

## CAN THE OWNER OF A MARK REGISTERED FOR TOY CARS PROHIBIT THE MANUFACTURE AND SALE OF TOY CARS WHICH CONSTITUTE NATURALISTIC REPRODUCTIONS OF REAL CARS ON WHICH THE OWNER'S MARK APPEARS?

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### I. INTRODUCTION

Can the owner of a trademark registered for toy cars (hereinafter “model cars”) prohibit the manufacture and sale of model cars which constitute naturalistic reproductions of real cars (hereinafter “automobiles”) on which the owner’s mark appears? We conclude that the manufacturers of model cars should be free to make and sell naturalistic reproductions of automobiles to which they have affixed relevant automobile trademarks even though the mark may be owned by another entity seeking to prevent such use. This is true where the trademark is affixed to the model’s visible exterior as a descriptive, or referential, element of the automobile’s design (hereinafter the “Detail Trademark”):



as opposed to the underside of the model car to guarantee source of origin (hereinafter the “Origin Trademark”):



Moreover, finding that the referential use of the Detail Trademark is non-infringing is on such solid theoretical ground that European Community Law should provide the certainty, consistency, and predictability necessary to prevent automobile manufacturers, who generally own the rights to their automobile trademarks in the “Scale Models of Motor Cars” class<sup>1</sup> from dominating the model car industry through an expansion of their existing rights.

European Community law, however, currently provides that the owner of a trademark registered for model cars *could* potentially prohibit the manufacture and sale of model cars displaying the owner’s mark as a Detail Trademark depending on the jurisdiction and the perceptions of consumers in local markets.<sup>2</sup> The body of law comprising the European Court of Justice’s jurisprudence on this issue is therefore far from clear and decisive. Indeed, although the ECJ could have provided a more definitive solution to this conundrum in deciding the 2007 case *Opel v. Autec* by finding that decorative applications of trademarks are beyond the scope of Article 5(1), ultimately the Court declined to employ a trademark use requirement

in favor of protracted, costly, and unpredictable factual assessments of local markets by national courts. In so doing, the Court left the matter essentially unresolved and invited inconsistent results concerning what types of uses are infringing.<sup>3</sup>

Answering the question posed requires an analysis of legal issues at the very heart of trademark theory such as what constitutes trademark use and whether descriptive, decorative, or referential use may also be considered infringing. Of fundamental concern is the appropriate balance between the trademark owner's interests and those of competitors, third-party businesses, and the marketplace. A heated debate has been developing over the past few years and the tension between the two sides is manifest in both European and American discourse and jurisprudence.<sup>4</sup> While some scholars submit that trademarks should be protected from a broad array of unauthorized uses by third parties, and that the optimal way to accomplish this is for the courts to conduct comprehensive analyses of the impact each use has on consumer confusion, others assert that trademarks are registered for certain limited purposes – to distinguish goods and services – and should therefore remain generally available to third parties for other uses as a matter of law.<sup>5</sup>

For purposes of infringement analysis, certain courts, such as those influenced by the Chicago School of law and economics, support the application of a “trademark use requirement.”<sup>6</sup> Generally, this approach requires plaintiffs in trademark infringement cases to demonstrate that a defendant made a “trademark use” of its validly registered mark as a threshold requirement prior to factual discovery concerning markets and consumer perceptions. Advocates submit that this approach provides a straightforward, objective, and, most importantly, efficient, means of determining whether consumers are likely to look to the defendant's use of a symbol for information about the source of origin – whether consumers are likely to be confused or deceived. As we shall see, applying a trademark use requirement raises corresponding concerns about the value of registering an automobile trademark in the model car class for what is, in practice, use primarily as a Detail Trademark.

Applied more frequently by courts in trademark infringement litigation is a test focused squarely on the likelihood of consumer confusion caused by a particular use. This approach moves the analysis beyond the purely legal question of whether a trademark use has been made by a defendant to the assumption that *any* use can be infringing so long as the trademark owner can demonstrate that it raised the level of confusion in the marketplace a certain intolerable degree, thereby diminishing the ability of the trademark to perform its “essential” function.

Although the interests of a well-functioning trademark system, and society as a whole, would be better served by consistent application of one or the other approach in infringement litigation across jurisdictions, choosing a winner is unnecessary here and, indeed, beyond the scope of our analysis. For our purposes, the answer to the question posed is the same under either approach. Nevertheless, as we shall see, had the ECJ resolved the legal questions raised in *Opel v. Autec* by focusing on the actual use of the mark, or by applying a strict trademark use test, it could have increased the overall level of efficiency in the marketplace while tolerating marginally higher levels of confusion in the minds of consumer until market forces had an opportunity to respond and adjust.

## II. TRADEMARK BACKGROUND

### a. Overview

Trademarks are signs or symbols used to distinguish the goods or services of one enterprise from those of other enterprises in commerce.<sup>7</sup> Other related or corresponding functions generally attributed to trademarks including the tendency they have to reinforce consistent levels of product quality, to represent businesses goodwill, and to function as tools for advertising products by fostering thoughts or emotions in the minds of consumers.

From the Chicago School, however, we understand that the fundamental value of trademarks is their ability to reduce consumer search costs which, in turn, promotes efficiency in the marketplace.<sup>8</sup>

Trademarks facilitate consistent and lasting associations in the minds of consumers between brands and quality, providing consumers with valuable information concerning goods and services. Trusting a reliable trademark is, of course, less costly and time consuming for the consumer than conducting research and assuming associated risks while relying primarily on asymmetric information at the point of each purchase decision. Informed consumers will generally make better decisions as a result and this will, in turn, increase the overall utility of the products purchased while simultaneously pushing producers to develop higher quality goods and services – or at least to maintain appropriate price-quality relationships.<sup>9</sup> The public therefore benefits from the trademark system insofar as the establishment and maintenance of a mark facilitates the flow of reliable information, encourages higher and more consistent product quality, and reduces social waste and consumer deception.

