1631 (WDNY 1989); *Tiffany & Co. v Boston Club Inc.*, 231 F. Supp 836; 143 USPQ 2 (D Mass 1964).

<sup>39</sup> *Toys “R” Us Inc v Canarsie Kiddie Shop Inc*, 559 F Supp 1189 (EDNY 1983), where the court found that the selling power of TOYS “R” US was being diluted by KIDS “R” US.

<sup>40</sup> *Hyatt Corp v Hyatt Legal Services*, 736 F 2d 1153 (7<sup>th</sup> Cir), 469 US 1019 (1984).

<sup>41</sup> Note 36 above, at 16.

<sup>42</sup> Note 15 above, at 312.

<sup>43</sup> Note 12 above, at 610.

This judicial attitude, however, seems to place a blind eye towards section 13 of the 1992 Model State Trademark Bill, which, as has been shown, provides a seven-factor list of guidelines to be used by the courts in determining when a mark may be considered to be famous for the purposes of protection from trademark dilution. The list specified in section 13 broadly corresponds with Article 2 (1) (b) of the WIPO Joint Recommendation on Well-Known Marks and incorporates the guidelines in Article 16 (2) of the Agreement on Trade-Related Aspects of Intellectual Property Rights.

Having evaluated the interpretation given to “fame” by the courts under state statutes, the research proceeds to look at how the courts have dealt with the issue of dilution by blurring.

### **6.3.3 State Law and Dilution by Blurring**

Dilution by blurring is the orthodox type of dilution which protects against unauthorized uses of a famous mark in the absence of competition or a likelihood of confusion. Here, customers and prospective customers are not confused as to source, sponsorship or affiliation, but the defendant’s misappropriation of the advertising value of a famous trademark causes a corrosion to the uniqueness and distinctive ability of the famous mark to identify and distinguish one source. Frederick W. Mostert<sup>44</sup> conceptualizes this type of dilution as embodying the “attrition of the advertising function of a trade mark”; that is; the debilitation of the mark’s ability to draw the attention of the purchasing public to a specific product by means of its distinctive quality, uniqueness, selling power: in short, a lessening of a famous mark’s ability to evoke an association of satisfaction and desirability with its product. This, according to Schechter, is the injury of “the

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<sup>44</sup> Frederick Mostert, “*Trademark Dilution and Confusion of Sponsorship in United States, German and English Law*” [1986] Vol. 17 International Review of Industrial Property and Copyright Law, 80 at 86 – 87.

gradual whittling away and dispersion of the identity and hold of the trademark on the purchasing public”<sup>45</sup>.

Dilution by blurring occurs if, for example, the “Tiffany” mark, internationally well-known in respect of jewellery, is used without its proprietor’s consent on chocolates, clothing, bicycles and motor vehicles. In this environment, the exclusive association of “Tiffany” with jewelry will be transferred and shared with other products, and will in this way gradually be whittled away, eroded and seriously impaired.<sup>46</sup> The unauthorized use of the mark “Hyatt”, for example, which was well-known for its use in respect of plaintiff’s hotel chain, was likewise prohibited in respect of use for defendant’s legal chain service<sup>47</sup>. The unauthorized use of “Tower of Babble” in an advertisement of the defendant’s aspirin, was similarly prohibited, since the trademark was well-known in respect of its use on plaintiff’s language game<sup>48</sup>.

Robert D. Litowitz and Douglas A. Rettew<sup>49</sup> concisely capture the misappropriation which causes dilution by blurring and the injury of dilution by blurring itself when they observe that:

Classic examples of potentially diluting uses might include: DuPont shoes, Buick aspirin tablets, Schlitz varnish, and Kodak pianos. Blurring dilution was intended to encompass uses like these, where someone usurps (intentionally or unintentionally) the selling power of a famous mark but does so on goods or services that consumers would not ordinarily associate with the famous brand name. The uses eventually detract from the power of the famous mark to identify its goods and ‘whittle away’ its distinctive value as a source identifier.

The same approach was adopted in *Community Federal Savings and Loan Association v Orondoff*<sup>50</sup>. There, plaintiff, a savings and loan association,

<sup>45</sup> Note 1 above, at 825.

<sup>46</sup> The *Tiffany* case, Note 38 above.

<sup>47</sup> The *Hyatt* case, Note 40 above.

<sup>48</sup> *Dawn v Sterling Drug, Inc.*, 319 F. Supp. 358; 167 USPQ 721 (CD Cal. 1970).

<sup>49</sup> Robert D. Litowitz and Douglas A. Rettew, “What is ‘Dilution’ Under the New US Federal Trademark Dilution Act?” [1996] 11 EIPR 618, at 618 - 619.

<sup>50</sup> 678 F2d 1034; 215 USPQ 26 (11<sup>th</sup> Cir. 1982).

owned a 1976 federal registration for the service mark “cookie jar” and jar design in respect of banking, savings and loan association services, which it used on one of its automated banking machines in one of its branch offices. Across the street from plaintiff’s main branch, above a topless go-go bar, was prominently displayed a large billboard with a jar design and cookie jar thereon, with a silhouette of a lady lying on top of the jar design and the phrases “Annie’s Cookie Jar”, “Adult Entertainment” and “The most fun you can have in town (with your clothes on)”. The plaintiff sought to enjoin the defendant’s use of the “Cookie Jar” device and associated devices under the State of Florida’s anti-dilution statute. The court granted the plaintiff injunctive relief for injury to business reputation and dilution of the distinctive quality of plaintiff’s service mark. The Court found that

the exhibits of record, including photographs of appellee’s billboard, are potent witnesses to the actual or likely ‘whittling away’ of the unique character of appellant’s mark<sup>51</sup>.

The court concluded that the distinctiveness of the mark and its commercial magnetism were subject to dilution as a result of unauthorized use by a non-competitive business.

It should also be noted that United States courts have held that dilution by blurring can be caused by the generic use of a mark. The distinctiveness, unique identity and commercial magnetism of a trademark which serves to evoke and focus attention on the plaintiff’s goods in the public mind can be diluted by its generic use, particularly by generic use in newspapers, magazines, dictionaries, on the internet, and in similar publications. A generic mark is a word that is the name of the very goods to which it refers. “Table”, “chair”, “computer”, “aspirin”<sup>52</sup>, and “cellophane”<sup>53</sup> are unexceptional examples of generic marks. Such marks then occupy the public domain of market language because, (a) they

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<sup>51</sup> Note 50 above, at 1035; 215 USPQ, at 27.

<sup>52</sup> *Bayer Co. v United Drug Co*, 272 F 505 (DNY 1921).

<sup>53</sup> *DuPont Cellophane Co. Inc v Waxed Products Co. Inc*, 85 F2d 75; 30 USPQ 332 (2d Cir. 1936).

no longer serve to identify particular goods in a trademark sense, but become the name of the goods themselves, and (b) they also become part of a class of words that is the public domain, accessible for free use by the public<sup>54</sup>, because (c) they have been absorbed into language and thus form part of etymology.

The fact that genericide is a specie of dilution by blurring is axiomatic if it is remembered that the harm of dilution is the whittling away of the uniqueness and distinctiveness of a mark. Generic use blurs that distinctiveness by putting the mark into the public domain – the mark becomes the name of the goods to which it refers. Apart from the aspirin and cellophane cases<sup>55</sup> already referred to, United States courts have upheld dilution claims to prohibit the generic use of distinctive marks under state anti-dilution statutes for shredded wheat<sup>56</sup>, among other cases.

It may now be concluded that, as interpreted by the courts, the state anti-dilution statutes (a) recognize the advertising function of a trademark as the essential trademark function which should not be whittled away by the unauthorized use of the mark on dissimilar goods, where such use causes dilution, (b) proscribe dilution by blurring in terms equivalent to that granted under Article 4 (1) (b) (ii) of the WIPO Joint Recommendation on Well-Known Marks<sup>57</sup>, and (c) protect distinctive marks against generic uses which blur their distinctive quality, and gradually whittle away their ability to focus the attention of the public exclusively on their goods.

#### **6.3.4 State Law and Dilution by Tarnishment**

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<sup>54</sup> Neil J Wilkof, “*Trade Marks and the Public Domain: Generic Marks and Generic Domain Names*” [2000] EIPR571, 572 – 573.

<sup>55</sup> Notes 52 and 53 above.

<sup>56</sup> *Kellog Co. v National Biscuit Co.*, 305 US 111 (1938). For a general discussion of dilution as genericide, see Tony Martino, *Trademark Dilution* (1996), Chapter 9, at 57 – 60. See also *Selchow & Righter Co. v McGraw-Hill Book Co.*, 580 F.2d 25; 198 USPQ 577 (2<sup>nd</sup> Cir. 1978) where the court granted a preliminary injunction, at least in part, because of a determination that the defendant’s book entitled “The Complete Scrabble Dictionary” might render generic plaintiff’s mark “Scrabble” for a wood game.

<sup>57</sup> See Chapter 4, Notes 89 to 91 and accompanying text.

The harm of dilution by tarnishment in United States trademark law, on the other hand, generally occurs when a trademark is linked to products of an inferior or immoral quality or character, or when a mark is portrayed in an unwholesome or unsavoury context likely to evoke negative thoughts about the owner's product. In such situations, the trademark's reputation and commercial value diminishes when the public attributes the undesirable characteristics of the defendant's goods to the plaintiff's goods.

Jacqueline A Leimar<sup>58</sup> opines that the remedy against dilution by tarnishment prevents unauthorized use of trademarks which tarnish, degrade or create negative associations with plaintiff's trademark. In this type of dilution, the value of the owner's mark is diluted not only by loss of distinctiveness, but also by loss of positive associational value. Frederick W. Mostert notes that

The unauthorized use of a trade mark in an unsavoury context could tarnish the favourable association that it evokes with the purchasing public about a product. If a trade mark is used without consent on non-competing goods in an offensive and unsavoury connotation, the favourable association which it creates with the purchasing public can be severely tarnished<sup>59</sup>.

Above, it has been shown that state anti-dilution statutes protect famous marks against dilution by tarnishment, and that the Restatement [Third] of Unfair Competition contains a similar proposal. In interpreting the state anti-dilution provisions prohibiting dilution by tarnishment, United States courts have recognised three broad categories of misappropriation which cause dilution by tarnishment, *all of which* require some finding of negative associations with plaintiff's mark due to defendant's unauthorized use<sup>60</sup>. The three categories are set out and briefly discussed below.

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<sup>58</sup> Note 36 above, at 15.

<sup>59</sup> Note 44 above, at 89.

<sup>60</sup> *Hormel Foods Corp v Jim Henson Products* 73 F3d 497, 507 (2d Cir. 1996) holding that the *sine qua non* of tarnishment is a finding that plaintiff's mark will suffer negative associations through defendant's use.

First, the courts have found that tarnishment may be caused by a misappropriation which results in “*unwholesome associations*” with plaintiff’s goods. This is exemplified in the following cases, namely (a) *New York Stock Exchange Inc v New York, New York Hotel, LLC*<sup>61</sup>, where a Las Vegas hotel and casino replicated the New York Stock Exchange’s physical features and used humorous modifications of its marks. There, the court held that a reasonable trier of facts might find that the casino’s humorous analogy between the activities of the New York Stock Exchange and its activities, deemed by many to involve odds stacked heavily in favour of the house, might injure New York Stock Exchange’s reputation; (b) the *Cookie Jar*<sup>62</sup> case, where injunctive relief was granted against the use of the mark “Cookie Jar” and associated devices on a topless bar across the street from the main branch of a bank that used the same mark; (c) *American Express Co. v Vibra Approved Laboratories Corp*<sup>63</sup>, where the defendant was enjoined from marketing a “condom card” bearing the name “American Express” and the slogan “Never leave home without it” because this was likely to dilute plaintiff’s well-known American Express credit card and its slogan “Don’t leave home without it”; (d) *Eastman Kodak Co v Rakow*<sup>64</sup>, where a nationwide injunction was granted against a comedian’s use of the stage name “Kodak” for off-color comedy; (e) *Coca-Cola Co. v Alma Leo U.S.A.*<sup>65</sup> where the defendant was enjoined from marketing white powder bubblegum resembling cocaine in a plastic simulation of Coca-Cola’s famous bottle; (f) *Dallas Cowboys Cheer Leaders Inc v Pussycat Cinema Ltd*<sup>66</sup> where use of uniforms substantially similar to those of the Dallas Cowboys Cheer Leaders in an X-rated movie was found to constitute dilution by tarnishment; and (g) *Pillsbury Co. v. Milky Way Productions Inc*<sup>67</sup>, where the defendant’s publication in Screw Magazine of a picture of figures resembling the plaintiff’s trade characters “Poppin’ Fresh” and

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<sup>61</sup> 293 F3d 550; 62 USPQ 2d 1260 (2<sup>nd</sup> Cir. 2002).

<sup>62</sup> Note 50 above.

<sup>63</sup> 10 USPQ 2d 2006 (S.D.N.Y. 1989).

<sup>64</sup> 739 F. Supp.116; 15 USPQ 2d 1631 (W.D.N.Y. 1989).

<sup>65</sup> 719 F. Supp 725 (N.D.ILL. 1989).

<sup>66</sup> 604 F 2d 200; 203 USPQ 162 (2d Cir. 1979).

<sup>67</sup> 215 USPQ 124; 1981 WL 1402 (ND Ga 1981).

“Poppie Fresh”, and plaintiff’s barrelhead trademark and its jingle “The Pillsbury Baking Song” was found to have been used in a depraved context.

Second, the courts have declared certain acts as causing the injury of dilution by tarnishment because the acts associated the plaintiff’s famous mark with *a lower quality product*. This approach is exemplified by the following line of cases, namely, (a) *Steinway and Sons v Demars and Friends*<sup>68</sup>, where the use of the mark “Stein-Way” for clip-on beer handles was found to dilute “the quality and prestige” symbolized by “Stein-Way” for pianos; (b) the *Sally Gee* case<sup>69</sup> where, even though the court did not find dilution *in casu*, the court stated the *dicta* that to be a candidate for dilution relief, the senior mark should be “truly of distinctive quality”, which quality would then be whittled away by uses on low quality products.

Third, the courts have also found dilution by tarnishment to have been caused in cases of “*parody*” or “*poking fun*”. Litowitz and Rettew<sup>70</sup> recognize this form of misappropriation as a distinct category. They state that

The US Court of Appeals for the Second Circuit recently recognized *a third type* of unauthorized use that give rise to a cause of action for dilution under New York state law: poking fun. (emphasis added).

Litowitz and Rettew trace the judicial roots of parody or poking fun which causes dilution by tarnishment to *Deere and Company v MTD Products Inc*<sup>71</sup>. There, the defendant had portrayed the John Deere trademark – a graceful, mature leaping deer used by the plaintiff on its farming equipment products – as a small, frightened deer running away for dear life from a dog and a lawn mower tractor. The court issued a preliminary injunction prohibiting such use, even though under United States law, an altered version of a distinctive trademark may be used to identify a competitor’s product in a humorous way.

<sup>68</sup> 210 USPQ 954; 1981 WL 40530 (C.D. Cal. 1981).

<sup>69</sup> Note 35 above.

<sup>70</sup> Note 49 above, at 619.

<sup>71</sup> 41 F 3d 39; 32 USPQ 2d 1936 (2<sup>nd</sup> Cir. 1994).

In *Hormel Foods Corp v Jim Henson Products*<sup>72</sup>, the United States Court of Appeals for the Second Circuit clarified its judgment in *John Deere* by observing that in that case, it had recognized “a broad view of tarnishment, where the doctrine had sometimes been narrowly confined”, thus confirming parody as a cause of dilution by tarnishment.

In closing this Part of the research, it is noted that Article 4 (1) (b) (ii) of the WIPO Joint Recommendation on the Protection of Well-Known Marks prohibits the misappropriation of the advertising value of a *well-known mark* in situations where a conflicting mark is used on goods or services which are of an inferior nature or of an obscene or immoral character<sup>73</sup>, and it also contemplates injurious misappropriations like disparaging parody<sup>74</sup>. US state law, as seen above, similarly protects a *famous mark* against these three broad categories of misappropriation, and in this way may be said to be substantially compliant with international trademark law provisions protecting against tarnishment dilution, albeit the focus of protection under US State law is on famous and not well-known marks.

### 6.3.5 State Law and Competition

There seems to be a split in the courts, in interpreting and applying state anti-dilution statutes, on the question whether protection against dilution is available where the parties are in competition. Under the first line of authorities, courts have inferred that where a case involves competitive or closely similar goods or services, the dilution doctrine does not apply<sup>75</sup>. The rationale for this

<sup>72</sup> 73 F 3d. 497; 37 USPQ 2d 1516 (2<sup>nd</sup> Cir. 1996).

<sup>73</sup> See Chapter 4, Notes 89 to 91 and accompanying text.

<sup>74</sup> Chapter 4, Note 91 and accompanying text.

<sup>75</sup> *Holiday Inns Inc v Holiday Out in America* 481 F2d 445, 178 USPQ 257 (5<sup>th</sup> Cir. 1973); *HMH Publishing Co. v Lambert* 482 F2d 595, 178 USPQ 518 (9<sup>th</sup> Cir. 1973); *Alberto – Culver Co v Andrea Dumon Inc* 466 F2d 705, 175 USPQ 194. (7<sup>th</sup> Cir. 1972); *EZ Loader Boat Trailers Inc v Cox Trailers Inc* 746 F2d 375, 223 USPQ 1101 (7<sup>th</sup> Cir. 1984); *Smithkline Beckman Corp v Proctor and Gamble Co.* 591

approach is that protection against dilution is not a substitute for protection against likelihood of confusion, which is the fundamental principle of trademark law. This approach therefore recognizes dilution protection as existing where the goods are unrelated and non-competitive, and likelihood of consumer confusion is absent. Milton Handler<sup>76</sup> succinctly captures the rationale behind this approach by arguing, in respect of the Illinois anti-dilution statute, that

It is ironic that the statute is now being invoked even where the products are the same. The legislation by its very terms responded to what was felt to be a need *to extend* protection beyond the very product upon which the mark was being used. There is no indication in the sparse legislative history or from the very wording of these laws that dilution or trespass was to be substituted for confusion and deception where the challenged use was on the same product. (emphasis added).

The second line of judicial authorities, which is more progressive in outlook, holds that dilution protection is available under state anti-dilution statutes where the parties are in competition<sup>77</sup>. The rationale behind this judicial approach to the interpretation of state anti-dilution statute has as its basis the Restatement (Third) of Unfair Competition<sup>78</sup>, which states that protection against dilution should be available in respect of the unauthorized use of a trademark on competing goods. According to McCarthy<sup>79</sup>, this judicial approach is important because

While some potential purchasers may be confused as to source or affiliation, others will not. Those others will recognize the junior user as independent of the senior user, but their perception might lead to dilution by blurring or tarnishment.

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F. Supp. 1229, 223 USPQ 1230 (N.D.N.Y. 1984); *Tower Publications Inc. v MTS Inc* 21 USPQ2d 1303 (N.D. 111.1991).

<sup>76</sup> Milton Handler, “*Are the State Anti-Dilution Laws Compatible With The National Protection of Trademarks?*” [1985] 75 TRADEMARK REP. 269, at 279.

<sup>77</sup> *Three Blind Mice Designs Co v Cyrk Inc* 892 F. Supp. 303, 36 USPQ2d 1001 (D. Mass. 1995); *Nikon Inc v Ikon Corp* 987F 2d 91, 25 USPQ 2d 2021 (2d Cir. 1993).

<sup>78</sup> §25 (1995), comment f.

<sup>79</sup> Note 12 above, at §24:72, pp 24.136.4 to 24.136.5.

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Antagonists of trademark dilution argue that although the above observations may be true, the extraordinary remedy of a dilution claim must only be used in the most exceptional and clearest cases where the parties are competitors. The theoretical foundation of the dilution doctrine, according to the antagonists, from its very conception, was designed to protect the advertising value of famous marks in cases where the parties are *not* competitors. Using the dilution remedy in cases where the parties are competitors, they argue, may legitimately be perceived as seeking to usurp the role of orthodox trademark infringement claims, which invariably use the yardstick of the likelihood of consumer confusion. Routine use of dilution claims in cases where the parties are competitors will, the argument proceeds, upset the balance of free competition and weaken the very purpose for which the extraordinary anti-dilution doctrine was designed to achieve; namely, to protect a mark's advertising value notwithstanding absence or likelihood of consumer confusion. The short answer to the above arguments, it is submitted, is that the remedy of a dilution claim will be a *useful* instrument in protecting the interests of the owner of a trademark with advertising value even where the parties are competitors, if the courts are vigilant in balancing the rights of the trademark owner on the one hand and the right of the public to free trade on the other hand, using the framework developed in Chapter 3. Further, there is no justifiable reason, in principle, why dilution protection should not be extended to competitors when potential customers are not confused as to source or affiliation, but correctly recognize the junior user as independent of the senior user, and where their perception might lead to dilution by blurring or tarnishment.

### 6.3.6 *Relief Under State law*

The language of the Model State Trademark Bill adopted in most state anti-dilution statutes authorizes only injunctive relief in dilution claims. As such, the notion of dilution triggering monetary relief is unexplored under state law.

Also, it must be noted that relief may be lost under state anti-dilution statutes if the dilution claim is statute barred pursuant to a statute of limitations.<sup>80</sup>

A nebulous issue in respect of relief under state anti-dilution statutes is the question of the territorial extent of any injunctive relief granted by the court; that is; whether it should have state-wide or nation-wide force and effect. Two different approaches are discernible from the authorities. First, some courts have held that they have power to issue only state-wide injunctions, because if they issue nation-wide injunctions under state anti-dilution statutes, this would potentially create a conflict with the constitutional commerce clause in states without anti-dilution statutes<sup>81</sup>. Other courts have preferred to issue nation-wide injunctions, holding that to issue only a state-wide injunction would fragmentalize or qualify the salutary deterrent effects of the injunction.<sup>82</sup>

The research next proceeds to analyse trademark dilution in the federal context.

## 6.4 THE FEDERAL TRADEMARK DILUTION ACT<sup>83</sup>

### 6.4.1 Generally

The first federal anti-dilution statute was enacted in the United States in 1996, in the form of the FTDA, which came into force on 16 January, 1996. The

<sup>80</sup> *De Medici v Lorenzo De Medici Inc* 101 AD 2d 719, 475 NYS 2d 391, 225 USPQ 193 (1<sup>st</sup> Dep't 1984), where it was held that while dilution is a continuing tort, recovery in damages may not be had for a period of more than three years prior to filing suit.

<sup>81</sup> *Hyatt Corp v Hyatt Legal Services*, 610F Supp 381 (N.D. 111. 1985).

<sup>82</sup> *Factors Inc v Pro Arts Inc* 652 F 2d 278, at 289 – 290; 211 USPQ 1 (2d Cir, 1981); 456 US 927, 102 SCt 1973 (1982), discussing the territorial scope of an injunction under a state law publicity rights statute, and favouring a nation-wide approach. *Deere & Co. v MTD Products Inc*, Note 71 above, where the Court held that

the weight of authority is that a court has power to issue a nationwide injunction based on violation of a single state's anti-dilution law and the issue is whether it is appropriate to grant such an injunction.

See also *Carson v Here's Johnny Portable Toilets Inc*. 810 F 2d 104, 1 USPQ 2d 2007 (6<sup>th</sup> Cir. 1987), adopting a similar approach in respect of publicity rights.

<sup>83</sup> Hereafter called "the FTDA".

FTDA was an amendment to Section 43 of the Lanham Act, the United States federal trademark statute. There were some doubts initially<sup>84</sup> as to whether the FTDA would pre-empt state anti-dilution statutes, but the majority of court decisions on the issue have resoundingly held that the FTDA does not pre-empt state anti-dilution statutes.<sup>85</sup> Under United States law, a state statute is pre-empted where

Congress has explicitly mandated the pre-emption of state law, or has adequately indicated an intent to occupy the field of regulation, thereby displacing all state laws on the same subject. Even in the absence of such express language, or implied congressional intent to occupy the field, we may nevertheless find state law to be displaced to the extent it actually conflicts with federal laws. Such actual conflict between state and federal law exists when “compliance with both federal and state regulations is a physical impossibility”, or when state law “stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.”<sup>86</sup>

#### 6.4.2 The Legislative Text

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<sup>84</sup> See Milton Handler, “*Are the State Anti-Dilution Laws Compatible With The National Protection of Trademarks?*” [1985] 75 TRADEMARK REP. 269. See also the Headnote to Section 13 of the 1992 Model State Trademark Bill. See further De Sevo, “*Antidilution Laws: The Unresolved Dilemma of Preemption Under the Lanham Act*” [1994] 84 TRADEMARK REP. 300, at 320, stating that

In sum, to the extent antidilution laws permit an owner of a trademark to succeed on a dilution claim where it cannot establish a likelihood of confusion under traditional trademark analysis, the laws are an obstacle to the accomplishment and execution of the full purposes and objectives of the Lanham Act and, accordingly, should be pre-empted.

During the House of Representatives proceedings on the FTDA, it was stated that

It is important to note that the proposed federal dilution statute would *not* pre-empt state dilution laws. Unlike patent and copyright laws, federal trademark law co-exists with state trademark law, and it is to be expected that the federal dilution statute should similarly co-exist with state dilution statutes.

See House Report 104 – 374 (November 30, 1995).

<sup>85</sup> *Ringling Bros-Barnum & Bailey Combined Shows Inc v Celozzi-Ettelson Chevrolet Inc* 855 F 2d 480, 8 USPQ 2d1072 (7<sup>th</sup> Cir. 1988) holding that no direct conflict exists between the Lanham Act and the Illinois Anti-Dilution Act. *Nikon Inc v Ikon Corp* 987 F 2d 91, 25 USPQ 2d 2021, 2026 (2d Cir 1993) holding that New York anti-dilution statute is not pre-empted by the Federal Lanham Act. *Viacom Inc v Ingram Enterprises Inc* 141 F3d 886, 46 USPQ 2d 1473 (8<sup>th</sup> Cir 1998) holding that the FTDA does not pre-empt Missouri state anti-dilution statute.

<sup>86</sup> *Brown v Hotel & Restaurant Employees & Bartenders* 104 SCt 3179, at 3185 – 6 (1984); *Gade v National Solid Wastes Management Association* 112 SCt 2374, at 2383 (1982); *International Paper Co. v Oullette* 749 US 481, at 491 (1987).

The FTDA provides for protection against the injury of dilution by stating that<sup>87</sup>

- (1) The owner of a *famous mark* shall be entitled, subject to the principles of equity and upon such terms as the court deems reasonable, to an injunction against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark, and to obtain such other relief as is provided in this subsection. In determining whether a mark is *distinctive and famous*, a court may consider factors such as, but not limited to –
  - (A) the degree of inherent or acquired distinctiveness of the mark;
  - (B) the duration and extent of use of the mark in connection with the goods or services with which the mark is used;
  - (C) the duration and extent of advertising and publicity of the mark;
  - (D) the geographical extent of the trading area in which the mark is used;
  - (E) the channels of trade for the goods or services with which the mark is used;
  - (F) the degree of recognition of the mark in the trading areas and channels of trade used by the mark's owner and the person against whom the injunction is sought;
  - (G) the nature and extent of use of the same or similar marks by third parties; and
  - (H) whether the mark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register.
- (2) In an action brought under this subsection, the owner of the famous mark shall be entitled *only* to injunctive relief *unless* the person against whom the injunction is sought willfully intended to trade on the owner's reputation or to cause dilution of the famous mark. If such willful intent is proven, the owner of the famous mark shall also be entitled to the remedies set forth in sections 35 (a) and 36, subject to the discretion of the court and the principles of equity.
- (3) The ownership by a person of a valid registration under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register shall be a complete bar to an action against that person, with respect to that mark, that is brought by another person under the common law or a statute of a State and that seeks to prevent dilution of the distinctiveness of a mark, label, or form of advertisement.
- (4) The following shall not be actionable under this section:

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<sup>87</sup> §43 (c ) (i) Lanham Act, 15 USCA 1125 (c ) (l).

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- (A) Fair use of a famous mark by another person in comparative commercial advertising or promotion to identify the competing goods or services of the owner of the famous mark.
  - (B) Noncommercial use of a mark.
  - (C) All forms of news reporting and news commentary.

The FTDA then proceeds to define the expression “dilution”<sup>88</sup> by providing that

The term “dilution” means the *lessening* of the capacity of a famous mark to identify and distinguish goods or services, *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.

The Lanham Act was further amended in 1999 by the Trademark Amendments Act<sup>89</sup>, providing for opposition to the registration of a trademark based on the ground of dilution<sup>90</sup>, and where the mark has been registered, for cancellation of the registration of such mark based on the ground of dilution<sup>91</sup>. The Trademark Amendments Act also amended the Lanham Act by making it clear that dilution in violation of Lanham Act §43 (c ) *is not* a ground for *ex parte* refusal of registration by the Patents and Trademark Office<sup>92</sup> and *is solely* a ground for an *inter partes* proceeding of opposition or cancellation.<sup>93</sup>

### 6.4.3 *Dilution in PTO Proceedings*

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<sup>88</sup> §45, 15 US CA 1127, Lanham Act.

<sup>89</sup> Pub. L 106 – 43, 113 Stat 218 (August 5, 1999)

<sup>90</sup> §13, 15 USCA 1063, Lanham Act.

<sup>91</sup> §14, 15 USCA 1064, Lanham Act.

<sup>92</sup> Hereafter called the “PTO”.

<sup>93</sup> §2 (f), 15 US CA 1052, Lanham Act.

The guidelines relating to dilution in PTO proceedings were laid down by the Trademark Trial and Appeal Board<sup>94</sup> in *Toro Co v ToroHead Inc*<sup>95</sup>. There, Toro Co owned the “Toro” trademark for lawn care equipment, and opposed an application for the registration of the trademark “TORO MR”, with a picture of the head of a bull, for magnetic reading heads sold to OEM makers of computer disk drives. The application specification stated the goods covered by the application as “very low reluctance, thin film magnetic reading and writing heads for sale to OEM manufacturers of high performance computer disks”. The applicant’s disk drive parts were sold to only ten companies worldwide which at that time made computer disk drives. The TTAB found no likelihood of confusion because the goods were sold to different types of customers, and further found no dilution and consequently dismissed the opposition. The importance of the *Toro* decision lies in the fact that the TTAB found that the ‘Toro’ trademark was not famous and that, even if it was famous, dilution had not been proved. In arriving at its decision, the TTAB stated several principles from which eight guidelines are discernible as general principles applicable to *inter partes* opposition proceedings before the PTO based on the dilution of a famous trademark. The TTAB held that

(i) ***fame requires more than just relative strength:*** This means that a mark must have a degree of strength and renown over and above merely being strong. In the words of the TTAB<sup>96</sup>

Fame for dilution purposes is difficult to prove. The party claiming dilution must demonstrate by the evidence that its mark is truly famous. The party must demonstrate that the mark has become the principal meaning of the word. A mark may have acquired sufficient public recognition and renown to demonstrate that it is a strong mark for likelihood of confusion purposes without meeting the stringent requirements to establish that it is a famous mark for dilution purposes.

(ii) ***if there are any doubts as to whether the injury of dilution is present, the doubts are not resolved in favour of the senior user asserting dilution:*** The

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<sup>94</sup> Hereafter called the “T.T.A.B.”.

<sup>95</sup> 61 USPQ2d 1164; 2001 WL1734485 (T.T.A.B. 2001).

<sup>96</sup> 61 USPQ 2d, at 1180.

basis of this proposition is that dilution law provides an extraordinary remedy which goes beyond the principles of orthodox trademark law based on the likelihood of confusion test. In practical terms, this imposes on the dilution claimant in *inter partes* opposition proceedings an even higher evidentiary burden.

(iii) *a dilution claim can be raised against an application for the registration of a trademark where the trademark registration applicant says he intends to use the mark*: Section 43 (c ) of the Lanham Act requires that dilution claims should be against “another person’s commercial use in commerce” of a famous mark. In respect of “intent to use” applications, the requirement of use in commerce is not met in opposition proceedings. This notwithstanding, the rationale of this TTAB guideline stems from the fact that if “intent to use” applications could not be opposed on the basis of dilution, then the efficacy of *inter partes* opposition proceedings would be severely limited, if not altogether subnegated. This holding of the TTAB may be viewed as being in conflict with the Supreme Court decision in *Moseley –v- Secret Catalogue Inc*<sup>97</sup> where the

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<sup>97</sup> 123 S. Ct. 1115, 65 USPQ 2d 1801 (US 2003). For a discussion of the *Moseley* case see Jonathan Moskin, “*Victoria’s Big Secret: Wither Dilution Under the Federal Dilution Act?*” [2003] 93 TRADEMARK REP. 842. The facts of the *Moseley* case were as follows:

The plaintiffs, V Secret Catalogue, owner of the VICTORIA’S SECRET trademark and 750 Victoria’s Secret stores across the United States, had objected to the defendant’s operation of a lingerie and adult gift and novelty store called “Victor’s Secret”, in Elizabethtown, Kentucky. In response to a demand letter from Victoria’s Secret’s counsel, the defendants changed the name of the store to “Victor’s Little Secret.”

Victoria’s Secret responded by filing suit, claiming that the new name infringed its famous VICTORIA’S SECRET mark and diluted it by “blurring” its distinctiveness and “tarnishing” its reputation by linking it to unsavory adult themes. Many believe that the manner by which Victoria’s Secret was first alerted to the defendant’s store overwhelmingly supported these claims: An army colonel saw the defendant’s store and was personally offended by what he perceived as an attempt to use a reputable company’s trademark to promote the sale of unwholesome, tawdry merchandise. The US District Court in Kentucky granted Victoria’s Secret’s motion for summary judgment on its dilution claim, and the Court of Appeals for the Sixth Circuit affirmed, holding that consumers who hear the name ‘Victor’s Little Secret’ are likely automatically to think of the more famous store and link it to the Moseleys’ adult-toy, gag gift, and lingerie shop. The Circuit Court discussed two issues not specifically raised by the District Court, concluding that the VICTORIA’S SECRET mark was distinctive and, turning to the legislative history, that relief could be granted under the FTDA before dilution actually occurred. The Circuit Court characterized the case as a classic instance of both dilution by tarnishment (associating the VICTORIA’S SECRET name with lewd merchandise) and by blurring (linking the Victoria’s Secret chain with the defendant’s unauthorized establishment), and affirmed the District Court’s decision.

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Supreme Court held that a successful dilution claim under the FTDA “requires a showing of actual dilution, rather than a likelihood of dilution”. An alternative, and more acceptable, view is that this principle does not extend to opposition proceedings based on dilution in respect of “intent to use applications” because there would not yet, at that stage, be any use in commerce in respect of the trademark . This view is supported by the legislative history of the provisions which introduced dilution as a ground in opposition proceedings<sup>98</sup>.

(iv) ***the owner of the allegedly famous mark must prove that the mark became famous before the filing date of the opposed application:*** The principle adopted by the TTAB here is that the owner of the allegedly famous mark must prove that the mark became famous prior to the junior mark’s constructive use date, which is the filing date of the opposed application under §1057 (c ) of the Lanham Act.

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On appeal to the Supreme Court by *Moseley*, the narrow question presented to the Supreme Court was whether relief under the FTDA requires proof of economic harm to the value of a famous mark. The Court concluded that evidence of loss of sales or profits is not required for relief under the FTDA. While acknowledging that economic harm is not required under the FTDA, the Court concluded that the statute unambiguously requires a showing of actual dilution, rather than likelihood of dilution. The holding resolved the split in the federal appellate courts on this very issue, where the Second and Seventh Circuits interpreted the FTDA as permitting a showing of a “likelihood” or tendency towards harm, and the Fourth and Fifth Circuits concluded that actual dilution was required.

In discussing this issue, the Supreme Court contrasted state statutes that expressly include “likelihood” of dilution standards and the FTDA as support for its holding. In the view of the Supreme Court, those state statutes, like several provisions in the Federal Lanham Act, repeatedly refer to a “likelihood” of harm, rather than to actual harm. The relevant text of the FTDA on the other hand provides that the owner of a famous mark is entitled to injunctive relief against another person’s commercial use of a mark or trade name if that use *causes* dilution of the distinctive quality of the famous mark. The Court indicated that the evidence in *Moseley* was insufficient to support summary judgment on the dilution claim – not that there was no dilution – and remanded the case for further proceedings on the issue. Therefore, the Court suggested that injunctive relief might still be available with appropriate evidence of *actual dilution*, and also hinted at what it would look for to support such a finding. Specifically, the Court concluded that, even though the evidence established a mental association between the “Victoria’s Secret” and “Victor’s Little Secret” stores, it also showed that the army officer did not therefore form any different impression of Victoria’s Secret. There was therefore a complete absence of evidence of any lessening of the capacity of the VICTORIA’S SECRET mark to identify and distinguish goods and services sold in Victoria’s Secret stores or advertised in its catalogues.

<sup>98</sup> See House Report 106 – 250 (1999), which shows that Congress intended to set up a dilution proceeding in the PTO where an owner of a famous mark could prevail before dilution type damage has been suffered in the marketplace by the owner of a famous mark.

(v) ***distinctiveness may be an independent requirement:*** The TTAB held that distinctiveness is a requirement in a dilution claim, distinct from the requirement of fame. In terms of this principle, marks that are famous but not inherently distinctive do not qualify for protection from dilution. The TTAB stated that an interpretation which separated the requirement of distinctiveness from the requirement of fame made sense because

To be vulnerable to dilution, a mark must not only be famous, but also so distinctive that the public would associate the term with the owner of the famous mark even when it encounters the term apart from the owner's goods or services, i.e. devoid of its trademark context.

(vi) ***the marks in issue must be essentially identical or similar:*** The TTAB held that the opposer's trademark "Toro" and the applicant's trademark TORO MR with a picture of the head of a bull were not sufficiently similar for dilution purposes. The TTAB was of the view that

Blurring occurs when a substantial percentage of consumers, upon seeing the junior party's use of a mark on its goods, are immediately reminded of the famous mark and associate the junior party use with the owner of the famous mark, even if they do not believe that the goods came from the famous mark's owner. Although the same word "toro" appears in both marks, we do not see the mark as being "essentially the same". Because similarity for likelihood of confusion purposes is not the test here and because we do not resolve doubts in favour of a party claiming dilution, we conclude that this factor does not favour opposer<sup>99</sup>.

(vii) ***there must be direct evidence that the allegedly famous mark has achieved fame:*** In terms of this principle, (i) the fame required relates to fame achieved in the market place, (ii) fame for likelihood of confusion purposes and fame for dilution purposes are not necessarily the same; (iii) the standards for fame and distinctiveness required to obtain anti-dilution protection are more rigorous than the standards required to seek orthodox infringement protection; (iv) fame in this context is synonymous with "public recognition and renown"; (v) fame may be ascertained by reference to annual sales and annual advertising

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<sup>99</sup> 62 USPQ 2d, at 1183.

expenditure, or intense media attention, or a survey asking the proper target group of potential customers if they recognize the designation of the mark<sup>100</sup>.

*(viii) niche market fame may be insufficient for a dilution claim in opposition proceedings:* Although the TTAB accepted that niche fame may be sufficient for a dilution claim in opposition proceedings, it nevertheless found that in the case at bar, niche market fame was insufficient to establish the dilution claim because the ‘Toro’ trademark was famous only in its niche market of professional lawn care equipment. Since the applicant’s trademark and its bull head picture was to be registered for goods outside the niche market, the TTAB held that there could be no fame outside the niche market and hence no dilution. It is submitted that marks with niche market fame should not routinely be granted protection from dilution. In other words, courts should carefully set out the exceptional and limited circumstances when famous marks with niche market fame may benefit from dilution protection. Several general examples can be made in this respect. Where a trademark is famous in a niche geographic market as specifying one type of products (say, perfumes in Washington D.C.), its distinctive character or repute may be diluted by a junior use in respect of other product lines in the same niche market (say, lawnmowers in Washington D.C.). Where, on the other hand, the niche fame is in respect of a discrete market, dilution may occur if a defendant engages in comparative advertising and states, with an intent to ride on the coattails of the famous mark in the niche market, that his goods are “a substitute for”, “the same as”, “manufactured like” and so on, the goods of the plaintiff. If, however, the defendant uses an identical or similar mark outside a niche market, and the plaintiff’s mark is famous only in a niche market, dilution protection should, in principle, not be available. In such cases, since the plaintiff’s trademark will be famous in a niche market, and the defendant’s use will be directed to a larger group of customers outside a niche market, the impact on the famous mark inside the niche market should be held by the courts to be insignificant, in the interests of free trade. Further, courts should strictly

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<sup>100</sup> 61 USPQ 2d, at 1180 – 1181.

scrutinize the fame of marks with niche fame because, as a general rule, only marks which are known by a significant portion of the wider American public should benefit from dilution protection.

The *Toro* principles were applied by the TTAB in *Nasdaq Stock Market Inc v Antartica S.r.l*<sup>101</sup>. The principles from the *Toro* case have greatly clarified the procedure in opposition proceedings in the PTO based on dilution. Specifically, in order to succeed, the dilution claimant must provide sufficient evidence that (a) the other party filed the application to register its trademark after the plaintiff's mark had become famous, and (b) that the plaintiff's mark is both famous and distinctive, and (c) that the registration of the mark, if allowed, would dilute plaintiff's mark, either by blurring or by tarnishment.

#### 6.4.4 Meaning of Dilution in the FTDA

Mark Sommers criticizes the language adopted in defining the expression “dilution” in the FTDA<sup>102</sup>. In his view, the FTDA

either omitted certain words that would have cured confusion or added unnecessary words that will cause confusion or failed to define certain terms with sufficient precision. More specifically, [the FTDA] defines “dilution” with terms that describe “blurring” and “whittling away” but not with terms that describe “tarnishment” and “disparagement”, which the drafters apparently intended to include within the scope of “dilution”.<sup>103</sup>

It is accepted here that the federal statutory definition of “dilution” is cast in terms of the theory of dilution by blurring. As noted above, the theory of dilution by blurring is that if one small user misappropriates the advertising value of a famous mark and uses it on his non-competing goods, such uses can blur the famous mark's ability to uniquely signify one source. Just as a drop of iodine dilutes a

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<sup>101</sup> Available at the Trademark Trial and Appeal Board website at [www.firstgov.gov](http://www.firstgov.gov), Paper No. 46 GFR, Opposition No. 91121204, mailed June 30, 2003.

<sup>102</sup> Mark S. Sommers, “*The New US Trademark Dilution Act: Problems Lurking?*” [1996] Trademark World [February] 16 – 19.

<sup>103</sup> Note 102 above, at 17.

gallon of pure water, so too will the unauthorized use injure the famous mark's ability to exclusively focus the attention of the public to its goods.

The exclusion of dilution by tarnishment from the federal statutory definition of "dilution" has presented very little problems, if any, in practice, because the courts have had recourse to the legislative history of the FTDA in order to "read in" tarnishment dilution into the FTDA. In *Moseley – v - Secret Catalogue Inc*<sup>104</sup>, for example, Justice Stevens had to refer to the legislative history of the FTDA in holding that the FTDA protected against tarnishment. In his Lordship's view

The [House of Representatives Subcommittee on Courts and Intellectual Property of the House Judiciary Committee's] report stated that the "purpose of H.R. 1295 is to protect famous trademarks from subsequent uses that blur the distinctiveness of the mark or *tarnish or disparage it*, even in the absence of a likelihood of confusion (emphasis added).

And in respect of the views of the Senate, his Lordship noted that

In his explanation of the Bill, Senator Hatch also stated that it was intended "to protect famous trademarks from subsequent uses that blur the distinctiveness of the mark or tarnish or disparage it".

It is recommended that it may be necessary to amend §1125 of the Lanham Act to pellucidly include dilution by tarnishment into the definition of the term "dilution"<sup>105</sup>. This will obviate the need for the courts to go outside the text of the FTDA in order to accommodate tarnishment claims. The definition of "dilution" in the FTDA, despite omitting to include tarnishment, correctly describes dilution as the *lessening* of the capacity of a famous mark to exclusively focus on its goods. In this respect, it corresponds with Article 3 (2) (b) of the WIPO Model Provisions for Protection Against Unfair Competition.<sup>106</sup>

<sup>104</sup> Note 97 above, 123 S. Ct 1115, at 1129.

<sup>105</sup> Miles J. Alexander and Michael K. Heilbronner, "*Dilution Under Section 43 (c) of the Lanham Act*" [1996] 59 LAW & CONTEMPORARY PROBLEMS, 93 at 121 – 125, noting that, despite legislative history reference to tarnishment claims, the language of the federal statute may not support tarnishment claims.

<sup>106</sup> See Chapter 4, Note 65 and accompanying text.

#### 6.4.5 Fame Criteria

Only famous marks are protected from dilution by the FTDA. The FTDA sets out an eight factor non-exhaustive list of guidelines for use by the courts in determining whether a mark is famous and distinctive. The list broadly corresponds with the list set out in Article 2 (1) (b) of the WIPO Joint Recommendation Concerning Provisions on Protection of Well-Known Marks<sup>107</sup> and the list that was judicially developed by the European Court of Justice in *General Motors Corporation v Yplon SA*<sup>108</sup>. The list also incorporates the guidelines in Article 16 (2) of the Agreement on Trade-Related Aspects of Intellectual Property Rights<sup>109</sup>. In determining whether a mark is distinctive and famous, a court may consider in the context of the FTDA, factors such as, but not limited to:

**(A) *whether the mark is distinctive and famous and the degree of inherent or acquired distinctiveness of the mark:*** In discussing the first factor to be used to determine whether a mark is distinctive and famous, a few preliminary comments are made in respect of section 43 (c ) (l). First, the opening paragraph to section 43 (c ) (l) proscribes the misappropriation of a famous mark that “causes dilution of the *distinctive* quality of the mark”. Second, although only famous marks are protected from dilution under section 43 (c ), courts are enjoined not to determine whether a mark is famous only, but whether a mark is *distinctive and famous*. Third, a mark’s *inherent or acquired distinctiveness* is made a criterion of whether the mark is distinctive and famous. Fourth, although the first paragraph to section 43 (c ) (l) proscribes misappropriations which cause the dilution of *the distinctive quality of* the famous mark, the definition of “dilution” in section 45 speaks to *the lessening of the capacity of a famous mark to identify and distinguish* its goods. This lack of consistency in the use of

<sup>107</sup> See Chapter 4, Notes 78 to 87 and accompanying text.

<sup>108</sup> [1999] ETMR 950. See Chapter 5, Notes 139 to 143 and accompanying text.

<sup>109</sup> See Chapter 4, Notes 39 and 40 and accompanying text.

language is discussed in this Part. A lot of debate, in both academic and judicial circles, has been generated on the particular scope of this criterion, when read in light of the first paragraph to section 43 (c) (1) of the Lanham Act, which provides that inherent or acquired distinctiveness is one of the several criteria to be considered in determining whether a mark is distinctive *and* famous. The debate has centered on the question whether the requirement of distinctiveness is *separate* from the requirement of fame, or whether the two terms are synonyms with the same meaning.

According to Mark Sommers<sup>110</sup>, the list of factors showing whether a mark is distinctive and famous

Contains as its first a tautology tacitly admitting the clumsiness of the statute's drafting. To find the necessary distinctiveness of the mark, a court may consider "the degree of inherent or acquired distinctiveness of the mark". The statute should be interpreted by the courts to focus solely on fame, not distinctiveness – distinctiveness simply remaining but one element of others to determine fame.

The 1987 Trademark Review Commission Report<sup>111</sup>, on the other hand, had opined that the double-barreled language "distinctive and famous" in the chapeau to section 43 (c) (1) reflected the goal that protection should be confined to marks which are both distinctive, as established by federal registration at a minimum, and famous, as established by other separate evidence.

McCarthy<sup>112</sup> views the reference to a mark's distinctiveness in the opening paragraph to section 43 (c) (1) of the Lanham Act as a synonym for fame. In the views of McCarthy

the better view is that there is in §43 (c) no separate statutory requirement of "distinctiveness", apart from a finding that the designation be a "mark" that is "famous". Distinctiveness is used here only as a synonym for "fame". Even if "distinctiveness" is regarded as a separate requirement, it would, in the author's

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<sup>110</sup> Note 102 above, at 18 - 19.

<sup>111</sup> [1987] 77 TRADEMARK REP. 375, 459 – 60.

<sup>112</sup> Note 12 above, §24:91, at pp 24 – 164 to 24 – 165.

view, be redundant. To be a “mark” eligible in the first place for protection under §43 (c ), basic trademark principles dictate that a designation has to be “distinctive” either inherently or through acquisition of secondary meaning

In interpreting this criterion in the context of the requirement of both distinctiveness and fame in section 43 (c ) (l) of the Lanham Act, David Ehrlich and Ronald Lehrman<sup>113</sup> take the view that a high degree of acquired distinctiveness would seem to be more probative of fame than mere inherent distinctiveness. In other words, they place acquired distinctiveness closer to fame, and define inherent distinctiveness in this context as meaning “that a more unusual or arbitrary word can more easily become famous”.<sup>114</sup>

The TTAB holds the view that the distinctiveness requirement under section 2 (f) of the Lanham Act, which is for registration purposes, is not the same test to be used to determine whether a mark is distinctive and famous under section 43 (c ) (l) of the Lanham Act. The TTAB is also of the further view that distinctiveness for the purposes of section 43 (c ) (1) of the Lanham Act is different from fame<sup>115</sup>, because Congress does not use redundant language in legislation.<sup>116</sup>

Some courts have similarly distinguished distinctiveness from fame in the context of section 43 ( c ) (l) of the Lanham Act. In *Sporty’s Farm LLC v Sportsman’s Market Inc*,<sup>117</sup> the Second Circuit Appeals Court held that

Even a famous mark may be so ordinary, or descriptive as to be notable for its lack of distinctiveness. (emphasis added)

<sup>113</sup> In Frederick W. Mostert (Ed) *Famous and Well-Known Marks*, 2<sup>nd</sup> Ed (2004) Chapter entitled “United States” 4 – 467 to 4 – 514, at 4 – 472 to 4 – 473.

<sup>114</sup> Note 113 above.

<sup>115</sup> Note 96 above, and accompanying text.

<sup>116</sup> Note 95 above, citing *Platt v Union Pacific Railroad* 99US48, 58 (1878) to the effect that the Legislature is presumed to have used no superfluous words, and *Bailey v United States* 516 US 137, 146 (1995) that

We assume that Congress used two terms because it intended each term to have a particular, non-superfluous meaning.

<sup>117</sup> 202 F 3d 489, 497; 53 USPQ 2d 1570, 1576 (2d Cir. 2000).

In 2001, the same court stated in *TCPIP Holding Co. v Haar Communications Inc*<sup>118</sup> that

Some of the holders of these inherently weak marks are huge companies; as a function of their commercial dominance their marks have become *famous*. It seems unlikely that Congress could have intended that the holders of such *non-distinctive* marks would be entitled to exclusivity for them throughout all areas of commerce. (emphasis added)

In *Viacom Inc v Ingram Enterprises Inc.*<sup>119</sup> the Eighth Circuit Appeals Court held that

Section 43 (c ) does not use “famous” and “distinctive” interchangeably. Rather, to be famous, a mark must be more than just distinctive in a trademark sense.

In *Nabisco Inc v PF Brands Inc*,<sup>120</sup> the Second Circuit Appeals Court enunciated the standards for determining dilution claims under the FTDA and held that

It is quite clear that the statute intends distinctiveness, *in addition to fame*, as an essential element. The operative language defining the tort requires that ‘the [junior] person’s –use – cause dilution of the distinctive quality of the [senior] mark. There can be no dilution of a mark’s distinctive quality unless the mark is distinctive (emphasis added).

In *Kellog Co. v Exxon Corp*<sup>121</sup>, the Sixth Circuit Court of Appeals adopted the standard of distinctiveness set by the Second Circuit in *Nabisco*, above. The United States Supreme Court did not specifically address this split in the lower courts in *Moseley -v- Secret Catalogue Inc.*<sup>122</sup> All the Supreme Court did was to refer to the *Nabisco* decision, above, in a footnote, without stating whether the *Nabisco* requirement that a dilution claim should separately prove distinctiveness apart from fame was correct.

<sup>118</sup> 244 F 3d 88, 96; 57 USPQ 2d 1969, (2d Cir. 2001).

<sup>119</sup> 141 F 3d 886; 46 USPQ 2d 1473 (8<sup>th</sup> Cir. 1998).

<sup>120</sup> 191 F 3d 208; 51 USPQ 2d 1882(2d Cir. 1999).

<sup>121</sup> 209 F 3d 562; 54 USPQ 2d 1413 (6<sup>th</sup> Cir. 2000).

<sup>122</sup> Note 97 above.

The correct view in interpreting the words “distinctive” and “famous” in the context of section 43 (c ) of the Lanham Act, it is submitted, is to interpret them as having different meanings. A trade designation cannot be a trademark for registration purposes unless it is *distinctive*. In this respect, courts should, as a general proposition, only grant protection to those trademarks that possess a degree of distinctiveness beyond that needed for a sign to qualify for registration as a trademark. The point being made here is that courts should hold that *only* those trademarks which are sufficiently distinctive to retain their source significance when encountered outside the context of the goods on which they are used qualify for protection from dilution<sup>123</sup>. It is also quite clear from a textual reading to the FTDA that the Act requires distinctiveness, in addition to fame, to be an essential element of a dilution claim. The operative language in section 43 (c ) (1) is that the junior person’s use should cause dilution of the distinctive quality of the famous mark. The thesis advanced here is that there can be no dilution of a mark’s distinctive quality unless the mark is distinctive, apart from the mark being famous.

**(B) *duration and extent of use of the mark in connection with the goods or services with which the mark is used:*** This requirement is satisfied if a plaintiff can show that the mark is famous because it has acquired secondary meaning through use<sup>124</sup>. The *volume of sales* over a period of time, and *the depth of*

<sup>123</sup> *Avery Dennison Corp v Sumpton* 189F 3d 868, 876; 51 USPQ 2d 1801, 1806 (9<sup>th</sup> Cir. 1999). This approach also corresponds to the approach adopted in the Restatement (Third) of Unfair Competition, §25, comment e, (1995) which provides that

Not all trademarks warrant protection against a dilution of the mark’s distinctiveness. In applying the antidilution statutes, most courts require that the mark possess a degree of distinctiveness beyond that needed for the designation to qualify as a valid trademark. As a general matter, a trademark is sufficiently distinctive to be diluted by a nonconfusing use if the mark retains its source significance when encountered outside the context of the goods or services with which it is used by the trademark owner. For example, the trademark KODAK evokes an association with cameras sold under that mark whether the word is displayed with the cameras or used in the abstract. On the other hand, the designation ALPHA could become sufficiently distinctive to be protected as a trademark for cameras, but a use of the term by itself might still evoke a variety of different associations, including nothing more than the first letter of the greek alphabet. A mark that evokes an association with a specific source only when used in conjunction with the participation goods or services that it identifies is ordinarily not sufficiently distinctive to be protected against dilution.

<sup>124</sup> McCarthy, Note 12 above, at §24:92, p. 24 - 177.

*market penetration* as reflected in the market share of the goods are all highly probative evidence in satisfying this requirement<sup>125</sup>.

(C) ***duration and extent of advertising and publicity of the mark:*** This requirement focuses more on *sustained advertising*, hence its reference to the duration of the advertising and resultant publicity of the mark. The requirement also focuses on *the volume of the advertising* and the resultant publicity over a period of time, hence its reference to the extent of the advertising and publicity.

(D) ***geographical extent of the trading area in which the mark is used:*** This requirement is satisfied if the plaintiff can show that the mark is used over a substantial geographic area of the United States<sup>126</sup>.

(E) ***channels of trade for the goods or services with which the mark is used:*** This factor requires the court to define the product line or market within which the plaintiff's mark is used and has become famous<sup>127</sup>.

(F) ***degree of recognition of the mark in the trading areas and channels of trade used by the mark's owner and the person against whom the injunction is sought:*** This factor focuses on niche market fame<sup>128</sup> where the junior use is directed towards the same niche market in which the senior mark has fame. Niche fame is generally understood to mean either market niche fame or territorial niche fame. It is submitted that niche fame should have a very limited place in a

<sup>125</sup> David W. Ehrlich and Ronald J. Lehrman, Note 113 above, at 429.

<sup>126</sup> *Syndicate Sales Inc v Hampshire Paper Corp* 192 F 3d 633; 52 USPQ 2d 1035, 1041, Note 7 (7<sup>th</sup> Cir. 1999), holding that under the FTDA, territorial market of fame should not be limited to a single locality. *TCPIP Holding Co. Inc v Haar Communications Inc*, Note 118 above, holding that

It seems most unlikely that Congress intended to confer on marks that have enjoyed only brief fame in a small part of the country or among a small segment of the population, the power to enjoin all other users throughout the nation in all realms of commerce.

<sup>127</sup> McCarthy, Note 12 above, at §24:92, p. 24 – 180.

<sup>128</sup> *Washington Speakers Bureau Inc v Leading Authorities Inc*, 33F. Supp. 2d 907; 49 USPQ 2d 1893, at 1906 (E.D. Va. 1999) holding that

The language of the FTDA itself lends some support to the idea that marks famous in niche markets can be protected from diluting uses directed at the same narrow market.

dilution claim, as it will likely stifle free and fair competition. McCarthy<sup>129</sup> notes, in this respect, that

The legal theory of anti-dilution was conceived to protect strong marks against a diluting use by a junior user in a product or service line *far removed* from that in which the famous mark appears. For example, the most popular list of offending examples against which anti-dilution laws are directed is: Dupont shoes, Buick aspirin, Schlitz varnish, Kodak pianos and Bulova gowns. The assumption is that the traditional likelihood of confusion could not be proven in such cases. Hence, a kind of “extra-special” legal exclusivity was felt necessary to give the owners of strong marks the kind of protection that they “deserve”. Thus, using the anti-dilution law when the parties are selling their products in the same niche market sounds a dissonant and false note. Why the need to invoke the “super weapon” of the anti-dilution law to resolve what appears to be a garden variety infringement case?.

McCarthy’s comments, above, are not free from criticism. First, they seem to imply that in cases involving niche fame, there will always be competition. This is not the case. Second, they seem to imply that where niche fame is present *in casu*, courts should dispose of the case under orthodox trademark infringement. However, under the FTDA, dilution protection is specifically provided notwithstanding the absence of likelihood of consumer confusion. There is, however, much merit in arguments which seek to preclude marks with niche fame from dilution, because such marks will, as a rule, not be known by a significant portion of the buying public in America, and on that basis, will not satisfy the rigorous fame requirements in the FTDA.

**(G) *nature and extent of use of the same or similar marks by third parties:***

This factor recognizes that if a mark is widely used by different businesses, it may not be famous in respect of the goods of one business. As such, a mark that is already diluted by multiple uses is unlikely to become *more* diluted by third party use on non-competing goods.

**(H) *whether the mark was registered on the principal register:*** This factor permits a court to find that a mark is not distinctive and famous because it is not

<sup>129</sup> Note 12 above, Vol. 4, at § 24:112.1, p. 24 – 273.

federally registered. In other words, if a trademark owner believes his trademark to be so famous as qualifying for protection from dilution, then he should take the basic step of federally registering it, failing which he is barred from claiming protection from dilution based on the fact that the mark is famous.

#### 6.4.6 How Similar Should the Marks Be?

The FTDA does not address the issue of the degree of similarity required between the marks in a dilution claim.

The First Circuit Court of Appeals has adopted the standard that consumers who view the trademarks should form the view that the marks are “essentially the same”<sup>130</sup>. The Second Circuit has held that the marks should be “of sufficient similarity so that, in the mind of the consumer, the junior mark would conjure an association with the senior mark”<sup>131</sup>. The Fourth Circuit has held that there should be “a sufficient similarity between the junior and senior marks to evoke an instinctive mental association of the two by a relevant universe of consumers”<sup>132</sup>. The Ninth Circuit has held that the marks must be identical or nearly identical<sup>133</sup>.

In *Moseley –v- V Secret Catalogue Inc.*<sup>134</sup> the United States Supreme Court addressed this issue. The Supreme Court held, in respect of identical marks, that it may well be

that direct evidence of dilution such as consumer surveys will not be necessary if actual dilution can reliably be proven through circumstantial evidence – the obvious case is one where the junior and senior marks are identical.

<sup>130</sup> *IP Lund Trading ApS v Kohl Co* 163 F 3d 27; 49 USPQ 2d 1225, 1242 (1<sup>st</sup> Cir. 1998).

<sup>131</sup> *Nabisco Inc v PF Brands Inc.*, Note 120 above.

<sup>132</sup> *Ringling Bros –Barnum & Bailey Combined Shows Inc v Utah Div. Of Travel Dev* 170 F 3d 449 at 458; 50 USPQ2d 1065, 1072 (4<sup>th</sup> Cir. 1999).

<sup>133</sup> *Playboy Enterprises Inc v Welles* 47 USPQ 2d 1186 (S.D. Cal. 1998) 162 F.3d 1169 (9<sup>th</sup> Cir. 1998).

<sup>134</sup> Note 97 above. Compare with the approach adopted by the European Court of Justice. In this respect, see Chapter 5, Notes 127 to 133 and accompanying text.

This pronouncement means that where the marks are identical, the fact that consumers mentally associate the unauthorized junior mark with the senior mark may be sufficient *on its own* to establish a successful dilution claim. In other words, it will be *presumed*, in the above situation, that the use of the junior mark dilutes the advertising value of the famous mark. Alternatively, such an association, coupled with other ‘circumstantial evidence’, will be sufficient to establish a successful dilution claim. The Supreme Court did not, however, specify the type of circumstantial evidence which suffices for this purpose, and this aspect is still to be defined in litigation.

The United States Supreme Court also held that where the marks are not identical but merely similar

The mere fact that consumers mentally associate the junior user’s mark with a famous mark is not sufficient to establish actionable dilution. Such mental association will not necessarily reduce the capacity of the famous mark to identify the goods of its owner, the statutory requirement for dilution under the FTDA<sup>135</sup>.

This pronouncement effectively requires courts to sustain a dilution claim as actionable *only* where there is direct evidence, usually in the form of expert testimony or survey evidence, establishing the fact of the *actual* occurrence of dilution – that the capacity of the famous mark to focus exclusively on its goods has been “lessened” by the unauthorized junior use. The pronouncement is important in another respect, since it calls for the courts, by implication, to strictly construe the similarity of trademarks for dilution purposes. In other words, where the similarity of the marks causes the public to form a mental association between the marks which does not necessarily reduce the capacity of the famous mark to identify the goods of its owner, the trademarks will only be incidentally similar and the dilution claim will not succeed.

#### **6.4.7 Requirement of Likelihood of Confusion Under the FTDA**

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<sup>135</sup> Note 97 above.

There is no requirement to prove a likelihood of confusion for a successful dilution claim under the FTDA. This is in keeping with traditional anti-dilution concepts, which recognize that while traditional trademark law is based primarily on the need to protect consumers from a likelihood of confusion, which has its origins in the common law of palming off, anti-dilution law

Unlike traditional infringement law, [is not] the product of common-law development, and [is] not motivated by an interest in protecting consumers<sup>136</sup>.

This does not mean, however, that a dilution relief claimant cannot combine the dilution claim under the FTDA to an alternative likelihood of confusion claim under Lanham Act §32 and 43 (a). The two claims can be pleaded in one action in the alternative. This is because while some consumers may likely be confused as to source, others may recognize the independence of the source of the goods.

#### 6.4.8 **Is Proof of Actual Dilution Required Under the FTDA?**

In *Ringling Bros-Barnum & Bailey Combined Shows Inc v Utah Division of Travel Dev.*,<sup>137</sup> the Fourth Circuit Appeals Court held that actual dilution needed to be proved in a dilution claim under the FTDA. The Fourth Circuit Appeals Court rejected the submission that if the marks were substantially identical, dilution could be assumed. In the view of the court, the FTDA statutory requirement of a lessening of the capacity of a famous mark to be strong cannot be proven by showing merely a likelihood of dilution. The court stated that

In context here, it is plain that the ‘capacity’ spoken of is ‘former capacity’. The verb of which it is the object is the clear indicator; the conduct proscribed is that which ‘lessens’ capacity, not that which ‘will’ or ‘may’ lessen capacity. *The conduct that is proscribed is [use] that ‘causes’, not “will” or “may” cause dilution*<sup>138</sup> (emphasis added).

<sup>136</sup> Note 97 above.

<sup>137</sup> Note 132 above.

<sup>138</sup> Note 132 above, 170F.3d 449, at 460-61; 50 USPQ 2d 1065, at 1074.

The court was of the view that to presume dilution of the famous mark merely from the close proximity of the junior mark and the senior mark would be tantamount to creating “property rights in gross in the narrow category of marks [protected under the FTDA], making them compatible (although without their time limits) to those [creations] protected by patent and copyright law”<sup>139</sup>. The court consequently held that a plaintiff in a dilution claim under the FTDA must prove “an actual lessening of the senior mark’s selling power” expressed in the FTDA as “its capacity to identify and distinguish goods or services”,<sup>140</sup> or, put differently, “actual economic harm to the famous mark’s economic value by lessening its former selling power as an advertising agent for its goods or services”<sup>141</sup>, shown by proof of an actual loss of revenues and proof of replicating use, or by consumer survey evidence. The actual dilution requirement espoused by the Fourth Circuit Appeals Court in *Ringling Bros*, above, was followed by the Fifth Circuit Appeals Court in *Westchester Media v PRL USA Holdings Inc.*<sup>142</sup>.

The Second Circuit Appeals Court, however, held in the *Nabisco*<sup>143</sup> case, above, that the FTDA did not require proof of actual dilution to the famous mark in a dilution claim. According to the Second Circuit, the court did not

read the statute to permit adjudication granting or denying an injunction, whether at the instance of the senior user or the junior seeking declaratory relief, before the dilution has actually occurred<sup>144</sup>.

because, according to the Second Circuit, to require proof of actual dilution would

subject the senior user to uncompensable injury. The statute could not be invoked until injury had occurred<sup>145</sup>.

<sup>139</sup> Note 132 above, 170F.3d 449, at 456; 50 USPQ 2d 1065, at 1070.

<sup>140</sup> Note 132 above, 170F.3d 449, at 458; 50 USPQ 2d 1065, at 1072.

<sup>141</sup> Note 132 above, 170F.3d 449, at 461; 50 USPQ 2d 1065, at 1075.

<sup>142</sup> 214 F3d 658; 55 USPQ 2d 1225 (5<sup>th</sup> Cir. 2000).

<sup>143</sup> Note 120 above, 191F. 3d 208; 51 USPQ2d 1882.

<sup>144</sup> Note 120 above, 191 F. 3d 208; at 224-225; 51 USPQ2d 1882, at 1893 – 94.

<sup>145</sup> Note 120 above, 191F. 3d 208, at 224; 51 USPQ 2d 1882, at 1894

The Seventh Circuit Appeals Court adopted the reasoning of the Second Circuit in *Nabisco*, above, to hold that the FTDA does not require proof of actual dilution<sup>146</sup>.

In its *Moseley* judgment, above, the Supreme Court resolved the split in the Circuit Courts by holding that the FTDA requires proof of actual dilution, not just a likelihood of dilution.

#### **6.4.9 The Elements of a Dilution Claim**

Under Lanham Act §43 (c ), a plaintiff in a dilution claim is required to prove that (a) he is the owner of a mark which qualifies as a famous mark, using the eight factor list specified in Lanham Act §43 (c ) (i), the defendant is making commercial use of the plaintiff's famous mark in interstate commerce. "Commercial use" for the purposes of this requirement implies that the goods on which the trademark is used are bought, sold or advertised for sale<sup>147</sup>; (c ) the defendant's use commenced after plaintiff's trademark had become famous; and (d) the defendant's use caused dilution by lessening the capacity of the plaintiff's famous mark to identify and distinguish its goods<sup>148</sup>.

#### **6.4.10 Defences to Trademark Dilution Under the FTDA**

Section 43 (c ) (4) of the Lanham Act specifies three statutory defences to a dilution claim under the FTDA.

First, the *fair use* of a famous mark by another person in *comparative commercial advertising* to identify the competing goods of the owner of the famous mark is a defence to a dilution claim. In terms of this defence, the

<sup>146</sup> *Eli Lilly & Co. v Natural Answers Inc.* 233 F. 3d 456; 56 USPQ 2d 1942 (7<sup>th</sup> Cir. 2000).

<sup>147</sup> McCarthy, Note 12 above, Vol. 4, Chapter 24, §24:90, p. 24 – 158.

<sup>148</sup> McCarthy, Note 147 above.

comparative advertising should be “commercial” and “fair”. The defence therefore excludes, for example, comparative advertisements which cause consumers “to attribute unfavourable characteristics to a mark and ultimately associate the mark with inferior goods”<sup>149</sup>.

Second, the non-commercial use of a famous mark is a defence to a trademark dilution claim under Lanham Act §43 (c ) (4) (B). According to McCarthy<sup>150</sup>, this defence was intended to safeguard the concept of non-commercial free speech in the form of parody, satire, editorial and other forms of expression<sup>151</sup>.

Third, in terms of Lanham Act §43 (c ) (4) (C ), all forms of news reporting and news commentary cannot be challenged under a dilution claim. McCarthy<sup>152</sup> is of the view that this defence was included in the FTDA to assure the media that the FTDA would not be used to censure the media’s use of trademarks in conveying socially useful information.

#### **6.4.11 Remedies Under the FTDA**

The usual remedy where dilution is proved to exist in a case is an injunction<sup>153</sup>. Such an injunction will have nationwide effect. Additionally, Lanham Act §43 (c ) (2) provides that if a plaintiff shows that the defendant *willfully intended* to trade on the reputation of the owner of the famous mark, or to

<sup>149</sup> *Deere and Company v MTD Products Inc*, Note 71 above.

<sup>150</sup> McCarthy, Note 12 above, Vol. 4, Chapter 24, §24:97.2, p. 24 – 224.

<sup>151</sup> See *Bally Total Fitness Holding Corp v Faber* 29 F Supp 2d 1161, 50 USPQ2d 1840 (C.D. Cal. 1998), holding that use of the domain name “ballysucks” for a website criticizing the policies of the BALLY health clubs did not violate the FTDA; *Mattel Inc v MCA Records Inc* 296 F3d 894, 63 USPQ2d 1715 (9<sup>th</sup> Cir. 2002) holding that use of the mark “Barbie” was permitted in a song and its title which parodied the girl image of the Barbie doll.

<sup>152</sup> McCarthy, Note 12 above, Vol. 4, Chapter 24, §24:97.3, p. 24 - 225.

<sup>153</sup> The legislative history of the FTDA shows that in the House of Representatives, it was stated that  
With respect to relief, a new section 43 (c ) (2) of the Lanham Act would provide that, *normally*, the owner of a famous mark will only be entitled to injunctive relief for a violation of Section 43 (c ).

See House Report 104 – 374 (Nov. 30, 1995).

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cause the dilution of the famous mark, the owner of the famous mark shall be entitled to the remedies set forth in Lanham Act § §35 (a) and 36, which permit the recovery of up to treble the amount of damages, defendant's profits, and which authorize the destruction of items using the offending mark.

The FTDA is however silent as to the type of willful intent which suffices to enable a plaintiff to recover monetary damages and the defendant's profits. It is submitted that willful intent to trade on the reputation of the senior mark can mean two things. First, it can be interpreted as meaning that the defendant gained by making more sales and increasing market share as a result of trading on the famous mark's reputation. Second, it can mean that the defendant shared in the commercial magnetism of, and thereby eroded, the famous mark's strength. The exact meaning has not yet been judicially pronounced. "Intent to dilute" has similarly not yet been judicially defined, but it probably means that the defendant intentionally injured the famous mark by causing it to loose strength. Factors like the volume of sales and market share then go to prove the "intent to dilute".

#### **6.4.12 Conclusion**

The 1987 Trademark Review Commission Report<sup>154</sup> had advocated for the FTDA because famous marks "are enormously valuable but fragile assets, susceptible to irreversible injury from promiscuous use". The FTDA provides comprehensive protection against dilution. As shown in this Chapter, the FTDA provisions, and the jurisprudence developed thereunder, substantially comply with the requirements of international trade mark law. The FTDA provides equitable relief to the owner of a famous mark against unauthorized uses of his mark that lessen the distinctive quality of the famous mark, regardless of the presence or absence of competition between the goods of the owner of the famous mark and the other parties, and regardless of the absence of other likelihood of confusion, mistake or deception. The FTDA also sets forth guidelines that a court

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<sup>154</sup> Note 111 above, at 455.

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should consider in determining whether a mark is famous, and it provides statutory defences to a dilution claim, and establishes a generous relief regime, with an injunction as the primary relief. The FTDA also enables owners of famous marks to oppose a trademark application or to apply for the cancellation of a trademark registration based on the dilution of their famous trademarks.

The FTDA, however, suffers from serious problems of interpretation. As highlighted above, there exists a split in the Circuit Courts on nearly every point of interpreting the FTDA. The Supreme Court decision in *Moseley –v- Victoria’s Secret*, above, addressed some, but not all, differences of interpretation adopted by the Circuit Courts in applying the FTDA. However, some gray areas still exist unanswered at the fringes of the FTDA. First, there is still disagreement between the courts as to what constitutes a famous mark. Specifically, it is as yet unclear whether marks which enjoy only niche market fame and are known only to a select class or category of consumers, or only in a limited geographic area, satisfy the FTDA’s fame criteria. It is submitted that the provisions of the FTDA should not be extended to cover marks with only niche fame, as to do so would stultify the principle of free and fair competition. In other words, such extended protection without qualification would unduly favour the interests of the trademark owner at the expense of the public. Second, it is still unsettled whether the FTDA applies to inherently distinctive famous marks, or equally applies to famous marks which gain distinctiveness through use. There should in principle, be no reason why both inherently distinctive marks and marks which acquire distinctiveness through use should not benefit from FTDA protection. Third, the Supreme Court in *Moseley*, above, raised the question (and addressed it in the affirmative) whether dilution by tarnishment was covered at all by the FTDA. The FTDA should be amended to make this clear. Fourth, it is unclear from the *Moseley* decision, above, what exactly a trademark dilution claimant has to prove to establish *actual* dilution. It is suggested that because of the incipient nature of dilution, and the difficulty encountered in gathering evidence tending to show that actual dilution has occurred, the evidentiary bar should be no higher than proof of

a likelihood of dilution. This, of course will have to be supported by evidence and not based on mere conjecture. Fifth, the holding in *Moseley*, above that a dilution claimant has to prove actual, as opposed to likely, dilution seems to ignore the incipient nature of dilution.

## 6.5 **THE FEDERAL TRADEMARK DILUTION REVISION ACT OF 2005.**<sup>155</sup>

### 6.5.1 **Introduction**

Many of the problems associated with the FTDA were recently addressed in the FTDRA, which was introduced in the United States House of Representatives by Representative Lamar Smith, Chairman of the Subcommittee on Courts, the Internet, and Intellectual Property of the House Judiciary Committee in early February, 2005.

### 6.5.2 **The Legislative Text of the FTDRA**

Section 2 of the FTDRA deals with dilution by blurring and dilution by tarnishment. It provides as follows:

(c) **Dilution by Blurring: Dilution by Tarnishment**

- (1) INJUNCTIVE RELIEF – Subject to the principles of equity, the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner’s mark has become famous, commences use of a mark or trade name in commerce that is *likely to cause dilution by blurring or dilution by tarnishment* of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.
- (2) DEFINITIONS – (A) For purposes of paragraph (1), a mark is famous if it is widely recognized by the general consuming public of the United States as a designation of source of the

<sup>155</sup> H.R. 683 (109<sup>th</sup> Congress, 1<sup>st</sup> Session). The text of the Federal Trademark Dilution Revision Act of 2005 (hereafter “the FTDRA”) is available at <http://thomas.loc.gov>., last visited on 4<sup>th</sup> November, 2005.

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goods or services of the mark's owner. In determining whether a mark possesses the requisite degree of recognition, the court may consider all relevant factors, including the following:

- (i) The duration, extent, and geographic reach of advertising and publicity of the mark, whether advertised or publicized by the owner or third parties.
- (ii) The amount, volume, and geographic extent of sales of goods or services offered under the mark.
- (iii) The extent of actual recognition of the mark.

(B) For purposes of paragraph (1), 'dilution by blurring' is association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark. In determining whether a mark or trade name is likely to cause dilution by blurring, the court may consider all relevant factors, including the following:

- (i) The degree of similarity between the mark or trade name and the famous mark.
- (ii) The degree of inherent or acquired distinctiveness of the famous mark.
- (iii) The extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark.
- (iv) The degree of recognition of the famous mark.
- (v) Whether the user of the mark or trade name intended to create an association with the famous mark.
- (vi) Any actual association between the mark or trade name and the famous mark.

(C) For purposes of paragraph (1), 'dilution by tarnishment' is association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark.

- (3) **EXCLUSIONS** – The following shall not be actionable as dilution by blurring or dilution by tarnishment under this subsection:

- (A) Fair use of a famous mark by another person in comparative commercial advertising or promotion to identify the competing goods or services of the owner of the famous mark.
- (B) Fair use of famous mark by another person, other than as a designation of source for the person's goods or services, including for purposes of identifying and parodying, criticizing, or commenting upon the famous mark owner or the goods or services of the famous mark owner.
- (C) All forms of news reporting and news commentary.

### 6.5.3 *Salient Provisions of the FTDR*

The FTDR differs from and improves on the FTDA in several material respects. First, unlike the FTDA, the FTDR introduces a more concise definition of what is a famous mark<sup>156</sup>, and streamlines the fame criteria to be used as guides by the courts in determining whether a mark is famous<sup>157</sup>. Only marks which are widely recognized by the general consuming public in the United States as designations of the source of goods or services of their proprietors will qualify as famous marks. This definition effectively excludes marks with only niche market fame from the ambit of famous marks.

Second, the FTDR departs from the *actual* dilution standard approved by the Supreme Court in the *Moseley* case, above. Rather, the FTDR prescribes that the standard of proof in dilution cases will be satisfied if the plaintiff establishes a *likely cause of dilution*<sup>158</sup>. This standard recognizes the incipient nature of dilution. It is also important to note, in this respect, that *the likelihood of dilution* prescribed by the FTDR is not dependent on actual economic injury. Third, the FTDR defines dilution by tarnishment as an association arising from the similarity between a sign or name and a famous mark that harms the reputation of

<sup>156</sup> See “Section (2) DEFINITIONS (A)” of the FTDR, reproduced in Part 6.5.2 above.

<sup>157</sup> See “Section (2) DEFINITIONS (A)” of the FTDR, reproduced in Part 6.5.2. above.

<sup>158</sup> See “Section (1) INJUNCTIVE RELIEF” of the FTDR, reproduced in Part 6.5.2 above.

the famous mark<sup>159</sup>. This definition is important if it is remembered that the FTDA had failed to define dilution by tarnishment. Fourth, the FTDRRA introduces a new definition of dilution by blurring<sup>160</sup>. According to Katherine Basile<sup>161</sup>, the definition of dilution by blurring in the FTDRRA is important because

Under the current statute, dilution is defined as the “lessening of the capacity of a famous mark to identify and distinguish goods or services”. As noted above, the courts have struggled to determine what this means. The 4<sup>th</sup> Circuit originally focused on lost revenue and sales. The 8<sup>th</sup> Circuit and the Trade-Mark Trial and Appeal Board (TTAB) sought to set forth a more practical standard for determining whether an unauthorized use was causing a reduction in the public’s perception that the mark signifies something unique, singular or particular. For example, the TTAB stated that dilution by blurring “occurs when a substantial percentage of consumers, upon seeing the junior party’s use of a mark on its goods, are immediately reminded of the famous mark and associate the junior party’s use with the owner of the famous mark, even if they do not believe that the goods come from the famous mark’s owner”. And the Supreme Court, while rejecting the requirement that actual lost sales or profits must be shown, required something more than “mere association”, concluding that, “blurring is not a necessary consequence of mental association”. H.R. 683 also changes the definition of dilution. Under the amended FTDA, “dilution by blurring is defined as the “association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark”. This appears to be an effort to reinforce that the principal harm caused by dilution is the whittling away of the famous mark’s distinctiveness. To maintain the focus of the analysis, H.R. 683 offers six factors to be considered (along with all relevant factors) in determining whether dilution has occurred:

- The degree of similarity between the mark or trade name and the famous mark.
- The degree of inherent or acquired distinctiveness of the famous mark.
- The extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark.
- The degree of recognition of the famous mark.
- Whether the user of the mark or trade name intended to create an association with the famous mark.

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<sup>159</sup> See Paragraph (6) of the FTDRRA, reproduced in Part 6.5.2 above.

<sup>160</sup> See Paragraph (B) of the FTDRRA, reproduced in Part 6.5.2 above.

<sup>161</sup> Katherine Basile, “*From Blurred to Bright: Amendment of the Federal Trademark Dilution Act*” Trademark World [May, 2005] 1 – 5, at 3, downloaded from <http://www.ipworldonline.com>, last visited on 4<sup>th</sup> November, 2005.

- Any actual association between the mark or trade name and the famous mark.

In closing this part of the research, it is submitted that the FTDR, even though it is not yet in force, will have a salutary effect in clarifying most of the difficult issues which had been encountered by the courts in implementing the FTDA. It offers the most practical way to deal with the incipient nature of dilution in a way that is easy to follow by plaintiffs, defendants and the courts alike. The strongest criticism against this legislative measure, however, is that it demonstrates the steadfast refusal of the United States of America to extend dilution protection to well-known marks, since the FTDR follows the FTDA in extending protection *only to* famous marks. As argued in Chapter 3, there is no justifiable reason, in principle, why only famous marks, as opposed to well-known marks, should be entitled to protection from dilution. Since it is the advertising value of trademarks that is protected from dilution, it is recommended that the United States of America should protect, by statute, all marks with advertising value from dilution. This will place United States law on par with the laws of other jurisdictions.

## 6.6 INTERNET-BASED DILUTION AND THE ANTICYBERSQUATTING CONSUMER PROTECTION ACT

### 6.6.1 Introduction

Use of a famous mark as a domain name in commerce<sup>162</sup> may cause the dilution of a famous mark under the FTDA. Lanham Act §43 (c) requires that

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<sup>162</sup> This means that in non-cybersquatting cases, the mere registration of a domain name does not trigger the FTDA provisions, since the language of the FTDA requires “use in commerce” for the injury of dilution to occur. See *Jews For Jesus v Brodsky* 995 F Supp 282, 46 USPQ 2d 1652 (D. N. J. 1998) holding that the mere registration of a domain name, without more, is not a commercial use of a trademark. *HQM Ltd v Hatfield* 71 Supp. 2d 500,507 (D. Md. 1999) holding that mere registration of a domain name as an e-mail does not constitute commercial use of a trademark. *Juno Online Services v Juno Klighting Inc* 979 F Supp 684, 44 USPQ2d 1913 (N.D. 111 – 1997). *Data Concepts Inc v Digital Consulting Inc* 150 F 3d 620, 47 USPQ 2d 1672 (6<sup>th</sup> Cir. 1998), holding that when a domain name is used only to indicate an address on the internet and not to identify the source of specific goods, the name is not functioning as a trademark. *Panavision Intern L.F. v Toeppen* 945 F. Supp 1296, 40 USPQ2d 1908 (C.D. Cal. 1996) holding that registration of a trademark as a domain name, without more, is not a commercial use of a

the defendant should use the domain name in commerce for dilution to occur. Use in commerce contemplates use where some goods are sold, distributed, or advertised for sale, and as such, a domain name advertising goods for sale may trigger the provisions of the FTDA.

The courts accordingly applied the anti-dilution provisions of the FTDA where a domain name was being used on a website to advertise the sale of goods, and the domain name evoked negative associations with plaintiff's famous mark, because it either linked the famous mark to sexually explicit digital pictures<sup>163</sup>, or to an adult entertainment website<sup>164</sup>, or to advertisements for the sale of adult sexual products<sup>165</sup>.

When a domain name is used on a website that promotes social, religious or political beliefs, and such use involves a "commercial use", the courts have similarly held that the anti-dilution provisions of the FTDA may apply. This was the case, for example, in *Planned Parenthood Federation of America Inc v Bucci*<sup>166</sup>. There, defendant, a talk show host, ardently supported the right to life position in abortion issues. The plaintiff was a family planning organization which advertised its services on its website under the domain name "ppfa.org". Defendant then registered the domain name "plannedparenthood.com" and used it

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trademark and is therefore not within the purview of Lanham Act §43 (c). *Lockheed Martin Corp v Network Solutions Inc*. 985 F. Supp 949; 44 USPQ2d 1865, 1872; 152 ALR Fed. 793 (C.D. Cal. 1997) holding that something more than the mere registration of a trademark as a domain name is required before the domain name can be held to be infringing.

<sup>163</sup> *Mattel Inc v Internet Dimensions Inc* 55 USPQ2d 1620, 2000 WL 973745 (SDNY 2000), holding that The diversion of internet users to a site presenting pornographic images, if viewed by a consumer hoping to view the information about one of Mattel's products may well tarnish the image of Mattel's BARBIE products in the minds of those consumers.

<sup>164</sup> *Hastro Inc v Internet Entertainment Group Ltd* 40 USPQ 2d 1479 (WD Wash. 1996), where "candyland" for children's game was found to be diluted by "candyland.com" for a sexually explicit adult entertainment website.

<sup>165</sup> *Toys "R" Us Inc v Akkaoui* 40 USPQ2d 1836 (N.D. 1996) where "Toys "R" Us" for children's toys was held to have been tarnished by use of "adultsrus.com" as a website advertising adult sexual products.

<sup>166</sup> 42 USPQ2d 1430 (SDNY 1997), 152 F 3d 920 (2d Cir. 1998). See also *Jews for Jesus v Brodsky* 993 F Supp 282, 46 USPQ2d 1652 (DNJ 1998), 159 F. 3d 1351 (3d Cir. 1998), where the court held that

In this case, the defendant has done more than merely register a domain name. He has created in his words, a 'bogus' Jews for Jesus site intended to intercept, through the use of deceit and trickery, the audience sought by the plaintiff organization.

on a website which showed extensive extracts of a right to life book. Internet users who wanted to visit the plaintiff's website were diverted to defendant's website, and the defendant admitted that his intention in registering his domain name and using it on his website was to intercept potential viewers of the plaintiff's website and to expose them to his right to life religious messages on his website. The court found that defendant's use of the domain name was "commercial use" contrary to Lanham Act §43 (c ) because defendant was promoting a right to life book on the website; was also soliciting for funds on the website, and that these two actions were designed to harm plaintiff commercially within the meaning of Lanham Act §43 (c )<sup>167</sup>.

In respect of cybersquatting, the courts have interpreted the "commercial use" requirements of Lanham Act §43 (c ) more generously in favour of the dilution claimant. A cybersquatter is a person who knowingly reserves with a domain name registrar a domain name consisting of a famous mark for the purpose of selling the domain name to the rightful owner at a price<sup>168</sup>. The courts have held, in respect of cybersquatting, that the cybersquatter's intent to ransom the domain name back to its rightful owner at a price constitutes "commercial use"<sup>169</sup>. However, as noted by McCarthy,<sup>170</sup> correctly it is submitted

The prototypical cybersquatter does not use the reserved domain name as its mark before the public, so there is no traditional dilution by blurring or tarnishment. Thus, the courts have had to create a wholly new category of "dilution" in order to find a legal weapon to combat this new and different form

<sup>167</sup> For a social message domain name case, see *People for Ethical Treatment of Animals Inc v Doughney* 113 F Supp 2d 915 (E D Va 2000); 263 F 3d 359, 60 USPQ2d 1109 (4<sup>th</sup> Cir. 2001).

<sup>168</sup> *KCPL Inc v Nash* 49 USPQ2d 1584 (SDNY 1998), *Intermatic Inc v Toeppen* 947 F Supp 1227, 40 USPQ2d 1412, 1417, stating that

Toeppen is what is commonly referred to as a cybersquatter.... These individuals attempt to profit from the internet by reserving and later reselling or licensing domain names back to the companies that spent millions of dollars developing the goodwill of the trademark.

<sup>169</sup> Note 168 above

<sup>170</sup> Note 12 above, Vol. 4, Chapter 25, §25:77, p 25 – 258. See also M. Leaffer, "Domain Names, Globalization and Internet Governance" [1998] *Indiana Journal of Global Legal Studies* 139, 151, arguing that

What has caused the current problematic systems is the focus on the cybersquatters example to justify the use of dilution law. The cybersquatter problem instead could be resolved either under traditional tort principles or some form of *sui generis* law that would prohibit such activity.

of reprehensible commercial activity. Further, it has been held that in a dilution case the plaintiffs cannot invoke the standard remedy sought in a cybersquatting case: transfer of the offending domain name to the plaintiff-trademark owner. What was needed was a legal tool specifically aimed at the actions of the typical cybersquatter and cyberpirate.

### 6.6.2 *The Anticybersquatting Consumer Protection Act*<sup>171</sup>

Concerns about the limitations of the FTDA to adequately deal with cybersquatting problems led the United States Congress to enact the ACPA in November 1999<sup>172</sup>. The ACPA was directed at preventing cybersquatting on the internet by the use of domain names that are confusingly similar to trademarks and to persons names. The ACPA was codified as Lanham Act §43 (d)<sup>173</sup>, which provides that

- (d) *Cyberpiracy Prevention*
- (1) (A) A person shall be liable in a civil action by the owner of a mark, including a personal name which is protected as a mark under this section, if, without regard to the goods or services of the parties, that person
- (i) has a bad faith intent to profit from that mark, including a personal name which is protected as a mark under this section; and
- (ii) registers, traffics in, or uses a domain name that

<sup>171</sup> Hereafter called “ACPA”.

<sup>172</sup> *Sporty’s Farm LLC v Sportsman’s Market Inc* 202 F3d 489, 53USPQ2d 1570, 1574 – 75 (2d Cir. 2000) holding that

In short, the ACPA was passed to remedy the perceived shortcomings of applying the FTDA in cybersquatting cases such as this one.

See also Senate Rep. No. 106 – 140, where the Senate stated that

While the [FTDA] has been useful in pursuing cybersquatters, cybersquatters have become increasingly sophisticated as the case law has developed and now take the necessary precautions to insulate themselves from liability. For example, many cybersquatters are now careful to no longer offer the domain name for sale in any manner that could implicate liability under existing trademark dilution case law. And, in cases of warehousing and trafficking in domain names, courts have sometimes declined to provide assistance to trademark holders, leaving them without adequate and effective judicial remedies. This uncertainty as to the trademark law’s application to the internet has produced inconsistent judicial decisions and created extensive monitoring obligations, unnecessary legal costs, and uncertainty for consumers and trademark owners alike.

<sup>173</sup> 15 USC 1125 (d).

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- (a) in the case of a mark that is distinctive at the time of registration of the domain name, is identical or confusingly similar to that mark;
  - (b) in the case of a famous mark that is famous at the time of registration of the domain name, is identical or confusingly similar to or dilutive of that mark; or
  - (c) is a trademark, word, or name protected by reason of section 70B of title 18 or section 220506 of title 36.
- (B)
- (i) In determining whether a person has bad faith intent described under subparagraph (A), a court may consider factors such as, but not limited to –
    - (a) the trademark or other intellectual property rights of the person, if any, in the domain name;
    - (b) the extent to which the domain name consists of the legal name of the person or a name that is otherwise commonly used to identify that person;
    - (c) the person’s *bona fide* non-commercial or fair use of the mark in a site accessible under the domain name;
    - (d) the person’s intent to divert consumers from the mark owner’s online location to a site accessible under the domain name that could harm the goodwill represented by the mark, either for commercial gain or with the intent to tarnish or disparage the mark, by creating a likelihood of confusion as to the source, sponsorship, affiliation, or endorsement of the site;
    - (e) the person’s offer to transfer, sell, or otherwise assign the domain name to the mark owner or any third party for financial gain without having used, or having an intent to use, the domain name in the *bona fide* offering of any goods or services, or the person’s prior conduct indicating a pattern of such conduct;
    - (f) the person’s provision of material and misleading false contact information when applying for the registration of the domain name, the person’s intentional failure to maintain accurate contact information, or the person’s prior conduct indicating a pattern of such conduct;
    - (g) the person’s registration or acquisition of multiple domain names which the person knows are identical

or confusingly similar to marks of others that are distinctive at the time of registration of such domain names or dilutive of famous marks of others that are famous at the time of registration of such domain names, without regard to the goods or services of the parties; and

- (h) the extent to which the mark incorporated in the person's domain name registration is or is not distinctive and famous within the meaning of subsection (c ) (l) of this section.
- (iii) Bad faith intent described under subparagraph (A) shall not be found in any case in which the court determines that the person believed and had reasonable grounds to believe that the use of the domain name was a fair use or otherwise lawful.
- (C) In any civil action involving the registration, trafficking, or use of a domain name under this paragraph, a court may order the forfeiture or cancellation of the domain name or the transfer of the domain name to the owner of the mark.
- (D) A person shall be liable for using a domain name under subparagraph (A) only if that person is the domain name registrant's authorized licensee.
- (E) As used in this paragraph, the term "traffics in" refers to transactions that include, but are not limited to, sales, purchases, loans, pledges, licenses, exchanges of currency, and any other transfer for consideration or receipt in exchange for consideration.