The trademark system's effectiveness in performing these functions makes it extremely valuable to the marketplace. While, for obvious reasons, trademark owners view the objective of the trademark system to be the protection of the investment in their company's goodwill, in fact the guiding principle the trademark system must be continued reduction of consumer search costs. Trademark doctrine must therefore always consider first the costs and benefits that accrue to the marketplace as a whole and not only the interests of trademark owners. The scope of the rights protected by trademark law must therefore be narrower and more context-specific than in the case of patents, trade secrets, and copyrights. Indeed, other intellectual property rights are generally understood to bestow far-broader, although time-limited, protection from unauthorized use than trademarks in order to achieve their policy objectives. Illustrative of the theoretical difference between trademarks and other IPRs is, for example, the fact that trademark owners are not granted property rights in their trademarks.<sup>10</sup> As a result, owners of trademarks in the United States, for example, are not permitted to sell or otherwise assign their trademarks in gross, or separate from their business goodwill.<sup>11</sup>

To fully realize the benefits of trademarks, it is imperative that the legal system provide clear rules and strong protection since the cost of misappropriating a trademark is undoubtedly less than the potential profit to a concern from confusion with another firm's superior reputation. Clarity in enforcement increases the entire system's effectiveness by strengthening the message trademarks carry and reinforcing their trustworthiness. Whether by protecting established trademarks from potentially confusing appropriation by third parties or by streamlining the litigation process through application of a trademark use requirement, the law must facilitate an honest, open, inexpensive, and consistent dialogue between producers and consumers. From a clear and reliable system both sellers and buyers benefit: producers can invest in their brand's goodwill with the confidence that trademark infringement will be prevented while consumers can be confident that they are receiving what they expect in the marketplace. In the absence of clear and reliable enforcement, excessive free-riding would inevitably corrupt the information capital embodied in a trademark; even more destructive, the threat of an intolerable amount of free-riding could reduce the incentive for companies to invest in their goodwill in first place.<sup>12</sup>

A trademark is merely a symbol of goodwill and has no independent value apart from it. Chief among the concerns when answering the question posed is sound competition policy. For example, stretching the right to prevent third-party use of a word or symbol in additional contexts – even those not signalling origin – would inadvertently bestow unjustified legal power to trademark proprietors over “downstream” markets thereby conferring unwarranted competitive advantages over neighboring markets for goods and services.<sup>13</sup> While the tension between trademarks and free competition is less alarming than in other fields of intellectual property law where the rights granted could be, if too broad or impenetrable, severely antagonistic to healthy competition, trademarks can also have a negative impact on competition if not properly understood or respected. Rather than accruing to their owner a monopoly over a certain product, creation, invention, good, or service, trademarks protect information *about* goods and services and should therefore *facilitate* consumer access to the goods or services with which they are associated. A properly functioning trademark system therefore assists, rather than inhibits, competition and trademark law represents an affirmation of, rather than a departure from, the competitive model. The danger, however, is clear: unenlightened and poorly calibrated trademark law, as in other fields of intellectual property, would have an anticompetitive influence on the public's access to goods, services, and markets.<sup>14</sup>

It is axiomatic that, absent extraordinary circumstances, competition is beneficial to the marketplace and deserves careful consideration when resolving disputes between rights owners and third parties.<sup>15</sup> While it has been argued that the ECJ does not sufficiently consider preserving, let alone fostering, competition in its interpretation of Community Law (except with respect to the anticompetitiveness inherent in granting protection to overly-descriptive marks), failure to do so could lead to unintended results that contradict the very purpose of granting control over the use of signs and marks in the first place and actually enable their use as swords rather than signals in the battle to dominate additional markets and goods.<sup>16</sup>

## ***b. The Essential Function: “Use as a Trademark”***

The point has been correctly made that if trademark law were properly calibrated, it would enable rights owners to prevent use by third parties in more limited contexts than other IPRs and with respect to specific types of uses only.<sup>17</sup> This approach is supported by the argument that, in principle, trademark protection aims to confer exclusivity over symbols rather than over goods, services, or markets and that the cost of overly broad protection is an anticompetitive restriction on the flow of information through the marketplace, even preventing would-be participants from accessing markets entirely. As we will see, however, courts occasionally venture beyond the core principles of trademark law to bestow what may be regarded as anticompetitive or even monopolistic power unjustified by trademark theory.<sup>18</sup> In order to ensure trademark law stays true to its mission, it is therefore necessary to consider the essential function for which the right to exclude is granted – the so-called “use as a trademark.”<sup>19</sup>

Unfortunately, the Trademark Directive fails to define “trademark use.” Scholars have observed that it is ironic that “such an essential criterion in the hierarchy of criteria necessary to establish an infringement was paid such little attention during the drafting process.”<sup>20</sup> Indeed, if this one criterion is not satisfied, a dispute should not – although sometimes does – fall within the web of European trademark law.<sup>21</sup> Although the term “trademark use” is not explicit in the Directive, the concept flows from Article 5 where infringement is defined as the use of marks “in the course of trade” in a manner that conflicts with the essential functions of the trademark.<sup>22</sup> The legal protection of marks must be connected to a mark’s ability to distinguish a good or service; the importance of this criterion is justifiably recognized as the conceptual foundation of trademark theory. The determination of whether a sign was used as a mark at all is therefore an obvious and indispensable step in assessing whether a use was infringing.<sup>23</sup>

The ECJ first addressed the question of trademark use in the case of *BMW v. Deenik* where it considered whether the use of the BMW trademark by a third-party automotive service center to identify a characteristic of its own service infringed the registered mark. In defining trademark use as a “use for the purpose of distinguishing and identifying goods or services as originating from a particular undertaking,” the Court found that it did.<sup>24</sup> The Court defined trademark use under the Directive as use which caused consumers to infer the existence of a material link in the course of trade between a concern and its goods or services.<sup>25</sup> Indeed, in deciding *BMW*, the ECJ properly required a trademark use to find infringement, but did so in the broadest sense: the Court found that the mark must be used to indicate the origin of *either* of the parties’ goods or services – not necessarily those of the alleged infringer. Thus, in *BMW*, the Court concluded that conduct now generally described as “referential use” was trademark use in violation of Article 5 even though we may safely conclude that consumers were not confused about the origin of the goods or services and that the flow of useful information to the consumer was likely facilitated, not corrupted, by the defendant’s use.<sup>26</sup> The *BMW* Court found, however, that the actual confusion engendered by use of a registered trademark by a third party is secondary and that the only questions to be answered are whether there was a use to describe an essential characteristic of the goods or services offered and, if so, whether the use was authorized.<sup>27</sup>

## ***c. Referential Use and Embellishment***

Straightforward trademark infringement cases typically involve the unauthorized use of a trademark by a third party seeking to confuse consumers as to the origin of goods or services offered for sale – to blur in the minds of consumers the third-party’s products with those of the trademark proprietor, presumably to

exploit the owner's superior reputation. In such cases, infringement must be found to prevent third-party users from deceiving the public and diluting the power of the trademark to convey essential information about the relevant good or service.

There are many trademark uses other than those identifying and distinguishing goods and services, however, and each presents challenges for courts, trademark owners, and third parties seeking to use trademarks not to confuse or deceive, but rather to convey information in good faith.<sup>28</sup> Two common uses relevant to our analysis are frequently referred to as referential, or broadly speaking descriptive, use and embellishment.

## *i. Referential Use*

In an effort to strike the appropriate balance between the power granted to trademark owners and the public's interest in a healthy public domain, courts must establish the appropriate scope of the right to prevent use by third parties for purposes other than identifying or distinguishing goods. One category of such uses are so-called referential uses which include, for example, affixing a trademark to an article of clothing not to indicate origin, but rather to enable the wearer to display appreciation or loyalty for the brand associated with the mark.<sup>29</sup> Frequently, trademark owners seek to prevent such uses by third parties, whether to protect their brand's image or to capture the economic benefits represented by the use. Defendants typically respond by arguing that referential use is not infringing. The ECJ has been asked to consider these questions but has responded with a somewhat inconsistent body of jurisprudence.

After *BMW*, the ECJ revisited the question of trademark use in *Arsenal v. Reed*, in which the Court opined on whether the unlicensed use of the famous English football club's trademark by a third party on sports merchandise constituted infringement.<sup>30</sup> The English Court referred to the ECJ the question of whether a valid defense to allegations of infringement existed where the use does not indicate trade origin but rather satisfies some other purpose.<sup>31</sup> While plaintiff alleged that defendant infringed its rights by appropriating its trademark for use on goods identical to those it produced, defendant argued that its use of the mark was not a "trademark use" and that consumers would not interpret the mark as signifying the origin of the goods but rather recognize it as a "badge of support, loyalty or affiliation."<sup>32</sup> Defendant argued that such referential uses are beyond the scope of Article 5 and should be permitted.

In rejecting defendant's argument, the ECJ concluded simply that "where a third party uses in the course of trade a sign which is identical to a validly registered trade mark on goods which are identical to those for which it is registered, the trade mark proprietor of the mark is entitled . . . to rely on [Article (5)(1)(a) of the TMD] to prevent that use."<sup>33</sup> The Court found that "[i]t is immaterial that, in the context of that use, the sign is perceived as a badge of support for or loyalty or affiliation to the trade mark proprietor."<sup>34</sup> The ECJ thus found that it was of little significance whether there was *another* use implied by the defendant's appropriation of the mark, in this case a descriptive use; it was sufficient only that an identical mark was affixed to identical goods.<sup>35</sup>

Although the question referred by the English court was whether use as a trademark was necessary to find infringement, the ECJ did not answer this question directly but instead focused its attention on the likelihood of confusion in the marketplace, finding that the use was infringing because "[t]he use of a sign which is identical to the trade mark at issue in the main proceedings is liable to jeopardise the guarantee of origin which constitutes the essential function of the mark.... It is consequently a use which the trade mark proprietor may prevent in accordance with Article 5(1) of the Directive."<sup>36</sup> Importantly, although such questions are clearly matters of fact that should be referred to national courts, the ECJ also found that the average consumer in the relevant local market perceived that goods bearing the football club's marks had an economic link of some sort with the trademark owner.<sup>37</sup>

In so holding, the ECJ rejected the non-trademark use defence in support of a test based more broadly on the likelihood of, or potential for, consumer confusion. In elevating the potential for consumer confusion over liberal competition in the marketplace on its list of priorities, the Court rejected a strict trademark-use test in cases arising under Article 5(1). Indeed the ECJ found that the analysis of whether the

defendant was making a referential (*i.e.*, non-trademark) use of the mark wasn't definitive. Rather, the appropriate test is whether a particular third-party use of a mark has a damaging effect on the mark's ability to function as a trademark for its owners' goods or services. The ECJ cared less about whether the actual use itself implicated the "essential function" of the trademark (*i.e.*, distinguishing the origin of the goods) than about whether, as a result of the defendant's use, the owner's mark was subsequently less able to distinguish the goods and services due to increased confusion in the minds of consumers. In sum, the ECJ didn't look at the character of the use by the third party but rather at the impact of the use on the trademark itself.

According to the Court's decision, the Directive does not require use as a trademark to find infringement but rather only that the third-party use "creates the impression that there is a material link in trade between the third party's goods and the undertaking from which those goods originate."<sup>38</sup> *Arsenal* thus provides that uses other than distinctive trademark uses can cause confusion impairing a trademark's ability to guarantee source of origin, and that such impairment is more harmful to the marketplace than other implied costs such as protracted litigation by trademark owners and the chilling effect the threat of litigation can have.<sup>39</sup> As a practical matter, however, if consumers do not perceive the defendant's mark as distinguishing goods or services, there should be no basis on which to find the existence of increased confusion.

In questioning the concept of referential use, some critics have asked whether a fundamental difference truly exists between referential use and trademark use that distinguishes such descriptive use from unauthorized copying and infringement. For example, critics have pondered the difference between real and counterfeit handbags and why the trademark placed on the third-party bag can't also be also considered "descriptive use."<sup>40</sup> The answer is likely found in the relationship between the goods themselves. Counterfeit handbags are substitutes for the authentic bags on which they are based and, while consumers are not typically confused between the actual origin of the two given the often dramatically different price points and markets in which they are sold, nevertheless the classification is the same and the "descriptive" use of the trademark is clearly motivated by the desire to deceive. Indeed, there is no benign or good-faith justification for making and selling counterfeit Gucci handbags other than a desire exploit Gucci's reputation. For our purposes, model cars clearly perform a function independent from automobiles so a fundamental distinction exists.<sup>41</sup>

## ***ii. Embellishment***

The use of a mark as an embellishment is another type of trademark use relevant to our analysis. The question of whether embellishing uses of trademarks violate Article 5 was addressed by the ECJ in *Adidas Salomon v. Fitnessworld Trading LTD*, in which the Court considered the proper scope of European dilution protections. Specifically, the Court considered the impact on infringement analysis when "consumers see a sign purely as an embellishment."<sup>42</sup> In interpreting the Directive, the Court opined that, where a later use of a mark is viewed purely as an embellishment, it cannot have any link with a registered mark with the result that one of the conditions of protection conferred by Article 5(2) of the Directive would not be satisfied.<sup>43</sup> In evaluating the practical impact of the case, it has been argued that the ECJ effectively introduced a trademark use requirement.<sup>44</sup>

The ECJ did not define the term embellishment in *Adidas*, although the Advocate General appears to use the term synonymously with decorative use.<sup>45</sup> The AG opined that Article 5(5) was intended to redress provisions of national law in areas other than trademark regulation, such as unfair competition and comparative advertising.<sup>46</sup> It follows from that provision, he concluded, "that the regulation of non-trade mark use of a sign which without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of a trade mark is not governed by the Directive. Such use cannot therefore fall within Article 5(2)."<sup>47</sup> The Advocate General further opined that:

The question therefore is whether a sign may be correctly regarded as "used for the purpose of distinguishing goods or services" where it is viewed purely as a decoration by the relevant section of the public. It seems to me that that question must be answered in the negative. If

the relevant section of the public perceives a given sign as doing no more than embellishing goods, and in no way as identifying their origin, that sign cannot be regarded as used for the purpose of distinguishing those goods.<sup>48</sup>

Purely decorative use would therefore *not* be viewed as a trademark since the fact that consumers only viewed the mark as decorative meant that they did not interpret it to be an indication of source.<sup>49</sup>

The ECJ, however, elaborated on the issue, stating 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.<sup>50</sup>

Under what circumstances consumers would or would not make this connection is left unanswered by the Court.