The term "domain name" is defined as an alphanumeric designation which is registered with or assigned by any domain name registrar<sup>174</sup>. The requirement in a cybersquatting claim that a domain name is "identical or confusingly similar" to a distinctive or famous mark means that the plaintiff's mark and the defendant's domain name should be identical or similar in sight, sound, smell, or meaning to an extent that they confuse, or are likely to confuse, consumers<sup>175</sup>. As such, a slight spelling variation does not prevent a finding of identity or

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<sup>174</sup> 15 USC 1127.

<sup>175</sup> *Ford Motor Co. v Greatdomains.Com.Inc* 177 Supp 2d 635; 177 ALR Fed. 637 (E.D. Mich. 2001) where "fordtrucks.com" was held not to be identical or confusingly similar to "fordstheatre.org".

confusing similarity between the mark and the domain name<sup>176</sup>. Cybersquatting liability accrues without regard to the goods or services of the parties because

Cyberpirates have no intention of using the domain name in commerce and instead often attempt to exact money from a company in exchange for domain names that relate to that company's trademarks<sup>177</sup>.

Cybersquatting itself is triggered by a defendant who registers, traffics or uses an offending domain name. The term "registers" a domain name refers to the act of registering a domain name with a domain name registrar, either in the global top level domain or a country code domain. The term "traffics" a domain name connotes the acts of buying, selling, trading or dealing in an offending domain name. The "use" of the domain name refers to use by the domain name registrant or his licensee.

### **6.6.3 Salient Provisions of the ACPA**

The significance of the ACPA lies in the fact that it created a new federal cause of action and provided remedies and defences in respect of cybersquatting against trademarks generally, but more importantly, against famous marks where the cybersquatting is dilutive of the famous mark. The ACPA also amended Lanham Act §34 (a) and 35 (a) expressly to admit injunctive and monetary relief to a successful cybersquatting claimant as is available under the Lanham Act in respect of orthodox trademark infringement, trademark dilution, and false advertising. The ACPA further amended Lanham Act §35 (d) to provide for statutory damages to a successful cybersquatting claimant. In terms of Lanham Act §43 (d) (1) (c), the courts are authorized to order forfeiture or cancellation of a domain name, or to transfer the domain name to the rightful owner of the diluted

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<sup>176</sup> *Shields v Zuccarin* 254 F3d 476, 59 USPQ2d 1207 (3d Cir. 2001) holding that A reasonable interpretation of conduct covered by the phrase 'confusingly similar' is the intentional registration of domain names that are misspellings of distinctive or famous names, causing an internet user who makes a slight spelling or typing error to reach an unintended site. We conclude that Zuccarini's conduct here is a classic example of a specific practice the ACPA was designed to prohibit.

<sup>177</sup> House Judiciary Committee Report on H.R. 3028, H.R. Rep. No. 106 – 412 pp 5 – 6 (October 25, 1999).

famous mark. The ACPA (Lanham Act §43 (d) (2) (A)) also allows a cybersquatting claimant to obtain an *in rem* jurisdiction by filing a cybersquatting claim against the domain name itself where the domain name registrant cannot be located, or where *in personam* jurisdiction is not available. To verify that the domain name registrant cannot be located, the cybersquatting claimant is required to send notice of intent to commence the cybersquatting proceedings to the domain name registrant by post or by electronic mail.

Having given an overview of the salient points of the ACPA, the research proceeds to take a closer look at that Act, and to examine the extent it protects famous marks from internet-based dilution.

#### **6.6.4 Elements of a Cybersquatting of a Famous Mark Claim**

A plaintiff in a cybersquatting of a famous mark claim must prove that (i) the defendant has registered, trafficked in, or used a domain name; and (ii) that the domain name is identical to or confusingly similar to or dilutive of a famous mark<sup>178</sup>; and (iii) the mark was famous at the time of the defendant's registration of the domain name; and (iv) the defendant committed the registration, trafficking in, or use of the domain name with a bad faith intent to profit from the plaintiff's famous mark<sup>179</sup>.

#### **6.6.5 Bad Faith Intent**

Once the plaintiff has proved that he is the owner of the famous mark, and that the domain name is identical or confusingly similar to the famous mark, he must then prove the defendant's bad faith intent to profit from the mark, using the guidelines set out in the ACPA. Such proof should be on a balance of

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<sup>178</sup> The term "famous mark" is not defined in the ACPA, which leads to the conclusion that Congress intended it to have the same meaning in Lanham Act §43 (c).

<sup>179</sup> McCarthy, Note 12 above, Vol. 4, Chapter 25, §25:78 p. 25 – 272.

probabilities<sup>180</sup>. The research proceeds below to analyse the nine factors set out in the ACPA to prove bad faith intent to profit from a famous mark. According to the ACPA, the plaintiff must prove:

(i) *his trademark rights in the domain name*: This requirement recognizes that identical or similar trademarks can co-exist in the marketplace if used on differing goods. This is the case for example, in the case of the trademark “Delta” for airline services and faucet goods in the United States of America. If the faucet manufacturer registers the domain name “delta.com” before the airline service provider, this does not make him a cybersquatter, because he can prove his earlier trademark rights in the domain name<sup>181</sup>.

(ii) *the extent to which the domain name consists of the legal name of the person or a name that is otherwise commonly used to identify that person*: This requirement recognizes the need to allow persons to register their personal names or widely recognized nicknames as domain names in present day commercial activities<sup>182</sup>.

(iii) *the person’s prior use, if any, of the domain name in connection with the bona fide offering of any goods or services*: This factor recognizes that the prior use of a domain name in commerce is a good indicator of good faith intent<sup>183</sup>.

<sup>180</sup> *Harrods Ltd v Sixty Internet Domain Names* 302 F3d 214; 64 USPQ2d 1225; 53 Fed. R. Serv.3d 955 (4<sup>th</sup> Cir, 2002).

<sup>181</sup> See House Judiciary Committee Report on H.R. 3028, H.R. Rep. No. 106 – 412, p. 10 (October 25, 1999). See also *Hartog & Co. AS v SWIX.com* 136F. Supp 2d 531; 63 USPQ2d 1086 (ED Va. 2001), holding that no conflict exists between a Norwegian plaintiff’s SWIX trademark for ski wax and the allegedly offending domain name swix.com used by a Swiss internet service provider for a long time to identify its website.

<sup>182</sup> *HQM Ltd v Hatfield* 71 F Supp 2d 500 (D. Md. 1999), finding that William B. Hatfield’s registration of the domain name *hatfield.com* to use as a personal e-mail address was not dilution by cybersquatting on the plaintiff’s trademark “hatfield” for meat products. *Strick Corp v Strickland* 162 F Supp 2d 372; 60 USPQ2d 1889 (E.D. Pa. 2001), holding that defendant’s registration of the domain name strick.com for use in his computer consulting business was not dilutive of the plaintiff’s famous “strick” mark for transportation equipment because defendant had simply chosen his childhood nickname.

<sup>183</sup> *Hartog & Co. AS v SWIX.com* Note 181 above.

(iv) *the person's bona fide noncommercial or fair use of the mark in a site accessible under the domain name:* This factor is intended to balance the interests of trademark owners against the interests of those who make noncommercial or fair uses of the marks of others online, like in non-disparaging comparative advertising, comment, criticism, parody and news reporting. Such uses, even if done for profit, do not satisfy the bad-faith intent requirement<sup>184</sup>.

(v) *the person's intent to divert consumers from the mark owner's online location to a site accessible under the domain name that could harm the goodwill represented by the mark, either for commercial gain or with intent to tarnish or disparage the mark, by creating a likelihood of confusion as to the source, sponsorship, affiliation, or endorsement of the site:* This factor seeks to prevent acts of diversion of customers from plaintiff's website to defendant's website done with an intent to free ride on plaintiff's famous mark<sup>185</sup>, or with an intent to tarnish the business reputation of a competitor<sup>186</sup>, or with an intent to divert plaintiff's customers to a website with information that is "antithetical and therefore harmful to the goodwill represented by the plaintiff's famous mark"<sup>187</sup>.

(vi) *the person's offer to transfer, sell, or otherwise assign the domain name to the mark owner or any third party for financial gain without having used or having an intent to use, the domain name in the bona fide offering of any goods or services, or the person's prior conduct indicating a pattern with such conduct:* This requirement seeks to prevent the typical conduct of a cybersquatter who registers a domain name with no intent to use it, but to traffic it. As noted by Congress<sup>188</sup>

<sup>184</sup> See House Judiciary Committee Report on H.R. 3028, H.R. Rep. No. 106 – 412 p. 11 (October 25, 1999). See also Senate Congressional Record on the ACPA, p. S14713 (November 17, 1999) *Interstellar Starship Services Ltd v Epix Inc* 304 F3d 936; 64 USPQ 2d 1514 (9<sup>th</sup> Cir. 2002).

<sup>185</sup> *Advance Magazine Publishers Inc v Vogue International* 123 F. Supp 2d 790 (D.N.J. 2000).

<sup>186</sup> *Green Products Co. v Independence Corn By-Products Co.* 992 F. Supp 1070 (N.D. Iowa 1997).

<sup>187</sup> *People for Ethical Treatment of Animals v Doughney* 263 F 3d 359; 60 USPQ2d 1109 (4<sup>th</sup> Cir. 2001).

<sup>188</sup> House Judiciary Committee Report on H.R. Rep. No. 106 – 412 P. 12 (October 25, 1999). See also *Broadbridge Media LLC v Hypercd.com* 106 F Supp 2d 505; 55USPQ2d 1426 (S.D.N.Y. 2000). **E & J**

in practice, the offer to sell domain names for exorbitant amounts to the rightful mark owner has been one of the most common threads in abusive domain name registrations.

(vii) *conduct indicating a pattern of such conduct:* This factor assists in establishing the bad faith intent of the cybersquatter because if the cybersquatter provided false information, for example, to the domain name registrar in registering the domain name which is identical or confusingly similar to or dilutive of the famous mark, this shows that the cybersquatter wanted to conceal his true identity, and to profit without being easily identified.

(viii) *the person's registration or acquisition of multiple domain names which the person knows are identical or confusingly similar to marks of others that are distinctive at the time of registration of such domain names, or dilutive of famous marks of others that are famous at the time of registration of such domain names, without regard to the goods or services of the parties:* This requirement focuses on domain name warehousing, which is the hoarding of commercially inactive domain names by a cybersquatter, consisting of identical or confusingly similar combinations of the famous marks of others<sup>189</sup>.

(ix) *the extent to which the mark incorporated in the person's domain*

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**Gallo Winery v Spider Webs Ltd** 286 F3d 270; 62 USPQ2d 1404 (5<sup>th</sup> Cir. 2002). **Toys "R" Us Inc v Abir** 45 USPQ2d 1944 (S.D.N.Y. 1997), where the court held that

Defendant's use of the domain name that copied Toys "R" Us was a deliberate bad faith effort at cyberpiracy. The defendant intentionally copied the trademark in order to extort money from the plaintiff or take advantage of the extensive efforts that plaintiff expended in developing the name by competing directly against the plaintiff.

<sup>189</sup> **Lockheed Martin Corp v Network Solutions Inc.** 985 F. Supp 949; 44 USPQ2d 1865 (C.D. Cal. 1997) **Intermatic Inc v Toeppen** 947 F. Supp 1227, 40 USPQ2d 1412 (N.D. 111 1996) **Panavision Intl LP v Toeppen** 945 F. Supp 1296 40 USPQ2d 1908 (CD Cal. 1996). **Northern Light Technology Inc v Northern Lights Club** 236 F3d 57; 57 USPQ 1277 (1<sup>st</sup> Cir. 2001). **Morrison & Forester LLP v Wick** 94 F Supp 2d 1125 (D. Solo, 2000), holding that this ACPA requirement was breached by a defendant who registered four variations of the name of plaintiff's law firm name, together with the names of ninety other law firms, and maintained websites heavily critical of the legal profession.

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*name registration is or is not distinctive and famous within the meaning of Lanham Act §43 (c ) (l).* This factor directs the court to the requisite guidelines for a mark’s fame, already discussed above in the context of FTDA.

### 6.6.6 Defences

Lanham Act §43 (d) (1) (B) (ii) provides that no cybersquatting is caused by a defendant who “believed and had reasonable grounds to believe that the use of the domain name was a fair use or otherwise lawful”. McCarthy heavily criticizes this defence, and argues that “it might ..... reward the cybersquatter who intended no harm and mistakenly thought that his conduct was lawful”. McCarthy argues that courts should uphold this defence very sparingly and only in the most unusual cases. He suggests that the courts should rather strictly scrutinize the “reasonable grounds” relied on by the cybersquatter<sup>190</sup>. The Act which contained the ACPA on its enactment<sup>191</sup> provided further defences in a savings clause which provided that

Nothing in this title shall affect any *defence* available to a defendant under the Trademark Act 1946 (including any defense under section 43 (c ) (4) of such Act or relating to fair use) or a person’s right of free speech or expression under the first amendment of the United States Constitution.

From this provision, it follows that any defence available under the Lanham Act is also available under the ACPA. Such defences include, but are not limited to, fair use, free speech, and those specified in Lanham Act §43 (c ) (4), discussed above in the context of the FTDA.

The ACPA also contains defence provisions intended to ensure that domain name registrars help the courts to establish judicial control over the process of domain name registration generally, and comply with court orders issued under the ACPA. A domain name registrar who complies with a court

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<sup>190</sup> McCarthy, Note 12 above, Vol. 4, Chapter 25, §25:78, p. 25 – 269.

<sup>191</sup> The ACPA was contained as Title III in the Intellectual Property and Communication Omnibus Reform Act of 1999, enacted on 29 November, 1999, and cited as PL 106 – 113, 113 Stat 1501.

order made under Lanham Act §43 (d) is therefore protected from liability under Lanham Act §32 (2) (D) if the registrar disables, transfers, cancels, or removes from registration a domain name as part of ‘a reasonable policy’ prohibiting the registration of domain names that are identical to, or confusingly similar to, or dilutive of, another person’s famous mark.

### 6.6.7 Remedies

The typical remedies provided in the ACPA are “the forfeiture or cancellation of the domain name, or the transfer of the domain name to the owner of the [famous] mark”. Remedies in the form of injunctions<sup>192</sup>, damages<sup>193</sup>, attorney fees<sup>194</sup> and accounts of profit, are also applicable to claims brought under the ACPA..

### 6.6.8 Conclusions

The ACPA’s provisions are on an equal footing to the Uniform Dispute Resolution Policy of the Internet Corporation for Assigned Names and Numbers in respect of prohibitions against the cybersquatting of a famous mark, the ingredients of the element of bad faith intent in cybersquatting cases, the defences in a cybersquatting claim, and the remedies of cancellation or transfer of a domain name where the plaintiff in a cybersquatting claim is successful. The definition of a domain name in the ACPA corresponds to that provided in the WIPO Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks. All in all, the ACPA represents the most significant step by all the

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<sup>192</sup> *Mattel Inc v Internet Dimensions Inc* 55 USPQ2d 1620; 2000 WL973745 (S.D.N.Y. 2000). Finding that the ACPA was breached by a defendant who used barbieplaypen.com as the domain name of an adult entertainment, and court ordering permanent injunction barring defendant from using Mattel’s “BARBIE” trademarks.

<sup>193</sup> *Electronics Boutique Holdings Corp v Zuccarini* 50 USPQ2d 1705; 2000 WL 1622760 (E.D. Pa. 2000) assessing statutory damages of \$100,000 for five of the infringing names involved for a total of a half-million United States dollars and awarding plaintiff thirty one thousand United States dollars in attorneys fees.

<sup>194</sup> Note 192 above.

jurisdictions under study to align its domestic laws with international initiatives in the regulation of internet-based dilution, as reflected in the Uniform Dispute Resolution Policy of the Internet Corporation for Assigned names and Numbers and in the jurisprudence developed by panels which administer that Policy. It will accordingly be proposed that the other jurisdictions under study should adopt legislative frameworks similar to the ACPA in their domestic laws to ensure that famous trademarks are protected from internet-based dilution. Such legislative measures will be doing nothing more than recognizing a phenomenon long recognized in current commercial life.

Apart from protecting a vital segment of society – the businessmen and women who spend much time and effort in developing a unique identity for their marks, such protection will also protect consumers from being misled on the internet and diverted to websites which they do not seek. Such protection, in other words, strikes an equitable balance between consumer protection – the bedrock of traditional trademark protection – and the interests of the owner of a famous trademarks in ensuring that the advertising value of his trademark is not misappropriated and diluted by cyberpirates and cybersquatters.

## **6.7 CONCLUSIONS AND RECOMMENDATIONS**

Several conclusions and recommendations are now drawn up from the analysis of trademark dilution in the United States undertaken in this Chapter. First, the provisions of the FTDA and the FTDRA broadly correspond to (a) the provisions of Article 4 (b) (ii) of the WIPO Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks<sup>195</sup>, (b) the provisions of the second proviso of Article 16 (3) of the Agreement of Trade-Related Aspects of Intellectual Property Rights, as read with Article 1 (1) of that Agreement<sup>196</sup>, (c) the provisions of Article 3 of the WIPO Model Provisions for Protection Against

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<sup>195</sup> See Chapter 4, Part 4.2.6.

<sup>196</sup> See Chapter 4, Part 4.2.4.

Unfair Competition<sup>197</sup>, and (d) the provisions of Articles 4 (4) (a) and 5 (2) of the European Communities First Council Directive of 21 December, 1988 to Approximate the Laws of Member States Relating to Trademarks<sup>198</sup>, and Articles 8 (5) and 9 (1) (c ) of the European Trademark Harmonization Regulation<sup>199</sup>, protecting well-known marks from trademark dilution. In particular, the guidelines specified in the FTDRA for use by the courts in determining the fame of a mark correspond to the guidelines in Article 2 (1) of the WIPO Joint Recommendation, and to the guidelines developed by the European Court of Justice in *General Motors Corporation v Yplon*<sup>200</sup>. The FTDA, as amended by the FTDRA, may therefore, in this respect, be viewed as complying with the international and regional trademark law provisions protecting trademarks from dilution.

The FTDA, as amended by the FTDRA, now offers the most practical ways to deal with dilution cases because its language (a) *includes* dilution by tarnishment in the definition of dilution, (b) *excludes* marks with only niche market fame from the category of marks which qualify as famous marks under the FTDA, (c) *provides* that both a mark which is inherently distinctive, as well as a mark with acquires distinctiveness, through use, may qualify as a famous mark, (d) *provides* that a plaintiff in a federal dilution claim should prove a *likelihood* of dilution, not *actual* dilution, (e) *streamlines* the guidelines to be used by the courts in determining if a mark is famous. It is also recommended that similar amendments can be made, *mutatis mutandis*, to the European Communities First Council Directive to Approximate the Laws of Member States Relating to Trademarks<sup>201</sup> and the European Trademark Harmonization Regulation.<sup>202</sup> Such a law reform measure will ultimately need to be transposed into the domestic

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<sup>197</sup> See Chapter 4, Part 4.2.5.

<sup>198</sup> See Chapter 5, Part 5.3.3.

<sup>199</sup> See Chapter 5, Part 5.3.3.

<sup>200</sup> [1999] ETMR 950, discussed in Chapter 5, at Notes 139 to 143, and accompanying text.

<sup>201</sup> See Chapter 5, Note 1.

<sup>202</sup> See Chapter 5, Note 1.

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trademark laws of the United Kingdom and Germany, and this will achieve legislative uniformity in the United States, Germany and the United Kingdom.

The provisions of the ACPA, as noted above, substantially correspond to ICANN's UDRP, and represent the most significant legislative effort at the national level to govern internet-based dilution. It is therefore recommended that the provisions of the ACPA should be transposed into the laws of the European Communities as a mandatory provision of the European Communities First Council Directive to Approximate the Laws of Member States Relating to Trademarks<sup>203</sup> and should similarly be adopted by Germany, the United Kingdom and South Africa and transposed into their domestic laws.

In the United States of America, dilution provisions apply to competitors. Although this extension of the dilution provisions is sometimes the subject of criticism, there is no reason, in principle, why dilution should not be extended to apply to competitors in appropriate cases. This is because where the parties to a dilution claim are competitors, some customers of the plaintiff will not necessarily have been confused as to source or affiliation, but will have correctly recognized the junior user as independent of the senior user. Their perception, in other words, might lead to dilution by blurring or tarnishment. The focus of debate, it is submitted, should rather be on how the courts can, in such cases, appropriately balance the competing interests of the trademark owner against the competing interests of the public to unimpeded product information in a competitive environment.

In *Toro*, above, the TTAB accepted that niche market fame may be sufficient for a dilution claim in opposition proceedings. It is submitted, however, that niche market fame should have little if any place in a dilution claim, as it will likely stifle free and fair competition. Consequently, it is recommended that section 43 (c) (1) (f) of the FTDA should be repealed, since it provides that niche

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<sup>203</sup> See Chapter 5, Note 1.

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market fame is an element which may, in appropriate cases, be taken into account by a court in any consideration whether the senior mark is famous<sup>204</sup>.

It is further recommended that in order to qualify for protection from dilution, marks should be both well-known and distinctive. Equating a trademark's fame and distinctiveness for dilution purposes, it is submitted, pays a blind eye to the rationale of dilution, because any sign, to be a trademark, must be distinctive. However, to qualify for protection from dilution, the mark should, it is submitted, possess a degree of distinctiveness over and above that needed for registration purposes – a distinctiveness necessary for the mark to retain its source significance when encountered outside the context of the goods on which it is used.

The identity of the trademarks in dilution cases need to be closely and strictly scrutinized. As pointed out by the Supreme Court in *Moseley*, dilution protection, by and large, is not motivated by an interest in protecting consumers. This means that, where the trademarks in a dilution claim are incidentally similar, the dilution claim should fail, in the interests of free trade. Otherwise, owners of trademarks will be able to mobilize the extraordinary remedy of dilution to stifle the use of any trade designation that in any way resembles their trademark, leading, inevitably, to the creation of absolute monopolies in a trademark.

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<sup>204</sup> See the arguments advanced in Part 6.4.3 at Para. (viii). It should be noted that the FTDRA addresses the points addressed here by providing that marks with niche fame do not qualify for dilution protection. However, the FTDRA is not yet law, so that the points are still relevant to any discussion of dilution under American law at this time.

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**CHAPTER 7****GERMANY****7.1 INTRODUCTION**

This Chapter analyses the protection granted to trademarks against trademark dilution under German law. The analysis is carried out against a background which recognizes that the German Trademark Act of October 25, 1994<sup>1</sup> was enacted with a view of ensuring German's compliance with the mandatory provisions of the European Communities First Council Directive of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks<sup>2</sup> and the European Trade Mark Harmonization Regulation (Council Regulation (EC) No. 40/94 of 20 December 1993 on the Community Trade Mark<sup>3</sup>. Germany had also to comply, in enacting the Trademark Act of 1994, with the provisions of the Paris Convention for the Protection of Industrial Property of 1883<sup>4</sup>, as revised and amended, and with the provisions of the Agreement on Trade Related Aspects of Intellectual Property Rights<sup>5</sup>. The protection granted to trademarks against trademark dilution by the German Trademark Act is therefore analysed within the international and regional context of these treaties, agreements and directives. The part of this Chapter where such analysis is done is called the Post-EU Harmonization Period for ease of reference.

Before the enactment of the German Trademark Act of 1994, the legal basis for the protection of trademarks was the German Trademark Act of 12 May,

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<sup>1</sup> This Act came into force on 1 January, 1995, and was amended by the Law Amending the Trademark Act of 19 July, 1996 (Official Gazette BGB1. 1996 1 at 1014).

<sup>2</sup> Hereafter called "the EC Trademark Directive". See Chapter 5, Notes 1 and 5, and accompanying text.

<sup>3</sup> Hereafter called "the Community Regulation". See Chapter 5, Notes 1 and 5, and accompanying text.

<sup>4</sup> Hereafter called "the Paris Convention".

<sup>5</sup> Hereafter called "the TRIPS Agreement".

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1894<sup>6</sup>. Outside the framework of the WZG, the advertising value of trademarks and other business designations was also protected from misappropriation under the Act Against Unfair Competition of 1896<sup>7</sup>, and the Civil Code. An analysis is therefore made in this Chapter of the scope of protection granted to trademarks, including famous and well-known trademarks, under the WZG, the UWG and the Civil Code, in an effort to ascertain whether the scope of such protection extended to protection against trademark dilution. The part of this Chapter where such analysis is done is called the Pre-EU Harmonization Period for ease of reference.

The Chapter also seeks to answer the additional question whether German courts, during both the Pre-EU and the Post-EU Harmonization Periods, appropriately balanced the competing interests present in dilution cases by ensuring that the interests of the owner of a trademark with advertising value were protected from dilution, while at the same time ensuring that such protection did not stultify the interests of the public to free trade.

The Chapter closes by analyzing the legal mechanisms adopted under German law to address issues related to internet-based dilution. Appropriate law reform initiatives are then recommended by way of conclusion.

## **7.2 PROTECTION AGAINST TRADEMARK DILUTION DURING THE PRE-EU HARMONIZATION PERIOD**

### **7.2.1 Generally**

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<sup>6</sup> The *Warenzeichengesetz*, hereafter called “the WZG”.

<sup>7</sup> The *Gesetz Gegen Den Unlautern Wettbewerb*, hereafter called “the UWG”.

During the Pre-EU Harmonization Period, legal literature<sup>8</sup> indicates that in Germany, trademarks were categorized based on fame, and the legal effect of such categorization directly determined the scope of protection which was granted to a trademark in each category. Three categories of trademarks are discernible: first, ordinary trademarks, which were registered, and whose source-origin function and product-distinguishing function were protected, under the WZG; second, famous trademarks known by at least seventy to eighty percent of the consuming public, which, in addition to being registered and protected under the WZG, were protected from trademark dilution under the UWG and the Civil Code; and third, well-known trademarks which had not attained the status of being famous, but which were known by at least thirty percent of the consuming public which, apart from being protected under the WZG, were also protected from trademark dilution under the UWG and the Civil Code if the misappropriation of their advertising value entailed an unjustifiable exploitation of their reputation. The ensuing analysis follows the categorization highlighted above. The research accordingly analyses next the protection granted to each category of trademarks against dilution under the WZG, UWG and the Civil Code.

### 7.2.2 The WZG

Sections 35 (3) and (4), 11 (1) 1, 15 (1) and 25 of the WZG incorporated the principle of specialty into German trademark law: no trademark could be registered or used if it was confusingly similar to another trader's trademark in

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<sup>8</sup> See Michael Lehmann, *“Unfair Use of and Damage to the Reputation of Well-Known Marks, Names and Indications of Source in Germany: Some Aspects of Law and Economics”* [1986] Vol. 17 [No. 6], International Review of Industrial Property and Copyright Law, 746 - 767; Geert Wolfgang Seelig, *“Protecting Famous Brands in Germany”* [1989] 5 EIPR, 158 - 161; Karl Heinz Fezer, *“Trademark Protection Under Unfair Competition Law”* [1988] Vol. 19 [No.2] International Review of Industrial Property and Copyright Law, 192 - 215; B. Steckler, *“Unfair Trade Practices Under German Law: Slavish Imitation of Commercial and Industrial Activities”* [1996] EIPR 390 - 397; Peter Joachim Kaufmann, *“Passing Off and Misappropriation: An Economic and Legal Analysis of the Law of Unfair Competition in the United States and Continental Europe”* [1986] Vol. 9, Studies in Industrial Property and Copyright Law, 136 - 140; Gerhard Schrickler, *“Protection of Famous Trademarks Against Dilution in Germany”* [1980] Vol. 11 [No. 2], International Review of Industrial Property and Copyright Law, 166.

respect of goods which were the same as or similar to those for which the other trader used his trademark<sup>9</sup>. By predicating trademark protection on “a risk of confusion requirement” and “a similarity of goods requirement”, the WZG protected both the source-origin function of a trademark and the product distinguishing function of a trademark<sup>10</sup>.

Case law developed under the WZG<sup>11</sup> shows that the existence of a risk of confusion was established in circumstances where, because of the similarity of the trademarks and the goods of the traders, a significant proportion of the consuming public were likely to believe that the goods of the two traders originated from the same business. Goods were deemed by the courts to be similar if they corresponded in economic significance and manner of use, particularly in their regular place of manufacture or sale, so that, in the opinion of the relevant customers and trade circles, they might have been taken as having the same origins<sup>12</sup>.

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<sup>9</sup> Michael Lehmann, “*Unfair Use of and Damage to the Reputation of Well-Known Marks, Names and Indications of Source in Germany: Some Aspects of Law and Economics*” [1986] Vol. 17 [No.6], *International Review of Industrial Property and Copyright Law*, 746, at 747 – 748, commenting that

As a prerequisite for protection, German Trademark law demands the existence of a *risk of confusion and similarity of goods*, whereby in concrete cases the distinctiveness and secondary meaning of a mark influence the interpretation of the term “risk of confusion”. Pursuant to Sections 5 (3) and (4), 11 (1) (1), 15 (1), and 25 of the German Trademark Act, the principle of specificity applies to all trademarks and get up. This is a principle which has particular significance for French and Italian law, as well as for Article 6*bis* of the Paris Convention. Thus, trademarks capable of creating confusion are only protected against use for identical or similar goods. The protection of get up according to Section 25 of the Trademark Act is objectively limited to those particular commercial achievements which have obtained secondary meaning, whereby the right to prohibit also extends to similar goods, packaging, etc.

A further consequence of the principle of specificity is that the Trademark Act cannot be invoked as the legal foundation for the broader protection of famous trademarks or get up, since this principle .... is intended to ensure that the monopoly – like field of exclusivity of trademarks does not normally restrict competition more than absolutely necessary (emphasis added).

<sup>10</sup> See Chapter 2, Part 2.2.1 and Part 2.2.2.

<sup>11</sup> *Magirus*, BGH in GRUR 1956/172; *Astrawolle*, BGH in GRUR – 1957/228; *Triumph*, BGH in GRUR 1859/25; *Dolan*, BGH in GRUR 1970/80; *Norris*, BGH in GRUR 1882/419.

<sup>12</sup> Geert Wolfgang Seeling, “*Protecting ‘Famous Brands’ in Germany*” [1989] 5 EIPR 158, stating that The proprietor of a trade mark or a recognized distinguishing sign or get-up is protected under section 25 of the WZG against the registration and use of an identical trade mark or one liable to be confused with it in accordance with sections 24 and 31 WZG, if the competing goods are the same or similar. According to case law, goods are similar if they correspond in economic significance and manner of use, and particularly in their regular place of manufacture or sale, so

In the *Centra* case<sup>13</sup>, for example, the Federal Supreme Court applied both the risk of confusion requirement and the similarity of goods requirement in comparing the plaintiff's trademark "Centra" for a groceries supply organization and the trademark "renta" for a firm operating grocery stores. After analyzing the marks globally in all their aspects, the court decided that the marks "Centra" and "renta" were similar. In respect of the similarity of the products in question, however, the court held that though the products were not totally similar, the public could well be confused if it regarded the products of the plaintiff and the defendant as coming from the same firm on economic or organizational grounds. The use of the trademark "renta" was accordingly prohibited. In the *Cheri* case,<sup>14</sup> the Federal Supreme Court compared the trademark "Mon Cheri" for cherry bonbons with the trademark "Cerisio" for the same products. The strength of the "Mon Cheri" trademark was closely checked in the marketplace, where it was found to enjoy ninety two percent notoriety. The court accordingly prohibited the use of the "Ceriso" trademark, holding that the stronger the distinctive power of the "Mon Cheri" trademark, the stronger the danger of confusion with products which were similar.

Where the businesses of the traders were *entirely* different, the courts held that there was no risk of confusion under the WZG, and accordingly permitted the registration or use of the same or a similar trademark in respect of dissimilar goods. According to Geert Wolfgang Seelig

Where the goods [were] not similar, or there [was] no risk of confusion, the proprietor even of a well-known mark or get up [could] get no help from the

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that in the opinion of relevant trade circles goods will be taken to have the same origin if signs which are, or are deemed to be, identical are used.

It is submitted that according to the interpretation of Seelig, above, section 25 of the WZG protected against likelihood of confusion, which includes the likelihood of association between the sign and the trademark, which was incorporated into Articles 4 (1) (b) and 5 (1) (b) of the EC Trademark Directive, and Articles 8 (1) (b) and 9 (1) (b) of the Community Regulation. In this respect, see Chapter 5, Part 5.3.2.

<sup>13</sup> BGH decision of 17 March, 1965, in GRUR 1966/38.

<sup>14</sup> BGH decision of November, 1971, in GRUR 1971/180.

above-mentioned legal provisions [of the WZG] and [had to] accept the registration or use of his identifying symbols for dissimilar goods<sup>15</sup>.

Michael Lehmann similarly agrees with Seelig, and observes that

Thus, in Germany for example, the trademarks “Rex” for glasses, coffee and razor blades, “Union” for charcoal, cars and shoes could co-exist [under the WZG] as registered marks for different proprietors<sup>16</sup>.

It may be concluded that the WZG legally recognized trademarks as having two interdependent functions. First, it recognized trademarks as badges of origin for the goods of a trader. By so doing, it also recognized the trademark’s additional function of identifying a trader’s goods and distinguishing them from the goods of other traders. It protected both functions. The WZG did not, however, protect a trademark’s advertising function.

### 7.2.3 The UWG

Section 16 of the UWG protected company names and other business designations, including trademarks, from commercial uses capable of creating confusion<sup>17</sup>. Section 16 (3) of the UWG extended protection to trademarks which had acquired a secondary meaning to a substantial percentage of the relevant trade circles for *exclusively* identifying a trader’s commercial activity, and prohibited

<sup>15</sup> Geert Wolfgang Seelig, Note 12 above, at 158.

<sup>16</sup> Michael Lehmann, Note 9 above, at 748.

<sup>17</sup> Michael Lehmann, Note 9 above, at 749, stating that the protection granted here was broader. He observes that:

The protection of *company names*, or more precisely *business designations* afforded by Section 16 of the Act Against Unfair Competition, is *more extensive* than that of the Trademark Act. Here it is sufficient that the commercial use of the designation is capable of creating confusion in a narrower or broader sense. Similarity of business activity is not essential, however the fields of activity may not lie so far apart that the public no longer assumes that the two enterprises are identical or that a *legal or financial connection* exists between them (emphasis added).

It is submitted that Lehmann’s observations above speak of the likelihood of confusion, including the likelihood of confusion by association between the company name or business designation and the confusingly similar business activity. Whereas section 25 of the WZG protected against likelihood of confusion, including likelihood of confusion by association between the trademark and the sign, section 16 of the UWG offered similar protection between the company name or other business designation and confusingly similar business activity.

the use of such trademarks in respect of non-competing but related goods, where such use caused confusion of sponsorship<sup>18</sup>.

Section 1 of the UWG, on the other hand, prohibited acts in commerce which contradicted free competition and the interests of competitors and the general public. Under section 1 of the UWG, protection against trademark dilution was granted to trademarks without consideration of whether there was a likelihood of confusion. According to Karl Heinz Fezer<sup>19</sup>

The protection of trademarks under the broad general clause in Sec. 1 UWG primarily prohibits open and veiled misappropriation of the reputation of another's mark ... At the fringe of trademark protection afforded under Sec. 1 UWG are cases involving the so-called "jeopardizing" of a valuable trademark.

Steckler<sup>20</sup>, like Fezer, argues that section 1 of the UWG prohibited the open misappropriation of the advertising value of a famous or well-known trademark which caused dilution. He opines that

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<sup>18</sup> Michael Lehmann, Note 9 above, at 749, Footnote 25.

<sup>19</sup> Karl Heinz Fezer, "*Trademark Protection Under Unfair Competition Law*" [1988] Vol. 19 International Review of Industrial Property and Copyright Law, 192, 194 – 195. Section 1 of the UWG provided that:

Any person who, in the course of business activity and for purposes of competition, commits an act contrary to honest business practices, may be enjoined from these acts and held liable to damages.

It is submitted that this provision corresponded with Article 10*bis* (2) of the Paris Convention – see Chapter 4, Note 17 and the text occurring immediately thereafter. Note should also be taken of the fact that section 1 UWG was a general clause, as it did not define what constituted "dishonest practices", and German courts had to interpret this clause on a case by case basis, including cases involving the dilution of the advertising value of a famous trademark or a trademark with a reputation. See in this respect Elizabeth May, "*Passing Off: Not Ready to Pass Away?*", Trademark World [No. 16] [1 April 2003] 26 – 30, at 28, commenting that

German law has provided protection for trademarks, product configurations or packaging which enjoy a reputation against exploitation of reputation and dilution, irrespective of danger of confusion as to origin by applying Article 1 [UWG].

<sup>20</sup> B. Steckler, "*Unfair Trade Practices Under German Law: Slavish Imitation of Commercial and Industrial Activities*" [1996] EIPR 390, at 394. Steckler, however, says (at 394 – 395) –

that a reference to the trademark or trade name of another trader can be made by a trader who manufactures or markets spare parts, accessories or pieces of equipment for the original products of the other trader, provided such parts, accessories, etc., are not protected by special laws. The manufacturer of the spare parts, accessories, etc, however, is not allowed to distribute them under the trademark of the main product without a licence; or to make reference to order or catalogue number of the original product, or the designation of the manufacturer of the original product if he does not guarantee that these are not included in bills, enclosures and so on which are made out from dealers or workshops for their customers.

Exploitation of another's reputation contrary to fair competition in order to recommend one's own product is assumed if someone brings his or her product into relation with the goods or services of a competing enterprise without good reason, in order to take advantage of another's reputation for one's own economic purposes. In these cases, frequently there is no confusion on the part of the customer, but through the analogy of the competing product a dilution of the advertising effect takes place and therefore an impairment of the good reputation of the enterprise. This includes referring (imitating) advertising in the form of critical (disparaging) comparative advertisements, references to the product, and its nature and quality, references to its purpose, to connections of competitors and many hidden forms of analogies. Advertising with reference to the possibility of substitution is contrary to fair competition, as well as the recommendation of one's own product by referring to the competing product with words such as "a substitute for", "better than", "following the example of", and similar analogies. Here, direct damage to another's reputation does not have to occur automatically; the approximation of the good reputation of another in order to recommend one's own goods or services is sufficient for a claim of restraint under section 1 UWG.

Fezer advances two reasons why trademark protection in Germany was extended beyond the scope of the WZG to the UWG to prohibit the misappropriation of the advertising value of a famous or well-known trademark which caused its dilution. According to Fezer

Two limitations on the applicability of trademark law are the main reasons for protecting trademarks against misappropriation of their goodwill via the UWG. One of these limitations is illustrated by the fact that trademark infringement can only be claimed against the use of a mark for goods which are similar to the goods on which the mark has already been affixed or for which the mark has been registered. The second limitation on claims for trademark infringement lies in the requirement that the allegedly infringing use of the mark must be use as a trademark. If no supplementary trademark protection under unfair competition law existed, the mark could be subject to unrestricted use in advertising provided that no indication of origin was sought<sup>21</sup>.

Peter Joachim Kaufman makes a similar point in advancing a theory which justified the protection of famous and well-known marks from trademark dilution under the UWG and the Civil Code. Commenting on the limitations of the WZG, Kaufman observes that

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<sup>21</sup> Karl Heinz Fezer, Note 19 above, at 200 - 201.

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It is obvious that a trademark statute which is unanimously based and executed on the basis of similarity of trademarks and the prevention of the danger of confusion gives no room to an extension of the protection in the direction of protection against dilution. Moreover, this would be rather inconsistent with the idea of confusion. Volp correctly assumes that the chance of confusion diminishes, the more known the trademark becomes. A unique and famous trademark will hardly give rise to any confusion when used by others on non-related goods<sup>22</sup>.

A few comments may now be called for in respect of the UWG. Section 1 UWG was interpreted in legal commentaries and by the courts as prohibiting the misappropriation of the advertising value of a famous or well-known trademark which caused the dilution of the trademark. Trademark dilution in Germany was therefore prohibited not under the ordinary trademark law in the form of the WZG, but under principles of unlawful competition developed by the courts under section 1 UWG.

#### 7.2.4 The Civil Code

Sections 823 (1), 826, 1004 of the Civil Code, on the other hand, protected the advertising value of famous and well-known trademarks under *general tort law* against dilution of their power to distinguish and promote sales caused by their unauthorized use on non-competing goods. Such advertising value was protected as an intangible business asset. Commenting on the protection afforded under sections 823 (1), 826, 1004 of the Civil Code, Lehmann notes that

The *promotional aura* is the subject of protection of famous marks. According to prevailing opinion in legal literature and case law, the distinctive character and promotional value of the famous mark are protected against dilution. The issue here is not to prevent confusion concerning source, but rather to prohibit certain free-rider behaviour; as was already described by Lobe: In competition, one is not permitted to plow using others' oxen. Anyone who uses trademarks that are similar to famous marks wishes to tap the positive force, the goodwill of these marks, and divert it to promote his own sales. As a result, the distinctive

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<sup>22</sup> Peter Joachim Kaufmann *Passing Off and Misappropriation: An Economic and Legal Analysis of the Law of Unfair Competition in the United States and Continental Europe* [1986] Vol. 9, Studies in Industrial Property and Copyright Law, at 139.

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character of the famous mark pales, and its marketing effect is diminished, so that its unique position is gradually lost<sup>23</sup>.

Lehmann concludes that sections 823 (1) and 1004 of the Civil Code protected the “famous mark as a valuable asset of an enterprise against direct, unauthorized violations”<sup>24</sup>.

### **7.2.5 Case Law Protecting Famous Marks from Dilution Under the UWG and the German Civil Code**

Although the language of sections 1 and 16 of the UWG provided for the protection of trademarks where competitors were involved in a common field of economic activity, and hence required a showing of a direct competitive relationship, such a narrow interpretation was heavily criticized in legal publications<sup>25</sup>, and German courts began adopting a commercial approach which did not require proof of a *direct* competitive relationship in order to protect the advertising value of famous trademarks from use on non-competing goods which caused dilution. The courts accordingly found it sufficient if the commercial conduct of an infringing trader placed him in *indirect* competition with the business of another trader, in which, for example, the infringing trader sought to associate himself with the reputation of the goods of another and to exploit such reputation in marketing his own dissimilar and not directly competing goods<sup>26</sup>. The competitive relationship required by the language of the UWG and the Civil Code was found to exist if there was *any* interference in the economic exploitation of the goodwill or reputation of a trader’s goods<sup>27</sup>, including dilution causing the

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<sup>23</sup> Michael Lehmann, Note 9 above, at 751.

<sup>24</sup> Michael Lehmann, Note 9 above, at 752 - 753.

<sup>25</sup> Michael Lehmann, Note 9 above, at 753, Footnote 48.

<sup>26</sup> *Dimple*, [1985] GRUR 550; (1986) Vol. 17, International Review of Industrial Property and Copyright Law, 271; 1985 WRP 399 (BGH).

<sup>27</sup> Lehmann, Note 9, at 753 - 754.

distinctive character of the famous mark to pale, its marketing effect to diminish, and its unique position to be gradually lost<sup>28</sup>.

This was the approach adopted in the first reported dilution case, *Odol*<sup>29</sup>, of 1925, whose *ratio decidendi* motivated Frank Schechter in 1927 to advocate for the adoption of trademark protection from dilution under America's trade identity and trademark law. There, the owner of the trademark Odol for mouthwash obtained cancellation of the registration of the same mark for steel railroad ties. The court reasoned that Odol was a famous mark which had become a potent sales instrument for its owner, and that the consuming public, on seeing the mark being used on another product, would think that the other product enjoyed the same good qualities as the Odol mouthwash. The court concluded that the interest of the trademark owner lay in preventing the dilution of his trademark. It held that

To be sure, the parties, on account of the wholly different goods put out by them, are not in actual competition. That, however, is beside the point. The complainant has created a demand for its goods, while employing thereon a word having drawing power, for only through the year-long activity of the complainant was its selling power acquired. Complainant's ability to compete with other manufacturers of mouth wash will be impaired if the significance of its mark is lessened<sup>30</sup>.

<sup>28</sup> Lehmann, Note 9, at 751. Although the advertising value of famous and well-known trademarks was protected from trademark dilution under Germany's unfair competition and tort laws, it must be pointed out that this was not a routine or daily occurrence, but an infrequently used remedy, which highlights the exceptional nature of dilution relief. As noted by Gerhard Schrickler, "**Protection of Famous Trademarks Against Dilution in Germany**" [1980] Vol. II (No. 2), *International Review of Industrial Property and Copyright Law*, 166, at 168

In scholarly discussion, a great deal of attention has been paid to the extended protection afforded famous marks. In day-to-day practice, however, the protection has had but little application. In the last thirty years, for example, there have only been about *thirty cases* dealing with famous marks, names or get-ups—an average of one case per year. Given the heavy volume of German jurisprudence dealing with industrial property, this is a remarkably small number. It is also significant that the broader protection made available to famous marks is far more often sought than granted. Claims to such protection have only been upheld in a fourth of the cases brought — in three fourths of the published decisions, the argument in favour of extended protection for a famous mark has been rejected.

<sup>29</sup> *Juristische Wochenschrift* 502, XXV Markenschutz und Wettbewerb 265 (1925).

<sup>30</sup> *Odol*, *Juristische Wochenschrift* 502, XXV Markenschutz und Wettbewerb 265 (1925) (quotation in text was cited by Tony Martino, *Trademark Dilution* (1996), Chapter 2, "**An Alien is Born**", at 5.)

This *ratio decidendi* of *Odol*, above, basically introduced into German unfair competition law the principle that it is a contravention of honest business practices for a merchant to parasitically associate the quality of his goods or services with the quality of well-respected, even though non-competing, products as an *entrée* for advertising his own goods. The *Odol* case, above, is the first reported case which prohibited the parasitic use of the commercial magnetism of a famous trademark and its use on non-competing goods because of the danger of dilution by blurring or dilution by tarnishment. This, in other words, shows that it was in Germany that the advertising value of trademarks was first protected from dilution.

The rationale for the anti-dilution protection advanced by the court in the *Odol* case, above, was set out in the *Quick*<sup>31</sup> case, where the German Federal Supreme Court held that

The consideration underlying this special anti-dilution protection is that the owner of such a distinctive mark has a legitimate interest in continuing to maintain the position of exclusivity he acquired through large expenditures of time and money and that everything which could impair the originality and distinctive character of his distinctive mark, as well as the advertising effectiveness derived from its uniqueness, is to be avoided..... Its basic purpose is not to prevent any form of confusion but to protect an acquired asset against impairment<sup>32</sup>.

German courts therefore considered as *contra bonos mores* the activities of any trader who misappropriated the advertising value of a famous trademark for the purpose of sharing in the famous trademark's positive reputation and selling power. As the German Federal Supreme Court observed in *Dimple*<sup>33</sup>

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<sup>31</sup> *Quick*, [1959] GRUR, 182 (quotation in text was cited by Frederick Mostert, "*Trademark Dilution and Confusion of Sponsorship in United States, German and English Law* [1986] Vol. 17 International Review of Industrial Property and Copyright Law, 80 – 95, at 87).

<sup>32</sup> *Quick*, [1959] GRUR, 182, at 186.

<sup>33</sup> *Dimple*, [1986] Vol. 17 International Review of Industrial Property and Copyright Law, 271 – 275; [1985] GRUR 550; 1985 WRP 399 (BGH) (quotation in this text was cited by Frederick W. Mostert, *Famous and Well Known Marks* 2<sup>nd</sup> Edn (2004), at 1 – 129).

of all the conceivable product designations, defendant would not have chosen ... the two designations ‘DIMPLE’ and ‘CHIVAS’, both marks for higher price and quality whiskey, for its cosmetics business, without the underlying assumption that the reputation and prestige of these marks would be exploited to promote defendant’s own products.... To this extent, defendant’s use of the designation is to be viewed as an exploitation of the mark’s reputation in the promotion of defendant’s own products which is considered to be *contra bonos mores*. The courts have repeatedly held that it constitutes an act of unfair competition to associate the quality of one’s goods or services with that of prestigious competitive products for the purpose of exploiting the good reputation of a competitor’s goods or services in order to enhance one’s promotional efforts<sup>34</sup>.

In the *Dimple* case, above, the defendant had registered the trademark ‘Dimple’, well-known for high quality whiskey, in respect of his cosmetic products. The court ruled that such use by the defendant would dilute the advertising value of the well-known ‘Dimple’ trademark, and ordered the cancellation of the trademark ‘Dimple’ for the defendant’s perfumes, body and beauty care products, and cleansers.

A few examples highlight the leading cases where German courts applied the Civil Code and the UWG to protect the advertising value of a famous trademark from misappropriation causing its dilution. Thus, the misappropriation of the advertising value of a famous trademark which was well-known for chemical products was prohibited in respect of use for seeds<sup>35</sup>. In 1954, the *Gemini* trademark, which was famous for cutlery, was protected from unauthorized use in respect of clothes<sup>36</sup>. The trademark *Kupferberg*, famous for sparkling wine, was similarly protected from unauthorized use in respect of machines and tools<sup>37</sup>. Likewise, the famous mark *Asbach* for brandy was protected from unauthorized use in respect of bread<sup>38</sup>. The Dusseldorf OLG similarly protected the famous trademark *Rosenthal*, famous for porcelain, from

<sup>34</sup> *Dimple* [1986] Vol. 17 International Review of Industrial Property and Copyright Law, 271 – 275, at 274 – 275; [1985] GRUR 550; 1985 WRP 399 (BGH).

<sup>35</sup> Supreme Court of the German Reich (*Reichsgericht*) in *Bayer Kreuz*, a decision of 31 October 1942, published in RGZ 170/137 ff.

<sup>36</sup> The *Dusseldorf OLG* (Higher Regional Court), in a decision of 25 May, 1954, published in GRUR 1957/438.

<sup>37</sup> Federal High Court of Justice or “BGH”, published in GRUR 1966/623.

<sup>38</sup> The Hamburg OLG, in a decision of 12 October, 1972, published in GRUR 1973/94.

unauthorized use in respect of fish, spirits and liquors<sup>39</sup>. The trademark *Underberg* was also protected from unauthorized use on men's shirts, because it was famous for bitter liquors<sup>40</sup>. These cases all show that "famous" trademarks qualified for protection against dilution under the UWG and the Civil Code. What was protected in each of these cases was the advertising value of the famous trademarks. Before proceeding to analyse the fame criteria which was developed by German courts in the context of dilution cases, it may be appropriate, at this stage, to emphasise that German courts recognized the extraordinary nature of dilution, and granted relief sparingly, only in exceptional cases, to marks which were found to be famous based on clearly defined judicial criteria. It is submitted that, in developing criteria necessary to determine the fame of a mark, German courts were in fact engaging in a balancing of interests exercise and granting protection only in deserving cases. This is why, for example, Gerhard Schricker noted that

In scholarly discussion, a great deal of attention has been paid to the extended protection afforded famous marks. In day-to-day practice, however, the protection has had but little application. In the last thirty years, for example, there have only been about thirty cases dealing with famous marks, names or get-ups-an average of one case per year. Given the heavy volume of German jurisprudence dealing with industrial property, this is a remarkably small number. It is also significant that the broader protection made available to famous marks is far more often sought than granted. Claims to such protection have only been upheld in a fourth of the cases brought – in three fourths of the published decisions, the arguments in favour of extended protection for a famous mark has been rejected.<sup>41</sup>

### 7.2.6 *The Fame Criteria Applied Under the UWG and the Civil Code*

Famous trademarks were protected from trademark dilution under the Civil Code and the UWG. According to Seelig, only those marks

<sup>39</sup> Decision of 17 September 1981, published in GRUR 1983/389.

<sup>40</sup> The Hamburg OLG, in a decision of 11 July, 1985, published in GRUR 1986/184.

<sup>41</sup> Gerhard Schricker, "*Protection of Famous Trademarks Against Dilution in Germany*" [1980] Vol. II [No.2]. International Review of Industrial Property and Copyright Law, 166, at 168.

which, through wide familiarity, [had] achieved unparalleled distinctiveness and promotional force [were protected] against dilution – that is against their magnetism being weakened by use of identical or nearly identical marks for products outside the market for the original goods<sup>42</sup>.

German courts consequently developed the following guidelines to determine whether a trademark was famous, and *ipso facto* qualified for protection from dilution under the Civil Code and the UWG. In developing the guidelines, German courts fully recognized that fame criteria cannot be pinpointed with mathematical precision like a physics formula, but adopted the approach that the requirement of fame merely reflected a broader judicial policy requiring recognition of a trademark entitled to anti-dilution protection by a significant portion of the public in the context of the circumstances of a given case. As such, German courts fully realized that fame was a dynamic concept whose breadth and scope depended upon both multiple and variable market specific factors at a given moment in time<sup>43</sup>. The effect of the guidelines was that not all trademarks were protected from dilution since to do so would have amounted to the creation of absolute monopolies or a form of copyright in a trademark. Consequently, the following guidelines are discernible from the cases and German legal literature on the subject:-

(i) ***the mark should possess outstanding reputation:*** In terms of this requirement, niche market reputation did not suffice. Propositions which seek to exclude niche market reputation from any dilution theory can therefore be historically traced back to this judicial guideline of German courts. It is submitted that by excluding trademarks with niche market fame from protection against dilution, German courts correctly recognized the extraordinary nature of dilution.

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<sup>42</sup> Geert Wolfgang Seelig, Note 12 above, at 158.

<sup>43</sup> See Wolfgang Büscher in Frederick W. Mostert (Ed), *Famous and Well-Known Marks* 2<sup>nd</sup> Ed (2004), Chapter entitled “*Germany*”, pp 4 – 169 to 4 – 193, at 4 – 179, Footnote 39, citing the *Avon* case, BGH in GRUR 1991 / 863, requiring a recognition threshold of eighty per cent. Büscher opined as follows, at 4 - 174 to 4 – 175:

... well-known status cannot be defined, but merely circumscribed in view of the fact that it is determined by the recognition of the market groups concerned, where the level of recognition depends on the particular circumstances of the individual case. Well-known status is a dynamic, rather than a static condition. It depends on the particular environment of the mark and is thus a variable quantity that can generally not be expressed in percentage terms.

The theory of niche fame refers either to trademarks known only in discrete markets, which are relatively unknown outside those markets, or which are known in a limited geographic area. As such, German courts held that marks which enjoyed niche fame failed to satisfy the rigorous requirements of reputation in dilution cases. What was required by German courts was the highest possible degree of reputation. The mark had been known by a substantial segment of the consuming public throughout the entire German Republic, as shown by evidence of consumer surveys, showing that at least seventy to eighty per cent of those polled knew the mark<sup>44</sup>. At least two cases illustrate the operation of this requirement in practice.

The first case is the *Rolls-Royce* case<sup>45</sup>. There, a full page, coloured advertisement for American Jim Beam Whiskey was published in a weekly journal. The advertisement displayed the front of a Rolls-Royce automobile together with three of its distinctive features: the Spirit of Ecstasy radiator ornament, the interlocking RR logo, and the characteristic palladian-style radiator grill, which said features are registered in Germany. The advertisement depicted two Texans seated on the front fenders of the automobile playing cards while three additional persons looked on. In the foreground of the scene, a bottle of the advertised whiskey together with two filled glasses were featured. In the *Rolls-Royce* case, above, the German Federal Supreme Court held that it was *contra bonos mores* in terms of section 1 UWG to exploit the *reputation* of the Rolls-Royce automobile, known for its high quality and exclusivity, as shown by consumer survey evidence. The court held that under the general principles of unfair competition, the exploitation of the reputation of a trademark to advertise one's own goods was illegal, even in the absence of a competitive relationship between the owner of the famous trademark and the infringing trader<sup>46</sup>.

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<sup>44</sup> Geert Wolfgang Seelig, Note 12 above, at 158 - 159. See also Wolfgang Büscher, Note 39 above, at 4 - 179.

<sup>45</sup> BGH, published in [1983] GRUR 247; [1984] International Review of Industrial Property and Copyright Law, 240.

<sup>46</sup> Frederick W. Mostert, "*The Parasitic Use of the Commercial Magnetism of a Trademark on Non-Competing Goods*" [1986] 11 EIPR 342, at 343.

The second case was the *Dimple* case<sup>47</sup>, referred to above. There, the German Supreme Court again emphasized the importance of the “reputation requirement” in holding that it was illegal to exploit the association of quality, esteem and prestige of the *Dimple* trademark, well-known in respect of plaintiff’s whiskey, for use on defendant’s non-competing cosmetic products<sup>48</sup>.

In the *Dimple* case, above, the Court did not rely on consumer survey evidence in prohibiting defendant’s intention to register and use the Dimple trademark for cosmetic products. According to Peter Joachim Kaufmann, in the *Dimple* case

it was ascertained that the famous whiskey trademark Dimple, on the basis of surveys, had not enough acceptance to be regarded as famous. Nevertheless, the court condemned the intention of the defendant to register the trademark Dimple for cosmetics and perfumes. It ruled that such an intended use of *the reputation* of a valuable trademark *is already proven* if the consuming public associates the new trademark in any way with the valuable trademark. Obtaining such an unjustified start on the market by using the reputation of the valuable trademark, forms unethical conduct and has to be prevented<sup>49</sup> (emphasis added).

From this, it may be observed that bad faith intent to ride on the reputation of a famous mark was *presumed*, without the need for *direct* proof, in order to prevent the misappropriation of the reputation of a famous mark which would result in its dilution.

This approach, it is submitted, finds its proper place in the balancing exercise advocated in this thesis, where the trademarks in question are identical. In such cases, the question confronting a court will be whether the defendant intended to trade on the recognition of the famous trademark, presumably with the

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<sup>47</sup> *Dimple* [1986] Vol. 17 International Review of Industrial Property and Copyright Law, 271 – 275; [1985] GRUR 550; 1985 WRP 399 (BGH).

<sup>48</sup> Frederick W. Mostert, Note 46 above, commenting that:

The protection of the reputation of a well-known trademark in German law, as evidenced by the *Rolls-Royce* and *Dimple* cases, comes close to the recognition and protection of the reputation and commercial magnetism of a trademark as an independent interest.

<sup>49</sup> Peter Joachim Kaufmann, Note 22 above, at 140.

expectation that consumers would associate the famous trademark with his junior mark. Such an intention on the part of the defendants, which really speaks for itself, should be presumed by the courts, in the absence of any rational justification, to be an implied admission by the defendant that the earlier trademark possesses a sufficient degree of fame and marketplace distinctiveness such that it can be used as a promotional *entrée* to defendant's goods, and that the defendant, in adopting that mark, sought to appropriate for his own benefit the fame and distinctiveness of the earlier mark in order to direct consumers to his own goods. A caution should, however be sounded here: the courts should not routinely *presume* the reputation of a mark, except where the marks are identical, and where a defendant does not dispute the fame of the earlier mark.

(ii) ***the mark must not be in use by anyone else:*** This requirement provided that the mark had, in addition to possessing an outstanding reputation, also to possess an “independent status” in the marketplace. In other words, the trademark had to perform an intrinsic value function<sup>50</sup>. If the trademark possessed an independent status in the market place, then, in terms of this requirement, no one was allowed to use it even in respect of dissimilar goods<sup>51</sup>. The famous trademark “triumph” for foundation garments was protected from dilution in recognition of this requirement when its use in respect of motorcycles, typewriters and chocolate goods was prohibited by the German Federal Supreme Court<sup>52</sup>. Peter Joachim Kaufmann argues that the requirement that the trademark must not have been used by anyone was an aspect of the requirement that the trademark should be unique. Kaufmann comments that

The protection of famous trademarks against dilution is not seen as a logical development of modern trademark protection, but as a strict exception which leaves the clear trademark protection system intact. How exceptional this protection is, is shown by the strict conditions put on the requirement of

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<sup>50</sup> See Chapter 2, Part 2.2.4.

<sup>51</sup> This is known as the principle of “non-recurrence”. See Geert Wolfgang Seelig, Note 12 above, at 160.

<sup>52</sup> BGH, published in GRUR 1959/26.

“uniqueness”. The moment that the mark is used in any other branch, it loses its position as a famous mark<sup>53</sup>.

(iii) ***the mark must be original:*** This requirement provided that the trademark had to be both striking and distinctive, with a high degree of originality<sup>54</sup>. In the context of American trademark jurisprudence introduced by the FTDA, this requirement may be viewed as the element that a mark should be distinctive and famous to qualify for dilution protection.

(iv) ***the mark must enjoy esteem:*** The esteem which was required by this requirement had to exist in the public mind, generated, for example, by reason of the age, technical merit and size of the business, the quality of the goods, and so on. All factors had to be taken into account in determining esteem, and no single factor was decisive<sup>55</sup>. The Federal Supreme Court succinctly captured this requirement in *Dimple* when it held that –

The commercial utility of a trademark’s goodwill is not *solely* dependent on a particular level of general notoriety with the public. Rather, it is also influenced by other factors which – in addition to the distinctiveness of the designation itself – may include the type of goods marketed under the trademark, their quality and repute, any prestige connected therewith, and above all the relationship of these goods to those for which the mark’s reputation is to be used<sup>56</sup>.

(v) ***the misappropriation of the advertising value of the mark should cause a real risk of dilution:*** Seelig<sup>57</sup> lists this requirement as a fame criteria in arguing that

it is, finally, necessary that the use of a description which is identical to or might be confused with a famous brand should attack the acquired competitive status of the famous brand and endanger it. To establish such an attack, the requirements should not be placed too low; for the exceptional character of the precedents

<sup>53</sup> Peter Joachim Kaufmann, Note 22 above, at 139 – 140.

<sup>54</sup> Geert Wolfgang Seelig, Note 12 above, at 160.

<sup>55</sup> Geert Wolfgang Seelig, Note 12 above, at 160.

<sup>56</sup> *Dimple* (1986) International Review of Industrial Property and Copyright Law, 271, at 274 – 275; 1985 WRP 401; [1985] GRUR 550. See also *Hemdblunenkleid* [1984] GRUR 453; [1984] Vol. 45 International Review of Industrial Property and Copyright Law 777; *Brombeer – Muster* [1983] GRUR 337.

<sup>57</sup> Geert Wolfgang Seelig, Note 12 above, at 160.

relates not only to the requirement of massive public awareness but also excludes a mere cursory affirmation of the risk of impairment. The mere loss of independent status cannot alone be regarded as impairment; there must be consideration of all the surrounding circumstances in relation both to the type and scale of the risk of impairment.

The correct view, however, may be a view which recognizes this requirement not as a requirement of fame, but as an essential element of a dilution claim under the UWG and the Civil Code. The importance of this requirement, it is submitted, is that it admits a finding of dilution not based on *actual* dilution, but on a real risk, or to put it a little bit differently, on a reasonable likelihood of the occurrence of dilution. This takes into account the difficulty in proving actual dilution, and consequently lowers the threshold of proof which a claimant has to establish in a successful dilution claim. In the final analysis, this requirement demonstrates the underlying tension in dilution cases. In other words, if the standard of proof is cast too high, then the owners of well-known marks will not be able to enjoy adequate protection from dilution. If the standard of protection is too low, on the other hand, then the scope for the use of trademarks, trade signs and names will be unreasonably restricted, leading to a danger of the creation of an absolute monopoly or a form of copyright in a trademark.

(vi) *the famous mark should have become famous before the misappropriation of its advertising value:* In terms of this requirement, the owner of the famous mark was required to prove that his trademark was famous before the misappropriation of its advertising value<sup>58</sup> since he could not proceed against the holder of a right which had an earlier priority which preceded the famous status of his own trademark<sup>59</sup>. This requirement was satisfied by proof of systematic trade surveys carried out at regular intervals<sup>60</sup> before the occurrence of the misappropriation.

### **7.2.7 Protection of Well-Known Marks from Dilution**

<sup>58</sup> *Magirus*, BGH in GRUR 1956/172; *Triumph*, BGH in GRUR 1959/25.

<sup>59</sup> Geert Wolfgang Seelig, Note 12 above, at 160.

<sup>60</sup> *Camel*, Cologne OLG, decision of 30 April 1984 in GRUR 1985/559. This judgment was however overruled by the BGH in GRUR 1987/711.

German courts realized that the threshold criteria of a famous mark was very high, and further purposively interpreted section 1 UWG and the Civil Code to protect well-known marks which were not famous from trademark dilution. According to Wolfgang Büscher,<sup>61</sup> the necessary degree of market recognition which was necessary for a trademark to be recognized as well-known ranged from twenty percent<sup>62</sup> to seventy percent<sup>63</sup>. What the courts prohibited was the notion of “consciously getting close to well-known marks in order to exploit their reputation” and Seelig<sup>64</sup> gives as example the *Dimple* case, above, in showing the approach adopted by German courts in extending anti-dilution protection to well-known trademarks. Such protection was in effect equivalent to that granted to famous trademarks<sup>65</sup>.

### 7.2.8 Protection From Dilution by Blurring

<sup>61</sup> Note 43 above, at 4-175 to 4-178.

<sup>62</sup> *Sunpearl*, BGH decision in [1960] GRUR 130; *Sunkist*, [1963] GRUR 622; *Salomon*, BGH decision in [1991] GRUR 465, requiring a recognition threshold of thirty percent, for protection of the Salomon trademark for winter sports goods against unauthorized use for tobacco products.

<sup>63</sup> *Stonsdorfer*, BGH decision in [1974] GRUR 337.

<sup>64</sup> Geert Wolfgang Seelig, Note 12 above, at 161 – 162, commenting that:

[In the case of well-known marks], case law has for some time given some help with the notion of ‘consciously getting close to well-known marks in order to exploit their reputation’. For this, the offending party has to have set himself up in competition with the party affected by clinging to the reputation and prestige of the other goods, by expressly or graphically asserting equal status, and seeking to exploit this for marketing his dissimilar and non-competing goods. Case law considers this to be a violation of section 1 UWG.

This occurred where a Rolls-Royce was illustrated for advertising purposes and also where *Dimple* was registered and intended to be used for a range of men’s cosmetics in face of the well-known whiskey mark *Dimple*. And the slogan ‘A champagne among mineral waters’ was likewise held impermissible.

The application of these recent precedents admittedly assumes that the mark in question is well-known, has a good reputation and may be regarded as economically independent, for instance where a licence is granted, and the injuring party uses this good reputation for marketing his dissimilar and non-competing goods.

Thus, should the conditions for the acceptance of a ‘famous brand’ be lacking, the holder of a well-known mark will seek to base his claim on exploitation of reputation.

<sup>65</sup> Michael Lehmann, Note 9 above, at 767.

The *Odol* case<sup>66</sup>, above, prohibited dilution by blurring. What was prohibited in the *Odol* case was “the gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use upon non-competing goods”<sup>67</sup>. In other words, the court in the *Odol* case recognized dilution by blurring as a “correct awareness that the mark [Odol] signifies various things [namely toothpaste and railroad steel ties] coming from various sources”<sup>68</sup>.

Similarly, in the *Rolls-Royce*<sup>69</sup> case, above, and *Dimple*<sup>70</sup> case, above, the courts prohibited dilution by blurring caused by the misappropriation of the advertising value of the famous trademarks and their use upon non-competing goods where such unauthorized uses “detracted from the power of the famous mark(s) to identify [their] goods and whittle[d] away [their] distinctive value as source identifier[s]”<sup>71</sup>.

### 7.2.9 Protection From Dilution by Tarnishment

German unfair competition law during the Pre-EU Harmonization Period equally prohibited the unauthorized use of a famous trademark in an offensive or unsavoury context that could tarnish the ability of the famous trademark to call to the public’s mind the associations of satisfaction and desirability linked with its goods. In the *4711 Perfume case*<sup>72</sup>, for example, the German Federal Supreme Court prohibited the defendant, a sewer company, from using the numbers “4711” on its malodorous sewer tank truck because the numbers formed part of the “4711 perfume” trademark, famous in respect of plaintiff’s perfume. The prohibition was granted despite the fact that 4711 was the defendant’s telephone number.

<sup>66</sup> *Odol*, Note 29 above.

<sup>67</sup> Frank I. Schechter, “*The Rational Basis of Trademark Protection*” 1927 HARV. L.R. 813, at 829.

<sup>68</sup> Beverly Pattishall, “*Dawning Acceptance of the Dilution Rationale for Trademark – Trade Identity Protection*” [1984] 60 TRADEMARK REP. 289, at 300.

<sup>69</sup> Note 45 above. BGH, published in [1983] GRUR 247; [1984] International Review of Industrial Property and Copyright Law, 240.

<sup>70</sup> *Dimple*. [1986] Vol. 17 International Review of Industrial Property and Copyright Law, 271 - 275.

<sup>71</sup> Robert D. Littowitz and Douglas A. Rettew, “*What is ‘Dilution’ Under the New Federal Trademark Dilution Act?*” [1996] 11 EIPR 618, at 619. See also the cases cited in Footnotes 35 to 40 above.

<sup>72</sup> BGH, decision of 8 July 1958.

In *Mars*, the court looked closely at the trade mechanism by which the reputation of an otherwise unimpeachable famous trademark could be tarnished in holding that

If marks whose reputation were established ... only in connection with confectionery, in particular a candy-bar, and which marks have great advertising value for these goods, are used... for labeling of contraceptive wrappers, then this circumstance alone suffices to impair the advertising power in regard to the original goods and, moreover, to ruin their positive image at least as far as part of the public is concerned... for, by their very purpose, contraceptives evoke certain associations ... which significant portions of the addressed public would certainly rather do without when it comes to buying candy, and with which reputable candy manufacturers, in particular, rightfully do not wish to be identified because, as a rule, contraceptives do not appear to promote the sale or image of their products.

Impairment... and the disparagement of its good name cannot be ruled out on the basis that the gag item lacks any reference to the mark's owner, so that there is no way it could be associated with the latter. For, in the case at issue, the claimant's marks, nearly identical in word and appearance are used directly on the defendant's product in the manner of a trade mark, i.e. as an identifier... [T]hey consequently also fulfill the mark's function as an indicator of product origin, i.e. they point to the claimant unless and until the consumer notices the inconspicuous, second reference to the origin of the defendant's company on the back of the package. Accordingly, association with the product 'contraceptive as promotional gifts' with the claimant's company appears quite conceivable in this case...<sup>73</sup>.

The *Dimple* case, above, also involved dilution by tarnishment, in respect of the unauthorized use of a famous trademark for whiskey on non-competing but inferior cleaning and cosmetic products<sup>74</sup>.

<sup>73</sup> *Mars* [1995] Vol. 26 International Review of Industrial Property and Copyright Law, 282, decision of the Federal Supreme Court of 10 February, 1994, in which the advertising value of the plaintiff's famous slogan in German "Mars Gives Energy for Work, Sport and Play" for candy bars was misappropriated by the defendant and used for the slogan "Mars Gives Energy for Sex, Sport and Play" for condom and contraceptive wrappers. This case is also referred to as the *Trademark Tarnishment* 1 case. For a discussion of this case, see Willie Erdmann, Note 39 above, at 297 (quotation in text was cited by Jeremy Phillips, *Trade Mark Law: A Practical Anatomy* (2003), Para. 11 – 76, at 384).

<sup>74</sup> The tarnishment present here was that Dimple whiskey drinkers would think of cosmetic liquids when consuming the Dimple whiskey beverage. The prohibition in this case, therefore, was on all fours with the prohibition in the Benelux case of *Klarein v Claeryn* [1975] N.J. 472; [1977] A.A. 664; [1975] B.I.E. 183, discussed in Chapter 5, in the text to Notes 25 to 33. See also Chapter 5, Note 106 and accompanying text, where Advocate General Jacobs, in *Adidas-Salomon AG v Fitnessworld Trading Limited*, Case C-408/01, Opinion of Advocate-General Jacobs delivered on 10 July, 2003, downloaded from <http://www.curia.eu.int>, last visited on 30<sup>th</sup> October, 2005; noted at Para. 38 that

...The concept of detriment to the repute of a trade mark, often referred to as degradation or tarnishment of the mark, describes the situation where – as it was put in the well-known

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### 7.2.10 Conclusions

A few conclusions are now drawn up in this part of the research from the analysis of trademark protection from dilution during the Pre-EU Harmonization Period. First, it has been shown that protection against trademark dilution originated in Germany in the *Odol* case, above, and that it was the *ratio decidendi* of the *Odol* case that motivated the introduction of the anti-dilution theory into the trademark law of the United States of America. Second, it has been shown that not all trademarks were protected from trademark dilution, but only those trademarks which were regarded as “famous” or “well-known”. The fame criteria was determined by guidelines developed by the courts. Marks with niche market fame did not qualify for protection. Further, it has been pointed out that the terms “famous” and “well-known” in respect of trademarks were developed by the courts; did not enjoy a statutory basis; and referred to two distinct categories of trademarks based on the levels of their notoriety. Third, protection from trademark dilution was granted not under the WZG, the principal German trademark statute, because the focus of protection under the WZG was to the source-origin function and product identification function of trademarks. Put differently, the primary purpose of the WZG was to grant comprehensive protection to trademarks in view of and with full recognition of the legal effect of a trademark in preventing likelihood of consumer confusion, including likelihood of confusion by association in a competitive economic environment. In this respect, the WZG placed the interests of the consuming public over the interests of the proprietor of a trademark. On the other hand, anti-dilution protection was granted to famous and well-known trademarks as an exception to the traditional protection of trademarks, under unfair competition principles developed by the

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*Claeryn/Klarein* decision of the Benelux Court of Justice – the goods for which the infringing sign is used appeal to the public’s senses in such a way that the trade mark’s power of attraction is affected. That case concerned the identically pronounced marks ‘Claeryn’ for a Dutch gin and ‘Klarein’ for a liquid detergent. Since it was found that the similarity between the two marks might cause consumers to think of detergents when drinking ‘Claeryn’ gin, the ‘Klarein’ mark was held to infringe the ‘Claeryn’ mark.

courts in purposively interpreting Section 1 UWG and under principles of tort law developed by the courts in purposively interpreting the Civil Code. Further, it may be concluded that during the Pre-EU Harmonization Period, German courts were fully cognizant of the underlying tension present in dilution cases, and sought to balance the competing interests of the trademark owner in ensuring that the advertising value of his trademark was protected from dilution, while at the same time ensuring that the interests of the public to free trade was not unduly impeded by such protection. The exclusion of marks with niche market fame from protection against dilution is but one instance of this balancing of rights approach adopted by German courts. Also, as noted by Gerhard Schricker, German courts granted protection sparingly, only in very exceptional cases, in order to prevent the creation of monopolies or a form of copyright in a trademark<sup>75</sup>. Last, the importance of clearly delineating the scope of protection offered to famous and well-known trademarks against dilution during the Pre-EU Harmonization Period is important because some of the principles developed by the courts have been adopted after the EU-Harmonization Period, not only by German courts, but also by the European Court of Justice in interpreting the anti-dilution provisions of the EC Trademark Directive and the Community Regulation. Such principles therefore will become a central feature in trademark law throughout the entire European Union, albeit with some qualifications. The research now proceeds to analyse the protection granted to trademarks against trademark dilution under the German Trademark Act of 1994 during the Post-EU Harmonization Period.

### **7.3 PROTECTION FROM TRADEMARK DILUTION DURING THE POST EU-HARMONIZATION PERIOD**

#### **7.3.1 The Trademark Act of 1994**

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<sup>75</sup> Note 41 above.

The Trademark Act of 1994<sup>76</sup> came into force on 1 January 1995. The primary objectives of the GTMA were: first, to implement the EC Trademark Directive and Community Regulation into German trademark law, and second, to implement the provisions of the Paris Convention and the TRIPS Agreement into German trademark law<sup>77</sup>. The GTMA also discarded the category of famous trademarks, and provided uniform protection for well-known marks from trademark dilution, thereby bringing such protection directly under trademark law, while at the same time providing in section 2 that famous and well-known trademarks could still be protected from dilution under unfair competition law and tort law.

Under the GTMA<sup>78</sup>, trademark protection accrues (a) through trademark registration; or (b) through the use of the trademark in the course of trade if the trademark has acquired recognition in the marketplace as a trademark within the relevant trade circles; or (c) if the trademark is a well-known trademark as provided in Article 6*bis* of the Paris Convention. The GTMA, probably following both the Paris Convention and the TRIPS Agreement, does not however define the expression “well-known trademark”, nor does it provide any guidelines for use by the courts in determining whether a trademark is a well-known trademark. Special mention is, however, made of “well-known marks” within the meaning of Article 6*bis* of the Paris Convention in section 10 of the GTMA, providing the precondition that a mark which is identical with or similar to a well-known mark

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<sup>76</sup> Printed in the Official Gazette BGBI 1994 1 at 3082. Hereafter called “the GTMA”. See Note 1 above.

<sup>77</sup> Wolfgang Büscher, Note 43 above, at 4 – 169.

<sup>78</sup> GTMA, section 4 provides that

**Accrual of Trade Mark Protection**

Sec. 4

Trade mark protection shall accrue

1. by registration of a sign as a trade mark in the Register kept at the Patent Office;
2. through the use of a sign in the course of trade if the sign has acquired a secondary meaning as a trade mark within the affected trade circles; or
3. by notoriety as a trade mark within the meaning of Article 6*bis* of the Paris Convention for the Protection of Industrial Property (Paris Convention)

in the Federal Republic of Germany shall not be registered<sup>79</sup>. Similarly, the GTMA follows Article 4 (4) (a) of the EC Trademark Directive and Article 8 (5) of the Community Regulation in section 9 (1) 3 and (2)<sup>80</sup> by providing for the *cancellation* of a registered trademark which is identical with or similar to an earlier filed or registered trademark where the trademark has been registered for

<sup>79</sup> GTMA, section 10 provides that

**Well-Known Trade Marks**

Sec. 10

- (1) A trade mark shall not be registered if it is identical with or similar to an earlier trade mark *well known in the Federal Republic of Germany* within the meaning of Article 6bis of the Paris Convention and if the additional requirements under Section 9 (1), Nos. 1, 2 or 3, are met (emphasis added).
- (2) Subsection (1) shall not apply if the applicant has been authorized to file the application by the proprietor of the well-known trademark.

<sup>80</sup> GTMA section 9 (1) 3 and (2) provides that

**Filed or Registered Trade Marks as relative Grounds for refusal**

Sec. 9

- (1) Registration of a trade mark may be cancelled
  3. if it is identical with or similar to an earlier filed or registered trade mark, and has been registered for goods or services *which are not similar to those for which the earlier trade mark is filed or registered, where the earlier trade mark has a reputation in the Federal Republic of Germany and where the use of the registered trade mark without due cause would take unfair advantage of, or be detrimental to, the distinctive character or the repute of such trade mark* (emphasis added).
- (2) Applications for trade marks constitute grounds for refusal within the meaning of subsection (1) only if they are registered.

Special note should therefore be taken of the use of the expression “well-known mark” in the GTMA. It is used; first, within the meaning of Article 6bis of the Paris Convention as a ground for the granting of protection to a trademark pursuant to section 4 (3) of the GTMA and as a ground for precluding registration under section 10 (1) of the GTMA; and second, as a “mark known in Germany” for the purpose of the cancellation of registration of a trademark pursuant to section 9 (1) 3 of the GTMA and as a precondition for protection against infringement in section 14 (2) 3 of the GTMA.

It is submitted that section 9 (1) 3 and (2) of the GTMA will now need to be amended to bring it in line with the ECJ decisions in *Davidoff & Cie SA Zino Davidoff SA v Gofkid*, Case C-292/00, Judgment delivered on 21 March, 2002, downloaded from <http://www.curia.eu.int>, last visited on 30<sup>th</sup> October, 2005, and *Adidas – Salomon AG v Fitnessworld Trading Limited*, Case C-408/01, Judgment delivered on 23 October, 2003, downloaded from <http://www.curia.eu.int>, last visited on 30<sup>th</sup> October, 2005. In the *Davidoff* case, the ECJ held that EU states which had voluntarily transposed Articles 4 (4) (a) and 5 (2) of the EC Trademark Directive into their domestic trademark statutes were *entitled* to provide specific protection for registered trademarks with a reputation in cases where a later mark or sign, which is identical with or similar to the trademark with a reputation, is used in respect of goods or services which are identical with or similar to those covered by the registered trademark. In the *Fitnessworld* case, the ECJ went further and held that where an EU state exercises the option provided by Article 5 (2) of the EC Trademark Directive, it is *bound* to grant specific protection in cases of use by a third party of a later trademark or sign which is identical with or similar to the registered trademark with a reputation, both in relation to goods or services which are not similar and in relation to goods or services which are identical with or similar to those covered by the trademark with a reputation. For a more extensive discussion of the ECJ decisions in *Davidoff* and *Fitnessworld*, see Chapter 5, Part 5.3.3.1.

goods or services which are *not similar* to those for which the earlier trademark is filed or registered in cases where the earlier trademark *has a reputation in the Federal Republic of Germany* and where the use of the registered trademark without due cause would take unfair advantage of, or be detrimental to, the distinctive character or the repute of such trademark. As pointed in Chapter 6, the United States of America's Lanham Act contains similar provisions for the cancellation of the registration of a trademark based on a dilution claim, and the GTMA cancellation provision in section 9 (1) 3 and (2) may be viewed as substantially corresponding with United States trademark law in this respect, albeit there is a difference in that the focus of protection under the GTMA is to marks known in Germany, whereas in the United States of America's Lanham Act the focus is to famous marks.

The GTMA further follows Article 5 (2) of the EC Trademark Directive and Article 9 (1) (c) of the Community Regulation in section 14 (2) 3 in conferring on the owner of a trademark with *a reputation in the Federal Republic of Germany* the right to prohibit third parties from using, in the course of trade, any sign which is identical with, or similar to, the trademark in relation to goods or services which are not similar to those for which the trademark is protected, where the trademark is known in the Federal Republic of Germany and where the use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or repute of such trademark. Section 14 specifically provides as follows:

**Exclusive Right of the Proprietor of a Trade Mark; Injunctive Relief; Damages**

- (1) The acquisition of trade mark protection pursuant to Section 4 shall confer on the proprietor of the trade mark exclusive rights therein.
- (2) Third parties shall be prohibited from using in the course of trade, without the consent of the proprietor of the trade mark,

1. any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is protected;
  2. any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the sign, there exists a likelihood of confusion on the part of the public, including the likelihood of association between the sign and the trademark; or,
  3. 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 protected; where the trade mark has a reputation in the Federal Republic of Germany and where the use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of such trade mark.
- (3) If the prerequisites specified in subsection (2) are met, the following , in particular, shall be prohibited:
1. affixing the sign to goods or to their packaging or wrapping;
  2. offering the goods, putting them on the market or stocking them for these purposes under that sign;
  3. offering or supplying services under that sign;
  4. importing or exporting the goods under that sign;
  5. using the sign on business papers or in advertising.
- (4) Without having the consent of the proprietor of the trade mark, third parties shall be prohibited in the course of trade from
1. affixing a sign which is identical with or similar to the trade mark to packaging or wrapping or to means of marking such as labels, tags, sewn-on labels or the like;
  2. offering packaging, wrappings or the means of marking under a sign which is identical with or similar to the trade mark, putting them on the market or stocking them for these purposes under that sign; or,
  3. importing or exporting packaging, wrappings or means of marking under a sign which is identical with or similar to the trade marks,

if there is a risk that the packaging or wrappings are being used for the packaging or wrapping of goods or services, or the means of marking for marking goods or services, in respect of which, pursuant to subsections (2) and (3), third parties would be prohibited from using that sign.

- (5) Any person who uses a sign in breach of subsections (2) to (4) may be sued by the proprietor of the trade mark to enjoin such use.
- (6) Any person who undertakes such infringing action intentionally or negligently shall be liable for compensation to the proprietor of the trade mark for damage suffered therefrom.
- (7) Where an employee or an authorized representative undertakes such infringing action in a business establishment, the proprietor of the business establishment may be sued by the proprietor of the trade mark to enjoin such use and, where the employee or authorized representative has undertaken such action intentionally or negligently, compensation for damages may also be claimed from the proprietor of the business establishment.

Section 14 (2) 3 of the GTMA therefore also transposes the second proviso of Article 16 (3), as read with Article 1 (1), of the TRIPS Agreement into German trademark law and protects marks with a reputation in Germany from trademark dilution.

The thesis advanced in this Chapter is that sections 9 (1) 3 and 14 (2) 3 of the GTMA prohibit the misappropriation of the distinctive quality or commercial magnetism of marks which are well-known in Germany in cases where there is no similarity between the goods of the traders. What is prohibited by these two provisions is the misappropriation of the advertising value of a trademark which is well-known in Germany which causes trademark dilution, either by blurring or by tarnishment<sup>81</sup>. Further, dilution is also a ground for opposition proceedings under the GTMA<sup>82</sup>, and in this respect, the GTMA materially corresponds with the

<sup>81</sup> In this respect, see Wolfgang Büscher, Note 43 above, at 4-176 to 4-190.

<sup>82</sup> GTMA, section 42 provides that

**Opposition**

Sec. 42

trademark law of the United States of America which, as highlighted in Chapter 6, recognizes a dilution claim as a ground in opposition proceedings. It should, however, be noted that the GTMA does not contain pellucid guidelines to be used in opposition proceedings based on a dilution claim.

### 7.3.2 Marks ‘Well-Known’ in Germany

Section 10 (1) of the GTMA provides the preconditional relative ground that a mark which is in conflict with an earlier trademark which is *well-known in the Federal Republic of Germany* within the meaning of Article 6bis of the Paris Convention shall not be registered, *inter alia*, where such registration could cause the dilution of the earlier well-known mark. Sections 9 (1) 3 and (2) and 14 (2) 3 of the GTMA, on the other hand, extend anti-dilution protection to trademarks which are “well-known” or have a reputation *in the Federal Republic of Germany*. It is necessary to emphasise that marks which are well-known in Germany within the meaning of Article 6 bis of the Paris Convention are not the same as marks which are well-known (or which have a reputation) in Germany for dilution purposes. Marks which are well-known in Germany within the meaning of Article 6 bis of the Paris Convention are therefore not, by virtue of possessing such degree of notoriety and nothing else, susceptible to protection from trademark dilution under the GTMA. As pointed out in Chapter 4<sup>83</sup>, Article 6 bis of the Paris Convention requires Member States to refuse or to cancel the registration, and to prohibit the use, of a later trademark which constitutes a

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- (1) Within a period of three months following the date of publication of the registration of the trademark pursuant to Section 41, the proprietor of an earlier trademark may give notice of opposition to the registration of the trademark.
  - (2) The opposition may only be based on the grounds that the trademark may be cancelled due to
    1. an earlier filed or earlier registered trademark pursuant to Section 9 (1), *No. 1 or 2*;
    2. an earlier filed or *earlier well-known trademark* pursuant to Section 10 in conjunction with Section 9 (1), *No. 1 or 3*; or
    3. its registration for an agent or representative of the proprietor of the trademark pursuant to Section 11.
  - (3) A fee as prescribed in the Schedule of fees shall be paid within the time limit specified in subsection (1). If the fee is not paid, the opposition is deemed not to have been lodged.

<sup>83</sup> See Chapter 4, Part 4.2.1.

reproduction, an imitation, or a translation, liable to create confusion, of an earlier unregistered mark considered by the Member State to be well-known in that Member State as being already the mark of a person entitled to benefit from protection under the Convention, where such a later trademark is used for identical or similar goods. Section 4<sup>84</sup> of the GTMA provides that such earlier unregistered well-known trademark is entitled to protection under the provisions of the GTMA. Protection by virtue of Article 6 bis of the Paris Convention therefore seeks to prohibit likelihood of consumer confusion. However, for such an earlier trademark which is well-known in Germany within the meaning of Article 6 *bis* of the Paris Convention to benefit from dilution protection, it must satisfy the additional requirements set out in section 9 (1) 3<sup>85</sup> or section 14 (2) 3<sup>86</sup> of the GTMA. In terms of sections 9 (1) 3 and 14 (2) 3 of the GTMA, such a trademark will only benefit from protection if (a) it is filed or registered, and (b) it has a reputation in Germany, and (c) the use of the later trademark without due cause would take unfair advantage of, or be detrimental to, the distinctive character or the repute of such trademark. Likelihood of consumer confusion is not a precondition of protection under sections 9 (1) 3 and 14 (2) 3 of the GTMA. In *General Motors Corporation v Yplon SA*<sup>87</sup>, the European Court of Justice held, in interpreting the meaning of a mark's "reputation" in the context of the dilution provisions of Article 5 (2) of the EC Trademark Directive, which was transposed into section 14 (2) 3 of the GTMA, that a trademark was well-known for dilution purposes if it was recognized by a significant part of the public. This interpretation is binding on German courts. A further distinction needs to be drawn between a mark's reputation and a mark's repute as used in section 9 (1) 3 and section 14 (2) 3 of the GTMA.

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<sup>84</sup> See Note 78 above.

<sup>85</sup> See Note 80 above.

<sup>86</sup> Section 14 (2) 3 of the GTMA is set out in the text of this Part.

<sup>87</sup> *General Motors Corporation v Yplon SA* [1999] ETMR, 950.

As developed by the Office of Harmonisation In the Internal Market (OHIM) Third Board of Appeal in *Hollywood SAS v Souza Cruz SA*<sup>88</sup>, a trademark's repute is its image, while a trademark's reputation is the degree to which it is known by its target audience. In its *General Motors* judgment, the ECJ specifically stated that the difference in terminology between a mark which is "well-known" in a Member State and a "mark with a reputation" in a Member State or a part thereof is a difference of form rather than substance, one concerning "a nuance which does not entail any great contradiction"<sup>89</sup>.

In concluding this part of the research, it should be pointed out, on pain of sounding repetitious, that the GTMA uses the concept of well-known marks in **two** distinct instances. First, the concept is used in the sense of Article 6 *bis* of the Paris Convention, in order to prohibit the registration or use of unregistered trademarks which are well-known in Germany as being the marks of persons who are nationals of, domiciled in, or have commercial establishments in Paris Convention Member States whether or not such persons carry on business, or have any goodwill, in Germany<sup>90</sup>. Such persons are entitled under the GTMA to oppose the registration, request the cancellation, or restrain the use of a later mark which constitutes a reproduction, imitation or translation of their well-known foreign trademarks in relation to goods which are identical or similar to those for which their trademarks are known. This right of protection is conferred by section 4 of the GTMA. Second, the concept of well-known marks is used in the GTMA in the context of marks with a reputation in Germany, which are the marks susceptible to protection from trademark dilution by virtue of section 9 (1) 3 and section 14 (2) 3 of the GTMA. The reputation of such marks simply means the degree to which they are known by a significant portion of the relevant public in Germany.

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<sup>88</sup> [2002] ETMR 705, Para. 61.

<sup>89</sup> Note 87 above, at Para. 22.

<sup>90</sup> See Chapter 4, Part 4.2.1.

### 7.3.3 Criteria of a Mark Which is Well-Known in Germany or Having a Reputation in Germany

The criteria developed by the European Court of Justice in *General Motors Corporation v Yplon*<sup>91</sup> applies in Germany<sup>92</sup>. The relevant criteria to be used for this purpose therefore include (i) the knowledge of the mark by a significant part of the German public concerned<sup>93</sup>; (ii) the duration and extent of use of the mark in Germany<sup>94</sup>; (iii) the geographical extent of the use of the mark in Germany; (iv) the size of investment in Germany in promoting the mark; and (v) the recognition of the mark in specific trade circles in Germany.

### 7.3.4 Without Due Cause

In terms of both sections 9 (1) 3 and 14 (2) 3 of the GTMA, for dilution to occur, the use of another's trademark must take unfair advantage of the repute or distinctive character of such trademark, or be detrimental to its repute or distinctive character. Such use must also be 'without due cause', a phrase not yet judicially defined in Germany under the GTMA, but which was defined by the Benelux Court in the pre-EU harmonization case of *Klarein v Claeryn*<sup>95</sup> as meaning "without justifiable reason". This meaning was incorporated into European trademark jurisprudence in the interpretation of the Community Regulation in *Hollywood SAS*<sup>96</sup>, and is likely to be followed by German courts in interpreting sections 9 (1) 3 and 14 (2) 3 of the GTMA.

### 7.3.5 Unfair Advantage

<sup>91</sup> Note 87 above. See Chapter 5, Part 5.3.3.2.

<sup>92</sup> See Wolfgang Büscher, Note 43 above, at 4-176 to 4-190.

<sup>93</sup> See Wolfgang Büscher, Note 43 above, at 4-176 to 4-190.

<sup>94</sup> *McDonald's Corporation and McDonald's Deutschland Inc v Rahmer* [2000] ETMR 91 (Federal Supreme Court).

<sup>95</sup> [1976] Vol. 7. International Review of Industrial Property and Copyright Law, 420; [1975] N.J. 472; [1977] A.A. 664; [1975] B.I.E. 183. For an extensive discussion of this case, see Chapter 5, Part 5.2.