The embellishing use of a trademark has also been addressed in United States case law. In *Interactive Products Corp. v. A2 Z Mobile Office Solutions*, for example, the 6<sup>th</sup> Circuit found that use of a registered trademark on a book cover is a non-trademark use if the mark is merely descriptive of the book's subject matter and the actual source of the book is clearly indicated.<sup>51</sup> Thus, under U.S. law, if a defendant uses a trademark in a "non-trademark way," the laws of infringement and false designation are also not implicated.

Other examples of descriptive or referential use or embellishment with potentially infringing characteristics can frequently be found in contemporary art. Indeed, with its focus on the topic of consumerism, American Pop Art after 1945 is rife with trademark appropriation. Andy Warhol's 1962 Campbell Soup Cans, for example, provide little information to the viewer other than reproducing images of the food company's products and trademarks. Moreover, Warhol's purpose was undoubtedly commercial, at least in part. Nevertheless, Warhol was neither competing with Campbell nor was he confusing consumers as to the origin of his or Campbell's products. It is likely that such uses, if challenged, would be considered non-trademark and non-infringing use, if not fair use.<sup>52</sup>

### III. INFRINGEMENT ANALYSIS

#### a. *Trademark Use Requirement*

Realizing the trademark system's full potential is not an easy task and the evolution of trademark law reflects a perpetual recalibration in an effort to maximize the informational value of marks while avoiding their propensity to facilitate anticompetitive conduct.<sup>53</sup> To effectively perform a trademark's primary function of lowering search costs for consumers, trademark use by third parties should be precluded only when the use causes significant confusion over origin.<sup>54</sup> One way to ensure this is for courts to apply a strict "trademark use" test, providing that a plaintiff must demonstrate as a preliminary matter that an alleged infringing use involved the misappropriation of their mark for use as a trademark and not in another, non-origin signaling way. Supporters of the so-called trademark-use requirement believe that limiting the court's analysis at the outset to a preliminary assessment of trademark use, such that any use aside from a trademark use would be presumptively permissible, enhances valuable legal certainty.

A requirement that plaintiffs demonstrate use as a trademark by a third party would thus serve as a preliminary threshold limiting trademark litigation to those cases in which potential consumer confusion is likely to be material and substantially detrimental. Proponents argue that the trademark use requirement tailors infringement causes of action to ensure that enforcement serves its purpose without interfering unnecessarily with the flow of otherwise useful market information. The requirement also shelters certain unauthorized but beneficial uses of marks without necessitating a factual inquiry into the issue of consumer confusion.<sup>55</sup> In practice the theory subjugates broad protection for trademark owners and the

value to them in reducing confusion in favor of more information, greater legal certainty, reduced enforcement costs *ex ante*, and less anticompetitive conduct by trademark owners seeking to expand their control over their goods and services or neighboring industries.

Trademark doctrine must, of course, always justify an owner's right to exclude other entities from using a particular sign. The system must therefore be guided by an effort to increase its value to the marketplace and to the public rather than on merely bestowing rewards or benefits to complaining firms. Proponents argue that trademark use theory accomplishes numerous related objectives. First, pursuant to trademark use theory, courts are charged with the responsibility of establishing the existence of trademark use as a matter of law, rather than of consumer perception as a matter of fact, in order to identify and dispose of cases in which the degree of consumer confusion at issue fails to justify the potential for anticompetitive conduct, the increased unpredictability of enforcement, and the chilling effects of protracted litigation. Although the market may be forced to adjust to some greater degree of confusion, it would simultaneously benefit from additional activity by market participants seeking to make socially beneficial uses of marks in good faith.

Jurisdictions vary concerning their willingness to apply a trademark use requirement to infringement litigation. English courts are more amenable to the theory than other European courts, often determining early in infringement litigation whether conduct has been infringing as a matter of law in order to avoid factual analysis of consumer confusion in a relevant market.<sup>56</sup> As we shall see, had the ECJ opted to avail itself of the efficiencies of the trademark use requirement system, model car manufacturers in need of access to Detail Trademarks would not be liable for infringement, nor would they be intimidated *ex ante* by the devastating impact of trademark enforcement litigation. Without it, however, they could eventually lose the market entirely to large concerns willing to battle over infringement alleged on the basis of descriptive uses of their trademarks. Indeed, according to trademark use theorists, without the "use as a trademark" requirement for finding infringement, trademark owners could accrue through aggressive litigation an unjustified monopoly over their marks and, in turn, over goods and markets.<sup>57</sup>

## ***b. Likelihood of Confusion***

As we have discussed, trademarks are not property rights but limited entitlements to protect owners against uses that diminish the informative value of their marks.<sup>58</sup> Trademark law historically limited itself to preventing uses of marks that "defraud[ed] the public" by confusing people into believing that an infringer's goods were produced or sponsored by the trademark holder.<sup>59</sup> Confusion does not necessarily ensue from every instance of third-party appropriation of a registered trademark; rather, it turns on a long and complicated analysis of many factors such as competitive proximity, relevant consumer sophistication, and other factors that explore to what degree, if any, a use will create a false association in the minds of consumers thereby distorting the information in the marketplace. Certainly, when the average relevant consumer is confused, the ability of a trademark to function has been impaired. Many courts and scholars maintain that such impairment must be prevented notwithstanding the increased costs so disliked by trademark use theory.

The ECJ's 2007 decision in *Opel v. Autec* appears to move ECJ further away from trademark use theory.<sup>60</sup> In *Opel*, plaintiff automobile manufacturer sued remote-control model car manufacturer Autec in German District Court for trademark infringement alleging that it had wrongfully manufactured and sold a 1:24 scale model based on an Opel to which it had affixed the Opel "Blitz" figurative trademark in the same place where it is found on the automobiles, *i.e.*, as a Detail Trademark. In its defence, Autec argued that the use of the Blitz logo on its remote-controlled cars was not "use as a mark" and that it therefore could not be held to have infringed Opel's trademark under the German trademark statute. The defendant's own trademark, together with its trade name and addresses, were displayed on the remote control device for the cars as well as on the packaging and user instructions. Indeed, Autec was correct that such referential use was not, in fact, use as a trademark and, in a system incorporating trademark use theory, the litigation would likely have ended in the preliminary stages as a matter of law.



Seeking guidance from the ECJ, the German district court referred the question of whether the use of the Opel sign constituted “use as a mark” and, if not, whether such use was preventable.<sup>61</sup> In his opinion, Advocate General Ruiz Jarabo Colomer found that “use for toys of a registered sign does not constitute use as a trade mark within the meaning of Article 5 of [the Trademark Directive], where the manufacturer of a toy car copies a real car in a reduced scale, including the proprietor’s trade mark and markets it since the activity of creating models consists basically in making an accurate and detailed copy of reality.”<sup>62</sup> “According to the case-law,” the AG explained, “references made to trade marks for purely descriptive purposes do not constitute use as a trade mark since, in such situations, there is no infringement of any of the interests which Article 5(1) is intended to protect.”<sup>63</sup> The Advocate General referring to, *inter alia*, the decision in *Hölterhoff v. Ulrich Freiesleben*, in which the ECJ adopted Advocate General Jacob’s conclusions that

[w]here a sign identical or similar to a registered trade mark is used by a competitor for a purpose other than [the] essential function [of identifying goods and services] it is much more difficult to see why the proprietor should be entitled to prevent such use. And, as has been pointed out in the observations to the Court, both the wording of Article 5(5) of the Trade Marks Directive and the judgment in *BMW* support the view that the use which may be prevented under Article 5(1) or (2) is confined to use for the purposes of distinguishing goods or services. Perhaps even more cogently, the Commission drew attention at the hearing to the existence of situations in which it would clearly be inequitable to allow the trade mark proprietor to prevent use by third parties yet where the Trade Marks Directive contains no provision precluding him from doing so if his right is taken to extend to all forms of use, including use which cannot and does not purport to indicate the origin of supplies.<sup>64</sup>

The Advocate General Colomer also found that, should the ECJ disagree with his conclusion concerning the inapplicability of Article 5(1) to prevent descriptive use, the Directive nevertheless permitted the use of trademarks by model car manufactures insofar as such marks are “an inherent part of the original which, in order for the consumer to be better informed and for all operators in the sector to compete on the same terms, can be considered as falling under Article 6(1)(b) . . . as one of the other characteristics to which the provision refers.”<sup>65</sup>

The ECJ did not reverse the opinion of the Advocate General, but did dismiss his conclusion that defendant’s conduct should be permissible as a matter of law pursuant to Article 6(1)(b), finding that affixing a trademark to a model car is, in fact, a referential use and not an indication of its one of its essential characteristics such as kind, quality, or intended purpose. The Court’s decision not to apply Article 6(1)(b) has been questioned, with some scholars arguing that the exception would have been an expeditious way to protect against what appears to be the inevitable monopolization of the model car market by a few large players.<sup>66</sup> The Court further opined that Art. 6(1)(c) was also unavailing to the defendant model car manufacturer, finding that the affixing of the trademark on Autec’s scale models was not designated to indicate the “intended purpose” of the goods.<sup>67</sup> In other words, the trademark does not constitute an essential descriptive term necessary for consumers to understand the model cars, similar to information relevant to fair use exceptions.<sup>68</sup> Instead, it is merely “an element in the faithful reproduction of the original vehicles.”<sup>69</sup>

In addressing the question of whether the owner of a trademark registered for model cars could prevent third parties from using its mark pursuant to Article 5(1), the ECJ observed, as a preliminary matter, that Article 5(1) does bestow an exclusive right to the owner of a registered trademark entitling it to prevent third parties from using it in the course of trade. The ECJ then observed, in contrast to the the Attorney General’s decisive opinion, that “the exclusive right under Article 5(1) was conferred in order to enable the trademark proprietor to protect his specific interests as proprietor” and, therefore, “the exercise of that right must be reserved to cases in which . . . use of the sign affects or is liable to affect the functions of the trademark, in particular its essential function of guaranteeing to consumers the origin of the goods.”<sup>70</sup> The Court’s test of whether a particular use is infringing under Article 5(1) appears similar to *Arsenal*: the use itself – in this case descriptive – is not determinative. Rather, the impact of the use on the trademark itself must be analyzed. If the use is considered liable to impair the trademark’s ability to

perform its essential function, then the infringement analysis would continue. Finding that this was a possibility, the Court therefore held that the German national court should conduct a factual inquiry to determine whether the trademark's ability function had been impaired by the defendant's use.

The Court thus held that potential liability depended on whether the relevant consumer "perceived the sign identical to the [plaintiff's] logo appearing on the scale models . . . as an indication that those products come from [plaintiff] or an undertaking economically linked to it."<sup>71</sup> The test is, in essence, an analysis of the likelihood of confusion or, more strictly, of antecedent consumer association that might in turn lead to confusion.<sup>72</sup> So, if the relevant public were to interpret the Opel logo on Autec's remote control cars as an indication that the toys were somehow linked to Opel, the essential guarantee of origin function of the trademark could be impaired and infringement under Article 5(1)(a) could be found. Conversely, if the relevant public did *not* perceive the sign as an indication that the models originated from Opel or an undertaking economically linked to it, the German court should conclude that Autec's use did not affect the essential functions of Opel trademark and that there had been no infringing pursuant to Article 5.<sup>73</sup>

#### IV. ANALYSIS

If, as in *Arsenal*, Autec's use of an identical mark on identical goods were found to implicate Article 5(1) despite the descriptive use of the mark, how could model car makers avoid liability when they affix identical marks on identical goods in their production of model cars? According to the *Arsenal* and *Opel* Courts, the answer is found in the minds of the consumers and, at least in the case of *Opel*, that's where the national courts must look to find it. While the English High Court found that the use of Arsenal's trademark by defendant was not a "trademark use," it nevertheless found that such use was harmful to its ability to function as a trademark. To explain why, one must look to the market in which it was demonstrated that relevant consumers believed the manufacturer of the goods was economically linked to the football club.<sup>74</sup>

According to the Advocate General Colomer, while some uses should not be considered use as a trademark and are therefore outside of the scope of Article 5(1), these must nevertheless be determined through an analysis of the relevant market, noting that "when I stated [in *Arsenal* that] it was for the national court to specify the moment at which a trade mark is used [for decorative and not trademark purposes], I pointed out the need to consider other factors, particularly the nature of the goods in question, the structure of the market and the position in the market of the proprietor of the trade mark...."<sup>75</sup> Thus, because the owner of the mark in *Arsenal* had a validly registered trademark for sports merchandise, and because the trademark in that market could potentially function as a symbol of origination to the relevant consumer market, permitting a descriptive but nevertheless confusing use by a third party could harm the Arsenal trademark. Accordingly, the use made by the defendant could therefore be precluded pursuant to Article 5(1).

Providing in *Opel* an assessment of the presently booming model car market to frame the context, the Advocate General observed – importantly – that that particular market had been served by independent model car manufacturers for more than a century and that automobile manufacturers had only recently begun to push for control of their marks in that industry. As a result, because of the nature and history of this specific market, present-day consumers and collectors of model cars *expect* that their models are constructed by myriad manufacturers who may have no connection with the automobile manufacturers whatsoever; that, for example, the Ferrari *Scudetto* on a die-cast model 250 GTO does not reliably signify that the good was made by, or even in conjunction with, the company in Maranello. He further concluded that consumers of model cars associate the model's Detail Trademark with the trademark on the automobile on which the model is based and not with the trademarks on the models manufactured for Opel by its licensees.<sup>76</sup>

Because trademarks registered in the model car class fail to reliably signal to the market the characteristic of origin, national courts deciding such cases today pursuant to the ECJ's interpretation of Community Law should generally find that the descriptive use of a mark by model car manufacturers does not impair

the ability of a trademark to function because the Detail trademark does not – and has never – functioned effectively as an Origin Trademark. Thus, Detail Trademarks affixed to model cars should not implicate Article 5. At least for the time being. Indeed, to hold that automobile trademarks registered in the model car class could exclude other makers from using the marks in a descriptive manner would be tantamount to stretching the power of the automobile companies (who, in practice, have registered most of the automobile trademarks in the model car class) over the model car industry. To grant them control – significant legal power – over another industry would contravene the pro-competitive principles of trademark theory.