<sup>96</sup> [2002] ETMR705. For an extensive discussion of the expression "without due cause" see Chapter 5, Part 5.3.3.6

Uses prohibited under sections 9 (1) 3 and 14 (2) 3 of the GTMA must not only be ‘without due cause’, but must *additionally* take unfair advantage of, or be detrimental to, either the distinctive character or the repute of the trademark whose advertising value is misappropriated. Neither German courts, nor the European Court of Justice, have yet determined what constitutes taking unfair advantage of a trademark’s distinctive character, although the OHIM Third Board of Appeal precisely recognized in *Hollywood SAS*<sup>97</sup> that a trademark was protected against registration or use of the same or a similar trademark on different goods than those for which it was registered if the registration of the later trademark would take unfair advantage of the trademark’s distinctive character.

The concept of taking unfair advantage of a trademark’s repute, on the other hand, was addressed by the German Federal Supreme Court in the pre-EU harmonization case of *Dimple*<sup>98</sup>, where the court noted that this form of conduct involves

An act of unfair competition [which] associates the quality of one’s goods or services with that of prestigious competitive products for the purpose of exploiting the good reputation of a competitor’s goods or services in order to enhance one’s promotional efforts.

Although the principle from the *Dimple* case, above, focused on the concept of taking unfair advantage of a trademark’s repute within a competitive relationship, it is submitted that it equally applies in cases of the misappropriation of a trademark’s repute outside a competitive relationship, because the conduct of misappropriation, and the injury of dilution, can occur either within or outside a competitive economic relationship. In the context of European trademark law, the principles in the *Dimple* case were adopted by the Advocate General in the

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<sup>97</sup> [2002] ETMR 705.

<sup>98</sup> *Dimple*, Note 33 above (quotation in text was cited by Frederick W. Mostert, *Famous and Well-known Marks* (2004) 2<sup>nd</sup> Edn, at 1 – 129).

*Fitnessworld* case<sup>99</sup>, thereby showing that, at least persuasively, the principles are recognized in European trademark jurisprudence.

### 7.3.6 *Detriment to a Trademark's Distinctive Character or Repute*

Examples of acts which may be held to be detrimental to a trademark's distinctive character or repute within the meaning of sections 9 (1) 3 and 14 (2) 3 of the GTMA may be given by reference to the *Quick*<sup>100</sup> case, where the court held that

The owner of a distinctive mark has a legitimate interest in continuing to maintain the position of exclusivity he acquired through large expenditures of time and money and that everything which could impair the originality and distinctive character of his distinctive mark, as well as the advertising effectiveness derived from its uniqueness, is to be avoided. Its basic purpose is not to prevent any form of confusion but to protect an acquired asset from impairment<sup>101</sup>.

In terms of the formulation in the *Quick*<sup>102</sup> case, any act which could impair a well-known trademark's distinctive character and advertising value is prohibited, because it impairs, or takes unfair advantage of, the commercial magnetism of the well-known trademark, which is an asset usually acquired after huge investments of time, effort and money. The Opposition Division of the EU Office for Harmonization in the Internal Market followed this principle from the *Quick* case in *Compomar SL's Application; Opposition of Nike International Ltd*<sup>103</sup>. This shows that the *Quick* principles are part of European trademark jurisprudence, and German courts are likely to adopt them in interpreting sections 9 (1) 3 and 14 (2) 3 of the GTMA.

<sup>99</sup> Case C-408/01, Opinion of the Advocate General of 10 July, 2003.

<sup>100</sup> Note 31 above.

<sup>101</sup> *Quick*, Note 31 above.

<sup>102</sup> *Quick*, Note 31 above.

<sup>103</sup> [2000] ETMR 50 (OHIM).

On the other hand, acts are detrimental to a well-known trademark's repute within the meaning of sections 9 (1) 3 and 14 (2) 3 of the GTMA if they have the effect of reducing the well-known trademark's image in the eyes of the public<sup>104</sup>. What is prohibited here, it is submitted, is dilution by tarnishment.

### 7.3.7 The GTMA and Competition

A nebulous issue which is still unanswered authoritatively in Germany is whether the owner of a well-known trademark can invoke the provisions of the GTMA in a dilution claim where the goods of the trademark owner and the defendant are identical or confusingly similar. The question is whether, in such situations, the owner of the well-known trademark has to rely on likely consumer confusion and therefore proceed under orthodox trademark infringement provisions. This was one of two questions referred by the Federal Supreme Court to the European Court of Justice in *Davidoff and Co and Zino Davidoff SA v Gofkid Ltd*<sup>105</sup>. In the *Davidoff* case, the European Court of Justice held that European Union states which had voluntarily transposed Articles 4 (4) (a) and 5 (2) of the EC Trademark Directive into their domestic trademark statutes were *entitled* to provide specific protection for registered trademarks with a reputation in cases where a later mark or sign, which is identical with or similar to the registered trademark, is intended to be used or is used for goods or services identical with or similar to those covered by the registered trademark. In its later decision in *Adidas – Salomon AG v Fitnessworld Trading Limited*<sup>106</sup>, the European Court of Justice clarified the meaning of its *Davidoff* decision by holding that where a European Union state exercises the option provided by Article 5 (2) of the EC Trademark Directive, it is *bound* to grant specific protection in cases of use by a third party of a later trademark or sign which is identical with or similar to the registered trademark with a reputation, both in respect of goods or services which are not similar and in respect of goods or

<sup>104</sup> See Chapter 5, Part 5.3.3.5

<sup>105</sup> [2003] ETMR 534; Case C-292/00.

<sup>106</sup> Case C-408/01 (ECJ).

services which are identical with or similar to those covered by the trademark with a reputation. Although this aspect has not yet been determined by German courts, they are bound to follow the European Court of Justice's decision in the *Fitnessworld* case, with the effect that the anti-dilution provisions of the GTMA providing for opposition to registration, cancellation of registration and infringing use, will all have to be amended to provide that they apply in respect of both similar and dissimilar goods or services. The United Kingdom<sup>107</sup> has already amended its trademark statute to align it with the *Fitnessworld* decision, and it is submitted that Germany should do likewise.

### 7.3.8 *Bad Faith Intent*

The concept of bad faith appears twice in the GTMA: in section 21<sup>108</sup> and in section 50 (1) (4)<sup>109</sup>. In terms of section 21 (1) of the GTMA, acquiescence by a trademark owner in the use of a later registered trademark is not a defence in forfeiture proceedings and is not subject to the five year limitation period if the

<sup>107</sup> See Trade Marks (Proof of Use, Etc.) Regulations, 2004 (No. 946), reproduced in Chapter 5, at Note 163.

<sup>108</sup> GTMA section 21 provides that

**Forfeiture**

Sec. 21

The proprietor of a trademark or a commercial designation shall not be entitled to prohibit the use of a later registered trademark in respect of the goods and services for which it is registered where he has acquiesced, for a period of five successive years, in the use of this trademark while being aware of such a use, unless the application for the later trademark was filed in *bad faith*.

The proprietor of a trademark or a commercial designation shall not be entitled to prohibit the use of a trademark within the meaning of Section 4, No. 2 or 3, of a commercial designation or another later right within the meaning of Section 13 where he has acquiesced, for a period of five successive years, in the use of this right while being aware of such a use, unless, at the time of acquiring that right, the proprietor of that right had acted in *bad faith*.

In the cases referred to in subsections (1) and (2), the proprietor of the later right shall not be entitled to prohibit the use of the earlier right.

Subsections (1) to (3) shall not affect the application of general principles on the forfeiture of rights.

<sup>109</sup> GTMA section 50 (1) 4 provides that

Sec. 50

- (1) Registration of a trademark shall be cancelled on request on the ground of nullity.
  4. where the applicant was acting in *bad faith* when he filed the trademark application.

application for the registration of the later trademark was filed by the defendant in “bad faith”. In terms of section 50 (1) 4 of the GTMA, the registration of a trademark may be cancelled if it was done in “bad faith”. The concept of bad faith, however, is not defined in the GTMA.

The bad faith contemplated in both sections 21 and 50 (1) 4 of the GTMA, it is submitted, refers, in the case of the dilution of a mark known in Germany, to instances where a defendant willfully or negligently applies to register or uses a similar or an identical later trademark in order to exploit the advertising value, reputation and commercial magnetism of the earlier known trademark. The pre-EU harmonization case of *Dimple*, above, illustrates this form of bad faith.

By imposing no time limits for the cancellation of a trademark registered in bad faith, or the forfeiture of rights in a trademark used in bad faith, German trademark law corresponds with Article 4 (1) (d) of the World Intellectual Property’s Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks<sup>110</sup>. German trademark law also complies with Article 6bis (3) of the Paris Convention in this respect, which specifically provides that there shall be no time limit for the cancellation of a mark registered in bad faith.

### **7.3.9 Defences to Trademark Dilution Under the GTMA**

In keeping with Articles 4 (4) (a) and 5 (2) of the EC Trademark Directive, and Articles 8 (5) and 9 (1) (c) of the Community Regulation, both sections 9 (1) 3 and 14 (2) 3 of the GTMA have an in-built defence provision of “use with due cause”. The application of this defence in practice depends on the peculiar circumstances of each case, and general examples of it may be given of “fair use” as contemplated in Article 17 of the TRIPS Agreement<sup>111</sup>, and free speech use, because

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<sup>110</sup> See Chapter 4, Part 4.2.6.

<sup>111</sup> See Chapter 4, Note 52. See also GTMA section 23, which provides that

The overriding social policies in fostering free speech may, for example, require that newsworthy items in newspapers and television newscasts include references and depictions of famous or well-known marks. Websites and more conventional publications critical of famous or well-known marks or the organization behind them may also be allowed. The considerations underlying commercial speech in promoting the free flow of commercial information in respect of the price, quality and other characteristics of products or services in order for consumers to be in the best position to make informed decisions, may also be relevant. More specifically, famous or well-known marks may need to be identified in informative comparative advertising or consumer product reviews...

The non-commercial use of famous or well-known marks in literary or other artistic works including motion pictures, particularly in works such as parodies or satires, may also be justified. The freedom of speech interest in self-expression and symbolic speech requires artists to refer to real life examples including examples of famous or well-known marks<sup>112</sup>.

A defendant to a dilution claim under the GTMA may also rely on the defence in section 22 of the GTMA<sup>113</sup> that the alleged well-known trademark does

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#### Use of Names and Descriptive Indications; Trade With Spare Parts

Sec. 23

The proprietor of a trademark or commercial designation shall not be entitled to prohibit third parties from using in the course of trade:

1. his name or address;
  2. signs which are identical with or similar to the trade mark or commercial designation as indications concerning characteristics or properties of the goods or services, in particular, the kind, quality, intended purpose, value, geographical origin or the time of production of the goods or of rendering of the services; or,
  3. the trademark or commercial designation where it is necessary to indicate the intended purpose of a product or service, in particular as accessories or spare parts,
- provided such use is not contrary to accepted principles of morality.

<sup>112</sup> Frederick W. Mostert (Ed) *Famous and Well-Known Marks* 2<sup>nd</sup> Edn (2004), at 1-123 to 1-125.

<sup>113</sup> GTMA section 22 provides that

#### Exclusion of Claims Due to Legal Validity of Registration of a Later Trade Mark

Sec. 22

- (1) The proprietor of a trademark or a commercial designation shall not be entitled to prohibit the use of a later registered trademark in respect of the goods and services for which it is registered, where a request for cancellation of the registration of the later trademark has been rejected or should be rejected on the grounds
  1. that the earlier trademark or earlier commercial designation *has not yet acquired reputation within the meaning of Section 9 (1), No. 3, Section 14 (2), No. 3, or Section 15 (3) on the date relevant for the seniority of the registration of the later trademark (Section 51 (3))*;

not possess a reputation within the meaning of sections 9 (1) 3, 14 (2) 3 or 51 (4). In terms of section 25 of the GTMA, the plaintiff's non-use of a trademark within a period of five years of any alleged infringement is also a bar to a dilution claim under section 14 of the GTMA<sup>114</sup>.

It is submitted, in conclusion, that the dilution defence provisions of the GTMA may not need an amendment because of the in-built 'due cause' defence, which seems wide enough to include commercial comparative advertising, free speech and news reporting and commentary.

### 7.3.10 Remedies to a Dilution Claim

In terms of section 14 (1) as read with section 4 (3) of the GTMA, trademark protection provides the trademark owner with exclusive rights in the trademark. The scope of protection under Section 14 (1) of the GTMA is

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2. that the registration of the earlier trademark could have been cancelled on the date of publication of the registration of the later trademark due to revocation on absolute grounds for refusal (Section 51 (4)).

(2) Where the cases referred to in subsection (1) are applicable, the proprietor of a later registered trademark shall not be entitled to prohibit the use of an earlier trademark or an earlier commercial designation.

<sup>114</sup> GTMA section 25 provides that

**Exclusion of Claims Due to Non-Use**

Sec. 25

- (1) The proprietor of a registered trademark shall not be entitled to assert any claims against third parties within the meaning of Sections 14, 18 and 19, if within a period of five years preceding the assertion of the claims, the trademark has not been put to use pursuant to Section 26 in connection with the goods or services on which the grounds for those claims are based provided that the trademark has, on that date, been registered for at least five years.
- (2) Where a plaintiff asserts claims on grounds of infringement of a registered trademark within the meaning of Sections 14, 18 and 19 by bringing an action, he shall, in response to an objection by the defendant, establish proof that the trademark has been put to use pursuant to Section 26 within a period of five years before the bringing of the action, for the goods or services on which the grounds for his claims are based, provided that the trademark has, on that date, been registered at least for five years. Where the period of five years of non-use ends after the bringing of the action, the plaintiff shall, in response to an objection by the defendant, establish proof that the trademark has been put to use pursuant to Section 26 within a period of five years preceding the conclusion of the oral proceedings. For the decision, only those goods or services shall be taken into account for which proof of use has been established.

therefore wider than that provided under Article 16 (1) of the TRIPS Agreement, which extends only to registered trademarks, and it includes protection for unregistered trademarks which have a reputation in Germany, or are well-known in Germany within the meaning of Article 6*bis* of the Paris Convention. If a person infringes the exclusive rights of a trademark owner by misappropriating the advertising value of the owner's well-known trademark which causes its dilution, the owner has a right to enjoin such use by an injunction<sup>115</sup>, and if the infringement was done intentionally or negligently, to claim damages<sup>116</sup>. Under the GTMA, damages are available, in terms of section 14 (6), where fault, in the form of intent or negligence, is established. If no fault is established, the owner of the trademark, apart from obtaining an injunction, may also claim for relief based on the principle of unjust enrichment<sup>117</sup>, which is separate from a claim for damages.

In terms of section 18 of the GTMA, the owner of a trademark may in infringement proceedings claim the destruction of unlawfully marked products, and devices used to make those products, that are in the possession of the infringer, unless the infringing nature of the products can be removed in some other way and the destruction is disproportionate in the individual case of the infringement.

In claiming relief under the GTMA, the owner of the well-known mark may require the infringer to give information without delay as to the origin and distribution channels of the unlawfully marked products<sup>118</sup>. The infringer is enjoined to give the name and address of the manufacturer, the supplier and the owner of the infringing products, and the quantities of the products that were

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<sup>115</sup> GTMA section 14 (5). For "commercial designations" see GTMA section 15 (3) and (4). As to the efficacy of an injunction and the need for damages in a dilution claim, see Friedrich-Karl Bier, "*Counterfeiting of Well-Known Trade Marks in German Law and Practice – Some Proposals For Reform*" [1983] 7 EIPR 171 – 172.

<sup>116</sup> GTMA section 14 (6). For "commercial designations" see GTMA section 15 (5).

<sup>117</sup> *Channel No. 5*, BGH decision, in [1985] GRUR 530.

<sup>118</sup> GTMA section 19 (1).

manufactured, dispatched, received or ordered<sup>119</sup>. The obligation to give information under section 19 of the GTMA may be imposed by an injunction in compliance with the Code of Civil Procedure where infringement is obvious<sup>120</sup>.

A call for information by the owner of a well-known trademark under section 19 of the GTMA is of immense value in preparing a claim for damages, or an account of profits of the infringer, or reasonable royalties, especially in cases of market distortion. According to Wolfgang Büscher, under German trademark law<sup>121</sup>

In addition to ... damages, the infringed party may also claim damages for market distortion. Such loss results, for example, where sales of inferior goods bearing a well-known mark have brought the mark into disrepute and has impaired the favourable reputation of the mark. The damages payable must then cover the costs necessary to rectify any market distortion, including any necessary increased advertising expenditure.

In the case of a claim for unjust enrichment where a mark has been used without entitlement, but also without culpable intent, damages are only payable to the value of the reasonable and standard royalty payable for the use of the mark. However, in claims for unjust enrichment, the claimant is not entitled to demand the surrender of the profits achieved by the infringing party.

According to these principles, in the event of a (culpable) infringement of a well-known foreign mark which has not yet been used in Germany, there will in the main be a claim for reasonable royalty, which will further be subject to reasonable increase to reflect any market distortion which may have occurred (for instance, where a planned market launch has been impeded). This also applies in cases of unauthorized use of a well-known mark where there is no question of the similarity of the goods. Loss due to market distortion may in this case arise due to the fact that the infringed party has been impeded in expanding his sales to other goods or service sectors or where the mark has been impaired.

### 7.3.11 Conclusions

It has been shown, above, that the anti-dilution provisions of the GTMA are being implemented by the courts within a broad framework which takes into

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<sup>119</sup> GTMA section 19 (2).

<sup>120</sup> GTMA section 19 (3).

<sup>121</sup> Note 43 above, at 4 -192 to 4 -193.

account the provisions of international conventions, agreements and treaties, especially those of the Paris Convention, the TRIPS Agreement, the World Intellectual Property Organization's Joint Recommendation Concerning the Protection for Well-Known Marks, the EC Trademark Directive, and the Community Regulation. Specifically, sections 9 (1) 3 and 14 (2) 3 of the GTMA transposed the anti-dilution provisions of the EC Trademark Directive, the Community Regulation, and the TRIPS Agreement into German trademark law. In respect of opposition proceedings, it has been shown that section 42 of the GTMA provides that a dilution claim may be a ground for opposition, and it substantially corresponds with the trademark law of the United States of America. In respect of sections 9 (1) 3 and 14 (2) 3 of the GTMA, it has been shown that these provisions protect against dilution by blurring and dilution by tarnishment. The fame criteria necessary to determine whether a mark is well-known, or has a reputation, in Germany has been explained, using European trademark law. The concepts of a "mark with a reputation in Germany", a mark which is well-known in Germany; "a trademark's repute"; use of a trademark "without due cause"; and taking unfair advantage of a trademark's distinctive character or repute, have been explained in the context of both German and European trademark law<sup>122</sup>. The defences to trademark dilution, as well as the relief available under German trademark law in dilution claims, have also been set out. It has also been noted that the anti-dilution provisions of the GTMA will need to be amended so that they apply in respect of identical or similar as well as dissimilar goods or services.

The question which remains to be answered then, is whether the anti-dilution provisions of the GTMA overly protect the interests of the trademark owner at the expense of the promotion of competition and the protection of consumers. In other words, do these provisions strike an equitable balance between the competing interests of the trademark owner, on the one hand, to ensure that the intellectual property rights embodied in the advertising value of his

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<sup>122</sup> See in this respect, Chapter 5, Part 5.3.3. The comments made in Chapter 5 in respect of these concepts, as used in the EC Trademark Directive and the Community Regulation, apply equally in the German context.

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trademark are protected from misappropriation, and the interests of society on the other hand, to ensure the promotion of free competition in an environment which protects consumers from likelihood of confusion?

It is submitted that, as a general proposition, the anti-dilution provisions of the GTMA should be interpreted restrictively, so as to grant protection only in very clear cases. This will prevent the owners of weak marks jumping on the dilution bandwagon and clamoring for more and more protection, thereby seeking to create absolute monopolies or a form of copyright in a trademark. German courts will do well if they were to be guided by pronouncements made by the European Court of Justice and the OHIM Third Board of Appeal in providing guidelines on how to balance the competing interests present in dilution cases. A few of these guidelines are briefly discussed below. The anti-dilution provisions of the GTMA will only serve their proper purpose if protection is granted *only* to marks with a reputation. As stated by the European Court of Justice, a determination of the reputation of an earlier mark should therefore be the *first point* of analysis by German courts in any dilution enquiry. If the earlier trademark does not have the requisite reputation, the other dilution elements become moot, and consequently, the dilution claim should be dismissed, since the trademark will not be known by a significant portion of the wider buying public in Germany. Where the trademark has only niche market fame, the dilution claim should similarly be dismissed. Further, protection against dilution under the GTMA should be extended in instances where there is a *marked similarity* between the earlier trademark with a reputation and the offending junior sign. Where the similarity between the mark and the sign is only incidental, the dilution claim should be dismissed, since to do otherwise would stultify the interests of the public to free trade.

The OHIM Third Board of Appeal decision in *Hollywood SAS v Souza Cruz SA*<sup>123</sup> may also be very helpful to German courts in providing an approach

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<sup>123</sup> Note 96 above.

in dilution cases that strikes an equitable balance between the competing interests of the trademark owner, on the one hand, to ensure that his intellectual property rights embodied in the advertising value of his trademark are protected from misappropriation, and the interests of the public, on the other hand, to ensure the promotion of free competition and the right to unimpeded product information.

In *Hollywood SAS v Souza Cruz SA*<sup>124</sup>, most of the dilution concepts in the GTMA were discussed in the context of the Community Regulation. There, it was held that use of a junior sign causes detriment to the distinctive character of an earlier trademark when consumers identify the earlier trademark with different goods coming from different sources due to the use of the junior sign. Such use of the junior sign causes detriment when it reduces the distinctive impact (character) of the earlier trademark, rendering it less effective in exclusively luring and channeling the attention of the purchasing public towards the particular goods in respect of which the earlier trademark is registered. Detriment to distinctive character, in the context of Article 5 (2) of the EC Trademark Directive, may therefore be equated with dilution by blurring. The decision of the OHIM Third Board of Appeal in *Hollywood SAS v Souza Cruz SA*<sup>125</sup>, above, is also of singular importance in the approach which should be adopted by a court in evaluating evidence necessary to prove that use of a junior sign is detrimental to the distinctive character of the earlier trademark with a reputation. The OHIM Third Board of Appeal stated that the first limb of analysis in a dilution claim is to establish whether the earlier (or senior) trademark has a reputation. The second limb of enquiry, according to the OHIM Third Board of Appeal, should be to determine the identity of the trademark and the sign *in casu*; that is, whether they are identical or similar for dilution purposes. The third limb would then involve evaluating evidence to determine if there is detriment to distinctive character. The evidence required for this purpose, according to the OHIM Third Board of Appeal, can only be deductive and logical in nature, resulting from a probability

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<sup>124</sup> Note 96 above.

<sup>125</sup> Note 96 above.

analysis taking account of all the circumstances of a case. Such evidence should not be limited to the existence of the reputation of the earlier trademark or to its identity with or similarity to the later sign, since to do so would involve automatic and indiscriminate recognition of a likelihood of dilution for *all* trademarks of repute and would negate the condition of proving detriment. In other words, this would create a monopoly or form of copyright in a trademark. Rather, according to the OHIM Third Board of Appeal, the approach to be adopted by the courts should be to determine whether there is evidence that the use of the junior sign produces the effect that the earlier trademark is no longer capable of evoking in the minds of the public an immediate association with the goods for which it is registered and used. Further, in determining whether there is detriment to distinctive character, courts should ascertain whether there is evidence that the use of the identical junior sign for another type of product

would make the trade mark less attractive for the products for which it is registered. This would be the case when this other type of products, although not *per se* having a negative influence on the public's perception, nevertheless influences it in such a way that the trademark is detrimentally affected in terms of its capacity to stimulate the desire to purchase the goods for which it was registered. This leads to an erosion of distinctive character caused by the proliferation of 'parasitic' trade marks which, although not debasing the original trade mark, are so numerous that they deprive the trade mark of its distinctive character and hence its impact<sup>126</sup>.

In *Hollywood SAS v Souza Cruz SA*<sup>127</sup>, above, the OHIM Third Board of Appeal also identified three possible definitions of detriment to the repute of an earlier trademark. In holding that the equivalent of detriment to the repute of an earlier trademark is dilution by tarnishment, which occurred when the image of the earlier trademark is sullied or degraded by negative associations with something inappropriate, the OHIM Third Board of Appeal said detriment to repute occurs (a) when the earlier trademark is linked with poor quality goods, or goods that evoke negative undesirable mental associations or which conflict with the image of the trademark built up by its owner through use, or (b) when the

<sup>126</sup> *Hollywood SAS v Souza Cruz, SA*, Note 96 above, at Paras 105 to 112.

<sup>127</sup> Note 96 above.

earlier trademark is linked with goods that are incompatible with the quality and prestige associated with the earlier trademark, even though there is no inappropriate use of the trademark in itself, or (c ) when the word or figurative elements of the earlier trademark are varied negatively by the junior user, like in cases of gratuitous parodies<sup>128</sup>. The meanings attached to these dilution concepts in the context of the Community Regulation apply equally under the GTMA, and German courts would do well to look at their rational basis in engaging in the balancing exercise advocated in this thesis.

The research will now proceed to look at internet-based dilution in Germany, and to set out, using practical examples, how German trademark law has adapted to this new form of dilution.

## **7.4 INTERNET BASED DILUTION IN GERMANY**

### **7.4.1 The GTMA, the UWG and the Civil Code**

In Germany, there is no special legislation similar to the United States of America's Anticybersquatting Consumer Protection Act protecting well-known trademarks from internet-based dilution<sup>129</sup>. Courts in Germany have had to deal with the legal issues of cybersquatting and internet-based dilution of well-known trademarks principally on the basis of three statutes: (a) the GTMA, (b) the UWG<sup>130</sup>, and (c) the Civil Code.

<sup>128</sup> *Hollywood SAS v Souza Cruz SA*, Note 96 above, at Paras 85 to 86.

<sup>129</sup> Martin Spirig in Richard J. Greenstone, "Overview of Internet Domain Name Law: Trademark Registration and Litigation Issues" 20 – 25 [www.rjg.com/basf.html](http://www.rjg.com/basf.html), last visited August 25<sup>th</sup>, 2004.

<sup>130</sup> Note that on 8 July, 2004, the new German Act Against Unfair Competition, 2004, came into force. For an overview of the new UWG, see Ulrich Baumer, "Reform of German Law Against Unfair Competition" German American Law Journal [8 July, 2004] Article E, 1 – 6, at [www.amrecht.com/baeumeruwg2004.shtml](http://www.amrecht.com/baeumeruwg2004.shtml); Thorstein Dardat, "Recent German Cases on Generic Terms Used as Domain Names" German American Law Journal [12 October, 2000] Article E, 1 – 4, at [www.amrecht.com](http://www.amrecht.com), both last visited August 25<sup>th</sup>, 2004.

A few cases are highlighted to show the approach adopted by German courts in dealing with internet-based dilution cases. The Federal Supreme Court held in *mitwohnzentrale.de*<sup>131</sup> that use of a descriptive name as a domain name did not constitute unfair competition under the UWG. There, the parties were two competing associations of so-called “mitwohnzentralen”, a term generally used to describe agencies of short term rentals of apartments. The defendant had used the domain name “mitwohnzentrale.de” for its web site in which it listed all its members and provided links to their respective services. The plaintiff complained that the use of the domain name by the defendant constituted unfair competition under the UWG because it misappropriated the advertising value of its own identical name, and it applied for an injunction, which was initially granted by the Local Court of Hamburg<sup>132</sup> and confirmed by the Court of Appeal of Hamburg<sup>133</sup>, but overturned by the Federal Supreme Court.

Use of a personal name or a pseudonym as a domain name was likewise found not to constitute cybersquatting<sup>134</sup> under section 12 of the Civil Code, which protects one’s right to his own name as a personality right. Use of the name of a city, however, coupled with a generic word and some hyphens, was found to constitute cybersquatting<sup>135</sup>. The approach of German courts in this respect can be viewed as corresponding with the approach adopted by dispute resolution panels under the Dispute Resolution Policy of the Internet Corporation for Assigned Names and Numbers<sup>136</sup>. The trademark law of the United States has similar provisions<sup>137</sup>.

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<sup>131</sup> Dietrich Beier, “*Germany: New Developments in Domain Name Case Law*” *Managing Intellectual Property* [April 2004] 1 – 3, at [www.legalmediagroup.com/mp/includes/print.asp](http://www.legalmediagroup.com/mp/includes/print.asp), last visited 25<sup>th</sup> August, 2004..

<sup>132</sup> Decision of 21 January 1998 – 315 – 0 - 531/97.

<sup>133</sup> Decision of 13 July 1999 – 3 U - 58/98.

<sup>134</sup> *Maxem-de*. See Dietrich Beier, Note 127 above.

<sup>135</sup> *Diving-school Dortmund.de*. See Dietrich Beier, Note 119 above.

<sup>136</sup> See Chapter 4, Part 4.3.

<sup>137</sup> See Chapter 6, Part 6.6.

According to Martin Spirig<sup>138</sup>, in dealing with cybersquatting issues under the GTMA, the UWG and the Civil Code, German courts look to see if there is a risk of confusion or dilution arising from the cybersquatter's actions. Spirig is of the view that the GTMA suffers from a serious limitation in effectively addressing cybersquatting which may result in the dilution of a well-known trademark, because relief under the GTMA is available only where the cybersquatter's domain name is identical with the plaintiff's well-known trademark, and where the domain name is *used as a trademark* within the meaning of section 14 (2) 3 of the GTMA, which means use of the domain name to sell, advertise or offer goods or services for sale<sup>139</sup>, or the auctioning off of the domain name itself<sup>140</sup>. In order to effectively address cybersquatting which dilutes the advertising value of a well-known trademark, German courts have had to read the "use" requirements in section 14 (2) 3 of the GTMA as including offers to sell the domain name to a third party<sup>141</sup>, and the mere act of registering the domain name with intent to ride on the reputation of the well-known mark<sup>142</sup>.

#### 7.4.2 Conclusions

All in all, it may be stated that the absence of a law to address internet-based dilution in Germany has created a serious lacunae under which German trademark law has failed to keep pace with the rapid developments ushered in by the internet. Although German courts have in appropriate cases given relief to successful litigants in the form of injunctions<sup>143</sup> and orders for the cancellation of the domain name<sup>144</sup>, it is proposed that law reform initiatives should seriously be considered to regulate this area of the law. The Anticybersquatting Consumer

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<sup>138</sup> Martin Spirig, Note 129 above.

<sup>139</sup> *Brockhause.de*, Landgericht Mannheim, 70 529/97; *willing.de*, OLG Karlsruhe ZUM 1998, 944.

<sup>140</sup> *Eltern.de*, LG Hamburg CR 1999, 47.

<sup>141</sup> *Epson.de*, L.G. Dusseldorf CR 1998, 165.

<sup>142</sup> *Deta.com*, LG, Braunschweig CR 1998, 364.

<sup>143</sup> Note 131 above.

<sup>144</sup> Note 131 above.

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Protection Act of the United States of America may be used as a precedent in this respect<sup>145</sup>.

## 7.5 CONCLUSIONS AND RECOMMENDATIONS

Some conclusions and recommendations are now drawn up from the examination of the protection granted to famous and well-known trademarks against dilution under German trademark, unfair competition and tort law. First, it has been shown that as a concept, anti-dilution protection was first developed under the UWG in the *Odol* case<sup>146</sup>. After it was developed in Germany, it was then adopted by Frank Schechter, who advocated its incorporation into the United States of America's trademark law. Second, it has been shown that German courts, in protecting the advertising value of a trademark from dilution, extended protection under the UWG and the Civil Code *only* to famous and well-known marks, and developed judge-made criteria of the fame requirements which imbued a trademark with the status of being famous or well-known. Third, it has been shown that before the GTMA, German courts protected famous and well-known marks from both dilution by blurring and dilution by tarnishment. Fourth, it has been shown that the GTMA provides for a dilution claim in opposition and cancellation proceedings, and in trademark infringement proceedings, while at the same time leaving intact protection against dilution within the framework of the UWG and the Civil Code. Fifth, the provisions of the GTMA follow closely the wording, intent and purpose of the EC Trademark Directive, the Community Regulation, the TRIPS Agreement, and the Paris Convention, and, in the context of dilution, equates 'a trademark with a reputation in Germany' with 'a trademark which is known in Germany'. The meaning to be assigned in interpreting each of the constituent elements of the provisions of both sections 9 (1) 3 and 14 (2) 3 of the GTMA were analysed in the context of European trademark jurisprudence developed under the EC Trademark Directive and the Community Regulation.

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<sup>145</sup> See Chapter 6, Part 6.6.

<sup>146</sup> *Odol*, Note 29 above.

Sixth, the available defences to trademark dilution and the applicable remedies were analysed, and it was shown that in Germany, apart from the other remedies found in the United States of America, a successful plaintiff may obtain, for example, damages for market distortion caused by dilution of the advertising value of his well-known trademark. This remedy is not provided for in the trademark law of the United States of America, and it is recommended that the United States of America should seriously consider adopting this remedy in its legislation.

In respect of internet-based dilution, it has been shown that German law is very unsatisfactory because of the absence of a coherent legislative framework, and courts have had to resort to the GTMA, the UWG and the Civil Code to proscribe internet-based dilution.

Based on the conclusions drawn up in this part of the research, some law reform proposals will now be made. First, the GTMA should be amended to provide a definition of trademark dilution and to specify the fame criteria necessary to endow a trademark with the status of being known or having a reputation in Germany. Such an amendment should clearly state that, for the purpose of protection from dilution, a mark which is known in Germany is the same as a mark with a reputation in Germany. Second, the fame criteria of a known mark to be used in opposition proceedings based on a dilution claim should also be incorporated into the text of the GTMA, possibly adapted, *mutatis mutandis*, from American trademark jurisprudence<sup>147</sup>. Third, it is strongly recommended that Germany should adopt the American Anticybersquatting Consumer Protection Act in its entirety in order to effectively deal with internet-based dilution of well-known trademarks. Fourth, it is also proposed that the remedy of damages for market distortion in dilution cases, which is available in Germany, may be incorporated into the trademark laws of the other jurisdictions

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<sup>147</sup> See Chapter 6, Part 6.

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under study where it does not currently exist, because it has potential efficacy as a deterrent to those traders who seek to misappropriate the advertising value of a well-known trademark in order to ride on the coat tails of the commercial magnetism of such a mark in endorsing their own products. The question of how German courts should strike an appropriate balance in dilution cases between the interests of the trademark owner, on the one hand, and the interests of the public to free trade, on the other hand, was also addressed. It was argued that due to the extraordinary nature of dilution, courts should grant a remedy only in clear cases. In this respect, the first point of analysis by German courts should be a determination of the reputation of the earlier trademark. If the earlier trademark lacks the requisite reputation, or has niche market reputation, the courts should dismiss the dilution claim at that stage. If the earlier trademark is found to possess the requisite reputation, the courts should then strictly analyse the similarity of the trademarks. If the trademarks are incidentally similar, the courts should dismiss the dilution claim, in the interests of free trade.

The balancing exercise advocated in this thesis can only be undertaken by German courts if they fully appreciate the rationale of the dilution concepts in the GTMA. In this respect, it was argued that German courts would do well if they were to undertake a comparative approach to any analysis of those concepts, and be guided by jurisprudence developed in the interpretation of the Community Regulation and the EC Trademark Directive. Only then, it is submitted, will dilution serve its proper purpose in Germany.

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**CHAPTER 8****UNITED KINGDOM****8.1 INTRODUCTION**

This Chapter has four principal aims. First, it examines whether the advertising value of trademarks is protected from dilution under the English common law action of passing off. Such an examination in turn requires a basic understanding of the tort of passing off. The principles of the tort of passing off are therefore set out, and it is argued that in its present state, the tort of passing off may be viewed as protecting, *in an indirect manner*, the advertising value of trademarks when it prohibits misrepresentations in the course of trade, which damage the goodwill of a plaintiff's business. The Chapter also argues that theories which try to place the genesis of anti-dilution protection for trademarks under the English tort of passing off are wrong.

Secondly, the Chapter considers the current statutory protection against trademark dilution available in the United Kingdom. The protection of trademarks in the United Kingdom is currently governed by the United Kingdom Trade Marks Act, 1994, as amended<sup>1</sup>. In examining the anti-dilution provisions of the UK Trade Marks Act, the Chapter examines the international and regional trademark law initiatives which influenced the enactment of the UK Trade Marks Act generally, and the Act's anti-dilution provisions in particular. Such an examination is necessary in order to place the anti-dilution provisions of the UK Trade Marks Act in their international and regional context. Case law interpreting the anti-dilution provisions of the UK Trade Marks Act is then analysed and compared, where necessary, with the jurisprudence developed by the European

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<sup>1</sup> Hereafter "the UK Trademarks Act". Note that this Act was amended by the Trade Marks (Proof of Use) Regulations, 2004 (No. 946).

Court of Justice<sup>2</sup> in interpreting the anti-dilution provisions of the European Communities First Council Directive of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks<sup>3</sup> and the European Trade Mark Harmonization Regulation (Council Regulation (EC) No. 40/94 of 20 December 1993) on the Community Trade Mark<sup>4</sup>. The examination of the UK case law is done, in this respect, to ascertain the extent to which UK courts have sought to balance the competing interests of the owner of a trademark with advertising value, on the one hand, and the equally competing interests of the public to free trade, on the other hand.

Thirdly, the Chapter analyses how English law has responded to issues of internet-based dilution, specifically cybersquatting and cyberpiracy. It is shown that English courts have used passing off and statutory remedies to prohibit internet-based dilution.

Finally, the Chapter offers some conclusions on the current protection against trademark dilution available under United Kingdom law, and makes law reform proposals to strengthen such protection, where necessary.

## **8.2 PROTECTION UNDER PASSING-OFF**

### **8.2.1 Introduction**

English law has no specific tort of unfair competition, but instead has the so-called economic torts of injurious falsehood, interference with contract, and passing-off, all of which attempt to prevent unfair competition<sup>5</sup>. Essentially, the aim of economic torts in the United Kingdom is to prevent consumer confusion

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<sup>2</sup> Hereafter “the ECJ”.

<sup>3</sup> Hereafter “the EC Directive”.

<sup>4</sup> Hereafter “the Community Regulation”.

<sup>5</sup> Elizabeth May, “*Passing Off: Not Ready To Pass Away?*” *Trademark World*, No. 156 [1 April, 2003] 26 – 30, at 26.

while allowing the marketplace to operate freely within the boundaries of market forces<sup>6</sup>.

From its genesis, passing-off sought to fulfill this basic aim of economic torts in the United Kingdom<sup>7</sup>. According to Lionel Bentley and Brad Sherman<sup>8</sup>

In reflection of its origins in the common law of deceit, passing off always required a trader to establish that there had been a misrepresentation which deceived consumers. In effect this meant that the action was always concerned with confusion as to source. Even though the scope of the passing off action has since expanded, the action has never been severed from its origins in deceit. This has meant that the action has not developed into a general action for misappropriation of intangible value or unfair competition of the type recognized by other European legal systems.

Early passing off case law similarly reflected this basis, by prohibiting traders from misrepresenting that their goods were those of their competitors<sup>9</sup>. In *Frank Reddaway and Co. Ltd v George Banham and Co. Ltd*<sup>10</sup>, for example, Lord Halsbury stated the basic principle of passing off as follows:-

for myself, I believe the principle of law may be very plainly stated, and that is that nobody has any right to represent his goods as the goods of somebody else.

In *Perry v Truefitt*<sup>11</sup>, the proprietary right protected by the tort of passing off was identified by the courts, *for the first time*, as the property in “goodwill”<sup>12</sup>.

<sup>6</sup> Elizabeth May, Note 5 above, at 26. For a more complete treatment of passing off under English law, see Drysdale and Silverleaf, *Passing Off Law and Practice*, 2<sup>nd</sup> Edn (1995); David Young, *Passing Off*, 3<sup>rd</sup> Edn (1994).

<sup>7</sup> See *Southern v How* [1617] Cro Jac 468; 79 ER 400.

<sup>8</sup> Lionel Bentley and Brad Sherman, *Intellectual Property Law*, 2<sup>nd</sup> Ed (2004), at 695.

<sup>9</sup> *Perry v Truefitt* [1842] 6 Beav. 66, at 73; 49 ER 749, at 752, where Lord Langdale MR summed up the rationale for passing off by observing that:

A man cannot sell his own goods under the preference that they are the goods of another man; he cannot be permitted to practice such a deception, nor to use the means which contribute to that end. He cannot therefore be allowed to use names, marks, letters or other indicia, by which he may induce purchasers to believe, that the goods which he is selling are the manufacture of another person.

<sup>10</sup> [1896] 13 RPC 218, at 224.

<sup>11</sup> Note 9 above.

<sup>12</sup> Lionel Bentley and Brad Sherman, Note 8 above, at 707 – 708..

According to Cornish and Llewelyn, all “that the common law protects through its passing off action is the goodwill between a trader and his customers which the mark helps to sustain; there is no property in a name as such”<sup>13</sup>. The rationale behind the common law tort of passing-off may, from the cases cited above, therefore be viewed as two-fold. First, the tort of passing off seeks to protect the goodwill of a business. When viewed in this way, the tort of passing off does not protect trademarks as property. As such, the mere fact that one trader has copied another trader’s business, or may take away one trader’s customers, does not, *per se*, necessarily amount to passing off<sup>14</sup>. Passing off will only occur where there is

deception or its likelihood, deception of the *ultimate consumer* in particular, and such deception can only occur where the plaintiff has established the necessary goodwill and where the defendant’s conduct amounts to a misrepresentation<sup>15</sup>.

From the foregoing, the second rational basis of the tort of passing off can be determined; namely; that it seeks to prevent a competitor from *unjustly benefiting from the plaintiff’s goodwill*. Passing off therefore equally protects the interests of both consumers and the trademark owner. In most cases, however, the misrepresentation by the defendant that his goods are those of the plaintiff will involve use by the defendant of plaintiff’s trademark as a source identifying symbol, and this will trigger off the tort of passing off. It is in this context that the tort of passing off will be discussed in this Chapter; namely; that the essence of the tort is the protection of both consumers and other traders alike from the effect of confusion on their goodwill in trade; that confusion being generated by the activity of a defendant trader who causes his goods, especially the method of their presentation (through trademarks and other business identifiers) to become confused with those of a plaintiff trader. Having said this, it may now be appropriate to examine the requirements of a passing off action.

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<sup>13</sup> Cornish and Llewelyn, *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights*, 5<sup>th</sup> Edn (2003), Para 16 – 02, at 593 – 594.

<sup>14</sup> Cornish and Llewelyn, Note 13 above.

<sup>15</sup> Julian Gyngell and Allan Poulter, *A User’s Guide to Trade Marks and Passing Off*, 2<sup>nd</sup> Edn (1998), Para 18:01, 386.

### 8.2.2 Requirements of a Passing Off Action

Several writers<sup>16</sup> and the courts<sup>17</sup> warn about the difficulties of trying to define the scope of the tort of passing off. Nevertheless, there is general consensus<sup>18</sup> that the minimum requirements for a successful action in passing off were laid down by Lord Diplock in *Erven Warnink Besloten Vennootschap v J.*

<sup>16</sup> See, in this respect (1) Lionel Bently and Brad Sherman, Note 8 above, at 708, noting the dynamics of the tort of passing off by observing that

It is important to recognize that the modern action [of passing off], if it can be called a single action, has moved beyond the classic case. Indeed, as a result of adapting to changes in the commercial environment, the tort now extends beyond the sale of goods to cover services; beyond pretences concerning the origin of goods to cover pretences concerning their quality; and beyond simple pretences that the goods are those of another trader, to cover pretences that the goods have been licensed by another trader. As a result, the tort continues to play a central role in the legal regulation of trade behaviour. The common law nature of the action also gives it a flexibility that makes it attractive in situations that are not covered by the statutory regimes. This is particularly important where business practices change and the legislature is slow to respond.

With these developments it has become increasingly difficult to state the law of passing off with any clarity or precision. Indeed, it has been said that the law ‘contains sufficient nooks and crannies to make it difficult to formulate any satisfactory definition in short form’.

- (2) Julian Gyngell and Allan Poulter, Note 15 above, at Para. 18:01, 386 recognising the “very difficult (if not insoluble) problem of defining the boundaries of passing off ...”.
- (3) Paul Torremans and Jon Holyoak, *Intellectual Property Law*, 4th Edn (2005), at 448, noting that much heat and noise has been generated in the quest for definitions of the tort of passing off.

<sup>17</sup> In *Fortnum and Mason Plc v Fortman Ltd* [1994] FSR 438, at 443, Harman J sounded the warning in observing that

... in the end the trouble with passing off cases is that they all turn up their curiosities of individual fact. The principles may be clear enough ... But the application of those principles to the facts of individual cases is extremely anxious for those judges who have to try and decide them.

<sup>18</sup> See (1) Cornish and Llewelyn, Note 13 above, at Para. 16:06, pp. 595 – 596; (2) Julian Gyngell and Allan Poulter, Note 15 above, at 18:02, PP. 388 – 389; (3). Lionel Bently and Brad Sherman, Note 8 above at 708, Footnote 15; (4) Tina Hart and Linda Fazzani, *Intellectual Property Law*, 2<sup>nd</sup> Edn (2000), at 111; (5) Elizabeth May, Note 5 above, at 26, commenting that

For an action in passing off to succeed, the following is required: Firstly, a reputation or goodwill must attach to the goods or services supplied by the claimant in the minds of the purchasing public by association with the brand name/get up. Secondly, a misrepresentation leading to confusion; that is, that the goods or services offered by the defendant are from the claimant. And thirdly, damage suffered by the claimant by reason of a wrong belief produced by the misrepresentation.

*Townend and Sons (Hull) Ltd*<sup>19</sup>. The facts of this case are well-known, but may be worth repeating here in order to contextualize the ensuing discussion. The plaintiffs and other Dutch traders had for many years manufactured in the Netherlands a liquor called “Advocaat” which was exported to the United Kingdom and distributed by the second plaintiffs. The liquor was made up of a spirit called brandewijn, mixed with egg yolk and sugar. The liquor acquired a substantial reputation in the United Kingdom as a distinct and recognizable spirituous beverage. In 1974, the defendants began marketing in the United Kingdom, in competition with plaintiff’s liquor, a spirituous liquor called “Keelig’s Old English Advocaat”, made up of dried egg powder mixed with Cyprus Sherry. Defendants’ liquor made substantial in-roads into the market of the plaintiffs liquor. Plaintiffs therefore instituted a passing-off action, and the House of Lords held that there was passing off because damage could have been caused to the plaintiffs goodwill by the activities of the defendants. In the course of judgment, Lord Diplock defined the minimum requirements of a successful passing off action as consisting of

(1) a misrepresentation, (2) made by a trader in the course of trade, (3) to prospective customers of his or ultimate customers of goods or services supplied by him, (4) which is calculated to injure the business, or goodwill, of another trader (in the sense that it is a reasonably foreseeable consequence), and (5) which causes actual damage to the business or goodwill of the trader by whom the action is brought or (in a *quia* action) will probably do so.<sup>20</sup>

The Advocaat case principles were further refined and reduced to three by Lord Oliver in *Reckitt and Colman Products Ltd v Borden Inc*<sup>21</sup>, as (1) the

<sup>19</sup> [1979] AC 731. Hereafter “the *Advocaat* Case”.

<sup>20</sup> Note 19 above, at 742. Lord Fraser also set out five requirements for a passing off action in the *Advocaat* case at 755 – 6, namely (i) that [the claimant’s] business consists of, or includes, selling in England a class of goods to which the particular trade name applies; (ii) that the class of goods is clearly defined, and that in the minds of the public, or a section of the public, in England, the trade name distinguishes that class from other similar goods, (iii) that because of the reputation of the goods, there is a goodwill attached to the name; (iv) that he, the Plaintiff, as a member of the class of those who sell the goods, is the owner of the goodwill in England which is of substantial value; (v) that he has suffered, or is likely to suffer, substantial damage to his property in the goodwill by reason of the defendant selling the goods which are falsely described by the trade name to which the goodwill is attached.

<sup>21</sup> [1990] 1 All ER 873; [1990] 1 WLR 491. The principles were applied in *Conorzio del Proscuitto di Parma v Marks and Spencer Plc* [1991] RPC 351.

existence of plaintiff's goodwill, (2) the existence of a misrepresentation, and (3) the existence of damage or likely damage to the plaintiff's goodwill or reputation.

Each of these three interrelated elements must be proved to have occurred at the time when the conduct to which the claimant objects took place<sup>22</sup>. The Chapter proceeds next to examine each of these three elements. It will be shown that the third requirement, namely the requirement of damage, may now be viewed as recognizing the damage of dilution to plaintiff's goodwill or reputation<sup>23</sup>.

### 8.2.3 *The Requirement of Goodwill*

This is the first requirement which needs to be proved to establish an action for passing off<sup>24</sup>. In other words, the plaintiff in a passing off action must first establish that his business has goodwill. This is because without sufficient goodwill

there may be no operative misrepresentation and/or no damage or loss suffered (or likely to be suffered) by the plaintiff<sup>25</sup>.

As a requirement of a passing off action, goodwill is “[an intangible] legal right of property associated with a business”<sup>26</sup> which “resides in the exclusive association of the name, mark or other indicia which is relied on with that business”<sup>27</sup>. In the words of Lord MacNaughten, goodwill

is the benefit and advantage of the good name, reputation, and connection of a business. It is the attractive force that brings in custom. It is the one thing that distinguishes an old established business from a new business at its first start. The goodwill of a business must emanate from a particular center or source.

<sup>22</sup> Lionel Bently and Brad Sherman, Note 8 above, at 709.

<sup>23</sup> Lionel Bently and Brad Sherman, Note 8 above, at 709; Julian Gyngell and Allan Poulter, Note 15 above, Para. 18:02, at 391.

<sup>24</sup> *Star Industrial Co. v Yap Kwee Kor* [1976] FSR 217, at 223.

<sup>25</sup> Julian Gyngell and Allan Poulter, Note 15 above, Para. 18:03, at 392.

<sup>26</sup> Elizabeth May, Note 5 above, at 26.

<sup>27</sup> Elizabeth May, Note 5 above, at 26.

However widely or extended or diffused its influence may be, goodwill is worth nothing unless it has power of attraction sufficient to bring customers home to the source from which it emanates. Goodwill is composed of a variety of elements. It differs in its composition in different trades and in different businesses in the same trade. One element may preponderate here and another element there<sup>28</sup>.

In *Trego v Hunt*<sup>29</sup>, goodwill was similarly defined as

The whole advantage, wherever it may be, of the reputation and connection of the firm which has been built up by years of honest work or gained by lavish expenditure of money.

For the purposes of this discussion, the question which is usually engaged, in respect of goodwill as a requirement in passing off cases, arises where a (well-known) trademark has *a reputation* in the United Kingdom, but the owner of the (well-known) trademark has not yet commenced business activities, or does not yet possess customers, in the United Kingdom. Does the owner of the (well-known) trademark possess *goodwill* for the purposes of a passing off action, so that he can prevent a local trader in the United Kingdom from misappropriating the reputation and advertising value of his (well-known) trademark and from using it in respect of competing or non-competing goods? This question, in turn, translates into whether goodwill, as a requirement of a passing off action, is territorial or international in character<sup>30</sup>. As noted by Mostert<sup>31</sup>

Local ‘entrepreneurs’ have become increasingly adept at trading on the reputation of internationally famous trade marks – **especially in countries** where the original owner has **not** yet used the mark. The multinational companies who normally own such famous trade marks, usually have not yet expanded their business activities under these trade marks, nor have they obtained **registration** for these marks in the particular country. The question is whether the company whose trade mark’s reputation extends to the particular country should be afforded protection or whether the local ‘entrepreneur’ who intercepted the

<sup>28</sup> *IRC v Muller and Co’s Margarine Ltd* [1901] AC 217, at 223.

<sup>29</sup> [1895] AC7.

<sup>30</sup> Frederick Mostert, “*Is Goodwill Territorial or International? Protection of the Reputation of a Famous Trade Mark Which Has Not Been Used In The Local Jurisdiction*” [1989] 12 EIPR, 440 – 448. See also Ronald J. Lerhman, “*Reputation Without Use*” and “*Household Names*” [1986] 3 Trademark World (October) 18; Thomas J. Hoffman and Susan E. Broinstone “*Protection of Trademark Rights & Broinstone Acquired by International Reputation Without Use or Reputation*” [1981] 71 TRADEMARK REP 1.

<sup>31</sup> Frederick Mostert, Note 30 above, at 440.

owner and first used or registered the famous trade mark in the local jurisdiction be permitted to do so. In other words, assuming that Burger King has not yet used or registered the famous **Burger King** mark in Cyprus, should a local ‘entrepreneur’ be allowed to **pre-empt** Burger King and open Burger King restaurants in that country? Should local ‘entrepreneurs’ be permitted to adopt and use the **Cartier** mark, without authorization, on watches and jewellery in Singapore, or **the Burbenys** mark on ladies’ clothing and **accessories** in Bermuda, or **Reebok** for athletic footwear in **Hong Kong**? The answer to these questions may depend on whether the concept of goodwill is **recognized** to be territorial or international.

There are two diametrically opposite lines of cases under the English tort of passing off on the issue of protecting the reputation and goodwill of the owner of a (well-known) trademark where the (well-known) trademark has a reputation in the United Kingdom but has not yet been used locally.

Under the first line of cases, if the plaintiff can demonstrate a trading<sup>32</sup> link with the United Kingdom, he will succeed in establishing the necessary goodwill. This line of cases is reflected by the judgment in *Poiret v Jules Poiret and AF Nash*<sup>33</sup>. Again, the facts of this case are well-known, but may be worthy repeating here. There, the court granted an injunction in favour of Paul Poiret, a Parisian costumier and dress designer, who had built up a distinguished reputation not only in France but also in the United Kingdom but had no actual place of business in the United Kingdom. According to the court

Paul Poiret is ... entitled to protect his goods and the reputation he has acquired in this country notwithstanding the fact that he has not a place of business here, and he is entitled to open a branch in England and to make use of the reputation which he has already obtained in the English market without having the interference of the defendant<sup>34</sup>.

The same approach was again adopted in *Sheraton Corporation of America v Sheraton Motels Ltd*<sup>35</sup>. There, the plaintiffs owned a chain of hotels in the United States of America and other foreign countries under the trademark “Sheraton Hotels”. They did not, however, have any hotels in the United

<sup>32</sup> The word “trade” in this case is to be widely interpreted: *Kean v McGivan* [1982] FSR 119, 120 (Ackner J).

<sup>33</sup> [1920] 37 RPC, 177.

<sup>34</sup> Note 33 above, at 187.

<sup>35</sup> [1964] RPC 202 (Ch.D.).

Kingdom, but bookings in their hotels abroad were frequently made in the United Kingdom through an office they maintained in London and through travel agencies. They also advertised their hotels in the United Kingdom on a massive scale.

Defendants were operating a motel called “Sheraton Motel Limited” and they alleged that they had adopted the name from their offices at No. 1 Sheraton Street, London. In fact, no such address existed since the building had been destroyed by enemy action during the Second World War in 1944. The plaintiffs had received enquiries from customers who had been misled by the similarity of names into inferring that the plaintiffs were responsible for the Sheraton Motels at Prestwick airport, which was actually owned by the defendants.

The court held that the defendants had chosen the trade name “Sheraton” in order to ride on the back of the plaintiff’s well-known “Sheraton” trademark, and that, although the plaintiffs business was primarily carried on abroad, they nonetheless had a reputation in the United Kingdom, which could injure plaintiffs goodwill. In issuing an interlocutory injunction restraining the activities of the defendants, the court observed that

It seems to me that ... the plaintiff company may be able to say that they have got a reputation and a goodwill which would be exposed to risk resulting from the confusion between the plaintiffs and the defendants notwithstanding that they are carrying on business in different parts of the world; and that, moreover, the plaintiffs are entitled to retain the possibility of exploiting their own goodwill in this country by opening hotels here, and that that possibility ought not to be **diluted** by anything done by the defendant company meanwhile<sup>36</sup> (emphasis added).

The same approach was again adopted in *Peter Waterman v CBS*<sup>37</sup>. There, CBS was proposing to refurbish studios in London and to call them “The Hit Factory”. The plaintiff, who ran a recording business nicknamed “The Hit Factory”, brought a passing off action to stop CBS from using the same name in

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<sup>36</sup> Note 35 above, at 204.

<sup>37</sup> [1993] EMLR 27.

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the United Kingdom. Based on the running of a recording studio in New York called “The Hit Factory”, CBS responded by arguing that it had goodwill in the United Kingdom that was at the very least concurrent with that of the plaintiff. Browne-Wilkinson V-C (as he then was), held that the plaintiff had failed to establish the distinctiveness of “The Hit Factory” and, as such, consideration of the defendant’s position was unnecessary. Having said this, Browne-Wilkinson V-C went on to review the authorities on the issue of whether the English courts will protect the goodwill of a foreign trader in the United Kingdom, where the foreign trader owned a well-known trademark which had a reputation in the United Kingdom but which was not yet used in the United Kingdom.

Browne-Wilkinson V-C began by noting that the essence of goodwill is the ability to attract customers and potential customers to do business with the owner of the goodwill, and that any interference with the trader’s customers was an interference with their goodwill. This, according to Browne-Wilkinson V-C, *is the case whether or not there is a place of business in the United Kingdom*. On this basis, Browne-Wilkinson V-C held that since the defendant’s New York recording studio had a substantial number of customers in the United Kingdom, the defendant would have been entitled to protect its “Hit Factory” name in the United Kingdom against third parties. In commenting on the need for passing off to be adapted to modern business environments, Browne-Wilkinson V-C tellingly described the international character of goodwill as follows

The changes in the second half of the twentieth century are far more fundamental than those in the nineteenth century England. *They have produced worldwide marks, worldwide goodwill and brought separate markets into competition with the other. Radio and television with their attendant advertising cross national frontiers. Electronic communication via satellite produces virtually instant communication between all markets. In terms of travel time, New York by air is as close as Aberdeen by rail. This has led to the development of the international reputation in certain names, particularly in the service fields, for example Sheraton Hotels, Budget Rent A Car ... In my view, the law will fail if it does not try to meet the challenge thrown up by trading patterns which cross*

national jurisdictional boundaries due to a change in technical achievement<sup>38</sup> (emphasis added).

The comments of Browne-Wilkinson V-C above, explaining the rationale for protecting a well-known trademark which enjoys a reputation in the United Kingdom but which has not yet been used in the United Kingdom, had been echoed earlier, in a slightly varied form, in *Baskin-Robbins Ice Cream Co v Gutman*<sup>39</sup>, when Justice Graham stated that

Some businesses are, however, to a greater or lesser extent truly international character and *the reputation and goodwill attaching to them cannot in fact help being international also* .... The existence and extent of reputation in my judgment is essentially a question of fact .... This being so, I do not see how one can properly lay down artificial limits as to the geographical areas over which reputation and goodwill can or cannot extend, nor state rules as to what a trader must or must not do to prove the existence of such reputation and goodwill (emphasis added).

Under the second line of cases, the so-called ‘hard line approach’<sup>40</sup> is adopted by English courts in requiring, in addition to a reputation in the United Kingdom, that the owner of the (well-known) trademark whose reputation and goodwill has been misappropriated by the (mis)representations of the defendant should establish some form of business activity in the United Kingdom in order to succeed in establishing the requisite goodwill for the purposes of a passing off action. The hard line approach is rooted in the notion that goodwill is exclusively territorial in character<sup>41</sup>. This approach can be traced back to the speech of Lord Diplock in *Star Industrial Co. Ltd v Yap Kwee Kor*<sup>42</sup>, where he said that goodwill is local in character and divisible; and that if the business is carried on in several countries, a separate goodwill attaches to it in each of those countries. This approach was adopted in *The Athlete’s Foot Marketing Associates Inc v Cobra*

<sup>38</sup> Note 37 above.

<sup>39</sup> [1976] FSR 545. See also *Maxim’s Ltd v Dye* [1977] RSR 364; [1978] 2 All ER 55; *Panhard et Levassor (Societe Anonyme) v Panhard-Levassor Motor Co. Ltd* [1901] 18 RPC 405; *My Kinda Bones Ltd v Dr. Pepper’s Stove Co. Ltd* [1984] FSR 289.

<sup>40</sup> See Frederick Mostert, Note 30 above, at 441.

<sup>41</sup> See Frederick Mostert, Note 30 above, at 441.

<sup>42</sup> [1976] FSR 217, at 256.

*Sports Limited and Another*<sup>43</sup>. There, the plaintiff was an American company engaged in the retail business of selling shoes under the trademark “Athlete’s Foot”. The defendant began selling shoes in the United Kingdom under the same trade name. The plaintiff sought to prevent the United Kingdom business from using the same trade name. While the plaintiff had a reputation in the United Kingdom at the relevant time, it had not yet conducted business in the United Kingdom, and was unable to demonstrate that anyone in the United Kingdom had purchased its shoes. Justice Walton refused the application for an injunction, holding that the plaintiff “has no customers in [this] country: no people who buy his goods or make use of his services...”<sup>44</sup>. This approach was also followed in *Bernadin v Pavilion*<sup>45</sup>. There, the plaintiff was the proprietor of “The Crazy Horse Saloon” in Paris. The defendant opened a place by the same name in London. Justice Pennycuik refused to grant an interlocutory injunction to restrain the defendant from using the trade name “The Crazy Horse Saloon” in London, holding that even though the plaintiff distributed advertisement leaflets of its saloon in London, there was no evidence that there were English customers in the United Kingdom of the plaintiff’s Paris saloon.

It is also interesting to note (in respect of goodwill) that English courts have deployed the remedy of passing off to protect the goodwill of a business against *inferior and low quality goods, in a manner similar to the protection granted against dilution by tarnishment*. The leading case in this respect is *Spalding and Brothers v AW Gamage*<sup>46</sup>. There, the plaintiffs manufactured and sold footballs under the trademark “Orb” since 1910, and had built up goodwill in its business when in 1912, the defendant began to market footballs under the trademark “Orb”. *The footballs sold by the defendant were in fact discarded stock rejected by the plaintiffs, and far below the quality standard and the price of*

<sup>43</sup> [1980] RPC 343.

<sup>44</sup> Note 43 above, at 350.

<sup>45</sup> [1967] RPC 581. See also *Anheuser-Busch v Budejovský Budvar Narodní Podnik* [1984] FSR 413, where a remedy was refused even though purchases of the plaintiff’s Budweiser beer by US forces in the United Kingdom from PX stores numbered 65 million per annum, simply because US forces in the UK were excluded from the category of UK customers needed to establish goodwill.

<sup>46</sup> [1915] 32 RPC 273.

*the improved footballs that were then being manufactured and sold by the plaintiffs still under the trademark “Orb”.* The court restrained the activities of the defendant, and granted damages, because the activities of the defendant were found to injure the goodwill of the plaintiffs. The principles of dilution by tarnishment, it is submitted, could easily have been deployed to dispose of this case.

A few comments are now made in respect of the element of goodwill in a passing off action. As shown above, there are two diametrically opposite lines of cases highlighting the approach adopted by English courts in determining the territorial nature of goodwill. It is submitted that the first line of cases, which recognizes the existence of goodwill even where the plaintiff does not have a business activity in the United Kingdom, so long as plaintiff’s trademark is well-known, is in keeping with the needs of modern commerce and the international market place. The rationale behind the first line of cases, in the views of Mostert<sup>47</sup>, is because, in the international market place of the twenty-first century

[g]oods and services are often preceded by their reputations. They are **virtually** pre-advertised and pre-sold in a particular country even though they are not yet physically present in the market of that country. The media and modern advertising are becoming less and less limited by national boundaries in view of sophisticated communication and the frequent travel of people for reasons of business, study or pleasure. Multinationals are therefore confronted with the need to protect their famous trade marks on a worldwide basis. This is reflected in the current Uruguay Round of talks by the members of GATT. Companies are no longer confined to local markets. Multinationals function in a global marketplace. They find themselves providing goods and services in bigger and bigger markets created by free trade pacts and the creation of ‘single markets’ throughout the world. Against the reality of this background, there is certainly no doubt in the minds of businessmen that the reputation and goodwill attached to their famous trade marks have become detached from national and local borders.

The damage suffered in relation to the unauthorized adoption and use of a famous trade mark is no longer confined to the traditional injury in the form of a diversion of custom. *When a local infringer uses a famous trade mark without **authorization**, modern commercial reality demonstrates that the original owner of the famous trade mark can suffer real, and sometimes even graver injury, than*

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<sup>47</sup> Note 30 above, at 440.

*in cases where traditional damages are encountered.* These damages may consist of some or all of the following:

(1) The owner of a famous trade mark could be blocked and preempted from using and exploiting his own trade mark within the particular jurisdiction as a result of the local infringer's activities. Apart from the fact that the trade mark owner is unable to enter the local market, potential licensees or franchisees may be unwilling to enter into any agreements until the owner of the famous trade mark has established his rights in the specific country.

(2) The infringer's unauthorized adoption of the trade mark owner's well-known trade mark may lead the consumer to believe that a business connection exists between the infringer and the trade mark owner. Moreover, the owner will have lost his control over the use of his trade mark in the particular jurisdiction and runs considerable risk that the bad reputation of the infringer's product may be visited upon the original article.

(3) *The activities of the unauthorized user are likely to lead to the dilution of the trade mark owner's well-known trade mark. The favourable connotation that the consumer has of the well-known trade mark could be severely blurred and tarnished. This in turn would lead to a serious impairment of the exclusive association between the famous trade mark and the original trade mark owner's product or service.*

(4) If the infringer exploits the commercial magnetism, selling power and advertising value of the famous trade mark on noncompeting goods, this could present prejudice in the form of lost licence fees (emphasis added).

In other words, the first line of cases correctly identifies the international character of modern business<sup>48</sup>, and recognizes that damage to goodwill may occur even though a company does not have business activity in the United Kingdom, where the reputation of the company's (well-known) trademark extends to the United Kingdom. As correctly noted by Mostert<sup>49</sup>, the unauthorized use of the well-known mark could, in appropriate cases, also lead to the dilution<sup>50</sup> of the well-known mark or to confusion of sponsorship<sup>51</sup>. If that happens, orthodox trademark law cannot effectively provide a remedy, and the interests of the trademark owner can only adequately be protected by a claim of trademark dilution or confusion of sponsorship.<sup>52</sup> Gyngell and Poulter<sup>53</sup> likewise advocate the adoption of the first line of cases as follows:

<sup>48</sup> See Notes 38 and 39 above.

<sup>49</sup> Note 47 above.

<sup>50</sup> Owen Salmon, "*Dilution As A Rationale For Trade Mark protection In South African Law*" (LLM Thesis) (Unisa 1990), at 58.

<sup>51</sup> See generally Chapter 3.

<sup>52</sup> See generally Chapter 3.

<sup>53</sup> Julian Gyngell and Allan Poulter, Note 15 above, Para. 18:09, at 397.

The logical consequence of the proposition that goodwill depends upon local trade is that, absent such trade, a third party can commence business in the United Kingdom and acquire its own goodwill in this country. This was described in [*Nice and Safe Attitude Ltd v Piers Flook (T/A “Slaam Clothing Co”)*]<sup>54</sup> the NASA case as acquisition of goodwill ‘somewhat parasitically’, that is, by virtue of and derived from the pre-existing reputation which existed in the United Kingdom.

Self-evidently, if the unauthorized user is allowed, by trademark law, to parasitically acquire another trader’s goodwill in the circumstances described above, this will be to the detriment not only of the owner of the well-known mark, but also the public at large, and such acquisition, in fact, runs against the fundamental principle of fair competition.

#### 8.2.4 The Misrepresentation

There are no formal restrictions on the types of (mis)representations that are actionable under the tort of passing off<sup>55</sup>. So long as the (mis)representation confuses<sup>56</sup> the public in a relevant way, the means by which this comes about is irrelevant<sup>57</sup>. As such, to succeed in establishing a misrepresentation in passing off cases, it is *not* necessary for a plaintiff to establish that the misrepresentation was conscious, deliberate, intentional, or fraudulent<sup>58</sup>. The misrepresentation, however, must be made to the plaintiff’s actual or potential customers, as otherwise the plaintiff’s goodwill may not be damaged. The classic form of

<sup>54</sup> [1997] FSR 14.

<sup>55</sup> Lionel Bently and Brad Sherman, Note 8 above, at 727.

<sup>56</sup> There is no consensus as to the test to be used to ascertain the existence of confusion. *Morning Star v Express Newspapers* [1979] FSR 113 adopted the test of ‘a reasonable consumer’. *Reckitt and Colman Products Ltd v Borden Inc* [1990] 1 All ER 873 (Lord Oliver) adopted the test that customers have to be taken as found, and that it is no argument that they would not have been deceived had they been more careful, more literate or more perspicuous. *United Biscuits (UK) Ltd v Asda Stores Ltd* [1997] RPC 513, and *The European v The Economist Newspapers* [1996] FSR 431 adopted the test that the judge should form his own view and decide whether there is confusion. Further, *Alan Kenneth Mckenzie Clark v Associated Newspapers Ltd* [1998] RPC 261 adopted the principle that the requisite confusion has to be more than momentary and inconsequential.

<sup>57</sup> Lionel Bently and Brad Sherman, Note 8 above, at 727.

<sup>58</sup> *HFC Bank v Midland Bank* [2000] FSR 176, 181; *Montgomery v Thompson* [1891] AC 217, 220; *Parker Knoll v Knoll International* [1962] RPC 265; *Nad Electronics Inc v Nad Computer Systems* [1997] FSR 380.

misrepresentation in a passing off action is misrepresentation as to source<sup>59</sup>. In this type of misrepresentation, the defendant gives the impression that his goods are those of the plaintiff. In other words, the defendant imputes that the plaintiff is the ‘source’ of the defendant’s goods, thereby confusing customers and simultaneously riding on plaintiff’s goodwill. This usually occurs where the defendant, in selling his goods, uses a trademark which customers associate with the plaintiff’s goods. This type of misrepresentation may also occur in a slightly varied form, where the defendant represents his goods to be of the same quality, performance or functionality as those of the plaintiff<sup>60</sup>.

For the purposes of the present discussion, however, specific focus is directed to whether, as a matter of law, there must be “a common field of activity” between the plaintiff and the defendant in order to establish passing off and that, absent such a common field of activity, the plaintiff’s claim must fail. In other words, the question here is whether there can be a *misrepresentation* where the goods of the parties are *non-competing*. An answer to this question, it is submitted, helps to highlight whether the tort of passing off prohibits misrepresentations as to association, sponsorship, approval or other trade connection, and misrepresentations which injure (even where the goods of the parties are non-competing) the unique identity, commercial magnetism and the ability of a trademark to call the attention of the public to, and to focus exclusively on, the goods in respect of which the trademark is used. In other words, such an examination highlights whether passing off has now been extended to protect the goodwill in a business, reflected in its trademark, where the advertising value of the trademark of the business is misappropriated and the misappropriation causes trademark dilution<sup>61</sup>.

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<sup>59</sup> *Birmingham Vinegar Brewery v Powell* [1897] AC 710, at 715; *Edge v Nicholls* [1911] AC 693; *United Biscuits (UK) v Asda Stores* [1977] RPC 513.

<sup>60</sup> *Spalding and Brothers v AW Gamage* [1915] 32 RPC 273; *Colgate-Palmolive v Markwell Finance* [1989] RPC 497; *Taittinger SA v Allbev* [1993] FSR 641; *Bollinger v Costa Brava Wine Co* [1960] RPC 16; *Warnink v Townsend* [1979] AC 731; *Coombe International v Scholl* [1977] RPC 1; *Wilkinson Sword Ltd v Cripps & Lee Ltd* [1982] FSR 16.

<sup>61</sup> See Chapter 3.

In discussing the theory of a “common field of activity”, it may be logical to commence by analyzing the case of *Eastman Photographic Materials Co. Ltd and Anor v John Griffiths Cycle Corporation Ltd and the Kodak Cycle Co. Ltd*<sup>62</sup>, because some writers<sup>63</sup> argue that it was this case which heralded the protection of trademarks from dilution. The facts of this case are well-known, but are repeated here in order to contextualize the ensuing discussion.

There, the plaintiffs, who owned all the shares in the Kodak Company Limited, had invented and used the word “Kodak” for cameras and associated goods and had registered a number of trademarks containing that word. Additionally, they had made cameras suitable for fixing to bicycles and advertised them as “Bicycle Kodaks”. The defendants had registered the word “Kodak” as a trademark for cycles and other vehicles, and incorporated and registered the Kodak Cycle Company Limited, through which they advertised their Kodak Cycles. The plaintiffs sought to restrain the defendants from carrying on business under the name “Kodak Cycle Company Limited”, from passing off their goods as the goods of the plaintiffs, and from infringing the plaintiff’s registered trademarks. They also moved for rectification of the register by expunging the defendant’s registered trademark ‘Kodak’ therefrom.

Justice Romer noted that the conduct of the defendants amounted to passing off because:

The plaintiff carries on a large business. Some years since it invented the word “Kodak”, which it applied to certain of its cameras. Those cameras have become very well-known indeed throughout the length and breadth of this land under the term “Kodak”. The “Kodak Cameras” were largely advertised; they have become well-known to the public, and the term is identified as applied to cameras, and as denoting the goods of the plaintiff company; in fact, you may say that the name of “Kodak” is identified with the plaintiff company, and is, as it were, the trademark of that company. Several trademarks have been registered by the plaintiff company in which the word “Kodak” forms a prominent part. It

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<sup>62</sup> [1898] RPC 105. Hereafter “the *Kodak* Case”.

<sup>63</sup> Anthony R. De Simone, “*Anti-Dilution Concepts Abroad*” [1965] 55 TRADEMARK REP. 724, at 726; Tony Martino, *Trademark Dilution* (1996), Chapter 2, at 4, Footnote 1.

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appears that the “Kodak Cameras” are especially available for use on cycles, and that they are much used by cyclist, and the plaintiff company has done a large trade in these “Kodaks” for the purpose of cycles. It has advertised for some time these special “Kodaks” as “Cycle Kodaks” or “Bicycle Kodaks”, and it also has a considerable trade in bicycle accessories so far as it related to the adaptation of the bicycle for photographic purposes. At one recent large cycle show the plaintiff company had a stall, and the evidence shows that between the two trades, *the bicycle trade and the camera trade, there is an intimate connection. Many shops sell and deal in both bicycle and photographic cameras and materials. To a certain extent the plaintiff company is identified with the name “Kodak” as connected with cycles, and so great is the connection between the two classes of business, that in all probability, I may say, the plaintiff company may wish hereafter to manufacture and sell cycles specially adapted to carry their “Kodaks”.* That was the position of affairs when the defendants began to do what I am going to call attention to<sup>64</sup> (emphasis added).

It is submitted that the *Kodak* case sought to prohibit source or origin misrepresentation by the defendants; that is, a misrepresentation that the goods of the defendants (Kodak Cycles) were those of the plaintiffs (Bicycle Kodaks). Such misrepresentation was found to injure the goodwill of the plaintiffs in their Bicycle Kodak cameras and to confuse the goods of the plaintiffs with those of the defendants, which two businesses, according to Justice Romer (in the passages highlighted above) were conducted within a common field of activity. The common field of activity in this case, it is submitted, was in respect of bicycles, since the Bicycle Kodak cameras of the plaintiffs could only be used by affixing them to bicycles, and the defendants trade was in the bicycle businesses. On closer analysis, therefore, it is clear that there was a common field of activity in the *Kodak* case above, since the case ultimately involved bicycle-related business by both the plaintiffs and the defendants. Since the court found that there was an intimate connection between the bicycle trade and the trade of cameras affixed on bicycles, which caused consumer confusion, it is submitted that on its true facts, the *Kodak* case above was a case of confusion of sponsorship or association.

The expression “a common field of activity” was first coined by Justice

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<sup>64</sup> Note 62 above, at 110 – 111.

Wynn-Parry in *McCulloch v Lewis A May (Produce Distributors) Ltd*<sup>65</sup>. There, the plaintiff was a well-known broadcaster for children's programmes who used the name "Uncle Mac". The defendants commenced selling cereal under the name "Uncle Mac" and alluded to some of the plaintiff's personal characteristics without his permission. The plaintiff instituted a passing off action, but failed because he was not involved in the making of cereals. According to Justice Wynn-Parry, for the plaintiff to succeed, there needed to be "a common field of activity" between the parties, and since the plaintiff was not engaged in producing or marketing cereal there was no field of activity common to the plaintiff and the defendants and, as such, the defendants could not be said to have invaded any proprietary right of the plaintiff or to have passed off the goods of the plaintiff<sup>66</sup>.

In *Lynstad v Anabas Products Ltd*<sup>67</sup>, Justice Oliver explained the meaning of this phrase by noting that it is a convenient shorthand term for the need, in a passing off action, to establish a *real possibility* of confusion due to the misrepresentation of the defendant which injures the goodwill in the business of the plaintiff. In the *Abba* case, which concerned character merchandising, the members of the famous pop music group *Abba* were unable to stop their pictures being used on t-shirts because they were in the entertainment business and not in the same field of economic activity as manufacturers of clothing. In *Harrods Ltd v Harrodian School Ltd*<sup>68</sup>, Lord Justice Millet held that a common field of activity was *not* a prerequisite requirement in a passing off action. In his view

What the plaintiff in an action for passing off must prove is not the existence of a common field of activity but likely confusion among customers of the parties. The absence of a common field of activity, therefore, is not fatal, but it is not

<sup>65</sup> [1948] 65 RPC 58; [1947] 2 All ER 845.

<sup>66</sup> See also *British Medical Association v Marsh* 48 RPC 565 (Maugham J); *H.M.A.G. and General Council of Medical Education v Barret Proprietaries Ltd* 58 RPC, 45 at 53 [Bennett J]; *Clock Limited v The Clock Hotel Limited* 53 RPC 269, at 279 (Romer LJ); *Stringfellows v McCain Foods* [1984] RPC 501; *Nice and Safe Attitude Ltd v Piers Flook* [1997] FSR 14; *Fortnum and Mason Plc v Fortnam Ltd* [1994] FSR 438.

<sup>67</sup> [1977] FSR 62, at 67. Hereafter "the *Abba* Case". See also *Tavener Rutledge Ltd v Trexapalm Ltd* [1977] RPC 275; *Wombles Ltd v Wombles Skips Ltd* [1977] RPC 99; *Halliwell v Panini* [6 June 1997] [Unreported]; *Baywatch Productions Co. Inc v. Home Video Channel* [1997] FSR 22.

<sup>68</sup> [1996] RPC 697 (CA). Hereafter "the *Harrods* Case".

irrelevant either. In deciding whether there is a likelihood of confusion, it is an important and highly relevant consideration<sup>69</sup>.

In the *Harrods* case the Court of Appeal was dealing with the well-known Harrods department store and Lord Justice Millet held that where the plaintiff's business is a household name, the degree of overlap between the fields of activity of the respective businesses of the parties may be a less important, though a relevant, consideration and on the facts of the case, the Court of Appeal held (by a majority of two to one) that parents would not send their children to the Harroddian School wrongly thinking that it was connected or associated with the Harrods department store. This case illustrates the difficulties in defining the scope of the tort of passing off. Although all the judges agreed on the essential ingredients of the tort, they held differing opinions as to the misrepresentations relevant to the tort. Lord Justice Millet (with Lord Justice Beldam concurring) was of the view that the relevant connection or association with the plaintiffs which was being suggested or alluded to by the defendant had to be one where the plaintiffs would be taken by the public to have made themselves responsible for the *quality* of the defendant's goods, and that a belief that the plaintiffs had *sponsored* or given financial assistance to the defendant was *not* sufficient. Lord Justice Sir Michael Kerr, on the other hand, in his dissenting judgment, was satisfied that the goodwill of a trader may be damaged if the defendant misrepresented that he was simply "connected" or "in some way mixed up" with the plaintiff<sup>70</sup>.

The dissenting judgment of Lord Justice Sir Michael Kerr, it is submitted, sought to expand the range of the requisite misrepresentations in a passing off action to include misrepresentations which cause loss of distinctiveness and dilution to the trade name "Harrods", and in this respect, his position seeking to prohibit misrepresentations which resulted in the public thinking that the defendant was connected with the plaintiff and misrepresentations whose true aim

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<sup>69</sup> Note 68 above, at 714 – 715.

<sup>70</sup> The approach of Lord Justice Sir Michael Kerr had been adopted in the earlier case of *Ewing (t/a Buttercup Dairy Co) v Buttercup Margarine Co Ltd* [1917] 34 RPC 232; [7917] 2 Ch. 1, and was also adopted in the later case of *United Biscuits (UK) Ltd v Asda Stores Ltd* [1997] RPC 513.

was to ride on the back of, and to appropriate to the defendant's benefit, the reputation in the plaintiff's trademark may accurately be viewed as efforts to use the tort of passing off to prohibit trademark dilution. Sir Michael Kerr was of the view that

The reputation of the name [Harrods] transcends that of the ordinary department store, because it is also associated with, and renowned for, many decades of activities by the plaintiffs in providing services to customers in many different fields beyond the confines of the building in the Brampton Road. It has not yet achieved the cachet of "Rolls Royce", which has come to be used colloquially as an adjective to express the highest standards. But it can claim the aura, tradition and repute of something in the nature of an institution.<sup>71</sup>

As a result of these observations, Sir Michael Kerr accordingly held, in respect of misrepresentation, that

Some assumed commercial, or even philanthropic connection linking the plaintiffs to the name of the school appears to me to be quite sufficient [to establish the requisite misrepresentation], since the school's use of the plaintiff's name, in its adjectival form, as its own, implies a very close connection between them.<sup>72</sup>

Earlier on in the judgment<sup>73</sup>, Sir Michael Kerr held that

The name Harrodian proclaims a misrepresentation by representing a connection with the plaintiffs which does not exist. Its adoption constitutes a wrongful attribution of a non-existent connection. All persons familiar with the name "Harrods" and what it stands for, who chance across a reference to a school named "Harrodian", are at least likely, and in my view almost certain, to think that there must be some connection or association between the store and the school. They will not know its nature, e.g., whether it is a school for the children of the plaintiff's customers or staff, or whether it is owned, managed or in some way sponsored by the plaintiffs. They will wonder what the connection is, but they will assume that the plaintiffs are somehow "mixed up" with the school.

The above observations of Sir Michael Kerr come very close to holding that the misappropriation of the advertising value of a (well-known) trademark *constitutes* misrepresentation, if the resulting injury is confusion of sponsorship. This, it is submitted, stretches the concept of misrepresentation in classical

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<sup>71</sup> Note 68 above, at 719.

<sup>72</sup> Note 68 above, at 721.

<sup>73</sup> Note 68 above, at 720.

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passing off cases, and validates the need for the United Kingdom to adopt a general law of unfair competition similar in character to that of Germany, for example.

It is submitted that the principle of trademark dilution could have been applied, in a straightforward manner in *McCulloch v Lewis A May (Produce) Distributors Ltd*, above. There, the parties were not in competition, so the issue of misrepresentation did not arise. The name “Uncle Mac” had a reputation. If the principles of trademark dilution had been applied in that case, all the plaintiff would have had to prove was that the name “Uncle Mac” had a reputation, and that the defendant had misappropriated the advertising value in that name and used it in respect of defendant’s non-competing cereal products, and that, as a result, the plaintiff had suffered or was likely to suffer harm in the form of dilution by blurring. The same dilution principles could easily have been applied in *Lynstad v Anabas Products Ltd*, and *Harrods Ltd v Harrodian School Ltd*, above.

The “*Uncle Mac*” case, the *Abba* case, and the *Harrods* case, all cited above, represent the first line of cases under English law which denied relief in a passing off case where there was no common field of activity between the parties.

The second line of English cases adopts the approach that passing off may be established; first; where the misrepresentations of the defendant suggest some sponsorship, affiliation or connection with the plaintiff’s business; or second, where the plaintiff has an outstanding reputation, and the defendant’s misrepresentations seek to ride on the reputation of the plaintiff, even in the absence of the likelihood of consumer confusion. This second line of cases has expanded the tort of passing off to prohibit what in fact amounts to either confusion of sponsorship or trademark dilution.

A good illustration of this expanded form of misrepresentation in the tort of passing off is *Annabel's (Berkely Square) Ltd v G. Shock*<sup>74</sup>. In that case, the plaintiffs ran a well-known *night club* called Annabel's. The defendant then established an *escort agency* under the same name. The court found that since the plaintiffs and the defendant's respective businesses were both related to "night life" and "night entertainment", the purchasing public would probably *infer* that a business relationship existed between the defendant's escort agency and the plaintiffs night club. Accordingly, the court granted an injunction to protect the goodwill and reputation of the plaintiffs night club business and to prevent the unfavourable connotations which the public associate with escort agencies like the defendant's from being transferred to the plaintiffs night club.

It is submitted that the *Annabel's* case, above, was determined on the basis of confusion of sponsorship since the services of the plaintiffs and the defendant were non-competing but related, and the defendant's misrepresentations may have tarnished the plaintiffs reputation. In such cases, where the goods or services are related but non-competing, there will not only be an impairment to the source-origin function of a trademark, but also an impairment to the trademark's advertising value, giving rise to confusion of sponsorship in the marketplace. As Lord Justice Warrington explained in *Ewing (t/a Buttercup Dairy Co) v Buttercup Margarine Co*,<sup>75</sup> to

induce the belief that my business is a branch of another man's business may do that other man damage in various ways. The quality of the goods I sell, the kind of business I do, the credit or otherwise which I enjoy are all things which may injure the other man who is assumed wrongly to be associated with me.

These cases show that any (mis)representations by a defendant which are likely to create a false impression in the mind of the purchasing public that the defendant's goods come from the same source as those of the plaintiff, or are manufactured or sponsored by, or affiliated or connected with, the plaintiff are

<sup>74</sup> [1972] RPC 838. Hereafter "the *Annabel's* Case".

<sup>75</sup> [1917] 2 Ch. 1, at 14. See Note 71 above.

prohibited under the tort of passing off in English law, even though, on their facts, the cases are concerned with the simultaneous impairment of both the source-origin function and the advertising function of a trademark which causes confusion of sponsorship. The rationale for such protection, as gathered from the *Annabel's* case and the *Buttercup Dairy* case, is that such false representations may cause a stigma which clings to the defendant's goods or services (like the escort services in the *Annabel's* case) to be transferred to the plaintiff's goods or services (the night club services in the *Annabel's* case), and may negatively affect the positive association which exists between plaintiff's goods or services and his trademark. This in turn serves to protect the reputation and goodwill of the goods or services of the trademark owner.

*Law Society of England and Wales v Society of Lawyers*<sup>76</sup> similarly recognized that damage to the plaintiff's goodwill may occur where the misrepresentation of the defendant has a *negative impact* on the plaintiff's reputation because the defendant misleads the public that his services are related to those of the plaintiff. There, Justice Rimmer was satisfied that the use by the defendant of the name "Society of Lawyers" involved misrepresenting to the public the status of those to whom the defendant issued certificates and that this would mislead the public into believing that the defendant's members (just like the plaintiff's members) had legal qualifications or were solicitors.

The approach was again adopted in *United Biscuits (UK) Ltd v Asda Stores Ltd*.<sup>77</sup> In that case, the plaintiff sold biscuits under the trademark "penguin" and the defendant sold competing biscuits under the trademark "puffin". Justice Walker held that although the defendant's "puffin" biscuit packaging was to be considered sufficiently different from the plaintiff's "penguin" biscuit packaging, and that it was unlikely that a significant number of shoppers would fail to distinguish the two products, it was nonetheless possible

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<sup>76</sup> [1996] FSR 739.

<sup>77</sup> [1997] RPC 513. Hereafter "the *Penguin* case".

that the public would either suppose, assume or guess that there was a connection *or some sponsorship* between the “puffin” biscuits and the “penguin” biscuits, so that the two biscuits could be viewed as two horses from related stables or from the same stable. In the view of Justice Walker, the public would presume that both biscuits were made by the same manufacturer when in fact they were not.

*Reckitt and Coleman Products Ltd v Borden Inc*<sup>78</sup>, is another English case which is often cited to show the second line of cases in the law of passing off. In that case, both the plaintiffs and the defendant sold lemon juice in lemon shaped containers. The only difference between the containers was that the defendant used distinguishing labels attached to the neck of its lemon shaped containers. This, however, in the view of the court, did not negate the misrepresentation of the defendant caused by the similarity of the containers themselves, because the public which purchased lemon juice did not read the labels and simply assumed that all lemon-shaped containers were those of the plaintiffs *Jiff* lemon juice. This case, however, represents classical passing off. The goods were competing and similar if not identical. The parties were in a common field of activity. There was, therefore, a misrepresentation in the true sense of the word.

English courts now also recognize that a misrepresentation by a defendant may cause the injury of dilution to the plaintiff’s goodwill. This occurs particularly where the defendant’s misrepresentation causes the plaintiff’s trademark to become *commonplace or generic* and, as a result, undermines the ability of the trademark to exclusively focus the attention of the purchasing public to its goods, with the result that the pulling power or goodwill of the plaintiff’s trademark is eroded. Here, the purchasing public is not confused about the source or origin of the goods. This aspect of damage in a passing off action is discussed below.

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<sup>78</sup> [1990] RPC 341. Hereafter “The *Jiff Lemon* Case”.

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### 8.2.5 *The Damage:*

The misrepresentation in a passing off action must cause, or must be likely to cause, damage or injury to the plaintiff's goodwill, because if there is no damage to goodwill, the action of passing off will not lie. Where there is misrepresentation as to source, the injury to goodwill suffered will usually be straightforward, as the plaintiff will lose sales to customers and potential customers who transfer their custom to the defendant under the erroneous belief that they are dealing with the business of the plaintiff.

For the purposes of the present discussion, however, the question which arises is whether the plaintiff will suffer any damage or loss due to a misrepresentation of the defendant where the business of the plaintiff is either related but not competing with the business of the defendant, or where there is no common field of activity between the plaintiff and the defendant. The English courts have answered this question by recognizing that (a) it is not only lost sales which may damage or injure the goodwill of a plaintiff's business, and (b) even where the parties are not in competition (and there is no common field of activity between them) the goodwill to the plaintiff's business may be damaged because of either (i) loss of the opportunity to licence, franchise or merchandise his goods to third parties in another field of activity; or (ii) loss of the exclusivity attached to, and hence selling power of, the trademark. This final form of loss recognized by the courts is where the misrepresentation dilutes the goodwill in the plaintiff's business in circumstances where the public is not confused about the source or origin of the defendant's goods<sup>79</sup>. A few cases which recognized this form of loss are briefly discussed below.

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<sup>79</sup> Lionel Bently and Brad Sherman, Note 8 above, at 754 - 755, arguing that The final form of damage recognized by the courts is where the misrepresentation dilutes the claimant's goodwill. This occurs where the defendant's misrepresentation causes the claimant's sign to become familiar or commonplace and, as a result, undermines the ability of the sign to summon up particular goods or values. That is, the defendant's misrepresentation dilutes the pulling power or goodwill of the claimant's sign. Importantly, this applies where the public is not confused about the source or origin of the goods or where it is unlikely that the reputation will be

In *Vine Products v Mackenzie*<sup>80</sup>, loss of the exclusivity attached to, and hence the selling power of, a trademark was identified as a recognizable form of loss in a passing off action. In that case, sherry producers of Spain applied for an injunction against the manufacturers of “British Sherry”, complaining that the attachment of the adjective “British” to the word “Sherry” led to a gradual debasement, dilution or erosion of the distinctive character of “sherry”. There was no source-origin confusion, as consumers distinguished between Sherry and British Sherry. The two products in question were, however, competing. Use of the trade name British Sherry was prohibited because it was likely to cause dilution. According to Justice Cross<sup>81</sup>

If people were allowed to call sparkling wine not produced in Champagne “Champagne” even though preceded by an adjective denoting the country of origin, the distinction between genuine Champagne and ‘champagne-type’ wines produced elsewhere, would become blurred; that the word ‘Champagne’ would come gradually to mean no more than ‘sparkling wine’ and that part of the plaintiff’s goodwill which consisted in the name would be diluted and gradually destroyed.

In *Lego System v Lego M. Lemelstrich*<sup>82</sup>, Justice Falconer found that the use of the trademark “Lego” by the defendant injured the plaintiffs interest in maintaining the exclusivity of their “Lego” trademark in respect of toys. There, the plaintiffs manufactured and distributed the well-known construction-kit toys in the United Kingdom and much of the world under the trademark “Lego”. The defendant Israeli company had manufactured irrigation equipment under the mark “Lego” since 1927. Its business had expanded to cover forty countries and it was about to launch sales in the United Kingdom when the plaintiffs instituted the passing off action. The parties were therefore not in competition. The plaintiffs commenced a passing off action to stop the defendants from marketing their irrigation equipment in the United Kingdom under the “Lego” trademark.

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damaged. The notion of damage through dilution was acknowledged in English law in *Taittinger v Allbev*.

<sup>80</sup> [1969] RPC 1.

<sup>81</sup> Note 80 above, at 23.

<sup>82</sup> [1983] FSR 155. See also *Mirage Studios v Counter-Feat Clothing Co*, [1991] FSR 145.

According to Justice Falconer, the reputation of the plaintiffs in their “Lego” trademark, to which their goodwill is attached, extended beyond their field of activity and the use of the “Lego” trademark by the defendants on their garden sprinklers would damage the interests of the plaintiffs in maintaining the exclusivity of their “Lego” trademark. Here, it is submitted that passing off was stretched to find dilution *in casu*.

In *Taittinger v Allbev*<sup>83</sup>, the plaintiff was a member of a group of producers from the Champagne district of France who made a naturally sparkling wine known internationally as “champagne”. Notably, the plaintiff’s champagne was produced by a process of double fermentation from grapes grown in the Champagne district. The plaintiff brought a passing off action against the producer of a non-alcoholic sparkling beverage called “Elderflower Champagne” which was produced in England. In the Court of Appeal, it was recognized that the actions of the defendant would result in the *blurring or erosion of the uniqueness associated with the name champagne, which would debase the plaintiff’s reputation*. In the words of Lord Justice Peter Gibson<sup>84</sup>, because of the activities of the defendant

there would take place a blurring or erosion of the uniqueness that now attends the word “champagne”, so that the exclusive reputation of the champagne houses would be debased.

Lord Justice Mann<sup>85</sup>, on the other hand, was of the view that the injury caused was

a gradual debasement, dilution or erosion of what is distinctive.... The consequences of debasement, dilution or erosion are not demonstrable in figures of lost sales, but that they will be incrementally damaging to goodwill is in my opinion inescapable.

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<sup>83</sup> [1993] FSR 641. Hereafter “the *Taittinger* Case” or the “*Elderflower Champagne* Case”.

<sup>84</sup> Note 83 above, at 669.

<sup>85</sup> Note 83 above, at 674.

The rationale why the courts recognize the damage of dilution in a passing off case was captured by Sir Thomas Bingham MR<sup>86</sup> in the *Taittinger* case when he stated that

Because a reference to champagne imports nuances of quality and celebration, a sense of something privileged and special. But this is the reputation which the Champagne houses have built up over the years, and in which they have a property right. It is not in my view unfair to deny the defendants the opportunity to exploit, share or (in the vernacular) cash in on that reputation, which they have done nothing to establish. It would be very unfair to allow them to do so if the consequence was, as I am satisfied it would be, to debase and cheapen that very reputation

The *Taittinger* case, above, however, now needs to be read in light of the decision in the *Harrods* case, above, where Lord Justice Millet confessed to an intellectual difficulty in comprehending how passing off could recognize dilution, since this type of damage does not depend on public confusion. Lord Justice Millet drew a distinction between damage to reputation, which in his view is *not* actionable under passing off since it does not involve public confusion, (and therefore protects only the interest of the trademark owner in his trademark), and damage to goodwill, which in his view is actionable because it involves consumer confusion<sup>87</sup>. On the other hand, the dissenting judgment of Lord Justice Sir Michael Kerr was more liberal in identifying both the injuries of confusion of sponsorship and dilution in the *Harrods* case above. Sir Michael Kerr's judgment positively tilted in favour of protecting the reputation of a trademark and *ipso facto* its advertising value from either trademark dilution or confusion of sponsorship. According to Sir Michael Kerr<sup>88</sup>

Loss of distinctiveness causes damage to a reputation for excellence, and loss of trade will ultimately follow. The authorities show two relevant propositions in this regard. First, *a debasement or dilution of the plaintiff's reputation, as the result of the action of the defendant, is a relevant head of damage*. Secondly, if the act which constitutes the passing off has the effect of raising in people's minds the mistaken belief of *a connection between the defendant and the plaintiff*, but which is in fact non-existent, then the court will have regard to the

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<sup>86</sup> Note 84 above, at 678.

<sup>87</sup> See Hazel Carty, "*Passing Off at the Crossroads*" [1996] 11 EIPR 629.

<sup>88</sup> Note 68 above, at 724 – 726.

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fact that the plaintiff has, to that extent, lost control of his reputation, and that he has therefore suffered damage to his goodwill by a potentially injurious association with the defendant against which the court will protect him by injunction. (emphasis added).

In his judgment in the *Harrods* case, above, Sir Michael Kerr further observed that

However, as this case stands, the extinction of the exclusive connection between the name “Harrodian” and the plaintiffs will have the consequence that their use of this name will no doubt have to be abandoned, at any rate for public purposes. The name “Harrodian” will become generally available, and its use could only be effectively restrained by the plaintiffs, if at all, to adopt an illustration given by the judge in his judgment, “if a trader opened a shop under the style “The Harrodian Shop” selling clothes or shoes or food, perhaps especially if the shop were situated in the Brompton Road or in Beauchamp Place or even in the Fulham Road ...”. Thus, if the continued use of the name by the defendants is permitted in the present case, then it seems highly likely that it would proliferate. There would then be nothing to prevent Sir Alford from also giving this name to his school in Putney and thereafter perhaps to other schools as well. *The free use of the name might then spawn Harrodian garages, newsagents and other businesses, and even a moneylender might emerge under this name* though the more remote designation of “R. Harrods” would no doubt still be prohibited.

I do not think that potential developments on these lines are too far-fetched to deserve consideration. The point is a double one. The use of the adjectival form of their own name will become lost to the plaintiffs; but the false impression of a connection between the plaintiffs and unconnected businesses using the “Harrodian” will proliferate. The plaintiffs’ reputation will become involved with their fortunes or misfortunes, and become a hostage to them. In my view the plaintiffs have done nothing to deserve this detriment, nor the defendant the benefit.

These observations of Sir Michael Kerr, it is submitted, seek to use the passing off action to prohibit both trademark dilution and confusion of sponsorship. Progressive as they are in adapting the action of passing off to prohibit the misappropriation of a trademark’s advertising value which causes trademark dilution or confusion of sponsorship, they are a misfit to the classical principles of passing off. In a classical passing off action, it is the distinguishing (or source) value of distinctive marks that is impaired. In a confusion of sponsorship claim, both the distinguishing value and the advertising value are impaired, leading to confusion in the market place. Where the misappropriation

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of the advertising value of a trademark occurs, as in the *Harrods* case, above, and the parties are *not* in competition, all the plaintiff should prove is that his trademark has advertising value (or reputation), and that the defendant misappropriated such value and used it on his (non) competing product, resulting in the injury of either confusion of sponsorship or trademark dilution.

In concluding this Part, it is important to emphasise that in light of the *Harrods* case, above, the United Kingdom law of passing off is not yet clear as to whether it recognizes dilution . First, Lord Justice Millet in the *Harrods* case, above, held the view that making use of another trader's goodwill in circumstances which may harm the reputation of the other trader, but which does not involve the likelihood of public confusion, is not actionable under the tort of passing off and that if passing off is extended to cover such type of cases, this would mark an unacceptable extension of the tort of passing off. This position, it is submitted with the greatest of respect, *is correct* according to the principles of classical passing off, but reflects a narrow view which totally fails to protect the advertising function of a trademark, and as a result leaves unprotected the interests of businessmen and women who devote vast amounts of time, money and effort in building up an advertising repute for their trademarks. Second, Sir Michael Kerr, on the other hand, in his dissenting judgment in the *Harrods* case, above, was of the view that making use of another trader's goodwill in circumstances where the defendant derives a benefit by riding on the reputation of the plaintiff is actionable under the tort of passing off. This was also the view of the Court of Appeal in the *Taittinger* case, above. Third, Sir Michael Kerr in the *Harrods* case, above, was of the view that making use of another trader's goodwill in circumstances where this dilutes the distinctiveness of the plaintiff's trademark is actionable under the tort of passing off. These views, it is submitted, while progressive in seeking to protect the advertising function of a trademark, from what in reality is trademark dilution, are a misfit in the current state of classical passing off. Fourth, both Lord Justice Millet and Sir Michael Kerr in the *Harrods* case, above, and the Court of Appeal in the *Taittinger* case, above,

were of the view that making use of another trader's goodwill in circumstances where this dilutes the reputation of the plaintiff's trademark as being representative of high quality goods, for example by using the trademark in respect of inferior goods, is actionable under the tort of passing off because the dilution results in the plaintiff losing control over his own reputation and, as a consequence, results in loss of sales. This is typical dilution by tarnishment. Having said this, the Chapter proceeds to look at the defences available to a defendant in a passing off action.

### 8.2.6 Defences

Although intent or malice are not requirements of a passing off action, the reason why a defendant adopted a particular trademark to the exclusion of others is a question which invariably must be answered,<sup>89</sup> because if the court comes to the conclusion that the defendant adopted a particular trademark to ride on plaintiff's reputation and thereby to divert custom, it will likely conclude that there was passing off<sup>90</sup>. Innocence, however, is not a defence. In other words, a defendant cannot plead lack of an intent to pass off, and such absence of intent does not preclude remedies in the form of an injunction and/or damages<sup>91</sup>.

A defendant who uses his own name, consistent with honest industrial practices, will have a valid defence to a passing off action, since the law considers such use a lesser evil to depriving him of his inherent birth right<sup>92</sup>. This defence however, will not be available where the defendant consciously and parasitically adopts the name of a trademark with advertising value in order to free-ride on the goodwill of plaintiff's business<sup>93</sup>. Further, the defence seems to be available only when the goods of the plaintiff and the defendant are non-competing, because in a

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<sup>89</sup> *Sadastream Ltd v Thorn Cascade Co. Ltd* [1982] RPC 459.

<sup>90</sup> *United Biscuits (UK) Ltd v Asda Stores Ltd* [1997] RPC 513.

<sup>91</sup> *Gillet UK Ltd v Edenwest Ltd* [1994] RPC 279.

<sup>92</sup> *Marengo v Daily Sketch and Sunday Graphic Ltd* [1948] RPC 65.

<sup>93</sup> *Joseph Rodgers and Sons v WN Rogers and Co* [1924] 41 RPC 277.

competitive relationship, the defence will not suffice if the defendant is in fact (mis)representing that his goods are those of the plaintiff<sup>94</sup>.

A defendant in a passing off case can also plead that his use of plaintiff's trademark was limited to merely describing some aspect of the nature, quality, composition, geographic origin or purpose of his business or goods<sup>95</sup>. It is submitted that if the law is to meaningfully protect the advertising value of trademarks from dilution, this defence should be admitted sparingly, for example in cases of necessity, and the courts should vigorously scrutinize the description pleaded by the defendant.

The use of a plaintiff's trademark in a comparative advertisement will not amount to passing off because, under the English common law, it is recognized that in comparative advertisements, there is no misrepresentation as such, since the defendant will in fact be representing his goods as his, and comparing them to the goods of the plaintiff to bring out their similarities and differences<sup>96</sup>. It should, however, be noted that the protection afforded to a defendant in the circumstances described above are now circumscribed by the EC Directive on Comparative Advertising<sup>97</sup>, which provides that a comparative advertisement should *not* (a) mislead, (b) create the risk of confusion in the market-place between the goods of the advertiser and the goods of a competitor, (c) discredit, denigrate or bring contempt on the trademarks, goods or services of competitor, or (d) take unfair advantage of the trademark of competing goods. These provisions of the EC Comparative Advertising Directive in fact seek to prohibit conduct which amounts to open misappropriation of the advertising value of

<sup>94</sup> *NAD Electronics Inc v NAD Computer Systems Ltd* [1997] FSR 380.

<sup>95</sup> *McCain International v Country Fayre Foods* [1981] RPC 69; *My Kinda Town Ltd v Soll and Grunts Investments* [1983] RPC 407; *Reckitt and Coleman Products Ltd v Borden Inc.* [1990] RPC 341; *Country Sound Plc v Ocean Sound Ltd* [1991] FSR 367.

<sup>96</sup> *Ciba Giegy Plc v Parke Davis and Co. Ltd* [1994] FSR 8. Contrast with *McDonald's Hamburger Ltd v Burger King (UK) Ltd* [1986] FSR 45.

<sup>97</sup> Com (94) 151 final-COD 343: OJ 1994 C 136/4. For a discussion of Comparative Advertising in the United Kingdom. See (1) Julia McCormick, "*The Future of Comparative Advertising*" [1998] EIPR 41 – 43. (2) Belinda Mills, "*Comparative Advertising: Should It Be Allowed?*" [1995] EIPR 417 – 428; (3) Daren Fitzgerald, "*Comparative Advertising in the United Kingdom*" [1997] 12 EIPR 709 – 714.

another trader's trademark. In practical terms, they prohibit a trader from extolling the virtues of his goods in advertisements which misleadingly draws either associative or disassociative comparisons between the goods of the trader and those of another trader which are well-known and held in high esteem by the consuming public, as an *entrée* to stimulating the demand for the first trader's goods in preference to the goods with which comparison is made. In essence, then, the provisions of the EC Directive on Comparative Advertising prohibit traders from using misleading comparative advertising as a tool to ride on the back of well-known and successful goods and to use the repute of those goods as a platform from which to generate sales for the traders goods. As pointed out in Chapter 3<sup>98</sup>, a dilution claim seeks to achieve, in broad terms, similar objectives.

### 8.2.7 Remedies

In broad terms, the remedies available for passing off are the same as those available for the infringement of a registered trademark. Such remedies include (a) damages<sup>99</sup>, or (b) an account for profit<sup>100</sup>, or (c) an injunction<sup>101</sup>, or (d) delivery up, or (e) a mandatory order requiring the defendant to change its name<sup>102</sup>.

### 8.2.8 Conclusion

<sup>98</sup> See generally Chapter 3.

<sup>99</sup> It should be noted that damages are available under the tort of passing off against the innocent infringer. In this respect, see *Gillet UK Ltd v Edenwest Ltd* [1994] RPC 279, at 291.

<sup>100</sup> *My Kinda Town v Soll and Grunts Investments* [1983] RPC 15, where Justice Slade refused to order the defendant to account to the plaintiff for all its profits because it was necessary to ascertain how much of the profits made by the defendant were properly attributable to the passing off conduct. In this respect, Justice Slade held that profits made by the defendant in selling meals to customers who were not confused by the use by the defendant of the trade name in issue were not attributable to the passing off conduct.

<sup>101</sup> Injunctions can be interim or final. For the principles which apply in respect of interim injunctions, see the principles developed by Lord Diplock in *American Cyanamid Co. v Ethicon Ltd* [1975] AC 396, as further developed (in the context of intellectual property law) in *Series 5 Software Ltd v Philip Clarke* [1996] FSR 273. See also *Antec International Ltd v South Western Chicks (Warren) Ltd* [1997] FSR 278 and *Garden Cottage Foods Ltd v Milk Marketing Board* [1984] AC 130.

<sup>102</sup> *Glaxo Plc v Glaxo Wellcome Ltd* [1996] FSR 388; *Law Society of England and Wales v Society of Lawyers* [1996] FSR 739.

In concluding this part of the research, it may be appropriate to point out that in its extended form, the tort of passing off *seems* to recognize dilution as a head of damage where the parties are not in competition with each other and where the loss in sales will not be due to a misrepresentation by the defendant, but will be due to the misappropriation of the advertising value of the plaintiff's trademark which results in loss to its distinctive character or in its tarnishment. In the *Annabel's* case<sup>103</sup>, above, for example, the court granted an injunction to protect the goodwill and reputation of the plaintiffs nightclub business and to prevent the unfavourable connotations which the public attributes to nightlife escort agencies to be transferred to the plaintiffs nightclub, on a rationale which is on all fours with the rationale for a claim for dilution by tarnishment. In the *Lego* case<sup>104</sup>, above, on the other hand, it was accepted that a customer who was dissatisfied with the defendant's Lego plastic irrigation equipment might be dissuaded from buying one of the plaintiffs well-known Lego plastic toy construction kits, and in this way the ills of the defendant's goods would be visited on the plaintiff's goods. The *Lego* case therefore can also be viewed as seeking to prevent dilution by tarnishment. In the *Elderflower Champagne case*<sup>105</sup>, above, the Court of Appeal accepted the blurring or erosion of the uniqueness that attached to the mark "champagne" as a relevant head of damage which was said to debase the exclusive reputation of the Champagne houses. Here, passing off was used to proscribe what in fact was dilution by blurring. Similar views were expressed by Lord Justice Sir Michael Kerr in his dissenting judgment in the *Harrods* case<sup>106</sup>, above. All these cases show, it is submitted, that the tort of passing off is increasingly being fashioned to recognize dilution. In particular, all the judges in the *Harrods* case<sup>107</sup>, above, seemed to be of the view that making use of another's goodwill in circumstances where this dilutes the reputation of the plaintiff's trademark as being representative of high quality goods, by using the trademark for low quality, unwholesome or immoral goods,

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<sup>103</sup> Note 74 above.

<sup>104</sup> Note 82 above.

<sup>105</sup> Note 83 above.

<sup>106</sup> Note 68 above.

<sup>107</sup> Note 68 above.

for example, is actionable under the tort of passing off because this form of dilution results in the plaintiff losing control over his own reputation and, *ipso facto*, results in the loss of sales of his goods.

### 8.3 PASSING OFF AND CYBERSQUATTING

#### 8.3.1 Introduction

In the United Kingdom, there are a variety of potential actions available to the owner of a trademark who is offered a domain name similar to his trademark by a cybersquatter, to seek the intervention of the courts, based on the pre-existing rights in the goodwill attaching to his trademark, for the cancellation of such domain name and for other relief. Such actions include actions for infringement of a registered trademark (where the trademark is registered), civil conspiracy, breach of trade practices, injurious falsehood, unjust enrichment, defamation and passing off<sup>108</sup>. This research, however, focuses only on the applicability of passing off as a remedy to cybersquatting.

#### 8.3.2 Passing Off and Cybersquatting

The normal principles of passing off, as enunciated by Lord Diplock in the *Advocaat* case<sup>109</sup>, and refined by Lord Oliver in *Reckitt and Colman Products Ltd v Borden Inc*<sup>110</sup> apply to cybersquatting cases. It will readily be seen that cybersquatting cases are an ill-fit to the principles of passing off since the cybersquatter usually *does not use* the domain name after registering it, but merely warehouses or shelves it. In this respect, *there will be no misrepresentation* made to the public by the cybersquatter in the course of trade.

<sup>108</sup> Rembert Meyer-Rochow, “*The Application of Passing Off as a Remedy Against Domain Name Piracy*” [1998] EIPR 405 – 409, at 405.

<sup>109</sup> Note 19 above, and accompanying text.

<sup>110</sup> [1990] 1 All ER 873; [1990] 1 WLR 491. See Note 21 above, and accompanying text.

Further, since the domain names will not actually be used, there will be *no likelihood of consumer confusion*<sup>111</sup>. It is therefore necessary, it is submitted, to analyse how the English courts have been able to apply the action of passing off to cybersquatting cases and whether, in doing so, the English courts have managed to strike an appropriate balance between the competing interests of the trademark owner to have his mark protected from cybersquatting, and the interests of the public to free trade.

### 8.3.3 Passing Off and Cybersquatting In Practice

The case of *Marks and Spencer Plc v One In A Million*<sup>112</sup> contains important considerations of the applicability of passing off as a remedy against cybersquatting. The facts of this case are well-known and are briefly recounted here. There, the defendants were dealers in domain names, who registered domain names for the purpose of selling them to domain users. Specifically, the defendants specialized in registering domain names comprising the names of trademarks of well-known commercial enterprises without the consent of those enterprises. Except for one domain name, none of the other domain names registered by the defendants were in actual use<sup>113</sup>. In other words, the domain names were warehoused or shelved by the defendants for the purpose of selling them to the plaintiffs. The plaintiffs made an application for passing off and trademark infringement in the Chancery Division of the High Court.

Mr. Jonathan Sumption QC, sitting as a Deputy Judge of the Chancery Division, first dealt with the passing off application, and identified four reasons why cybersquatters register domain names, as follows:

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<sup>111</sup> Rembert Meyer-Rechow, Note 108 above, at 405 – 406.

<sup>112</sup> *Marks and Spencer Plc v One in A Million* downloaded from [http://www.nominet.org.uk/Reference/Document/Case Law/One In A Million Judgment.html](http://www.nominet.org.uk/Reference/Document/Case%20Law/One%20In%20A%20Million%20Judgment.html), last visited on 21<sup>st</sup> March, 2005. The citations used hereafter refer to the internet judgment.

<sup>113</sup> The defendants had registered, and thereafter offered to sell, the following domain names (a) to Marks and Spencer PLC – marksandspencer.com; marksandspencer.co.uk; (b) to J. Sainsbury Plc – j-sainsbury.com ; Sainsbury.com; sainsburys.com; (c) to Virgin Enterprises Ltd – virgin.org; (d) to British Telecommunications Plc – bt.org; (e) to Telecom Securic or Cellular Radio Ltd – cellnet.net.

For a dealer in internet domain names there are in principle only four uses to which the names can be put. The first and most obvious is that it may be sold to the enterprise whose name or trademark has been used, which may be prepared to pay a high price to avoid the inconvenience of there being a domain name comprising its own name or trade mark which is not under its control. Secondly, it may be sold to a third party unconnected with the name, so that he may try to sell it to the company whose name is being used, or else use it for purposes of deception. Thirdly it may be sold to someone with a distinct interest of his own in the name, for example a solicitor by the name of John Sainsbury or the government of the British Virgin Islands, with a view to its use by him. Fourth, it may be retained by the dealer unused and unsold, in which case it serves only to block the use of that name as a registered domain name by others, including those whose name or trade mark it comprises<sup>114</sup>.

The Deputy Judge then defined passing off as consisting of

[a] misrepresentation to the public (whether or not intentional) liable to lead them to believe that the goods and services offered by the representor are those of the Plaintiff. However, the tort is also committed by those who put or authorize someone to put an ‘instrument of deception’ into the hands of others. ‘No man is permitted to use any mark, sign or symbol, device or other name whereby, without making a direct false representation himself to a purchaser who purchases from him, he enables such a purchaser to tell a lie or to make a false representation to somebody else who is the ultimate customer; *Singer v Loog* (1880) 18 Ch.D. 395, 412, cited with approval by Lord Macnaughten in ‘*Camel Hair Belting*’ [1896] AC 199, 215 – 6<sup>115</sup>.

The Deputy Judge held that there was passing off committed by the defendants because the defendants intention was to sell the domain names to the plaintiffs or to third parties, or to block their registration by the plaintiffs. These intended activities of the defendants, according to the Deputy Judge, were unlawful. The Deputy Judge accordingly stated that:

<sup>114</sup> Note 112 above, at p.4.

<sup>115</sup> Note 112 above, at p.5. Rembert Meyer-Rochow, Note 108 above, at 407, criticize these views of the Deputy Judge as not offering adequate protection to the owner of the mark. He commented as follows: On a first impression, the reasoning of the deputy judge in this regard does not provide much hope for a plaintiff taking a passing-off action against domain name pirates who are not in fact committing any misrepresentation. In applying His Honour’s statement of the law of passing off, one would have expected him to conclude that there was no passing off committed by the defendant, as there had been no misrepresentation made by the defendant, nor had the defendant placed or authorized an “instrument of deception” into the hands of any other party.

The point is that the names are only saleable to Marks & Spencer and blocking their use by Marks & Spencer is only a useful negotiating tactic on the footing that they are names which it is dangerous for Marks & Spencer to allow to remain out of their control. The danger arises from the risk of deception which their existence necessarily presents. The allegation that this was the Defendants object in this case is fairly made, supported by overwhelming evidence, and is left wholly unanswered by the Defendant's affidavits.

Any person who deliberately registers a domain name of an unconnected commercial organization must expect to find himself on the receiving end of an injunction to restrain the threat of passing off, and the injunction will be in terms which will make the name commercially useless to the dealer<sup>116</sup>.

In the Court of Appeal<sup>117</sup>, Lord Justice Aldous delivered the judgment (with Lord Justices Stuart-Smith and Swinton Thomas concurring). According to Lord Justice Aldous

it is accepted that the name Marks & Spencer denotes Marks & Spencer Plc and nobody else. Thus anybody seeing or hearing the name realizes that what is being referred to is the business of Marks & Spencer Plc. It follows that registration by the appellants of a domain name including the name Marks & Spencer makes a false representation that they are *associated or connected* with Marks & Spencer Plc. This can be demonstrated by considering the reaction of a person who taps into his computer the domain name marksandspencer.co.uk and presses a button to execute a "whois" search. He will be told that the registrant is One In A Million Limited. A substantial number of persons will conclude that One In A Million Limited must be *connected or associated* with Marks & Spencer Plc. *That amounts to a false representation which constitutes passing-off*.<sup>118</sup>

Lord Justice Aldous was also of the view that

The names registered by the appellants were instruments of fraud and that injunctive relief was appropriate upon the basis as well. *The trade names were well-known "household names" denoting in ordinary usage the respective respondent. The appellants registered them without any distinguishing word because of the goodwill attaching to those names. It was the value of that goodwill, not the fact that they could perhaps be used in some way by a third party without deception, which caused them to register the names. The motive of*

<sup>116</sup> Note 112 above, at pp. 6 – 7.

<sup>117</sup> The judgment of the Court of Appeal in *One in A Million Ltd and Others v Marks and Spencer PLC and Others* was delivered on Thursday 23<sup>rd</sup> July, 1998 and is available online at [http://www.nominet.org.uk/Reference Documents/CaseLaw/One In A Million Appeal Judgment](http://www.nominet.org.uk/Reference/Documents/CaseLaw/One%20In%20A%20Million%20Appeal%20Judgment) last visited on 21<sup>st</sup> March, 2005. The citations used hereafter refer to the internet judgment.

<sup>118</sup> Note 117 above, at p. 20.

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*the appellants was to use that goodwill and threaten to sell it to another who might use it for passing-off to obtain money from the respondents. The value of the names lay in the threat that they would be used in a fraudulent way. The registrations were made with the purpose of appropriating the respondents' property, their goodwill, and with an intention of threatening dishonest use by them or another. The registrations were instruments to fraud and injunctive relief was appropriate just as much as it was in those cases where persons registered company names for a similar purpose<sup>119</sup>.*

It is submitted that the decisions of both the Chancery Division and the Court of Appeal in the *Marks and Spencer* case, above, did not go far enough in protecting the interest of the owner of a well-known trademark against cybersquatters. Rather, the judgments decisively gravitated towards prohibiting the likelihood of consumer confusion on the internet. This is because both judgments were predicated on the basis that the motive of *One In A Million* in registering the domain names was to use the goodwill of *Marks and Spencer* in their trademark to offer the domain names to the rightful owners of the Marks and Spencer trademarks, or alternatively to sell them off to third parties, thereby creating an instrument of fraud which would create a misrepresentation through which the public would either be confused or likely confused. This case could, however, have been disposed of, in a straightforward manner, if the courts had sought to protect the advertising value of the well-known Marks and Spencer trademarks from misappropriation by the defendants through the registration of the domain names. The judgment of Lord Justice Aldous in the Court of Appeal<sup>120</sup>, in particular, recognized that the mere registration of the well-known trademarks as domain names, without more, optically created a representation whereby members of the public would conclude that the owner of the domain name was associated or connected to the business of Marks and Spencer. As such, all that Marks and Spencer should have been required to prove was that it was the owner of the well-known trademarks which were misappropriated by the defendants and registered as domain names, and that as a consequence of such registration as domain names, Marks and Spencer was likely to suffer injury in the

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<sup>119</sup> Note 117 above, at p. 21.

<sup>120</sup> See Note 117 above, and accompanying text.

form of confusion of sponsorship. Alternatively, since Lord Justice Aldous<sup>121</sup> recognized that the trademarks of Marks and Spencer were household names and that the objective of **One In A Million** in registering the domain names was to appropriate the property of Marks and Spencer in the goodwill to such trademarks, Lord Justice Aldous could have prohibited such misappropriation on the basis of the injury of trademark dilution, particularly dilution by tarnishment, especially where (as found by both courts) the purpose of the misappropriation was to place the trademarks embodied in the domain names in the hands of third parties, who could (theoretically) use the domain names for immoral or unwholesome purposes, like pornographic or sucks sites, for example. It is on this basis that it may be concluded that the **One In A Million** case could have been decided, in a straightforward manner, on a rationale of either confusion of sponsorship or trademark dilution.

#### 8.3.4 Conclusions

In conclusion, it is submitted that the action of passing off may be unable to adequately protect the interests of the owner of a well-known trademark against a cybersquatter who registers a domain name similar or identical to the well known trademark and subsequently does not offer the domain name for sale to third parties. In other words, passing off may be unable to prohibit domain name warehousing, where there is no offer to sell the domain name to third parties by the cybersquatter. In such cases, there will be no misrepresentation leading to a likelihood of consumer confusion<sup>122</sup>. In order to protect the interest of the owner of a well-known trademark, passing off should, it is submitted, be fashioned to prevent cybersquatters from unjustly reaping where they have not sown by unfairly exploiting another's goodwill or reputation, even where no direct misrepresentation is committed by the defendant<sup>123</sup>. Having analysed dilution in

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<sup>121</sup> See Note 117 above, and accompanying text.

<sup>122</sup> Rembert Meyer-Rochow, Note 108 above, at 408.

<sup>123</sup> Rembert Meyer-Rochow, Note 108 above, at 409.

the context of passing off, the research proceeds to analyse dilution in the context of United Kingdom statutory provisions next.

## 8.4 THE 1994 UK TRADEMARKS ACT

### 8.4.1 Section 5

In order for a trademark to be registered under the 1994 UK Trademarks Act, the applicant of the trademark has to satisfy the Registrar that there are no “relative grounds” under which such application for registration can be refused. The expression “relative grounds for the refusal of registration” refers to grounds on which the registration of a trademark may be refused because of conflicts with another trader’s existing (prior) rights in the same or a similar trademark<sup>124</sup>. Within the framework of the 1994 UK Trademarks Act, relative grounds are provided in (a) section 5<sup>125</sup>, which contains the relative grounds for refusal of

<sup>124</sup> Ruth Annand & Helen Norman, *Blackstone’s Guide to the Trade Marks Act 1994* (1998 Reprint), at 92.

<sup>125</sup> Section 5 of the 1994 UK Trademarks Act provides that

**5. Relative grounds for refusal of registration**

- (1) A trade mark shall not be registered if it is identical with an earlier trade mark and the goods or services for which the trade mark is applied for are identical with the goods or services for which the earlier trade mark is protected.
- (2) A trade mark shall not be registered if because –
  - (a) it is identical with an earlier trade mark and is to be registered for goods or services similar to those for which the earlier trade mark is protected, or
  - (b) it is similar to an earlier trade mark and is to be registered for goods or services identical with or similar to those for which the earlier trade mark is protected,
 there exists a likelihood of confusion on the part of the public, *which includes the likelihood of association* with the earlier trade mark.
- (3) A trade mark which –
  - (a) is identical with or similar to an earlier trade mark,
  - (b) **[ repealed by Trademarks (Proof of Use, Etc.) Regulations [2004]**,
 shall not be registered if, or to the extent that, the earlier trade mark has a reputation in the United Kingdom (or, in the case of a Community trade mark, in the European Community) and the use of the later mark without due cause would take unfair advantage of, or be detrimental to, the distinctive character or the repute of the earlier trade mark.
- (4) A trade mark shall not be registered if, or to the extent that, its use in the United Kingdom is liable to be prevented –

registration, (b) section 6<sup>126</sup>, which defines the meaning of “earlier trade mark” for the purposes of the relative grounds for refusal of registration, and (c) section 7<sup>127</sup>, which provides an exception to the relative grounds for refusal of

- (a) by virtue of any rule of law (in particular, the law of passing off) protecting an unregistered trade mark or other sign used in the course of trade, or
- (b) by virtue of an earlier right other than those referred to in subsection (1) to (3) or paragraph (a) above, in particular by virtue of the law of copyright, design right or registered designs.

A person thus entitled to prevent the use of a trade mark is referred to in this Act as the proprietor of an ‘earlier right’ in relation to the trade mark.

- (5) Nothing in this section prevents the registration of a trade mark where the proprietor of the earlier trade mark or other earlier right consents to the registration.

<sup>126</sup> Section 6 of the 1994 UK Trademarks Act provides that

**6. Meaning of ‘earlier trade mark’**

- (1) In this Act an ‘earlier trade mark’ means –
  - (a) a registered trade mark, international trade mark (UK) or Community trade mark which has a date of application for registration earlier than that of the trade mark in question, taking account (where appropriate) of the priorities claimed in respect of the trade marks,
  - (b) a Community trade mark which has a valid claim to seniority from an earlier registered trade mark or international trade mark (UK), or
  - (c) a trade mark which, at the date of application for registration of the trademark in question or (where appropriate) of the priority claimed in respect of the application, was entitled to protection under the Paris Convention as a well known trade mark.
- (2) References in this Act to an earlier trade mark include a trade mark in respect of which an application for registration has been made and which, if registered, would be an earlier trade mark by virtue of subsection 1 (a) or (b), subject to its being so registered.
- (3) A trade mark within subsection (1) (a) or (b) whose registration expires shall continue to be taken into account in determining the registrability of a later mark for a period of one year after the expiry unless the Registrar is satisfied that there was no *bona fide* use of the mark during the two years immediately preceding the expiry.

<sup>127</sup> Section 7 of the 1994 UK Trademarks Act provides that

**7. Raising of relative grounds in case of honest concurrent use**

- (1) This section applies where on an application for the registration of a trade mark it appears to the Registrar –
  - (a) that there is an earlier trade mark in relation to which the conditions set out in section 5 (1), (2) or (3) obtain, or
  - (b) that there is an earlier right in relation to which the condition set out in section 5 (4) is satisfied,
 but the applicant shows to the satisfaction of the Registrar that there has been honest concurrent use of the trade mark for which registration is sought.
- (2) In that case the Registrar shall not refuse the application by reason of the earlier trade mark or other earlier right unless objection on that ground is raised in opposition proceedings by the proprietor of that earlier trade mark or other earlier right.
- (3) For the purposes of this section ‘honest concurrent use’ means such use in the United Kingdom, by the applicant or with his consent, as would formerly have

registration in cases of honest concurrent use. Sections 5 and 6 are based on Article 4 of the EC Trademark Directive<sup>128</sup> and Article 8 of the Community Regulation<sup>129</sup>. In particular, section 5 (3) implements the mandatory provisions of Article 4 (3) of the EC Trademark Directive and Article 8 (5) of the Council Regulation, and the optional provisions of Article 4 (4) (a) of the EC Trademark Directive. In this respect it should be noted that the United Kingdom Government, in early April 2004, passed a bundle of amending trademark legislation that make significant changes to the 1994 UK Trademarks Act concerning the protection afforded to marks with a reputation. These amendments stemmed from the ECJ decisions in *Davidoff & Cie SA Zino Davidoff SA v Gofkid Ltd*<sup>130</sup> and *Adidas – Salomon AG v Fitnessworld Trading Limited*<sup>131</sup>, which in essence provided that while EU member states have an option whether or not to grant additional protection to trademarks with a reputation as provided in Articles 4 (4) (a) and 5 (2) of the EC Trademark Directive, where they provided such protection, they are bound to grant it in

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amounted to honest concurrent use for the purposes of section 12 (2) of the Trade marks Act 1938.

- (4) Nothing in this section affects –
- (a) the refusal of registration on the grounds mentioned in section 3 (absolute grounds for refusal), or
  - (b) the making of an application for a declaration of invalidity under section 47 (2) (application on relative grounds where no consent to registration).
- (5) This section does not apply when there is an order in force under section 8 below.

<sup>128</sup> Ruth Annand and Helen Norman, Note 124 above, at 92. See also Lionel Bentley and Brad Sherman, Note 8 above, at 812.

<sup>129</sup> Lionel Bentley and Brad Sherman, Note 8 above, at 850.

<sup>130</sup> Case C-292/00. For an extensive discussion of this case, see Chapter 5, Part 5.3.3.

<sup>131</sup> Case 408/01. For an extensive discussion of this case, see Chapter 5, Part 5.3.3. It should be noted that Cornish and Llewellyn, Note 13 above, heavily criticize the ECJ decisions in the *Davidoff* and *Fitnessworld* cases, above, as amounting to judicial lawmaking. In their view, expressed at Para. 17 – 57, p. 682

Logical though [the decisions of the ECJ] may be, [they] are a breathtaking example of judicial lawmaking: despite the words of the provision being clearly (and admittedly) to the contrary, the court requires an interpretation that it believes was intended.

And later on in the same Paragraph, the authors state that

As it is it remains to be seen how the different Members States apply the *Davidoff v Gofkid* ruling to both applications and infringement questions; in the United Kingdom on the facts which led to the reference by the German court..., the court would have had little trouble finding a likelihood of confusion under s. 10 (2) and it would have been unnecessary to consider s. 10 (3) at all.

With the greatest of respect, the above comments of Cornish and Llewellyn have been proven false by the enactment of the Trademarks (Proof of Use, Etc) Regulations, 2004.

respect of identical and similar, as well as dissimilar, goods. From this, it is clear that section 5 (3), which referred only to dissimilar goods, was in need of amendment. Such amendment was made in the Trademarks (Proof of Use, Etc) Regulations<sup>132</sup>; which now extends protection for marks with a reputation to similar as well as dissimilar goods.

The Trademarks (Proof of Use, Etc) Regulations also introduced a new section 6A, providing for the raising of relative grounds in opposition proceedings in case of non-use. In terms of section 6A, where an earlier trademark satisfies the conditions of section 5 (3), and was registered at least five years before the publication of an application for a later similar or identical trademark, the Registrar shall refuse to register the later trademark if the earlier trademark had been put to genuine use within the said five year period in the United Kingdom, or, for a Community trademark in the European Community, or has not been so used and there are proper reasons for such non-use.

It is submitted that section 5 (3) of the UK Trademarks Act 1994 is an anti-dilution provision aimed at protecting the advertising function of an earlier trademark with a reputation in the United Kingdom. It prohibits the registration of an identical or similar trademark in respect of goods which *either* are not similar to, or are similar to, those in respect of which the earlier trademark is registered. The salient elements of section 5 (3) are that (a) the applicant's trademark must be similar or identical with a registered earlier trademark, and (b) the earlier trademark has a reputation in the United Kingdom (or in the case of a Community Trademark, in the EU), and (c) the use of the applicant's trademark without due cause would either take unfair advantage of, or be detrimental to, either the distinctive character, or the repute of the earlier trademark<sup>133</sup>. It should

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<sup>132</sup> Note 1 above. See the amendment made to section 5 (3), highlighted in Note 125 above.

<sup>133</sup> Cornish and Ilewelyn, Note 13 above, Para. 17 – 52, at 679, comment on the scope of section 5 (3) as follows

**Type 3:** In addition, where the marks are identical or similar, but the goods or services are not, an “anti-dilution” provision operates. A relative objection arises where an earlier similar mark for non-similar goods or services has a reputation in the United Kingdom – or, where it is a

be noted that section 5 (3) goes further than the mandatory provisions of Article 4 (3) of the EC Trademark Directive, because the Directive refers to “registered” earlier trademarks for goods not similar to those the subject of the application, whereas section 5 (3) does not refer to goods for which the earlier trademark is “registered” and, by virtue of this, seems on its true reading to include unregistered well-known marks under both the Paris Convention and the TRIPS Agreement. In this respect, it is submitted that section 5 (3) of the UK Trademarks Act decisively favours protection of the interests of the owner of a trademark with a reputation, and pays due regard to the importance of the advertising function of a trademark in present day commerce. Having said this, it may now be appropriate to refer to a few key cases where the Registrar applied section 5 (3) of the UK Trademarks Act 1994.

In *Oasis Stores Limited v Ever Ready Plc*<sup>134</sup> the applicant, Oasis Stores, had applied to the Registrar for the registration of the trademark “Eveready” in class 10 for contraceptives and condoms. The opponent, Ever Ready Plc, was the registered owner of the trademarks “Ever Ready” for, *inter alia*, batteries, torches and accessories therefor. The opponent opposed the application because the trademark applied for was identical or similar to its registered earlier trademarks and its registration would have contravened section 5 (3) of the UK Trademarks Act 1994 in that the opponent had a reputation in its trademarks, and the trademark applied for would, without due cause, take unfair advantage of, or be detrimental to, the distinctive character or repute of the earlier trademarks of the opponent.

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Community mark, in the EU – and the use of the later mark without due cause would take unfair advantage of, or be detrimental to, the distinctive character or repute of the earlier trade mark. It should be observed that this type of objection arises not only where there is danger of confusion, including association ..., but also in circumstances apparently more embracing: the ground covers any use of another mark which can be characterized as affecting distinctive character or repute, not only so as to cause detriment to, but equally to take unfair advantage of, that character or repute.

<sup>134</sup> [1998] RPC 631, decision of 6<sup>th</sup> July, 1998. The judgment is available online at <http://www.patent.gov.uk/tm/legal/index.htm>. All references to the judgment in the ensuing discussion is to the online judgment. Hereafter “*the Eveready Case*”.

Mr. Allan James, sitting as the Hearing Officer, dismissed the opposition proceedings because, in his view, the opponent had not established any conceptual connection between its batteries and the condoms of the applicant, and, in the absence of such conceptual connection, it could not be assumed that even if a small amount of *confusion* arose, that would be damaging to the opponent. The importance of this decision, it is submitted, is that it provided that the conditions of section 5 (3) could be met by an opponent without proving any likelihood of confusion<sup>135</sup>. The judgment itself, however, is hard to follow. It is submitted that the Hearing Officer did not fully appreciate that section 5 (3) covers four separate species of wrongful acts; namely (a) taking unfair advantage of the distinctive character of the earlier trademark, (b) taking unfair advantage of the repute of the earlier trademark, (c ) inflicting detriment on the distinctive character of the earlier trademark, and (d) inflicting detriment on the repute of the earlier trademark. A correct interpretation of section 5 (3), it is submitted, would have enabled the Hearing Officer to appreciate that the opponent was entitled to succeed if it proved *one* of the *four* species of wrongful acts enumerated above. Rather, the Hearing Officer treated “unfair advantage” as a separate specie on its own, divorced from the distinctive character or the repute of the earlier trademark. Further, although the Hearing Officer was prepared to accept that

the applicants’ mark may remind some people of the opponent’s mark. Others may see the applicants mark in the manner suggested by Mr. Urwins – as a clever pun conveying the idea that the purchaser of the applicants’ condoms will be

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<sup>135</sup> *Eveready* Case, Note 134 above, Paras 40 – 45, at 13 – 14, where the Hearing Officer held that The words “without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or repute of the (earlier) trade mark” in Article 4 (4) (a), like the words “there exists the likelihood of confusion on the part of the public, which includes the likelihood of association with the earlier trademark” in Article 4 (1) (b), appear to have been devised by the framers of the Directive. If the framers of the Directive had intended to introduce the requirement for confusion into Article 4 (4) (a), *it seems strange that they chose not to mention that requirement in the wording of the Article.*

and at 14, Para. 25, where the Hearing Officer concluded that:

I conclude that either the words “use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or repute of the (earlier) trade mark” have a different meaning in the different Articles of the Directive, *or it is possible for the specified conditions to be met without any likelihood of confusion.* I find the first proposition improbable and I reject it. I adopt the second alternative.

‘ever ready’ (for sex). No doubt some people, myself included, will see the pun, and also *be reminded* of the opponents’ mark<sup>136</sup>,

the Hearing Officer failed to appreciate that what he was describing in the passage above was dilution by tarnishment – what is termed in section 5 (3) as use of a later trademark without due cause which would be detrimental to the repute of the earlier trademark, or which would take unfair advantage of the repute of the earlier trademark. As stated in Chapter 7, what was in issue in this case was on all fours with the facts in the *Mars* case<sup>137</sup>, in which the advertising value of the plaintiff’s famous slogan in German, “Mars gives energy for work, sport and play” for candy bars was misappropriated by the defendant and used for the slogan “Mars gives energy for sex, sport and play” for condom and contraceptive wrappers. In other words, if a trademark like “Eveready”, whose repute was established by the opponent in connection with batteries, and which has great advertising value for these goods, is sought to be registered by the applicant for contraceptives like condoms, then this circumstance alone should suffice to enable the Hearing Officer to make a finding of impairment to the repute of the opponent’s trademark on the basis of dilution by tarnishment. This is because, by their very purpose, condoms evoke certain sexual connotations unacceptable to some segments of society, and the prevention of sexually transmitted diseases and AIDS prevention, which a significant part of the targeted public would certainly disassociate from when buying batteries, and which reputable battery makers like the manufacturers of the Eveready batteries would rightfully wish not to be identified with, because condoms do not appear to promote both the image or repute of their batteries.

The Hearing Officer, rather unfortunately, further did not pay due regard to the wrongful species of taking unfair advantage of the earlier trademark’s repute in the *Eveready* case<sup>138</sup>. As noted in Chapter 5, taking unfair advantage of

<sup>136</sup> *Eveready* Case, Note 134 above, Para. 45, at 14 - 15.

<sup>137</sup> *Mars* [1995] Vol. 26 International Review of Industrial Property and Copyright Law, 282.

<sup>138</sup> The Hearing Officer dealt with the concept of ‘detriment to repute’, and even then, confused the concepts of ‘repute -’ which means the image of the earlier trademark, with ‘reputation’ - which means the

the repute of the earlier trademark occurs where one trader seeks to associate the quality of his goods with that of prestigious goods for the purpose of exploiting the good reputation of the high quality goods in order to enhance his own goods<sup>139</sup>. This conceptualization of taking unfair advantage of a trademark's repute was adopted in the United Kingdom in *Premier Brands UK Limited v Typhoon Europe Limited*<sup>140</sup> and endorsed by Advocate General Jacobs in *Adidas-Salomon AG v Fitnessworld Trading Limited*<sup>141</sup>. It is therefore submitted that it seems that such a conceptualization is a clear statement of activities which constitute the taking of unfair advantage to a trademark's repute.

The Hearing Officer, correctly it is submitted, held in the *Eveready* case, above, that use of the same or a similar mark for dissimilar goods or services is liable to dilute the distinctiveness of the earlier trademark<sup>142</sup>. Further, he found that the opponent's earlier trademarks had acquired "a substantial reputation in respect of batteries"<sup>143</sup>. He then fell into error in not correctly conceptualizing the *nature* of the detriment which section 5 (3) seeks to prevent, which was described in the German pre-harmonization case of *Quick*<sup>144</sup> as follows:

The owner of ..... a distinctive mark has a legitimate interest in continuing to maintain the position of exclusivity he acquired through large expenditures of time and money and that everything which could impair the originality and distinctive character of his distinctive mark, as well as the advertising effectiveness derived from its uniqueness, is to be avoided..... Its basic purpose is not to prevent any form of confusion but to protect an acquired asset against impairment.

At the risk of sounding repetitious, it is submitted, again, that this statement in the *Quick* case was later incorporated into English case law in the

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degree the mark is known by the relevant public. See in this respect Chapter 5, Notes 148 to 151 and accompanying text.

<sup>139</sup> See Chapter 5, Note 155 and accompanying text, citing the German pre-harmonization case of *Dimple* [1985] 17 GRUR 529.

<sup>140</sup> [2000] All ER (D) 52. This case is discussed below in the accompanying text to Notes 245 to 261 in the context of section 10 (3) of the UK Trademarks Act.

<sup>141</sup> See Chapter 5, Note 106, and accompanying text.

<sup>142</sup> *Eveready* Case, Note 134 above, Para. 525 – 30, at 15.

<sup>143</sup> *Eveready* Case, Note 134 above, Para. 5 at 16.

<sup>144</sup> [1959] GRUR 182 (Bundesgerichtshof).

*Premier Brands*<sup>145</sup> case, and it captures, in a concise manner, the injury proscribed: it is not necessary to contrast the injury (as the Hearing Officer impliedly seemed to be doing) with infringements that require proof of confusion, because what is being protected is the advertising value of a trademark with a reputation from misappropriations that erode its uniqueness, selling power and distinctive character. In short, it is the investment function that is protected here.

In respect of detriment to the earlier trademark's repute, it is submitted that the Hearing Officer in the *Eveready* case correctly conceptualized the activities proscribed, but wrongly applied the law to the facts. In the view of the Hearing Officer<sup>146</sup>

where an earlier trademark enjoys a reputation, and another trader proposes to use the same or similar mark on dissimilar goods or services with the result that the reputation of the earlier mark is *likely* to be damaged or tarnished in some significant way, the registration of the later trademark is liable to be prohibited under section 5 (3) of the Act. By damaged or tarnished I mean affected in such a way so that the value added to the goods sold under the earlier trade mark because of its repute is, or is likely to be, reduced on a scale that is more than *de minimis*.

Although the Hearing Officer dismissed this ground, it should be noted that the opponents had adduced evidence proving that the detriment caused to the repute of their trademark was not *de minimis*: that people were embarrassed about condoms. Further, the opponents had submitted that a trademark for condoms similar to their trademark with a reputation for batteries *would make their trademark the butt of misplaced humor and ridicule*. The opponents had demonstrated that they grossed an average of £70 million per annum in sales from goods bearing their trademarks, and that an average of 75% of polled persons knew their trademarks. The opponents had also adduced evidence proving considerable advertising expenditure in promoting their trademarks, averaging £7 million per annum. The trademarks, then, had a reputation for the opponents

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<sup>145</sup> *Premier Brands* Case, Note 140 above.

<sup>146</sup> *Eveready* Case, Note 134 above, Paras 25 – 30, at 16.

batteries, and satisfied the first requirement for protection under section 5 (3). Since a trademark's repute is its image, any action becomes detrimental to that image if it tarnishes that image in the eyes of the relevant consumers. It hardly needs overemphasis that if the opponents trademarks had become *the butt joke of society*, this would have tarnished the repute of those trademarks. Here, dilution by tarnishment was in issue. Further, people embarrassed about condoms (and the Hearing Officer found that there were such people, including himself) would think negatively of the opponents goods, so that the ills of the applicants goods would have been visited on the opponents goods. It is therefore surprising, given this plentitude of evidence which was before the Hearing Officer, that he dismissed this ground. By so doing, the Hearing Officer, it is submitted failed to use the anti-dilution provisions of section 5 (3) of the UK Trademarks Act to adequately protect the interests of the trademark owner.

In *Audio Medical Devices Ltd v Audi AG*<sup>147</sup>, the applicant, Audio Medical Devices Ltd, applied to register the trademark "audi-med" in Class 10 for hearing aids, apparatus and instruments for the treatment of deafness, including parts and accessories thereto. The opponent, Audi AG, was the holder of the registered trademark "Audi" in the United Kingdom which it had used for approximately thirty years in relation to motor cars, spares therefor, and services of maintaining and repairing motor cars. The turnover in respect of goods and services provided under the opponent's "audi" trademark was approximately £524 million in 1995, and this was due in part to extensive advertising of those services and products by the opponents using the "audi" trademark. The advertising expenditure was approximately £11 to £14 million per annum.

The opponent opposed the application on the basis of section 5 (3), alleging that its "audi" trademark had a reputation in the United Kingdom, and

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<sup>147</sup> IN THE MATTER OF Application No. 2013283 by Audio Medical Devices Ltd to register a trade mark in Class 10 AND IN THE MATTER OF Opposition No. 43757 thereto by Audi AG, judgment on *inter partes* hearing by Mr. Allan James 6 July, 1998, available online at <http://www.patent.gov.uk/tm/legal/index.htm>. Hereafter "the *Audi* Case". References to the judgment are to the judgment available online. For an alternative citation, see *Audi-Med Trade Mark* [1998] RPC 863.

that the use of the applicant's "audi-med" trademark would take unfair advantage of the opponent's trademark or dilute the distinctive character of the opponent's trademark.

The Hearing Officer held that in determining whether trademarks were similar for the purposes of section 5 (3), an objective standard had to be used which considered the marks globally together with other relevant factors in order to see whether the trademarks were "similar enough that use of the later mark will take unfair advantage of the earlier mark, or be detrimental to its distinctiveness or repute"<sup>148</sup>. After noting that people in the market were unlikely to believe that there was any association between the opponent's trademark "audi" for motor cars, and the applicant's trademark "audi-med" for hearing aids, the Hearing Officer concluded that in his view, even in the absence of confusion, there was a "possibility that the applicant's mark may still remind some people of the opponent's mark"<sup>149</sup>, but that this was not the end of the enquiry, since the other elements of section 5 (3) had to be satisfied before the opposition could be allowed.

The Hearing Officer further found that the trademark "audi" for motor cars enjoyed "a high degree of inherent distinctiveness"<sup>150</sup>, but was less distinctive for hearing aids because of its similarity to the English word "audio". Further, the Hearing Officer found that the opponent's "audi" trademark enjoyed a high reputation in relation to motor cars<sup>151</sup>, and was unique in the marketplace in respect of motor cars, since it was the only mark with this name on the UK Register, and there was no evidence that the position was different in the

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<sup>148</sup> *Audi* Case, Note 147 above, at 9 where the Hearing Officer posed and answered the following question: "Although it might appear appropriate to consider this as a preliminary point I think it must in fact be considered globally with the other relevant factors. For otherwise the question of whether one mark is similar to another begs the question "similar enough for what?". The answer to that question must be similar enough that use of the later mark will take unfair advantage of the earlier mark, or be detrimental to its distinctiveness or repute."

<sup>149</sup> *Audi* Case, Note 147 above, at 9.

<sup>150</sup> *Audi* Case, Note 147 above, at 9.

<sup>151</sup> *Audi* Case, Note 147 above, at 9.

marketplace<sup>152</sup>. The goods of the opponent and the applicant were found to be “clearly completely unrelated”<sup>153</sup>.

The Hearing Officer, however, rejected the proposition by the opponent that the dilution of the uniqueness of the opponent’s “audi” trademark would occur if the applicant’s “audi-med” trademark was placed on the Register, and that this, of itself, was sufficient to justify refusal of an application on the basis of section 5 (3)<sup>154</sup>, because, according to the Hearing Officer, for an opponent to rely on section 5 (3), the opponent had to show that the applicant’s trademark, if registered, will have more than a *de minimis* effect on the distinctiveness of the earlier trademark in the marketplace<sup>155</sup>. In the words of the Hearing Officer, section 5 (3)

can only apply where use of the later mark will have more than a *de minimis* effect on the distinctiveness of the earlier trade mark in *the market place*. The fact that the opponent’s mark will no longer be the only mark on the United Kingdom Trade Mark Register which incorporates the letters AUDI as a separate integer cannot, of itself, have more than a *de minimis* effect on the distinctive character of the earlier mark, if indeed it has any effect at all.

It is possible to envisage situations whereby later use of the same or very similar trademark on dissimilar goods could reduce the distinctiveness of the earlier trade mark. For example where goods are ordered purely by the trade mark the existence of the same mark for dissimilar goods sold through the same outlets might mean that the earlier mark was no longer as distinctive as it was before. And where the earlier mark is unique and has a reputation in relation to a range of different goods and services the potential for detriment is obvious<sup>156</sup>.

These findings of the Hearing Officer, it is submitted with the greatest respect, demonstrate a danger of misunderstanding both the concept of the advertising function of a trademark and the rationale which informs the protection of trademarks with advertising value from trademark dilution. This case, on closer analysis, is an example where relief was wrongly refused. The advertising

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<sup>152</sup> *Audi* Case, Note 147 above, at 9.

<sup>153</sup> *Audi* Case, Note 147 above, at 10.

<sup>154</sup> *Audi* Case, Note 147 above, at 10.

<sup>155</sup> *Audi* Case, Note 147 above, at 10.

<sup>156</sup> *Audi* Case, Note 147 above, at 10.

function of a trademark, as pointed out in Chapter 2, involves the trademark's ability to call to the mind and to draw the attention of the purchasing public to a *specific* product by virtue of the distinctive quality, uniqueness, selling power and commercial magnetism inherent in the particular trademark<sup>157</sup>. It entails the ability of a trademark to be associated in the public mind with a particular product and to create in the public consciousness an impression or symbol of quality of the particular product in question<sup>158</sup>. A trademark performing the advertising function is an exceptionally potent sales instrument because it is a communication instrument through which the trader communicates the qualities of his goods to the purchasing public. In this way, the trademark becomes not only an important demand stimulant for the goods, but also sells those goods<sup>159</sup>. In the *Audi* case, the Hearing Officer, it is submitted, failed to grasp this concept of the advertising function of a trademark despite finding that the opponent's trademark "audi" had a high inherent distinctiveness for motor cars and motor cars services; enjoyed a high reputation in respect of motor cars and motor car services; was unique in the market place for motor cars and motor car services, and huge sums of money were being expended to create a positive image or repute for the trademark in respect of motor cars and motor car services. In short, the Hearing Officer failed to appreciate that the trademark "audi" performed an advertising function for the opponent's goods and services. This, it is submitted, led the Hearing Officer to wrongly refuse to extend protection to the opponent's trademark under section 5 (3). In other words, the Hearing Officer, having misappreciated that the trademark "audi" was performing the advertising function in relation to the opponent's goods and services, misunderstood the underlying rationale of a claim for trademark dilution; namely that the 'gradual' erosion of the value of the opponent's trademark, resulting from the misappropriation by the applicant, constituted an invasion of the opponent's proprietary rights in its mark. The Hearing Officer had already found that the trademark "audi" had the requisite

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<sup>157</sup> See Chapter 2, Note 37, and accompanying text.

<sup>158</sup> See Chapter 2, Note 38, and accompanying text.

<sup>159</sup> See Chapter 2, Note 40, and accompanying text.

reputation for the purposes of section 5 (3) of the Act, and that there was a strong degree of similarity between that mark and the junior sign.

Any unauthorized use of the trademark “audi” by the proprietors of the similar “audi-med” trademark would therefore, in these circumstances, lead to the gradual consumer disassociation of the “audi” trademark from the opponent’s motor cars and motor car services. Its registration on the United Kingdom Trademark’s Register had the effect of producing this result. The reputation of the “audi” trademark for motor cars and motor car services, developed by the opponent at considerable expense and effort, would become blurred, its selling power would become eroded; and the “audi” trademark would be diluted. What was in issue in the *Audi* case, therefore, was dilution by blurring.

The Hearing Officer in the *Audi* case also erroneously conflated the concepts of “repute” and “reputation” as used in section 5 (3)<sup>160</sup>. As explained in Chapter 5 in the context of Articles 4 (4) (a) and 5 (2) of the EC Trademark Directive, the reputation of a trademark, as used in section 5 (3), means the knowledge of the trademark among a substantial portion of the relevant public, whereas the trademark’s repute means its image<sup>161</sup>. The Hearing Officer, it is submitted, failed to conceptualise that in the context of section 5 (3), what is “taken advantage of” is not the reputation or knowledge of the earlier trademark by the relevant public, but its repute – its image. To answer this question correctly, it is submitted that the Hearing Officer ought to have addressed his mind to whether the use of the “audi-med” trademark for hearing aids would have

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<sup>160</sup> The Hearing Officer stated, in the *Audi* case, Note 147 above, at 10, that  
The opponents also allege that use of the applicant’s mark would *take unfair advantage of their reputation* under the trade mark AUDI. Mr. S. Ville contended that the opponent’s reputation under the mark AUDI was not simply in respect of motor cars; it was more particularly in respect of high technology motor cars. He argued that it was this aspect of Audi’s reputation which the applicants’ mark sought to take unfair advantage of. In my view, the opponent’s evidence on this point is very thin. *And even if the opponents had established such a specific reputation in evidence, it does not seem to me to be the sort of reputation that would easily transfer to use of a similar mark in respect of deafness aids.* In short I can see nothing in the opponents’ evidence or in the facts of this case which support the argument that use of the applicants’ mark is likely to *take unfair advantage of the opponents’ reputation.*

<sup>161</sup> See Chapter 5, Part 5.3.3.2..

taken unfair advantage of the image of the “audi” trademark for high quality motor cars.

The *Audi* case, therefore, may be viewed as having failed to adequately protect the interests of the owner of a trademark with advertising value from protection against trademark dilution as provided in section 5 (3). This lack of protection, it is submitted, was due in large measure to a misappreciation of the objectives of section 5 (3), and the relevant dilution concepts as expressed in section 5 (3).

In *National Canine Defence league v Geoffrey Inc*<sup>162</sup>, the applicant, National Canine Defence League, which according to its pleadings was a charitable organization formed for protecting and advancing dog rights, applied to register a United Kingdom Trademark “Toys Aren’t Us” in Classes 16, 36, 41 and 42 in respect of printed matter, services relating to the care and welfare of dogs, responsible dog ownership, veterinary services, legal services and computer programming. The opponent, Geoffrey Inc., opposed the application on the basis of its rights in various United Kingdom and Community Trademarks which included in particular ‘R’ US, TOYS ‘R’ US, TOYSRUS.Com, and TOYSRUS.co.uk in relation to *inter alia*, toys, games, playthings, sporting articles, sports equipment, party goods, printed matter, publications, books, computer games, electronic goods, items for babies and children, promotional and advice services, internet and web site services, telephones, videos and audio recordings, bed, linen, textiles and wallcoverings, and food and drink.

The opponent based its objections to the registration on sections 3 (6), 5 (3) and 5 (4) (a) of the United Kingdom Trademarks Act, 1994<sup>163</sup>. The objection

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<sup>162</sup> IN THE MATTER OF Application No. 2281390 by National Canine Defence League to register a trade mark in Classes 16, 36, 41 and 42 AND IN THE MATTER OF OPPOSITION thereto under No. 90127 by Geoffrey Inc., judgment on *inter partes* opposition hearing by M. Reynolds dated 29<sup>th</sup> July, 2003, available online at <http://www.patent.gov.uk/tm/legal/index.htm>. Hereafter “the *TOYS AREN’T US* Case”.

References to the Judgment are to the Judgment available online.

<sup>163</sup> The *TOYS AREN’T US* Case, Note 162 above, Para. 4, at 3.

under section 5 (3) was that the mark in issue was similar to the opponent's earlier trademarks which covered dissimilar goods and services and had a reputation in the United Kingdom. In the view of the opponent, use of the mark applied for would, without due cause, take unfair advantage of, and/or be detrimental to, the distinctive character or the repute of the opponent's earlier trademarks<sup>164</sup>.

The opponents adduced evidence during the hearing which established that TOYS 'R' US is the house mark of the TOYS "R" US Group of Companies worldwide, used in operating departmental stores selling a wide range of goods, including animal toys, toy dog vet kits and radio controlled animal toys. The toys sold under the TOYS 'R' US trademarks included a dog mascot called "COSMO" which is featured on many products sold in TOYS 'R' US departmental stores<sup>165</sup>. In 1993, the TOYS 'R' US Group of Companies had thirty-nine stores in the United Kingdom, which had risen to sixty-three stores in 2001<sup>166</sup>. Further, the TOYS 'R' US Group of Companies sold their goods through their website [www.toysrus.co.uk](http://www.toysrus.co.uk), which at the date of the hearing had an audited number of visitors per month averaging 107,264. As of 30<sup>th</sup> January, 1999, net sales for products sold under the TOYS 'R' US trademarks was £371,104,000, which amount had increased in 2000 to £390,036,000 and in 2001 to £430,622,000<sup>167</sup>. The advertising expenditure for 1994 was £7,728,000, which had risen to £13,700,000 in 2000<sup>168</sup>. Further, the opponent demonstrated by evidence that it participated in charitable and sponsorship activities in respect of carefully selected children's welfare, health care and educational organizations in the United Kingdom, Canada and the United States of America, which included the publication of free children pamphlets in the United Kingdom National Children's Society's Fun Book and in the National Society for the Prevention of Cruelty to Children<sup>169</sup>. In this context, the opponent complained that the use of the

<sup>164</sup> The *TOYS AREN'T US* Case, Note 162 above, Para. 4, at 3.

<sup>165</sup> The *TOYS AREN'T US* Case, Note 162 above, Para. 9, at 4.

<sup>166</sup> The *TOYS AREN'T US* Case, Note 162 above, Para. 10, at 4.

<sup>167</sup> The *TOYS AREN'T US* Case, Note 162 above, Para. 13, at 5.

<sup>168</sup> The *TOYS AREN'T US* Case, Note 162 above, Para. 13, at 5.

<sup>169</sup> The *TOYS AREN'T US* Case, Note 162 above, Para. 17, at 5.

trademark TOYS AREN'T US by the Applicant, a charitable organization, in connection with charitable fund raising activities would likely create an association that the applicant's charitable activities were sponsored by the opponent TOYS 'R' US<sup>170</sup>. Such use, in the view of the opponent, imported a direct reference to TOYS 'R' US and the toys sold in TOYS 'R' US stores<sup>171</sup>, and to TOYS 'R' US charitable activities.

According to the Hearing Officer, to resolve a case under section 5 (3) of the United Kingdom Trademarks Act, 1994, the following questions needed to be answered:

(1) Does the proprietor's mark have a reputation? If so, (2) is the defendant's sign sufficiently similar to it that the public are either deceived into the belief that the goods are associated with the proprietor so that the use of the sign takes unfair advantage of the mark, or alternatively causes detriment in their minds to either (a) the repute, or (b) the distinctive character of the mark, or (3) even if they are not confused, does the use of the sign nonetheless have this effect, and (4) is the use complained of nonetheless without due cause<sup>172</sup>.

The Hearing Officer held that the opponent's trademarks had reputation within the meaning of section 5 (3) of the UK Trademarks Act<sup>173</sup>. In respect of

<sup>170</sup> The *TOYS AREN'T US* Case, Note 162 above, Para. 21, at 5.

<sup>171</sup> The *TOYS AREN'T US* Case, Note 162 above, Para. 21, at 5.

<sup>172</sup> The *TOYS AREN'T US* Case, Note 162 above, Para. 29, at 8. Here, the Hearing Officer was reciting Pumfrey J's analysis in *Daimler Chrysler v Alavi (Merc)* [2001] All ER (D) 189 (Jan). See Note 262 below.

<sup>173</sup> The *TOYS AREN'T US* Case, Note 162 above, Paras 30 and 31 at 8 where the Hearing Officer held that

It is sensibly conceded that the opponents' evidence in this case establishes a reputation in the marks relied on. I do not, therefore, need to say a great deal on this point other than to clarify my own understanding as to where that reputation lies and the most relevant mark. It will be apparent from the Annex to this decision that the opponents have a number of registrations and applications covering a number of marks and in respect of a variety of goods and services. The opponents' reputation is overwhelmingly that of a retailer of toys, games, playthings, etc. Their activities in this respect form part of the range of services set out in the specifications of UK registration No. 2000499B and CTM No. 400929. In each case the mark consists of the words TOYS "R" US (with the R reversed). There is some very slight stylization of the lettering used but in practice not such as to constitute a significant additional feature in its own right. As the opponents are unlikely to be in any stronger position on the basis of the other marks on which use is claimed I do not propose to give separate consideration to their claims in this regard.

The opponents claim that, in addition to their business as a toy retailer, they sell own brand goods under this mark. I find the evidence on this claim to be less persuasive though I have a little doubt

the similarity of the trademark and the sign for the purposes of section 5 (3), the Hearing Officer adopted the formulation in the *Audi* case<sup>174</sup>, in holding that if the marks were not similar, that would have been fatal to the opponent's case. On the other hand, the presence of similarity, *per se*, according to the Hearing Officer, was not determinative of the case, unless the opponent succeeded in proving *further* that the use of the sign without due cause took unfair advantage of its trademark, or alternatively caused detriment to the repute or the distinctive character of its trademark<sup>175</sup>. The Hearing Officer considered the trademarks TOYS 'R' US and the sign TOYS AREN'T US globally, and noted that the latter sign was *inspired* by the earlier trademarks, and that the word elements of the trademarks and the sign were visually and conceptually similar in terms of construction and presentation<sup>176</sup>, rendering the mark and the sign highly similar for the purposes of section 5 (3).

In considering whether use of the applicant's sign would take unfair advantage of the distinctive character or the repute of the opponent's trademarks,

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that a reputation in this respect can be more easily established on the back of the opponent's undoubted reputation as a retailer.

<sup>174</sup> See *Audi* Case, Note 147 above.

<sup>175</sup> The *TOYS AREN'T US* Case, Note 162 above, Para. 33, at 9.

<sup>176</sup> The *TOYS AREN'T US* Case, Note 162 above, Paras 39 and 40, where the Hearing Officer observed as follows:

The applied for mark, in my view, unambiguously captures the distinctive character of the opponents mark. The negative message contained in the applicants' mark does little to assist them. If it did, placing 'NOT' in front of any mark with a reputation would seem to offer a defence (that might avoid direct confusion but confusion is not a necessary ingredient under Section 5 (3)). Mr. Moody-Stuart sought to deal with this point by distinguishing between the position that might pertain with an invented word (KODAK say) and the sort of mark in play here which conveys a meaning. In the latter case, but not the former, the different conceptual considerations between the marks must be borne in mind. I do not accept that that makes a material difference. Nor does the device of a dog distract attention to any appreciable extent from the words.

The fact of the matter is that the applicants were aware of the opponents' mark and chose to base their own mark on it. In doing so they seem to me to have gone beyond inspiration and into imitation. I do not think anyone encountering the applicants' mark would fail to see the pronounced similarities with the opponents' mark. The opponents' unchallenged evidence is that the applied for mark was conceived by Trevor Beattie, an "advertising guru" who is said to have been behind a number of controversial advertising campaigns. It would be surprising if having decided to draw inspiration from the opponents' mark as a basis for, and to draw attention to, the NCDL's own activities he then failed to achieve the intended purpose in the mark he devised.

the Hearing Officer adopted the test laid down in the *Eveready* case<sup>177</sup> in holding that there was no tangible evidence before him proving that “any specific aspect of the opponent’s reputation, for the retail sale of toys”, was being taken unfair advantage of “in relation to the goods and services tendered for registration”<sup>178</sup>, which included charitable fundraising activities by the applicant. The Hearing Officer sought to dispose of the issue as follows

The opponents make two points which might assist their cause. Firstly it is said that it is “fairly common for commercial operations to launch appeals for or in conjunction with charities”. Mr. Muzika has given a number of examples in relation to children’s charities and toy appeals. One, an Abbey National toy appeal, relates to the UK. Secondly they point to the fact that the Toys ‘R’ Us group is involved with charitable works concentrated, it would seem, on children’s welfare, healthcare and educational organizations. *Do these circumstances lead to the conclusion that the public would believe the applicants’ activities enjoyed the support of, or were in some way associated with, the Toys ‘R’ Us group and would benefit to a material extent from such a belief?*<sup>179</sup>

It is submitted, with the greatest respect, that the Hearing Officer fell into error on two basic grounds in the *TOYS AREN’T US* case in dealing with the issue of taking unfair advantage of a trademark’s distinctive character or repute in the context of section 5 (3) of the UK Trademarks Act. The first error was that the Hearing Officer conflated the concepts of “repute” and “reputation”<sup>180</sup>. As explained earlier<sup>181</sup>, these concepts bear different meanings. Second, the Hearing Officer seemed to arrive at a conclusion that the distinctive character or the repute of an opponent’s earlier trademark would be taken unfair advantage of in the context of section 5 (3) *only* in circumstances where some *association or*

<sup>177</sup> The *Eveready* Case, Note 134 above, at 15, where the Hearing Officer held that

I do not consider that simply being reminded of a similar trade mark with a reputation for dissimilar goods necessarily amounts to taking unfair advantage of the repute of that mark. The opponents chances of success may have been better if they were able to point to some specific aspect of their reputation for batteries etc sold under their mark which was likely, through (non origin) association, to benefit the applicants’ mark to some significant extent. However, in my judgement, the opponents have not established any such conceptual connection between their reputation for batteries etc, and the goods in respect of which the applicants’ mark is to be used.

<sup>178</sup> The *TOYS AREN’T US* Case, Note 162 above, Para. 45, at 11.

<sup>179</sup> The *TOYS AREN’T US* Case, Note 162 above, Para. 46, at 11 – 12.

<sup>180</sup> See Note 177 above, and accompanying text.

<sup>181</sup> See Note 138 above.

*sponsorship* would be assumed by the public between the goods of the opponent and those of the applicant<sup>182</sup>. With the greatest respect, it is submitted that the concept of association for the purposes of section 5 (3) should not be confused with the injury of confusion of sponsorship. The focus of the association should not be to the goods in issue, but to the trademarks in issue. The purpose of the concept of association in the context of section 5 (3) should be to guide the Hearing Officer in determining whether the marks in issue are similar for dilution purposes. The Hearing Officer came dangerously close to equating the concept of association under section 5 (3) with the injury of confusion of sponsorship. As explained in Chapter 3<sup>183</sup>, trademark dilution and confusion of sponsorship are different injuries, although they both are caused by the misappropriation of the advertising value of a trademark with a reputation. In the case of trademark dilution, there is no need for the opponent to establish the association between his activities and the activities of the applicant (as required by the Hearing Officer). Rather, the opponent should only be required to establish that the public, in seeing the later sign, would “call to mind”, or, if put differently, “associate” the opponent’s trademark with the applicant’s later sign.

The Hearing Officer held that the use of the Applicant’s sign would be detrimental to the distinctive character and the repute of the opponent’s earlier trademarks<sup>184</sup>. In arriving at this conclusion, the Hearing Officer focused on the intended use of the sign by the Applicant and its effect on the opponent’s business. This was a correct approach to adopt. The Hearing Officer found that the Applicant was involved in emotionally charged pro-dog issues, including campaigns against the destruction of dogs, puppy farming and scientific animal

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<sup>182</sup> The *TOYS AREN’T US* Case, Note 147 above, especially Para. 48, at 12, where the Hearing Officer held:

On the material available to me there is little evidence that the public expects Toys ‘R’ Us to be involved with charitable activities such that the mark in issue would be seen as an indication that *the opponents support, or associate themselves with the applicants’ activities*. In short I am not persuaded that the NCDL would gain unfair advantage in the sense of benefiting to a material extent from the association that would be made with the opponents’ mark.

<sup>183</sup> See generally Chapter 3.

<sup>184</sup> The *TOYS AREN’T US* Case, Note 147 above, Paras. 49 to 60, at 12 to 15.

testing; issues which were not only “both emotionally charged and politically contentious”<sup>185</sup> but which “many people find repugnant”<sup>186</sup>. This analysis led the Hearing Officer to conclude that

When allowance is made for the fact that the applicants’ mark could be used in relation to campaigns which have as their focus cruelty to animals or use of animals for purposes which are highly controversial, then the opponents’ concerns become very real indeed. Their success depends on maintaining an appeal to children and parents alike. It is not that the opponents’ customers would think that Toys ‘R’ Us had anything to do with cruelty to animals. But use of the mark in circumstances over which the opponents had no control would be harmful to the distinctive character or repute of their mark in the sense that it *would bring with it wholly unwanted associations*<sup>187</sup>.

In the *TOYS AREN’T US* case, the applicant had pleaded that it was a charitable organization, and, as a matter of law and public policy, its use of the sign “*Toys Aren’t Us*” was *with due cause* since it was aimed for the overall good and benefit of society. The Hearing Officer rejected this argument on three separate bases. First, the Hearing Officer stated that there was no evidence before him as to the charitable status of the applicants. Second, the Hearing Officer held that some of the goods and services in the specification of the applicant’s application, like legal services and computer programming, went beyond the scope of charitable services as such. Third, the Hearing Officer rejected the proposition that section 5 (3) provided a ‘curve out’ defence for charitable organizations. In the opinion of the Hearing Officer

Section 5 (3) of the Act is based upon Article 4.4(a) of the Directive (89/104). I find nothing in the wording of either, or in the recitals to the Directive, to suggest that *the drafters of the legislation intended to create what would amount to a block exemption for a particular category of organization, namely charities. I am not aware that charities enjoy immunity from the effects of legislation (employment law, health and safety law, etc.) on a more general basis. It seems highly improbable that it was the intention to confer on charities the privilege sought by the applicants in this case. The effect would be to give charities a free hand to adopt marks that are similar or even identical to earlier trade marks and*

<sup>185</sup> The *TOYS AREN’T US* Case, Note 147 above, Para. 56, at 14.

<sup>186</sup> *The TOYS AREN’T US* Case, Note 147 above, Para. 57, at 14.

<sup>187</sup> *The TOYS AREN’T US* Case, Note 147 above, Para. 58, at 14. This passage seems to indicate that the decision of the Hearing Officer is based on dilution by tarnishment.

*to be able, with impunity, to exploit those marks and the reputation attaching to them. By the same token holders of earlier trade marks with a reputation would be powerless to avoid such exploitation.*

Nor can I see what public policy would be served by such a state of affairs. It is one thing to, for instance, accord tax privileges which assist charities but do not harm other organizations. It is quite another matter to give charities the sort of immunity argued for here which carries the prospect of very real damage to traders who have expended time and resources in building up their brands. I reject the applicants' primary 'with due cause' claim<sup>188</sup>.

It is submitted that the reasoning of the Hearing Officer was correct, and that the reasoning in fact adopted the ratio decidendi in the *Klarein v Claeryn* case<sup>189</sup>. There, it was held that use would be *with due cause* only if the user of the sign is under a compulsion to use the sign which is identical with or similar to the earlier trademark that he cannot honestly be asked to refrain from doing so regardless of the damages the owner of the trademark would suffer from such use, or that the user is entitled to the use of the sign identical or similar to the earlier trademark in his own right and does not have to yield to the rights of the owner of the earlier trademark. As pointed out in the *Claeryn* case above, one example where use would be with due cause would be where the user of the sign asserts a prior right to the rights of the owner of the earlier trademark. Both these elements constituting due cause were absent in the *TOYS AREN'T US* case. The opposition in the *TOYS AREN'T US* case was therefore successful on the basis of section 5 (3) of the UK Trademarks Act.

The appeal decision of Mr. Simon Thorley, Q.C. in *Valucci Designs Limited t/a Hugo Hogs v IPC Magazines Limited*<sup>190</sup> further clarified the scope of section 5 (3) of the UK Trademarks Act as it relates to the meaning of "an earlier trademark with a reputation in the United Kingdom" and "what constitutes

<sup>188</sup> The *TOYS AREN'T US* Case, Note 147 above, Paras. 68 and 69, at 16.

<sup>189</sup> Benelux Court of Justice, 1 March, 1975; [1975] N.J. 472; [1977] A.A. 664. For a discussion of this case and further alternative citations, see Chapter 5, Notes 25 to 33, and accompanying text.

<sup>190</sup> IN THE MATTER OF United Kingdom Trade Mark Application No. 2061604 in the name of VALUCCI DESIGNS LIMITED T/A HUGO HOGS AND Opposition No. 45580 thereto by IPC MAGAZINES LIMITED, appeal judgment dated 22<sup>nd</sup> September, 2000, available online at <http://www.patent.gov.uk/tm/legal/index.htm>. Hereafter "the *Loaded* Case". References to the judgment are to the judgment available online.

detriment or unfair advantage to the repute or the distinctive character of the earlier trademark with a reputation”. There, IPC Magazines Limited were the owners of an earlier trademark “Loaded” in class 16 in respect of printed publications. Since 1994, IPC used the trademark “Loaded” as the title of a men’s magazine covering fashion, celebrities, travel, lifestyle and sport for young men between the ages of twenty and thirty years. From its launch, the Loaded magazine had enjoyed extraordinary success, and by August 1995 it had become the best selling men’s magazine in the United Kingdom<sup>191</sup>. On 20<sup>th</sup> March, 1996, Valucci Designs Limited applied for the registration of the trademark “**Loaded**” in class 25 in respect of articles of clothing for men, women and children, excluding footwear. IPC opposed the application, but was unsuccessful. Two questions were raised before Mr. Simon Thorley Q.C. on appeal by IPC, namely (a) the reputation needed by an earlier trademark to qualify for protection under section 5 (3), and (b) the meaning of unfair advantage and/or detriment in the context of section 5 (3)<sup>192</sup>.

It is submitted that Mr. Thorley Q.C. correctly highlighted the constituent elements of section 5 (3) in the *Loaded* case<sup>193</sup>, and proceeded to correctly adopt the ECJ guidelines in respect of reputation as developed in the *General Motors*

<sup>191</sup> The *Loaded* Case, Note 190 above, Para. 28, at 10.

<sup>192</sup> The *Loaded* Case, Note 190 above, Para. 13, at 4, where Mr. Simon Thorley Q.C. stated that In the present case no question arises on the similarity of the marks or the dissimilarity of the goods. Equally there was no suggestion that Valucci had any “due cause” to use the mark applied for, if otherwise its use would be contrary to section 5 (3). The two questions therefore that arose for decision before Mr. Foley and arise on this appeal relate to two issues (iii) reputation and (v) unfair advantage and/or detriment.

<sup>193</sup> The *Loaded* Case, Note 190 above, Para. 12, at 4, where Mr. Simon Thorley Q.C. held that In any consideration of an attack based upon section 5 (3) it will be necessary for the tribunal to consider

- (i) whether the trade mark opposed is identical with or similar to the earlier trade mark
- (ii) whether the trade mark opposed is sought to be registered for goods or services which are not similar to those for which the earlier trade mark is protected
- (iii) whether, and to what extent, the earlier trade mark has a reputation in the United Kingdom
- (iv) whether the use of the later trade mark is “without due cause”
- (v) whether the use of the later trade mark
  - (a) takes unfair advantage of; and/or
  - (b) is detrimental to the distinctive character or the repute of the earlier mark.

case<sup>194</sup>. In the *Loaded* case, it was held that the greater the reputation of the earlier trademark, the greater the propensity of the public to associate a similar sign used on (dis)similar goods with the earlier trademark enjoying the reputation<sup>195</sup>. The reputation of the earlier trademark had to be determined at the date of the application for registration of the later trademark<sup>196</sup>. The opponent had the onus of proving first, that its earlier trademark had a reputation, and second, that the use of the applicant's sign would take unfair advantage of, or be detrimental to, the earlier trademark's repute or distinctive character<sup>197</sup>. Proof of the reputation of the earlier trademark could be established through expert evidence using the guidelines laid by Lord Justice Millet in *The European Limited v The Economist Newspaper Limited*<sup>198</sup>. The applicant then had the onus to prove that its use of the sign similar to the opponent's trademark was with due cause.

In the *Loaded* case, it was held that the opponent need not prove confusion as to origin in order to establish detriment or unfair advantage to the repute or the distinctive character of its earlier trademark for the purposes of section 5 (3)<sup>199</sup>. The possibility of such detriment was held to be manifest where the trademark and the later sign are identical<sup>200</sup>. In other words, the public, in seeing the goods bearing the later sign, would call to mind, and by so doing establish an association

<sup>194</sup> See Chapter 5, Parts 5.3.3.2, and accompanying text, for the guidelines of the ECJ in respect of the "reputation" of a trademark in the *General Motors* case.

<sup>195</sup> The *Loaded* Case, Note 190 above, Para. 15, at 5.

<sup>196</sup> The *Loaded* Case, Note 190 above, Para. 20, at 6.

<sup>197</sup> The *Loaded* Case, Note 190 above, Para. 23, at 7 – 8.

<sup>198</sup> The *European Limited – v – The Economist Newspaper Limited* [1998] FSR 283, at 291, where Lord Justice Millet held that

"The function of an expert witness is to instruct the Judge of those matters which he would not otherwise know but which it is material for him to know in order to give an informed decision on the question which he is called on to determine. It is legitimate to call evidence from persons skilled in a particular market to explain any special features of that market of which the Judge might otherwise be ignorant and which may be relevant to the likelihood of confusion. It is not legitimate to call such witnesses merely in order to give their opinions whether the two marks are confusingly similar. They are experts in the market, not on confusing similarity ... in the end the question of confusing similarity is one for the Judge. He was bound to make up his own mind and not leave the decision to the opinion of the witnesses.

<sup>199</sup> The *Loaded* Case, Note 190 above, Para. 55, at 19.

<sup>200</sup> The *Loaded* Case, Note 190 above, Para. 55, at 19.

between the earlier trademark and the later sign<sup>201</sup>. What the court had to decide in the *Loaded* case was whether such “calling to mind” without more, resulted invariably in “dilution, blurring, tarnishing and inhibition”<sup>202</sup>. Mr. Simon Thorley Q.C. finally determined the issues relating to unfair advantage and detriment on the basis of “inhibition”, which he recognized as “a new category”<sup>203</sup>. By inhibition Mr. Thorley Q.C. meant that the registration of the later sign “Loaded” by Valucci Designs Limited would inhibit IPC from marketing further promotional clothing bearing the trademark “Loaded”, and that it could equally inhibit advertisers from advertising their clothing merchandise in the Loaded magazine<sup>204</sup>.

<sup>201</sup> The *Loaded* Case, Note 190 above, Para. 56, at 19.

<sup>202</sup> The *Loaded* Case, Note 190 above, Paras 57 and 58, at 20.

<sup>203</sup> The *Loaded* Case, Note 190 above, Paras 58 and 59 at 20, noting that

In the *Premier Brands* case, Neuberger J. considered at length the concepts of dilution, blurring and tarnishing (see pages 22 – 27 and 32 – 46) and it was that type of damage that featured at the forefront of Mr. Baldwin’s submissions to me. He contended that here there was detriment by reason of dilution, blurring, tarnishing and inhibition. Mr. Baldwin accepted that inhibition was a new category. Inhibition, he said, arose on the facts of this case because of the antecedent distribution by LOADED magazine of the T-shirts and jackets referred to above. *He contended that if the mark opposed was registered, it would be open to Valucci to oppose any further marketing of that clothing on the grounds of infringement.* Since it was a natural and proper course for IPC to adopt to promote the magazine, this he said would be an unfair fetter and hence cause detriment.

*There is in my judgment substance in this. It is common practice nowadays for people to use clothing as a promotional vehicle. It is a natural thing for a magazine to wish to do as the activity of LOADED magazine demonstrates. But the weight to be attached to it has to be tempered by reference to section 11 (3) of the Act which does give a defence to traders in possession of an “earlier right”.*

<sup>204</sup> The *Loaded* Case, Note 190 above, Paras 62 to 64, holding that

In the end therefore, on the evidence, I am left with this. *Registration of the mark applied for might inhibit IPC from marketing further promotional clothing bearing the trade mark LOADED and it may well affect advertisers perception of the magazine and their willingness to advertise in the publication.* Is this enough? The onus is on IPC to demonstrate that there is a real tangible risk of advantage or detriment of a sufficiently significant degree to warrant restraining what is, on the facts of this case, a non confusing use. See *Pfizer* paragraph 37.

I regard this as a borderline case and have hesitated in reaching a conclusion. The evidence is not strong. There is however expert evidence on which I can place some weight for the reasons given above and there are the undoubted facts that the trade marks are the same, that LOADED is not a natural term to use as a trade mark in relation either to magazines or clothing and that the reputation which I have found to be established in the word LOADED in relation to a magazine is in relation to a magazine a significant proportion of which is devoted to the fashion industry. *It is I believe inescapable that some of the kudos of LOADED magazine will accrue to any clothing sold under the LOADED trade mark. Equally the possibility that the widespread use of the trade mark on clothing could materially affect the ability of LOADED magazine to obtain*

It is still unclear whether “inhibition” will mature into a recognizable form of injury under the concepts of detriment and taking unfair advantage to the repute or distinctive character of a trademark with a reputation for the purposes of section 5 (3). In the *TOYS AREN'T US* case, above, it was cited, *obiter*, in the course of judgment<sup>205</sup>. Although the *Loaded* case decidedly came in favour of protecting the advertising function of a trademark, it could have been decided on the basis of either dilution by blurring or dilution by tarnishment, since both types of injuries were found by Mr. Simon Thorley Q.C. to have been present<sup>206</sup>.

The appeal decision of Mr. Geoffrey Hobbs Q.C. in *C.A. Sheimer (M) Sdn Bhd's Trademark*<sup>207</sup> is another key decision concerning the interpretation of section 5 (3) of the UK Trademarks Act. There, C. A. Sheimer (M) Sdn Bhd<sup>208</sup>, applied on 27<sup>th</sup> February, 1995 to register the word “visa” as a trademark for use in relation to condoms, contraceptive devices and appliances, and articles for medical and surgical purposes in class 10<sup>209</sup>. The application was opposed by Visa International Services Association, which had registered the trademark “Visa” in the United Kingdom as of 1<sup>st</sup> October, 1986 for use in relation to financial services relating to bank cards, credit cards, debit cards, cash disbursement, cheque verification and cheque cashing, travel insurance services, issuing and redemption of travelers cheques and travel vouchers and advisory

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*advertisements from others for their clothing in the magazine is real not fanciful for the reasons given by Mr. Paul.*

In the final event I have concluded that this case falls just on the rights side of the line from IPC's point of view. They have just succeeded in discharging the onus upon them. *I have concluded that as at March 1996 use of the mark LOADED in relation to clothing would cause, on the facts of this case, sufficient detriment to IPC and a sufficient likelihood of unfair advantage to Valucci for it to be wrong for the mark opposed to be registered. Accordingly the appeal succeeds.*

<sup>205</sup> The *TOYS AREN'T US* Case, Note 147 above, Para 51, at 13.

<sup>206</sup> The *Loaded* Case, Note 190 above, Para. 63, at 22.

<sup>207</sup> *C.A. Sheimer (M) Sdn Bhd's* TM [2000] R.P.C. 484. The judgment is also available online as Case O/340/99 at <http://www.patent.gov.uk/th/legal/decisions/appeal/1999/034099>, decision of Mr. Geoffrey Hobbs QC of 28 September, 1999. Hereafter called “the *Visa* Case”. All references to the *Visa* Case are to the judgment online.

<sup>208</sup> Hereafter referred to as “Sheimer”.

<sup>209</sup> The *Visa* Case, Note 207 above, at 7.

services related thereto in class 36<sup>210</sup>. The opposition was based on section 5 (3) of the UK Trademarks Act. The Hearing officer allowed the opposition. On appeal by Sheimer, Mr. Geoffrey Hobbs QC held that there was substantial similarity between the earlier trademark of Visa International Service Association and the later sign of Sheimer<sup>211</sup>, and that Sheimer had deliberately adopted the word “Visa” as the trademark for its condom and contraceptive products

so that they would become famous for being products of the same name as the name whose fame they fed upon: the fame of the adopted name needed to be sufficiently strong and widespread to attract attention to Sheimer’s products; and the name VISA was seen to be a suitable name as a result of the fame it had acquired and could be expected to acquire in connection with Visa International’s business activity<sup>212</sup>.

Flowing from the above reasoning, Mr. Geoffrey Hobbs QC held that use of Sheimer’s later sign in respect of condoms and contraceptives would cause dilution by tarnishment to the earlier trademark of Visa International Service Association in respect of financial services, and would have a detrimental effect on the distinctive character of the earlier trademark of Visa International Service Association<sup>213</sup>.

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<sup>210</sup> The *Visa* Case, Note 207 above, at 7.

<sup>211</sup> The *Visa* Case, Note 207 above, at 31 and 32, where the Hearing Officer concluded that

I think it is a fair inference from the evidence before me that so many people are so deeply imbued with Visa International’s use of the word VISA as its trade mark that Sheimer’s use of the word would to a significant extent trigger recollections of Visa International and its services. Indeed the form in which the word VISA is presented to the eye by the packaging reproduced in Annex A and B to this Decision is calculated to trigger such recollections in the minds of people familiar with the form in which Visa International habitually uses the word VISA (Annex C). I can only conclude from the form in which the word VISA is represented in Annex A and Annex B that Sheimer wanted and expected people to link its use of the word VISA to Visa International’s use of the word VISA.

The form in which the word VISA is represented in Annex A and Annex B is open to two interpretations. On the one hand, it might be thought to indicate that simulation of the form in which the word VISA is used by Visa International is necessary in order to achieve the desired linkage. On the other hand, it might be thought to indicate that use of the word VISA achieves the desired linkage to an extent which can be increased by such simulation. I prefer the latter point of view because I think it is the word as such which triggers the pertinent recollections.

<sup>212</sup> The *Visa* Case, Note 207 above, at 34.

<sup>213</sup> The *Visa* Case, Note 207 above, at 38, where the Hearing Officer held that

I do however, consider that requirement (v) is satisfied on the basis that there would be cross-pollination between Sheimer’s use of the word VISA and Visa International’s use of the word VISA in the way I have described and that this would be detrimental to the distinctive character of

In *Virgin Oil Limited v Virgin Enterprises Limited*<sup>214</sup>, an application to register the trademark “virgin oil” by Virgin Oil Limited in respect of industrial oils and greases, engineering oils, technical oils, filters for machine parts and for cleaning lubricating oils in engines, filters for lubricants, fuel filters, reversible flow filters, air filters, gear oils, motor oils, fuel oils and fuels derived from oils was successfully opposed by Virgin Enterprises Limited on the basis of section 5 (3) of the UK Trademarks Act. Virgin Enterprises was the proprietor in the United Kingdom of an earlier trademark by the name “virgin” in respect of airline and train services, records and music compact discs, musical entertainment services, financial services, drinks and holidays.

Mr. Allan Jones found that the marks in issue in the *Virgin Oil* case were highly similar<sup>215</sup>, and that the opponent’s earlier trademark “virgin” was, at the

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Visa International’s earlier trade mark. It seems to me that if a trade mark proprietor ought to be free to decide for himself by what goods he will make (or break) the reputation of his trade mark in the United Kingdom (*Colgate-Palmolive Ltd v Markwell Finance Ltd* [1989] RPC 497 at 531 per Lloyd LJ) he ought also to be able to prevent other traders on the terms and conditions laid down in Section 5 (3) from using his trade mark so as *to cause it to carry connotations, when used by him, that are truly detrimental to the distinctive character or repute that the trade mark would otherwise enjoy in his hands*. That seems to me to be the case here.

and at 41, where the Hearing Officer held that

I prefer not to use the word “dilution” because I regard it as a word of uncertain meaning which may overstate the purpose and effect of the language used in Section 5 (3) of the Act and in parallel Community legislation. However, use of the word VISA as a trade mark for Sheimer’s products would in my view, *have a substantially detrimental effect, of the kind regarded as objectionable in these three cases, upon the distinctive character of Visa International’s earlier trade mark. I cannot see any justification for permitting Sheimer to register a trade mark which would, when used, burden Visa International’s own use of its earlier registered trade mark with connotations of birth control and sexual hygiene that would affect perceptions of the mark negatively from the point of view of a provider of financial services in the position of Visa International. Visa International should not have to carry the burden of advertising condoms and prophylactics at the same time as it promotes its own services*. I agree with the Assistant Registrar in thinking that Sheimer’s application for registration was objectionable under Section 5 (3) of the Act.