The ECJ thus concluded that the Detail Trademark *may* not indicate an essential characteristic of the good since the identical reproduction of the automobile logo may not be interpreted by relevant consumers as a mark guaranteeing origin.<sup>77</sup> Nevertheless, while the ECJ could have simultaneously concluded that the descriptive use implicit in a Detail Trademark excluded it from application as an Origin Trademark, it deferred this crucial question to the German national court.<sup>78</sup> The result is clear: while national courts may presently decide that Detail Trademarks do not impair the functionality of Origin Trademarks, trademark proprietors are free to campaign for the minds of consumers with the hope of changing their perception concerning the trademarks in order to capture the market in the future.

## V. CONCLUSION

Similar to many European industries, the model car industry is comprised of a vast array of producers ranging from large toy companies producing inexpensive toys for children in large quantities to artisans and craftsmen making limited numbers of exquisite models for serious collectors. However, in ruling on the various questions referred by national courts and, specifically, in *Opel v. Autec*, the ECJ may have made it more difficult for this diverse and growing industry to continue its robust expansion. Indeed, it is likely that the ECJ's decision in *Opel* will have a negative impact on the market, limiting the ability of many producers to continue making and selling their models and of many collectors to enjoy the array of collectibles previously available to them. Automobile makers, economically powerful concerns compared to model car makers, typically register their famous trademarks in the toy car class and do so with the intention of controlling an industry related to its own in only the most aesthetic of ways. Should a national court find that a trademark owner registered for model cars could prevent other model car makers from using trademarks necessary for naturalistic reproductions, as the Spanish national court did in *Harley Davidson v. Jugetes Faber Sa*, the ability to make naturalistic models using purely descriptive trademarks would be limited to an extent unprecedented in the model car industry.<sup>79</sup> It is, of course, apparent how so many European industries could be affected by opening the door to such an unjustified restriction on descriptive use.

Had the ECJ recognized that Article 5(1) required a demonstration of use as a trademark by alleged infringers, however, it would likely concluded that the decorative use of Detail Trademarks by model car manufacturers in the creation of their models is not infringing. Moreover, had the ECJ arrived at this conclusion as a matter of law, it would have increased legal certainty and consistency across jurisdictions while reducing costs for manufacturers and consumers. Requiring a trademark use for infringement, or finding that descriptive use either does not impair the functionality of Origin Trademarks or is properly beyond the scope of Art. 5(1), would have provided appropriate protection for the descriptive use of trademarks generally. This, in turn, would have provided the certainty necessary to permit smaller manufacturers to commit to production and for financiers to invest with more confidence. By electing, instead, for a localized consumer confusion test that ignores the descriptive characteristic inherent in Detail Trademarks, the ECJ reduced certainty, raised costs for producers, and cast a pall over prospects for growth and diversity in the model car industry as well as other industries dependent on access to trademarks for descriptive purposes.

The likelihood of confusion analysis delegated to national courts by the ECJ also increases temporal uncertainty in the market by permitting large manufacturers who own the trademarks to important automobile brands (and who likely own the corresponding marks in the model car class) to allocate their considerable resources to *change* consumer perception about the origin of models in an effort to capture

the increasingly lucrative market. Thus, while the trademark use requirement would have provided legal certainty by basing infringement analysis on a consistent type of use, the likelihood of confusion analysis also raises costs for market participants by enabling courts to regularly revisit the question of consumer confusion, perhaps arriving at different conclusions based on changing perceptions or as a result of judicial subjectivity. When national courts inevitably arrive at their irreconcilable factual conclusions, model car makers will face additional challenges created by territorial restrictions on the marketplace; their markets will be reduced as will the diversity of models available to collectors.

The evolution of trademark law reflects a continuous rebalancing that seeks to maximize the informational value of marks while avoiding their use to suppress access to goods, services, and markets.<sup>80</sup> However, it would seem unjustified and inadvisable to satisfy the anticompetitive potential of trademarks by enabling a few trademark owners to control entire markets by granting them control not just over Origin Trademarks but Detail Trademarks as well. Particularly in cases where trademark owners have substantial economic power, to grant them outsized control over *all* uses of their marks would create market friction in the form of, at a minimum, additional barriers to entry for competitors.<sup>81</sup> This would, of course, result in fewer options, reduced quality, and higher costs for consumers.

As we have seen, if the use of a trademark is descriptive, as in the case of affixing a Detail Trademark to a model car, then it is generally understood that the mark no longer functions reliably as an indication of origin – it is no longer trustworthy for that purpose and it is no longer properly within the scope of Art. 5(1). As a result, in deciding *Opel*, the ECJ should have resolved the problem of distinguishing between trademark and descriptive uses of marks as a matter of law by recognizing that trademark theory doesn't support the expansion of the right to preclude the use of marks in all contexts. The benefits of carefully defining the differences are clear. The costs of monopolization of marks and protracted infringement litigation are also clear.<sup>82</sup> While it's true that consumer perception of the Detail Trademark may vary by jurisdiction, the increased efficiency in a marketplace operating under clear rules would certainly work to ameliorate initial confusion.

In conclusion, the owner of a trademark registered for model cars should not be able to prohibit the manufacture and sale of model cars which constitute naturalistic reproductions of real cars on which the owner's mark appears because such use is referential, does not conflict with the purpose of trademarks, and is outside the scope of protection pursuant to Art. 5(1). The ECJ's decision in *Opel* paves the way for this outcome but, unfortunately, does not guarantee this result for the many diverse jurisdictions of Europe. Thus, while the ECJ suggested that a case for infringement under Article 5(1) may be defeated on the basis of non-trademark use, it nevertheless found there could be (under the same circumstances) an infringement depending on a national court's assessment of local consumer perception. This, of course, provides an opportunity for trademark owners to campaign for changes in consumer perception in the years to come.

## VI. FINAL THOUGHTS

When deciding whether to register automobile trademarks for application on model cars, companies and authorities must ask for what *purpose* these marks have been registered in the model car class. Are they registered to function as Origin Trademarks on the models as they are on the automobiles after which they are modelled? Or are registrants seeking to restrict third-party access to their trademarks – even though use as a Detail Trademark is purely descriptive – in an effort to corner the market? If the answer is the latter, what is the basis for inferring the right to preclude such descriptive use in light of the true scope of protection provided for by Article 5(1)?