<sup>214</sup> IN THE MATTER OF Application No. 2232483 by Virgin Oil Limited to Register The Trade Mark “Virgin Oil” in Classes 4 and 7 AND OPPOSITION TO THE REGISTRATION by Virgin Enterprises Limited. Under Opposition No. 51714, Case 0-285-03, judgment of Mr. Allan Jones of 22<sup>nd</sup> September, 2003, available online at <http://www.patent.gov.uk/tm/legal/decisions>. Hereafter called the “*Virgin Oil*” case. References to the judgment are to the judgment online.

<sup>215</sup> The *Virgin Oil* Case, Note 215 above, Para 27, at 7 and 8, holding that

relevant date when the applicant applied to register the sign “virgin” as a trademark, known to a significant proportion of the relevant public as a trademark for airline and train services, records and music compact discs, musical entertainment services, financial services, and drinks and holidays<sup>216</sup>. As a consequence of this finding, Mr. Allan Jones held that the opponent satisfied the first requirement of section 5 (3) in so far as it had established that its earlier trademark “virgin” had a reputation for its goods and services. Further, Mr. Allan Jones held that a likelihood of confusion is not a necessary ingredient in a case under section 5 (3) of the UK Trademarks Act, *but it may nevertheless represent a concrete example of detriment to the distinctive character of the earlier trademark*<sup>217</sup>. Since the opponent’s earlier trademark was found to enjoy a high reputation for a diverse range of goods and services, Mr. Allan Jones concluded that

a significant proportion of the relevant public would believe that a new oil or fuel product offered for sale under the applicant’s mark was a product for which the opponent was responsible, or that there was an economic connection between that product and the opponent. On this footing, use of the applicant’s mark is bound to be damaging to the distinctive character of the opponent’s mark<sup>218</sup>.

Apart from his findings above, Mr. Allan Jones was equally prepared to hold, in the alternative, that the opponent’s claim would have succeeded under section 5 (3) of the UK Trademarks Act on the basis of dilution. In this respect, he held ( in the same passage reproduced in part above) that

It seems to me that this is one of those rare cases where the dilution of the distinctive character of the earlier mark may, of itself, be sufficient to justify an objection under section 5 (3) of the Act. I am satisfied that the opponent is the only party known to make significant use of the mark VIRGIN as such. The appearance in the market of a VIRGIN OILS mark (for oils and associated goods) would dilute that uniqueness of signification conveyed by the VIRGIN mark. It is that uniqueness of signification which has allowed the opponent to

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In my view, the marks are highly similar because the dominant and distinctive feature of both marks is the word “virgin”. The overall impression created by the applicant’s mark is likely to be dominated by the word “virgin”. The same word is the only feature of the opponent’s mark.

<sup>216</sup> The *Virgin Oil* Case, Note 215 above, Paras 46 and 47, at 12 and 13.

<sup>217</sup> The *Virgin Oil* Case, Note 215 above, Para. 54, at 13 and 14.

<sup>218</sup> The *Virgin Oil* Case, Note 215 above, Para. 56, at 14.

successfully extend its activities into apparently unrelated fields in the past, and to licence others to do the same. I have not overlooked the fact that some of the applicant's class 4 goods, e.g. industrial oils and greases, do not appear to be aimed at the general public. I have no evidence to assist me in identifying who are the relevant consumers for such products. Taking the best view I can of the matter, I do not consider that the average consumer of industrial oils and greases is likely to be sufficiently specialized that the appearance of a VIRGIN OIL mark in this market would have no detrimental effect on the distinctive character of the opponent's VIRGIN mark in the market in which it currently enjoys a reputation.

For these reasons I find that the opponent has established the primary conditions for invoking section 5 (3) exist and the question arises whether the applicant has nevertheless shown due cause to use the trade mark applied for. The applicant has registered a company under the name Virgin Oils Limited. However, this only happened a few weeks before the trade mark application was made and, in any event, *does not create a compulsion to use the mark applied for* as a trade mark. *The applicant further asserts that "virgin" is a term of art used to describe oils having the highest level of purity.* However, the application has not provided any evidence to corroborate this assertion. I am aware that "virgin" is used in a similar way to describe high quality olive oil, but I am not aware and cannot take judicial notice of any wider use of the term in relation to oils. I must therefore regard the applicant's assertion as merely that.

If the applicant had filed evidence to substantiate its assertion it may have been sufficient to justify a finding that the applicant has cause to use the mark applied for. However, such evidence would have had the side effect of *casting doubt on whether the trade mark possesses the necessary distinctive character to be registered. A trade mark registration gives the proprietor an exclusive right to use the mark in relation to the goods covered by the registration. If there is a compulsion for traders in this field to use the term "virgin oil", it would not be appropriate to register those words as the trade mark of one undertaking.* However, this is not a matter which is strictly before me and I therefore need say no more about it.

Implicit in the reasoning of Mr. Allan Jones above is the fact that compulsion cannot be advanced in furtherance of a defence of due cause to an opposition under section 5 (3) of the UK Trademarks Act in circumstances where the compulsion accrues to traders in a particular market as a whole, because in such a situation the word giving rise to the compulsion should be available for use by other traders in that market – it will be generic. In short, then, a trader cannot raise the due cause defence in respect of a generic word. This aspect of the judgment, however, was purely *orbiter*, but it will be interesting to see how it will be dealt with in future cases.

In conclusion, it may be noted that the current text of section 5 (3), incorporating amendments brought into force by the Trademark (Proof of Use, Etc.) Regulations, brings it on par with the ECJ decisions in *Davidoff*<sup>219</sup> and *Fitnessworld*<sup>220</sup> that anti-dilution protection is available in respect of similar and dissimilar goods or services. The publication of opposition decisions by the UK Trademarks Registry<sup>221</sup> is a welcome initiative, as it enables an analysis of the approaches adopted by Hearing Officers in some key decisions in interpreting section 5 (3) of the UK Trademarks Act. What emerges from the *Eveready* case<sup>222</sup> the *Audi* case<sup>223</sup>, the *TOYS AREN'T US* case<sup>224</sup>, the *Loaded* case<sup>225</sup>, the *Visa* case<sup>226</sup>, and the *Virgin Oil* case<sup>227</sup> is that (a) reputation for the purposes of section 5 (3) means that the earlier trademark is known by a significant part of the public concerned with the goods or services covered by the trademark. In this respect, United Kingdom law has fully adopted the ECJ decision in the *General Motors* case, (b) section 5 (3) is not aimed at every sign whose use may stimulate the relevant public to recall an earlier trademark which enjoys a reputation with them. Rather, the provision applies only in cases of *actual* detriment or unfair advantage, which must be substantiated to the satisfaction of the Hearing Officer. In other words, section 5 (3) does not apply to mere unproven risks of detriment or unfair advantage. The *Eveready* and the *Audi* cases did not satisfy the requirement of actual detriment and failed as a consequence. The requirement of proof of actual detriment or unfair advantage, however, does not follow the clear legislative language of section 5 (3), since the word “would” in section 5 (3) speaks more appropriately to a likelihood of damage, as opposed to actual damage. The Hearing Officers and the courts, therefore, by insisting on a requirement of actual detriment or unfair advantage, are actually engaged in

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<sup>219</sup> See Note 130 above, and accompanying text.

<sup>220</sup> See Note 131 above, and accompanying text.

<sup>221</sup> At its website [www.patent.gov.uk/tm](http://www.patent.gov.uk/tm).

<sup>222</sup> *Eveready* Case, Notes 134 to 146 above, and accompanying text.

<sup>223</sup> *Audi* Case, Notes 147 to 160 above, and accompanying text.

<sup>224</sup> The *Toys Aren't Us* Case, Notes 162 to 188 above, and accompanying text.

<sup>225</sup> The *Loaded* Case, Notes 190 to 206 above, and accompanying text.

<sup>226</sup> The *Visa* Case, Notes 207 to 213 above, and accompanying text.

<sup>227</sup> The *Virgin Oil* Case, Notes 214 to 218 above, and accompanying text.

judicial lawmaking, and turning a blind eye to the clear requirements of section 5 (3). Such an approach (as adopted by the Hearing Officers and the courts in respect of section 5 (3)) also does not pay due regard to the theoretical basis of dilution as originally developed; namely, to check the incipient nature of dilution before the harm proliferates. The approach therefore does not serve the interests of the trademark owner, since he may be forced to wait to prove damage after it has actually occurred to his detriment. The word “would” in section 5 (3) unequivocally points to a “probability” of harm, as opposed to actual harm, as the appropriate standard for relief under section 5 (3). The confusion of the Hearing Officers and the courts may, in this respect, be appreciated if it is remembered that in section 10 (3), the anti-dilution infringement provision, actual damage is required, rather than a probability of damage. What the Hearing Officers and the courts seem to be doing, therefore, is importing the higher standards of section 10 (3) into section 5 (3), notwithstanding the language of section 5 (3) to the contrary, (c ) the stronger the earlier trademark’s distinctive character and reputation, the easier it will be for the Hearing Officer to accept that detriment has been caused to, or unfair advantage has been taken of, its distinctive character or repute, (d) confusion as to origin, or confusion as to the trade source of the goods offered for sale under the later mark, is not a necessary requirement for establishing either detriment or unfair advantage to an earlier trademark’s repute or distinctive character under section 5 (3), although the presence of confusion usually represents a concrete example of either detriment or the taking of unfair advantage<sup>228</sup>, (e) detriment or unfair advantage can take the form of dilution by blurring, dilution by tarnishment, or inhibition<sup>229</sup>, (f) unfair advantage in the context of section 5 (3) can also take the form of feeding on the fame of the earlier trademark in order to substantially increase the marketability of the goods offered under the later sign<sup>230</sup>, (g) the onus of proving the reputation of the earlier trademark, as well as the fact that the use of the later trademark takes unfair advantage of, or is detrimental to, the repute or the distinctive character of the

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<sup>228</sup> The *Virgin Oil* Case, Note 218 above, and accompanying text.

<sup>229</sup> The *Loaded* Case, Note 202 above, and accompanying text.

<sup>230</sup> The *Visa* Case, Note 212 above, and accompanying text.

earlier trademark falls on the opponent under section 5 (3), but once the opponent has satisfied these basic tenets of section 5 (3), the burden shifts to the applicant to show that his use is “with due cause”, (h) an applicant will show that his use is with due cause in the circumstances specified in *Klarein v Claeryn*<sup>231</sup>, that is, if the applicant can demonstrate to the Hearing Officer that he is under such a compulsion to use the later trademark that he cannot honestly be asked to refrain from doing so, or if he demonstrates that he possesses earlier rights in the mark. The research now logically proceeds to analyse section 10 (3) of the UK Trademarks Act.

#### 8.4.2 Section 10

Following closely on the TRIPS Agreement<sup>232</sup>, the EC Trademark Directive<sup>233</sup> and the Community Regulation<sup>234</sup>, the UK Trademarks Act provides for trademark infringement in section 10. Section 10 (1) prohibits a person to use, in

<sup>231</sup> Note 189 above.

<sup>232</sup> The Agreement on Trade Related Aspects of Intellectual Property Rights (“TRIPS”) takes a two-step approach towards infringement. First, Article 16 (1) of the TRIPS Agreement provides that Member States should confer on the owners of trademarks “the exclusive right to prevent all third parties not having the owner’s consent from using in the course of trade identical or similar signs for goods or services which are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion”. Second, the TRIPS Agreement provides at Article 16 (3) that Article 6*bis* of the Paris Convention shall apply *mutatis mutandis* to goods or services which are not similar to those in respect of which a trade mark is registered, provided that use of that trade mark in relation to those goods or services would indicate a connection between those goods or services and the owner of the registered trade mark and provided that the interests of the owner of the registered trade mark are likely to be damaged by such use.

<sup>233</sup> The EC Trademark Directive contains a list of acts which the trademark owner has the exclusive right to stop other people from doing. According to Article 5 (1) of the EC Trademark Directive, the proprietor of a registered trademark “shall be entitled to prevent all third parties not having his consent from using in the course of trade (a) any sign which is identical with the trademark in relation to goods or services which are identical with those for which the trade mark is registered; or (b) any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the sign, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trade mark”. The EC Trademark Directive further provides, at Article 5 (2), that EU member states may provide, at their option, that “the proprietor [of a trademark] 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 trademark”.

<sup>234</sup> All the infringing acts provided for in the EC Trademark Directive are trademark infringements under Article 9 of the Community Regulation.

the course of trade, a sign *identical* with a registered trademark for *identical* goods covered in the trademark specification<sup>235</sup>. Section 10 (2) (a) prohibits a person from using, in the course of trade, a sign which is *identical* to a registered trademark in relation to goods *similar* to those for which the trademark is registered. Section 10 (2) (b) prohibits a person from using, in the course of trade, a sign which is *similar* to a registered trademark, in respect of goods which are *identical* to the goods for which the trademark is registered, *or* in respect of goods which are *similar* to those for which the trademark is registered, if, because of such use, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association with the trademark<sup>236</sup>. Section 10 (1) and (2) of the UK Trademarks Act protects the origin value and product differentiation value of trademarks. The rationale of section 10 (1) and (2) was concisely captured by Cornish and Llewelyn in observing that

In a market of competitors, if this conduct is not prevented, not only will the mark owner lose out but consumers will not be able to trust the marks they see and possibilities of product differentiation will disintegrate. Preventing such direct harm remains the prime object in defining infringement and much is quite rightly heard of the “origin” function of marks, both from policy-makers and from courts<sup>237</sup>.

Section 10 (3) of the UK Trademarks Act, following closely on Article 16 (3) of the TRIPS Agreement, Article 5 (2) of the EC Trademark Directive, Article 9 (1) (c) of the Community Regulation, and the ECJ decisions in *Davidoff & Cie*

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<sup>235</sup> Section 10 (1) of the UK Trademarks Act provides that

(1) A person infringes a registered trade mark if he uses in the course of trade a sign which is *identical* with the trade mark in relation to goods or services which are *identical* with those for which it is registered.

<sup>236</sup> Section 10 (2) of the UK Trademarks Act provides that:

A person infringes a registered trade mark if he uses in the course of trade a sign where because the sign is identical with the trade mark and is used in relation to goods or services similar to those for which the trade mark is registered, or the sign is similar to the trade mark and is used in relation to goods or services identical with or similar to those for which the trade mark is registered, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association with the trade mark.

<sup>237</sup> Cornish and Llewelyn, Note 13 above, Para. 17 – 82, at 698.

*SA Zino Davidoff SA v Gofkid Ltd*<sup>238</sup> and *Adidas – Salomon AG v Fitnessworld Trading Limited*<sup>239</sup> provides that where a trademark has a reputation in the United Kingdom, it is infringement to use an identical or similar sign, in the course of trade, for similar or dissimilar goods, where the use of the sign, being without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trademark<sup>240</sup>. It is important to note, in respect of section 10 (3), that its language requires actual damage, because what is prohibited is the *taking* of unfair advantage of the distinctive character or the repute of the trademark. Section 10 (3) therefore differs from section 5 (3) in this respect. This legislative requirement of actual detriment, it submitted, fails to recognize the incipient nature of dilution, and it is recommended that UK anti-dilution provisions in section 10 (3) would better serve their purpose if they proscribe a likelihood of harm.

Section 10 (3) of the UK Trademarks Act is an anti-dilution provision. In order to establish infringement under this section, the owner of the earlier trademark will have to establish and prove four elements. First, that the defendant has *used a sign in the course of trade*, which is either identical with or similar to his registered trademark; *and* that the defendant has used the sign in relation to goods or services which are *either* similar or not similar to those covered by his registration. Second, that his trademark has a *reputation* in the United Kingdom. Third, that the use of the sign by the defendant is without due cause. Fourth, that such use *takes* unfair advantage of, or is detrimental to, the distinctive character or the repute of the proprietor's registered trademark<sup>241</sup>.

<sup>238</sup> Case C-292/00. For an extensive discussion of this case, see Chapter 5, Part 5.3.3.

<sup>239</sup> Case C – 408/01. For an extensive discussion of this case, see Chapter 5, Part 5.3.3.

<sup>240</sup> Section 10 (3) of the UK Trademarks Act provides that

A person infringes a registered trade mark if he uses in the course of trade a sign which is identical with or similar to the trade mark,  
[ repealed by the Trademarks (Proof of Use, Etc.)  
where the trade mark has a reputation in the United Kingdom and the use of the sign, being without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.

<sup>241</sup> Julian Gygell and Alan Poulter, Note 15 above, Para. 6.07, at 190.

It may now be appropriate to look at each of the constituent elements of section 10 (3) as interpreted by the courts to determine both their scope and meaning.

After some initial doubts<sup>242</sup>, it is now clear that section 10 (3) does not require the establishment of likelihood of consumer confusion. The registered trademark protected under section 10 (3) need only have a reputation, but need not be well-known. In *General Motors Corporation v Yplon S.A.*<sup>243</sup>, the ECJ stated that “reputation” for the purposes of Article 5 (2) of the EC Trademark Directive could be ascertained by the following factors: (a) knowledge of the trademark by a significant part of the public concerned, (b) duration and extent of the use of the trademark, (c ) the geographical extent of the fame of the trademark, (d) the size of the investment in promoting the trademark, and (e) recognition of the mark in specific trade circles. This last criterion implicitly recognizes niche market fame by a specialized group of persons<sup>244</sup>.

The first UK case to consider the import of section 10 (3) of the UK Trademarks Act was *Premier Brands UK Limited v Typhoon Europe Limited and Peter Granville Norfolk Battersby*<sup>245</sup>. There, the claimant, Premier Brands UK Limited, was an importer, blender and supplier in the United Kingdom of tea and tea-related paraphernalia, which it marketed under three “TY.PHOO” trademarks registered in the United Kingdom trademarks register for tea, domestic hand tools and implements, and domestic utensils and cleaning materials. The defendant launched a brand of kitchenware imported from the Far East under the trademark “TYPHOON”. The claimant brought infringement

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<sup>242</sup> *Baywatch v The Home Video Channel* [1997] FSR 22 represented the high watermark of this misconception.

<sup>243</sup> *General Motors Corporation v Yplon S.A.*, Case C-375/97, Judgment dated 14 September, 1997, downloaded from <http://www.curia.eu.int>. For an extensive discussion of this case see Chapter 5, Part 5.3.3.2.

<sup>244</sup> For a discussion of the criteria adopted by the ECJ to establish a trademark’s reputation for the purposes of Article 5 (2) of the EC Trademark Directive in the *General Motors* case, cited above, see Chapter 5, Part 5.3.3.2.

<sup>245</sup> *Premier Brands UK Limited v Typhoon Europe Limited and Peter Granville Norfolk Battersby* [2000] ALL ER (D) 52. Hereafter “*the Premier Brands Case*”. This judgment was downloaded from <http://gladstone.butterworths.co.uk/>, last visited on 15<sup>th</sup> August, 2005. All references to the *Premier Brands Case* are to that judgment.

proceedings under section 10 (3) of the UK Trademarks Act, claiming that the use of the TYPHOON sign caused and would cause detriment to the distinctive character and repute of its TY.PHOO trademark because it would lead to the blurring of the trademark and would also tarnish the trademark because of its association with the destructive power of tropical cyclones. The claim failed because there was no confusion and the claimant had failed to establish that it had suffered some other actual detriment.

Justice Neuberger stated in the course of judgment in the *Premier Brands*<sup>246</sup> case that the purpose of section 10 (3) of the UK Trademarks Act was to be found in Recital 9 of the EC Trademark Directive; namely, to provide “extensive protection to those trademarks which have a reputation”, over and above the protection granted to trademarks without a reputation<sup>247</sup>. Several legal propositions are discernible from the judgment of Justice Neuberger in the *Premier Brands* case<sup>248</sup>. First, the taking of unfair advantage of the repute of an earlier trademark in the context of section 10 (3) of the UK Trademarks Act should be construed as equivalent to uses of a later sign which seek to associate the qualities of the goods of the user of the later sign with the goods of the owner of the trademark for the purpose of exploiting the good reputation of the goods of the owner of the trademark in order to enhance the promotional efforts of the user of the later sign in respect of his own goods<sup>249</sup>. Second, uses of a later sign are detrimental to the distinctive character or the repute of an earlier trademark with a reputation in the context of section 10 (3) of the UK Trademarks Act where such uses have the effect of eroding the position of exclusivity acquired by the owner of the earlier trademark through large expenditures of time and money, and

<sup>246</sup> The *Premier Brands* Case, Note 245 above.

<sup>247</sup> The *Premier Brands* Case, Note 245 above at 13 - 14.

<sup>248</sup> The *Premier Brands* Case, Note 245 above.

<sup>249</sup> The *Premier Brands* Case, Note 245 above, at 14, where Justice Neuberger stated that

In *Dimple* [1985] GRUR 550, the German Federal Supreme Court, said that:

“The courts have repeatedly held that it constitutes an act of unfair competition to associate the quality of one’s goods or services with that of prestigious competitive products for the purpose of exploiting the good reputation of a competitor’s goods or services in order to enhance one’s promotional efforts”.

Those observations are appropriate to a case where the sign is said to “take unfair advantage of” a mark with established substantial goodwill.

everything which impairs the originality and distinctive character of, as well as the advertising effectiveness derived from, the trademark and its uniqueness in the marketplace should be regarded as detrimental to the distinctive character and repute of the earlier trademark and should, *ipso facto*, be prohibited<sup>250</sup>. Third, according to Justice Neuberger detriment to the distinctive character of a trademark with a reputation in the context of section 10 (3)

[h]as been generically described as “dilution”, and has also been said to occur normally in one of two ways, namely by “blurring” or by “tarnishing”, ... dilution is a useful concept to bear in mind when considering the application of section 10 (3) to a particular set of facts. This view is fortified by the fact that Article 5 (2) [of the EC Trademark Directive from which section 10 (3) is derived] is based on Benelux law<sup>251</sup>.

Fourth, in the context of section 10 (3) of the UK Trademarks Act, blurring occurs where the distinctiveness of the trademark with a reputation is eroded<sup>252</sup>. Fifth, according to Justice Neuberger, tarnishment occurs in the context of section 10 (3) in the circumstances specified by the Benelux Court of Justice in *Klaren v Claeryn*<sup>253</sup>, where the use of the later sign erodes the capacity of the earlier trademark with a reputation to stimulate the desire to buy the goods marketed under the earlier trademark with a reputation because of the undesirable associations created between the goods marketed under the earlier trademark and the goods marketed under the later sign<sup>254</sup>. Sixth, section 10 (3) does not require proof of likelihood of consumer confusion<sup>255</sup>. Seventh, the stronger the distinctive character and reputation of the earlier trademark, the easier it will be to

<sup>250</sup> The *Premier Brands* Case, Note 245 above, at 14, where Justice Neuberger held that Observations of the German Federal Supreme Court in another case, *QUICK* [1959] GRUR 182 are relevant to the other type of case, namely where use of the sign “is detrimental to” a well established mark:

“[T]he owner of ... a distinctive mark has a legitimate interest in continuing to maintain the position of exclusivity in acquired through large expenditures of time and money and that everything which could impair the originality and distinctive character of his distinctive mark, as well as the advertising effectiveness derived from its uniqueness, is to be avoided.... Its basic purpose is not to prevent any form of confusion but to protect an acquired asset against impairment”.

<sup>251</sup> The *Premier Brands* Case, Note 245 above, at 14.

<sup>252</sup> The *Premier Brands* Case, Note 245 above, at 15.

<sup>253</sup> See Note 189 above.

<sup>254</sup> The *Premier Brands* Case, Note 245 above, at 15.

<sup>255</sup> The *Premier Brands* Case, Note 245 above, at 15.

prove detriment to it<sup>256</sup>. Eighth, the mere fact that a proportion of the public associate the allegedly infringing sign with the claimant's trademark does not, of itself, mean that the sign infringes the rights of the owner of the trademark with a reputation by virtue of section 10 (3) of the UK Trademarks Act: proof of actual detriment is required<sup>257</sup>. It is submitted, once again, that the language of section 10 (3) requires proof of actual detriment. UK courts are therefore correct in following the legislative text and insisting on proof of actual, as opposed to a likelihood, of detriment. However, the theoretical basis of the dilution doctrine shows that because of the *incipient* nature of dilution, and the difficulties attendant in adducing evidence of actual dilution, what should be required by legislation in section 10 (3) – type of infringement is a probability of dilution. A likelihood of detriment should therefore suffice. The UK Trademarks Act may therefore be in need of an amendment in section 10 (3) to provide for a likelihood of dilution, both by blurring and by tarnishment. The point being made here really speaks to the way in which legislative provisions should appropriately balance the competing interests of the trademark owner, on the one hand, against the interests of the public to free trade, on the other hand. If the standard of proof is cast too high, then the owners of marks with a reputation will not be able to benefit from adequate protection against dilution. Requiring a likelihood of detriment or unfair advantage will not set the standard of protection too low, because such a likelihood will have to be substantiated by some evidence, and will need to be more than *de minimis*. Ninth, Justice Neuberger rejected submissions by the claimant that use of a sign in the context of section 10 (3) of the UK Trademarks Act was with due cause if such use was made in good faith, or for good and honest commercial reasons<sup>258</sup>. Rather, the expression, “without due cause” as an infringement concept in the context of section 10 (3), referred to three different scenarios; namely, first, *using* a later sign which is identical to the earlier trademark with a reputation without due cause; second, *taking unfair*

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<sup>256</sup> The *Premier Brands* Case, Note 245 above, at 16.

<sup>257</sup> The *Premier Brands* Case, Note 245 above, at 22.

<sup>258</sup> The *Premier Brands* Case, Note 245 above, at 17.

*advantage of* the distinctive character or the repute of the earlier trademark without due cause; and third, *causing detriment* to the distinctive character or the repute of the earlier trademark without due cause<sup>259</sup>. Due cause, under Justice Neuberger's formulation above, would be satisfied by a defendant in the context of section 10 (3) only where the user of the later sign is under an overwhelming compulsion to use the later sign and no other sign, or where the user of the later sign is entitled to use the later sign as a matter of legal right derived from prior rights in the sign. The above restrictive formulation of 'use with due cause' appropriately protects the advertising value of marks with a reputation from parasitic uses. Tenth, a defendant who seeks to argue that its use of a later sign is with due cause bears the onus of proof, because the expression "without due cause" in the context of section 10 (3) is in the nature of a proviso to the infringement scheme provided in that section<sup>260</sup>. Based on the above legal propositions, Justice Neuberger dismissed Premier's claim under section 10 (3) of the UK Trademarks Act, because there was no evidence of confusion (as an aspect of detriment) and because Premier had failed to establish any other substantial, as opposed to *de minimis*, detriment<sup>261</sup>.

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<sup>259</sup> The *Premier Brands* Case, Note 245 above, at 17, where Justice Neuberger held that Secondly, although I accept that the words "being without due cause" are somewhat opaque in their effect, I consider that they have to be read as not merely governing the words "the use of the sign", but also as governing the words "takes unfair advantage of, or detrimental to". Section 10 (3) must be read in a commercially sensible way. Bearing in mind its overall purpose, it appears to me that (without at this stage intending to indicate where the burden of proof lies) it requires the defendant to show not merely that the use of the allegedly infringing sign in connection with the defendant's goods is "with due cause"; it also requires him to show that although the use of the sign might otherwise be said to "take unfair advantage of or is detrimental to" the mark, the advantage or detriment are not "without due cause".

<sup>260</sup> The *Premier Brands* Case, Note 245 above, at 18, where Justice Neuberger held that However, as I see it, *the words "being without due cause" although not plainly expressed as such, really represent a proviso or exception to the generality of Section 10 (3). In those circumstances, if an alleged infringer, such as TEL, wishes to rely on those words, it is up to it to establish that it falls within the exception, rather than up to a proprietor of the mark to establish that the proviso does not apply.* It is fair to say that this a conclusion I would have reached even if I had held that TEL's analysis was correct.

<sup>261</sup> The *Premier Brands* Case, Note 245 above, at 20.

In *Daimler Chrysler AG v Alvai (t/a Merc)*<sup>262</sup>, the claimant brought an action under section 10 (3) of the UK Trademarks Act, claiming that the defendant was infringing its registered United Kingdom and Community trademarks “Mercedes” and “Mercedes-Benz” for motor cars. The claimant was alleging that the defendant’s use of the “merc” name in relation to his shop in the United Kingdom selling clothes and shoes mostly to mods, skinheads and casuals caused detriment to the repute of its trademarks.

Justice Pumfrey held that in deciding a case under section 10 (3) of the UK Trademarks Act, a court had to answer the following questions:

Does the proprietor’s mark have a reputation? If so (2) is the defendant’s sign sufficiently similar to it that the public are either deceived into the belief that the goods are associated with the proprietor so that the use of the sign takes unfair advantage of the mark, or alternatively causes detriment in their minds to either (a) the repute or (b) the distinctive character of the mark, or (3) even if they are not confused, does the use of the sign nonetheless have this effect, and (4) is the use complained of nonetheless with due cause. Detriment can take the form either of making the mark less attractive (tarnishing, to use Neuberger J’s words) or less distinctive (blurring). On this analysis, *Visa* is of course a case of tarnishing<sup>263</sup>.

Several legal propositions can be drawn up from the court’s approach in answering the above questions. First, in determining the distinctive character of a trademark with a reputation under section 10 (3), the approach of the ECJ in *Lloyd Schuhfabrik Meyer & Co GmbH v Klijsen Handel BV*<sup>264</sup> should to be followed; namely, that

account should be taken, in particular, of the inherent characteristics of the mark, including the fact that it does or does not contain an element descriptive of the goods or services for which it has been registered; the market share held by the mark; how intensive, geographically widespread and long-standing use of the mark has been; the amount invested by the undertaking in promoting the mark; the proportion of the relevant section of the public, which, because of the mark,

<sup>262</sup> *Daimler Chrysler AG v Alavi (t/a Merc)* [2001] ALL ER (D) 189 (Jan). Hereinafter referred to as “*the Merc*” Case. References to the *Merc case* are to the judgment downloaded from <http://gladstone.butterworths.co.uk/wbs/NET/bos>., last visited on 15<sup>th</sup> August, 2005. For a discussion of this case, see Toriq A. Baloch “*Confused About Dilution? Daimler Chrysler v Alavi (Merc case)* [2001] EIPR 427 – 433.

<sup>263</sup> The *Merc* Case, Note 262 above, at Para. 88.

<sup>264</sup> *Lloyd Schuhfabrik Meyer & Co GmbH v Klijsen Handel BV* [1999] ECR I – 3819; [1999] ETMR 690, at Para. 24.

identifies the goods or services as originating from a particular undertaking; and statements from chambers of commerce and industry or other trade or professional association.

As pointed out by Stuart Casey<sup>265</sup>, these guidelines for determining the distinctive character of a trademark are in fact similar to the ECJ guidelines for determining whether a trademark has a reputation in the *General Motors* case<sup>266</sup>.

Second, for a claimant to succeed under section 10 (3) of the UK Trademarks Act, there must be *actual* unfair advantage or detriment. A *mere risk* of unfair advantage or detriment is therefore not enough. For actual unfair advantage or detriment to be established, there must first be some connection formed by the relevant public between the use of the sign by the defendant and the trademark and its reputation, and some disadvantage or detriment must then be established as having rubbed off from the trademark with the reputation<sup>267</sup>. What is interesting is that, to date, UK courts have deliberately refrained from giving any concrete examples of the evidence needed to establish actual detriment. This lack of judicial guidance, it is submitted, demonstrates the great difficulty, present in nearly all dilution cases, of gathering and adducing evidence of actual dilution (detriment). What one is left with are mere general propositions from the courts which do not in any clear way inform both plaintiffs and defendants of what exactly it is they must prove in order to succeed in a dilution claim.

It is therefore proposed that the appropriate standard should be a likelihood of dilution test. The plaintiff can then be required, under that test, to submit evidence of the degree of similarity between his mark and the junior sign

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<sup>265</sup> Stuart Casey, “*Infringement Under the UK Trade Marks Act 1994*” [2000] Trademark World (No. 128), 10 – 15, at 10.

<sup>266</sup> For a discussion of the criteria adopted by the ECJ to establish a trademark’s reputation for the purposes of Article 5 (2) of the EC Trademark Directive in the *General Motors* case, see Chapter 5, Part 5.3.3.2.

<sup>267</sup> The *Merc* Case, Note 262 above, at Para. 94, where Justice Pumfrey held that

I consider that in order to succeed under Art 5 (2) and s 10 (3) it must be shown that there is established in the mind of the relevant public a connection between the mark with which they are familiar and the disparaging use. Thus, it is not sufficient to see the word *MERC*, note that this is the word which one uses to refer to Mercedes cars, see the disagreeable web-site and register it as disagreeable, if nothing actually rubs off on the sign *MERC* itself or on *MERCEDES*, or on Daimler-Chrysler.

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or mark. Only in cases where there is a marked resemblance between the mark and the sign should the courts proceed with the dilution analysis. The courts should also, under the proposed likelihood of dilution test, strictly scrutinize the degree of inherent or acquired distinctiveness of the mark, using the ECJ guidelines in *LLoyd Schuhfabrik Meyer & Co GmbH v Klijsen Handel BV*, above. Obviously, the more distinctive the earlier trademark, the more it is likely to be diluted by other similar marks, leading to an impairment of the association of the senior mark with its source significance. Thirdly, the courts should also look to the extent to which the owner of the earlier mark is engaging in substantially exclusive use of the mark. The question here is whether there is any evidence that other identical or substantially similar marks are already in the market place, such that the public already associates the earlier trademark with multiple sources of goods. There will, of course, be cases where a defendant will be shown, by the deductive reasoning of the court, to have intended to free-ride on the reputation of the earlier trademark. In such cases, exemplified by the use of ‘visa’, well-known for credit card and financial services, in respect of condoms, the defendant will presumably have used ‘visa’ for condoms with the expectation that the public would associate his mark with the well-known ‘visa’ mark for credit card and financial services. Such naked free riding should be viewed as an implied admission by a defendant that the earlier trademark possesses sufficient reputation, repute and distinctiveness, such that it can be diluted, and that the defendant sought to misappropriate such reputation, repute and distinctiveness in order to reap where he did not sow.

These are only some non-exhaustive examples of how courts should approach the issue of evidence based on a likelihood of dilution test. It is sufficient, for now, to say that such an approach also pays fidelity to the proposed balancing of the competing interests present in dilution cases.

Third, according to Justice Pumfrey, “the assessment of unfair advantage is an objective one: the defendant’s intention is not relevant”<sup>268</sup>. In respect of this proposition, it must be noted that Justice Neuberger had made a similar finding in the *Premier Brands* case in rejecting the submissions of the defendant that it had adopted its TYPHOON trademark innocently<sup>269</sup>.

In *Arsenal Football Club PLC v Matthew Reed*<sup>270</sup>, the ECJ clarified the meaning of the expression “use of a trademark in the course of trade” as “use which occurs in the world of business, in trade, the subject of which is, precisely, the distribution of goods and services in the market”<sup>271</sup>. It is submitted that the use of a sign in the course of trade prohibited under section 10 (3) should be given a similar meaning. Such an interpretation will be highly useful in preventing cybersquatting under section 10 (3) of the UK Trademarks Act. In *Marks and Spencer Plc v One In A Million*<sup>272</sup>, Lord Justice Aldous found that threats by a cybersquatter to sell domain names similar to registered trademarks to the owners

<sup>268</sup> The *Merc* Case, Note 262 above, at Para. 89.

<sup>269</sup> The *Premier Brands* Case, Note 245 above, and accompanying text.

<sup>270</sup> *Arsenal Football Brands Club Plc v Matthew Reed*, Case C-206/201, Judgment of the ECJ dated 12 November, 2002, available at <http://www.curia.eu.int>, last visited on 30<sup>th</sup> October, 2005. Hereafter referred to as “the *Arsenal* case”. For a discussion of the *Arsenal* case, see Simon Miles, “*The RFU and Arsenal Cases: The Use of Sporting Trade Marks In Merchandising*” [2002] EIPR, 543 – 548.

<sup>271</sup> The *Arsenal* Case, Note 270 above, at Para. 62. For a discussion of the *Arsenal* case, see Chapter 5, Part 5.3.2. Note that section 103 (2) of the UK Trademarks Act defines use of a trademark or of a sign as follows:

103 (2) Reference in this Act to use (or any particular description of use) of a trade mark, or of a sign identical with, similar to, or likely to be mistaken for a trade mark, include use (or that description of use) otherwise than by means of a graphic representation.

<sup>272</sup> *Marks and Spencer Plc v One In A Million*, Note 117 above, at p. 22, holding that

I am not satisfied that Section 10 (3) does require the use to be trade mark use nor that it must be confusing use, but I am prepared to assume that it does. Upon that basis I am of the view that threats to infringe have been established. The appellants seek to sell the domain names which are confusingly similar to registered trade marks. The domain names indicate origin. That is the purpose for which they were registered. Further they will be used in relation to the services provided by the registrant who trades in domain names.

Mr. Wilson also submitted that it had not been established that the contemplated use would take unfair advantage of, or was detrimental to, the distinctive character or reputation of the respondents’ trade marks. He is wrong. The domain names were registered to take advantage of the distinctive character and reputation of the marks. That is unfair and detrimental.

This approach, it is submitted, is similar to the approach adopted by the US Courts in preventing cybersquatting under the Federal Trademark Dilution Act. In this respect, see Chapter 6, Part 6.6.1. The position adopted there apply equally in respect of the approach adopted by Lord Justice Aldous in the passage cited above.

of the trademarks was “use of a sign” as contemplated by section 10 (3), which was detrimental to the distinctive character and repute of the trademark.

### 8.4.3 Defences

The most popular defence in proceedings under sections 5 (3) and 10 (3) of the UK Trademarks Act is that the use of the allegedly offending sign is with due cause<sup>273</sup>. In addition to this defence, several other defences may be invoked in aid of a defendant in infringement proceedings under section 10 (3) of the UK Trademarks Act. In terms of section 11 (1) of the UK Trademarks Act, a registered trademark is not infringed by the use of another registered trademark in relation to goods for which the other trademark is registered<sup>274</sup>. Section 11 (2) (a) of the UK Trademarks Act, on the other hand, provides that a registered trademark is not infringed by the use by a person of his own name or address. This provision is based on Article 6 (1) of the EC Trademark Directive and Article 12 of the Community Regulation<sup>275</sup>. In terms of section 11 (2) (b), which is based on Article 6 (1) of the EC Trademark Directive, a trader is allowed to use another trader’s registered trademark to describe various attributes of a product, such as a product’s quality, intended purpose or geographical origin. Section 11 (2) (c), derived from Article 6 (1) of the EC Trademark Directive, enables a third party to use another’s trademark where this is necessary to indicate the intended purpose of a product, in particular, accessories and spare parts. The defences in section 11 (2) (a), (b) and (c) are however limited by the *proviso* to that section to the effect that the use of the mark by the defendant should be in accordance with honest practices in industrial or commercial practices. This *proviso* is derived from Article 6 (1) of the EC Trademark Directive. Section 11 (3), which is based on Article 6 (2) of the EC Trademark Directive, provides that a registered trademark is not infringed by the use in the course of trade in a particular locality

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<sup>273</sup> This is an in-built defence available in the text of both sections 5 (3) and 10 (3).

<sup>274</sup> Section 11 (1) of the UK Trademarks Act must be read in light of section 47 (2), providing for a trademark to be declared invalid if it is registered in breach of an earlier right, and section 47 (6), providing that if a trademark is declared invalid, the registration is deemed never to have been made.

<sup>275</sup> Ruth Annand and Helen Norman, *Blackstone’s Guide To The Trade Marks Act 1994* (1998 Reprint), Note 124 above, at 165.

of an earlier right<sup>276</sup> which applies only in that locality. Section 48 of the UK Trademarks Act, which is based on Article 9 of the EC Trademark Directive, provides that the owner of an earlier trademark is not entitled to apply for a declaration that the registration of a later mark is invalid, or to stop the use of the later mark, after five years of continuous acquiescence in the use of the registered later trademark, unless the owner of the registered later trademark was acting in bad faith. Section 12, on the other hand, provides for the defence of exhaustion of trademark rights.

The above defences, it is submitted, in a dilution claim, will normally be subsumed under the defence that use of the allegedly offending sign is with due cause. In other words, any use permitted under sections 11, 12 and 48 would amount to use with due cause in the context of section 5 (3) or 10 (3) of the UK Trademarks Act.

Compared to defences available in the United States of America under the Federal Trademark Dilution Act<sup>277</sup>, it is submitted that the defences under the UK Trademarks Act are too narrow, and come heavily in favour of protecting the interests of trademark owners at the expense of free competition, and, ultimately, the rights of consumers to have greater access to product information. Specifically, it is recommended that the UK Trademarks Act should be amended to *expressly* introduce defences related to the non-commercial use of a trademark with a reputation, in order to safeguard the concept of non-commercial free speech in the form of parody, satire, editorial and other forms of expression. Further, all forms of news reporting and news commentary should be made *expressly* immune from attack under section 10 (3), because of the social value of the media in disseminating information. The fair use defence under the Federal Trademark Dilution Act seems to find its counterpart implicitly in the due cause

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<sup>276</sup> Section 11 (3) of the UK Trademarks Act defines an “earlier right” as an unregistered trademark or other sign which has been continuously used in relation to goods or services from a date prior to the use of the registered trademark or its registration, whichever is earlier. Further, the earlier right is to be regarded as applying in a locality of its use there would be protected by the law of passing off.

<sup>277</sup> See Chapter 6, Part 6.4.10, for the defences available in a dilution claim under the Federal Trademark Dilution Act.

defence in-built in both section 5 (3) and section 10 (3) of the UK Trademarks Act, which may be viewed as having their genesis in Article 17 of the TRIPS Agreement<sup>278</sup>, but the proposal being made here is that the defence should be expressly stated in the legislative text of both section 5 (3) and section 10 (3).

#### 8.4.4 *Relief*

Section 14 of the UK Trademarks Act commences from the background that remedies are available for trademark infringement. This is a restatement of the common law remedies available in passing off actions<sup>279</sup>. In terms of section 14 (2), the remedies available for trademark infringement under section 10 include (a) damages, (b) injunctions, (c ) accounts for profit, and all other remedies as would otherwise be available in respect of the infringement of any other property right. This means that orders for delivery up of the infringing goods for destruction will be available to a successful claimant under section 14 (2). These remedies, it is submitted, are on par with the remedies provided under the American Federal Trademark Dilution Act<sup>280</sup>. It is proposed, however, that amendments need to be made to the UK Trademarks Act to allow claimants in infringement proceedings to call on the infringer to give information without delay as to the origin and distribution channels of the unlawfully marked products. This remedy is available under German law<sup>281</sup>, where its value to a claimant in preparing for a claim for damages is recognized. Further, the remedy of market distortion, also available under German law, seems to be an important remedy which should be included in the UK Trademarks Act in the context of furthering the objectives of the EU internal market<sup>282</sup>.

### 8.5 **THE UK TRADEMARKS ACT AND CYBERSQUATTING**

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<sup>278</sup> See Chapter 4, Note 52, and accompanying text.

<sup>279</sup> See Notes 99 to 102 above, and accompanying text.

<sup>280</sup> See Chapter 6, Part 6.4.11.

<sup>281</sup> See Chapter 7. Part 7.3.11.

<sup>282</sup> See Chapter 7, Part 7.3.11.

The dilution provisions of the UK Trademarks Act have been of exceptionally limited assistance in prohibiting cybersquatting. The *Marks and Spencer* case, above, remains the *locus classicus* on the applicability of the infringement provisions of the UK Trademarks Act to cybersquatting. The following principles may be distilled from the *Marks and Spencer* case. First, the mere registration of a domain name will be unlawful where the name is identical or confusingly similar to a household mark that is exclusively distinctive of the goodwill of the plaintiff, especially where the domain name registrant purports to sell the domain name to the trademark owner. Second, a pattern of registering well-known marks as domain names will be evidence of cybersquatting. It is, however, arguable that, strictly speaking, cybersquatting is not unlawful under section 10 (3) of the UK Trademarks Act, because a cybersquatter usually does not *use* a domain name after registering it, but rather warehouses it with the intent of later selling it to the owner of the trademark. In such cases, a critical component of section 10 (3); namely, use of a sign in the course of trade, will be missing. In particular, it is stretching the concept of ‘use in the course of trade’ for the courts to hold that even if the domain name registrant offers to sell the domain name to the actual trademark owner, that offer suffices as use in the course of trade. The above observations speak to the fact that the interests of the owners of marks with a reputation in the United Kingdom to protect their marks from cybersquatting, and the interests of internet users to be protected from cybersquatting involving well-known marks, would better be served if the United Kingdom enacts a legislative measure prohibiting cybersquatting. The American Anticybersquatting Consumer Protection Act can be used as a blueprint for such a measure.

## 8.6 CONCLUSIONS

This Chapter sought to identify whether the English common law of passing off recognizes dilution in its current expanded form. It has been shown that, although some court decisions have specifically identified dilution in passing off cases, the position is still unclear whether in fact it can be stated with absolute

certainty that the English common law of passing off recognizes dilution. The *Harrods* case<sup>283</sup> introduced this uncertainty<sup>284</sup>.

With the passage of the UK Trademarks Act, however, the future importance of passing off to dilution cases is likely to decline, because the UK Trademarks Act increases the range of signs capable of being registered as trademarks and broadens the scope of infringement to include dilution under section 10 (3)<sup>285</sup>. The language of the anti-dilution provisions in section 5 (3) of the UK Trademarks Act, it has been shown, follows closely on Article 4 of the EC Trademark Directive<sup>286</sup>, Article 8 of the Community Regulation<sup>287</sup>, and gives effect to the ECJ decisions in the *Davidoff*<sup>288</sup> and *Adidas*<sup>289</sup> cases. The language of section 10 (3) similarly complies with the provisions of regional trademark law.

In interpreting the scope and extent of section 5 (3) of the UK Trademarks Act, it has been shown that the Registrar, in the *Eveready* case<sup>290</sup> and the *Audi* case<sup>291</sup>, in particular, failed to adequately protect the interests of the owner of a trademark with advertising value from trademark dilution. This failure was in large measure due to a misappreciation of the dilution concepts in section 5 (3), which were new to UK trademark law. The *Loaded* case<sup>292</sup>, on the other hand, represents a maturity in the approach adopted in respect of section 5 (3), as it goes *beyond* normal dilution concepts and identifies a new category of ‘inhibition’ as a valid category on which the registration of a trademark under section 5 (3) may be opposed. Indeed, Mostert, writing in 1989, had recognized inhibition as a category of detriment in circumstances similar to those provided under section 5

<sup>283</sup> Note 68 above.

<sup>284</sup> See the conclusions at Part 8.2.8 above.

<sup>285</sup> Ruth Annand and Helen Norman, *Blackstone's Guide To The Trade Marks Act 1994* (1998 Reprint), Note 124 above, at 19.

<sup>286</sup> See Note 128 above, and accompanying text.

<sup>287</sup> See Note 129 above, and accompanying text.

<sup>288</sup> See Note 130 above, and accompanying text.

<sup>289</sup> See Note 131 above, and accompanying text.

<sup>290</sup> See Notes 134 to 146 above, and accompanying text.

<sup>291</sup> See Note 147 to 160 above, and accompanying text.

<sup>292</sup> See Notes 190 to 206 above, and accompanying text.

(3)<sup>293</sup>. This means, in practice, that unfair advantage and detriment, in the context of section 5 (3), and indeed section 10 (3), of the UK Trademarks Act, extend beyond dilution concepts to include inhibition, and confusion of sponsorship. The *Visa* case<sup>294</sup>, on the other hand, recognized dilution by tarnishment and dilution by blurring as proscribed under section 5 (3) of the UK Trademarks Act. There, dilution by tarnishment was in issue.

Seven legal propositions can be drawn from the interpretation given to section 5 (3) in decided cases so far<sup>295</sup>. First, reputation for the purposes of section 5 (3) means that the earlier trademark must be known by a significant part of the relevant public concerned with the goods or services covered by the trademark. An analysis of the reputation of the earlier trademark should be the first point of enquiry in a dilution case under the balancing approach advocated in this thesis, because, absent the relevant reputation, all the other dilution elements are rendered moot, and the court should dismiss the dilution claim, in the interests of free trade. Second, section 5 (3) can only be called in aid by an opponent who proves *actual* detriment or unfair advantage, not mere risks of detriment or unfair advantage. As explained earlier, there is no rational basis as to why the courts and the Hearing Officers insist on actual, as opposed to probable, dilution under section 5 (3), because the legislative language of section 5 (3) is cast in terms of probable dilution rather than actual dilution. Such an approach also ignores the incipient nature of dilution, and fails to adequately protect the interests of the trademark owner. The third proposition, below, only makes sense, moreover, if probability of harm is the appropriate yardstick to be used in cases under section 5 (3). Third, the stronger the distinctive character and reputation of the earlier trademark, the easier it will be to prove either detriment or unfair advantage. Fourth, confusion as to origin is not an element of a successful claim under section 5 (3). Fifth, detriment or unfair advantage may take the form of dilution by blurring or by tarnishment, but may extend in appropriate cases to other

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<sup>293</sup> Note 47 above, at 440, the first head of damage identified by Mostert.

<sup>294</sup> See Notes 207 to 213 above, and accompanying text.

<sup>295</sup> See Notes 219 to 231 above, and accompanying text.

instances, for example, inhibition and parasitically feeding on the fame of the earlier trademark. Sixth, the onus of proving reputation, detriment and unfair advantage lies on the opponent, but the onus of proving that use of the allegedly offending sign is with due cause lies on the applicant. UK courts have, to date, steadfastly failed to lay down, in general terms, the evidence necessary to prove dilution, for the guidance of plaintiffs and defendants alike. Such a failure, in turn, has led to the absence of a coherent framework in dilution cases, whereby the competing interests of the trademark owner in ensuring that the advertising value of his trademark is protected from dilution, on the one hand, are balanced against the competing interests of the public to free competition and product information. Seventh, use of a sign by an applicant will only be with due cause if it is under compulsion, or if it is done in exercise of earlier rights in the sign. The strict interpretation of ‘use with due cause’ therefore is tilted in favour of protecting the interests of the trademark owner.

These legal principles are also applied in infringement cases under section 10 (3) of the UK Trademarks Act, as highlighted in the discussion of the *Premier Brands* and the *Merc* cases above.<sup>296</sup> It is, however, submitted that cases decided under section 5 (3) and 10 (3) of the UK Trademarks Act, by requiring proof of *actual* detriment or unfair advantage, raise the evidentiary bar too high and ignore the *incipient* nature of dilution harm. They therefore fail to adequately protect the advertising value of trademarks. The UK Trademarks Act should consequently be amended to provide, in the case of dilution by blurring, that the owner of the trademark with a reputation satisfies the requirement of section 5 (3) or section 10 (3) if he proves a likelihood of connection between his mark and the junior mark, arising from the similarity of the marks, which would, if left unchecked, impair the distinctive character of his trademark. A likelihood of dilution by tarnishment should similarly be prescribed in the statute, requiring the owner of the senior mark to prove that a likelihood of connection between his senior mark and the junior mark, arising from the similarity of the two marks,

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<sup>296</sup> See Notes 245 to 261 above, and Notes 262 to 268 above, and accompanying text.

would harm the repute of his earlier trademark. The justification for these law reform proposals is that the owner of the senior mark should be able to obtain injunctive relief against the *first* offending use of the junior mark or sign, and should not be required to wait until multiple third party uses compound the harm such that the recognition of the mark and its repute are permanently impaired. Such a legislative amendment would also bring UK law on par with the amendments in the Federal Trademark Dilution Revision Act of the United States of America.

It is recommended that the UK should also incorporate the ECJ guidelines in the *General Motors* case<sup>297</sup> into section 5 (3) and section 10 (3), as legislative guidelines to be used by the Registrar and the courts in determining the reputation of a trademark. Further, the UK should increase the defences available in infringement proceedings under section 10 (3) by expressly incorporating free speech defences in the UK Trademarks Act. This amendment will, in the final analysis, protect a fundamental human right. Likewise, the remedies available to a successful claimant should be increased to include damages for market distortion, and the ability of a successful claimant to call for information from the infringer in order to prepare his case for damages, both of which are available under the German Trademarks Act.

It has been shown that section 10 (3) of the UK Trademarks Act has been of exceptionally limited assistance in combating cybersquatting and cyberpiracy. Likewise, the applicability of passing off to cases of domain name warehousing has been shown to be very limited. This, it is submitted, points to the need for the UK to enact a statute similar to the US Anticybersquatting Consumer Protection Act<sup>298</sup>.

In the final analysis, although the UK law, generally, and the UK Trademarks Act, in particular, can be said to be in compliance with the anti-dilution provisions of both international and regional trademark law, it was argued

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<sup>297</sup> Note 243 above.

<sup>298</sup> See Chapter 6, Part 6.6.

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that there are still some areas which need to be addressed through law reform measures to achieve an equitable balance between the interests of the owners of trademarks with a reputation in seeing the adequate protection of their trademarks from trademark dilution, and the interests of consumers in seeing that their interests not to be deceived as to the source of goods are protected in equal measure. Further, UK courts should not lose sight of this underlying tension in dilution cases, but should rather be guided by the logical and theoretical foundations of the dilution doctrine in appropriately balancing the interests of a trademark owner on the one hand and the competing interests of the public on the other hand.

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## **CHAPTER 9**

### **SOUTH AFRICA**

#### **9.1 INTRODUCTION**

This Chapter examines and analyses the protection granted to trademarks against dilution under the South African common law and the South African Trade Marks Act<sup>1</sup>. The level of statutory protection is compared to obligations imposed on States by international trademark law to provide, in their domestic trademark laws, for protection against dilution. The Chapter also argues that the Act is principally derived from the UK Trade Marks Act, 1994 and, as such, case law interpreting the latter Act will have a significant influence in interpreting the provisions of the Act. The Chapter closes by making some law reform proposals to strengthen the protection granted to trademarks against dilution under South African statutory law, including internet-based dilution caused by cybersquatting.

#### **9.2 THE COMMON LAW**

##### **9.2.1 Passing Off**

In *Capital Estate and General Agencies (Pty) Limited and Others v Holiday Inns Inc and Others*<sup>2</sup>, Rabbie JA formulated what is now generally accepted as the correct definition of passing off under the South African common law as follows:

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<sup>1</sup> Act 194 of 1993, as amended by the Intellectual Property Laws Amendment Act 38 of 1997. All references to sections or ‘the Act’ are to Act 194 of 1993, as amended, except where a contrary intention appears from the context.

<sup>2</sup> 1977 (2) SA 916 (A), at 929. Hereafter “the *Capital Estate* Case”. For an earlier definition of passing off under the South African law of delict, see *Pasquali Cigarette Co. Ltd v Diaconicolas and Capsopolous* 1905 TS 472, at 474. See also, for other definitions of passing off in the South African context (a) *Adcock*

The wrong known as passing off consists in a representation by one person that his business (or merchandise, as the case may be) is that of another, or that it is associated with that of the other, and, in order to determine whether a representation amounts to a passing off, one enquires whether there is a reasonable likelihood that members of the public may be confused into believing that the business of the one is connected with that of another ... whether there is a reasonable likelihood of such confusion arising is, of course, a question of fact which will have to be determined in the light of the circumstances of each case.

From the above definition, several legal propositions can be drawn. First, in an action for passing off, a plaintiff needs to prove two things: that his trademark, which has been imitated by the defendant, is known in the market place and possesses a reputation recognized by the relevant public in respect of his goods, and that the defendant's conduct in imitating his trademark is likely to deceive or confuse the public. Second, classical (or traditional) passing off, under the South African law of delict, presumes a *competitive struggle between traders* and, as such, is a form of unlawful competition, because a trader will, through imitating his rival's *distinctive marks*, be representing that his products are those of his rival, and by so doing, will be infringing his rival's goodwill<sup>3</sup>. Consumers are likely to be deceived by such conduct. Third, in a classical passing off case, it is the distinguishing value of a trademark that is infringed<sup>4</sup>. The existence of a competitive economic relationship between the parties in a classical passing off action was expressly recognized by Van Dijkhorst J in *Lorimar Productions Inc & Others v Sterling Clothing Manufacturers (Pty) Ltd; Lorimar Productions*

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– *Ingram Products Ltd v Beecham SA (Pty) Ltd* 1977 (4) SA 434 (W), at 436; (b) *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd* 1981 (2) SA 173 (T), at 201 – 202; (c) *Van der Watt v Humansdorp Marketing CC* 1993 (4) SA 779 (SE); (d) *Reckitt and Colman SA (Pty) Ltd v SC Johnson and Son SA (Pty) Ltd* 1993 (2) SA 307 (A); and (e) *Policansky Brothers Ltd v L and H Policansky* 1935 AD 89, which referred to the old Roman Dutch authorities and concluded that what was prohibited by passing off was for a person, by imitating the name, mark or devices of another, who has acquired a reputation for his goods, to filch the latter's trade.

<sup>3</sup> J. Neethling, “*Passing Off and Misappropriation of the Advertising Value of Trade Names, Trade Marks and Service Marks*” [1993] 5 SA Merc LJ, 306 – 313, at 308.

<sup>4</sup> Van Heerden and Neethling, *Unlawful Competition* (1995), Chapter 8, “*Leaning On, Undue Influencing of Customers*”, 201 – 219, at 201, observing that “In the case of passing off there is an infringement of the *distinguishing value* of trade marks, trade names and service marks as *distinctive marks*”.

*Inc and Others v OK Hyperama Limited and Others; Lorimar Productions Inc and Others v Dallas Restaurant*<sup>5</sup> in commenting that

It is, however, only in the *exceptional* case where there will be passing off yet no actual common field of activity. Competition is normally the *casus belli*. In general terms competition involves the idea of a struggle between rivals endeavouring to obtain the same end. It may be said to exist whenever there is a potential diversion of trade from one to another. For competition to exist the articles or services of the competitors should be related to the same purpose or must satisfy the same need.

However, there are a number of South African cases discussed below, where the courts denied relief to a plaintiff for failing to prove passing off in the *absence* of a common field of activity, and, therefore, competition. Neethling argues that since there was, in such cases, no common field of activity, and therefore no competition, the cases did not involve passing off as such, but rather the misappropriation of the advertising value of trademarks, trade names and service marks, leading to the injuries of either trademark dilution or confusion of sponsorship<sup>6</sup>.

It is Rabie JA, in the *Capital Estate* case<sup>7</sup> who first extended the application of passing off to cases where the parties were not engaged in a common field of activity and, as such, were not competitors. There, His Lordship held, in regard to passing off, that

Whether there is a reasonable likelihood of such confusion arising is, of course, a question of fact which will have to be determined in the light of the circumstances of each case. If the evidence establishes that there is a reasonable likelihood of such confusion arising even if the parties concerned cannot be said to be carrying on their activities in a common field, it is difficult to see how the absence of such a common field can nevertheless constitute a ground for denying

<sup>5</sup> *Lorimar Productions Inc & Others v Sterling Clothing Manufacturers (Pty) Ltd; Lorimar Productions Inc and Others v OK Hyperama Limited and Others; Lorimar Productions Inc and Others v Dallas Restaurant* 1981 (3) SA 1129 (T), at 1141. Hereafter “the *Lorimar* Case”.

<sup>6</sup> J. Neethling, Note 3 above, at 308 – 310 and at 311 – 313. See also Van Heerden and Neethling, Note 4 above, Paras. 1.3 and 1.4, pp. 208 – 215. See further BR Rutherford, “*Misappropriation of the Advertising Value of Trade Marks, Trade Names and Service Marks*” [1990] 2 SA Merc. L. J. 151 – 163, Para. 2.2, at pp. 154 – 158.

<sup>7</sup> The *Capital Estate* Case, Note 2 above.

relief to an aggrieved party. The absence of a common field of activities is, of course, a factor which one has to take into account when considering the question whether someone's conduct is likely to lead to confusion of the kind mentioned, but the proper weight to be assigned thereto will depend on a consideration of all the relevant facts. The crucial question in every case is whether there is a reasonable likelihood of confusion, and this being so, it cannot be suggested that the absence of a common field of activities will always be sufficient to bar a party from obtaining relief<sup>8</sup>.

The South African Appellate Division also confirmed this approach in *Philip Morris Inc and Another v Marlboro Shirt Co. SA Ltd and Another*<sup>9</sup> and in *Royal Beech-Nut (Pty) Ltd t/a Manhattan Confectioners v United Tobacco Co. Ltd t/a Willards Foods*<sup>10</sup>, two cases which are analysed in some detail below.

This approach of the South African courts to passing off, however, seems to ignore trademark dilution as a form of unlawful competition or as an independent cause of delictual action. The closest South African courts came to recognizing dilution was in *Cambridge Plan AG and Another v Moore and Others*<sup>11</sup>, but even in that case, this was as a consequence of a consideration of passing off. There, Page J opined, in an oft-quoted dictum, that

The rights which the applicants are seeking to protect are rights which will be irreparably damaged or totally destroyed if the respondents are infringing them and are permitted to continue doing so. *The distinctiveness of their marks and trading style will be diluted in such a manner that it cannot ever be restored.* It is for this reason that the Courts lean in such cases towards granting interim relief as soon as possible in order to preserve those rights undamaged pending the decision of the action.

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<sup>8</sup> The *Capital Estate* Case, Note 2 above, at 929. This formulation was also applied in *Miriam Glick Trading (Pty) Ltd & Others v Clicks Stores (Tvl) (Pty) Ltd* 1979 (2) SA 290 (T), at 295 – 296; *Solmike (Pty) Ltd t/a Skipper's Cabin v West Street Trading Co (Pty) Ltd t/a Skipper Bar* 1981 (4) SA 706 (D), at 713 – 714; *Searles Industrials (Pty) Ltd v International Power Marketing (Pty) Ltd* 1982 (4) SA 123 (T), at 131; *Lorimar Productions Inc & Others v Sterling Clothing Manufacturers (Pty) Ltd* 1981 (3) SA 1129 (T), at 1141; *Brian Boswell Circus (Pty) Ltd & Another v Boswell-Wilkie Circus (Pty) Ltd* 1985 (4) SA 466 (A) at, 478 – 479.

<sup>9</sup> *Philip Morris Inc and Another v Marlboro Shirt Co. SA Ltd and Another* 1991 (2) SA 720 (A). Hereafter “the *Philip Morris* Case”.

<sup>10</sup> *Royal Beech-Nut (Pty) Ltd t/a Manhattan Confectioners v United Tobacco Co. Ltd t/a Willards Foods* 1992 (4) SA 118 (A). Hereafter “the *Beech-Nut* Case”.

<sup>11</sup> *Cambridge Plan AG and Another v Moore and Others* 1987 (4) SA 821 (D). Hereafter “the *Cambridge* Case”.

An award of damages will almost certainly be a poor substitute for such an order. Damages resulting from loss of sales by reason of use of the offending marks and names are notoriously difficult to prove, whilst those resulting from dilution of the distinctiveness of the applicant's marks and names will be well-nigh impossible to establish<sup>12</sup>.

Apart from this dictum, in *Federation Internationale de Football and Others v Bartlett and Others*<sup>13</sup>, Joffe J was prepared to prohibit the use (misappropriation) of the applicants world-cup trademarks on the basis of unlawful competition, but, because he found passing off *in casu*, he did not elaborate the rationale of unlawful competition which would have informed his decision.

The cases cited above merit closer scrutiny, because in the final analysis, they in fact involved the misappropriation of the advertising value of trademarks, trade names and other business identifiers, leading to the injuries of either dilution or confusion of sponsorship.

### **9.2.2 Misappropriation of a Trademark's Advertising Value and the Injuries of Confusion of Sponsorship and Trademark Dilution**

It is self-evident, from the discussion of passing off above, that in the context of the South African law of delict, an applicant in a passing off action will have to prove (a) that his trademark has become *distinctive* in the marketplace and, as such, possesses *distinguishing value* or, put differently, discharges the product distinguishing function in respect of his goods, and (b) that the defendant is misrepresenting that his goods are those of the applicant, through the defendant's imitation of the applicant's distinguishing trademarks, which likely causes consumer confusion or deceit<sup>14</sup>. The question to be answered next, it is submitted, speaks to the requirements which need to be proved when one trader

<sup>12</sup> The *Cambridge* Case, Note 11 above, at 847 – 8.

<sup>13</sup> *Federation Internationale de Football and Others v Bartlett and Others* 1994 (4) SA 722 (T). Hereafter “the *Federation Internationale de Football* Case”.

<sup>14</sup> J. Neethling, Note 3 above, at 310. See also Van Heerden and Neethling, Note 4 above, at 210.

unlawfully appropriates another's trademark as an *entrée* in advertising his own goods and thereby increasing his goodwill.

When a trader, in order to advertise his goods and, at the same time, promote and expand his own goodwill, uses the trademarks of another trader, he will be infringing the goodwill of the latter trader<sup>15</sup>. Where the goods in issue are related and non-competing, such use will result in confusion of sponsorship<sup>16</sup>. Where, on the other hand, the goods in issue are (non)-competing, such use will result in dilution<sup>17</sup>.

One well-known South African case which involved concealed misappropriation of the advertising value of trademarks in a competitive economic context, leading to the injury of trademark dilution is *Federation Internationale de Football and Others v Bartlett and Others*<sup>18</sup>. In that case, the first applicant was the international controlling body of soccer and the organizer of the World Cup soccer tournaments, which are hosted in different countries every four years. The other applicants were all licensees of the first applicant in respect of the world cup soccer tournament insignia, such as trademarks, logos, artistic works, names, designations, symbols and emblems. The applicants sought an interdict (injunction) against the respondents based on passing off and unlawful competition, in order to restrain the respondents from misrepresenting that they held licensing rights in South Africa in respect of the World Cup USA 1994 tournament; from attempting to extract commission and royalty payments from applicants' sponsors and sub-licensees; from publishing newsletters and brochures promoting the respondents range of clothing and sports gear using the World Cup insignia, and from writing a letter to the World Cup sponsors in South Africa stating that the applicants had exclusive marketing rights with regard to the use of the words "world cup" on clothing in South Africa, among other things. It

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<sup>15</sup> The theory of misappropriation of the advertising value of trademarks is discussed extensively in Chapter 3, Part 3.2.

<sup>16</sup> See Chapter 3, Part 3.4.

<sup>17</sup> See Chapter 3, Part 3.3.

<sup>18</sup> The *Federation Internationale de Football* Case, Note 13 above.

must be briefly stated that in 1965, the first respondent had designed a trademark consisting of the words “world cup” superimposed on a map of the world device which it registered in 1969 in respect of men’s clothing and footwear, and soccer equipment, and which it began exploiting in 1989 by assignment to assignees, and licensing to licensees and several sub-licensees.

From these facts, it is apparent that the litigants were economic competitors in the use of the World Cup soccer tournament insignia; that is, the trademarks, logos, artistic works, names, designations, symbols and emblems related to the world cup soccer tournament.

As competitors of the applicants in the exploitation of the world cup trademark and associated insignia, the respondents consciously drew closely upon the well-known elements of the applicants’ trademarks (the word mark “world cup” and associated insignia) in order to appropriate the reputation of the applicants’ trademarks for their own financial benefit, thereby seeking to covertly assume the reputation of the applicants trademarks.

In connection with the passing off case, the court held that character merchandising<sup>19</sup> was a phenomenon which had taken root in South Africa and

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<sup>19</sup> The *Federation Internationale de Football* Case, Note 13 above. The court defined character merchandising at 736 – 737 of the judgment as follows:

Character merchandising is defined as being the business of merchandising popular names, characters and insignia in order to enhance the sales of consumer products in relation to which such names and characters are used. This form of marketing had its origin in the United States of America in approximately 1930. The major impetus in the development of character merchandising in South Africa was the introduction of television in South Africa in 1973. *The association of a famous person or character with a consumer product can boost that product’s sales considerably. The fame and popularity of the name or character in question enhances the desirability of the product from the consumer’s point of view. The association between the name or character, which can be referred to as the ‘merchandising property’, and the consumer product is usually created by depicting the merchandising product prominently on the product.* A typical merchandising product is the well-known cartoon character Mickey Mouse. As the proprietor of the merchandising property has already invested substantial time and money in developing and popularising such character, and it is the fame and desirability of the merchandising property which will promote the sale of the goods to which it is applied, the proprietor of the merchandising property charges a royalty or licence fee for the use of his merchandising property. The royalty is payable in terms of a licence agreement under which the owner of the merchandising property authorises the licensee to utilise the merchandising property in relation to

which was recognized by the common man in the street as emanating from licensing activities<sup>20</sup>. This being the case, so reasoned the court, the public would associate any references by the respondents to the World Cup USA 1994 soccer tournament with the applicants and their licensees, who had a reputation and goodwill in South Africa<sup>21</sup>. Furthermore, by reason of the fact that the applicants were engaged in character merchandising, it was sufficient to create in the mind of the public a link between the merchandising product and the applicants. The court therefore concluded that the applicants were likely to suffer injury in lost

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his goods. Generally a licensor exercises a measure of supervision over the use of the merchandising property which is the subject of the licence and such supervision is commonly exercised by a licensing agent such as the fourth applicant. It appears that the consumer makes a connection and an association between the character and its creator or owner and the products featuring the character. Thus it is widely known, according to the deponent Wills, that the character Mickey Mouse was created by Walt Disney. Clothing bearing the image of Mickey Mouse is inevitably then associated with Walt Disney.

The extent of character merchandising in South Africa can be gauged from fourth applicant's income from it. It is stated to amount to approximately R4 000 000 per annum.

Although not constituting character merchandising in the strict sense, licensing the use of properties such as the Barcelona Olympic Games logo, the Olympic rings device, the Davis Cup tennis logo and logos associated with other major international sporting events, such as the World Cup soccer tournament, can be regarded as character merchandising in the broad sense (emphasis added).

A similar definition of character merchandising is provided by Frederick Mostert, "*The Right To The Advertising Image*" [1982] 99 SALJ 413 – 429, at 413, as consisting of

The commercial exploitation of famous and popular images for purposes of promoting or advertising products, services and businesses. Such an advertising image usually consists of the name, the portrait or some other attribute of a well-known personality or a fictional character from a movie film, a television series or a comic strip. Manufacturers and traders in various fields of commerce have by the use of such advertising images been able to enhance the attractiveness of their products and to lure custom to their businesses.

See also Heijo E. Ruijsenaars, "*The WIPO Report on Character Merchandising*" [1994] Vol. 4 International Review of Industrial Property and Copyright Law, 532 – 542, at 533.

<sup>20</sup> The *Federation Internationale de Football* Case, Note 13 above, where Joffe J stated that

In view of the evidence that has been placed before me, I find that the concept of character merchandising has taken hold in South Africa. The man in the street would have knowledge thereof. He would make the link between the merchandising property and the events or circumstances which made it famous. He would be aware that the link is established by licensing or a licence.

<sup>21</sup> The *Federation Internationale de Football* Case, Note 13 above, at 739 H – J and at 740A, where Joffe J stated that

I have already held in regard to character merchandising that the public would associate any references to the 1994 World Cup with the applicants. The evidence clearly establishes that the applicants and their licensees have *a reputation and goodwill in South Africa*. This is established by the fact that numerous prominent retailers, as well as the fourth respondent itself, are anxious to obtain and pay for licenses from the applicants for the purpose of manufacturing and marketing clothing bearing the World Cup insignia. Furthermore, by reason of the fact that applicants are engaged in character merchandising, it is sufficient to create in the public's mind a link between the merchandising product and the applicants.

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revenues, and damage in potential licensees who, because of the conduct of the respondents, would refrain from entering into licensing arrangements with the applicants, thereby depriving the applicants of income. In the circumstances, the court accordingly interdicted the respondents from using the words “world cup” together with the numerals “1994” and/or the words and numerals “94 and/or America” and/or “USA”.

The importance of this case lies in the fact that Joffe J was prepared to grant relief on the basis of unlawful competition, but did not do so. Further, he did not set out the reasons which would have informed his decision, had he granted relief under the head of unlawful competition. It is submitted that the court could have granted relief on the basis of a finding of concealed misappropriation of the applicants’ world cup trademarks and associated insignia in a competitive context. The respondents in this case were seeking to promote and increase their goodwill, and thereby to lure customers, by misappropriating the reputation of the well-known world cup trademarks and related insignia. Joffe J had already found that the applicants had a reputation and goodwill in South Africa, and were likely to suffer harm in lost sales and loss of potential licensees due to the conduct of the respondents. The respondents therefore were covertly assuming the reputation of another’s marks by consciously drawing closely upon the well-known elements of the applicants trademarks in order to misappropriate the reputation of those marks for their own financial advantage. It is this type of conduct that is prohibited by a claim for concealed or veiled misappropriation of the advertising value of a trademark.

This case is also important because, in dealing with the issue of passing off, Joffe J recognized *not only* the existence of character merchandising in South Africa, but, even more importantly for the purposes of the present discussion, the advertising value of the merchandising product – the fictitious character which is then used on consumer products because of its fame, popularity and advertising

appeal<sup>22</sup>. In respect of the advertising value of the merchandising product, Joffe J correctly, it is submitted, recognized that it boosts “sales considerably”<sup>23</sup> and “enhances the desirability of the product [on which it is applied] from the consumer’s point of view”<sup>24</sup> by creating an “association between the ... merchandising product and the consumer product [on which it is applied]”<sup>25</sup>. This, according to Joffe J, comes about because “the proprietor of the merchandising property [will have] invested substantial time and money in developing and popularizing such character”<sup>26</sup>.

The observations of Joffe J in the *Federation Internationale de Football* case, above, is the closest a South African court has come, under the common law, to recognizing the misappropriation of the advertising value of a trademark as a form of unlawful competition or the right to the advertising image of a trademark as an independent right worthy of protection in its own right. This case, therefore, could equally have been decided, in a straight forward manner, on the basis of the right to the *advertising image* of a trademark. In other words, the court could have held in that case that the applicants had *an exclusive right* to exploit the value in their well-known world cup trademarks for their own financial benefit by charging royalties and licence fees to other traders who wanted to use those marks and that any unauthorized use of that advertising image was to be prohibited.

Another example of concealed misappropriation in a competitive context in South African law is *Union Wine Limited v E Snell and Company Limited*<sup>27</sup>. The facts of this case are well-known, and are briefly repeated here to contextualize the ensuing discussion. There, the applicant, a producer and dealer in wines, marketed its blended semi-sweet fruity white wine under the name

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<sup>22</sup> The *Federation Internationale de Football* Case, Note 19 above, the italicized text.

<sup>23</sup> The *Federation Internationale de Football* Case, Note 19 above.

<sup>24</sup> The *Federation Internationale de Football* Case, Note 19 above.

<sup>25</sup> The *Federation Internationale de Football* Case, Note 19 above.

<sup>26</sup> The *Federation Internationale de Football* Case, Note 19 above.

<sup>27</sup> 1990 (2) SA 189 (C). For a discussion of this case, see Van Heerden & Neethling, Note 4 above, at 205 – 207.

‘Bellingham Johannisberger’ since 1957. After being placed on the market, the wine had become popular, well-known and a best seller in its price bracket, principally because of its taste, reasonable price and consistent quality. In 1969, the respondent, a liquor merchant, then placed on the market (in competition to the applicant’s wine) a blended semi-sweet wine known as ‘Edward Snell Johannisberger’. The applicant applied to the Durban and Coast Local Division for an interdict (injunction) to prevent the respondent from marketing its wine as a ‘Johannisberger’ on the ground of passing off. This application was dismissed because the court found that no likelihood of confusion on the part of customers had been shown. On appeal, the applicant sought an interdict (injunction) restraining the respondent from using the name ‘Johannisberger’ in relation to any wine advertised, marketed, sold or distributed by it. The wrongful act complained of by the applicant, and the resulting injury, were defined as patrimonial loss resulting from the respondent’s appropriation of the goodwill attaching to the name ‘Johannisberger’ after the applicant had marketed that name for thirty-two years. The applicant claimed that the respondent was capitalizing on the goodwill in that name in order to obtain for the respondent’s wine a considerable advantage and positioning in the marketplace at little or no cost to the respondent.

Van Deventer AJ summarized the issues he had to determine in regard to the merits of the case as follows<sup>28</sup>:

1. Has the name ‘Johannisberger’ *per se* attracted goodwill in consequence of its use by applicant?
2. Is the applicant likely to suffer erosion of such goodwill in consequence of respondent’s conduct?
3. If the foregoing two questions are to be answered affirmatively, does the respondent’s conduct constitute wrongful competition?
4. If respondent’s conduct were to be found to amount to ‘unfair’ competition as opposed to unlawful competition, would it still be delictual?

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<sup>28</sup> Note 27 above, at 197.

In respect of the first question, Van Deventer AJ found that the “applicant had over thirty years invested considerable effort and expenditure in the promotion of Bellingham Johannisberger and that the use of [that] name has attracted a reputation to it which has enured to the applicant’s benefit”<sup>29</sup>. In respect of the second question, Van Deventer AJ held that the applicant was likely to lose custom as a result of the respondent’s conduct. The Judge noted that

I believe ... that the applicant will inevitably lose some custom to the respondent on the simple basis that some less knowledgeable or fastidious patrons will ask only for ‘Johannisberger’ and be offered the respondent’s wine. Others will buy the respondent’s wine in the belief that it is either a similar or a sufficiently similar wine for their purpose, that is a wine falling within the same ‘taste spectrum’ ... especially if it is offered as a cheaper wine<sup>30</sup>.

The Judge nevertheless concluded that the conduct complained of did not fall into an identifiable category of unlawful competition (like passing off) nor was it delictually unlawful in the form of unfair competition<sup>31</sup>. Van Deventer AJ accordingly dismissed the application.

It is submitted that this case concerned concealed misappropriation between the two competing wine merchants, and since the Judge found that the name ‘Johannisberger’ had acquired a reputation in respect of the applicant’s wine, and that the conduct of the respondent was likely to injure the goodwill of the applicant’s business, the Judge should accordingly have proceeded to find that the conduct of the respondent amounted to misappropriation of the reputation in that name, which would, if unchecked, cause dilution to the advertising value of the Johannisberger trade name.

In the context of South African law, a good case illustrating concealed misappropriation in a non-competitive economic context where the goods were unrelated is *Lorimar Productions Inc & Others v Sterling Clothing*

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<sup>29</sup> Note 27 above, at 198.

<sup>30</sup> Note 27 above, at 198.

<sup>31</sup> Note 27 above, at 199 – 203.

*Manufacturers (Pty) Ltd; Lorimar Productions Inc and Others v OK Hyperama Limited and Others; Lorimar Productions Inc and Others v Dallas Restaurant*<sup>32</sup>. There, the first applicant was the producer of a well-known television series, “*Dallas*”. The second applicant was a company whose business was character merchandising<sup>33</sup>, that is, the commercial use of characters, locations, names, titles and logos from television series and films for promotions and the sale of products and services. The third applicant was the South African agent of the second applicant. The first and second applicants were both American companies. The applicants applied for temporary interdicts (injunctions) against the respondents in three applications, to restrain the respondents from using on, in or in respect of their businesses, goods, services or publications any characters, locations, names, titles and logos depicted in the “*Dallas*” television series. The applicants alleged that the “*Dallas*” television series was a well-known fact of present day commercial life and the characterizations, names and concepts of any successful television or feature film formed valuable assets which were licensed by the creators of those films and that it was assumed by members of the public that the use of such a characterization in respect of products or goods is licensed by the creator. As such, argued the applicants, an impression was likely to be created in the mind of the public that the product emanated directly from or was associated with the film production

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<sup>32</sup> 1981 (3) SA 1129 (T), Note 5 above. For a discussion of this case, see (1) Frederick Mostert “*The Right To The Advertising Image*” [1982] SALJ 413 – 429; (2) BR Rutherford “*Misappropriation of the Advertising Value of Trade Marks, Trade Names and Service Marks*” [1990] 2 SA Merc. LJ. 151 – 163, at 156 – 158.

<sup>33</sup> The *Lorimar* Case, Note 5 above. There, Van Dijkhorst J defined character merchandising at 1131H – 1132B of the judgment as

the use of characters, locations, names, titles and logos from television series, feature films or other entertainment programmes for promotions and the sales of products and services ... If carefully chosen merchandise is marketed in overt association with a popular film, television series, celebrity, fictitious character or the like, that merchandise will enjoy a greater consumer demand than could have been expected for the unadorned product. It is alleged that the natural response of the entertainment industry to this phenomenon has been the development of a substantial business in the sale of endorsements and licences for the use of material which will endow licensed merchandise with the aura of an existing box office success. Allegedly manufacturers are prepared to pay considerable sums of money for the privilege of using ... a particular name, title, photograph or similar embellishment in or upon merchandise which might thereby obtain a springboard into the market place.

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company or the production itself, and this impression was of the greatest importance in the successful marketing of any products.

The respondents in the first two applications were clothing manufacturers and vendors, and had used the names “*Dallas*”, “*Southfork*” and “*JR*” on clothing either manufactured or sold by them. These were names of characters in the Dallas television series. The respondent in the third application had named its restaurant “Dallas Restaurant”, and some items on the restaurant’s menu included descriptions which referred to some of the characters in the television series. The applicants alleged that the conduct of the respondents infringed the applicants’ rights. Firstly, the applicants alleged passing off, in that the conduct of the respondents was likely to create a false impression in the minds of the public that a link existed between the first applicant and the goods or services of the respondents in the form of sponsorship, licensing, endorsing or exercising some form of control over the activities of the respondents and the quality of their goods with the consequence that the public would be deceived to the detriment of the applicants. Secondly, the applicants, relying on the delict of unlawful competition, alleged that the respondents were using the creation of the first applicant to promote business for their own advantage, which was unfair as being *contra bonos mores*.

The court dealt with the issue of passing off first, then addressed the issue of unlawful competition. In respect of passing off, Van Dijkhorst J held that, although the “Dallas” television series generated wide-spread interest and so created a goodwill for the first applicant in South Africa, such goodwill pertained to the entertainment field and the applicants at no time took any action that was directed to creating an association in the public eye between the television series and clothing or restaurants. Further, the court held that where a goodwill or reputation exists, the name of the holder of the mark or the mark or logo itself should conjure up in the minds of the public the particular class of an article or service for which the holder was known. This was not apposite to the facts in

issue: the name of the first applicant or the names of the locations or characters in its television series did not have any reputation in respect of clothing or the restaurant business, except insofar as the respondents had created it. Since the applicants failed to establish that the fictitious characters and names had acquired a reputation in South Africa in respect of clothing and restaurants, the conduct of the respondents was held not to amount to passing off. The parties were not in a competitive economic relationship and their goods, businesses and services were not related<sup>34</sup>.

In respect of likelihood of deception, Van Dijkhorst J noted that no evidence was placed before the court that the South African public had in fact been deceived by the use of the names from the television series by the respondents, nor was there any acceptable evidence that the public was likely to be deceived by the use of those words. The court found that character merchandising was not well-known in South Africa, and without proper evidence to prove that fact, the court declined to assume that the man in the street would have any knowledge thereof. Consequently, the court declined to find a *prima facie* case of deception or that the likelihood of confusion had been made out<sup>35</sup>.

<sup>34</sup> The *Lorimar* Case, Note 5 above. There Van Dijkhorst J was of the view, expressed at 1149 G – H, that where a goodwill or reputation exists, the name of the holder or his mark, logo, etc, should conjure up in the minds of the public the particular class of article or service for which the holder is known. An example will illustrate the fallacy of the applicants' contention. Appending the name of a well-known politician to shaving cream may cause its sales to rocket skywards. His name will be the attractive force that brings in custom. Yet it cannot be said that before his name was so used he had any goodwill or reputation in respect of that product.

The name Lorimar or *the names of locations or characters in its television series do not have any reputation in respect of clothing or the restaurant business (except insofar as the respondents have created it)*. The requirement of goodwill for an action of passing off is therefore not met by the applicants (emphasis added).

<sup>35</sup> The *Lorimar* Case, Note 5 above. There Van Dijkhorst J dealt with this issue at 1152 B – G as follows – There was no evidence placed before me that the public in South Africa had in fact been deceived by the use of the names “Dallas”, “Southfork” and “JR”. Nor was there any acceptable evidence that the public is likely to be deceived by the use of these words.

The names “Dallas” and “Southfork” were first used in South Africa (and registered as trade marks) in respect of clothing by OK Bazaars and Sterling and in respect of their restaurant (being their company name) by Dallas Restaurant. These words are still not used by the applicants in these respects.

It is obvious that the respondents are cashing in on the popularity of the Dallas series. They are attempting to promote their products and establishment by the use of what now may be household words. This would also be obvious to the general public. *Non constat* that this would

Again, the fact that the parties were engaged in non-competitive fields of economic activity played an important part in this finding.

In respect to the cause of action based on unlawful competition, the court held that the applicable norm was objective, based on the general sense of justice of the community, the so called *boni mores*, manifested in public opinion<sup>36</sup>. The court then proceeded to hold that in determining whether an act is *contra bonos mores*, it was both wise and necessary to determine the protection afforded to closely related fields of activity both under the common law and by statute<sup>37</sup>. If there was an absence of a remedy in cases of alleged injustice, so reasoned the court, when Parliament or the common law provided a remedy for a closely related wrong, this would provide a guiding yardstick that the so-called injustice was neither obvious nor unjust. The duty of the court, according to Van Dijkhorst J, was not to act as a spearhead of the *avant garde* of law reform whose forum

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lead to the conclusion that the producers of the television series were now manufacturing jeans or conducting a restaurant or had an interest therein. Neither does it follow that the said producers exercise quality control in respect thereof or have placed their stamp of approval upon the use of the said names. The public would rather perceive it to be what it in fact is – a case of blatant copying without permission.

In this respect *the fact that the names are used in fields totally unrelated to that in which Lorimar does business in South Africa, is of extreme importance. Without any indication of an inclination by Lorimar to enter these fields the public would not expect this American television producer to start manufacturing clothes in South Africa or cater for our culinary tastes, or become interested in those businesses.* Character merchandising is not so well-known in South Africa that I can, without proper evidence in this regard, assume that the man in the street will have any knowledge thereof. I would rather be inclined to find he has none. I cannot find therefore that the applicants have made out a *prima facie* case of deception or the likelihood thereof. There can thus be no passing off (emphasis added).

<sup>36</sup> The *Lorimar* Case, Note 5 above. There, Van Dijkhorst J stated at 1152 H – 1153 A that

The norm to be applied is the objective one of public policy. This is the general sense of justice of the community, the *boni mores*, manifested in public opinion. In determining and applying this norm in a particular case the interests of the competing parties have to be weighed, bearing in mind also the interests of society. The business ethics of that section of the community where the norm is to be applied are of major importance in its determination. One should further bear in mind that the *boni mores* are not universally the same. The general sense of justice may differ from community to community.

<sup>37</sup> The *Lorimar* Case, Note 5 above. There, Van Dijkhorst J reasoned as follows at 1153 B – C

In applying the norm of public policy in the present case, the following factors seem to me to be relevant: the protection already afforded by statutes and by established remedies, like passing off, under the common law; the morals of the market place: thereby I mean the ethics of the business community concerned; an inherent sense of fairplay and honesty; the importance of a free market and strong competition in our economic system; the question whether the parties concerned are competitors; conventions with other countries, like the Convention of Paris.

properly belonged to Parliament, but was merely to mirror the general sense of justice of the community. Since the parties were in a different field of economic activity, neither the morals of the marketplace nor the interests of society supported the grant of relief based on unlawful competition. The application was accordingly dismissed<sup>38</sup>.

A few comments can now be made in respect of the *Lorimar* decision. Although the court took several factors into account in determining whether the conduct of the respondents was *contra bonos mores*; namely the competing interests of the parties balanced against the wider societal interests, the applicable principles in United States and United Kingdom law, remedies under closely related statutes, the ethics of the applicable business community and a general sense of fair play, the court did not address the *effect* produced by the fact that it was the *efforts* of the first applicant which had made the characters *famous*<sup>39</sup>, and that in allowing the respondents to freely copy such famous characters in respect of their non-competing goods, the court was in effect allowing the respondents “to

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<sup>38</sup> The *Lorimar* Case, Note 5 above. There, Van Dijkhorst J, at 1115 C – E, stated that in determining whether an act is *contra bonos mores* it was necessary

to determine what protection is granted by statute or the common law in that field or closely related fields. The absence of a remedy in the case of an alleged obvious injustice, when Parliament or the common law has provided a remedy for a closely related wrong, may indicate that the so-called injustice is neither obvious nor unjust. This can, of course, be no more than a guide, as the *mores* of an ever changing society are not static and the law may lag behind. Yet a court should in its finding merely mirror the general sense of justice of the community as manifested in public opinion, and guard against being used as a spearhead of the *avant-garde* of law reform. Their forum should be Parliament.

and after reviewing the extant statutory protection in South Africa under the Copyright Act 98 of 1978, the Trade Marks Act 62 of 1963, the Merchandise Marks Act 17 of 1941, the Business Names Act 27 of 1960 and the Companies Act 61 of 1973, he observed at 1156 G that

there are a number of statutory provisions dealing with fields related to the question which I have to decide. In none of these is there any indication that the use of the title of and a place name used in a television show and the names of certain fictional characters therein, in an entirely unrelated field, is necessarily *contra bonos mores*.

and concluded at 1157 A – B that

neither the morals of the market place nor the interests of society require that the use of the title of the television series “Dallas” and the location “Southfork” therein, or the names of fictional characters therein, *used in a totally unrelated field and outside the direct competitive situation*, be branded as against public policy. The applicants therefore cannot succeed on the basis of the general delict of unlawful competition (emphasis added).

<sup>39</sup> The *Lorimar* Case, Note 5 above, at 1155A, the court noted that

Albeit that the names complained of *were made famous by Lorimar*, it remains a fact that they are actual geographical names to which Lorimar could never acquire sole rights (emphasis added).

reap where they had not sown”<sup>40</sup>, and conversely denying the applicants the enjoyment of the fruits of their own labour<sup>41</sup>. Although the names “Dallas”, “Southfork” and “JR” were all geographical names, they had attained distinctive secondary meaning in respect of the goodwill in the business of the applicants. In other words, they possessed advertising value, which was being diluted by the activities of the respondents.

It is therefore submitted that, the court having found that the fictitious characters and names were famous, the concealed misappropriation of the advertising value of the fictitious characters and names in the *Lorimar* case should have been prohibited by the court because it was precisely the root of the offensiveness of those who use another’s established mark to springboard their products – competing or otherwise-into the market place. Such misappropriation constituted an infringement of the applicant’s right to goodwill. Allowing the free copying of such fictitious characters and names in fact stifled the growth of character merchandising, a phenomenon which was later expressly found to have taken root in South Africa by the same Transvaal Provincial Division in the *Federation Internationale de Football* case, and led to dilution by blurring. This case, therefore, on its facts, dealt with dilution. Van Heerden and Neethling, correctly, it is submitted, captured the error of the court in failing to recognize that the facts in issue in the *Lorimar* case involved the concealed misappropriation (in a non-competitive context) of the advertising value of the fictitious names and characters, as follows

Because of the absence of a common field of activity there was, [in the *Lorimar* case], however, no question of passing off, but only leaning on [between non-competitors]. The judge should therefore have required no more than proof that the abovementioned names had acquired a reputation in connection with the applicant’s own performance, which reputation had then been misappropriated and exploited by the respondents in regard to dissimilar fields of activity<sup>42</sup>.

The case of *Philip Morris Inc and Another v Marlboro Shirt Co SA Ltd*

<sup>40</sup> Frederick Mostert, Note 32 above, at 422.

<sup>41</sup> Frederick Mostert, Note 32 above, at 423.

<sup>42</sup> Van Heerden and Neethling, Note 4 above, at 213.

*and Another*<sup>43</sup> is another good example of a South African case concerning concealed misappropriation in a non-competitive context where the goods were unrelated, but which was decided on the basis of passing off. The facts of this case are again well-known and have received wide scholarly commentary<sup>44</sup>. Briefly, the facts of this case were as follows: From 1954 to 1978, Marlboro Shirt (the respondent) traded under the name “Marlboro” in South Africa, manufacturing and selling clothing under a licence from a similarly named American company. Philip Morris (the appellant) and its predecessor had since 1883 manufactured and sold the Marlboro brand of *cigarettes* which, in 1987 when the proceedings against the respondent were launched, was the largest selling brand of cigarettes in the world.

The appellant applied for an interdict (injunction) to restrain the respondent from, *inter alia*, using in any manner the name Marlboro as a trademark or trade name in respect of clothing. The appellant alleged that the respondent, from 1978 to 1982, had misrepresented that its clothing was connected with or in some way sponsored by the appellant and that such misrepresentation had caused the South African public to confuse the source of the goods of Marlboro Shirt; and that by 1982 a connection had been created in the minds of members of the purchasing public between the clothing of Marlboro Shirt and Marlboro cigarettes; and further that the cessation of the use by the respondent in 1982 of the appellant’s associated device marks had not disconnected confusion as to the source of the clothing of Marlboro Shirt from that of Marlboro cigarettes in the minds of the South African purchasing public. The respondent’s conduct, according to the allegations of the appellant, infringed its goodwill in that the reputation of Marlboro cigarettes in South Africa was to a large extent left at the mercy of Marlboro Shirt, and the misappropriation of the reputation of the world famous Marlboro trademark constituted a form of unlawful competition.

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<sup>43</sup> 1991 (2) SA 720 (A), Note 9 above.

<sup>44</sup> See Van Heerden and Neethling, Note 4 above, at 211 – 213; J Neethling, Note 3 above, at 307 – 313.

The respondent, on the other hand, argued that although Philip Morris had a reputation in South Africa for its cigarettes, it had no goodwill in the clothing industry – it being common cause that Philip Morris had never sold clothing in South Africa.

As pointed out above, the Appellate Division decided this case on the basis of passing off. Goldstone JA held that the absence of a common field of activity was not a bar to a passing off action<sup>45</sup> and dismissed the application for an interdict (injunction) because in 1987 when the proceedings were commenced, the appellant failed to establish that by that time there was still a likelihood of confusion on the part of the purchasing public as to the source of the goods of Marlboro Shirt<sup>46</sup>.

In the *Philip Morris* case, it is submitted that the parties were not in competition and the products involved were not related (clothing and cigarettes). The question of passing off, or confusion of sponsorship for that matter, therefore, did not arise. The question which the court should have addressed, it is submitted, was whether the respondents had misappropriated the reputation (advertising value) of the famous Marlboro trademark and used it in respect of their clothing goods, and by so doing had infringed the appellant's goodwill. What was in issue in this case, it is submitted, was concealed misappropriation of the advertising value of the Marlboro trademark for cigarettes and its use on non-competing *and unrelated* goods, namely clothing, causing dilution. All that the appellant should have been required to prove was that its Marlboro trademark had acquired a reputation or advertising value in relation to its cigarettes, which reputation had been misappropriated by the respondent in respect of its clothing business, leading to the injury of dilution by blurring.

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<sup>45</sup> *Philip Morris* Case, Note 9 above, at 733 C – F, citing Rabie JA's dictum in *Capital Estate and General Agencies (Pty) Ltd and Others v Holiday Inns Inc and Other* [1977] (2) SA 916 (A), at 929.

<sup>46</sup> *Philip Morris* Case, Note 9 above, at 735 B to 739 B.

*Royal Beech-Nut (Pty) Ltd t/a Manhattan Confectioners v United Tobacco Co Ltd t/a Willards Foods*<sup>47</sup> is another South African case which concerned concealed misappropriation in a non-competitive context in respect of unrelated goods, but which was decided on the basis of passing off. There, the appellant manufactured and distributed confectionary products known as marshmallows and gums in South Africa and neighbouring countries under the trademark “Manhattan”, which had acquired a considerable reputation in the confectionary field and had become distinctive of the goods of the appellant. The respondent manufactured and distributed salty potato chips under the trademark “Willards”. The respondent’s trademark had acquired a substantial reputation in the field of salty snacks and had become distinctive of the respondent’s potato chips. In 1989, the respondent commenced marketing potato chips under the trademarks “Willards” and “Manhattans” on the same packet. The appellant applied for an interdict (injunction) to restrain the respondent from using the trademark “Manhattans” on its packets of potato chips. The appellant argued that the parties were in the same or closely related business field of “snack goods” production and distribution, and that, although the use of the name “Manhattans” by the respondent in respect of its potato chips could not lead the purchasing public into thinking that the respondent’s potato chips were in fact associated with the appellant’s Manhattan trademark, there was nevertheless a likelihood of the public being deceived into thinking that the respondent’s product was another horse out of the same stable.

Corbett CJ found that the parties were not engaged in a common field of economic activity because marshmallows and gum were different products from salty potato chips. However, Corbett CJ went on to hold that the absence of a common field of activity, *per se*, did not preclude a finding of passing off. Such a finding, in the view of the court, was “merely a factor to be taken into account in deciding whether there [was] a likelihood of deception or confusion and/or whether the plaintiff [had] suffered or [was] likely to suffer damage as a result of

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<sup>47</sup> 1992 (4) SA 118 (A), Note 10 above.

the defendant's activities"<sup>48</sup>. Although Corbett CJ found that there could be no doubt "that the appellant's trademark Manhattan [had] acquired a reputation and in the mind of the purchasing public [had] become distinctive of the goods marketed by the appellant"<sup>49</sup>, he nevertheless dismissed the application. This was based on the fact that, in the view of the court, the appellant had not established a likelihood of public confusion<sup>50</sup>.

It is submitted that the *Beech-Nut* case concerned the concealed misappropriation of the advertising value of the appellant's Manhattan trademark for confectionery goods and its use in respect of non-competing and unrelated potato chip goods, leading to the injury of dilution by blurring.

*Capital Estate and General Agencies (Pty) Limited and Others v Holiday Inns Inc and Others*<sup>51</sup> is a South African case concerning concealed misappropriation in a non-competitive economic context where the goods were *related*. The case, however, was decided on the basis of passing off. In that case, Holiday Inns and its subsidiaries and franchises (the respondents), well-known for operating hotels and motels under the style 'Holiday Inn' in many countries, applied for an interdict (injunction) against the appellants, who were using the name 'Holiday Inn' in connection with the construction and development of a shopping centre and duplex chattel project. The businesses in question were therefore non-competing but related (hotels and motels on the one hand, and duplex accommodation on the other hand).

Rabie JA found that the name 'Holiday Inn' had "become distinctive of the respondents' hotels and motels businesses"<sup>52</sup> and had acquired advertising value through extensive advertising and promotion by the respondents. The Appellate Division then held that, because of the reputation of the name 'Holiday

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<sup>48</sup> The *Beech-Nut* Case, Note 10 above, at 122H to 123B.

<sup>49</sup> The *Beech-Nut* Case, Note 10 above, at 123 B – C.

<sup>50</sup> The *Beech-Nut* Case, Note 10 above, at 122F.

<sup>51</sup> 1977 (2) SA 916 (A). See Note 2 above.

<sup>52</sup> The *Capital Estate* Case, Note 2 above, at 928A.

Inn’, its use by the appellants, in respect of the shopping centre and duplex chattel project, if unchecked, would

heighten the danger of [an] impression being created since the public would conclude that the words ‘Holiday Inn’ could only have been used for one purpose, namely to indicate a connection in the course of trade with the [respondents]<sup>53</sup>.

The Appellate Division characterized the conduct of the appellants as passing off. It is submitted that what was really in issue was the parasitic use of the trademark “Holiday Inn” by the appellants in order for the appellants to appropriate the reputation in that trademark for the benefit of their related but non-competing business of duplex chattels. By so covertly assuming the reputation of the trademark, the appellants conduct amounted to concealed misappropriation of the advertising value of the Holiday Inn trademark, and was likely to have resulted in the injury of confusion of sponsorship<sup>54</sup>.

### 9.3 THE TRADEMARKS ACT, 194 OF 1993

#### 9.3.1 Background and International Context

There is general consensus among academic writers that the UK Trademarks Act, 1994, served as the blueprint of the South African Trademarks

<sup>53</sup> The *Capital Estate* Case, Note 2 above, at 930 B – E.

<sup>54</sup> The nature of the damage in this case was complicated by the language adopted by Rabie JA at 932 C – D, which seem to conflict with the damage Rabie JA had agreed was present in the case at 930 B – E (Note 53 above). At 932 C – D, Rabie JA stated that

if they [the respondents] are not given the protection they seek, they will ... be exposed to [harm] which the appellants (or others who use the name “Holiday Inn” on the appellants’ authority) may incur with members of the public, and, having regard to the appellants’ conduct as disclosed in the papers, I consider that the respondents should not ... be required to leave their reputation at the mercy of parties who *ex hypothesi* have wrongly conducted themselves so as to cause confusion.

The Learned Judge did not, however, specify what type of confusion had been caused by the appellants. It is submitted that the appellants had caused confusion of sponsorship, because of the impairment of the advertising value of the respondents trademark, as opposed to cases of passing off involving only impairment of source value, where the misrepresentation of the defendant will be that his goods are those of the applicant.

Act.<sup>55</sup> The Act also sought to give effect to the Agreement on Trade Related Aspects of Intellectual Property Rights<sup>56</sup> and the Paris Convention for the Protection of Industrial Property<sup>57</sup>. As discussed in Chapter 4, Article 16 (3) of the TRIPS Agreement may purposively be read and construed as prohibiting the misappropriation of the advertising value of a trademark with a reputation and using it in respect of non-competing goods<sup>58</sup>. In Chapter 5, it was argued that Articles 4 (4) (a) and 5 (2) of the European Trade Mark Harmonization Directive<sup>59</sup> and Articles 8 (5) and 9 (1) (c) of the Community Regulation<sup>60</sup> are

<sup>55</sup> OH Dean, “*Quo Vadis South African Trademarks?*” [1998] 10 SA Merc LJ, 89 – 110 posits the view, at 91, that

When the 1993 Act was drafted, it was intended that it should bring South African trade mark law into line with developments elsewhere in the world, in particular in the European Community. With a view to harmonizing the national trade mark laws of the members of the Community, the European Commission had issued a Trade Mark Directive. Our law makers sought to have our new Act conform substantially with the European Directive. At the same time, the British legislature was preparing the British Trade Marks Act, 1994; its main object was to bring British trade mark law into conformity with the European Directive. An early draft of the 1994 Act was made available to the South African law makers during the drafting phase of the South African statute; our law makers borrowed substantially from the work of their British counterparts. Both law makers were working from similar departure points and were seeking essentially to attain the same objectives. As it happens, the South African Act was passed before the British one, but it can nevertheless be said to have been derived from its later British counterpart. There are, however, significant differences between the South African and British statutes.

GC Webster and NS Page, *South African Law of Trade Marks, Unlawful Competition, Company Names and Trading Styles* (1997), Chapter 1, “*Background and History*”, Para. 1.2 “*United Kingdom and European Law*”, at p. 1 – 3 state that

The EC Directive... had an influence on the drafting of the South African Trade Marks Act 194 of 1993 and thus there are similarities, not only between the new statutes in the United Kingdom and South Africa respectively, but also between the new South African Trade Marks Act and the trade marks legislation of other countries within the EC. The EC has introduced a Community Trade Mark. These developments are likely to influence the interpretation and implementation of Act 194 of 1993 ...

<sup>56</sup> Hereafter “the TRIPS Agreement”. See, in this respect, BR Rutherford, “*Well-Known Marks on the Internet*” [2000] 12 SA Merc. LJ, 175 – 183, at 177, stating that the “traditional” forms of infringement as provided in section 34 (1) (a) and (b) of the Act, and the bars to registration in section 10 (1) and (2) of the Act are drawn from Article 16 (1) of the TRIPS Agreement. See also GC Webster and NS Page, Note 55 above, at Para. 12.24, p. 12 – 43, commenting that

Both the European Directive and TRIPS recognize the need for dilution protection and the provision of section 34 (1) (c) are modeled on the European Directive.

<sup>57</sup> Hereafter “the Paris Convention”. See, in this respect, P. Ginsburg “*Trade-Mark Dilution*” in C. Visser (Ed), *The New Land of Trade Marks and Designs* (1995), 35 – 53, at 35.

<sup>58</sup> See Chapter 4, Notes 41 to 54, and accompanying text.

<sup>59</sup> The First Council Directive of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks. Hereafter the “*EC Trademark Directive*”.

<sup>60</sup> The European Trade Mark Harmonization Regulation (Council Regulation (EC) No. 40/94 of 20 December 1993 on the Community Regulation. Hereafter “the *Community Regulation*”. In respect of the relationship between the Act and the EC Trademark Directive and the Community Regulation, see Ron Wheeldon, “*Is Our Trade Mark Law Out of Step With The EC?*” De Rebus [September, 2002], pp. 1 – 5,

anti-dilution provisions<sup>61</sup>, which were transposed into the German Trademarks Act in sections 9 (1) 3 and (2), 10 (1) and 14 (2) 3<sup>62</sup>, and which were also incorporated into the UK Trademarks Act, 1994, in sections 5 (3) and 10 (3)<sup>63</sup>. The question to be answered, in respect of the Act, is the extent its anti-dilution provisions give effect to the provisions of international and regional trademark law, and how its provisions may be seen as being on par with similar provisions in the jurisdictions under study. To answer this question, a close analysis of the anti-dilution provisions in the Act is necessary.

### 9.3.2 *The Anti-Dilution Provisions: Sections 10 (17) and 34 (1) (c)*

#### 9.3.2.1 *Introduction*

The South African legislature did not limit the anti-dilution provisions of the Act only to instances of trademark infringement, but, consistent with developments in the United States of America<sup>64</sup>, Germany<sup>65</sup>, the European Union<sup>66</sup> and the United Kingdom<sup>67</sup>, extended anti-dilution protection in section 10

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available at <http://www.derebus.org.za>, last visited on 6<sup>th</sup> July, 2005, where Ron Wheeldon reproduces an extract from the Memorandum on the Objects of the Act at p. 2 as follows:

South Africa's most important trade partners, the members of the European Community, are rapidly moving towards the modernization and harmonization of trade mark legislation. The first European Directive of the European Community to bring the legislation concerning trade marks of the member countries into agreement ((89/104/EEC) dated 21 December 1988 – ('The European Directive') is of particular importance in this regard. The European Directive requires members of the European Community to amend their domestic legislation relating to trade marks to ensure that such laws are in accordance with the provisions of the Directive. The British White Paper on the Reformation of the Trade Marks Law, dated September 1990, is also of importance. It sets out the manner in which the United Kingdom proposes to amend its Trade Marks Act of 1938 so as to bring it into line with the European Directive.

*The Bill takes several of the above-mentioned developments and requirements into account and proposes amendments to the South African law on trade marks that will bring it into accordance with the European Directive* in cases where such principles and proposals are reconcilable with South African requirements ... (emphasis added).

<sup>61</sup> See Chapter 5, Notes 102 to 106, and accompanying text.

<sup>62</sup> See Chapter 7, Part 7.3.

<sup>63</sup> See Chapter 8, Parts 8.4.1 and 8.4.2.

<sup>64</sup> See Chapter 6, Part 6.4.3.

<sup>65</sup> See Chapter 7, Part 7.3.

<sup>66</sup> See Chapter 5, Part 5.3.3.

(17)<sup>68</sup> to marks which are well-known in the Republic in opposition and expungement proceedings. In the Memorandum which accompanied the Act at the Bill stage<sup>69</sup>, the objectives of the anti-dilution provisions of the Act were concisely captured. There, it was observed that trademarks have increasingly been recognized by the commercial and industrial sectors of the South African economy as commercial assets of considerable importance and value entitled to protection as such, through trademark legislation<sup>70</sup>. This, it is submitted, was a clarion call for South African trademark legislation to recognize the advertising function of trademarks and to protect it from dilution.

In terms of section 10 (17) of the Act, a mark may not be registered if it is *identical* or *similar* to a registered trademark which is *well known* in the Republic and its use would be *likely* to take *unfair advantage of*, or be *detrimental to*, the *distinctive character or repute* of the registered trademark, notwithstanding the absence of deception or confusion. Although the word “dilution” is not expressly used in section 10 (17) of the Act, it is submitted that the section is an anti-dilution provision prohibiting the registration of identical or similar trademarks, used for (non)-similar goods, and that the provision does not require deception or confusion. It is not, therefore, confined to identical or even

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<sup>67</sup> See Chapter 8, Part 8.4.1.

<sup>68</sup> Section 10 (17) of the Act provides that

The following marks shall not be registered as trade marks or, if registered, shall, subject to the provisions of sections 3 and 70, be liable to be removed from the register

a mark which is identical or similar to a trade mark which is already registered and which is well-known in the Republic, if the use of the mark sought to be registered would be likely to take unfair advantage of, or be detrimental to, the distinctive character or the repute of the registered trade mark, notwithstanding the absence of deception or confusion, unless the proprietor of such trade mark consents to the registration of such mark:

Commenting on section 10 (17) of the Act, Webster and Page, Note 55 above, at Para. 6.25, p. 6 - 40, draw the following comparisons between that section and section 5 (3) of the UK Trademarks Act

The protection of trade marks against dilution has been introduced into the United Kingdom law for the first time by the 1994 Act. This subsection [section 5 (3)] is similar to section 10 (17) of the South African Act in that it applies even in the absence of a likelihood of confusion or deception but it must be noted that it has an additional requirement in that the use of the later mark must be “without due cause”.

<sup>69</sup> Memorandum on the Objects of the Draft Trade Marks Bill (1992).

<sup>70</sup> Memorandum on the Objects of the Draft Trade Marks Bill, Note 69 above, §1.2, at 101. See also P. Ginsberg SC, Note 57 above, at 35, Note 4 and accompanying text; GC Webster and NS Page, Note 55 above, Chapter 12, “*Infringement*”, at Para. 12.24, p. 12 – 42.

similar goods. The section may be called in aid by the owner of a trademark well-known in the Republic in opposition or expungement proceedings<sup>71</sup>. The importance of section 10 (17) of the Act, it is submitted, lies in its express recognition that a *likelihood* of either the taking of unfair advantage of, or of detriment to, the distinctive character or repute of the registered trademark which is well-known in the Republic suffices to ground a successful dilution claim in opposition and expungement proceedings. The section therefore appropriately recognizes the incipient nature of dilution, and the need to nip it in the bud before further damage is committed. Section 34 (1) (c) of the Act is similar in its wording, and a similar rationale can be advanced to justify the use of this legislative language.

Several key concepts under section 10 (17) of the Act are yet to receive judicial interpretation by the Registrar and the courts. These elements include the meaning to be given to “a mark which is *identical* or *similar* to a registered trademark”, “use” of a mark in the context of section 10 (17) of the Act, likelihood of “taking unfair advantage of”, or of being “detrimental to”, the *distinctive character* or *repute* of the registered trademark, even in the absence of deception or confusion<sup>72</sup>. Some of these concepts have, however, received judicial interpretation in the context of the infringement provisions in section 34 (1) (c) of the Act, discussed below.

<sup>71</sup> For example, GC Webster and NC Page, Note 55 above, Chapter 6, “*Bars To Registration*”, at Para. 6.25.1. comment, in respect of section 10 (17) of the Act, as follows:

In terms of section 10 (17) a mark which is identical or similar to a trade mark which is already registered and which is well-known in the Republic, shall not be registrable, if the use of the mark sought to be registered would be likely to take unfair advantage of, or be detrimental to, the distinctive character or the repute of the registered trade mark, notwithstanding the absence of deception or confusion. *This is what is commonly known as the dilution (or, sometimes, anti-dilution provision) and there is no counterpart in the 1963 Act.* (emphasis added).

<sup>72</sup> In respect of the express statutory language of section 10 (17), that there need not be proof of a likelihood of confusion or deception, GC Webster and NS Page, Note 55 above, Para. 6.27, at p. 6 – 42, comment that

It is submitted that where the trade mark proprietor *proves a likelihood of confusion or deception it follows that the mark is likely to take unfair advantage of the registered trade mark* and he would accordingly succeed on the first leg. Thus, despite the fact that the likelihood of confusion or deception is specifically stated not to be a requirement, it may nevertheless play an important role in enquiries under section 10 (17). (emphasis added).

The position of GC Webster and NS Page, above, corresponds to the juridical position of the English courts in interpreting section 5 (3) of the UK Trademarks Act, 1994. See in this respect Chapter 8, Part 8.4.1.

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In terms of section 34 (1) (c ) of the Act, the rights acquired by the registration of a trademark are infringed by

the unauthorized use in the course of trade in relation to any goods or services of a mark which is identical or similar to a trade mark registered, if such trade mark is well-known in the Republic and the use of the said mark *would be likely* to take unfair advantage of, or be detrimental to, the distinctive character or the repute of the registered trade mark, notwithstanding the absence of confusion or deception (emphasis added).

Several observations may now be made in respect of section 34 (1) (c ). First, under section 34 (1) (c ) of the Act, the infringing mark need not be used in respect of identical or similar goods for which the trademark is registered. In other words, the parties to infringement proceedings under section 34 (1) (c ) of the Act need not be competitors, since use of the mark in the course of trade, on non-competing goods, is sufficient. Second, consumer confusion or deception as to the source or origin of the goods is not a requirement under section 34 (1) (c ). Third, from a textual reading of the section, in order to succeed under section 34 (1) (c ), a plaintiff needs to prove that the use of the junior mark which is identical or similar to his registered senior trademark in the course of trade *likely* takes unfair advantage of, or *likely* causes detriment to, the distinctive character or the repute of his earlier registered trademark which is *well-known in the Republic*. (More on this later on). Section 34 (1) (c ), despite the absence of the word “dilution” in its text, is in fact an anti-dilution provision aimed, just like section 10 (17) of the Act, at protecting the advertising value of a trademark well-known in the Republic from dilution.

GC Webster and NS Page, however, advocate for a judicial cautionary approach in interpreting sections 10 (17) and 34 (1) (c ) of the Act by arguing that

Great care must be taken by our courts in interpreting section 34 (1) (c ) to ensure that the parameters of this new form of trade mark protection are defined in such a manner that the legitimate interests of proprietors of well-known trade marks

are protected while, at the same time, not creating an absolute monopoly or a form of copyright in a trade mark<sup>73</sup>.

The question to be answered, then, is whether the South African courts have managed to strike the balance advocated for by GC Webster and NS Page above<sup>74</sup>. This question was first answered by the Supreme Court of Appeal in *Bata Limited v Face Fashions Close Corporation and Another*<sup>75</sup> when Melunsky AJA, in delivering the judgment of the court, held that in construing whether trademarks were similar for the purposes of infringement proceedings under section 34 (1) (c ) of the Act, the word ‘similar’ has to be construed narrowly and should not be given a wide or extensive meaning because to do so might have the effect of creating an unacceptable monopoly to the proprietor of a trademark and thus unduly stultify freedom of trade.

### **9.3.2.2 Nature of Onus on the Plaintiff**

In the *Bata Limited* case<sup>76</sup>, the appellant, a Canadian incorporated company, was the proprietor of several registered trademarks based upon the word “power”. It owned the trademarks “power” and “power” and a device, both in respect of “all footwear”; “power points” in respect of “articles of clothing including footwear of all kinds”, “power” in respect of articles of clothing; and “power” and a device in respect of clothing, including boots, shoes and slippers. The appellant’s South African licensee used the “power” and “power” and device trademarks on footwear it manufactured and imported into South Africa for resale. It also sold clothing on which the said marks were displayed. The

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<sup>73</sup> GC Webster and NS Page, Note 55 above, at Para. 12.24, p. 12 – 42. GC Webster and NS Page comment further, at Para. 22.24, p. 72 – 47 that South African courts, in interpreting the dilution provisions will be bound by the clear meaning of the statute. While there is no ambiguity in the phrases “notwithstanding the absence of confusion or deception” or “use in relation to goods or services” the requirements that the trade mark must be “well known” and that the use must be “likely to take unfair advantage of, or be detrimental to, the distinctive character or repute” [of the trademarks] are open to interpretation and, it is anticipated, will lead to considerable litigation. The judicial interpretation of these phrases is awaited with interest.

<sup>74</sup> Note 73 above.

<sup>75</sup> *Bata Limited v Face Fashions Close Corporation and Another* 2000 JDR 6657 (SCA). Hereafter “the *Bata Limited* Case.”

<sup>76</sup> The *Bata Limited* Case, Note 75 above.

respondents manufactured and sold leisure clothing for the trendy youth under the name “power house” or “powerhouse”, usually, but not invariably, accompanied by a dog device. The appellant alleged that the respondents were infringing their registered trademarks under section 34 (1) (c ) of the Act, and sought an order restraining the respondents from making or selling articles of clothing bearing the trademarks “power”, or “power house”, or “powerhouse”. Melunsky AJA opined that section 34 (1) (c ) of the Act

was introduced for the first time in 1993 *to provide protection against the dilution of a registered trade mark by the unauthorized use of an identical or similar mark in relation to any goods or services, notwithstanding the absence of confusion or deception.* A plaintiff who relies upon an infringement in terms of section 34 (1) (c ) needs to establish: (a) the defendant’s use of a mark identical or similar to the plaintiff’s registered trade mark, (b) that the use (i) is unauthorized; and (ii) is in the course of trade; and (iii) would be *likely* to take unfair advantage of, or be detrimental to, the distinctive character or the repute of the plaintiff’s registered mark; and (c ) that the plaintiff’s registered mark is well known in the Republic<sup>77</sup>.

### **9.3.2.3 Similarity of the Trademarks**

The main argument of the appellant in the *Bata Limited* case, above, was that its trademarks and the trademarks of the respondents were *similar* for the purposes of section 34 (1) (c ) of the Act, because the word “power” was common in both sets of marks. Earlier on in the course of judgment, Melunsky AJA had occasion to deal with the concept of confusing similarity in the context of section 34 (1) (a) of the Act, and had adopted Corbett JA’s formulation in *Plascon-Evans*

<sup>77</sup> The *Bata Limited* Case, Note 75 above, at 5. See also the Supreme Court of Appeal decision in the *Carling Black Label* Case, Note 101 below, where Harms JA said, at Para. 20, p.10, that

In order to establish infringement [under section 34 (1) (c ) of the Act], the owner of the trade mark must establish the unauthorized use by the defendant of a mark in the course of trade in relation to any goods or services the mark must be identical or similar to a registered trade mark the trade mark must be well known in the Republic, and the use of the defendant’s mark would be likely to take unfair advantage of, or be detrimental to, the distinctive character or the repute of the registered trade mark.

*Paints Ltd v Van Riebeeck Paint's (Pty) Ltd*<sup>78</sup>. That formulation is worthy repeating here, because it in fact lays the foundation of the approach to be adopted by a court in dealing with the concept of similarity, in the absence of confusion, under section 34 (1) (c). In the *Plascon Evans* case, above, Corbett JA stated as follows:

In an infringement action the onus is on the plaintiff to show the probability or likelihood of deception or confusion. It is not incumbent upon the plaintiff to show that every person interested or concerned (usually as customer) in the class of goods for which his trade mark has been registered would probably be deceived or confused. It is sufficient if the probabilities establish that a substantial number of such person will be deceived or confused. The concept of deception or confusion is not limited to inducing in the minds of interested persons the erroneous belief or impression that the goods in relation to which the defendant's mark is used are the goods of the proprietor of the registered mark, i.e. the plaintiff, or that there is a material connection between the defendant's goods and the proprietor of the registered mark; it is enough for the plaintiff to show that a substantial number of persons will probably be confused as to the origin of the goods or the existence or non-existence of such a connection.

*The determination of these questions involves essentially a comparison between the mark used by the defendant and the registered mark and, having regard to the similarities and differences in the two marks, an assessment of the impact which the defendant's mark would make upon the average type of customer who would be likely to purchase the kind of goods to which the marks are applied. This notional customer must be conceived of as a person of average intelligence, having proper eyesight and buying with ordinary caution. The comparison must be made with reference to the sense, sound and appearance of the marks. The marks must be viewed as they would be encountered in the market place and against the background of relevant "surrounding circumstances". The marks must not only be considered side by side, but also separately. It must be born in mind that the ordinary purchaser may encounter goods, bearing the defendant's mark, with an imperfect recollection of the registered mark and due allowance must be made for this. If each of the marks contains a main or dominant feature or idea the likely impact made by this on the mind of the customer must be taken into account. As it has been put, marks are remembered rather by general impressions or by some significant or striking feature than by a photographic*

<sup>78</sup> *Plascon-Evans Paints Ltd v Van Riebeeck Paints (Pty) Ltd* 1984 (3) SA 623 (A), at 640 G – 641 E. Hereafter "the *Plascon Evans Paints* Case" See also *New Media Publishing (Pty) Ltd v Eating Out Web Services CC and Another* 2005 JDR 0551 (c); Owen Salmon, "2001 – A Trade Mark Odyssey" De Rebus [June 2002] 1 – 5, available at [www.derebus.org.za/archives/2002](http://www.derebus.org.za/archives/2002) last visited 5th July, 2005. *Nick's Fishmonger Holdings (Pty) Ltd and Another v Fish Diner in Bryanston (Pty) Ltd and Others* 2005 JDR 0516 (W); *Klimax Manufacturing Limited and Another v Van Rensburg and Another* 2004 JDR 0206; *Red Bull GMBH v Rizo Investments (Pty) Ltd* 2002 JDR 0529 (T), *Cowbell AG v ICS Holdings Ltd* 2001 (3) SA 941 (SCA); *John Craig (Pty) Ltd v Dupa Clothing Industries (Pty) Ltd* 1977 (3) SA 144; *Oude Meester Group Bpk v SA Breweries Ltd; SA Breweries Ltd v Distillers Corporation (CA) Ltd* 1973 (4) SA 145 (W).

recollection of the whole. And finally consideration must be given to the manner in which the marks are likely to be employed as, for example, the use of name marks in conjunction with a generic description of the goods (emphasis added),

This formulation, it is submitted, is on par with the approach adopted by the European Court of Justice in the determination of confusing similarity between trademarks in *Sabel BV v Puma AG, Rudolf Dassler Sport*<sup>79</sup> and *Marca Mode CV v Adidas Benelux BV*<sup>80</sup> based on a global appreciation of the visual, aural and conceptual similarity of the marks, what Corbett JA termed the “sense, sound and appearance of the marks” in the *Plascon Evans* case above.

In terms of section 34 (1) (c ) of the Act, Melunsky AJA was of the view, in the *Bata Limited* case, above, that the similarity of the trademarks had to be considered without reference to likelihood of confusion or deception<sup>81</sup>. According to Melunsky AJA, the word “similar” is invariably difficult to construe, because there are different shades of similarity, some of which may reach the degree of sameness, while others amount to no more than slight resemblance. This being the case, Melunsky AJA advocated for a strict interpretation in the enforcement of intellectual property rights under section 34 (1) (c ) of the Act, arguing that although the section seeks to preserve the reputation of a registered trademark, giving it a wide interpretation might have the effect of creating an unacceptable monopoly to the registered proprietor of a trademark and unduly stultifying freedom of trade, something which in the view of Melunsky AJA was not intended by the legislature. Having said this, Melunsky AJA concluded that he was of the view that in the context of section 34 (1) (c ) of the Act

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<sup>79</sup> *Sabel BV v Puma AG, Rudolf Dassler Sport* Case C – 251/90, Judgment dated 11 November, 1997, downloaded from <http://www.curia.eu.int>, last visited on 30<sup>th</sup> October, 2005. For a discussion of this case, see Chapter 5, Part 5.3.2.

<sup>80</sup> *Marca Mode CV v Adidas Benelux BV* Case, Case C-425/98, Judgment dated 22 June 2000, downloaded from <http://www.curia.eu.int>, last visited on 30<sup>th</sup> October, 2005.. For a discussion of this case, see Chapter 5, Part 5.3.2.

<sup>81</sup> The *Bata Limited* Case, Note 75 above, at 5.

[T]hat section does not apply if the two marks are similar merely because they contain features of the same kind or there is a slight resemblance between them. In the OED [Oxford English Dictionary] (Vol. XV, p.490) one of the meanings given to “similar” is “having a marked resemblance or likeness”. This seems to be an appropriate meaning to be given to the word for the purposes of the section<sup>82</sup>.

A similar restrictive approach was adopted by the Supreme Court of Appeal in *National Brands Ltd v Blue Lion Manufacturing (Prop) Ltd*,<sup>83</sup> which dealt with the interpretation of the similarity of trademarks in the context of both section 34 (1) (a) and 34 (1) (c) of the Act. There, the appellant manufactured a distinctive chocolate biscuit that it sold under its registered trademark “romany creams”. In 1996, the respondent commenced manufacturing a competing chocolate biscuit bearing a striking resemblance to the biscuit of the appellant, which it sold under the trademark “romantic dreams”. The issue on appeal was whether “romany creams” was similar to “romantic dreams” for the purposes of section 34 (1) (a) and section 34 (1) (c) of the Act.

Nugent AJA (as he then was), delivering the judgment of the court, held that in the context of the similarity of the trademarks for the purposes of section 34 (1) (a) of the Act, what was required of the court was to make a comparison of the marks, in the context in which they are usually encountered in the market place, to determine the degree of their similarity, and whether a substantial number of persons would be likely deceived into believing that the defendant’s goods had the same origin as the plaintiff’s goods, or were in some other way connected with the plaintiff’s goods. The likelihood of deception should be attributable to the marks themselves, and not to extraneous matter like their packaging. Further, similarity in the goods themselves or in the form in which they are presented should be disregarded. While they may form the basis of a passing off action, they are irrelevant for purposes of infringement. Nugent AJA then proceeded as follows:

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<sup>82</sup> The *Bata Limited* Case, Note 75 above, at 6.

<sup>83</sup> *National Brands Ltd v Blue Lion Manufacturing (Prop) Ltd* 2001 JDR 0172 (SCA). Hereafter “the *Romantic Dreams* Case”.

The goods that are now in issue can be expected to be encountered in a variety of outlets, by a variety of customers. They will be found on supermarket shelves, sometimes side by side, where they will often be selected with little more than a glance; they will be found in grocery stores, general trading stores, and corner cafes, where they might be selected not by the appearance of the marks but rather by their sound. These are not marks, in other words, that are restricted to a discriminating market. Nevertheless, as pointed out in *Plascon-Evans* at 641B, the notional customer with whom we are concerned must be conceived of as having average intelligence, proper eyesight, and buying with ordinary caution.

In my view the marks are not likely to deceive or confuse by their sound. While the first word of each mark has three syllables, they are pronounced quite differently, even allowing for imperfect usage. The emphasis in the appellant's mark is on the first syllable and the last syllable is rather indistinct. The respondent's mark, on the other hand, emphasizes the second syllable and the articulation of the third syllable is readily heard. When one adds the distinction in the first letter of the second word in each case, albeit that it is not marked, the two phrases sound quite different. As for the sense of the two phrases in my view they bear no resemblance at all. It was upon their visual appearance, however, that counsel for the appellant placed the greatest store, pointing out that the first and last five letters of both marks are identical. When those letters are highlighted, as they were in the heads of argument, the resemblance might seem impressive, but it must be borne in mind that the appellant is not likely in fair and normal use to highlight those letters at the expense of the remainder, and nor is there any suggestion that the respondent has used or will use its mark in that way. On the contrary, they are likely to be seen in the form in which the words are ordinarily written, and should be visually compared in that form.

A word mark, and particularly one that makes use of ordinary language, is not merely a combination of abstract symbols (at least to the literate observer) but is usually recognizable as a whole, and for what it conveys (as to the impact of a word mark upon those who are not literate I respectfully associate myself with the observations of Harms JA in *Reckitt and Colman SA (Pty) Ltd v S C Johnson & Son SA (Pty) Ltd* 1993 (2) SA 307 (A) at 316B-E). In that respect, in my view, its visual appearance cannot be separated altogether from its sense. Where the sense of one word mark differs markedly from that of another (as in this case), and in particular where the registered trade mark is well known, it seems to me that the scope for deception or confusion is reduced, though these are always matters of degree. In my view the visual distinctions in the words that are in issue in this case, bearing in mind too that each immediately conjures up a different picture, are such that there is not likely to be deception or confusion as contemplated by section 34 (1) (a)<sup>84</sup>.

In the context of section 34 (1) (c), the court held that the word “similar” has to be interpreted in a manner which gave it its ordinary meaning, which is a

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<sup>84</sup> The *Romantic Dreams* Case, Note 83 above, at Paras. 6 – 10, pp 6 – 9.

marked resemblance or likeness<sup>85</sup>. The court interpreted the word “marked” in turn to mean “easy to recognize”<sup>86</sup>. The court concluded that “romantic dreams” is not as easily recognizable as, and therefore is not similar to, “romany creams” *for the same reasons advanced by the court in the context of section 34 (1) (a) of the Act.*<sup>87</sup> It is submitted, therefore, that in construing the similarity of trademarks in the context of section 34 (1) (c ) of the Act, Corbett JA’s formulation in the *Plascon Evans Paints* case, above, has to be used, without recourse to elements of confusion.

#### 9.3.2.4 Well-Known Mark in the Republic

The meaning of the phrase “well-known mark in the Republic” in section 34 (1) (c ), on the other hand, was interpreted in *Triomed (Prop) Limited v Beecham Group PLC and Others*<sup>88</sup>. There, the applicant sold a generic anti-biotic in South Africa under the trademark “augmaxcil”. The first respondent also sold in South Africa an equivalent generic anti-biotic under the trademark “augmentin”. The applicant and the first respondent were therefore trade competitors. The applicant applied for the expungement of the first respondent’s trademark from the register, and the first respondent made a counterclaim for the infringement of its registered trademark under section 34 (1) (a) and section 34 (1) (c ) of the Act.

According to Smit J, the phrase “well-known mark in the Republic” in section 34 (1) (c ) of the Act means a mark with a reputation to a substantial

<sup>85</sup> The *Romantic Dreams* Case, Note 83 above, at Para. 12, p.9. This approach had been advocated by GC Webster and NS Page, Note 55 above, at Para 12.26, p. 12 – 49 and P. Ginsburg, Note 57 above, at 39, even before the *Romantic Dreams* Case.

<sup>86</sup> The *Romantic Dreams* Case, Note 83 above, at Para. 12, p.10.

<sup>87</sup> The *Romantic Dreams* Case, Note 83 above, at Para. 12, p.10. The quotation at Note 84 was therefore deliberately made to highlight the considerations to be taken by a court into account in this respect.

<sup>88</sup> *Triomed (Prop) Limited v Beecham Group PLC and Others* 2001 JDR 0034 (T). Note that the Judgment of the Transvaal Provincial Division in this case was appealed. See in this respect *Beecham Group PLC v Triomed (Pty) Ltd* 2002 JDR 0720 (SCA). The appeal decision, however, is not relevant for present purposes. Hereafter “the *Triomed* Case”.

number of members of the public or persons in the trade in question<sup>89</sup>. The phrase was therefore taken to have the same meaning as it does in the context of section 35 of the Act. These observations, however, were strictly obiter.

The interpretation of a mark which is well-known in the Republic, above, seeks to equate that phrase as used in the context of section 34 (1) (c ) and the meaning given to it under section 35. It is submitted, however, that the phrase should bear different meanings in the two sections: while section 34 (1) (c ) is a dilution provision, section 35 gives effect to Article 6 *bis* of the Paris Convention by providing in essence that a foreign trademark may not be used in the Republic by someone other than the proprietor of the foreign trademark if it is entitled to protection under the Paris Convention as a well-known trademark in the Republic and the proposed use is on similar goods, where such use is likely to cause deception or confusion. Section 35 therefore finds its counterpart, for the purposes of the registration of a trademark, in section 10 (6) of the Act, while section 34 (1) (c ) finds its counterpart in section 10 (17) of the Act.

Section 34 (1) (c ) of the Act is wider in scope than section 35 and should, for the purpose of balancing the interests of the trademark proprietor against the public interest in promoting free trade, be interpreted more strictly and restrictively, and a higher standard of notoriety should be required by the courts.

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<sup>89</sup> The *Triomed* Case, Note 88 above, at 67, where Smit J held that

The meaning of “well-known” so I have been informed by counsel and to the best of my knowledge, has not been considered in the context of section 34 (1) (c ) of the Act but has been dealt with by the Appellate Division in the context of section 35 of the Act. In *McDonald’s Corporation v Joburgers Drive-In Restaurant (Pty) Ltd and Another* 1997 (1) SA 1 (AD) at 19F *et seq* it was held that “well-known” in the context of section 35 of the Act means a reputation such as that required for the common law of passing off. Such reputation must extend to a substantial number of members of the public or persons in the trade in question. In my view the interpretation given to the expression in the context of section 35 of the Act in the *McDonald* case *could appropriately be applied to the interpretation of “well-known in the Republic” as this expression appears in section 34 (1) (c ) of the Act.* (emphasis added).

In *Safari Surf Shop CC v Heavywater and Others* [1996] 4 All SA 316 (D), the court held that where the trademarked goods are available in only one part of the Republic, it is sufficient, for the purposes of section 34 (1) (c ) of the Act, if the trademark is well-known in that part of the Republic. In such a case, knowledge of the trademark need not extend throughout the whole Republic. Note, however, that in both the *Triomed* Case and the *Safari Surf Shop* Case the courts deliberately refrained from giving any guidelines as to the degree of public awareness of the trademark that is required.

Simply equating the meaning of the expression “a mark well-known in the Republic” under section 34 (1) (c ) and section 35 of the Act, even though identical words are used in both provisions, without any rational justification, as done by Smit J in the *Triomed* case, above, pays little regard to the fact that the purposes of section 34 (1) (c ) and section 35 are different. In the context of section 34 (1) (c ), the interpretation adopted by South African courts should, it is submitted, be similar to developments in the European Union and the United States of America, where clear criteria for the determination of the reputation of a mark for dilution purposes have been developed. Moreover, the genesis of such guidelines finds their fountain-well in Article 2 of the WIPO Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks<sup>90</sup> which, though non-binding on South Africa, should be accorded at least persuasive recognition by South African courts as ‘soft law’.

GC Webster and NS Page express the view that in determining whether a trademark is well-known in the Republic for the purposes of section 34 (1) (c ) of the Act, South African courts should consider the multiple factor guidelines specified in the United States Federal Trade Mark Dilution Act<sup>91</sup>. Apart from the

<sup>90</sup> See Chapter 4, Part 4.2.6.

<sup>91</sup> GC Webster and NS Page, Note 55 above, Para. 12.27, at p. 12 – 51, stating that

It is accordingly submitted that in determining whether or not a trade mark is well-known in South Africa within the meaning of this term in section 34 (1) (c ), our courts should also give consideration to the additional factors listed in the United States Federal Trade Mark Dilution Act which are essentially the same as the following practice guidelines for determining reputation for the purposes of section 10 (3) of the United Kingdom Act 1994 suggested to the United Kingdom Government by the International Trademark Association.

the degree of inherent or acquired distinctiveness of the mark,  
 the duration and extent of use of the mark in connection with the goods or services,  
 the duration and extent of advertising and publicity of the mark,  
 the geographical extent of the trading area in which the mark is used,  
 the channels of trade for the goods or services with which the proprietor’s mark is used,  
 the degree of recognition of the proprietor’s mark in its and the defendant’s trading areas  
 and channels of trade,

the nature and extent of use of the same or similar sign by third parties.

It will be noted that all these requirements are similar to the relevant factors in a passing-off action. These requirements are all inter-related and it is submitted that a court should take into account their cumulative effect and compliance with one requirement may make the need to comply with other requirements less important. For example, an invented trade mark which has a high degree of inherent distinctiveness would require a lesser degree of use and publicity than a less distinctive mark.

reasons advanced above, this position, it is submitted, is correct, if considered from a background which recognizes the important role played by foreign case law in the interpretation of the dilution concepts in section 34 (1) (c) of the Act. The position, however, is somewhat now qualified, because, as shown in Chapter 6, the guidelines specified in the United States of America Federal Trade Mark Dilution Act for use by the courts in determining whether a mark is famous for dilution purposes were recently changed in the Federal Trade Mark Dilution Revision Act, 2005. It is therefore submitted that South African courts should now refer to the guidelines in the later Act.

After noting that section 34 (1) (c) of the Act was based on section 10 (3) of the 1994 UK Trademarks Act, which in turn was based on the provisions of Article 5 (2) of the EC Trademark Directive<sup>92</sup>, Smit J proceeded in the *Triomed* case, above, to explain the dilution concepts in section 34 (1) (c) of the Act by making reference to United Kingdom and German case<sup>93</sup> law explaining dilution

<sup>92</sup> The *Triomed* Case, Note 88 above, at 68. Note, however, that section 10 (3) of the UK Trademarks Act requires proof of *actual* detriment or unfair advantage, not a *likelihood* of detriment or unfair advantage and differs from section 34 (1) (c) in that respect.

<sup>93</sup> The *Triomed* Case, Note 88 above, at 68, where Smit J held that

Section 34 (1) (c) of the Act is in terms similar to the provisions of section 10 (3) of the 1994 United Kingdom Act which in turn was based on the provisions of article 5 (2) of the European Directive. The purpose of article 5 (2) was expressed to be the provision of “extensive protection to those trademarks which have a reputation”. [See *Premier Brands UK Ltd v Typhoon Europe Ltd and Another* [2000] All ER (D) 52 at p.12]

and at 69 – 71 where Smit J held that

In the *Premier Brands* case *supra* reference was made to the judgment of the German Federal Supreme Court in the case of *Dimple* (1985) GRUR 5-50 in which the following remarks were made appropriate to the concept of to take an unfair advantage:

“The courts have repeatedly held that it constitutes an act of unfair competition to associate the quality of one’s goods or services with that of prestigious competitive products for the purpose of exploiting the good reputation of a competitor’s goods or services in order to enhance one’s promotional efforts.”

Also in the *Premier Brands* case (*supra*) reference was made to a judgment of the German Federal Supreme Court in the case of *Quick* [1959] GRUR 182 in relation to the question of what is detrimental to a well established mark:

“The owner of ... a distinctive mark has a legitimate interest in continuing to maintain the position of exclusivity he acquired through large expenditures of time and money and that everything which could impair the originality and distinctive character of his distinctive mark, as well as the advertising effectiveness derived from its uniqueness, is to be avoided ... Its basic purpose is not to prevent any form of confusion but to protect an acquired asset against impairment.”

As set out above the concept of “dilution” has also been spoken of as “blurring” or “tarnishing”. Blurring occurs where the distinctiveness of a mark is eroded. [See *Taitinger SA v Allban BEP*

by blurring and dilution by tarnishment. This reference to United Kingdom and German case law, it is submitted, highlights the important role foreign case law will play as the courts interpret the scope of section 34 (1) (c ) and its concepts, and is further confirmation of the willingness of South African courts to use foreign case law for comparative purposes as they embark on the novel journey of interpreting the dilution provisions of the Act.

### 9.3.2.5 Does The Anti-Dilution Provisions Apply To Competitors?

In the *Triomed* case, above, Smit J expressed the view, obiter, that section 34 (1) (c ) of the Act was not intended to protect a proprietor who cannot prove the requirements of section 34 (1) (a) or (b) of the Act in respect of the same or similar goods as those for which a trademark is registered<sup>94</sup>. This view created some confusion on the scope of section 34 (1) (c ) of the Act, which were clarified first in *Albion Chemical Company (Pty) Ltd FAM Products CC*,<sup>95</sup> where Traverso DJP held that

Section 34 (1) (c ) gives additional protection to a well known trade mark. The additional protection is against the use of a competing mark which would be likely to take unfair advantage or be detrimental to the distinctive character or the repute of the registered trade mark notwithstanding the absence of confusion or deception.

In my view to argue that the proprietor of a well-known trade mark who cannot prove that the competing trade mark is “*likely to deceive or cause confusion*” as required by Section 34 (1) (a) cannot rely on Section 34 (1) (c ) is

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*Ltd* [1993] FSR 641 at 678]. Tarnishing occurs where unfavourable associations are created between the well-known registered mark and the mark of the defendant. It is an impairment of the well-known mark’s capacity to stimulate the desire to buy. [See: *Premier Brands* case (*supra*) at p14].

<sup>94</sup> The *Triomed* Case, Note 88 above, at 64, where Smit J said

It would appear, *although not specifically stated in the section that the purpose of the section is to prevent the use of a well-known mark in the Republic on goods other than those for which the mark is registered.* \_ It seems to me that this sub-section [i.e. section 34 (1) (c )] is not intended to protect a proprietor who cannot prove the requirements of sections 34 (1) (a) or 34 (1) (b) of the Act in respect of *the same or similar goods*, as those for which a trade mark is registered. (emphasis added).

This comment of Smit J did not simply refer to the similarity of trademarks for the purposes of confusion, but implicitly referred to competition between the parties. The reference to “... on goods other than those for which the mark is registered” points inevitably to this conclusion.

<sup>95</sup> *Albion Chemical Company (Pty) Ltd FAM Products CC* 2003 JDR 0832 (c ). Hereafter “the *Albion Chemical Company* Case”.

to ignore the wording of Section 34 (1) (c ) which specifically provides that it applies “*notwithstanding the absence of confusion or deception*”. To argue further that Section 34 (1) (c ) applies only to goods or services other than those in respect of which the mark is registered, is in conflict with the express wording of the Section which refers to unauthorized use in trade in relation to any goods or services. Such interpretation will also lead to the absurdity that the proprietor of a well-known mark has less protection in regard to the goods for which the mark is registered than it has in respect of goods for which it is not registered<sup>96</sup>.

The position adopted in the *Albion Chemical Company* case, above, seems to have been adopted in turn (implicitly) by the Supreme Court of Appeal in the *Romantic Dreams* case<sup>97</sup>.

In *Laugh It Off Promotions CC v South African Breweries International (Finance) BV t/a Sabmark International*<sup>98</sup>, Harms JA noted that in infringement proceedings under section 34 (1) (c ), the defendant’s use *need not be* in relation to similar goods or services and that liability is not dependent on confusion or deception<sup>99</sup>. The position, then, is that the dilution provisions of the Act apply to competitors and non-competitors alike. In this respect, South African trademark law should be viewed as being on par with United States, European Union, German and United Kingdom law.

### **9.3.2.6 Likely To Take Unfair Advantage Of, Or Be Detrimental To, The Distinctive Character Or The Repute Of The Registered Trademark**

<sup>96</sup> The *Albion Chemical Company* Case, Note 95 above, at Paras 30 and 31, pp. 14 – 15.

<sup>97</sup> The *Romantic Dreams* Case, Note 83 above, at Para. 11, p.9, where Nugent AJA (as he then was) stated that:

Section 34 (1) (c ) introduces a new form of trade mark protection into our law, which aims to protect the commercial value that attaches to the reputation of a trade mark, rather than its capacity to distinguish the goods or services of the proprietor from those of others (Webster and Page: *South African Law of Trade Marks* 4<sup>th</sup> ed para. 12.24). *That being so, the nature of the goods or services in relation to which the offending mark is used is immaterial and it is also immaterial that the offending mark does not confuse or deceive* (emphasis added).

However, Nugent AJA (as he then was) cast some doubt to the above proposition at Para. 12 of the *Romantic Dreams* Case, p. 10 when he concluded that

*If there is any scope at all for a mark to fall outside the ambit of section 34 (1) (a), but nevertheless to fall within the ambit of section 34 (1) (c ), in my view this is not such a case.* (emphasis added).

<sup>98</sup> *Laugh It Off Promotions CC v South African Breweries International (Finance) BV t/a Sabmark International* 2004 JDR 0576 (SCA); 2005 (2) SA46 (SCA). Hereafter the “*Carling Black Label* Case”.

<sup>99</sup> The *Carling Black Label* Case, Note 98 above, at Para. 20.

Section 34 (1) (c ) not only requires that the senior trademark must be well-known in the Republic, but that the use of the junior mark must be likely to take unfair advantage of, or be detrimental to, the distinctive character or the repute of the registered senior trademark. According to GC Webster and NS Page<sup>100</sup>

It is these additional characteristics which gives it [the trademark] its commercial magnetism and selling power and the dilution provisions are aimed at the protection of these additional features.

The meaning of these characteristics of the senior registered trademark in the context of section 34 (1) (c ) of the Act were considered in some great detail first in the *Carling Black Label* case, referred to above<sup>101</sup>. It may therefore be useful to briefly state the facts of this case to contextualize the ensuing discussion. There, the respondent was a Dutch company whose local South African affiliate was a beer producer and merchant called South African Breweries Limited. South African Breweries Limited used the Carling Black Label trademarks to produce and sell its beer under licence from its parent Dutch company. The Carling Black Label trademarks consisted of labels which were affixed to the neck and body of beer bottles. The label on the neck of the beer bottles contained the word “Carling” and the phrase, “enjoyed by all men around the world”, all in black uppercase type on a red background between two golden lines. The sticker for the body of the bottle contained two golden lines, the upper one containing the phrase “America’s lusty, lively beer” and the lower one containing the phrase “brewed in South Africa”, all in black upper case type on a red background. In a parallelogram with a black background the words “Carling Black Label Beer” appeared with the words “Carling” and “Beer” in red typeface and the words “Black Label” in white typeface.

The appellant was a close corporation engaged in *marketing* articles of clothing, mainly t-shirts, using well-known logos and trademarks “back on”

<sup>100</sup> GC Webster and NS Page, Note 55 above, at Para. 12.28, p. 12 – 53.

<sup>101</sup> The *Carling Black Label* Case, Note 98 above.

themselves. In other words, the words on the t-shirts used the weight or reputation of a well-known trademark against itself. The appellant was owned by one Mr. JB Nurse, a graduate of journalism and politics, who objected to the use of trademarks in the economy, arguing that they created niche-market selfhood and mass-market mediocrity. To press his point home, Mr. JB Nurse, through the appellant, engaged in ideological jujitsu, whereby the reputation of well-known marks was turned against the well-known marks in messages inscribed on t-shirts. The Carling Black Label trademarks fell prey to the appellant's ideological jujitsu.

In respect of the Carling Black Label neck and body mark, the jujitsu grip consisted of a caricature of the said trademark on t-shirts, employing the same lay-out, typeface and colours of the trademark. However, the phrase "Black Label" was replaced with "Black Labour", and the phrase "Carling Beer" was replaced with "White Guilt". The expression "America's lusty, lively beer" was replaced with the expression "Africa's lusty, lively exploitation since 1652" and "No regard given worldwide".

The *Carling Black Label* case highlighted, in a directly pointed way, the tension that exists between the legitimate interests of the proprietors of well-known trademarks in ensuring that the advertising value of their trademarks is protected from trademark dilution, on the one hand, and the interests of the public in ensuring that constitutionally guaranteed fundamental freedoms like freedom of expression, for example, are not sullied by such protection. In the Supreme Court of Appeal, Harms JA concisely captured this tension as follows<sup>102</sup>

Concern is expressed from time to time about the pervasiveness of trade marks, the fact that trade mark owners tend to be voracious and that trade mark

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<sup>102</sup> The *Carling Black Label* Case, Note 98 above, at Paras 8 – 11, pp 5 – 6. At Para. 21, p.10, Harms JA further highlighted this tension as follows

[Section 34 (1) (c )] must obviously be interpreted in the light of the Constitution and its application must be such that it does not unduly restrict a party's freedom of expression. *This requires a weighing-up of the freedom of expression and the trademark owner's rights of property and freedom of trade, occupation or profession.*

protection is not always kept within its legitimate bounds. Nurse, in his affidavit raises this as a justification for attacking well-known marks. He says, for instance, that ‘they’ (presumably he and his colleagues) are doing their bit to promote freedom of expression in a world where commercial expression and debate is being crowded out in the name of the protection of a brand. He also believes that brands tend to control ideas and concepts. Some of this, but not all, is hyperbole.

Prof. David Vaver, for one, has pointed out that intellectual property cannot be treated as an absolute value. Its value should be weighed up against a range of values of at least equal importance such as the ‘right of people to imitate others, to work, compete, talk, and write freely, and to nurture common cultures’. *This court, too, on occasion emphasized that intellectual property rights should be confined within their legitimate boundaries.* If so confined, the concerns expressed can be accommodated considerably.

*On the other hand, and in spite of some judicial resistance in certain quarters, trade marks are property, albeit intangible or incorporeal. The fact that property is intangible does not make it of a lower order.* Our law has always recognized incorporeals as a class of things in spite of theoretical objections thereto. Also, simply because, as the appellant has it, trade mark protection and branding are the result and part of a ‘capitalistic’ economy does not mean that trade marks may be disregarded by those who do not believe in such an economy.

But then again, intellectual property rights have no special status. The Constitution does not accord them special protection and they are not immune to constitutional challenge. Even if constitutional, their enforcement must be constitutionally justifiable. The problem, as will appear later, is that the question of how far guarantees of freedom of the media and expression affect intellectual property rights, is, except for the USA, somewhat virgin territory.

After correctly tracing the jurisprudential origins of trademark dilution to Germany and the United States of America, and observing that dilution can take the form of dilution by blurring or dilution by tarnishment<sup>103</sup>, Harms JA posed the question falling for determination as

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<sup>103</sup> The *Carling Black Label* Case, Note 98 above, at Paras 14 and 15, pp 7 and 8, where Harms JA said  
The anti-dilution doctrine can be traced to German jurisprudence but was first formulated with a measure of precision by Frank I Schechter. What Schechter principally had in mind was dilution by means of blurring of a trade mark when used on non-competing goods. He gave the example of the blurring of Rolls-Royce if the mark were to be used for restaurants, cafeterias, pants or candy. A modern German example is the use of the trade mark Dimple for whiskey in relation to cosmetics.

The instant case is, however, not concerned with blurring but rather with tarnishment. FW Mostert quotes another German case to illustrate: the owner of the well-known perfume ‘4711’ was able to interdict a sewer company from using the number on a malodorous tank truck

all that remains is whether the use by the appellant of its Black Labour White Guilt mark would be likely to take unfair advantage of, or be detrimental to, the distinctive character or the repute of the Black Label mark. That depends, among other things, *on its message, which is a matter of interpretation through the eyes of not only of the typical purchaser of such t-shirt but also through the eyes of those who are perforce exposed to the purchaser's attire*. Sabmark submitted that the message conveyed is that since time immemorial SAB has exploited and still is exploiting black labour and it has or should have a feeling of guilt and that SAB worldwide could not care less.<sup>104</sup> (emphasis added).

Harms JA agreed with this submission. In his view, the next question to be posed as a consequence of the submission was

whether a t-shirt with such a message is substantially detrimental to the repute of the marks. Sabmark submits that the impression created and left in the mind of the public that SAB has always been and still is guilty of exploiting its black labour will, in the light of the history of the country, in all likelihood be seriously damaging to its trade marks. Appellant's counsel did not attempt to meet the point head-on because it could not be met. It would be fair to pose the question whether the message is not likely to create in the mind of consumers a particularly unwholesome, unsavory, or degrading association with Sabmark's marks. The answer must be yes. Otherwise put, will anyone who has seen the appellant's t-shirt be able thereafter to disassociate it from Sabmark's trade marks? The answer must be no.<sup>105</sup>

The Supreme Court of Appeal decision, in the *Carling Black Label* case, above, was to the effect that a defendant who engages in parody or poking fun at plaintiff's trademarks with the predatory intent of deliberately exploiting the plaintiff's trademarks for commercial gain will fall afoul of section 34 (1) (c), and the constitutional defence of freedom of expression will not be available to the defendant<sup>106</sup>. Further, in parody cases under section 34 (1) (c) of the Act, the

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even though the number only formed part of its telephone number. Courts in different jurisdictions have come to similar conclusions on similar facts in this regard. For instance, the use of the American Express charge card and the slogan 'Don't leave home without it' in relation to condoms was not acceptable to a US Court. In Germany, the Federal Supreme Court found that the use of the confectionary trade mark Mars and its slogan that it will liven you up in relation to a gag item consisting of a condom, tarnished Mars. And in England an attempt to register Visa as a trade mark, also in relation to condoms, was dismissed on the same ground.

<sup>104</sup> The *Carling Black Label* Case, Note 98 above, at Paras 24 and 25.

<sup>105</sup> The *Carling Black Label* Case, Note 98 above, at Para, 26.

<sup>106</sup> The *Carling Black Label* Case, Note 98 above, Para. 31 to 33, where Harms JA said

Supreme Court of Appeal held that a court has to interpret the message in the parody not through its own eyes, but objectively through the eyes of people to whom the parody is aimed, including those who incidentally view the parody. Thirdly, it may be stated, as a general proposition, from the decision of the Supreme Court of Appeal in the *Carling Black Label* case, above, that South African courts will frown on parodies which seek to link reputable trademarks to puns related to sex or drugs, or racial slurs, especially taking into account South Africa's previous history of apartheid. These type of parodies will not be protected by the constitutional right to freedom of expression, in just the same way as purely derisory parodies will not be protected.

In a judgment dated 27<sup>th</sup> May, 2005, the Constitutional Court of South Africa overturned the decision of the Supreme Court of Appeal in the *Carling*

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Returning to the fact that trade marks are property: Some courts have held that the freedom of expression does not entitle a party to damage private property. No-one would suggest that painting graffiti on private property (or even public property) is not an abuse of free speech. Why should it be different simply because the property is a trade mark? That is not to suggest that puns and the like are not countenanced or that trademark owners' over-sensitivity should be humored. However, courts are in general not amused by sex – and drug – related 'parodies', even if they are clever or funny, simply because the prejudice to the trade mark tends to outweigh freedom of expression. On the same principle, unfair or unjustified racial slurs on a trade mark owner (even if not hate speech or approximating it) should in general not be countenanced, more so in a society such as ours. The whole point about reputation is that, like sanity, it operates as a working assumption – to question it is, in itself, to devalue it.

Another factor to be taken into account is the predatory intent of the defendant. T-shirts are primarily a marketable commodity and not only a communication medium. It is not the applicant's case that they were used in this case otherwise than in the course of trade. It is also not the appellant's case that the mark was not used in relation to goods. On the contrary, the appellant is in the business of marketing clothing. Using well-known marks for the marketing of its goods is the whole basis of the appellant's commercial existence.

Purely derisory 'parody' of a mark should also not be entitled to protection. In this regard defamation principles may be of assistance and matters such as truth, public interest and fair comment may play a role in determining whether the use of a caricature is justified. That is a reason why the nature of the message conveyed by the T-shirt is important.

This led Harms JA to conclude, at Para. 41, p.20 that

It follows from this analysis that the appellant's reliance on parody as a defence is misconceived. The appellant is using the reputation of Sabmark's well-known trade mark, which has been established at considerable expense over a lengthy period of time, in the course of trade in relation to goods to the detriment of the repute of the mark without any justification. Such use and detriment is unfair and constitutes an infringement of the said provision. The appellant's reliance on the freedom of expression is misplaced. It did not exercise its freedom, it abused it.

*Black Label* case, above<sup>107</sup>. Justice Dikgang Moseneke, delivering the majority judgment of the Constitutional Court of South Africa, prefaced his decision by recognizing that the legal issue falling for determination by the court was

the novel, and rather vexed, matter of the proper interface between the guarantee of free expression enshrined in section 16 (1)<sup>108</sup> of the Constitution and the protection of intellectual property rights attaching to registered trade mark as envisaged by section 34 (1) (c ) of the Trade Marks Act 194 of 1993 (the Act) and consequently to related marketing brands<sup>109</sup>.

In the Constitutional Court, as indeed in the lower courts, the gravamen of the submissions of Laugh It Off were that section 34 (1) (c ) of the Act, when properly construed within the fundamental rights provisions of the Constitution, did not oust its constitutional right to comment on or parody well-known trademarks and their products. Laugh It Off asserted that well-known trademarks were often the property of Goliaths in the commercial world, and were used to crowd out the legitimate expression of the public and, in this way, stifled the open and free flow of ideas in a democratic society like South Africa. As such, so submitted Laugh It Off, well-known trademarks should not be beyond the reach of public disclaim or indeed applause<sup>110</sup>. The purpose of printing the t-shirts with

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<sup>107</sup> *Laugh It Off Promotions CC v South African Breweries International (Finance) Bv. t/a Sabmark International and Freedom of Expression Institute*, Case CCT 42/04, available at [www.constitutionalcourt.org.za](http://www.constitutionalcourt.org.za), last visited on 1<sup>st</sup> October, 2005. All references to the judgment of the Constitutional Court are to the judgment online. For a brief discussion of the judgment of the Constitutional Court see David Broodryk, “*No Laughing Matter*”, *Trademark World* [September, 2005], 1 – 3 available online at <http://www.ipworldonline.com/ipi/ipwo>, last visited 1<sup>st</sup> October, 2005.

<sup>108</sup> Section 16 of the Constitution provides as follows:

- “16 Freedom of expression –
- (1) Everyone has the right to freedom of expression, which includes –
    - (a) freedom of the press and other media;
    - (b) freedom to receive or impart information or ideas;
    - (c) freedom of artistic creativity; and
    - (d) academic freedom and freedom of scientific research.
  - (2) The right in subsection (1) does not extend to –
    - (a) propaganda for war;
    - (b) incitement of imminent violence; or
    - (c) advocacy of hatred that is based on race, ethnicity, gender or religion, and that constitutes incitement to cause harm.”

<sup>109</sup> *Carling Black Label* Case, Case CCT 42/04, Note 107 above, at Para. 1.

<sup>110</sup> See particularly the *Carling Black Label* Case, Case CCT 42/04, Note 107 above, at Para. 13, where the submissions of Laugh It Off were succinctly captured by Justice Dikgang Moseneke as follows:-

their message, according to Laugh It Off, was to “lampoon the brands; to make a statement about the company’s [SAB’s] policies or practices; to probe issues bearing on the broader society; to assert free expression/and in so doing to challenge the inordinate use of trade mark laws to silence expressions that are unflattering about brands”<sup>111</sup>.

The Constitutional Court held that the essential elements of infringement under section 34 (1) (c ) of the Act were self-evident from the text of the Act<sup>112</sup>. The court correctly held that section 34 (1) (c ) of the Act proscribed dilution, and correctly traced the genesis of section 34 (1) (c ) of the Act to similar extant provisions in the European Union and the United Kingdom<sup>113</sup>. The purpose of section 34 (1) (c ) of the Act, according to the Constitutional Court, was correctly

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The pith of the applicant’s contention on free expression is that, *properly construed, section 34 (1) (c ) does not oust its constitutional right to comment on, lampoon or make fun of any trade mark and its associated brand. Brands, the applicant asserts, are often put to work by powerful corporations to crowd out equally legitimate expression. They tend to stifle the open and free flow of ideas. Brand building, the applicant argues, sets out to occupy cultural space, social space and even one’s own “headspace”. Since, in time, marketing brands graduate to cultural icons, they should not be beyond the reach of public disclaim or indeed applause. The purpose of copyright and trade mark laws in an open and democratic society is not to shut out critical expression or to throttle artistic and other expressive acts in a manner that gives way to inordinate brand sway.*

<sup>111</sup> *Carling Black Label* Case, Case CCT42/04, Note 107 above, at Para. 14.

<sup>112</sup> *Carling Black Label* Case, Case CCT 42/04, Note 107 above, at Para. 34, where the Constitutional Court made the following observations:-

The essential elements of an infringement of a trade mark under section 34 (1) (c ) are hardly obscure. They are readily discernible from the text:

- (a) unauthorized use by the defendant of a mark identical or similar to the registered mark;
- (b) in the course of trade in relation to goods or services;
- (c) the registered trade mark must be well-known in the Republic; and
- (d) the use of the trade mark would be likely to take unfair advantage of, or be detrimental to the distinctive character or repute of the registered trade mark.

<sup>113</sup> *Carling Black Label* Case, Case CCT 42/04, Note 107 above, at Para. 36, where the court made the following observations:

With the advent of overhauled trade mark legislation, section 34 (1) (c ) introduced a new species of trade mark infringement commonly known as dilution. As we have seen earlier, the section prohibits unauthorized use in the course of trade of a mark which is similar to a well-known registered trade mark if the use of the mark would be likely to take unfair advantage of, or be detrimental to the distinctiveness or repute of a registered trade mark. Provisions virtually identical in text and substance to our section 34 (1) (c ) are found in article 5 (2) of the European Directive and section 10 (3) of the 1994 United Kingdom Act. However there is an important difference. The corresponding European Community and United Kingdom (UK) provisions require proof of actual detriment or unfair advantage. Our section requires a likelihood of unfair advantage or detriment. Despite the difference I have drawn attention to, UK decided cases provide a useful starting point in our understanding of the terms of our section 34 (1) (c ).

identified by the Supreme Court of Appeal in the *Romantic Dreams* case<sup>114</sup>; namely, to provide protection against the dilution of a registered trademark by the unauthorized use of an identical or similar mark in respect of any goods, irrespective of the presence or absence of deception or confusion. The purpose was, in other words, to protect the commercial value that attaches to the repute or distinctive character of a trademark<sup>115</sup>.

The Constitutional Court agreed with the Supreme Court of Appeal that what was in issue in the *Carling Black Label* case above, was dilution by tarnishment<sup>116</sup>. The Constitutional Court, however, disagreed with the Supreme Court of Appeal on the interpretative approach to be adopted by the court in determining the interface between section 34 (1) (c) of the Act and section 16 of the Constitution. The Supreme Court of Appeal had opted for a two-stage approach in interpreting the interplay between section 34 (1) (c) of the Act and section 16 of the Constitution. First, the Supreme Court of Appeal determined whether the messages on the t-shirts of Laugh It Off amounted to infringement under section 34 (1) (c) of the Act because they were unfair and materially

<sup>114</sup> The *Romantic Dreams* Case, Note 83 above. See also the *Bata Limited* Case, Note 77 above.

<sup>115</sup> *Carling Black Label* Case, Case CCT 42/04, Note 107 above, at Paras 38 – 41, especially at Paras. 40 and 41 where the court held that

Clearly, in our case too section 34 (1) (c) serves a vital purpose in preserving trade and commercial interests of owners of trade marks which have a reputation. This it does by prohibiting use which, although it may not confuse or deceive, materially undermines the repute of well renowned trade marks ordinarily harnessed to sell goods and services. The protection must be seen to extend beyond the traditional and primary function of a trade mark, which is to signify the origin of goods and services on offer. Rather, the section aims at more than safeguarding a product's "badge of origin" or its "source-denoting" function. The section strives to protect the unique identity and reputation of a registered trade mark. Both of these attributes underpin the economic value that resides in the mark's advertising prowess or selling power. As it is often said the mark sells the goods and therefore its positive image or consumer appeal must be saved from ruin.

When one considers the origins of the anti-dilution doctrine in the law of trade marks, it appears that its initial target was to avoid blurring. But the law has advanced to include protection of a trade mark against tarnishment. I should now explain that the dilution of a trade mark appears to occur in two ways, by blurring or by tarnishment. Blurring takes place when the distinctive character or inherent uniqueness of the trade mark is weakened or reduced. Tarnishment occurs where unfavourable associations are created between a well-known registered trade mark and the mark of the unauthorized user. In a case of tarnishment, the object of the protection appears to be the repute, the good selling name of the mark.

<sup>116</sup> *Carling Black Label* Case, Case CCT 42/04, Note 107 above, at Para. 42.

harmful to the marks in question<sup>117</sup>. Second, the Supreme Court of Appeal then enquired into whether the freedom of expression provisions in section 16 of the Constitution afforded any justification for the infringement<sup>118</sup>. In terms of the approach of the Supreme Court of Appeal, then, the interface between section 16 of the Constitution and section 34 (1) (c) of the Act has to be determined by a court by first determining whether the acts *in casu* constitute infringement under section 34 (1) (c) and only if they do, by analyzing section 16 of the Constitution to see if it justified those acts (and by so doing negated the infringement) on the basis of freedom of expression.

According to Justice Dikgang Moseneke, the approach of the Supreme Court of Appeal did not pay due deference to the provisions of section 39 of the Constitution<sup>119</sup> which enjoins courts, whenever reasonably possible, to interpret legislation through the prism of the Constitution so as to promote the rights entrenched in the constitutional bill of rights. The correct approach which the Supreme Court of Appeal should have adopted, according to Justice Dikgang Moneseke, was

to balance out the interests of the owner of the marks against the claim of free expression for the very purpose of determining what is unfair and materially harmful to the marks<sup>120</sup>.

In performing the balancing exercise, the Constitutional Court held that a generous and purposive approach to interpreting the constitutional guarantee of free expression was to be preferred based on the structure of section 16 of the Constitution itself: what was not expressly excluded by section 16 (2) of the Constitution was to be taken by the court as implicitly protected by section 16 (1)

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<sup>117</sup> See Notes 102, 103 and 106 above, and accompanying text.

<sup>118</sup> See Note 106 above, and accompanying text.

<sup>119</sup> Section 39 of the Constitution reads as follows:-

“39. Interpretation of Bill of Rights

(2) When interpreting any legislation, and when developing the common law or customary law, every court, tribunal or forum must promote the spirit, purport and objects of the Bill of Rights.

<sup>120</sup> *Carling Black Label* Case, Case CCT 42/04, Note 107 above, at Para. 44.

of the Constitution and, as such, protected under the constitutional rubric of freedom of speech<sup>121</sup>. The Constitutional Court, however, left open the question whether section 34 (1) (c) of the Act, by purportedly seeking to limit the right to freedom of speech embodied in section 16 (1) of the Constitution, was itself unconstitutional, or whether section 34 (1) (c) of the Act proscribed conduct specified in section 16 (2) (c) of the Constitution<sup>122</sup>.

The Constitutional Court found that a person seeking to invoke section 34 (1) (c) of the Act must establish *a likelihood* of substantial economic detriment to his mark. Such substantial economic detriment should be restricted to economic and trade harm<sup>123</sup>. Further, it must be probable in the sense that it is supported by evidence.

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<sup>121</sup> *Carling Black Label* Case, Case CCT 42/04, Note 107 above, at Para. 44, where the court held that We are obliged to delineate the bounds of the constitutional guarantee of free expression generously. Section 16 is in two parts: the first subsection sets out expression protected under the Constitution. *It indeed has an expansive reach which encompasses freedom of the press and other media, freedom to receive or impart information or ideas, freedom of artistic creativity, academic freedom and freedom of scientific research.* The second part contains three categories of expression which are expressly excluded from constitutional protection. It follows clearly that unless an *expressive act is excluded by section 16 (2) it is protected expression.* Plainly, the right to free expression in our Constitution is neither paramount over other guaranteed rights nor limitless. As Kriegler J in *S v Mamabolo* puts it: “With us it is not a pre-eminent freedom ranking above all others. It is not even an unqualified right.” In appropriate circumstances authorized by the Constitution itself, a law of general application may limit freedom of expression.

<sup>122</sup> *Carling Black Label* Case, Case CCT 42/04, Note 107 above, at Para. 48, where the court commented *orbiter*, that

It is so that the anti-dilution prohibition under *section 34 (1) (c)* seeks, in effect to oust certain expressive conduct in relation to registered marks with *repute*. It thus limits the right to free expression embodied in at least section 16 (1) (a) to (c) of the Constitution. We are however not seized with the adjudication of the constitutional validity of the section. *We must assume without deciding that the limitation is reasonable and justifiable in an open and democratic society to which our Constitution is committed.* That in turn impels us to a construction of section 34 (1) (c) most compatible with the right to free expression. The anti-dilution provision must bear a meaning which is the least destructive of other entrenched rights and in this case free expression rights. The reach of the statutory prohibition must be curtailed to the least intrusive means necessary to achieve the purpose of the section. *Courts must be astute not to convert the anti-dilution safeguard of renowned trade marks usually controlled by powerful financial interests into a monopoly adverse to other claims of expressive conduct of at least equal cogency and worth in our broader society.*

<sup>123</sup> *Carling Black Label* Case, Case CCT 42/04, Note 107 above, at Paras 49 to 59, where the court held that:

I agree with the SCA that properly read the section requires that an infringement of a trade mark may occur only if “unfair advantage” or “unfair detriment” is shown. Equally clear is that the detriment relied upon must not be flimsy or negligible. It must be substantial in the sense that it is likely to cause substantial harm to the uniqueness and *repute* of the marks. Therefore, on its terms

The Constitutional Court was also of the view that in a dilution by tarnishment case, where no likely substantial economic harm has been established, it will not be necessary for a court to determine (in cases involving parody, satire or lampooning) whether the parody, satire or lampooning is fair<sup>124</sup>. The judgment of Justice Sachs in the *Carling Black Label* case, above, provides useful approaches which should be taken by the courts in cases of dilution by tarnishment involving parodies in a constitutional context. On that basis, the judgment of Justice Sachs deserves closer scrutiny. According to Justice Sachs, the correct approach to be adopted by the court is

whether, looking at the facts as a whole, and analyzing them in their specific context, an independent observer who is sensitive to both the free speech values of the Constitution and the property protection objectives of trademark laws, would say that the harm done by the parody to the property interests of the trademark owner outweighs the free speech interests involved. The balancing of interests must be based on the evidence on record supplemented by such knowledge of how the world works as every judge may be presumed to have. Furthermore, although the parody will be evaluated in the austere atmosphere of the court, the text concerned [whether visual or verbal or both] should be analysed in terms of its significance and impact it had [or was likely to have], in the actual setting in which it was communicated.

It seems to me that what is in issue is not the limitation of a right, but the balancing of competing rights. The present case does not require us to make any determinations on that matter. But it would appear once all the relevant facts are established, it should not make any difference in principle whether the case is seen as a property rights limitation on free speech, or a free speech limitation on

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the section has internal limitations. It sets fairness and materiality standards. The section does not limit use that takes fair advantage of the mark or that does not threaten substantial harm to the repute of the mark, or indeed that may lead to harm but in a fair manner. What is fair will have to be assessed case by case with due regard to the factual matrix and other context of the case. *A court will have to weigh carefully the competing interests of the owner of the mark against the claim of free expression of a user without permission.*

The exercise calls for an evaluation of the importance of the purpose, nature, extent and impact of the limitation of free expression invoked against claims of unfair advantage or of likelihood of material detriment to a registered mark. In sum, in order to succeed the owner of the mark bears the onus to demonstrate *likelihood of substantial harm or detriment* which, seen within the context of the case, amounts to unfairness. What remains is to settle the content of the substantial detriment the section envisages (emphasis added).

<sup>124</sup> *Carling Black Label* Case, Case CCT 43/04, Note 107 above, at Para. 66.

property rights. At the end of the day this will be an area where nuanced and proportionate balancing in a context-specific and fact-sensitive character will be decisive, and not formal classification based on bright lines<sup>125</sup>. (emphasis added).

The mere fact that the impugned expression has a commercial or social content or element, or could have been expressed through an alternative medium, is in itself not determinative of the issue whether it will not be protected under section 16 of the Constitution and, as such, immune from attack under section 34 (1) (c) of the Act. All factors must be taken into account by a court, including the context of the use of the impugned expression, whether the expression could have been conveyed by means other than parody, and whether the parody is unsavoury, lewd, pornographic, disparaging or tasteless<sup>126</sup>. In being guided by the non-exhaustive list of examples given by Justice Sachs, however, courts should apply a common-sense approach. As noted by Justice Sachs

I have mentioned factors which I believe will be relevant to the balancing exercise. The list is by no means exhaustive. Nor should they be seen as a series of discrete hoops through which the litigants must pass in order to succeed. Rather, they are illustrations of the kind of considerations to be evaluated in a fact-sensitive and contextual manner and against the backdrop of the values of an open and democratic society<sup>127</sup>.

<sup>125</sup> *Carling Black Label* Case, Case CCT 42/04, Note 107 above, at Paras. 82 to 83. Earlier on in the judgment, at Para. 81, Justice Sachs had opined that

There is nothing in our law to suggest that parody is a separate defence. Rather, it should be considered as an element in the overall analysis. As a United States court put it: “Some parodies will constitute an infringement, some will not. But the cry of ‘parody!’ does not magically fend off otherwise legitimate claims of trademark infringement or dilution. There are confusing parodies and non-confusing parodies. All they have in common is an attempt at humor through the use of someone else’s trademark. A non-infringing parody is merely amusing, not confusing.”

The issue in that matter was confusion, not detriment, but the principle is the same: there are parodies that cause unfair detriment and parodies that do not. Everything will depend on the context. Thus, the fact that the trademark image is central to the parody does not make it automatically or even presumptively liable for restraint. Nor, on the other hand, does the fact that it is offered as humour automatically or even presumptively render it immune from restraint. Parody, like any other use, has to work its way through the relevant factors and be judged case by case, in light of the ends of trademark law and the free speech values of the Constitution. Given the importance of trademark protection on the one hand and free speech on the other it becomes necessary to balance the one against the other.

<sup>126</sup> *Carling Black Label* Case, Case CCT 42/04, Note 107 above, at Paras 84 to 88.

<sup>127</sup> *Carling Black Label* Case, Case CCT 42/04, Note 107 above, at Para. 89.

The conclusion to be drawn from the judgment of the Constitutional Court in the *Carling Black Label* case, above, is that the court decidedly came in favour of protecting the right to freedom of expression against the interests of big businesses in the commercial magnetism of their marks. The judgment sends a strong signal that South African courts will be slow to come to the aid of big corporations which seek to invoke section 34 (1) (c) of the Act in claims of dilution by tarnishment<sup>128</sup>, where parody is involved. On its facts, it is submitted that the *Carling Black Label* case was a case of *res ipso loquitor*, and the Constitutional Court fell into error by insisting that the Respondent should have provided evidence of a future event - a likelihood of dilution on a substantial scale, in the form of economic harm. It is also unclear, from the *Carling Black*

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<sup>128</sup> *Carling Black Label*, Case, Case CCT 42/04, Note 107 above, at Paras 103 – 106, where the court made the following comments

I would like to add two considerations of special constitutional significance which I believe reinforce the conclusion to which I have come.

The first relates to the chilling effect that overzealously applied trademark law could have on the free circulation of ideas. In this respect one must recognize that litigation could be a risky enterprise for a meritorious trademark owner as well as the prankster. Applicants seeking to interdict the abusive use of their trademarks stand to be involved in lengthy litigation in which every manner of accusation could be made against them by persons from whom no costs could ultimately be recovered. Furthermore, any business seen as trying to block free speech could hardly be surprised if the media tended to champion their opponent's cause, the very act of invoking the heavy machinery of the law might be regarded as being in conflict with the image of freedom, liveliness and good cheer associated with their product brand. *Thus, in the present matter simply bringing the proceedings against Laugh It Off risked being more tarnishing of Carling Black Label's association with bonhomie and cheerfulness than the sale of two hundred T-shirts could ever have done.* The principle of litigator beware, however, faces any person contemplating legal action.

Of more significance from a constitutional point of view is the manner in which even the threat of litigation can stifle legitimate debate. Large businesses have special access to wealth, the media and government. Like politicians and public figures, their trademarks represent highly visible and immediately recognizable symbols of societal norms and values. The companies that own famous trademarks exert substantial influence over public and political issues, making them and their mark ripe and appropriate targets for parody and criticism.

*Yet when applied against non-competitor parody artists, the tarnishment theory of trademark dilution may in protecting the reputation of a mark's owner, effectively act as a defamation statute. As such it could serve as an over-deterrent. It could chill public discourse because trademark law could be used to encourage prospective speakers to engage in undue self-censorship to avoid the negative consequence of speaking – namely, being involved in a ruinous lawsuit. The cost could be inordinately high for an individual faced with a lawsuit aimed at silencing a critic, not only in terms of general litigation expenses, but also through the disruption of families and emotional upheaval. Such protracted vexation can have the effect of discouraging even the hardest of souls from exercising their free speech rights (emphasis added).*

*Label* case, above, whether a requirement of substantial economic harm will also apply in cases of dilution by blurring. In this respect, it should be noted that the United States of America, in the Federal Trademark Dilution Revision Act, has expressly provided for a likelihood of dilution as the appropriate standard applicable in dilution claims, and that such standard will not be dependent on the existence of actual economic harm.

It is submitted that the decision of the Constitutional Court in the *Carling Black Label* case, above, did not clarify the dilution concepts in section 34 (1) (c) of the Act, but rather muddled the approach to be taken by lower courts in dilution cases. It is indeed very unfortunate that the Constitutional Court (obiter), saw it fit to cast a cloud on the constitutional validity of the dilution provisions of the Act, because, as shown earlier, the genesis of those provisions reside in the provisions of international trademark treaty law, to which South Africa is required, as a matter of legal obligation, to subscribe domestically. Article 16 (3) as read with Article 1 (1) of the TRIPS Agreement serve as a ready reference to validate this argument. Second, South Africa seems to be the only country in the jurisdictions under study where, in a dilution case involving a constitutional defence, the courts do not determine the existence of infringement *first*, then analyse the constitutional defence to see if it excuses the infringement, or, to put it in language similar to the legislative text of Articles 4 (3) and 5 (3) of the EC Trademark Directive, Articles 8 (5) and 9 (1) (c) of the Community Regulation, sections 5 (3) and 10 (3) of the United Kingdom Trade Marks Act and section 9 (1) 3 and 14 (2) 3 of the German Trade Marks Act, 1994, to see if such use, within the context of the constitutional defence, is with due cause. Sequentially, this involves a determination of the presence of infringement *first*. Admittedly, the words “due cause” are missing in section 34 (1) (c) of the Act, but then, as the Constitutional Court expressly recognized in the *Carling Black Label* case, above, the scheme of section 34 (1) (c) is such that it contains in-built defences, including the defences that the use takes “fair advantage” or “fair detriment” of the repute or the distinctive character of the mark which is well-known in the

Republic. The thesis being made here is that any ‘fair’ use of the senior mark would be with ‘due cause’.

What is puzzling about the judgment of the Constitutional Court in the *Carling Black Label* case, above, is that, despite the pronouncements of the Constitutional Court that in a dilution case where there is a constitutional defence, the approach of a court should be to determine the validity of the constitutional defence *before* determining infringement<sup>129</sup>, Justice Dikgang Moseneke’s judgment on closer scrutiny, did exactly the opposite: in seeking to balance out the interests of the owner of the marks against the claim of free expression for the very purpose of determining what is unfair and materially harmful to the marks, His Lordship can only implicitly be held to have accepted that there was infringement *in casu*, and the exercise His Lordship was engaged in was the second step in the enquiry which the Supreme Court of Appeal had undertaken; namely, to see if the constitutional defence vitiated the infringement, a second step which for some puzzling reason was rejected by His Lordship Justice Dikgang Moseneke. The biggest error of the judgment of the Constitutional Court in the *Carling Black Label* case, above, is that it failed to spell out clearly for the guidance of lower courts that, in the context of the interface between section 34 (1) (c) of the Act and a defence under the fundamental rights provisions of the Constitution, the balancing exercise by a court in weighing the competing interests of the owner of the mark against the constitutional defence has to be undertaken *after* the court has *first* found that there is, indeed, infringement in the context of section 34 (1) (c) of the Act. Otherwise, if there is no infringement, there will be no need to engage in a weighing exercise, because the fundamental objective of a court in balancing the interests of the trademark owner against the constitutional defence is to determine whether the constitutional defence ‘excuses’ the infringement, or makes the use one with ‘due cause’, or one

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<sup>129</sup> See Note 120 above, and accompanying text. The point being made here is that a balancing exercise can only be made if there is infringement. The existence of infringement, therefore will, *ipso facto*, trigger the second limb of the enquiry undertaken by the Supreme Court of Appeal. Justice Moseneke’s approach raises the fundamental question: what was he balancing before expressly finding that there was infringement?

which is ‘fair’, in terms of the advantage and detriment it takes or causes to the distinctive character or the repute of the mark which is well-known in the Republic.

A further criticism of the judgment of Justice Dikgang Moseneke in the *Carling Black Label* case, above, is his sweeping comments that the constitutional guarantee of free expression is available, under the Constitution, even where others may deem the expression unsavoury, unwholesome or degrading. This approach pays scant regard to section 16 (2) (c) of the Constitution, which circumscribes the right to freedom of expression as not extending to advocacy of hatred that is based on, *inter alia*, race, and that constitutes incitement to cause harm. Although he specifically rejected the interpretation of the Provincial Division and the Supreme Court of Appeal as to the meaning to be ascribed to the words “Black Labour” “White Guilt” in the jujitsu grip of Laugh It Off as equivalent to a racial slur reminiscent of Sabmark’s exploitation of the black working class during the apartheid era, Justice Dikgang Moseneke shied away from offering a counter-explanation of these words, because, objectively, there was none. Additionally, the judgment of Justice Dikgang Moseneke failed to provide guidance to the lower courts on *the type of evidence* needed to establish a likelihood of substantial economic detriment under section 34 (1) (c) of the Act. It is respectfully submitted that it was because of a similar general (and unhelpful) judicial pronouncement in *Moseley v V. Secret’s Catalogue Inc*<sup>130</sup> which led the United States of America to enact a more focused dilution statute in the form of the Federal Trade Mark Dilution Revision Act, 2005. It is submitted that it will be appropriate, indeed necessary, for the South African legislature to correct the lacunae in the judgment of the Constitutional Court in the *Carling Black Label* case, above, by enacting similar legislation.

#### 9.4 DEFENCES AND REMEDIES

<sup>130</sup> 123 S.Ct.1115, 65 USPQ 2d 1801 (US2003).

Section 34 (1) (c) of the Act contains important inbuilt defences available available to a defendant in an infringement case. Specifically, a defendant may plead that the trademarks *in casu* are not similar<sup>131</sup>, or that the trademark of the plaintiff is not well-known in the Republic, or that the use complained of is not use in the course of trade in respect of goods or services; or that the detriment complained of is *de minimis*<sup>132</sup>, or that the use complained of does not take unfair advantage of the plaintiff's trademark<sup>133</sup>.

Although section 34 (2) of the Act contains general defences to trademark infringement, these defences have not yet been specifically pleaded in a dilution case under the Act, and will, as such, not be examined in great detail<sup>134</sup>. Further,

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<sup>131</sup> See the *Albion Chemical Company* Case, Note 95 above, the *Romantic Dreams* Case, Note 85 above, the *Triomed* Case, Note 88 above, and the *Bata Limited* Case, Note 75 above.

<sup>132</sup> The *Carling Black Label* Case, Note 98 above, at Paras 22 and 23, where Harms JA in the Supreme Court of Appeal said

In the ordinary course of events acts proscribed by the provision will not impinge on a defendant's freedom of expression but since there are instances where it may, *some limitation should be found or implied in the provision or in its application insofar as it may be required by a balancing of divergent rights and interests. The express terms of section 34 (1) (c) do place important limitations on its scope. First, it provides protection to well-known marks only. Second, the prohibited use must be 'in the course of trade'.* This accords for instance with the position in the USA and the EC. *And then, significantly, the use must be in relation to goods or services.* Integer (f) contains an important limitation namely that a defendant may not take 'unfair advantage' of the distinctive character or repute of the trade mark – according to Mostert something akin to misappropriation or unjust enrichment. This allows for a proper balancing of freedoms, rights and interests (emphasis added).

The word 'detrimental' is not qualified in express terms. However, it is inconceivable that any detriment could suffice and it is implicit that detriment, in order to be actionable, has to be unfair in the sense that the relief sought may not unfairly or unduly encroach on the rights of others – including the freedom of expression. There is another qualification: The law, as a general proposition, concerns itself with matters of substance only and, accordingly, insubstantial prejudice to the trademark owner is not enough. Since neither freedom of expression nor trademark rights are absolute, it will be necessary to consider how they should be balanced.

<sup>133</sup> The *Carling Black Label* Case, Note 98 above, at Para 26.

<sup>134</sup> Section 34 (2) of the Act provides as follows:

A registered trade mark is not infringed by –

- (a) any *bona fide* use by a person of his own name, the name of his place of business, the name of any of his predecessors in business, or the name of any such predecessor's place of business;
- (b) the use by any person of any *bona fide* description or indication of the kind, quality, quantity, intended purpose, value, geographical origin or other

section 36 of the Act saves prior vested rights in a trademark, but, again, this section has not yet been raised in dilution proceedings<sup>135</sup>.

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- characteristics of his goods or services, or the mode or time of production of the goods or the rendering of the services;
  - (c) the *bona fide* use of the trade mark in relation to goods or services where it is reasonable to indicate the intended purpose of such goods, including spare parts and accessories, and such services;
  - (d) the importation into or the distribution, sale or offering for sale in the Republic of goods to which the trade mark has been applied by or with the consent of the proprietor thereof;
  - (e) the *bona fide* use by any person of any utilitarian features embodied in a container, shape, configuration, colour or pattern which is registered as a trademark;
  - (f) the use of a trade mark in any manner in respect of or in relation to goods to be sold or otherwise traded in, or services to be performed, in any place, or in relation to goods to be exported to any market, or in any other manner in relation to which, having regard to any conditions or limitations entered in the register, the registration does not extend;
  - (g) the use of any identical or confusingly or deceptively similar trade mark which is registered:

Provided that paragraph (a) shall not apply to the name of any juristic person whose name was registered after the date of registration of the trade mark: Provided further that the use contemplated in paragraph (a), (b) or (c) is consistent with fair practice.

For an extensive discussion of section 34 (2), see GC Webster and NS Page, Note 55, at Paras 12.35 to 12.50, pp. 12 – 62 to 12 – 85.