As we know, tension between trademark owners and third-party users may arise in three primary contexts in the life of a trademark: registration, infringement litigation, and the assertion of fair-use defence.<sup>83</sup> In asking whether there has been an infringement by a third-party model car maker, the question posed assumes the existence of a validly registered trademark in the model car class. However, in light of our conclusion that the purely descriptive use of Detail Trademarks should *never* be considered infringing, we submit that a system based on sound trademark theory must question whether there is any theoretical or

legal justification for granting registration of these marks in the first place. Since all infringement litigation should fail in cases of descriptive use, the market would certainly benefit from clearer signals not only in the early stages of infringement litigation through application of trademark use theory, but at an even *earlier* stage – the point of registration – where the strength of such marks and the potential outcome of litigation is first assessed by existing and potential market participants.

J. Graziadei, A. Saltarelli, *Can The Owner of a Mark Registered for Toy Cars Prohibit the Manufacture and Sale of Toy Cars Which Constitute Naturalistic Reproductions of Real Cars on Which the Owner's Mark Appears?*, 2 BusinessJus 19 (2010)

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<sup>1</sup> Nice Classification System, Class No. 28.

<sup>2</sup> Or the automobiles on which they are based, although this is beyond the scope of the question posed.

<sup>3</sup> European Court of Justice January 25, 2007, Case C-48/05, Adam Opel v. Autec (2007) ECR I-1017 ff., case “Autec”.

<sup>4</sup> See generally M. BARRET, *Internet Trademark Suits and the Demise of “Trademark Use*, 39 U.C. Davis L. Rev. 371 (2006); S. L. DOGAN & M. LEMLEY, *Trademark and Consumer Search Costs on the Internet*, 41 Hous. L. Rev. 777 (2004); U. WIDMAIER, *Use, Liability, and the Structure of Trademark Law*, 33 Hofstra L. Rev. 603 (2004); see also Mark P. MCKENNA, *The Normative Foundations of Trademark Law*, 82 Notre Dame L. Rev., 1839, 1892 (noting the “traditional requirement that, in order to infringe, the defendant [must] use a term as a source-designator (as a “trademark”)”).

<sup>5</sup> W. M. LANDES, R. POSNER, *The Economic Structure of Intellectual Property Law*, The Belknap Press of Harvard University Press, Cambridge, Mass., 2003; see also M. RICOLFI, *Strategic Branding (Opel/Autec, Eventmarke)*, Max Planck Institute paper, 2009 (citing A. KUR, *Strategic Branding: Does Trade Mark Law Provide for Sufficient Self Help and Self Healing Forces?* in I. Govaere, H. Ullrich (eds.), *Intellectual Property, Market Power and the Public Interest*, College of Europe Series, Bruxelles, P. I. E. Lang, 2008, 191-217; M. S. SPOLIDORO, *La capacità distintiva dei marchi c.d. «deboli»*, in *Il dir. ind.* 2007, 39 ff.; J. DAVIS, *European Trade Marks Law and the Enclosure of the Commons*, in *I.P.Q.* 2002, 343 ff.); G. B. DINWOODIE, M. D. JANIS, *Confusion Over Use: Contextualism in Trademark Law*, in *Iowa L. Rev.* 2007, 1597 ff.

<sup>6</sup> W. M. LANDES, R. POSNER, *The Economic Structure of Intellectual Property Law*, *supra* at note 5.

<sup>7</sup> F. ABBOTT, T. COTTIER, F. GURRY, *International intellectual property in an Integrated World Economy*, Aspen Publishers, New York, 2008, 259; M. BARRETT, *Internet Trademark Suits and the Demise of “Trademark Use,”* 39 in U.C. Davis L. Rev. 2006, 388.

<sup>8</sup> W. M. LANDES, R. POSNER, *The Economic Structure of Intellectual Property Law*, *supra* at note 5, 169.

<sup>9</sup> In the words of United States Supreme Court Justice Frankfurter: “The protection of trade-marks is the law’s recognition of the psychological function of symbols.... A trade-mark is a merchandising short-cut which induces a purchaser to select what he wants, or what he has been led to believe he wants. The owner of a mark exploits this human propensity by making every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol. Whatever the means employed, the aim is the same – to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trade-mark owner has something of value.” *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 US 203 (1942).

<sup>10</sup> M. BARRETT, *Internet Trademark Suits and the Demise of “Trademark Use,”* *supra* at note 7, 377.

<sup>11</sup> In addition to the plethora of United States case law expounding and reinforcing this traditional requirement, the Lanham Act specifically requires that the goodwill associated with a trademark accompany any transfer of the

trademark itself. See 15 U.S.C § 1060; see also L. J. OSWALD, *Tarnishment and Blurring under the Federal Trademark Dilution Act of 1995*, in *American Business Law Journal*, 1999, 255 ff.

<sup>12</sup> W. M. LANDES, R. POSNER, *The Economic Structure of Intellectual Property Law*, *supra* at note 5, 169.

<sup>13</sup> M. RICOLFI, *Strategic Branding (Opel/Autec, Eventmarke)*, *supra* at note 5; see also A. KUR, *Strategic Branding: Does Trade mark law Provide for Sufficient Self Help and Self Healing Forces?*, *supra* at note 5, 191-217; see A. SRAFFA, *Monopoli di segni distintivi o monopoli di fabbricazione*, in *Riv. dir. comm.* 1930, II, 1 ff. (arguing that trademark protection should always ensure that exclusivity over signs does not translate into monopolies over markets for goods and services); T. ASCARELLI, *Teoria della concorrenza e dei beni immateriali. Lezioni di diritto industriale*, Giuffrè, Milano, 1960 (arguing that trademark exclusivity should never enable control of linguistic or semantic entities).

<sup>14</sup> A. KUR, *Strategic Branding: Does Trade Mark Law Provide for Sufficient Self Help and Self Healing Forces?*, *supra* at note 5, 191-217, 216.

<sup>15</sup> *Ibid*, at 195.

<sup>16</sup> M. RICOLFI, *Strategic Branding (Opel/Autec, Eventmarke)*, *supra* at note 5 (Contrast the Opinion of the Advocate General, Ruiz-Jarabo Colomer of June 13, 2002, Case C-206/01, *Arsenal Football Club plc v. Matthew Reed*, (2002) ECR I-3422 ff., case “Arsenal”, para 43, acknowledging the importance of competition policy in European trademark law but failing to draw from the statement a corollary either way with the Opinion of the Advocate General Poiras Maduro, September 22, 2009, in Cases C-236-238/08, *Google France and Google Inc. v. Louis Vuitton Mallettier, Google France v. Viaticum Luteciel and Google France Bruno Raboin, Tiger SARL v. CNRHH, Pierre Alexis Thonet*, case “Google-Ad-Words”, paras 102-103 and 105-106 where the balancing between the “protection afforded to innovation and investment” (para 102) by means of trademarks and the requirements “of competition and open access to ideas, words and signs” (para 103) is determinative of the outcome reached (or, rather, in this case, suggested)).