<sup>135</sup> Section 36 of the Act provides as follows:-

36. **Saving of vested rights** - (1) Nothing in this Act shall allow the proprietor of a registered trade mark to interfere with or restrain the use by any person of a trade mark identical with or nearly resembling it in respect of goods or services in relation to which that person or a predecessor in title of his has made continuous and bona fide use of that trade mark from a date anterior –
- (a) to the use of the first-mentioned trade mark in relation to those goods or services by the proprietor or a predecessor in title of his; or
  - (b) to the registration of the first-mentioned trade mark in respect of those goods or services in the name of the proprietor or a predecessor in title of his,
- whichever is the earlier, or to object (on such use being proved) to the trade mark of that person being registered in respect of those goods or services under section 14.
- (2) Nothing in this Act shall allow the proprietor of a trade mark entitled to protection of such trade mark under the Paris Convention as a well-known trade mark, to interfere with or restrain the use by any person of a trade mark which constitutes, or the essential parts of which constitute, a reproduction, imitation or translation of the well-known trade mark in relation to goods or services in respect of which that person or a predecessor in title of his has made continuous and *bona fide* use of the trade mark from a date anterior to 31 August 1991 or the date on which the trade mark of the proprietor is the later, or to object (on such use being proved) to the trade mark of that person being registered in relation to those goods or services under section 14.

Remedies for trademark infringement, on the other hand, are provided in section 34 (3) and (4) of the Act<sup>136</sup>. The *Carling Black Label* case, above, shows that in dilution cases, the interdict may be the oft-resorted to remedy, because of its efficacy in preventing any continued infringement. This does not, however, discount the applicability of the other remedies in dilution cases.

In concluding this Part of the research, it is appropriate to echo the views of P. Ginsburg on the nature and parameters of the dilution provisions in the Act. P. Ginsburg observes that

The anti-dilution provisions of the Act are powerful measures at the disposal of trade-mark proprietors. Although our courts frown on monopolies they do countenance them when doing so would enhance and promote legitimate trade and economic activity. It is to be expected that the courts will approach these new measures with circumspection and in so doing will contain extravagant claims by trade mark proprietors who may become unduly fond of alleging dilution. The anti-dilution provisions were not intended to, and indeed do not, give copyright protection to registered trade marks<sup>137</sup>.

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<sup>136</sup> Section 34 (3) and (4) provides as follows

- (3) Where a trade mark registered in terms of this Act has been infringed, any High Court having jurisdiction may grant the proprietor the following relief, namely –
- (a) an interdict;
  - (b) an order for removal of the infringing mark from all material and, where the infringing mark is inseparable or incapable of being removed from the material, an order that all such material be delivered up to the proprietor;
  - (c) damages, including those arising from acts performed after advertisement of the acceptance of an application for registration which, if performed after registration, would amount to infringement of the rights acquired by registration;
  - (d) in lieu of damages, at the option of the proprietor, a reasonable royalty which would have been payable by a licensee for the use of the trade mark concerned, including any use which took place after advertisement of the acceptance of an application for registration and which, if taking place after registration, would amount to infringement of the rights acquired by registration.
- (4) For the purposes of determining the amount of any damages or reasonable royalty to be awarded under this section, the court may direct an enquiry to be held and may prescribe such procedures for conducting such enquiry as it may deem fit.

For an extensive discussion of section 34 (3) and (4), see GC Webster and NS Page, Note 55 above, at Paras 12.51 to 12.58, pp. 12 – 85 to 12 – 103.

<sup>137</sup> P. Ginsburg, Note 57 above, at 43.

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## 9.5 INTERNET-BASED DILUTION

The dilution provisions of the Act have been of exceptionally limited assistance in cases by cybersquatting. BR Rutherford, for example, argues, in this respect, that

It is unlikely that the [South African] courts will be prepared to find trademark dilution in cases involving internet users with genuine claims to or rights in second-level domain names, especially where the domain name owner has been conducting business under the same trademark for some time.

While dilution protection will go a long way to alleviate the problem relating to the internet infringement of well-known marks, it will not resolve all disputes. Dilution may be effective when the offending mark is used in the course of trade. But when no commercial use occurs ... the proprietors of well-known marks are powerless<sup>138</sup>.

There is no South African case where the dilution provisions of the Act were invoked to stop cybersquatting. As such, it will be recommended that to effectively combat cybersquatting within the context of trademark legislation, South Africa should seriously consider enacting a statute similar in terms to the American Anticybersquatting Consumer Protection Act<sup>139</sup>.

## 9.6 CONCLUSIONS AND RECOMMENDATIONS

Although there is consensus among academics that the South African common law should prohibit the misappropriation of the advertising value of a trademark which causes trademark dilution, there is no ready judicial case to validate this proposition. The cases examined in this Chapter, for example, unequivocally point to a conclusion that the common law has been of exceptionally limited assistance in protecting the advertising value of trademarks from dilution. The inclusion of the dilution provisions in section 10 (17) and

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<sup>138</sup> BR Rutherford, *“Well-Known Marks On the Internet”*, Note 68 above, at 181. See also Coenraad Visser, *“Recent Developments Regarding the Protection of Domain Names”* [1999] 11 SA Merc. LJ, 485 – 513.

<sup>139</sup> See Chapter 6, Part 6.6.

section 34 (1) (c ) of the Act, when viewed in the context of the failure of the common law to provide adequate protection to the advertising value of trademarks, were a welcome initiative. The provisions placed South African trademark law, in broad terms, on par with developments in the European Union and the United States of America, and enabled South Africa to discharge its obligations in Article 16 (3) of the TRIPS Agreement. However, the continued importance of the common law should not be underemphasized, since the Act deals with registered, as opposed to unregistered, trademarks.

There are certain grey areas in both section 10 (17) and section 34 (1) (c ) of the Act which undoubtedly need further elucidation from the courts, or alternatively (and preferably) clarification by way of legislative amendment. First, the expression “well-known mark in the Republic” although now defined by the courts as synonymous with the reputation of the trademark in the Republic<sup>140</sup> or a portion thereof<sup>141</sup>, in terms of knowledge of the mark by a substantial number of persons concerned in the relevant trade, is still not underpinned by any specific legislative guidelines as to the degree of public awareness of the trademark that is required. Such an approach, however, differs from the approach taken in the United States of America, Germany, the European Union, and the United Kingdom. What is recommended is for the South African legislature to make an amendment to the Act importing the cumulative guidelines in the American Federal Trademark Dilution Revision Act<sup>142</sup> for use by the courts in determining the reputation of a mark for the purposes of both section 10 (17) and section 34 (1) (c ) of the Act. This will, effectively, also bring South African law on par with the guidelines set by the European Court of Justice in *General Motors Corporation v Yplon SA*<sup>143</sup>.

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<sup>140</sup> See Part 9.3.2.4.

<sup>141</sup> See Part 9.3.2.4.

<sup>142</sup> See Chapter 6, Part 6.5.

<sup>143</sup> *General Motors Corporation v Yplon SA*, Case C-375/97, Judgment dated 14 September, 1997, downloaded from <http://www.curia.eu.int>, last visited on 30<sup>th</sup> October, 2005. For an extensive discussion of this case, see Chapter 5, Part 5.3.3.

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The Act, however, differs from sections 5 (3) and 10 (3) of the UK Trademarks Act, and the American Federal Trademark Dilution Act in that section 10 (17) and section 34 (1) (c) of the Act require proof of *likelihood* of detriment or unfair advantage, not *actual* detriment or unfair advantage. This requirement of the Act, it is submitted, takes due cognizance of the *incipient* nature of dilution, a requirement which was only recently adopted in the United States of America through the Federal Trademark Dilution Revision Act.

However, the South African courts have not, to date, clearly defined with any degree of specificity the meaning to be assigned to “the repute” of a trademark, a phrase which means the image of a trademark<sup>144</sup>. Other key concepts; namely, the taking of unfair advantage of, or the causing of detriment to, a trademark’s repute or distinctive character will equally need further legislative clarification, because the judgment of the Constitutional Court in the *Carling Black Label* case, above, instead of clarifying these concepts, only produced, it is respectfully submitted, further doubt and uncertainty as to their scope and applicability within the constitutional context of South Africa.

In order to effectively combat cybersquatting and domain name warehousing, it is recommended that South Africa should enact a statute similar to the American Anticybersquatting Consumer Protection Act<sup>145</sup>.

In the final analysis, although the Act may be said to be in compliance with the requirements of international trademark law, it is submitted that there are still some areas which need to be reformed to bring South African dilution practice on par with developments in the United States of America and the European Union, and that the judgment of the Constitutional Court in the *Carling*

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<sup>144</sup> Harms JA in the *Carling Black Label* Case, Note 98 above, impliedly accepted that “repute” means “image” in the context of section 34 (1) (c) without any elucidation. The same observation applies equally to the judgment of the Constitutional Court in that case.

<sup>145</sup> See Chapter 6, Part 6.6.

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*Black Label* case, above, has produced much uncertainty in the scope and application of the anti-dilution provisions of the Act within the context of South Africa's constitutional order. That judgment did not provide any useful guidelines for the benefit of the lower courts, on how a court should engage in balancing the competing interests present in dilution cases.

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**PART IV**  
**CONCLUSIONS, RECOMMENDATIONS AND**  
**LAW REFORM PROPOSALS**

**CHAPTER 10**

**CONCLUSIONS, RECOMMENDATIONS AND**  
**LAW REFORM PROPOSALS**

**10.1 INTRODUCTION**

The genesis of protection against the dilution of rights in a trademark, as an actionable wrong, can be traced to German case law, specifically the *Odol* case<sup>1</sup>. From there, it was introduced into American jurisprudence by Frank Schechter<sup>2</sup>, who argued that strong, well-recognised trademarks should be protected against the injury of “gradual whittling away or dispersion of [their] identity and hold upon the public mind ... by [their] use upon non-competing goods”. In essence, Schechter’s<sup>3</sup> theory sought to protect the advertising value of trademarks<sup>4</sup> from misappropriation<sup>5</sup> which causes trademark dilution<sup>6</sup>. The misappropriation of the advertising value of a trademark and its use on non-competing but related goods may also cause the injury of confusion of sponsorship<sup>7</sup>. The importance of the advertising value of a trademark in today’s commercial world, and its need for protection from these two forms of injury, is made more significant if it is remembered that trademarks are, for most business

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<sup>1</sup> See Chapter 7, Para. 7.2.5, Note 29, and accompanying text.

<sup>2</sup> Frank I. Schechter, “*The Rational Basis of Trademark Protection*” [1927] HARV. LR 813 – 833. For a discussion of Frank Schechter’s article, see Chapter 2, Part 2.2.4 and Chapter 6, Part 6.1.

<sup>3</sup> Note 2 above.

<sup>4</sup> The advertising function of trademarks is discussed in Chapter 2, Part 2.2.4.

<sup>5</sup> The concept of misappropriation is discussed in Chapter 3, Part 3.2.

<sup>6</sup> See Chapter 3, Part 3.3.

<sup>7</sup> See Chapter 3, Part 3.4.

people, significant assets into which are channelled considerable marketing, investment, advertising and promotional expenditures, and in which rest a substantial part of the goodwill and reputation of a trader's business. It therefore is of the outmost importance for any trader to protect the advertising value<sup>8</sup> of his trademark from dilution or confusion of sponsorship in order to protect the goodwill and reputation of his business.

Dilution protection, however, is an extraordinary remedy outside mainstream orthodox trademark infringement, which should be granted by the courts only in limited specific circumstances, after appropriately balancing the interests of the owner of the trademark in ensuring that the advertising value of his trademark is protected from dilution, and the competing interests of the public in ensuring that such protection does not stultify the right to free trade and other legitimate economic activities or constitutionally guaranteed freedoms, or create absolute monopolies or a form of copyright in a trademark. An appreciation of the logical, theoretical and historical basis of the dilution doctrine by the courts, therefore, is an imperative *sine qua non* for any useful, rational and informed balancing exercise because, without such judicial understanding of dilution concepts, deserving cases may be denied protection, and undeserving cases may be granted protection, thereby distorting the very purpose that dilution is intended to serve. The question of great moment, therefore, is how courts should undertake the balancing exercise.

General propositions as to how the courts should undertake the balancing exercise were developed in Chapter 3<sup>9</sup>. There, it was argued that since it is the advertising value of trademarks that is protected from dilution, there is no reason, in principle, why only famous, as opposed to well-known, marks, should be protected from dilution. The thesis advanced in Chapter 3, and expounded in the rest of the research, is that all well-known marks which satisfy the requirements

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<sup>8</sup> See Chapter 3, Part 3.1

<sup>9</sup> See Chapter 3, Parts 3.7 and 3.8.

of protection should be protected from dilution by the courts. This will not mean that proprietors of such marks will obtain dilution protection simply by alleging that their marks are well-known. Rather, in undertaking the balancing exercise, the courts should vigilantly scrutinize the status of the senior mark *in casu* to determine whether there is any evidence proving the reputation of the mark for dilution purposes. Courts should therefore, as a general rule, refrain from assuming that a mark is well-known for dilution purposes without any supporting evidence. A determination of the reputation of a mark was therefore identified as the first line of analysis by any court undertaking the balancing exercise in the context of dilution, because, absent the requisite reputation, an analysis of all the other dilution concepts are rendered moot, and the court should, at that stage, dismiss the dilution claim in the interests of free trade.

Further, it was argued in Chapter 3<sup>10</sup> that marks with only niche market fame should be protected from dilution sparingly, in very exceptional circumstances. Several propositions informed this argument. Most if not all dilution provisions provide that dilution protection will be available notwithstanding the absence of likelihood of consumer confusion. In dealing with niche market fame in the context of dilution claims, therefore, courts should not belabour the issue whether there is a likelihood of consumer confusion, and whether the case can be disposed of under orthodox trademark infringement principles. Rather, courts should recognize that, in appropriate cases, dilution can occur in a geographic niche market, where the goods of the parties are non-competing. In such cases, consumers and potential consumers of the mark which is well-known in the geographic niche market will not be confused as to the source-origin of the different goods bearing the mark, but will know that the mark in the niche market is being used to denote different sources of goods. In such cases, dilution by blurring will have occurred in the niche geographic market. Second, courts should recognize that where a trademark is well-known in a niche market, its advertising value may be diluted by comparative advertising, when a

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<sup>10</sup> See Chapter 3, Parts 3.7 and 3.8.

defendant states, for instance, that his goods are the “same as”, “similar to” or “manufactured like” the competing goods of the plaintiff. In this way, the positive association between the plaintiff’s trademark and his goods will be diverted to the defendant’s goods; and its advertising value will be diluted by blurring. If the reference is in respect of inferior or unwholesome goods, or goods of an immoral or offensive character, dilution by tarnishment will occur. Third, there will be instances when a junior mark is used outside a niche market, in a wider market, while there is a similar or identical trademark which is well-known in a niche market. In such situations, dilution protection should, as a rule, not be available, since the junior use will be directed at a much larger market. The basis of this argument is that if the junior use of a mark is directed at a wider and different group of consumers outside a niche market, and the well-known mark is known by a relatively small number of consumers in a niche market, the impact of the junior use of the mark outside the niche market on the reputation of the well-known mark in the niche market will be *de minimis*, and a dilution claim on this basis should, in principle, be dismissed in the interests of free trade. It was, however, concluded in the thesis that niche fame will usually not satisfy the rigorous requirements of reputation in dilution cases, and, on this basis, the applicability of the niche fame theory in the context of dilution is very doubtful.

It was also argued in Chapter 3 that the identity of the trademarks should also be strictly scrutinized by the courts when undertaking the balancing approach, to ensure that only if the well-known mark and the junior mark are identical or truly similar will dilution protection be available<sup>11</sup>. This should be the second stage of enquiry by a court in any dilution analysis using the balancing approach advocated in the thesis. In this respect, trademarks should be regarded as similar only if they show a strong or marked resemblance to each other. In determining the similarities of marks for dilution purposes, it was therefore argued that courts should adopt a global approach that takes into account the aural, visual and conceptual similarity of the marks in question, notwithstanding

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<sup>11</sup> See Chapter 3, Parts 3.7 and 3.8.

the absence of confusion. Where the marks *in casu* are only incidentally similar, the courts should stop the dilution analysis and dismiss the dilution claim, in the interests of free trade.

Most statutory dilution concepts are still virgin territory to the judiciaries of many countries, and in undertaking the balancing exercise, courts would do well by engaging in a comparative analysis to ascertain the meanings given to these concepts in other countries<sup>12</sup>. A consideration of the dilution concepts was identified as the third stage to be undertaken by a court engaged in the balancing exercise. Most dilution provisions provide that dilution will be present where the use of a junior trademark takes unfair advantage of, or causes detriment to, the repute or the distinctive character of the senior well-known mark. Further, such unauthorized use must be use in the course of trade. It was argued that courts should, as a general rule, find the taking of unfair advantage or detriment to the distinctive character or the repute of a trademark only in circumstances where such unfair advantage or detriment is substantial and not *de minimis*. In other words, any injury which is *de minimis* should be allowed as a necessary corollary to the free trade principle, because courts do not concern themselves with trivialities.

It was also pointed out, in Chapter 3, that courts should appreciate, in balancing the competing interests of a trademark owner against the interests of the public in dilution cases, that statutory dilution provisions contain important in-built safeguards designed to facilitate the balancing exercise<sup>13</sup>. According to most dilution provisions, a mark will not be barred from registration, or be considered infringing, if the junior user has “due cause” to use the mark. Courts should, as a rule, find due cause use in two circumstances. First, if the junior user has a prior right to use the mark that takes precedence over the senior user’s mark. Second, if the junior user is under such compulsion to use the mark that he cannot

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<sup>12</sup> See Chapter 3, Parts 3.7 and 3.8.

<sup>13</sup> See Chapter 3, Parts 3.7 and 3.8.

honestly be asked to refrain from using it<sup>14</sup>. If any of these two circumstances are present in any case, then a court should dismiss the dilution claim, in the interests of free trade. On the obverse side, courts should find that the “due cause” requirement is not fulfilled merely by the fact that the sign is particularly suitable for identifying a defendant’s products, or because the defendant has already used the sign for his products or similar products within a particular territory, or because the defendant invokes a right ensuing from a filing over which the filing by the plaintiff in opposition proceedings takes precedence. In these circumstances, it would be appropriate for the courts to dismiss any claim that the use of the junior sign is with due cause, since to do otherwise would render dilution protection to be a chimera mostly beyond the reach of trademark proprietors, who equally deserve protection in appropriate cases<sup>15</sup>.

Finally, it was argued in Chapter 3 that courts should seek to strike an appropriate balance in dilution cases between the interests of a proprietor of a trademark and the interests of a defendant invoking a constitutionally guaranteed fundamental freedom as a defence<sup>16</sup>. In engaging in the balancing exercise, courts should deliberately eschew a determination of the constitutional validity of dilution provisions, whose genesis can be traced to the provisions of international trademark treaty law, particularly Article 16 (3) as read with Article 1 (1) of the TRIPS Agreement. Rather, the focus of judicial enquiry should be on *how* they can strike an appropriate balance between that constitutional right and the competing rights of the trademark proprietor. Several propositions were advanced in Chapter 3 in this respect. It was argued that the balancing exercise should, in cases where a constitutionally guaranteed right is mounted as a defence, proceed by *first* determining whether there is infringement, and then, *if* there is infringement, balance that infringement against the constitutionally guaranteed right claimed as a defence. This calls for a two-stage enquiry, and pays due fidelity to the balancing exercise advocated in the thesis.

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<sup>14</sup> See Chapter 3, Parts 3.7 and 3.8.

<sup>15</sup> See Chapter 5, Part 5.3.3.6.

<sup>16</sup> See Chapter 3, Part 3.7.

In undertaking the balancing exercise, it was emphasized in Chapter 3 that courts should not lose sight of the interests of the trademark owner, which equally deserve protection in dilution cases<sup>17</sup>. In this respect, it was argued that courts should, in appropriate cases, admit claims of a likelihood of dilution, as opposed to actual dilution. This argument was informed by two basic considerations. First, such a judicial approach recognizes the incipient nature of dilution. There is no reason, in principle, why courts should require the owner of a trademark with advertising value not to prevent the first diluting use of his mark, and to wait for the proliferation of multiple third party uses before he can commence a successful dilution claim. Second, dilution claims are, by their very nature, difficult to prove. Requiring proof of actual, as opposed to a likelihood of, dilution may very well mean that dilution is an unprovable cause of action beyond the reach of trademark proprietors.

After analyzing the functions of a trademark in Chapter 2, thereby logically creating a framework for analyzing the concepts of trademark dilution and confusion of sponsorship and the proprietary rights protected from trademark dilution and confusion of sponsorship, as well as the approach which should be adopted by the courts in balancing the competing interests present in dilution cases in Chapter 3, the thesis proceeded in Chapters 4 and 5 to analyse the principal international and regional trademark law instruments, to determine how far they contain provisions placing obligations on States to provide for protection against trademark dilution.

## **10.2 INTERNATIONAL TRADEMARK LAW**

Overall, the conclusion reached in the thesis is that both international and regional trademark treaty law place *imprecise obligations* on States to provide for protection against dilution in their domestic trademark laws. This imprecise

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<sup>17</sup> See Chapter 3, Parts 3.7 and 3.8.

formulation under international trademark treaty law of the obligations of States to provide protection against dilution in their domestic jurisdictions may arguably be viewed as having contributed in no small measure to the difficulties encountered by national courts in formulating a coherent framework in dilution cases within which they appropriately balance the competing interests of the trademark owner in ensuring that the advertising value of his mark is protected from dilution, on the one hand, and the interests of the public, on the other hand, in ensuring that such protection does not stultify freedom of trade or other legitimate economic activities or constitutionally guaranteed freedoms, or create absolute monopolies or a form of copyright in a trademark. In fact, the expression “trademark dilution” does not appear in the text of both international and regional trademark *treaty* law, and the concept of trademark dilution is similarly not concisely captured in the text of these treaties. Further, the type of mark amenable to protection from dilution is ill-defined, and this has led, at the domestic level, to different States protecting different marks from dilution. For example, the United States of America protects only famous marks from dilution. Countries which are members of the European Union, on the other hand, are enjoined by regional trademark law, at their option, to protect marks with a reputation from trademark dilution. South Africa protects marks which are well-known in the Republic from dilution. This difference in approach to the type of mark amenable to protection, in the final analysis, can be traced back to the imprecise formulation of trademark dilution in international and regional trademark treaty law. In Chapter 3, it was argued that there is no reason, in principle, why only famous marks, as opposed to well-known marks, should be entitled to dilution protection. Axiomatically, therefore, law reform measures are, it is submitted, called for in order to clarify this area of the law.

In the context of international trademark *treaty* law, the thesis concluded that provisions should be made in the Paris Convention<sup>18</sup>, by way of an amendment to Article 6*bis* (1), providing clear criteria of what constitutes a “well-

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<sup>18</sup> See Chapter 4, Part 4.2.1.

known mark”<sup>19</sup>. Furthermore, clear criteria of what constitutes a “well-known” trademark should be provided. Such criteria can be based on Article 2 (1) (b) of the WIPO Joint Recommendation Concerning Provisions On the Protection of Well-Known Marks<sup>20</sup>, which, to some extent, has been incorporated into the Federal Trademark Dilution Act of the United States of America, and the Federal Trademark Dilution Revision Act of the United States of America<sup>21</sup>, and into the jurisprudence of the European Union by the decision of the European Court of Justice in *General Motors Corporation v Yplon SA*<sup>22</sup>.

In respect of Article 10*bis* of the Paris Convention<sup>23</sup>, the thesis concluded, and it is proposed and recommended, that this provision should place a clear obligation on States to provide, through legislation<sup>24</sup>, for the prohibition of trademark dilution. Such an amendment may be modeled on the provisions of Article 3 of the WIPO Model Provisions for Protection Against Unlawful Competition,<sup>25</sup> which provides that any act or practice that damages, or likely damages, the goodwill or reputation of another trader’s business constitutes an act of unfair competition, regardless of whether such an act or practice causes confusion.

The Agreement on Trade Related Aspects of Intellectual Property Rights<sup>26</sup>, on the other hand, contains provisions, in Article 16 (3), which extend the protection granted by Article 6*bis* of the Paris Convention to well-known marks in respect of goods or services *which are not similar* to those for which the well-known mark is registered on condition that the unauthorized use of the well-known mark on the dissimilar goods or services would indicate *a connection*

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<sup>19</sup> The term “international trademark law” is here being used in the sense given in Chapter 4, Part 4.1.

<sup>20</sup> See Chapter 4, Part 4.2.6.

<sup>21</sup> See Chapter 6, Part 6.4 and Part 6.5.

<sup>22</sup> See Chapter 5, Parts 5.3.3.2.

<sup>23</sup> See Chapter 4, Part 4.2.1.

<sup>24</sup> This would give effect to the *Unfair Competition Resolution* of the International Trademark Association adopted on 3 March, 1998, reproduced in Chapter 4, Note 15.

<sup>25</sup> See Chapter 4, Part 4.2.5.

<sup>26</sup> See Chapter 4, Part 4.2.4. Herein “the TRIPS Agreement”.

between those goods or services and the owner of the registered well-known trademark, and that the interests of the owner of the registered trademark are likely thereby to be damaged by such use<sup>27</sup>. When read in isolation, Article 16 (3) of the TRIPS Agreement protects a trademark's source-origin function and advertising function by prohibiting confusion of sponsorship. When read purposively, using the *effet utile* principle, Article 16 (3) and Article 1 (1) of the TRIPS Agreement may be viewed as protecting the advertising value of registered well-known marks from dilution<sup>28</sup>. It is proposed and recommended, however, that in order to create certainty and to clarify the scope of Article 16 (3) of the TRIPS Agreement, that Article should be amended to provide for four things: first, to provide that it applies to both registered and unregistered well-known marks; second, to provide that it applies to the misappropriation of the advertising value of well-known trademarks which causes either confusion of sponsorship or trademark dilution; third, to provide clear criteria, for the guidance of States, of what constitutes a well-known mark for the purposes of that Article; and fourth, to provide that it applies in respect of both similar and dissimilar goods or services. In providing guidelines of what constitutes a well-known mark, it is proposed and recommended that international trademark law should continue using the terminology of "a well-known mark" in preference to any other concepts, and should include a provision to the effect that States are enjoined to protect well-known marks from trademark dilution, and that the concept of "well-known mark" is synonymous with a "mark with a reputation"<sup>29</sup>.

In terms of the phenomena of cybersquatting and cyberpiracy, at the international level, the conclusions arrived at in the thesis are that the Uniform Dispute Resolution Policy of the Internet Corporation for Assigned Names and Numbers<sup>30</sup>, which arose out of the WIPO Management of Internet Names and

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<sup>27</sup> See Chapter 4, Note 41, and accompanying text.

<sup>28</sup> See Chapter 4, Part 4.2.4.

<sup>29</sup> This will bring the trademark law of the European Union and its Member States, which uses the concept of "a mark with a reputation", on par with international trademark law. This will also bring the provisions of the South African Trade Marks Act (194 of 1993) on par with international trademark law.

<sup>30</sup> See Chapter 4, Part 4.3.

Addresses: Intellectual Property Issues Report<sup>31</sup>, should continue being used where there are conflicts between a well-known mark and a domain name<sup>32</sup>, because the uniform dispute resolution process has several advantages over dilution litigation. It is quick and inexpensive<sup>33</sup>. It is simple, in terms of procedure<sup>34</sup>, it contains effective remedies, namely the cancellation of the domain name or its transfer to the trademark owner<sup>35</sup>. There are effective defences available to a defendant<sup>36</sup>, and it leaves intact a party's right to have recourse to a court of law, if need be<sup>37</sup>. The Uniform Dispute Resolution Policy of the Internet Corporation for Assigned Names and Numbers therefore is an excellent model which is recommended for adoption and adaptation into a litigation-based instrument, by the European Union into a Directive, and by Germany, the United Kingdom and South Africa into legislation, prohibiting internet-based dilution, namely cybersquatting and cyberpiracy, along the lines of the United States of America's Anticybersquatting Consumer Protection Act<sup>38</sup>. Such a Directive and legislation will in turn mean that there is at least legislative uniformity in the prohibition of internet-based dilution under international and regional domain name law, and under domestic legislation in the countries reviewed in the thesis.

### **10.3 REGIONAL TRADEMARK LAW**

In the thesis, for the sake of brevity, the examination of regional trademark law was consciously limited to the trademark law of the European Union<sup>39</sup>. This approach was informed by a realization that the trademark laws of Germany, the United Kingdom and, to some extent, South Africa, are based on or derived from, the trademark law of the European Union<sup>40</sup>.

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<sup>31</sup> See Chapter 4, Part 4.3.

<sup>32</sup> See Chapter 4, Part 4.3.1.

<sup>33</sup> See Chapter 4, Part 4.3.4.

<sup>34</sup> See Chapter 4, Part 4.3.4.

<sup>35</sup> See Chapter 4, Note 184, and accompanying text.

<sup>36</sup> See Chapter 4, Part 4.3.6.

<sup>37</sup> See Chapter 4, Note 184, and accompanying text.

<sup>38</sup> See Chapter 6, Part 6.6.

<sup>39</sup> See Chapter 5, Part 5.1.

<sup>40</sup> See Chapter 5, Part 5.1.

In terms of the trademark law of the European Union, the conclusion reached in the thesis is that pre-harmonization Benelux anti-dilution law played a great part in shaping the provisions of the EC Trademark Directive and the Community Regulation<sup>41</sup>. In fact, pre-harmonization Benelux case law, especially the *Claeryn* case<sup>42</sup>, has been referred to by the European Court of Justice<sup>43</sup> and United Kingdom courts<sup>44</sup>, in explaining the concept of dilution by tarnishment and what constitutes use of a junior trademark with due cause. Equally important, in the context of the trademark jurisprudence of the European Union, is German pre-harmonisation case law, which has been referred to, for example, by courts in the United Kingdom<sup>45</sup>, and South Africa<sup>46</sup>, in explaining what constitutes taking unfair advantage of the repute or distinctive character of a trademark with a reputation, and what constitutes detriment to the repute or distinctive character of a trademark. It must be noted, further, that German pre-harmonisation case law will likely continue to play a significant role in the interpretation of the anti-dilution provisions of the German Trademarks Act<sup>47</sup>, and European trademark law.

The thesis concluded that Articles 4 (4) (a) and 5 (2) of the EC Trademark Directive, and Articles 8 (5) and 9 (1) (c) of the Community Regulation, are in fact anti-dilution provisions, despite the absence of the word “dilution” in their text<sup>48</sup>. They apply in respect of both competing and non-competing goods or services, despite their clear language providing otherwise, due to the effect of the European Court of Justice decisions in *Adidas-Solomon AG v Fitnessworld Trading Limited*<sup>49</sup> and *Davidoff & Cie SA Zino Davidoff SA v Gofkid*<sup>50</sup>. In the

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<sup>41</sup> See Chapter 5, Part 5.2.

<sup>42</sup> For a citation of this case, See Chapter 5, Note 25.

<sup>43</sup> See Chapter 5, Notes 104 and 105, and accompanying text.

<sup>44</sup> See Chapter 8, Parts 8.4.1 and 8.4.2.

<sup>45</sup> See Chapter 8, Part 8.4.

<sup>46</sup> See Chapter 9, Part 9.3.2.6.

<sup>47</sup> See Chapter 7, Part 7.3.

<sup>48</sup> See Chapter 5, Part 5.5.

<sup>49</sup> *Adidas-Solomon AG v Fitnessworld Trading Limited*, Case C-408/01, discussed in Chapter 5, Part 5.3.3.1.

*Davidoff* and *Fitnessworld* decisions, above, the European Court of Justice, it was concluded in the thesis, used a wrong dilution rationale to arrive at a correct decision that dilution protection was available in respect of similar or identical goods or services<sup>51</sup>. The correct rationale, it was concluded, would have been one that recognized that even in cases of similar (or competing) goods and services, the public may not be confused by the similarity of the mark with a reputation and the junior sign, but may nevertheless establish a link between the mark and the sign, so that the advertising value of the senior mark may thereby be damaged either by dilution by tarnishment or by dilution by blurring.

It is therefore proposed and recommended, consistent with the *Davidoff* and *Fitnessworld* decisions above, that an amendment needs to be made to the anti-dilution provisions of the EC Trademark Directive and the Community Regulation to provide that the provisions apply in respect of both similar (or competing) and non-similar goods and services, irrespective of the absence of confusion. The text of the anti-dilution provisions may then further be amended by incorporating, both for clarity and for the benefit of Member States, guidelines of what constitutes a “mark with a reputation”, drawing from the European Court of Justice decision in *General Motors Corporation v Yplon*<sup>52</sup>, and the provisions of international trademark law in Article 2 (1) (b) of the WIPO Joint Recommendation Concerning Provisions On the Protection of Well-Known Marks<sup>53</sup>. Reference may also be made, for this purpose, to the guidelines provided in the United States of America’s Federal Trademark Dilution Act<sup>54</sup> and the United States of America’s Federal Trademark Dilution Revision Act as to what constitutes a famous trademark for dilution purposes. The amendments should, it is proposed and recommended, also provide that proof of *likelihood* of dilution, as opposed to *actual* dilution, should be sufficient for a successful

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<sup>50</sup> *Davidoff & Cie SA Zino Davidoff SA v Gofkid*, Case C-292/00, discussed in Chapter 5, Part 5.3.3.1.

<sup>51</sup> See Chapter 5, Part 5.3.3.1.

<sup>52</sup> *General Motors Corporation v Yplon*, Case C-375/97, discussed in Chapter 5, at Parts 5.3 and 5.4.

<sup>53</sup> See Chapter 4, Part 4.26.

<sup>54</sup> See Chapter 6, Parts 6.4 and 6.5.

dilution claim<sup>55</sup>. There is no reason, in principle, why the owner of a trademark with a reputation should not prevent the first diluting use of his mark, and should wait until multiple third party uses impair the repute and distinctive character of his trademark for him to bring a successful dilution claim. A requirement of proof of a likelihood of dilution therefore recognizes the incipient nature of dilution. Further, dilution cases are, by their very nature, difficult to prove. Requiring proof of actual dilution raises the standard of proof too high, and may very well mean that, in practice, dilution is a chimera well beyond the reach of trademark proprietors. It is further proposed that the EC Trademark Directive and the Community Regulation should be amended to provide that both registered and unregistered marks with a reputation will benefit from dilution protection, since there is no reason, in principle, why unregistered trademarks with a reputation should not be susceptible to protection, when they fulfill the very attributes inherent in registered trademarks with a reputation.

It was also concluded that in terms of European Union trademark jurisprudence, there remains significant elements of the anti-dilution provisions in the EC Trademark Directive and the Community Regulation which are still to be interpreted by the European Court of Justice. These elements include the interpretation to be given to the expressions “use of a sign without due cause”, “taking unfair advantage of the distinctive character or the repute of a trademark”, and “use of a sign without due cause which is detrimental to the distinctive character or the repute of the trademark”. It is submitted that in interpreting these expressions, the European Court of Justice should pay closer attention to the historical, logical and theoretical basis of dilution, as explained mostly in pre-harmonisation Benelux and German case law, and to judicial developments occurring within the compound area of the European Union<sup>56</sup>.

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<sup>55</sup> See Chapter 5, Part 5.3.3.7.

<sup>56</sup> The micro-comparative approach recommended here was adopted successfully, for example, by the South African Supreme Court of Appeal in *Laugh It Off Promotions CC v South African Breweries International (Finance) BV t/a Sabmark International* 2004 JDR 0576 (SCA). See, in this respect, Chapter 9, Part 9.3.

The most detailed examination of these concepts in the context of EU jurisprudence was undertaken by Advocate General Jacobs in his Opinion in *Adidas – Salomon AG v Fitnessworld Trading Limited*<sup>57</sup>. There, Advocate General Jacobs stated that “[t]he concept of detriment to the distinctive character of a trade mark reflects what is generally referred to as dilution ... The essence of dilution in this classic sense is that the blurring of the distinctiveness of the mark means that it is no longer capable of arousing immediate association with the goods for which it is registered and used”<sup>58</sup>. Advocate General Jacobs further defined the concept of detriment to the repute of a trademark as “degradation or tarnishment of the mark” which occurs when “the goods for which the infringing sign is used appeal to the public’s senses in such a way that the trade mark’s power of attraction is affected”<sup>59</sup>. The concept of taking unfair advantage of the distinctive character or repute of a trademark was understood by Advocate General Jacobs as “intended to encompass instances where there is clear exploitation and free-riding on the coattails of a famous mark or an attempt to trade on its reputation”<sup>60</sup>.

The definitions of the dilution concepts provided by Advocate General Jacobs in *Fitnessworld* are useful definitions for national courts determining a dilution case in the context of legislation derived from the EC Trademark Directive. The question which was not authoritatively addressed by Advocate General Jacobs in that case, however, is *how* national courts and the ECJ should, in a dilution case, go about balancing the competing interests of the trademark owner, on the one hand, and the interests of the public to free trade and so on, on the other hand. Several guidelines of how the balancing exercise should be undertaken can be gleaned from some judgments of the ECJ and the OHIM Third Board of Appeal. In *General Motors Corporation v Yplon SA*<sup>61</sup>, the ECJ provided the criteria needed to determine whether a trademark possessed the

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<sup>57</sup> See Chapter 5, Note 105, and accompanying text.

<sup>58</sup> See Chapter 5, Note 105, and accompanying text.

<sup>59</sup> See Chapter 5, Note 105, and accompanying text.

<sup>60</sup> See Chapter 5, Note 105, and accompanying text.

<sup>61</sup> See Chapter 5, Part 5.3.3.2.

requisite reputation for dilution purposes. Further, and more importantly, the ECJ provided the guideline, for use by national courts in dilution cases, that a determination of the reputation of a mark was a threshold issue in any analysis. This formulation of the balancing approach is of singular significance: if a court finds that the senior trademark does not have the requisite reputation, that should, in principle, put an end to the dilution analysis, as all the other dilution concepts are rendered moot. The court should, at that stage, dismiss the dilution claim, in the interests of free trade.

The ECJ in the *General Motors* case also held that a mark had a reputation for dilution purposes if it was known by a significant number of the public concerned. The ECJ, however, refrained from imposing a numerical percentage threshold necessary to determine whether a trademark has the requisite reputation. Further, the ECJ proceeded to hold that a mark will have a reputation for the purposes of protection under Article 5 (2) of the EC Trademark Directive if it is known by a significant part of the public concerned by the products covered by that trademark, *including a more specialized public*, for instance, traders in a niche market<sup>62</sup>. This inclusion of niche market fame as the relevant yardstick with which the reputation of a mark may be measured in a dilution claim under EU trademark law is unfortunate, since a blanket application of the niche market fame theory will, it is submitted, result in over-protecting the interests of the trademark owner and defeat the objectives of the internal market to promote free trade. In other words, niche market fame should be used as the relevant yardstick to determine the reputation of a mark in dilution cases sparingly and only in the clearest of cases. The point being advanced here has, it is submitted, already been developed in another context, and its repetition is deliberately eschewed<sup>63</sup>.

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<sup>62</sup> See Chapter 5, Part 5.3.3.3.

<sup>63</sup> See Note 10 above, and accompanying text.

The judgment of the OHIM Third Board of Appeal in *Hollywood SAS v Souza Cruz SA*<sup>64</sup> further provided important guidelines of *how* courts can approach a defence that the use of a junior sign is with “due cause”<sup>65</sup>. There, it was held that use of a junior sign would be with due cause in one of two circumstances. First, where the defendant cannot reasonably be required to abstain from using the trademark, because of necessity. Second, where the defendant has a specific right to use the sign, over which the plaintiff’s right does not take precedence<sup>66</sup>. If any of these two circumstances are present in a dilution case, then a court should dismiss the dilution claim under the balancing exercise, in the interests of free trade.

The thesis concluded that there is no Directive within the European Union dealing with internet-based dilution, specifically the problem of cybersquatting and cyberpiracy. To deal effectively with this problem in the context of litigation, it is proposed and recommended that the European Union should adopt a Directive on terms similar to the United States of America’s Anticybersquatting Consumer Protection Act<sup>67</sup>, which, as shown in Chapter 6<sup>68</sup>, is a litigation-based instrument which is on an equal footing with the Uniform Dispute Resolution Policy of the Internet Corporation for Assigned Names and Numbers.

In the final round, it is concluded that, although the texts of both the EC Trademark Directive and the Community Regulation make no direct mention of the term “dilution”, there is no doubt that they contain anti-dilution provisions protecting the advertising value of trademarks with a reputation from dilution. The remaining challenge of great moment, it is submitted, apart from the law reform measures outlined above, is the approach which will be adopted by the European Court of Justice in interpreting the components of these anti-dilution provisions. The court, it is submitted, should appreciate that the anti-dilution

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<sup>64</sup> See Chapter 5, Note 149.

<sup>65</sup> See Chapter 5, Part 5.3.3.6.

<sup>66</sup> See Chapter 5, Part 5.3.3.6.

<sup>67</sup> See Chapter 6, Part 6.6.

<sup>68</sup> See Chapter 6, Part 6.6.8.

provisions in both the EC Trademark Directive and the Community Regulation are powerful measures at the disposal of the owners of trademarks with a reputation. At the same time, the court should equally be steadfast in ensuring that such protection does not impede the freedom of trade or other legitimate economic activity, or stultify other constitutionally guaranteed fundamental freedoms which are of universal application in any democratic society. Only then can the dilution provisions serve their rightful purpose in the compound area of the European Union.

#### **10.4 THE UNITED STATES OF AMERICA**

The United States of America is by far the jurisdiction with the most developed law on trademark dilution, both in terms of statute law and case law. However, the United States of America remains, to this day, the only country which provides protection against dilution only to famous, as opposed to well-known, marks. Since it is the advertising value of trademarks that is protected from dilution, there is no reason, in principle, why only famous marks, as opposed to well-known marks, should benefit from such protection. As shown in Chapter 6, twenty-two states<sup>69</sup> in the United States of America have enacted anti-dilution statutes which have, in turn, spawned a wide body of judicial authority useful in determining the level of distinctiveness and fame of a famous mark necessary for dilution purposes<sup>70</sup>, the concepts of dilution by blurring<sup>71</sup> and dilution by tarnishment<sup>72</sup>, whether dilution relief is available in respect of similar (or competing) goods and services<sup>73</sup>, and the available anti-dilution relief<sup>74</sup>. These State anti-dilution statutes were, in fact, the precursor to the Federal Trademark

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<sup>69</sup> See Chapter 6, Note 28.

<sup>70</sup> See Chapter 6, Part 6.3.2.

<sup>71</sup> See Chapter 6, Part 6.3.3.

<sup>72</sup> See Chapter 6, Part 6.3.4.

<sup>73</sup> See Chapter 6, Part 6.3.5.

<sup>74</sup> See Chapter 6, Part 6.3.6.

Dilution Act<sup>75</sup>, which they did not pre-empt, so that, now, they co-exist alongside the federal statute.

The Federal Trademark Dilution Act, it was concluded in the thesis, is at present the most comprehensive anti-dilution statute, and serves as a model for countries seeking to adopt an anti-dilution statute, or to strengthen the anti-dilution provisions in their domestic legislation. The Federal Trademark Dilution Act provides equitable relief to the owner of a famous mark against unauthorized use of his mark that lessens the distinctive quality of his famous mark, regardless of the presence or absence of competition between the goods of the owner of the famous mark and other parties, and regardless of the absence of likelihood of confusion, mistake or deception. Further, the Federal Trademark Dilution Act sets forth guidelines that a court should consider in determining whether a mark is famous for dilution purposes, and provides comprehensive statutory defences to dilution claims, and a generous relief regime, primarily based on the injunction. It can only be concluded, therefore, that the Federal Trademark Dilution Act constitutes a powerful statutory measure readily available to the owners of famous trademarks in protecting the advertising value of their trademarks from dilution.

The Federal Trademark Dilution Act, itself, however, needs to be amended by providing what constitutes a famous mark for dilution purposes in opposition proceedings<sup>76</sup>, and for this purpose it is recommended that the principles developed by the Trademark Trial and Appeal Board in *Toro Co. v ToroHead Inc*<sup>77</sup> should serve as the basis of the legislative amendments<sup>78</sup>.

In *Toro*, above, the TTAB developed a non-exhaustive list of seven factors which are of singular importance to courts engaged in the balancing exercise advocated in the thesis. The factors developed by the TTAB in *Toro* are

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<sup>75</sup> See Chapter 6, Part 6.4.

<sup>76</sup> See Chapter 6, Part 6.4.3.

<sup>77</sup> *Toro Co. v ToroHead Inc* 61 USPQ 2d 1164; 2001 WL1734485 (T.T.A.B. 2001). See Chapter 6, Part 6.4.3.

<sup>78</sup> See Chapter 6, Part 6.4.3.

(a) fame requires more than relative strength, (b) if there are any doubts as to whether the injury of dilution is present in opposition proceeding, the doubts are resolved against the senior user asserting dilution, (c ) a dilution claim can be raised against an application for the registration of a trademark where the trademark-registration applicant says he “intends to use” the mark, (d) the owner of the allegedly famous mark must prove that the mark became famous before the filing date of the opposed application, (e) distinctiveness may be an independent requirement, (f) the marks in issue must be essentially identical or similar, (g) there must be direct evidence that the allegedly famous mark has achieved fame, and (h) niche market fame may be sufficient in a dilution claim in opposition proceedings<sup>79</sup>. These elements merit closer scrutiny.

Factor (a) of the *Toro* principles is designed to ensure that only marks which are truly famous, or which have become the principal meaning of the word (for word-marks), and are associated with their products even when encountered outside their source-origin context, benefit from dilution protection. In this way, relatively strong marks are excluded from protection, since recognition and renown for likelihood of confusion purposes is a lower threshold than that required for dilution purposes. Factor (a) therefore promotes the free trade principle by excluding from dilution protection marks which are weak or relatively strong: only strong marks will qualify for protection.

Factor (b) of the *Toro* principles again promotes the free trade principle. The onus is on the proprietor of the allegedly famous mark to prove the existence of dilution. This exemplifies the extraordinary nature of dilution, and the need to grant relief only in clear cases where the existence of injury is established by evidence. In cases of doubt, the doubt should, in principle, be resolved in favour of the alleged infringer, in the interests of free trade.

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<sup>79</sup> See Chapter 6, Part 6.4.3.

Factor (c) of the *Toro* principle, on the other hand, favours the interests of the trademark owner in dilution cases. Section 43 (c) of the Lanham Act requires that dilution claims should be against “another person’s commercial use in commerce” of a famous mark. In respect of “intent to use” applications in opposition proceedings, the requirement of use in commerce would otherwise not be met if a literal approach is taken, thereby severely limiting the efficacy of dilution claims in *inter partes* opposition proceedings. In the final analysis, this factor recognizes the incipient nature of dilution, since it is based on a likelihood of dilution test.

Factor (d) of the *Toro* principles seeks to promote the free trade principle, since fame cannot be applied retroactively. In other words, if the allegedly famous mark was not famous at the date of the filing of the junior mark, dilution protection will not be available to the famous mark, simply because, as of that date, it could not retain its source-origin significance when encountered outside the market of the goods on which it is used.

Factor (e) of the *Toro* principles again advances the free trade principle in the balancing exercise. The issue here is that, in order to qualify for dilution protection, the senior mark, apart from being famous, must possess a degree of distinctiveness beyond that needed for trademark registration purposes. In other words, the senior mark must retain its source-origin significance when encountered outside the market of the goods on which it is used. If it fails to meet this requirement, the dilution claim should, in principle, be dismissed in the interests of free trade.

Factor (f) of the *Toro* principles provides that only marks which have a marked or strong resemblance, or which are identical, will benefit from dilution protection in *inter partes* opposition proceedings. Such a restrictive interpretation of the meaning of the “similarity” of trademarks for dilution purposes promotes the free trade principle, because where the marks are incidentally similar, like

“Toro” for lawnmower equipment, and “Toro MR” with a figurative motif of a bull head for magnetic reading heads for computer disks, the claim should be dismissed, in the interests of free trade, since the marks will not be essentially similar.

Factor (g) of the *Toro* principles speaks to the direct evidence necessary to prove a dilution claim in *inter partes* opposition proceedings. In terms of this principle, (i) the fame required relates to fame achieved in the market place, (ii) fame for likelihood of confusion purposes and for dilution are different, since a higher evidentiary standard is required for the latter, (iii) the standards for fame and distinctiveness required to obtain anti-dilution protection are more rigorous than the standards required to seek orthodox trademark infringement protection, (iv) fame in this context is synonymous with public recognition and renown, and direct evidence to prove this is needed in *inter partes* opposition proceedings, and (v) fame for this purpose may be ascertained by reference to annual sales revenues and annual advertising expenditures, or intense media attention, or a survey asking the proper target group of potential customers if they recognize the designation of the mark. These factors of the direct evidence needed to establish fame for dilution claims in *inter partes* opposition proceedings are of great importance in that they guide both plaintiffs and defendants alike in the evidence which should be put before the TTAB. Further, by their nature, they are of a high standard, designed to preclude from protection weak or relatively strong marks, in the interests of free trade.

Factor (h) of the *Toro* principles provides that niche market fame may be sufficient for dilution claims in *inter partes* opposition proceedings. It is submitted that marks with niche market fame should not routinely be granted protection from dilution.

A review of the decisions of the Circuit Courts reveals that there is a split in the courts on nearly every point in interpreting the salient provisions of the

Federal Trademark Dilution Act, which is causing disquiet and uncertainty to the owners of famous marks and defendants in dilution proceedings alike<sup>80</sup>. The Supreme Court decision in *Moseley v Victoria's Secret Catalogue Inc*<sup>81</sup> clarified some, but not all, of the differences in interpretation adopted by the Circuit Courts in applying the Federal Trademark Dilution Act. In the final round, that decision can be said not to have appropriately balanced the competing interests of a trademark owner and the wider public present in dilution cases by its insistence on proof of actual, as opposed to a likelihood of, dilution. Specifically, there is still differences between the courts as to what constitutes a famous mark, principally because of the wording of the Federal Trademark Dilution Act itself. Further, it is still unclear whether marks which enjoy only niche market fame and are known only to a select class or category of consumers, or in a limited geographic area, satisfy the fame criteria in the Federal Trademark Dilution Act. The International Trademark Association, on the other hand, remains firmly committed to a view that marks which enjoy niche market fame should not qualify as famous marks for dilution purposes<sup>82</sup>. The position of the International Trademark Association was recently adopted in the Federal Trademark Dilution Revision Act. It is also still unclear whether the fame criteria in the Federal Trademark Dilution Act apply only to inherently distinctive famous marks, or equally applies to famous marks which gain distinctiveness through use. In the thesis, it was concluded that there should, in principle, be no reason why both inherently distinctive marks and marks which acquire distinctiveness through use should not both benefit from the fame criteria laid down in the Federal Trademark Dilution Act. In the *Moseley* decision, above, the Supreme Court also raised the question (and addressed it in the affirmative) whether dilution by tarnishment is covered at all in the Federal Trademark Dilution Act. Although the position adopted by the Supreme Court in this instance is progressive and should be applauded, it amounts in the final analysis to judicial lawmaking, and it is proposed and recommended that the Federal Trademark Dilution Act should be

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<sup>80</sup> See Chapter 6, Part 6.4.

<sup>81</sup> *Moseley v Victoria's Secret Catalogue Inc* 123 S. Ct. 1115, 65 USPQ 2d 1801 (US 2003).

<sup>82</sup> See Chapter 5, Note 173, and accompanying text.

amended to clearly provide that it applies equally to cases of dilution by blurring and dilution by tarnishment.

The greatest criticism against the Federal Trademark Dilution Act, as interpreted in the *Moseley* decision, above, is that it requires proof of actual, as opposed to a likelihood of, dilution. It is recommended that because of the incipient nature of dilution, and the difficulties encountered in gathering evidence showing that actual dilution has occurred, the evidentiary bar in the Federal Trademark Dilution Act should be statutorily amended to require that a showing of a likelihood of dilution should suffice to prove a dilution claim. There will, of course, need to be supporting evidence establishing the likelihood of dilution occurring, and the courts should be steadfast in refusing claims based on mere speculation.

It should be noted, in conclusion, that in response to the above criticisms of the Federal Trademark Dilution Act, the United States House of Representatives introduced the Trademark Dilution Revision Act, 2005<sup>83</sup>. The FTDR was informed by a realization that famous marks foster a lasting psychological grip on the public consciousness, have a value that is incalculable, possess a dynamic pull on consumers, and represent an assurance of the best products America has to offer<sup>84</sup>, and for these reasons should be protected from dilution by a narrower, clearer and more focused statute that addresses the specific harm of dilution, while providing owners of famous marks with a provable cause of action<sup>85</sup>. The FTDR, however, is not yet law, and any discussion of the FTDR should be undertaken from a background which takes into account the shortcomings of the Federal Trademark Dilution Act which it is intended to address.

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<sup>83</sup> Trademark Dilution Revision Act, 2005, HR. 683. Hereafter “the FTDR”. For a discussion of the FTDR, see (1) Chapter 6, Part 6.5, and (2) “*Submission of INTA on the Trademark Dilution Revision Act of 2005*”, available online at [www.inta.org/policy/test\\_dilution2.html](http://www.inta.org/policy/test_dilution2.html), last visited on 25<sup>th</sup> July, 2005. Hereafter called “*the INTA Submission on the FTDR, 2005*”.

<sup>84</sup> *The INTA Submission on the FTDR, 2005*, Note 83 above, at Para. II.

<sup>85</sup> *The INTA Submission on the FTDR, 2005*, Note 83 above, at Para. I.

The FTDDRA seeks to remedy the judicial schism on what is meant by a famous mark for dilution purposes by recognizing that dilution protection will be extended only to those marks that are widely recognized by the general consuming public in the United States of America. *Marks with only niche fame will therefore not be protected.* To achieve this end, the FTDDRA proposes to repeal and replace the existing guidelines in the Federal Trademark Dilution Act as to what constitutes a famous mark, and to replace the guidelines by a non-exhaustive three factor criteria including (a) the duration, extent, and geographic reach of advertising and publicity of the mark, whether advertised or publicized by the owner or third parties, (b) the amount, volume and geographic extent of sales of goods or services offered under the mark; and (c) the extent of actual recognition of the mark<sup>86</sup>. While the first and second guidelines appear not to be new, but rather a conflation of the various guidelines in the Federal Trademark Dilution Act, the third guideline is new, and, according to the International Trademark Association, is meant to incorporate survey evidence, market research such as brand awareness studies, and unsolicited media coverage, as well as other evidence of actual recognition<sup>87</sup>. The importance of the third guideline lies in the fact that in *Moseley*, the Supreme Court deliberately eschewed from exemplifying the direct evidence needed to establish a dilution claim, although it held that there should be proof of actual dilution. This left plaintiffs, defendants and their legal practitioners unsure of the evidence required in dilution cases, and did not in any way help lower courts in identifying the type of evidence to take into account in dilution cases, thereby making their task of balancing the competing interests in such cases all the more difficult. The FTDDRA seeks to legislatively correct this judicial lacunae created in the *Moseley* judgment. Further, the FTDDRA provides that famous marks with inherent distinctiveness, as well as those with acquired distinctiveness through use, will be entitled to protection against dilution, the

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<sup>86</sup> *The INTA Submission on the FTDDRA, 2005*, Note 83 above, at Para. IV.

<sup>87</sup> *The INTA Submission on the FTDDRA, 2005*, Note 83 above, at Para. IV.

basic yardstick being that they are widely recognized by the general consuming public in the United States of America<sup>88</sup>.

The FTDRA also proposes a new claim of likelihood of dilution by blurring<sup>89</sup> or by tarnishment. In respect of dilution by blurring, the FTDRA proposes a list of non-exhaustive factors to be taken into account by a court in establishing whether a famous mark's distinctiveness in the market place will be blurred by a junior user. The factors specified in the FTDRA are: (a) the degree of similarity between the junior use and the famous mark, (b) the degree of inherent or acquired distinctiveness of the famous mark, (c) the extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark, (d) the degree of recognition of the famous mark, (e) whether the junior user intended to create an association with the famous mark, and (f) any actual association between the junior use and the famous mark.

The factors specified in the FTDRA to be taken into account by a court in establishing whether a famous mark's distinctiveness will be blurred by a junior user clarify the concept of dilution by blurring, and are of singular importance to a court engaged in the balancing exercise. They therefore merit closer scrutiny. Factor (a) addresses the issue of the similarities of the marks *in casu*. Similarity for this purpose, it is submitted, should be interpreted restrictively, so that only if there is a marked resemblance between the marks should the dilution analysis proceed. In other words, if the marks are incidentally similar, the less likely will consumers make an association between the marks, and, on that basis, the dilution claim should be dismissed. Factor (b) addresses the degree of inherent or acquired distinctiveness of the famous mark. Self-evidently, the more inherently distinctive the famous mark, the more memorable it will be to consumers, and the more likely it will be blurred by the use of other identical or similar junior marks. On the obverse side, the more descriptive the famous mark, the less likely it is to

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<sup>88</sup> *The INTA Submission on the FTDRA, 2005*, Note 83 above, at Para. IV.

<sup>89</sup> *The INTA Submission on the FTDRA, 2005*, Note 83 above, at Para. IV.

be blurred by uses of identical or similar marks, because consumers will associate those uses to the descriptive attributes of the famous mark. Factor (c) addresses the issue of whether other similar or identical trademarks already exist in the market place such that consumers already associate the mark with multiple sources of goods. Exclusive use would tend to point to high distinctiveness which can easily be impaired by other unauthorized uses. Non-exclusive use would tend to lower the probability of blurring, because the other uses will already be visible in the market place, and the famous mark will not be totally unique. Factor (d) simply asks of the court to determine how famous is the mark. Factor (e), on the other hand, addresses the issue of whether the defendant intended to trade on the recognition of the famous mark. In such cases, the defendant will have used the junior mark with the knowledge that consumers would associate his mark with the famous mark. Such use, if proven, is a bad faith intent to free ride on the coattails of the famous mark, and should, in principle, be prohibited. The last factor, actual association, refers to the evidence which needs to be put before the court to prove a likelihood of dilution by blurring, namely, survey evidence, evidence of direct consumer association, and so on, which proves that association is actually occurring.

In terms of relief, the FTDRRA makes one significant change to the Federal Trademark Dilution Act, in that it specifies that in order to recover damages in a dilution action, willful intent to trade on the recognition of the famous mark must be proved for dilution by blurring claims, and willful intent to trade on the repute of the famous mark must be proved for dilution by tarnishment claims<sup>90</sup>.

The United States of America, again, is the only country among the countries reviewed in the thesis to have recognized that use of a famous mark as a domain name in commerce may cause the dilution of the famous mark, and to

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<sup>90</sup> *The INTA Submission on the FTDRRA, 2005*, Note 83 above, at Para. IV.

have legislatively addressed this problem by litigation-based legislation in the form of the Anticybersquatting Consumer Protection Act<sup>91</sup>.

A cybersquatter is a person who knowingly reserves with a domain name registrar a domain name consisting of a famous mark for the purpose of selling the domain name to the rightful owner at a price. The rationale for prohibiting cybersquatting is informed by two competing considerations. First, such prohibition ensures that the interests of a vital segment of society – the businessmen and women who spend considerable amounts of time, money, effort and creativity in developing a unique identity for their marks, are protected. Second, such protection also protects the wider public from being misled on the internet and diverted to websites which they do not seek, and which may contain pornographic or other morally offensive material. Such protection, in other words, seeks to strike an equitable balance between consumer protection and the interests of the owners of famous marks in ensuring that the advertising value of their marks is not diluted by cyberpirates and cybersquatters.

The provisions of the Anticybersquatting Consumer Protection Act, it was concluded, translate the Dispute Resolution Policy of the Internet Corporation for Assigned Names and Numbers<sup>92</sup> into a litigation-based measure by prohibiting cybersquatting on the internet through the use of domain names that are confusingly similar to famous marks<sup>93</sup>. The Anticybersquatting Consumer Protection Act contains important provisions which are recommended for adaptation by the European Union, Germany, the United Kingdom and South Africa in respect of prohibition against the cybersquatting of famous marks, including the ingredients of the element of bad faith intent in cybersquatting cases<sup>94</sup>, the defences in a cybersquatting claim<sup>95</sup>, and the remedies of cancellation

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<sup>91</sup> See Chapter 6, Part 6.6.

<sup>92</sup> See Chapter 4, Part 4.4.

<sup>93</sup> See Chapter 6, Part 6.6.2.

<sup>94</sup> See Chapter 6, Part 6.6.5.

<sup>95</sup> See Chapter 6, Part 6.6.6.

or transfer of a domain name where the plaintiff in a cybersquatting claim is successful<sup>96</sup>.

In the final analysis, the provisions of the Federal Trademark Dilution Act, as amended by the Federal Trademark Dilution Revision Act were found, in the thesis, to correspond with the provisions of international trademark law<sup>97</sup> and regional trademark law<sup>98</sup>. Further, the provisions of the Anticybersquatting Consumer Protection Act were found to be the most significant legislative measure at the national level to govern internet-based dilution, and to substantially correspond to the Uniform Dispute Resolution Policy of the Internet Corporation for Assigned Names and Numbers<sup>99</sup>. On this basis, it is recommended that Germany, the United Kingdom and South Africa should enact similar legislation.

## 10.5 GERMANY

Despite being the first jurisdiction to judicially recognize trademark dilution as an actionable wrong, German trademark law had its own peculiarities. During the Pre-EU Harmonization Period<sup>100</sup>, the principal trademark law was the *Warenzeichengesetz*<sup>101</sup> of 12 May, 1894, which protected only the source-origin function and the product identification function of a trademark<sup>102</sup>. The advertising value of trademarks, on the other hand, was protected from dilution under the *Gesetz Gegen Den Unlauteren Wettbewerb*<sup>103</sup> of 1896, and the Civil Code. It was the German courts which interpreted the UWG and the Civil Code in a commercial-based approach which did not require proof of a direct

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<sup>96</sup> See Chapter 6, Part 6.6.7.

<sup>97</sup> See Chapter 6, Part 6.6.9. Save of course, that US law protects only “famous marks”, not “well known marks” from dilution.

<sup>98</sup> See Chapter 6, Part 6.6. Save, of course, that US law protects only “famous marks”, not “marks with a reputation”, from dilution.

<sup>99</sup> See Chapter 6, Part 6.6.

<sup>100</sup> See Chapter 7, Part 7.1 and Part 7.2.

<sup>101</sup> See Chapter 7, Part 7.1, Note 6. Hereafter the “WZG”.

<sup>102</sup> See Chapter 2 for the functions of a trademark.

<sup>103</sup> See Chapter 7, Part 7.2.3. Hereafter the “UWG”.

competitive relationship between parties in order to protect the advertising value of famous trademarks from trademark dilution. Such protection, however, was only granted by the courts with a great deal of caution, only upon factual findings of exceptional circumstances absolutely necessary for the requirements of commerce<sup>104</sup>. The approach of German courts, in this respect, may be viewed as having preponderantly favoured the free trade principle, unless the circumstances of individual cases demanded otherwise. The proprietary interest protected from dilution was identified by German courts, correctly, as the advertising value of distinctive marks, not the marks themselves<sup>105</sup>. The applicable criteria employed by the courts in prohibiting the misappropriation of the advertising value of famous marks for the purpose of sharing in the positive reputation and selling power of the famous marks was that of the *boni mores* of society<sup>106</sup>. Towards this end, German courts developed judicial guidelines for use in determining whether a mark was famous and *ipso facto*, qualified for protection from dilution under the UWG and the Civil Code<sup>107</sup>. These guidelines merit closer scrutiny, for they reflect the balancing approach advocated in the thesis for use by the courts. Specifically, German courts required that for a mark to be famous for dilution purposes, the following requirements had to be met; namely (a) the mark had to possess outstanding reputation, (b) the proprietor of the mark must have been exclusively using the mark, (c) the mark must have been original, (d) the mark must have enjoyed esteem, (e) the alleged misappropriation must have caused a real risk of dilution, and (f) the famous mark must have been famous before the misappropriation of its advertising value.

The first factor sought to extend protection only to truly strong marks, so that, absent the requisite degree of reputation, the dilution claim was dismissed. Indeed, Gerhard Schricker emphasized the cautionary approach adopted by German courts in dilution cases by noting that only approximately one out of

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<sup>104</sup> See Chapter 7, Part 7.2.5, Note 28.

<sup>105</sup> See Chapter 7, Part 7.2.5, Note 32, and accompanying text.

<sup>106</sup> See Chapter 7, Part 7.2.5, Note 34, and accompanying text.

<sup>107</sup> See Chapter 7, Part 7.2.6.

thirty dilution claims were allowed each year<sup>108</sup>. Factor (b) was informed by a realization that if the proprietor of the famous mark was exclusively using it, then other unauthorized third party uses had the potential of diluting the advertising value of the mark. German courts had therefore to determine the extent to which the owner of the famous mark was engaging in substantially exclusive use of the mark. The question determined here was whether other similar or identical trademarks already existed in the market place so that consumers already associated the mark with multiple sources of goods. If such third party uses were established, the dilution claim was dismissed, in the interests of free trade. As pointed out by Kaufmann, this requirement was strictly applied to exclude from dilution protection famous marks which were used by third parties in any branch of commerce<sup>109</sup>. Factor (c) really asked the question, how distinctive and striking is the famous mark? In other words, to qualify for protection, the mark had to be both famous (possess a high reputation) and highly distinctive and striking, so that it retained its source-origin significance when encountered outside the market of the goods on which it was used. Relatively strong and weak marks were therefore excluded from dilution protection under this requirement. Further, the mark had to enjoy esteem, generated, for example, by reason of its age, the technical merits and qualities of its goods, and so on. Factor (e) recognized the incipient nature of dilution, and admitted claims based on a real likelihood of dilution, supported by evidence. The last factor recognized that the owner of a famous mark could not proceed against the holder of a right which had an earlier priority which preceeded the famous status of his trademark. In other words, the owner of the junior right would then have “due cause” to use the mark, since his right would not be required to yield to the rights of the owner of the famous mark. These guidelines may appropriately be viewed as the precursor to the guidelines adopted in Article 2 (1) (b) of the WIPO Joint Recommendation Concerning Provision On the Protection On Well-Known Marks<sup>110</sup>, which were judicially codified in the European Court of Justice decision in *General Motors Corporation v Yplon*

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<sup>108</sup> See Chapter 7, Note 41, and accompanying text.

<sup>109</sup> See Chapter 7, Note 53, and accompanying text.

<sup>110</sup> See Chapter 4, Part 4.2.6.

SA<sup>111</sup>, and incorporated into statutory form in the Federal Trademark Dilution Act of the United States of America<sup>112</sup>, as amended in the Federal Trademark Dilution Revision Act. In this respect, German case law may be viewed as having played a significant role in shaping the historical, logical and theoretical basis of dilution at the international, regional and domestic levels, particularly in the United States of America<sup>113</sup>, the European Union, the United Kingdom and South Africa.

German courts further realized, during the Pre-EU Harmonization Period, that the threshold criteria of a famous mark was very high, and further purposively interpreted the UWG and the Civil Code to protect the reputation of well-known marks from dilution in appropriate cases. What was protected here was the notion of consciously getting too close to well known marks for the purpose of exploiting their reputation<sup>114</sup>. As such, German Pre-EU Harmonization law exhibits a coherent body of cases prohibiting dilution by blurring<sup>115</sup>, and dilution by tarnishment,<sup>116</sup> in terms of explaining both the commercial rationale behind such protection, and the proprietary object of such protection.

The German Trademarks Act of 1994, as amended, on the other hand, marked the Post EU-Harmonization Period. It was enacted with a view to ensuring German's compliance with international and regional trademark law<sup>117</sup>. A significant development in the GTMA was that it provided uniform protection for the advertising value of well-known marks and famous marks from trademark dilution, thereby bringing such protection directly under trademark law, while at the same time leaving intact the protection which exists under the UWG and the

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<sup>111</sup> *General Motors Corporation v Yplon SA* Case C-375/97. For a discussion of this case, see Chapter 5, Part 5.3.3.

<sup>112</sup> See Chapter 6, Part 6.4.2 and Part 6.4.3.

<sup>113</sup> Because Schechter borrowed the concept of dilution from German case law.

<sup>114</sup> See Chapter 7, Part 7.2.7.

<sup>115</sup> See Chapter 7, Part 7.2.8.

<sup>116</sup> See Chapter 7, Part 7.2.9.

<sup>117</sup> See Chapter 7, Part 7.1 and Part 7.3.1. Hereafter "the GTMA".

Civil Code<sup>118</sup>. Specifically, the GTMA follows the EC Trademark Directive in providing for dilution in opposition, cancellation and infringement proceedings<sup>119</sup> for marks with a reputation in Germany. The concept of a mark with a reputation in Germany, on the other hand, is synonymous with a mark which is known in Germany,<sup>120</sup> and the determination of reputation for the purposes of the anti-dilution provisions of the GTMA is based on the criteria developed by the European Court of Justice in *General Motors Corporation v Yplon*<sup>121</sup>. Further, Pre-EU Harmonization Period German and Benelux case law will certainly play a significant part in the determination of whether use of a junior mark is with due cause<sup>122</sup>, or takes unfair advantage of the repute or distinctive character of the earlier well-known mark, and in determining the concepts of unfair advantage and detriment<sup>123</sup> in the context of the GTMA anti-dilution provisions.

Following the decisions of the European Court of Justice in *Davidoff and Co. and Zino Davidoff SA v Gofkid SA*<sup>124</sup> and *Adidas-Salomon AG v Fitnessworld Trading Limited*<sup>125</sup>, the anti-dilution provisions of the GTMA now have to be read and construed as applying in respect of both similar and dissimilar goods and services, despite the language of these provisions to the contrary<sup>126</sup>. An amendment reflective of this position is therefore recommended.

In terms of relief<sup>127</sup>, German law provides for damages for market distortion<sup>128</sup> in respect of dilution by tarnishment claims. This is a significant development, and it is proposed and recommended that the United States of America, the United Kingdom and South Africa should adopt this remedy in their

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<sup>118</sup> See Chapter 7, Part 7.3.1.

<sup>119</sup> See Chapter 7, Part 7.3.1.

<sup>120</sup> See Chapter 7, Part 7.3.2.

<sup>121</sup> See Chapter 7, Part 7.3.2.

<sup>122</sup> See Chapter 7, Part 7.3.4.

<sup>123</sup> See Chapter 7, Part 7.3.5 and Part 7.3.6.

<sup>124</sup> *Davidoff and Co. and Zino Davidoff SA v Gofkid SA*, Case C-292/00.

<sup>125</sup> *Adidas-Salomon AG v Fitnessworld Trading Limited*, Case C-408/01.

<sup>126</sup> See Chapter 7, Part 7.3.7.

<sup>127</sup> See Chapter 7, Part 7.3.10.

<sup>128</sup> See Chapter 7, Part 7.3.10.

domestic jurisdictions because the remedy appropriately protects the interests of the trademark owner in compensating him for the costs necessary to rectify any market distortion, including any increased advertising expenditure needed to achieve such rectification.

It is therefore proposed and recommended that the GTMA should be amended (a) to provide legislative guidelines of what constitutes a well-known mark, or a mark with a reputation in Germany for dilution purposes, (b) to provide criteria to be used by the courts in determining the existence of dilution by blurring, and by tarnishment, and a likelihood thereof, (c) to provide that a likelihood of dilution, as opposed to actual dilution, will suffice to establish a successful dilution claim, (d) to provide that the anti-dilution provisions of the GTMA apply in respect of similar and dissimilar goods and services, (e) to provide that the anti-dilution provisions of the GTMA apply in respect of registered as well as unregistered marks with a reputation in Germany, and (f) to adapt the progressive provisions of the Federal Trademark Dilution Revision Act of the United States of America.

In order to deal effectively with internet-based dilution, it is also proposed and recommended that Germany should enact legislation similar to the American Anticybersquatting Consumer Protection Act in its entirety<sup>129</sup>.

## **10.6 UNITED KINGDOM**

In respect of the United Kingdom, the research sought to ascertain four issues: first, whether the advertising value of trademarks is protected from dilution under the English common law of passing off; second, whether propositions which seek to place the genesis of trademark dilution under the English law of passing off are correct; third, to examine the scope and extent of the anti-dilution provisions of the United Kingdom Trademarks Act, 1994, as

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<sup>129</sup> See Chapter 6, Part 6.6.

amended, specifically whether they apply in opposition, cancellation and infringement proceedings; and last, to highlight how English law has responded to issues of internet-based dilution, specifically cybersquatting and cyberpiracy<sup>130</sup>. In examining the scope and extent of the anti-dilution provisions in the UK Trademarks Act, the thesis also examined the approach adopted by UK courts in interpreting these provisions. The focus of such enquiry was to ascertain whether UK courts have correctly understood and applied the dilution concepts embodied in the UK Trademarks Act, and have appropriately balanced the competing interests of the owner of a trademark with a reputation, on the one hand, and the competing interests of the public to free trade, on the other hand<sup>131</sup>.

In Chapter 8, it was shown that to be successful in a passing off action, a plaintiff has to prove that his business has goodwill<sup>132</sup>, and that the defendant made misrepresentations<sup>133</sup> to the plaintiff's customers or ultimate customers of goods or services supplied by him, which are calculated to injure the goodwill in the business of the plaintiff, and which cause actual damage<sup>134</sup> to the goodwill in the business of the plaintiff, or, in a *quia timet* action, will probably do so.

It was concluded that the extended tort of passing off seems to recognize dilution as an appropriate head of damage where the parties are not in competition with each other, and where loss in sales is not due to a misrepresentation by the defendant, but to a misappropriation of the advertising value of the plaintiff's trademark which results in loss to its distinctive character or in its tarnishment<sup>135</sup>. Further, it was concluded that the thesis which seeks to ascribe the genesis of dilution to the English tort of passing off are misconceived and wrong, because

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<sup>130</sup> See Chapter 8, Part 8.1.

<sup>131</sup> See Chapter 6, Part 6.6.

<sup>132</sup> See Chapter 8, Part 8.2.3.

<sup>133</sup> See Chapter 8, Part 8.2.4.

<sup>134</sup> See Chapter 8, Part 8.2.5.

<sup>135</sup> See Chapter 8, Part 8.2.8.

the case law which is used to validate this thesis dealt with confusion of sponsorship<sup>136</sup>.

In respect of cybersquatting actions, it was concluded that passing off may be unable to adequately protect the interests of the owner of a well-known trademark against a cybersquatter who misappropriates the advertising value of such trademark by registering a domain name similar or identical to the well known trademark and subsequently does not offer the domain name for sale to third parties<sup>137</sup>. In other words, passing off may be unable to adequately prohibit domain name warehousing, where there is no offer to sell the domain name to third parties by the cybersquatter. In such cases, there will be no misrepresentation leading to a likelihood of consumer confusion. In order to protect the interests of the owner of a well-known mark in the advertising value of his trademark, however, passing off should, it is recommended, be fashioned to prevent cybersquatters from unjustly reaping where they have not sown by unfairly exploiting another's goodwill or reputation, even where no direct misrepresentation is committed by the defendant. By doing this, the courts will be appropriately protecting the advertising value of marks with a reputation.

The United Kingdom Trademarks Act, 1994<sup>138</sup>, on the other hand, contains anti-dilution provisions in section 5 (3)<sup>139</sup> and section 10 (3)<sup>140</sup>. Both sections were amended to provide that they apply in respect of both similar and dissimilar goods and services, thereby bringing them on par with similar developments in European Union trademark law<sup>141</sup>. What emerges from the cases decided under section 5 (3) is that, when dilution is raised in opposition proceedings (a) the reputation of an earlier trademark means that the earlier trademark is known by a significant part of the public concerned with the goods

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<sup>136</sup> See Chapter 8, Notes 62 and 64, and accompanying text.

<sup>137</sup> See Chapter 8, Part 8.3.

<sup>138</sup> See Chapter 8, Part 8.4.

<sup>139</sup> See Chapter 8, Part 8.4.1.

<sup>140</sup> See Chapter 8, Part 8.4.2.

<sup>141</sup> See Chapter 8, Part 8.4.1.

or services covered by the trademark<sup>142</sup>; (b) the section is not aimed at every sign whose use may stimulate the relevant public to recall an earlier trademark which enjoys a reputation with them, but rather, the section applies only in cases of *actual* detriment or unfair advantage, not to mere unproven risks of detriment or unfair advantage<sup>143</sup>; (c) the stronger the earlier trademark's distinctive character and reputation, the easier it will be for the Hearing Officer to accept that detriment has been caused to, or unfair advantage has been taken of, its distinctive character or repute<sup>144</sup>; (d) confusion as to origin, or confusion as to trade source of the goods offered for sale under the later trademark, is not a necessary requirement for establishing either detriment or unfair advantage to an earlier trademark's repute or distinctive character under the section, although the presence of confusion usually represents a concrete example of either detriment or the taking of unfair advantage<sup>145</sup>; (e) detriment or unfair advantage is not limited only to dilution by blurring or dilution by tarnishment, but may take the form of inhibition, a new category in the injuries suffered by the owner of an earlier trademark under the section, whose scope of application is still developing<sup>146</sup>; (f) unfair advantage under the section can also take the form of feeding on the fame of the earlier trademark in order to substantially increase the marketability of the goods offered under the later sign<sup>147</sup>; (g) the onus of proving the reputation of the earlier trademark, as well as the fact that the use of the later trademark takes unfair advantage of, or is detrimental to, the repute or the distinctive character of the earlier trademark falls on the owner of the earlier trademark, but once the owner of the earlier trademark has satisfied these requirements, the burden shifts to the applicant to show that his use of the later sign is with due cause<sup>148</sup>; (h) the owner of the later sign will show that his use of that sign is with due cause if he demonstrates that he is under such a compulsion to use the later trademark that he cannot honestly be asked to refrain from doing so, or if he demonstrates that he

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<sup>142</sup> See Chapter 8, Part 8.4.1.

<sup>143</sup> See Chapter 8, Part 8.4.1.

<sup>144</sup> See Chapter 8, Part 8.4.1.

<sup>145</sup> See Chapter 8, Part 8.4.1.

<sup>146</sup> See Chapter 8, Part 8.4.1.

<sup>147</sup> See Chapter 8, Part 8.4.1.

<sup>148</sup> See Chapter 8, Part 8.4.1.

possesses earlier rights in the sign which cannot yield to the rights of the owner of the earlier trademark<sup>149</sup>. The above legal propositions are also evident in cases dealing with infringement under section 10 (3)<sup>150</sup>.

It is submitted that UK courts, in deciding cases under section 5 (3) and 10 (3) of the UK Trademarks Act, by requiring proof of *actual* detriment or unfair advantage, raise the evidentiary bar too high and ignore the *incipient* nature of dilution. In the case of section 5 (3), such a requirement also clearly goes against the clear provisions of the section and amounts to judicial lawmaking. By requiring proof of the existence of actual dilution under section 5 (3), UK courts therefore fail to adequately protect the advertising value of trademarks. The UK Trademarks Act should consequently be amended to provide, in the case of dilution by blurring, that the owner of the trademark with a reputation satisfies the requirement of section 5 (3) or section 10 (3) if he proves a *likelihood* of connection between his mark and the junior mark, arising from the similarity of the marks, which, if left unchecked, impairs the distinctive character of his trademark. A likelihood of dilution by tarnishment should similarly be prescribed under both sections in the statute, requiring the owner of the senior mark to prove that a likelihood of connection between his senior mark and the junior mark, arising from the similarity of the two marks, would harm the repute of his earlier trademark with a reputation. The justification for these law reform proposals is that the owner of the senior mark should be able to obtain injunctive relief against the *first* offending use of the junior mark or sign, and should not be required to wait until multiple third party uses compound the harm such that the recognition of the mark and its distinctiveness or repute are permanently impaired.

It is recommended that the UK should also incorporate the ECJ guidelines in the *General Motors* case<sup>151</sup> into sections 5 (3) and section 10 (3), as legislative guidelines to be used by the Registrar and the courts in determining the reputation

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<sup>149</sup> See Chapter 8, Part 8.4.1.

<sup>150</sup> See Chapter 8, Part 8.4.2.

<sup>151</sup> See Note 111 above.

of a trademark. Further, the UK should increase the relief available in infringement proceedings under section 10 (3) by providing that a successful claimant should be able to claim for damages for market distortion<sup>152</sup>. This will bring the UK law on par with similar developments in Germany.

Section 10 (3) of the UK Trademarks Act has been of exceptionally limited assistance in combating cybersquatting and cyberpiracy. Likewise, the applicability of passing off to cases of domain name warehousing has been very limited. This, it is submitted, points to the need for the UK to enact a statute similar to the American Anticybersquatting Consumer Protection Act<sup>153</sup>.

In the final analysis, although the UK law, generally, and the UK Trademarks Act, in particular, can be said to be in compliance with the anti-dilution provisions of both international and regional trademark law, it is submitted that there are still some areas, as highlighted above, which need to be addressed through law reform measures to achieve an equitable balance between the interests of the owners of trademarks with a reputation in seeking the adequate protection of their trademarks from trademark dilution, and the interests of consumers in seeking that such protection does not stifle free trade, freedom of expression, and other legitimate economic activity. Further, as shown in Chapter 8, UK courts have, by and large, largely misunderstood the dilution concepts in section 5 (3) of the UK Trademarks Act, and denied relief to deserving cases, thereby failing to protect the rights of trademark owners.

## **10.7 SOUTH AFRICA**

In South Africa, the common law has been of exceptionally limited assistance in dealing with instances of dilution<sup>154</sup>. In the thesis, it was demonstrated, using South African case law, that there were some cases where the

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<sup>152</sup> See Note 128 above, and accompanying text.

<sup>153</sup> See Note 90 above, and accompanying text.

<sup>154</sup> See Chapter 9, Part 9.2.

distinguishing value and the advertising value of trademarks, trade names and other business identifiers were simultaneously impaired, which were decided on the basis of passing off, but which could equally have been decided on the basis of either dilution or confusion of sponsorship<sup>155</sup>. In Chapter 3, it was noted that the concept of the ‘advertising image’ of a trademark has taken root among South African academics, who have developed credible arguments as to why the advertising image of a trademark should be protected directly as a valuable (and independent) intellectual property asset, not only indirectly in circumstances where the right to goodwill of the proprietor is infringed<sup>156</sup>. Despite these exhortations of academics, South African courts have failed to judicially recognize the right to the advertising image of a mark as an independent right worthy of legal protection. Such protection, however, will only reflect the ability of the law to recognize a right which has been commercially exploited in South Africa for over a decade. Because of the exceptionally limited assistance offered by the common law in protecting marks from dilution, the thesis proceeded to analyse the South African Trade Marks Act, 1993, with the caveat that the common law will still continue to play an important role in this area of the law, because the Act only protects registered (and not unregistered) trademarks from dilution.

The South African Trademarks Act, 1993, on the other hand, was derived from the UK Trademarks Act, 1994, and gave effect to South Africa’s obligations under international trademark law, as well as aligning South Africa’s trademark law with the provisions of regional trademark law<sup>157</sup>. The South African legislature, however, did not limit the anti-dilution provisions of the Act only to instances of trademark infringement, but extended them to opposition and expungement proceedings<sup>158</sup>. This is consistent with developments under international and regional trademark law, and under the jurisdictions reviewed in

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<sup>155</sup> See Chapter 9, Part 9.2.2.

<sup>156</sup> See Chapter 3, Part 3.6.

<sup>157</sup> See Chapter 9, Part 9.3.1.

<sup>158</sup> See Chapter 9, Part 9.3.2.1.

the thesis<sup>159</sup>. More importantly, however, is the fact that the interpretation given to the anti-dilution provisions in section 34 (1) (c ) of the Act will be applied, *mutatis mutandis*, to section 10 (17) of the Act.

South African academics have advocated for a judicial cautionary approach in interpreting the anti-dilution provisions of the Act, so that an appropriate balance is struck between the legitimate interests of proprietors of well-known marks, and the wider interests of the public<sup>160</sup>. Obviously taking their cue from the observations of academics, South African courts have restrictively interpreted the concept of ‘similarity’ of trademarks for dilution purposes under the Act as meaning ‘a marked resemblance or likeness’<sup>161</sup>. The meaning to be given to the concept of ‘a mark which is well-known in the Republic’ for dilution purposes, however, is far from settled. It was argued, in the thesis, that seeking to ascribe the same meaning to this concept under section 34 (1) (c ) and section 35 of the Act ignores developments under international and regional trademark law, and under the jurisdictions reviewed<sup>162</sup>. Ultimately, it was recommended that South Africa should introduce clear and focused legislative guidelines for use by the courts in determining when a mark is well-known for dilution purposes.

The dilution provisions of the Act apply to both competitors and non-competitors<sup>163</sup>. However, what is still unsettled under the Act’s dilution provisions is the interface between the dilution provisions of the Act and defences under the fundamental rights provisions of the Constitution. This calls for the balancing approach advocated in the thesis. In the thesis, it was respectfully concluded that the decision of the Constitutional Court in *Laugh It Off Promotions CCv South African Breweries International (Finance) Bv. t/a*

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<sup>159</sup> See Chapter 9, Part 9.3.2.1.

<sup>160</sup> See Chapter 9, Part 9.3.2.1.

<sup>161</sup> See Chapter 9, Part 9.3.2.3.

<sup>162</sup> See Chapter 9, Part 9.3.2.4. Note, however, that the South African Act uses the same expression in both sections.

<sup>163</sup> See Chapter 9, Part 9.3.2.5.

*Sabmark International and Freedom of Expression Institute*<sup>164</sup> did not clarify, for the guidance of lower courts, several issues in dilution cases where a constitutional defence is made. It was indeed unfortunate for the Constitutional Court to cast a cloud on the constitutional validity of the dilution provisions of the Act, since they emanate from international trademark law<sup>165</sup>. Further, the decision of the Constitutional Court in that case did not clarify whether a requirement of a likelihood of substantial economic harm will also apply in cases of dilution by blurring<sup>166</sup>. That decision also did not clearly spell out, for the guidance of lower courts, how the balancing exercise should be done in the context of the fundamental rights provisions in the South African Constitution. Although the Constitutional Court acknowledged the need to balance the competing interests present in dilution cases, it did not spell out *how* a court is supposed to go about the balancing exercise. It is respectfully submitted that the majority decision of the Constitutional Court, which rejected the two-stage approach adopted by the Supreme Court of Appeal, was in error. In other words, where a constitutionally guaranteed right is advanced as a defence in a dilution case, a court should *first* determine if there is dilution *in casu*, then *if* there is infringement, balance that infringement against the claimed constitutional right. Any other approach begs the question of what the court will be balancing.

It is therefore proposed and recommended that the Act should be amended (a) to provide legislative guidelines of what constitutes a mark which is well-known in the Republic for dilution purposes, (b) to provide criteria to be used by the courts in determining the existence of dilution by blurring, and by tarnishment, and a likelihood thereof, (c) to provide that the dilution provisions of the Act apply in respect of both registered and unregistered well-known marks, (d) to include the remedy of market distortion in dilution cases, which currently exists under German trademark law, and (e) to adapt the progressive provisions of the Federal Trademark Dilution Revision Act of the United States of America into

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<sup>164</sup> Case CCT42/04. See Chapter 9, Part 9.3.2.6.

<sup>165</sup> See Chapter 9, Part 9.3.2.6.

<sup>166</sup> See Chapter 9, Part 9.3.2.6.

the South African context. In order to effectively deal with internet-based dilution, it is proposed and recommended that South Africa should enact legislation similar to the American Anticybersquatting Consumer Protection Act<sup>167</sup> in its entirety.

## **10.8 CONCLUSION**

The ultimate balance in applying any dilution provisions, as shown in the thesis, rests with the courts. In this respect, courts should always strive to strike an equitable balance which recognizes that anti-dilution provisions are powerful and effective tools available to protect the interests of the owners of trademarks with advertising value. At the same time, however, the courts should steadfastly frown on attempts by the owners of such marks to create what in effect will amount to absolute monopolies or a form of copyright in a trademark. Only then, it is submitted, will the anti-dilution provisions serve their rightful place and, at the same time, not stifle free trade, or the fundamental rights of the citizen to freedom of information and speech. Apart from seeking to ascertain whether the domestic dilution provisions of the countries reviewed complied with the requirements of both international and regional trademark law, the thesis also analysed the approach of the courts, in the countries reviewed, in dealing with dilution cases. What emerges from that analysis is that the courts have not yet reached that full stage of maturity where it can be said with certainty that they appropriately balance the competing interests of the trademark owner, on the one hand, and the interests of the public to free trade and so on, on the other hand.

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<sup>167</sup> See Chapter 6, Part 6.6.

## TABLE OF CASES

*(References are to Paragraph Number)*

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### A. Cases in alphabetical order

### B. Cases by jurisdiction

---

#### A. Cases in alphabetical order

Accor v Association Entre-Ensemble, WIPO Case No. D2001 – 0039.....	4.3.4
Accuride International Inc v Accuride Corp. 871 F. 2d 1531; 10USPQ2d 1589 (9 <sup>th</sup> Cir. 1989)....	6.3.2
Adcock – Ingram Products Ltd v Beecham SA (Pty) Ltd 1977 (4) SA 434 (W).....	9.2.1
Adidas-Salomon AG v Fitnessworld Trading Limited, Case C-408/01 .....2, 5.3.3, 5.5, 7.2.9, 7.3.1, 7.3.4, 7.3.6, 8.4.1, 8.4.2, 8.5, 10.3, 10.5	
Advance Magazine Publishers Inc v Vogue International 123 F. Supp 2d 790 (D.N.J. 2000).....	6.5.5
Alan Kenneth Mckenzie Clark v Associated Newspapers Ltd [1998] RPC 261.....	8.2.4
Alberto – Culver Co v Andrea Dumon Inc 466 F2d 705, 175 USPQ 194. (7 <sup>th</sup> Cir. 1972).....	6.3.5
Albion Chemical Company (Pty) Ltd FAM Products CC 2003 JDR 0832 (C).....	9.3.2.5, 9.3.2.7
Allied Maintenance Corp v Allied Mechanical Trades Inc., 369 N.E. 2d. 1162; 42 NY2d 538 (N.Y. 1977).....	6.3.2
American Cynamid Co. v Ethicon Ltd [1975] AC 396.....	8.2.7
American Express Co. v Vibra Approved Laboratories Corp 10 USPQ 2d 2006 (S.D.N.Y. 1989).....	6.3.4, 8.4.2
American Fruit Growers Inc v John Braadland Ltd 151 MD 239.....	6.1
American Home Products Corporation v Eagle Spirit Adventures, WIPO Case No. D 2000 – 1239.....	4.3.6
America Online Inc v Frank Albanese, WIPO Case No. D 2000 – 1604.....	4.3.6
American Cynamid Co. v Nutraceutical Corp, 54F. Supp.2d 37a (D.N.J. 1999).....	3.7
Amstar Corp v Domino’s Pizza Inc. 615 F. 2.d. 252; 205 USPQ 969 (5 <sup>th</sup> Cir), 449 US 899 (1980).....	6.3.2
Anheuser-Busch v Budejovskyy Budvar Narodni Podnik [1984] FSR 413.....	8.2.3
Annabel’s (Berkely Square) Ltd v G. Shock [1972] RPC 838.....	3.4, 8.2.4, 8.2.8
Antec International Ltd v South Western Chicks (Warren) Ltd [1997] FSR 278.....	8.2.7
Apple [Court of Appeal, Amsterdam, 8 March, 1984], BIE 1986/42.....	5.2
Arsenal [2003] E.T.M.R. 19.....	2.2.4
Arsenal Football Club Plc v Matthew Reed, Case C-206/01.....	5.3.2, 5.3.3, 7.3.7, 8.4.2
Asbacher Landorot Case [12 October, 1972], a decision of the Hamburg Hanseatic Oberlandesgericht, published in 1973 GRUR 94.....	4.2.6
Astra Pharmaceutical Products Inc v Beckman Instruments Inc. 718 F. 2d 1201; 220 USPQ 786 (1st Cir. 1983).....	6.3.2
Astrawolle, BGH in GRUR – 1957/228.....	7.2.2
Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd 1981 (2) SA 173 (T).....	9.2.1
Audi AG v Hans Wolf ,WIPO Case No. 0148.....	4.3.4
Audio Medical Devices Ltd v Audi AG [1998] RPC 863.....	8.4.1, 8.4.2, 8.5
Automatic Data Processing Inc v Access Electronics Registrars.Com, NAF Case No. FA – 96483.....	4.3.4
Automatic Data Processing Inc v CSME Inc, NAF Case No. FA 96484.....	4.3.4
Avery Dennison Corp v Sumpton 189F 3d 868, 876; 51 USPQ 2d 1801, 1806 (9 <sup>th</sup> Cir. 1999).....	6.4.5
Avnet Inc v Aviation Network Inc, WIPO Case No. D 2000 – 0046.....	4.3.6
Avon BGH in GRUR 1991 / 863.....	7.2.6
Bailey v United States 516 US 137, 146 (1995).....	6.4.5
Bally Total Fitness Holding Corp v Faber 29 F Supp 2d 1161, 50 USPQ2d 1840 (C.D. Cal. 1998)....	6.4.10

Baskin-Robbins Ice Cream Co v Gutman [1976] FSR 545.....	8.2.3
Bata Limited v Face Fashions Close Corporation and Another 2000 JDR 6657 (SCA).....	9.3.2.2, 9.3.2.3, 9.3.2.7
Bayer Co. v United Drug Co, 272 F 505 (DNY 1921).....	6.3.3
Bayer Kreuz, [31 October 1942], published in RGZ 170/137 ff.....	7.2.5
Baywatch Productions Co. Inc v. Home Video Channel [1997] FSR 22.....	8.2.4, 8.4.2
Beecham Group PLC v Triomed (Pty) Ltd 2002 JDR 0720 (SCA).....	9.3.2.4
Bennett Coleman & Co. Ltd v Lalwani, WIPO Case No. D2000 – 0014/0015.....	4.3.4
Bernadin v Pavilion [1967] RPC 581.....	8.2.3
Birmingham Vinegar Brewery v Powell [1897] AC 710.....	8.2.4
Blue Cross and Blue Shield Association v American Express Co, 1999 WL1044825 (N.D. III – 1999).....	3.7
Boitex Case, [Benelux Court of Justice], June 28, 1987 [1988] N.J. 147.....	5.2
Bollinger v Costa Brava Wine Co [1960] RPC 16.....	8.2.4
Breakthrough Software Inc v Hendrick Huigen, eRes. Case No. AF – 0122.....	4.3.6
Brian Boswell Circus (Pty) Ltd & Another v Boswell-Wilkie Circus (Pty) Ltd 1985 (4) SA 466 (A).....	9.2.1
British Medical Association v Marsh 48 RPC 565.....	8.2.4
Broadbridge Media LLC v Hypercd.com 106 F Supp 2d 505; 55USPQ2d 1426 (S.D.N.Y. 2000).....	6.5.5
Brockhause.de, Landgreicht Mannheim 70 529/97.....	7.4
Brombeer – Muster [1983] GRUR 337.....	7.2.6
Brown v Hotel & Restaurant Employees & Bartenders 104 SCt 3179, at 3185 – 6 (1984).....	6.4.1
Bruce Springstein v Jeff Burgar and Bruce Springstein Club, WIPO Case No. D 2000 – 1532.....	4.3.4
Bulova Watch Co. v Stolzberg 69F Supp 543, 72 USPQ72 (D Mass 1947).....	6.2
Cambridge Plan AG and Another v Moore and Others 1987 (4) SA 821 (D).....	9.2.1, 9.2.3
Camel, Cologne OLG, decision of 30 April 1984 in GRUR 1985/559.....	7.2.6
Camel Hair Belting [1896] AC 199.....	8.3.3
Canada-Measures Affecting the Importation of Milk and the Exportation of Dairy Products, Report of the Appellate Body, WT/DS103/AB/R and WT/DS113/AB/R, 13 October, 1999.....	4.2.4
Capital Estate and General Agencies (Pty) Ltd and Others v Holiday Inns Inc and Other [1977] (2) SA 916 (A).....	3.4, 9.2.1, 9.2.2
Carson v Here’s Johnny Portable Toilets Inc. 810 F 2d 104, 1 USPQ 2d 2007 (6 <sup>th</sup> Cir. 1987).....	6.3.6
C.A. Sheimer (M) Sdn Bhd’s TM [2000] R.P.C. 484.....	8.4.1, 8.5
CCA Indust. Inc v Dailey WIPO Case No. D2000 – 0148.....	4.3.5
Centra BGH GRUR 1966/38.....	7.2.2
Channel No. 5, BGH decision, in [1985] GRUR 530.....	7.3.10
Cheney Bros v Doris Silk Corp 35 F2d 279 (2d Cir 1929).....	6.2
Cheri BGH GRUR 1971/180.....	7.2.2
Christie’s Inc v Tiffany’s Jewelry Auction Inc, WIPO Case No. D 20001 – 0075.....	4.3.4
Ciba Giegy Plc v Parke Davis and Co. Ltd [1994] FSR 8.....	8.2.6
City Utilities of Springfield, Missouri v Ed Davidson, WIPO Case No. D 2000 – 0407.....	4.3.6
Clock Limited v The Clock Hotel Limited 53 RPC 269.....	8.2.4
Coca Cola v Alicia, Court of Appeal Amsterdam, December 18, 1975; [1977] N.J. 59.....	5.2
Coca-Cola Co. v Alma Leo U.S.A 719 F. Supp 725 (N.D.ILL. 1989).....	6.3.4
Colgate Palmolive Co. v Domains For Sale, NAF Case No. NAF – 96248.....	4.3.4
Colgate-Palmolive v Markwell Finance [1989] RPC 497.....	8.2.4, 8.4.1
Columbine JDS Systems Inc v Jin Lu, eRes. Case No. AF – 0137.....	4.3.6
Community Federal Savings and Loan Association v Orondorff 215 USPQ 26 (11 <sup>th</sup> Cir, 1982)..	3.3.4, 6.3.4
Compomar SL’s Application; Opposition of Nike International Ltd [2000] ETMR 50 (OHIM).....	7.3.5
Conorzio del Proscuitto di Parma v Marks and Spencer Plc [1991] RPC 351.....	8.2.2
Coombe International v Scholl [1977] RPC 1.....	8.2.4
Country Sound Plc v Ocean Sound Ltd [1991] FSR 367.....	8.2.6
Cowbell AG v ICS Holdings Ltd 2001 (3) SA 941 (SCA).....	9.3.2.3
Daimler Chrysler v Alavi (Merc) [2001] All ER (D) (Jan).....	8.4.1, 8.4.2, 8.5
Dallas Cowboys Cheer Leaders Inc v Pussycat Cinema Ltd 604 F 2d 200; 203 USPQ 162 (2d Cir. 1979).....	6.3.4

Data Concepts Inc v Digital Consulting Inc 150 F 3d 620, 47 USPQ 2d 1672 (6 <sup>th</sup> Cir. 1998).....	6.5.1
Davidoff & Cie SA Zino Davidoff SA v Gofkid, Case C-292/00, [2003] ETMR 534 (ECJ).....	5.3.3, 5.5, 7.3.1, 7.3.2, 7.3.6, 8.4.1, 8.4.2, 8.5, 10.3, 10.5
Dawn v Sterling Drug, Inc., 319 F. Supp. 358; 167 USPQ 721 (CD Cal. 1970).....	6.3.3
Deere and Company v MTD Products Inc 41 F 3d 39; 32 USPQ 2d 1936 (2 <sup>nd</sup> Cir. 1994).....	6.3.4, 6.3.6, 6.4.10
De Medici v Lorenzo De Medici Inc 101 AD 2d 719, 475 NYS 2d 391, 225 USPQ 193 (1 <sup>st</sup> Dep't 1984).....	6.3.6
Deta.com, LG, Braunschweig CR 1998, 364.....	7.4
Dimple [1985] 17 GRUR 529....	5.3.3, 7.2.5, 7.2.6, 7.2.7, 7.2.8, 7.2.9, 7.3.1, 7.3.4, 7.3.8, 8.4.1, 8.4.2, 9.3.2.5
Dolan, BGH in GRUR 1970/80.....	7.2.2
DuPont Cellophane Co. Inc v Waxed Products Co. Inc, 85 F2d 75; 30 USPQ 332 (2d Cir. 1936).....	6.3.3
Eco Mfg. LLC v Honeywell Int'l Inc., 2003 WL 21524860 (S.D. Ind. 2003).....	3.7
Eastman Kodak Co. v Kodak Cycle Co. 15 RPC 105.....	6.1
Eastman Kodak Co. v Rakow, 739 F. Supp. 116, 15 USPQ 2d 1631 (WDNY 1989).....	6.3.2, 6.3.4
Eastman Photographic Materials Co. Ltd and Anor v John Griffiths Cycle Corporation Ltd and the Kodak Cycle Co. Ltd [1898] RPC 105.....	8.2.4
Edge v Nicholls [1911] AC 693.....	8.2.4
Educational Testing Service v TOEFL, WIPO Case D2000 – 0044.....	4.3.4
E & J Gallo Winery v Spider Webs Ltd 286 F3d 270; 62 USPQ2d 1404 (5 <sup>th</sup> Cir. 2002).....	6.5.5
Electronics Boutique Holdings Corp v Zuccarini 50 USPQ2d 1705; 2000 WL 1622760 (E.D. Pa. 2000).....	6.5.7
Eli Lilly & Co. v Natural Answers Inc. 233F3d 456; 56 USPQ2d 1942 (7 <sup>th</sup> Cir. 2000).....	6.4.8
Eltern.de, LG Hamburg CR 1999, 47.....	7.4
Epson.de, L.G. Dusseldorf CR 1998, 165.....	7.4
Erven Warnink Besloten Vennootschap v J. Townend and Sons (Hull) Ltd [1979] AC 731.....	8.2.2, 8.3.2
Euroconsult Inc v Euroconsult, NAF Case No. – 93555.....	4.3.4
European Limited – v – The Economist Newspaper Limited [1998] FSR 283.....	8.4.1
Ewing (t/a Buttercup Dairy Co) v Buttercup Margarine Co Ltd [1917] 34 RPC 232; [7917] 2 Ch. 1.....	2.4
EZ Loader Boat Trailers Inc v Cox Trailers Inc 746F2d 375, 223 USPQ 1101 (7 <sup>th</sup> Cir. 1984).....	6.3.5
Factors Inc v Pro Arts Inc 652 F 2d 278, at 289 – 290; 211 USPQ 1 (2d Cir, 1981); 456 US 927, 102 SCt 1973 (1982).....	6.3.6
Federation Internationale de Football and Others v Bartlett and Others 1994 (4) SA 722 (T).....	3.2.2, 9.2.1
Ford Motor Co. v Greatdomains.Com.Inc 177 Supp 2d 635; 177 ALR Fed. 637 (E.D. Mich. 2001)....	6.5.2
Fortnum and Mason Plc v Fortman Ltd [1994] FSR 438.....	8.2.2, 8.2.4, 8.2.6
Frank Reddaway and Co. Ltd v George Banham and Co. Ltd [1896] 13 RPC 218.....	8.2.1
Freedom Savings and Loan Association v Way 757 F. 2d 1176; 226 USPQ 123 (11 <sup>th</sup> Cir. 1985).....	6.3.2
Gade v National Solid Wastes Management Association 112 SCt 2374, at 2383 (1982).....	6.4.1
Garden Cottage Foods Ltd v Milk Marketing Board [1984] AC 130.....	8.2.7
General Electric Co. v Fordirect.com.Inc, WIPO Case No D2000 – 0394.....	4.3.4
General Motors Corporation v Yplon SA [1999] 3 CMLR 427; [1999] ETMR 950.....	5.1, 5.3.3, 5.4, 5.5, 6.4.5, 6.6, 7.3.2, 8.4.1, 8.4.2, 8.5, 9.4, 10.2, 10.3, 10.5, 10.6
GE Trademark [1969] RPC 418, [1970] RPC 339.....	2.2.1
Gillet UK Ltd v Edenwest Ltd [1994] RPC 279.....	8.2.6, 8.2.7
Glaxo Plc v Glaxo Wellcome Ltd [1996] FSR 388.....	8.2.7
Goldstein v California 412 US 546 (1973); 93 Sct 2303; 37 L.Ed. 2d 163 (1973).....	6.2
Green Products Co. v Independence Corn By-Products Co. 992 F. Supp 1070 (N.D. Iowa 1997) .....	6.5.5
Greyhound Corporation Et al v Goberna Et al 128 F2d 806.....	3.4
Halliwell v Panini [6 June 1997] [Unreported].....	8.2.4
Hanover Star Milling Co v Metcalf 240 US 403, 412 (1916).....	2.2.4
Harrods Ltd v Harrodian School Ltd [1996] RPC 697 (CA).....	8.2.4, 8.2.5, 8.2.8, 8.5
Harrods Ltd v Sixty Internet Domain Names 302 F3d 214; 64 USPQ2d 1225; 53 Fed. R. Serv.3d 955 (4 <sup>th</sup> Cir, 2002).....	6.5.5
Hartog & Co. AS v SWIX.com 136F. Supp 2d 531; 63 USPQ2d 1086 (ED Va. 2001).....	6.5.5
Hastro Inc v Internet Entertainment Group Ltd 40 USPQ 2d 1479 (WD Wash. 1996).....	6.5.1
Hemdblunenkleid [1984] GRUR 453.....	7.2.6

HFC Bank v Midland Bank [2000] FSR 176.....	8.2.4
H.M.A.G. and General Council of Medical Education v Barret Proprietories Ltd 58 RPC, 45.....	8.2.4
HMH Publishing Co. v Lambert 482 F2d 595, 178 USPQ 518 (9 <sup>th</sup> Cir. 1973).....	6.3.5
Holiday Inns Inc v Holiday Out in America 481 F2d 445, 178USPQ257 (5 <sup>th</sup> Cir. 1973).....	6.3.5
Hollywood SAS v Souza Cruz SA Case R 283/1999-3 [2002] ETMR 705 .....	5.3.3, 5.4, 7.3.2, 7.3.3, 7.3.4
Hormel Foods Corp v Jim Henson Products 73 F3d 497, 507 (2d Cir. 1996).....	6.3.3, 6.3.4
HQM Ltd v Hatfield 71 Supp. 2d 500,507 (D. Md. 1999).....	6.5.1, 6.5.5
Hyatt Corp v Hyatt Legal Services, 736 F 2d 1153 (7 <sup>th</sup> Cir), 469 US 1019 (1984).....	6.3.2, 6.3.3
Hyatt Corp v Hyatt Legal Services, 610F Supp 381 (N.D. 111. 1985).....	6.3.6
IHT Internationale Heiztechnik GmbH v Ideal-Standard GmbH (Case C-9/93) Financial Times 28, June 1994.....	2.2.3
Ingersoll –Rand Co. v Frank Gully D2000 - 0021.....	4.3.4
Intermatic Inc v Toeppen 947 F Supp 1227, 40 USPQ2d 1412, 1417.....	6.5.1, 6.5.5
International News Service v Associated Press 248 US 215 (1918).....	6.2
International Paper Co. v Oullette 749 US 481, at 491 (1987).....	6.4.1
Interstellar Starship Services Ltd v Epix Inc 304 F3d 936; 64 USPQ 2d 1514 (9 <sup>th</sup> Cir. 2002).....	6.5.5
IP Lund Trading ApS v Kohl Co 163 F 3d 27; 49 USPQ 2d 1225, 1242 (1 <sup>st</sup> Cir. 1998).....	6.4.6
IRC v Muller and Co’s Margarine Ltd [1901] AC 217.....	8.2.3
Jews For Jesus v Brodsky 995 F Supp 282, 46 USPQ 2d 1652 (D. N. J. 1998).....	6.5.1
John Craig (Pty) Ltd v Dupa Clothing Industries (Pty) Ltd 1977 (3) SA 144.....	9.3.2.3
Joseph Rodgers and Sons v WN Rogers and Co [1924] 41 RPC 277.....	8.2.6
Judy Larson v Judy Larson Club, NAF Case No. FA – 96488.....	4.3.4
Juicy Fruit Case, Benelux Court of Justice, October 5, 1982 [1984] N.J. 71.....	5.2
Jullien v Verschuere, Judgment of the BCJ of 20 May 1983 in Case A 82/5.....	5.2, 5.3.2, 5.3.3
Juno Online Services v Juno Klighting Inc 979 F Supp 684, 44 USPQ2d 1913 (N.D. 111 – 1997).....	6.5.1
KCPL Inc v Nash 49 USPQ2d 1584 (SDNY 1998).....	6.5.1
Kean v McGivan [1982] FSR 119.....	8.2.3
Kellog Co. v Exxon Corp 209 F 3d 562; 54 USPQ 2d 1413 (6 <sup>th</sup> Cir. 2000).....	6.4.5
Kellog Co. v National Biscuit Co, 305 US Ill (1938).....	6.3.3
Klarein v Claeryn [1975] N.J. 472; [1977] A.A. 664; [1975] B.I.E. 183.....	5.2, 5.3.3, 7.2.9, 7.3.3, 8.4.1, 8.4.2, 10.3
Klimax Manufacturing Limited and Another v Van Rensburg and Another 2004 JDR 0206.....	9.3.2.3
Land O’Lakes Inc v Offbeat Media Inc NAF Case No. FA 96451.....	4.3.4, 4.3.5
Laugh It Off Promotions CC v South African Breweries International (Finance) BV t/a Sabmark International 2004 JDR 0576 (SCA) and (CC).....	9.3.2.5, 9.3.2.6, 9.3.2.7, 9.4, 10.3
Law Society of England and Wales v Society of Lawyers [1996] FSR 739.....	3.4, 8.2.4, 8.2.7
Lego System v Lego M. Lemelstrich [1983] FSR 155.....	8.2.5, 8.2.8
L. L. Bean v Cupcake Patrol, NAF Case No. FA – 96504.....	4.3.4
Lloyd Schuhfabrik Meyer & Co GmbH v Klijsen Handel BV [1999] ECR I – 3819; [1999] ETMR 690.....	8.4.2
Lockheed Martin Corp v Dan Parisi, WIPO Case No. D 2000 – 1015.....	4.3.6
Lockheed Martin Corp v Network Solutions Inc. 985 F. Supp 949; 44 USPQ2d 1865, 1872; 152 ALR Fed. 793 (C.D. Cal. 1997).....	6.5.1, 6.5.5
Lorimar Productions Inc & Others v Sterling Clothing Manufacturers (Pty) Ltd; Lorimar Productions Inc and Others v OK Hyperama Limited and Others; Lorimar Productions Inc and Others v Dallas Restaurant 1981 (3) SA 1129 (T).....	3.2.2, 9.2.1, 9.2.2, 9.2.3, 9.2.4
Lucas Bols v Colgate-Palmolive (1976) 7 IIC 420.....	8.4.2
Lynstad v Anabas Products Ltd [1977] FSR 62.....	8.2.4
Mac Dog Case, [1999] GRUR 161.....	7.3.1
Magirus, BGH in GRUR 1956/172.....	7.2.2, 7.2.6
Marca Mode CV v Adidas Benelux BV, Case C-425/98, [Judgment dated 22 June 2000, downloaded from <a href="http://www.curia.eu.int">http://www.curia.eu.int</a> ] .....	5.3.2, 5.3.3, 9.3.2.3
Marengo v Daily Sketch and Sunday Graphic Ltd [1948] RPC 65.....	8.2.6
Marks and Spencer Plc v One in A Million, [downloaded from <a href="http://www.nominet.org.uk/Reference Document/Case Law/One In A Million Judgment.html">http://www.nominet.org.uk/ Reference Document/Case Law/One In A Million Judgment.html</a> last visited on	

21 <sup>st</sup> March, 2005].....	8.3.3, 8.4.2
Mars [1995] Vol. 26 International Review of Industrial Property and Copyright Law, 282 .....	7.2.9, 7.3.1, 8.4.1, 8.4.2
Mattel Inc v Internet Dimensions Inc 55 USPQ2d 1620, 2000 WL 973745 (SDNY 2000).....	6.5.1, 6.5.7
Mattel Inc v MCA Records Inc 296 F3d 894, 63 USPQ2d 1715 (9 <sup>th</sup> Cir. 2002).....	6.4.10
Maxim’s Ltd v Dye [1977] RSR 364; [1978] 2 All ER 55.....	8.2.3
McCain International v Country Fayre Foods [1981] RPC 69.....	8.2.6
McCulloch v Lewis A May (Produce Distributors) Ltd [1948] 65 RPC 58; [1947] 2 All ER 845.....	8.2.4
McDonald’s Corporation and McDonald’s Deutschland Inc v Rahmer [2000] ETMR 91 (Federal Supreme Court).....	7.3.2
McDonald’s Corporation v Joburgers Drive-In Restaurant (Pty) Ltd and Another 1997 (1) SA 1 (AD).....	9.3.2.4
McDonald’s Hamburger Ltd v Burger King (UK) Ltd [1986] FSR 45.....	8.2.6
Mead Data Central Inc. v Toyota Motor Sales USA Inc., 875 F2d 1026 (2nd Cir. 1989).....	6.3.2, 6.3.3
Mirage Studios v Counter-Feat Clothing Co, [1991] FSR 145.....	8.2.5
Miriam Glick Trading (Pty) Ltd & Others v Clicks Stores (Tvl) (Pty) Ltd 1979 (2) SA 290 (T).....	9.2.1
Mishawaka Rubber & Woolen Mfg Co. v SS Kresge Co 316 US 203, at 205 (1942).....	2.2.4
Miss Universe Inc v. Patricelli 753 F 2d 235 ; 225 USPQ 272 (2 <sup>nd</sup> Cir. 1985).....	6.3.2
Monopoly/Anti-Monopoly Case, Dutch Supreme Court (Hodge Raad), June 24, 1977 [1978] N.J. 83.....	5.2
Montgomery v Thompson [1891] AC 217.....	8.2.4
Morning Star v Express Newspapers [1979] FSR 113.....	8.2.4
Morrison & Forester LLP v Wick 94 F Supp 2d 1125 (D. Solo, 2000).....	6.5.5
Moseley v Victoria’s Secret Catalogue Inc 123 S. Ct. 1115, 65 USPQ 2d 1801 (US 2003).....	6.4.3, 6.4.4, 6.4.5, 6.4.6, 6.4.7, 10.4
My Kinda Bones Ltd v Dr. Pepper’s Stove Co. Ltd [1984] FSR 289.....	8.2.3
My Kinda Town Ltd v Soll and Grunts Investments [1983] RPC 407.....	8.2.6, 8.2.7
Nabisco Inc v PF Brands Inc 191 F 3d 208; 51 USPQ2d 1882(2d Cir. 1999).....	6.4.5, 6.4.6, 6.4.8
Nad Electronics Inc v Nad Computer Systems [1997] FSR 380.....	8.2.4, 8.2.6
Nasdaq Stock Market Inc v Antartica S.r.l,[available at the Trademark Trial and Appeal Board website at <a href="http://www.firstgov.gov">www.firstgov.gov</a> , Paper No. 46 GFR, Opposition No. 91121204, mailed June 30, 2003].....	6.4.3
National Board of Certification in Occupational Therapy v American Occupational Therapy Ass’n 24F Supp. 2d 494 .....	3.7
National Brands Ltd v Blue Lion Manufacturing (Prop) Ltd 2001 JDR 0172 (SCA).....	9.3.2.3, 9.3.2.5, 9.3.2.7
National Canine Defence League v Geoffrey Inc dated 29 <sup>th</sup> July, 2003, [available online at <a href="http://www.patent.gov.uk/tm/legal/index.htm">http://www.patent.gov.uk/tm/legal/index.htm</a> ].....	8.4.1
New Media Publishing (Pty) Ltd v Eating Out Web Services CC and Another 2005 JDR 0551.....	9.3.2.3
New York Stock Exchange Inc v New York, New York Hotel, LLC 293 F3d 550; 62 USPQ 2d 1260 (2 <sup>nd</sup> Cir. 2002).....	6.3.3
Nice and Safe Attitude Ltd v Piers Flook (T/A “Slaam Clothing Co) [1997] FSR 14.....	8.2.3, 8.2.4
Nick’s Fishmonger Holdings (Pty) Ltd and Another v Fish Diner in Bryanston (Pty) Ltd and Others 2005 JDR 0516 (W).....	9.3.2.3
Nike Inc v B.B. de Boer WIPO Case No. D2000 – 1397.....	4.3.4
Nikon Inc v Ikon Corp 987F 2d 91, 25 USPQ 2d 2021 (2d Cir. 1993).....	6.3.5, 6.4.1
Nivea, BGH Decision, [1984] GRUR 808.....	7.3.1
Norris, BGH in GRUR 1882/419.....	7.2.2
Northern Light Technology Inc v Northern Lights Club 236 F3d 57; 57 USPQ 1277 (1 <sup>st</sup> Cir. 2001).....	6.5.5
Oasis Stores Limited v Ever Ready Plc [1998] RPC 631.....	8.4.1, 8.4.2, 8.5
Odol, Juristische Wochenschrift 502, XXV Markenschutz und Wettbewerb 265 (1925) .....	7.2.5, 7.2.8, 7.2.10, 7.5, 10.1

One in A Million Ltd and Others v Marks and Spencer PLC and Others [ <a href="http://www.nominet.org.uk/Reference Documents/CaseLaw/One In A Million Appeal Judgment">http://www.nominet.org.uk/Reference Documents/CaseLaw/One In A Million Appeal Judgment</a> last visited on 21 <sup>st</sup> March, 2005].....	8.3.3
Oude Meester Group Bpk v SA Breweries Ltd; SA Breweries Ltd v Distillers Corporation (CA) Ltd 1973 (4) SA 145 (W).....	9.3.2.3
Panavision Intern L.F. v Toeppen 945 F. Supp 1296, 40 USPQ2d 1908 (C.D. Cal. 1996).....	6.5.1, 6.5.5
Panhard et Levassor (Societe Anonyme) v Panhard-Levassor Motor Co. Ltd [1901] 18 RPC 405.....	8.2.3
Parker Knoll v Knoll International [1962] RPC 265.....	8.2.4
Pasquali Cigarette Co. Ltd v Diaconicolas and Capsopolous 1905 TS 472.....	9.2.1
Penguin Books Limited v The Katz Family, WIPO Case No D 2000 – 0204.....	4.3.6
People for Ethical Treatment of Animals Inc v Doughney 113 F Supp 2d 915 (E D Va 2000); 263 F 3d 359, 60 USPQ2d 1109 (4 <sup>th</sup> Cir. 2001).....	6.5.1, 6.5.5
4711 Perfume Case. BGH, decision of 8 July 1958.....	7.2.9
Perry v Truefitt [1842] 6 Beav. 66, at 73; 49 ER 749.....	8.2.1
Peter Waterman v CBS [1993] EMLR 27.....	8.2.3
Philip Morris Inc and Another v Marlboro Shirt Co SA Ltd and Another 1991 (2) SA 720 (A).....	9.2.1, 9.2.3
Phillips v Haagse Post, District Court Amsterdam, July 28, 1981; [1982] B.I.E. 41.....	5.2
Pillsbury Co. v. Milky Way Productions Inc 215 USPQ 124; 1981 WL 1402 (ND Ga 1981).....	6.3.4
Planned Parenthood Federation of America Inc v Bucci 42 USPQ2d 1430 (SDNY 1997), 152 F 3d 920 (2d Cir. 1998).....	6.5.1
Plascon-Evans Paints Ltd v Van Riebeeck Paints (Pty) Ltd 1984 (3) SA 623 (A).....	9.3.2.3
Platt v Union Pacific Railroad 99US48, 58 (1878).....	6.4.5
Playboy Enterprises Inc v Welles 47 USPQ 2d 1186 (S.D. Cal. 1998) 162 F.3d 1169 (9 <sup>th</sup> Cir. 1998).....	6.4.6
Poiret v Jules Poiret and AF Nash [1920] 37 RPC 177.....	8.2.3
Polaroid Corporation v Polaroid Inc, 319 F2d 830.....	3.3.1
Policansky Brothers Ltd v L and H Policansky 1935 AD 89.....	9.2.1
Port of Helsinki v Paragon International Projects Ltd, WIPO Case No. D2001 – 002.....	4.3.4
Premier Brands UK Limited v Typhoon Europe Limited [2000] All ER (D) 52.....	8.4.1, 8.4.2, 8.5, 9.3.2.5
Quick BGH [1959] GRUR 182.....	3.3.1, 3.6, 5.3.3, 7.2.5, 7.3.5, 8.4.1, 8.4.2, 9.3.2.5
Quantum Instruments Inc v Tim Dodge NAF Case No. FA – 96499.....	4.3.4
Reckitt and Coleman Products Ltd v Borden Inc [1990] RPC 341 [1990] 1 All ER 873; [1990] 1 WLR 491.....	3.4, 8.2.2, 8.2.4, 8.2.6, 8.3.2, 9.2.1, 9.3.2.3
Red Bull GMBH v Rizo Investments (Pty) Ltd 2002 JDR 0529 (T).....	9.3.2.3
Ringling Bros-Barnum & Bailey Combined Shows Inc v Celozzi-Ettelson Chevrolet Inc 855 F 2d 480, 8USPQ2d1072 (7 <sup>th</sup> Cir. 1988).....	6.4.1
Ringling Bros –Barnum & Bailey Combined Shows Inc v Utah Div. Of Travel Dev 170 F 3d 449 at 458; 50 USPQ2d 1065, 1072 (4 <sup>th</sup> Cir. 1999).....	6.4.6, 6.4.8
Rolls Royce Motors Ltd v Gramm & Grey GmBH & Co KG [1984] 15 International Review of Industrial Property and Copyright Law 240; [1983] GRUR 247.....	3.2.2, 7.2.6, 7.2.8, 7.3.7
Royal Beech-Nut (Pty) Ltd t/a Manhattan Confectioners v United Tobacco Co Ltd t/a Willards Foods 1992 (4) SA 118 (A).....	9.2.1, 9.2.3
Sabel BV v Puma AG, Rudolf Dasster Sport Case C-251/95, [1998] RPC 199 .....	5.2, 5.3.2, 5.3.3, 8.4.2, 9.3.2.3
SA CNL – Sucal NV v Hag GF AGe C-10/89; [1990] ECR I-3711.....	2.2.3
Sadastream Ltd v Thorn Cascade Co. Ltd [1982] RPC 459.....	8.2.6
Safari Surf Shop CC v Heavywater and Others [1996] 4 All SA 316 (D).....	9.3.2.4
Sally Gee Inc v Myra Hogan Inc., 699 F2d 621; 217 USPQ 658 (2 <sup>nd</sup> Cir. 1983).....	6.3.2, 6.3.4
Salomon, BGH [1991] GRUR 465.....	7.2.7
Schott Glas and NEC/Schott Components Corp. v Necschott, WIPO Case No. 2001 – 0127.....	4.3.4
Searles Industrials (Pty) Ltd v International Power Marketing (Pty) Ltd 1982 (4) SA 123 (T).....	9.2.1
Sears, Roebuck & Co v Stiffel & Co 376 US 225 (1964).....	6.2
Selchow & Rigter Co. v McGraw-Hill Book Co, 580 F.2d 25; 198 USPQ 577	

(2 <sup>nd</sup> Cir. 1978).....	6.3.3
Series 5 Software Ltd v Philip Clarke [1996] FSR 273.....	8.2.7
Shell v Vrij Nederland, District Court Amsterdam, January 8, 1977; [1975] N.J. 3399.....	5.2
Sheraton Corporation of America v Sheraton Motels Ltd [1964] RPC 202 (Ch.d).....	8.2.3
Shields v Zuccarin 254 F3d 476, 59 USPQ2d 1207 (3d Cir. 2001).....	6.5.2
Shirmax Retail Ltd v CES Marketing Group Inc Case No. NAF 0104.....	4.3.4
Singer v Loog (1880) 18 Ch.D. 395.....	8.3.3
Smithkline Beckman Corp v Proctor and Gamble Co. 591 F. Supp. 1229, 223 USPQ 1230 (N.D.N.Y. 1984).....	6.3.5
Snap-On Tools Co. v. C/Net. Inc., American Dairy Queen Corp v New Line Productions, 35 F. Supp. 2d 727 (D. Minn. 1998) .....	3.7
Solmike (Pty) Ltd t/a Skipper’s Cabin v West Street Trading Co (Pty) Ltd t/a Skipper Bar 1981 (4) SA 706 (D).....	9.2.1
Southern v How [1617] Cro Jac 468; 79 ER 400.....	8.2.1
Space Imaging LLC v Brownwell, eRes Case No. AF – 0298.....	4.3.4
Spalding and Brothers v AW Gamage [1915] 32 RPC 273.....	8.2.3, 8.2.4
Sporty’s Farm LLC v Sportsman’s Market Inc 202 F 3d 489, 497; 53 USPQ 2d 1570, 1576 (2d Cir. 2000).....	6.4.5, 6.5.2
Star Industrial Co. v Yap Kwee Kor [1976] FSR 217.....	8.2.3
Steinway and Sons v Demars and Friends 210 USPQ 954; 1981 WL 40530 (C.D. Cal. 1981).....	6.3.4
Stonsdorfer, BGH Decision in [1974] GRUR 337.....	7.2.7
Strick Corp v Strickland 162 F Supp 2d 372; 60 USPQ2d 1889 (E.D. Pa. 2001).....	6.5.5
Stringfellows v McCain Foods [1984] RPC 501.....	8.2.4
Sunkist [1963] GRUR 622.....	7.2.7
Sunpearl BGH [1960] GRUR 130.....	7.2.7
Syndicate Sales Inc v Hampshire Paper Corp 192 F 3d 633; 52 USPQ 2d 1035.....	6.4.5
Taittinger SA v Allban BEP Ltd [1993] FSR 641.....	8.2.4, 8.2.5, 8.2.8, 8.4.2, 9.3.2.5
Tavener Rutledge Ltd v Trexapalm Ltd [1977] RPC 275.....	8.2.4
TCPIP Holding Co. v Haar Communications Inc 244 F 3d 88, 96; 57 USPQ 2d 1969, (2d Cir. 2001).....	6.4.5
The Athlete’s Foot Marketing Associates Inc v Cobra Sports Limited and Another [1980] RPC 343.....	8.2.3
The European v The Economist Newspapers [1996] FSR 431.....	8.2.4
Three Blind Mice Designs Co v Cyrk Inc 892 F. Supp. 303, 36 USPQ2d 1001 (D. Mass. 1995).....	6.3.5
Tiffany & Co. v Boston Club Inc., 231 F. Supp 836; 143 USPQ 2 (D Mass 1964).....	6.3.2, 6.3.3
Tiffany & Co. v Tiffany Productions Inc 147 Misc 679,264 NYS459 (Sup Ct 1932).....	6.2
Toro Co v ToroHead Inc 61 USPQ2d 1164; 2001 WL1734485 (T.T.A.B. 2001).....	6.4.3, 6.4.5, 10.4
Tower Publications Inc. v MTS Inc 21 USPQ2d 1303 (N.D. 111.1991).....	6.3.5
Toys “R” Us Inc v Abir 45 USPQ2d 1944 (S.D.N.Y. 1997).....	6.5.5
Toys “R” Us Inc v Akkaoui 40 USPQ2d 1836 (N.D. 1996).....	6.5.1
Toys “R” Us Inc v Canarsie Kiddie Shop Inc, 559 F Supp 1189 (EDNY 1983).....	6.3.2
Trego v Hunt [1895] AC 7.....	8.2.3
Tri-ang Pedigree (South Africa) (Pty) Ltd v Prima Toys (Pty) Ltd 1985 (1) SA 448 (A).....	9.3.2.3
Triomed (Prop) Limited v Beecham Group PLC and Others 2001 JDR 0034 (T).....	9.3.2.4, 9.3.2.5, 9.3.2.7
Triumph, BGH in GRUR 1859/25.....	7.2.2, 7.2.6
Ty Inc v O.Z. Names, WIPO Case No D2000 – 0370.....	4.3.5
Union/Union Soleure Case , Benelux Court of Justice, May 20, 1983 [1984] N.J. 72.....	5.2
Union Wine Limited v E Snell and Company Limited 1990 (2) SA 189 (C ).....	3.2.2
United Biscuits (UK) Ltd v Asda Stores Ltd [1997] RPC 513.....	8.2.4, 8.2.6
United States – Standards for Reformulated and Conventional Gasolene, Report of the Appellate Body, WT/DS2/9, 20 May, 1996, 23.....	4.2.4
Valucci Designs Limited t/a Hugo Hogs v IPC Magazines Limited appeal [judgment dated 22 <sup>nd</sup> September, 2000, available online at <a href="http://www.patent.gov.uk/tm/legal/index.htm">http://www.patent.gov.uk/tm/legal/index.htm</a> ].....	8.4.1, 8.5

Van der Watt v Humansdorp Marketing CC 1993 (4) SA 779 (SE).....	9.2.1
Vanity Fair Mills v T. Eaton Co. 234F 2d 633, 640 – 641 (2 <sup>nd</sup> (C.1956).....	4.1
Vapor Blast Manufacturing v R & S Technologies, NAF Case No. FA 96577.....	4.3.4
Vedial SA v Office for Harmonisation in the Internal Market (Trademarks and Designs) and France Distribution, Case T-110/01, Judgment dated 12 December, 2002, [downloaded from <a href="http://www.ciria.eu.int">http://www.ciria.eu.int</a> ].....	5.3.2, 5.3.3
Viacom Inc v Ingram Enterprises Inc 141 F3d 886, 46 USPQ2d 1473 (8 <sup>th</sup> Cir 1998).....	6.4.1, 6.4.5
Victoria’s Secret, Et Al v Atchinson Investments Ltd, NAF Case No. 96496.....	4.3.4
Victoria’s Secret, Et Al v Hostdifferent.net/Hostmaster, NAF Case No. 96500.....	4.3.4
Victoria’s Secret, Et Al v. Powerbiz, NAF Case No. 96497.....	4.3.4
Victoria’s Secret, Et Al v Serbjeet Ahluwalia, NAF Case No. FA – 96559.....	4.3.4
Victoria’s Secret v The Domain Name For Sale, NAF Case No FA – 96486.....	4.3.4
Vine Products v Mackenzie [1969] RPC1.....	8.2.5
Virgin Oil Limited v Virgin Enterprises Limited of 22 <sup>nd</sup> September, 2003, [available online at <a href="http://www.patent.gov.uk/tm/legal/decisions">http://www.patent.gov.uk/tm/legal/decisions</a> ].....	8.4.1
Wall v Rolls Royce of America 4Fed.333.....	
Wal-Mart Stores Inc v Walsucks and Walmarket Puerto Rico, WIPO Case No. D2000 – 0477.....	4.3.6
Warnink v Townsend [1979] AC 731.....	8.2.4
Washington Speakers Bureau Inc v Leading Authorities Inc, 33F. Supp. 2d 907; 49 USPQ 2d 1893.....	6.4.5
Westchester Media v PRL USA Holdings Inc 214 F3d 658; 55 USPQ2d 1225 (5 <sup>th</sup> Cir. 2000).....	6.4.8
Wham-O v Paramount Pictures Corp, 286 F. Supp. 2d 1254 (N.D. Ca 2003) .....	3.7
Wilkinson Sword Ltd v Cripps & Lee Ltd [1982] FSR 16.....	8.2.4
willing.de, OLG Karlsruhe ZUM 1998, 944.....	7.4
Wombles Ltd v Wombles Skips Ltd [1977] RPC 99.....	8.2.4
World Gym Licensing Ltd v Fitness World Inc., 47 F. Supp 2d 614 (D. Md. 1999).....	6.7
World Wrestling Federation Entertainment Inc v Big Dog Holdings Inc., 280 F. Supp. 2d 413 (W.D. Pa. 2003) .....	3.7
World Wrestling Federation Entertainment Inc v Bosman, WIPO Case No. D99 – 0001.....	4.3.4
Zale Delaware Inc v Vincent Espoito, NAF Case No. FA – 96534.....	4.3.4
Ziegenfelder Co v VMH Enterprises Inc, WIPO Case No. D 2000 – 0039.....	4.3.4

## B. Cases by jurisdiction

### Benelux (Belgium, Netherlands and Luxembourg)

Apple, [Amsterdam Court of Appeal, 8 March, 1984] BIE 1986/52.....	5.2
Boitex Case, [Benelux Court of Justice, June 28, 1987] [1988] N.J. 147.....	5.2
Coca-Cola v Alicia [Amsterdam Court of Appeal, 18 December, 1975] [1977] N.J. 59.....	5.2
Juicy Fruit Case, [Benelux Court of Justice, October 5], 1982 [1984] N.J. 71.....	5.2
Jullien v Verschuere, [Judgment of the BCJ of 20 May 1983 in Case A 82].....	5.2, 5.3.2, 5.3.3
Klarein v Claeryn [1975] N.J. 472; [1977] A.A. 664; [1975] B.I.E. 183.....	5.2, 5.3.3, 7.2.9, 7.3.3, 8.4.1, 8.4.2, 10.3
Lucas Bols v Colgate-Palmolive (1976) 7 IIC 420.....	8.4.2
Marca Mode CV v Adidas Benelux BV, Case C-425/98, [Judgment dated 22 June 2000, downloaded from <a href="http://www.curia.eu.int">http://www.curia.eu.int</a> ].....	5.3.2, 5.3.3, 9.3.2.3
Monopoly/Anti-Monopoly Case, [Dutch Supreme Court] (Hodge Raad), June 24, 1977 [1978] N.J. 83.....	5.2
Phillips v Haagse Post [Amsterdam District Court, 28 July, 1981] [1982] B.I.E. 41.....	5.2
Shell v Vrij Nederland [Amsterdam District Court, 8 January, 1977] [1975] N.J. 3399.....	5.2
Union/Union Soleure Case , [Benelux Court of Justice, May 20, 1983] [1984] N.J. 72.....	5.2

## England and Wales

Alan Kenneth Mckenzie Clark v Associated Newspapers Ltd [1998] RPC 261.....	8.2.4
American Cynamid Co. v Ethicon Ltd [1975] AC 396.....	8.2.7
Anheuser-Busch v Budejovcsky Budvar Narodni Podnik [1984] FSR 413.....	8.2.3
Annabel's (Berkely Square) Ltd v G. Shock [1972] RPC 838.....	3.4, 8.2.4, 8.2.8
Antec International Ltd v South Western Chicks (Warren) Ltd [1997] FSR 278.....	8.2.7
Audio Medical Devices Ltd v Audi AG [1998] RPC 863.....	8.4.1, 8.4.2, 8.5
Baskin-Robbins Ice Cream Co v Gutman [1976] FSR 545.....	8.2.3
Baywatch Productions Co. Inc v. Home Video Channel [1997] FSR 22.....	8.2.4, 8.4.2
Bernadin v Pavilion [1967] RPC 581.....	8.2.3
Birmingham Vinegar Brewery v Powell [1897] AC 710.....	8.2.4
Bollinger v Costa Brava Wine Co [1960] RPC 16.....	8.2.4
British Medical Association v Marsh 48 RPC 565.....	8.2.4
Camel Hair Belting [1896] AC 199.....	8.3.3
C.A. Sheimer (M) Sdn Bhd's TM [2000] R.P.C. 484.....	8.4.1, 8.5
Ciba Giegy Plc v Parke Davis and Co. Ltd [1994] FSR 8.....	8.2.6
Clock Limited v The Clock Hotel Limited 53 RPC 269.....	8.2.4
Consorzio del Proscuitto di Parma v Marks and Spencer Plc [1991] RPC 351.....	8.2.2
Coombe International v Scholl [1977] RPC 1.....	8.2.4
Country Sound Plc v Ocean Sound Ltd [1991] FSR 367.....	8.2.6
Daimler Chrysler v Alavi (Merc) [2001] All ER (D) (Jan).....	8.4.1, 8.4.2, 8.5
Eastman Kodak Co. v Kodak Cycle Co. 15 RPC 105.....	6.1
Eastman Photographic Materials Co. Ltd and Anor v John Griffiths Cycle Corporation Ltd and the Kodak Cycle Co. Ltd [1898] RPC 105.....	8.2.4
Edge v Nicholls [1911] AC 693.....	8.2.4
Erven Warnink Besloten Vennootschap v J. Townend and Sons (Hull) Ltd [1979] AC 731.....	8.2.2, 8.3.2
European Limited – v – The Economist Newspaper Limited [1998] FSR 283.....	8.4.1
Ewing (t/a Buttercup Dairy Co) v Buttercup Margarine Co Ltd [1917] 34 RPC 232; [7917] 2 Ch. 1....	8.2.4
Fortnum and Mason Plc v Fortman Ltd [1994] FSR 438.....	8.2.2, 8.2.4, 8.2.6
Frank Reddaway and Co. Ltd v George Banham and Co. Ltd [1896] 13 RPC 218.....	8.2.1
Garden Cottage Foods Ltd v Milk Marketing Board [1984] AC 130.....	8.2.7
GE Trademark [1969] RPC 418, [1970] RPC 339.....	2.2.1
Gillet UK Ltd v Edenwest Ltd [1994] RPC 279.....	8.2.6, 8.2.7
Glaxo Plc v Glaxo Wellcome Ltd [1996] FSR 388.....	8.2.7
Halliwell v Panini [6 June 1997] [Unreported].....	8.2.4
Harrods Ltd v Harrodian School Ltd [1996] RPC 697 (CA).....	8.2.4, 8.2.5, 8.2.8, 8.5
HFC Bank v Midland Bank [2000] FSR 176.....	8.2.4
H.M.A.G. and General Council of Medical Education v Barret Proprietories Ltd 58 RPC, 45.....	8.2.4
IRC v Muller and Co's Margarine Ltd [1901] AC 217.....	8.2.3
Joseph Rodgers and Sons v WN Rogers and Co [1924] 41 RPC 277.....	8.2.6
Kean v McGivan [1982] FSR 119.....	8.2.3
Law Society of England and Wales v Society of Lawyers [1996] FSR 739.....	3.4, 8.2.4, 8.2.7
Lego System v Lego M. Lemelstrich [1983] FSR 155.....	8.2.5, 8.2.8
Lynstad v Anabas Products Ltd [1977] FSR 62.....	8.2.4
Marengo v Daily Sketch and Sunday Graphic Ltd [1948] RPC 65.....	8.2.6
Marks and Spencer Plc v One in A Million [downloaded from <a href="http://www.nominet.org.uk/Reference Document/Case Law/One In A Million Judgment.html">http://www.nominet.org.uk/Reference Document/Case Law/One In A Million Judgment.html</a> last visited on 21 <sup>st</sup> March, 2005].....	8.3.3, 8.4.2
Maxim's Ltd v Dye [1977] RSR 364; [1978] 2 All ER 55.....	8.2.3
McCain International v Country Fayre Foods [1981] RPC 69.....	8.2.6
McCulloch v Lewis A May (Produce Distributors) Ltd [1948] 65 RPC 58; [1947] 2 All ER 845.....	8.2.4

McDonald’s Hamburger Ltd v Burger King (UK) Ltd [1986] FSR 45.....	8.2.6
Mirage Studios v Counter-Feat Clothing Co, [1991] FSR 145.....	8.2.5
Montgomery v Thompson [1891] AC 217.....	8.2.4
Morning Star v Express Newspapers [1979] FSR 113.....	8.2.4
My Kinda Bones Ltd v Dr. Pepper’s Stove Co. Ltd [1984] FSR 289.....	8.2.3
My Kinda Town Ltd v Soll and Grunts Investments [1983] RPC 407.....	8.2.6, 8.2.7
Nad Electronics Inc v Nad Computer Systems [1997] FSR 380.....	8.2.4, 8.2.6
National Canine Defence League v Geoffrey Inc, [available online at <a href="http://www.patent.gov.uk/tm/legal/index.htm">http://www.patent.gov.uk/tm/legal/index.htm</a> ].....	8.4.1
Nice and Safe Attitude Ltd v Piers Flook (T/A “Slaam Clothing Co) [1997] FSR 14.....	8.2.3, 8.2.4
Oasis Stores Limited v Ever Ready Plc [1998] RPC 631.....	8.4.1, 8.4.2, 8.5
One in A Million Ltd and Others v Marks and Spencer PLC and Others <a href="http://www.nominet.org.uk/Reference Documents/CaseLaw/One In A Million&lt;br/&gt;Appeal Judgment">[http://www.nominet.org.uk/Reference Documents/CaseLaw/One In A Million Appeal Judgment</a> last visited on 21 <sup>st</sup> March, 2005].....	8.3.3
Panhard et Levassor (Societe Anonyme) v Panhard-Levassor Motor Co. Ltd [1901] 18 RPC 405.....	8.2.3
Parker Knoll v Knoll International [1962] RPC 265.....	8.2.4
Perry v Truefitt [1842] 6 Beav. 66, at 73; 49 ER 749.....	8.2.1
Peter Waterman v CBS [1993] EMLR 27.....	8.2.3
Poiret v Jules Poiret and AF Nash [1920] 37 RPC 177.....	8.2.3
Premier Brands UK Limited v Typhoon Europe Limited [2000] All ER (D) 52.....	8.4.1, 8.4.2, 8.5, 9.3.2.5
Reckitt and Coleman Products Ltd v Borden Inc [1990] RPC 341 [1990] 1 All ER 873; [1990] 1 WLR 491 .....	3.4, 8.2.2, 8.2.4, 8.2.6, 8.3.2, 9.2.1, 9.3.2.3
Sadastream Ltd v Thorn Cascade Co. Ltd [1982] RPC 459.....	8.2.6
Safari Surf Shop CC v Heavywater and Others [1996] 4 All SA 316 (D).....	9.3.2.4
Series 5 Software Ltd v Philip Clarke [1996] FSR 273.....	8.2.7
Sheraton Corporation of America v Sheraton Motels Ltd [1964] RPC 202 (Ch.d).....	8.2.3
Singer v Loog (1880) 18 Ch.D. 395.....	8.3.3
Southern v How [1617] Cro Jac 468; 79 ER 400.....	8.2.1
Spalding and Brothers v AW Gamage [1915] 32 RPC 273.....	8.2.3, 8.2.4
Star Industrial Co. v Yap Kwee Kor [1976] FSR 217.....	8.2.3
Stringfellows v McCain Foods [1984] RPC 501.....	8.2.4
Taittinger SA v Allban BEP Ltd [1993] FSR 641.....	8.2.4, 8.2.5, 8.2.8, 8.4.2, 9.3.2.5
Tavener Rutledge Ltd v Trexapalm Ltd [1977] RPC 275.....	8.2.4
The Athlete’s Foot Marketing Associates Inc v Cobra Sports Limited and Another [1980] RPC 343.....	8.2.3
The European v The Economist Newspapers [1996] FSR 431.....	8.2.4
Trego v Hunt [1895] AC 7.....	8.2.3
United Biscuits (UK) Ltd v Asda Stores Ltd [1997] RPC 513.....	8.2.4, 8.2.6
Valucci Designs Limited t/a Hugo Hogs v IPC Magazines Limited [appeal judgment dated 22 <sup>nd</sup> September, 2000, available online at <a href="http://www.patent.gov.uk/tm/legal/index.htm">http://www.patent.gov.uk/tm/legal/index.htm</a> ].....	8.4.1, 8.5
Vine Products v Mackenzie [1969] RPC1.....	8.2.5
Virgin Oil Limited v Virgin Enterprises Limited of 22 <sup>nd</sup> September, 2003, [available online at <a href="http://www.patent.gov.uk/tm/legal/decisions">http://www.patent.gov.uk/tm/legal/decisions</a> ].....	8.4.1
Warnink v Townsend [1979] AC 731.....	8.2.4
Wilkinson Sword Ltd v Cripps & Lee Ltd [1982] FSR 16.....	8.2.4
Wombles Ltd v Wombles Skips Ltd [1977] RPC 99.....	8.2.4

## European Union: Court of Justice of the European Communities

Adidas-Salomon AG v Fitnessworld Trading Limited, Case C-408/01 .....	5.2, 5.3.3, 5.5, 7.2.9, 7.3.1, 7.3.4, 7.3.6, 8.4.1, 8.4.2, 8.5, 10.3, 10.5
Arsenal [2003] E.T.M.R. 19.....	2.2.4
Arsenal Football Club Plc v Matthew Reed, Case C-206/01.....	5.3.2, 5.3.3, 7.3.7, 8.4.2

Compomar SL's Application; Opposition of Nike International Ltd [2000] ETMR 50 (OHIM).....	7.3.5
Davidoff & Cie SA Zino Davidoff SA v Gofkid, Case C-292/00, [2003] ETMR 534 (ECJ).....	5.3.3, 5.5, 7.3.1, 7.3.2, 7.3.6, 8.4.1, 8.4.2, 8.5, 10.3, 10.5
General Motors Corporation v Yplon SA [1999] 3 CMLR 427; [1999] ETMR 950.....	5.1, 5.3.3, 5.4, 5.5, 6.4.5, 6.6, 7.3.2, 8.4.1, 8.4.2, 8.5, 9.4, 10.2, 10.3, 10.5, 10.6
Hollywood SAS v Souza Cruz SA Case R 283/1999-3 [2002] ETMR 705 .....	5.3.3, 5.4, 7.3.2, 7.3.3, 7.3.4
Lloyd Schuhfabrik Meyer & Co Gmbtt v Klijsen Handel BV [1999] ECR I – 3819; [1999] ETMR 690.....	8.4.2
IHT Internationale Heiztechnik GmbH v Ideal-Standard GmbH (Case C-9/93) <i>Financial Times</i> 28, June 1994.....	2.2.3
Vedial SA v Office for Harmonisation in the Internal Market [Trademarks and Designs] and France Distribution, Case T-110/01.....	5.3.2, 5.3.3
Marca Mode CV v Adidas Benelux BV, Case C-425/98.....	5.3.2, 5.3.3, 9.3.2.3
McDonald's Corporation and McDonald's Deutschland Inc v Rahmer [2000] ETMR 91 (Federal Supreme Court).....	7.3.2
SA CNL – Sucal NV v Hag GF AGE C-10/89; [1990] ECR I-3711.....	2.2.3
Sabel BV v Puma AG Rudolf Dassler Sport, Case C-425/98.....	5.2, 5.3.2, 8.4.2, 9.3.2.3
Vedial SA v Office for Harmonisation in the Internal Market [Trademarks and Designs] and France Distribution, Case T-110/01. ....	5.3.2, 5.3.3

## Germany

Asbacher Landorot Case [12 October, 1972], a decision of the Hamburg Hanseatic Oberlandesgericht, published in 1973 GRUR 94.....	4.2.6
Astrawolle, BGH in GRUR – 1957/228.....	7.2.2
Avon, BGH in GRUR 1991 / 863.....	7.2.6
Bayer Kreuz, 31 October 1942, published in RGZ 170/137 ff.....	7.2.5
Brockhause.de, Landgreicht Mannheim 70 529/97.....	7.4
Brombeer – Muster, [1983] GRUR 337.....	7.2.6
Camel, Cologne OLG, Decision of 30 April 1984 in GRUR 1985/559.....	7.2.6
Centra, BGH GRUR 1966/38.....	7.2.2
Channel No. 5, BGH Dcision, in [1985] GRUR 530.....	7.3.10
Cheri, BGH GRUR 1971/180.....	7.2.2
Deta.com, LG, Braunschweig CR 1998, 364.....	7.4
Dimple [1985] 17 GRUR 529...5.3.3, 7.2.5, 7.2.6, 7.2.7, 7.2.8, 7.2.9, 7.3.1, 7.3.4, 7.3.8, 8.4.1, 8.4.2, 9.3.2.5	
Dolan, BGH in GRUR 1970/80.....	7.2.2
Eltern.de, LG Hamburg CR 1999, 47.....	7.4
Epson.de, L.G. Dusseldorf CR 1998, 165.....	7.4
Hemdblunenkleid [1984] GRUR 453.....	7.2.6
Magirus, BGH in GRUR 1956/172.....	7.2.2, 7.2.6
Mars [1995] Vol. 26 International Review of Industrial Property and Copyright Law, 282 .....	7.2.9, 7.3.1, 8.4.1, 8.4.2
Nivea, BGH Decision, [1984] GRUR 808.....	7.3.1
Norris, BGH in GRUR 1882/419.....	7.2.2
Odol, Juristische Wochenschrift 502, XXV Markenschutz und Wettbewerb 265 (1925) .....	7.2.5, 7.2.8, 7.2.10, 7.5, 10.1
4711 Perfume Case, BGH, decision of 8 July 1958.....	7.2.9
Quick, BGH [1959] GRUR 182.....	3.3.1, 3.6, 5.3.3, 7.2.5, 7.3.5, 8.4.1, 8.4.2, 9.3.2.5
Rolls Royce Motors Ltd v Gramm & Grey GmbH & Co KG [1984] 15 International Review of Industrial Property and Copyright Law 240; [1983] GRUR 247.....	3.2.2, 7.2.6, 7.2.8, 7.3.7
Salomon, BGH [1991] GRUR 465.....	7.2.7
Stonsdorfer, BGH decision in [1974] GRUR 337.....	7.2.7
Sunkist [1963] GRUR 622.....	7.2.7
Sunpearl, BGH [1960] GRUR 130.....	7.2.7

Triumph, BGH in GRUR 1859/25.....	7.2.2, 7.2.6
willing.de, OLG Karlsruhe ZUM 1998, 944.....	7.4

## South Africa

Adcock – Ingram Products Ltd v Beecham SA (Pty) Ltd 1977 (4) SA 434 (W).....	9.2.1
Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd 1981 (2) SA 173 (T).....	9.2.1
Albion Chemical Company (Pty) Ltd FAM Products CC 2003 JDR 0832 (c ).....	9.3.2.5, 9.3.2.7
Bata Limited v Face Fashions Close Corporation and Another 2000 JDR 6657 (SCA).....	9.3.2.2, 9.3.2.3, 9.3.2.7
Beecham Group PLC v Triomed (Pty) Ltd 2002 JDR 0720 (SCA).....	9.3.2.4
Brian Boswell Circus (Pty) Ltd & Another v Boswell-Wilkie Circus (Pty) Ltd 1985 (4) SA 466 (A).....	9.2.1
Cambridge Plan AG and Another v Moore and Others 1987 (4) SA 821 (D).....	9.2.1, 9.2.3
Capital Estate and General Agencies (Pty) Ltd and Others v Holiday Inns Inc and Other [1977] (2) SA 916 (A).....	3.2.2, 3.4, 9.2.1, 9.2.2
Cowbell AG v ICS Holdings Ltd 2001 (3) SA 941 (SCA).....	9.3.2.3
Federation Internationale de Football and Others v Bartlett and Others 1994 (4) SA 722 (T).....	9.2.1
John Craig (Pty) Ltd v Dupa Clothing Industries (Pty) Ltd 1977 (3) SA 144.....	9.3.2.3
Klimax Manufacturing Limited and Another v Van Rensburg and Another 2004 JDR 0206.....	9.3.2.3
Lorimar Productions Inc & Others v Sterling Clothing Manufacturers (Pty) Ltd; Lorimar Productions Inc and Others v OK Hyperama Limited and Others; Lorimar Productions Inc and Others v Dallas Restaurant 1981 (3) SA 1129 (T).....	9.2.1, 9.2.2, 9.2.3, 9.2.4
Laugh It Off Promotions CC v South African Breweries International (Finance) BV t/a Sabmark International 2004 JDR 0576 (SCA) and (CC).....	9.3.2.5, 9.3.2.6, 9.3.2.7, 9.4, 10.3
McDonald’s Corporation v Joburgers Drive-In Restaurant (Pty) Ltd and Another 1997 (1) SA 1 (AD).....	9.3.2.4
Miriam Glick Trading (Pty) Ltd & Others v Clicks Stores (Tvl) (Pty) Ltd 1979 (2) SA 290 (T).....	9.2.1
National Brands Ltd v Blue Lion Manufacturing (Prop) Ltd 2001 JDR 0172 (SCA).....	9.3.2.3, 9.3.2.5, 9.3.2.7
New Media Publishing (Pty) Ltd v Eating Out Web Services CC and Another 2005 JDR 0551.....	9.3.2.3
Nick’s Fishmonger Holdings (Pty) Ltd and Another v Fish Diner in Bryanston (Pty) Ltd and Others 2005 JDR 0516 (W).....	9.3.2.3
Oude Meester Group Bpk v SA Breweries Ltd; SA Breweries Ltd v Distillers Corporation (CA) Ltd 1973 (4) SA 145 (W).....	9.3.2.3
Pasquali Cigarette Co. Ltd v Diaconicolas and Capsopolous 1905 TS 472.....	9.2.1
Philip Morris Inc and Another v Marlboro Shirt Co SA Ltd and Another 1991 (2) SA 720 (A).....	9.2.1, 9.2.2
Plascon-Evans Paints Ltd v Van Riebeeck Paints (Pty) Ltd 1984 (3) SA 623 (A).....	9.3.2.3
Policansky Brothers Ltd v L and H Policansky 1935 AD 89.....	9.2.1
Red Bull GMBH v Rizo Investments (Pty) Ltd 2002 JDR 0529 (T).....	9.3.2.3
Royal Beech-Nut (Pty) Ltd t/a Manhattan Confectioners v United Tobacco Co Ltd t/a Willards Foods 1992 (4) SA 118 (A).....	9.2.1, 9.2.2
Searles Industrials (Pty) Ltd v International Power Marketing (Pty) Ltd 1982 (4) SA 123 (T).....	9.2.1
Solmike (Pty) Ltd t/a Skipper’s Cabin v West Street Trading Co (Pty) Ltd t/a Skipper Bar 1981 (4) SA 706 (D).....	9.2.1
Tri-ang Pedigree (South Africa) (Pty) Ltd v Prima Toys (Pty) Ltd 1985 (1) SA 448 (A).....	9.3.2.3
Triomed (Prop) Limited v Beecham Group PLC and Others 2001 JDR 0034 (T).....	9.3.2.4, 9.3.2.5, 9.3.2.7
Union Wine Limited v E Snell and Company Limited 1990 (2) SA 189 (C ).....	9.2.2
Van der Watt v Humansdorp Marketing CC 1993 (4) SA 779 (SE).....	9.2.1

## United States

Accuride International Inc v Accuride Corp. 871 F. 2d 1531; 10USPQ2d 1589 (9 <sup>th</sup> Cir. 1989).....	6.3.2
Advance Magazine Publishers Inc v Vogue International 123 F. Supp 2d 790 (D.N.J. 2000).....	6.5.5
Alberto – Culver Co v Andrea Dumon Inc 466 F2d 705, 175 USPQ 194. (7 <sup>th</sup> Cir. 1972).....	6.3.5
Allied Maintenance Corp v Allied Mechanical Trades Inc., 369 N.E. 2d. 1162; 42 NY2d 538 (N.Y. 1977).....	6.3.2
American Cynamid Co. v. Neutraceutical Corp, 54F. Supp. 2d 379 (D.N.J. 1999).....	3.7
American Express Co. v Vibra Approved Laboratories Corp 10 USPQ 2d 2006 (S.D.N.Y. 1989).....	6.3.4, 8.4.2
American Fruit Growers Inc v John Braadland Ltd 151 MD 239.....	6.1
Amstar Corp v Domino’s Pizza Inc. 615 F. 2.d. 252; 205 USPQ 969 (5 <sup>th</sup> Cir), 449 US 899 (1980).....	6.3.2
Astra Pharmaceutical Products Inc v Beckman Instruments Inc. 718 F. 2d 1201; 220 USPQ 786 (1st Cir. 1983).....	6.3.2
Avery Dennison Corp v Sumpton 189F 3d 868, 876; 51 USPQ 2d 1801, 1806 (9 <sup>th</sup> Cir. 1999).....	6.4.5
Bailey v United States 516 US 137, 146 (1995).....	6.4.5
Bally Total Fitness Holding Corp v Faber 29 F Supp 2d 1161, 50 USPQ2d 1840 (C.D. Cal. 1998)....	6.4.10
Bayer Co. v United Drug Co, 272 F 505 (DNY 1921).....	6.3.3
Blue Cross and Blue Shield Association v American Express Co. 1999 WL 1044825 (N.D. III 1999) .....	3.7
Broadbridge Media LLC v Hypercd.com 106 F Supp 2d 505; 55USPQ2d 1426 (S.D.N.Y. 2000).....	6.5.5
Brown v Hotel & Restaurant Employees & Bartenders 104 SCt 3179, at 3185 – 6 (1984).....	6.4.1
Bulova Watch Co. v Stolzberg 69F Supp 543, 72 USPQ72 (D Mass 1947).....	6.2
Carson v Here’s Johnny Portable Toilets Inc. 810 F 2d 104, 1 USPQ 2d 2007 (6 <sup>th</sup> Cir. 1987).....	6.3.6
Cheney Bros v Doris Silk Corp 35 F2d 279 (2d Cir 1929).....	6.2
Coca-Cola Co. v Alma Leo U.S.A 719 F. Supp 725 (N.D.ILL. 1989).....	6.3.4
Community Federal Savings and Loan Association v Orondorff 215 USPQ 26 (11 <sup>th</sup> Cir, 1982)..	3.3.4, 6.3.4
Dallas Cowboys Cheer Leaders Inc v Pussycat Cinema Ltd 604 F 2d 200; 203 USPQ 162 (2d Cir. 1979).....	6.3.4
Data Concepts Inc v Digital Consulting Inc 150 F 3d 620, 47 USPQ 2d 1672 (6 <sup>th</sup> Cir. 1998).....	6.5.1
Dawn v Sterling Drug, Inc., 319 F. Supp. 358; 167 USPQ 721 (CD Cal. 1970).....	6.3.3
Deere and Company v MTD Products Inc 41 F 3d 39; 32 USPQ 2d 1936 (2 <sup>nd</sup> Cir. 1994).....	6.3.4, 6.3.6, 6.4.10
De Medici v Lorenzo De Medici Inc 101 AD 2d 719, 475 NYS 2d 391, 225 USPQ 193 (1 <sup>st</sup> Dep’t 1984).....	6.3.6
DuPont Cellophane Co. Inc v Waxed Products Co. Inc, 85 F2d 75; 30 USPQ 332 (2d Cir. 1936).....	6.3.3
Eco Manufacturing LLC v Honeywell Int’l Inc. 2003 WL 21524860 (S.D. Ind 2003).....	3.7
Eastman Kodak Co. v Rakow, 739 F. Supp. 116, 15 USPQ 2d 1631 (WDNY 1989).....	6.3.2, 6.3.4
E & J Gallo Winery v Spider Webs Ltd 286 F3d 270; 62 USPQ2d 1404 (5 <sup>th</sup> Cir. 2002).....	6.5.5
Electronics Boutique Holdings Corp v Zuccarini 50 USPQ2d 1705; 2000 WL 1622760 (E.D. Pa. 2000).....	6.5.7
Eli Lilly & Co. v Natural Answers Inc. 233F3d 456; 56 USPQ2d 1942 (7 <sup>th</sup> Cir. 2000).....	6.4.8
EZ Loader Boat Trailers Inc v Cox Trailers Inc 746F2d 375, 223 USPQ 1101 (7 <sup>th</sup> Cir. 1984).....	6.3.5
Factors Inc v Pro Arts Inc 652 F 2d 278, at 289 – 290; 211 USPQ 1 (2d Cir, 1981); 456 US 927, 102 SCt 1973 (1982).....	6.3.6
Ford Motor Co. v Greatdomains.Com.Inc 177 Supp 2d 635; 177 ALR Fed. 637 (E.D. Mich. 2001).....	6.5.2
Freedom Savings and Loan Association v Way 757 F. 2d 1176; 226 USPQ 123 (11 <sup>th</sup> Cir. 1985).....	6.3.2
Gade v National Solid Wastes Management Association 112 SCt 2374, at 2383 (1982).....	6.4.1
Goldstein v California 412 US 546 (1973); 93 Sct 2303; 37 L.Ed. 2d 163 (1973).....	6.2
Green Products Co. v Independence Corn By-Products Co. 992 F. Supp 1070 (N.D. Iowa 1997).....	6.5.5
Greyhound Corporation Et al v Goberna Et al 128 F2d 806.....	3.4
Hanover Star Milling Co v Metcalf 240 US 403, 412 (1916).....	2.2.4
Harrods Ltd v Sixty Internet Domain Names 302 F3d 214; 64 USPQ2d 1225; 53 Fed. R.	

Serv.3d 955 (4 <sup>th</sup> Cir, 2002).....	6.5.5
Hartog & Co. AS v SWIX.com 136F. Supp 2d 531; 63 USPQ2d 1086 (ED Va. 2001).....	6.5.5
Hastro Inc v Internet Entertainment Group Ltd 40 USPQ 2d 1479 (WD Wash. 1996).....	6.5.1
HMH Publishing Co. v Lambert 482 F2d 595, 178 USPQ 518 (9 <sup>th</sup> Cir. 1973).....	6.3.5
Holiday Inns Inc v Holiday Out in America 481 F2d 445, 178USPQ257 (5 <sup>th</sup> Cir. 1973).....	6.3.5
Hormel Foods Corp v Jim Henson Products 73 F3d 497, 507 (2d Cir. 1996).....	6.3.3, 6.3.4
HQM Ltd v Hatfield 71 Supp. 2d 500,507 (D. Md. 1999).....	6.5.1, 6.5.5
Hyatt Corp v Hyatt Legal Services, 736 F 2d 1153 (7 <sup>th</sup> Cir), 469 US 1019 (1984).....	6.3.2, 6.3.3
Hyatt Corp v Hyatt Legal Services, 610F Supp 381 (N.D. 111. 1985).....	6.3.6
Intermatic Inc v Toeppen 947 F Supp 1227, 40 USPQ2d 1412, 1417.....	6.5.1, 6.5.5
International News Service v Associated Press 248 US 215 (1918).....	6.2
International Paper Co. v Oullette 749 US 481, at 491 (1987).....	6.4.1
Interstellar Starship Services Ltd v Epix Inc 304 F3d 936; 64 USPQ 2d 1514 (9 <sup>th</sup> Cir. 2002).....	6.5.5
IP Lund Trading ApS v Kohl Co 163 F 3d 27; 49 USPQ 2d 1225, 1242 (1 <sup>st</sup> Cir. 1998).....	6.4.6
Jews For Jesus v Brodsky 995 F Supp 282, 46 USPQ 2d 1652 (D. N. J. 1998).....	6.5.1
Juno Online Services v Juno Klighting Inc 979 F Supp 684, 44 USPQ2d 1913 (N.D. 111 – 1997).....	6.5.1
KCPL Inc v Nash 49 USPQ2d 1584 (SDNY 1998).....	6.5.1
Kellog Co. v Exxon Corp 209 F 3d 562; 54 USPQ 2d 1413 (6 <sup>th</sup> Cir. 2000).....	6.4.5
Kellog Co. v National Biscuit Co, 305 US Ill (1938).....	6.3.3
Lockheed Martin Corp v Network Solutions Inc. 985 F. Supp 949; 44 USPQ2d 1865, 1872; 152 ALR Fed. 793 (C.D. Cal. 1997).....	6.5.1, 6.5.5
Mattel Inc v Internet Dimensions Inc 55 USPQ2d 1620, 2000 WL 973745 (SDNY 2000).....	6.5.1, 6.5.7
Mattel Inc v MCA Records Inc 296 F3d 894, 63 USPQ2d 1715 (9 <sup>th</sup> Cir. 2002).....	6.4.10
Mead Data Central Inc. v Toyota Motor Sales USA Inc., 875 F2d 1026 (2nd Cir. 1989).....	6.3.2, 6.3.3
Mishawaka Rubber & Woolen Mfg Co. v SS Kresge Co 316 US 203, at 205 (1942).....	2.2.4
Miss Universe Inc v. Patricelli 753 F 2d 235 ; 225 USPQ 272 (2 <sup>nd</sup> Cir. 1985).....	6.3.2
Morrison & Forester LLP v Wick 94 F Supp 2d 1125 (D. Solo, 2000).....	6.5.5
Moseley v Victoria’s Secret Catalogue Inc 123 S. Ct. 1115, 65 USPQ 2d 1801 (US 2003).....	6.4.3, 6.4.4, 6.4.5, 6.4.6, 6.4.7, 10.4
Nabisco Inc v PF Brands Inc 191 F 3d 208; 51 USPQ2d 1882(2d Cir. 1999).....	6.4.5, 6.4.6, 6.4.8
Nasdaq Stock Market Inc v Antartica S.r.l [available at the Trademark Trial and Appeal Board website at <a href="http://www.firstgov.gov">www.firstgov.gov</a> , Paper No. 46 GFR, Opposition No. 91121204, mailed June 30, 2003].....	6.4.3
National Board of Certification in Occupational Therapy v American Occupational Therapy Association 24F. Supp. 2d 494 (D. Md. 1998) .....	3.7
New York Stock Exchange Inc v New York, New York Hotel, LLC 293 F3d 550; 62 USPQ 2d 1260 (2 <sup>nd</sup> Cir. 2002).....	6.3.3
Nikon Inc v Ikon Corp 987F 2d 91, 25 USPQ 2d 2021 (2d Cir. 1993).....	6.3.5, 6.4.1
Northern Light Technology Inc v Northern Lights Club 236 F3d 57; 57 USPQ 1277 (1 <sup>st</sup> Cir. 2001).....	6.5.5
Panavision Intern L.F. v Toeppen 945 F. Supp 1296, 40 USPQ2d 1908 (C.D. Cal. 1996).....	6.5.1, 6.5.5
People for Ethical Treatment of Animals Inc v Doughney 113 F Supp 2d 915 (E D Va 2000); 263 F 3d 359, 60 USPQ2d 1109 (4 <sup>th</sup> Cir. 2001).....	6.5.1, 6.5.5
Pillsbury Co. v. Milky Way Productions Inc 215 USPQ 124; 1981 WL 1402 (ND Ga 1981).....	6.3.4
Planned Parenthood Federation of America Inc v Buccini 42 USPQ2d 1430 (SDNY 1997), 152 F 3d 920 (2d Cir. 1998).....	6.5.1
Platt v Union Pacific Railroad 99US48, 58 (1878).....	6.4.5
Playboy Enterprises Inc v Welles 47 USPQ 2d 1186 (S.D. Cal. 1998) 162 F.3d 1169 (9 <sup>th</sup> Cir. 1998).....	6.4.6
Polaroid Corporation v Polaroid Inc, 319 F2d 830.....	3.3.1
Ringling Bros-Barnum & Bailey Combined Shows Inc v Celozzi-Ettelson Chevrolet Inc 855 F 2d 480, 8USPQ2d1072 (7 <sup>th</sup> Cir. 1988).....	6.4.1
Ringling Bros –Barnum & Bailey Combined Shows Inc v Utah Div. Of Travel Dev 170 F 3d 449 at 458; 50 USPQ2d 1065, 1072 (4 <sup>th</sup> Cir. 1999).....	6.4.6, 6.4.8
Sally Gee Inc v Myra Hogan Inc., 699 F2d 621; 217 USPQ 658 (2 <sup>nd</sup> Cir. 1983).....	6.3.2, 6.3.4

Sears, Roebuck & Co v Stiffel & Co 376 US 225 (1964).....	6.2
Selchow & Righter Co. v McGraw-Hill Book Co, 580 F.2d 25; 198 USPQ 577 (2 <sup>nd</sup> Cir. 1978).....	6.3.3
Shields v Zuccarin 254 F3d 476, 59 USPQ2d 1207 (3d Cir. 2001).....	6.5.2
Smithkline Beckman Corp v Proctor and Gamble Co. 591 F. Supp. 1229, 223 USPQ 1230 (N.D.N.Y. 1984).....	6.3.5
Snap-On Tools Co. v. C/Net Inc., American Dairy Queen Corp v New Line Productions, 35F. Supp. 2d 727 (D. Minn. 1998) .....	3.7
Sporty’s Farm LLC v Sportsman’s Market Inc 202 F 3d 489, 497; 53 USPQ 2d 1570, 1576 (2d Cir. 2000).....	6.4.5, 6.5.2
Steinway and Sons v Demars and Friends 210 USPQ 954; 1981 WL 40530 (C.D. Cal. 1981).....	6.3.4
Strick Corp v Strickland 162 F Supp 2d 372; 60 USPQ2d 1889 (E.D. Pa. 2001).....	6.5.5
Syndicate Sales Inc v Hampshire Paper Corp 192 F 3d 633; 52 USPQ 2d 1035.....	6.4.5
TCPIP Holding Co. v Haar Communications Inc 244 F 3d 88, 96; 57 USPQ 2d 1969, (2d Cir. 2001).....	6.4.5
Three Blind Mice Designs Co v Cyrk Inc 892 F. Supp. 303, 36 USPQ2d 1001 (D. Mass. 1995).....	6.3.5
Tiffany & Co. v Boston Club Inc., 231 F. Supp 836; 143 USPQ 2 (D Mass 1964).....	6.3.2, 6.3.3
Tiffany & Co. v Tiffany Productions Inc 147 Misc 679,264 NYS459 (Sup Ct 1932).....	6.2
Toro Co v ToroHead Inc 61 USPQ2d 1164; 2001 WL1734485 (T.T.A.B. 2001).....	6.4.3, 6.4.5, 10.4
Tower Publications Inc. v MTS Inc 21 USPQ2d 1303 (N.D. 111.1991).....	6.3.5
Toys “R” Us Inc v Abir 45 USPQ2d 1944 (S.D.N.Y. 1997).....	6.5.5
Toys “R” Us Inc v Akkaoui 40 USPQ2d 1836 (N.D. 1996).....	6.5.1
Toys “R” Us Inc v Canarsie Kiddie Shop Inc, 559 F Supp 1189 (EDNY 1983).....	6.3.2
Vanity Fair Mills v T. Eaton Co. 234F 2d 633, 640 – 641 (2 <sup>nd</sup> C.1956).....	4.1
Viacom Inc v Ingram Enterprises Inc 141 F3d 886, 46 USPQ2d 1473 (8 <sup>th</sup> Cir 1998).....	6.4.1, 6.4.5
Wall v Rolls Royce of America 4Fed.333.....	
Washington Speakers Bureau Inc v Leading Authorities Inc, 33F. Supp. 2d 907; 49 USPQ 2d 1893.....	6.4.5
Westchester Media v PRL USA Holdings Inc 214 F3d 658; 55 USPQ2d 1225 (5 <sup>th</sup> Cir. 2000).....	6.4.8
Wham-O v Paramount Pictures Corp. 286 F. Supp. 2d 1254 (N.D.Ca. 2003).....	3.7
World Gym Licensing Ltd v Fitness World Inc. 47F Supp 2d 614 (D. Md. 1999).....	3.7
World Wrestling Federation Entertainment Inc v Big Dog Holdings Inc 28DF Supp. 2d 413 (W.D. Pa 2003).....	3.7

## WIPO Cases

Accor v Association Entre-Ensemble, WIPO Case No. D2001 – 0039.....	4.3.4
American Home Products Corporation v Eagle Spirit Adventures, WIPO Case No. D 2000 – 1239.....	4.3.6
America Online Inc v Frank Albanese, WIPO Case No. D 2000 – 1604.....	4.3.6
Audi AG v Hans Wolf, WIPO Case No. 0148.....	4.3.4
Avnet Inc v Aviation Network Inc, WIPO Case No. D 2000 – 0046.....	4.3.6
Bennet Coleman & Co. Ltd v Lalwani, WIPO Case No. D 2000-0014/0015.....	4.3.4
Bruce Springstein v Jeff Bugar and Bruce Springstein Club, WIPO Case No. D 2000 – 1532.....	4.3.4
CCA Indust. Inc v Dailey, WIPO Case No. D2000 – 0148.....	4.3.5
Christie’s Inc v Tiffany’s Jewelry Auction Inc, WIPO Case No. D 20001 – 0075.....	4.3.4
City Utilities of Springfield, Missouri v Ed Davidson, WIPO Case No. D 2000 – 0407.....	4.3.6
Educational Testing Service v TOEFL, WIPO Case D2000 – 0044.....	4.3.4
General Electric Co. v Forddirect.com.Inc, WIPO Case No D2000 – 0394.....	4.3.4
Ingersoll-Ranc Co. v Fank Gully, WIPO Case No. D2000 – 0021.....	4.3.4
Lockheed Martin Corp v Dan Parisi, WIPO Case No. D 2000 – 1015.....	4.3.6
Nike Inc v B.B. de Boer, WIPO Case No. D2000 – 1397.....	4.3.4
Penguin Books Limited v The Katz Family, WIPO Case No D 2000 – 0204.....	4.3.6
Port of Helsinki v Paragon International Projects Ltd, WIPO Case No. D2001 – 002.....	4.3.4

Schott Glas and NEC/Schott Components Corp. v Necschott, WIPO Case No. 2001 – 0127.....	4.3.4
Ty Inc v O.Z. Names, WIPO Case No D2000 – 0370.....	4.3.5
Wal-Mart Stores Inc v Walsucks and Walmarket Puerto Rico, WIPO Case No. D2000 – 0477.....	4.3.6
World Wrestling Federation Entertainment Inc v Bosman, WIPO Case No. D99 – 0001.....	4.3.4
Ziegenfelder Co v VMH Enterprises Inc, WIPO Case No. D 2000 – 0039.....	4.3.4

## **NAF and eRes Cases**

Automatic Data Processing Inc v Access Electronics Registrars.Com, NAF Case No. FA – 96483.....	4.3.4
Automatic Data Processing Inc v CSME Inc, NAF Case No. FA 96484.....	4.3.4
Breakthrough Software Inc v Hendrick Huigen, eRes. Case No. AF – 0122.....	4.3.6
Colgate Palmolive Co. v Domains For Sale, NAF Case No. NAF – 96248.....	4.3.4
Columbine JDS Systems Inc v Jin Lu, eRes. Case No. AF – 0137.....	4.3.6
Euroconsult Inc v Euroconsult, NAF Case No. FA-93555.....	4.3.4
Judy Larson v Judy Larson Club, NAF Case No. FA – 96488.....	4.3.4
Land O’Lakes Inc v Offbeat Media Inc, NAF Case No. FA 96451.....	4.3.4, 4.3.5
L. L. Bean v Cupcake Patrol, NAF Case No. FA – 96504.....	4.3.4
Quantum Instruments Inc v Tim Dodge, NAF Case No. FA – 96499.....	4.3.4
Shirmax Retail Ltd v CES Marketing Group Inc, Case No. NAF 0104.....	4.3.4
Space Imaging LLC v Brownwell, eRes Case No. AF – 0298.....	4.3.4
Vapor Blast Manufacturing v R & S Technologies, NAF Case No. FA 96577.....	4.3.4
Victoria’s Secret, Et Al v Atchinson Investments Ltd, NAF Case No. 96496.....	4.3.4
Victoria’s Secret, Et Al v Hostdifferent.net/Hostmaster, NAF Case No. 96500.....	4.3.4
Victoria’s Secret, Et Al v. Powerbiz, NAF Case No. 96497.....	4.3.4
Victoria’s Secret, Et Al v Serbjeet Ahluwalia, NAF Case No. FA – 96559.....	4.3.4
Victoria’s Secret v The Domain Name For Sale, NAF Case No FA – 96486.....	4.3.4
Zale Delaware Inc v Vincent Esposito, NAF Case No. FA – 96534.....	4.3.4

## **WTO Appellate Body Cases**

Canada-Measures Affecting the Importation of Milk and the Exportation of Dairy Products, Report of the Appellate Body, WT/DS103/AB/R and WT/DS113/AB/R, 13 October, 1999.....	4.2.4
Japan-Alcoholic Beverages Case, WR/D58/AB/E, Report of the Appellate Body, WT/DS10/AB/R and WT/DS11/AB/R, 4 October, 1996.....	4.2.4
United States – Standards for Reformulated and Conventional Gasolene, Report Of the Appellate Body, WT/DS2/9, 20 May, 1996.....	4.2.4

## **TREATIES AND LEGISLATION**

### **Benelux**

Benelux Trade Marks Act of 1 January, 1971.....	5.2, 5.3.2
Benelux Treaty on Trade Marks, 1971.....	5.2

### **European Union**

European Communities Directive on Comparative Advertising (EC Directive 97/55).....	3.2.1, 3.2.1, 8.2.6
---	---------------------

European Trade Mark Harmonization Directive (Council Directive 89/104/EEC) (First Council Directive of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks).....	2.2.3, 5.1, 5.2, 5.3.1, 5.3.2, 5.3.3, 5.4, 5.5, 7.1, 7.2.2, 7.2.10, 7.3.1, 7.3.2, 7.3.6, 7.3.9, 7.3.11, 7.5, 8.1, 8.4.1, 8.4.2, 8.4.3, 8.5, 9.3.1, 9.3.2.4, 10.3
European Trade Mark Harmonization Regulation (Council Regulation (EC) No. 40/94 of 20 December 1993 on the Community Trade Mark).....	5.1, 5.2, 5.3.1, 5.3.2, 5.3.3, 5.4, 5.5.7.1, 7.2.2, 7.2.10, 7.3.1, 7.3.2, 7.3.9, 7.3.11, 7.5, 8.1, 8.4.1, 8.4.2, 8.4.3, 8.5, 9.3.1, 10.3

## Germany

Act Against Unfair Competition of 1896 (Germany) (UWG).....	7.1, 7.2.3, 7.2.5, 7.2.6, 7.2.7, 7.2.10, 7.4, 7.5, 10.5
Civil Code (Germany).....	7.1, 7.2.3, 7.2.4, 7.2.5, 7.2.7, 7.2.10, 7.4, 7.5, 10.5
German Trademark Act of 12 May, 1894 (WZG).....	7.1, 7.2.1, 7.2.2, 7.2.3, 7.2.10, 7.3.7, 10.3, 10.5
German Trademarks Act of October 25, 1994.....	7.1, 7.2.10, 7.3.1, 7.3.2, 7.3.3, 7.3.4, 7.3.5, 7.3.6, 7.3.7, 7.3.8, 7.3.9, 7.3.10, 7.3.11, 7.4, 7.5, 9.3.1, 10.5

## South Africa

South African Trade Marks Act 194 of 1993 as amended by the Intellectual Property Laws Amendment Act 38 of 1997.....	5.1, 9.1, 9.3.1, 9.3.2.1, 9.3.2.2, 9.3.2.3, 9.3.2.4, 9.3.2.5, 9.3.2.6, 9.3.2.7, 9.4, 10.7
Constitution of the Republic of South Africa.....	9.3.2.6

## United Kingdom

United Kingdom Trademarks Act, 1994.....	1, 5.5, 8.1, 8.2.3, 8.4.1, 8.4.2, 8.4.3, 8.4.4, 8.5, 9.1, 9.3.1, 9.3.2.1, 9.3.2.4, 9.4, 10.6
Trade Marks (Proof of Use) Regulations, 2004 (No. 946).....	5.5, 8.1, 8.4.1

## United States of America

Alabama, Ala Code § 8 - 12 - 17, (Supp 1983).....	6.3.1
Anticybersquatting Consumer Protection Act of the United States of America .....	4.3.3, 4.3.4, 6.5.2, 7.4, 7.5, 8.5, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7
Arkansas, Ark Stat Ann §70 – 550 (1979).....	6.3.1
California, Car Bus & Prof. Code §14330 (West Supp 1984).....	6.3.1
Connecticut, Conn Gen Stat Ann §35 – 111 (c) (West 1981).....	6.3.1
Delaware, Del Code Ann Tit. 6 - §3313 (Supp 1982).....	6.3.1
Federal Trademark Dilution Act, 1996 (Lanham Act, 15 USCA 1125 (c) (l)).....	6.4, 6.4.2, 6.4.3, 6.4.10, 6.4.11, 6.5.1, 6.5.2, 6.5.4, 7.3.1, 8.4.3, 8.4.4, 9.4, 9.3.2.4, 10.2, 10.3, 10.4
Florida, Fla Stat Ann §495.151 (West 1972).....	6.3.1
Georgia, Ga Code §10 – 1 – 451 (b) 1982).....	6.3.1
Idaho, Ida Code §48 – 512 (1977).....	6.3.1
Illinois, Ill Rev Stat Ch 140, §22 (1984).....	6.3.1
Iowa, Ia Code Ann §548.11 (2) Supp 1983).....	6.3.1
Maine, Me Rev Stat Ann Tit 10, §1530 (1980).....	6.3.1

Massachusetts, Mass Gen Laws Ann. Ch 110B, §12 (West Supp 1983).....	6.3.1
Missouri, Mo Ann Stat §417.061 (Vernon 1979).....	6.3.1
Montana, Mont Code Ann §30 – 13 – 334 (1983).....	6.3.1
Nebraska, Neb Rev Stat §87 – 122 (1981).....	6.3.1
New Hampshire, N.H. Rev Stat Ann §350 – A:12 (Supp 1981).....	6.3.1
New Mexico, N.M. Stat Ann §57 – 3 – 10 (1978).....	6.3.1
New York, N.Y. Gen Bus Laws §368-d (McKinney 1968).....	6.3.1
Oregon, Or Rev, Stat §647 – 107 (1981).....	6.3.1
Pennsylvania, 54 Pa Cons Stat Ann §1124 (Purdon Supp 1983).....	6.3.1
Restatement [Third] of Unfair Competition [1995].....	2.2.4, 6.3.1, 6.3.5, 6.4.5
Rhode Island, R.I. Gen, Laws §6 – 2 – 12 (Supp 1983).....	6.3.1
Tennessee, Tenn Code Ann §47 – 25 – 433 (Supp. 1983).....	6.3.1
United States Trademark Dilution Revision Act, 2005, HR. 683.....	10.4, 10.5

## TREATIES AND MODEL LAWS

Agreement on Trade-Related Aspects of Intellectual Property Rights 1 January, 1995 (WIPO Publication No. 223 (E) (2002)).....	4.2.4, 4.2.6, 7.1, 7.3.1, 7.3.9, 7.3.10, 7.3.11, 7.5, 8.4.2, 8.4.3, 9.3.1, 9.4, 10.2
Joint Recommendation Concerning Provisions on the Protection of Well-known Marks, 20-29 September, 1999.....	4.2.6, 4.3.1
Model Provisions for Protection Against Unfair Competition (WIPO Publication 832 (E)).....	4.2.5
Paris Convention for the Protection of Industrial Property, 1883.....	4.2.1, 7.2.3, 7.3.1, 7.3.2, 7.3.8, 7.3.10, 7.3.11, 9.3.1
The Madrid Agreement Concerning the International Registration of Marks, 14 April, 1891 (WIPO Publication No. 204 (E) (2002)).....	4.2.2
The Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, Madrid 27 June, 1989 (WIPO Publication No. 204 (E) (2002)).....	4.2.2
Trademark Law Treaty, 27 October, 1994 .....	4.2.3
Vienna Convention on the Law of Treaties, 1969.....	4.2.4

## RESOLUTIONS

International Trademark Association Board of Directors <i>Resolution on Anti-Cybersquatting</i> of 26 May, 1999, available at <a href="http://www.inta.org/boardresolutions">www.inta.org/boardresolutions</a> , last visited on 27 September, 2004.....	4.3.2
International Trademark Association Board of Director’s <i>Resolution on Comparative</i> <i>Advertising</i> 3 March, 1998.....	4.2.5
International Trademark Association Board of Directors <i>Resolution on Support for an Authoritative</i> <i>Root for the DNS and Domain-Naming Systems that Accurately Convey All of the Levels of a</i> <i>Domain Name</i> of 7 November, 2001, available at <a href="http://www.inta.org/boardresolutions">www.inta.org/boardresolutions</a> , last visited on 27 September, 2004.....	4.3.2
International Trademark Association Board of Director’s <i>Resolution on Well-Known Marks</i> <i>Protection</i> 18 September, 1996.....	4.2.6
International Trademark Association Board of Directors <i>Unfair Competition Resolution</i> .....	10.2

## RULES AND REPORTS

Dispute Resolution Provider – WIPO’s Supplemental Rules <a href="http://www.arbiter.wipo.int/domains/registrar/index.html">http://www.arbiter.wipo.int/domains/registrar/index.html</a> , last visited on 1 <sup>st</sup> September, 2004.....	4.3.4
House Judiciary Committee Report on H.R. 3028, H.R. Rep. No. 106 – 412 pp 5 – 6 (October 25, 1999).....	6.5.3, 6.5.5
Memorandum of Understanding Between the US Department of Commerce and Internet Corporation for Assigned Names and Numbers, available at <a href="http://www.ntia.doc.gov/ntiahome/domainname/icann-memorandum.htm">http://www.ntia.doc.gov/ntiahome/domainname/icann-memorandum.htm</a> , last visited 1 <sup>st</sup> July, 2004.....	4.3.3
Memorandum on the Objects of the Draft South African Trade Marks Bill (1992).....	9.3.2.1
National Arbitration Forum – NAF Supplemental Rules <a href="http://www.arbforum.com/domain/domain-guide.asp">http://www.arbforum.com/domain/domain- guide.asp</a> , last visited on 1 <sup>st</sup> September, 2004.....	4.3.4
Rules for Uniform Domain Name Dispute Resolution Policy [available at <a href="http://www.icann.org/udrp/udrp-rules-24-Oct-99.htm">www.icann.org/udrp/udrp-rules - 24 Oct. 99.htm</a> , last visited on 1 <sup>st</sup> October, 2004].....	4.3.4
Supplemental Rules of eResolutions <a href="http://www.eresolution-ca/services/dnd/arb.htm">http://www.eresolution-ca/services/dnd/arb.htm</a> , site last visited on 1 <sup>st</sup> September, 2004.....	4.3.4
Supplemental Rules of the CPR Institute for Dispute Proceedings, see <a href="http://www.cpradr.prg/ICANN-Menu-htm">http://www.cpradr.prg/ICANN-Menu-htm</a> , last visited on 1 <sup>st</sup> September, 2004.....	4.3.4
The 1987 Trademark Review Commission Report [1987] 77 TRADEMARK REP. 375.....	6.4.5, 6.4.12
Uniform Dispute Resolution Policy of the Internet Corporation for Assigned Names and Numbers.....	10.2, 10.3, 10.4
United States Trade Mark Association Commission Report [1987] 77 TRADEMARK REP. 455.....	3.3.1
WIPO Publication No. 439 (E), Management of Internet Names and Addresses: Intellectual Property Issues - “The WIPO Report”.....	4.2.6, 4.3.2, 4.3.3
WIPO Publication 725 (E) (1994), “Protection Against Unfair Competition: An Analysis of the Present World Situation”.....	4.2.5
WIPO Update 239 “WIPO Continues Efforts to Curb Cybersquatting” [18 February, 2005], available at <a href="http://www.wipo.int/edocs/prdocs/en/2005/wipo_upd_2005-239.html">http://www.wipo.int/edocs/prdocs/en/2005/wipo_upd_2005-239.html</a> , last visited on 28 <sup>th</sup> October, 2005 .....	4.3.7

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