<sup>17</sup> A. KUR, *Strategic Branding: Does Trade Mark Law Provide for Sufficient Self Help and Self Healing Forces?*, *supra* at note 5, 191-217, 216; M. RICOLFI, *Strategic Branding (Opel/Autec, Eventmarke)*, *supra* at note 5.

<sup>18</sup> A. KUR, *Fundamental Concerns in Harmonization of (European) Trademark Law*, in G. B. DINWOODIE, M. D. JANIS, *Trade Mark Law and Theory, a Handbook of Contemporary Research*, Edward Elgar, Cheltenham UK, Northampton MA USA, 2008, 151-176, 165.

<sup>19</sup> M. BARRETT, *Internet Trademark Suits and the Demise of “Trademark Use”*, *supra* at note 7, 392. The author clarifies that the rationale of trademark use “is consistent with the limited purpose of trademark protection. We protect trademarks to ensure that they will effectively communicate the source of goods or services to consumers, thus lowering consumer search costs and promoting a more efficient marketplace. If the defendant does not refer to the plaintiff’s mark or if consumers are not exposed to the defendant’s reference, then finding infringement would not serve trademark’s purpose: consumers would not likely rely on the mark to identify the source of the defendant’s goods or services, there would be no interference with the source indicating function of the plaintiff’s mark, and, thus, there would be none of the harm that trademark and dilution laws are meant to prevent. Trademark laws were never meant to prevent all forms of free riding on a plaintiff’s business goodwill. Indeed, we have long recognized that, in many instances, free riding may be pro-competitive.”; see G. B. DINWOODIE, M. D. JANIS, *Lessons from the Trademark Use Debate*, in *Iowa L. Rev.* 2007, 1713; M. BARRETT, *Finding Trademark Use: The Historical Foundation for Limiting Infringement Liability to Uses ‘In the Manner of a Mar’*, in *Wake Forest Law Review*, 2008, 895.

<sup>20</sup> A. KUR, *Small cars, Big Problems? An Analysis of the ECJ’s Opel/Autec Decision and its Consequences*, in Engelbrekt-Bakaedjjeva et al. (eds.), *Writings in Honor of Marianne Levin*, Norstedts, 2008, 335.

<sup>21</sup> *Ibid*, at 335.

<sup>22</sup> Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate the laws of the Member States relating to trade marks.

<sup>23</sup> A. KUR, *Fundamental Concerns in Harmonization of (European) Trademark Law*, in G. B. DINWOODIE, M. D. JANIS, *Trade Mark Law and Theory, a Handbook of Contemporary Research*, *supra* at note 19, 151-176, 166.

<sup>24</sup> European Court of Justice February 23, 1999, case C-63/97, *BMW v. DEENIK*, (1999) ECR I-905 ff., case “BMW”, para 38.

<sup>25</sup> *Ibid*, para. 53.

<sup>26</sup> European Court of Justice February 23, 1999, case C-63/97, *BMW v. DEENIK*, (1999) ECR I-905 ff., case “BMW”.

<sup>27</sup> *Ibid*, para 65.

<sup>28</sup> The comparative advertising conundrum is frequently debated in the context of the so called “trade mark use debate” (citing R. KNAAK, *Markenmäßiger Gebrauch als Grenzlinie des harmonisierten Markenschutzes*, in *GRUR Int.* 2008, 91 ff.; A. KUR, *Confusion over Use? – Die Benutzung “als Marke” im Lichte der EuGH*

*Rechtsprechung*, in *GRUR Int.* 2008, 1 ff.; B. TRIMMER, *An Increasingly Uneasy Relationship: The European Courts and the European Court of Justice in Trade Mark Disputes*, in *E.I.P.R.* 2008, 87 ff.; CH. RUTZ, *After Arsenal and Electrocoin: Can the Opinions on Trade Mark Use be Reconciled?*, in 36 *IIC* 2005, 682 ff. but also, in connection with the increasingly crucial issue of the lawfulness of the use of trademarks as sold “ad-words”, N. SHEMTOV, *Searching for the Right Balance: Google, Keywords Advertising and Trade Mark Use*, in *EIPR* 2008, 470 ff. For the U.S. see among the many U.S. cases *Government Employees Insurance Co. v. Google, Inc.*, 330 F.Supp.2d 700 (E.D. Va. Aug. 25, 2004) and *Google Inc. v. American Blind & Wallpaper Factory*, 74 U.S.P.Q.2d 1385 (N.D. Cal. March 30, 2005) and in the literature G. DINWOODIE - M. D. JANIS, *Lessons from the Trademark Use Debate*, in 92 *Iowa L.R.* 2007, 1703 ff. and S. L. DOGAN, M. A. LEMLEY, *Grounding Trademark Law Through Trademark Use*, 92 *Iowa L.R.* 2007, 1669 ff., in both of which the link with the ad-words issue is palpable.

<sup>29</sup> European Court of Justice June 13, 2002, case C-206/01, *Arsenal Football Club plc v. Matthew Reed*, (2002) ECR I-10273 ff., case “Arsenal”.

<sup>30</sup> European Court of Justice February 23, 1999, case C-63/97, *BMW v. DEENIK*, (1999) ECR I-905 ff., case “BMW”.

<sup>31</sup> European Court of Justice June 13, 2002, case C-206/01, *Arsenal Football Club plc v. Matthew Reed*, (2002) ECR I-10273 ff., case “Arsenal”, para. 27.

<sup>32</sup> *Ibid*, para 63.

<sup>33</sup> *Ibid*, para 34.

<sup>34</sup> *Ibid*, para 63.

<sup>35</sup> *Ibid*.

<sup>36</sup> *Ibid*, para 55.

<sup>37</sup> *Ibid*, para 63.

<sup>38</sup> *Ibid*, para 56.

<sup>39</sup> *Ibid*, para 54.

<sup>40</sup> A. KUR, *Small Cars, Big Problems? An Analysis of the ECJ's Opel/Autec Decision and its Consequences*, *supra* at note 22, 344.

<sup>41</sup> A. KUR, *Small Cars, Big Problems? An Analysis of the ECJ's Opel/Autec Decision and its Consequences*, *supra* at note 22, 344.

<sup>42</sup> European Court of Justice October 23, 2003, C-408/01, *Adidas Salomon v. Fitnessworld Trading LTD*, (2003), ECR I-4881 ff., case “Adidas”.

<sup>43</sup> European Court of Justice October 23, 2003, C-408/01, *Adidas Salomon v. Fitnessworld Trading LTD*, (2003) ECR I-4881 ff., case “Adidas”, para 40.

<sup>44</sup> I. SIMON, *Embellishment: Trade Mark Use Triumph or Decorative Disaster?*, in *E.I.P.R.* 2006, 321 ff.

<sup>45</sup> Opinion of the Advocate General Jacobs July 10, 2003, C-408/01, *Adidas Salomon v. Fitnessworld Trading LTD*, (2003), ECR I-3711 ff., case “Adidas”.

<sup>46</sup> *Ibid*, para 57.

<sup>47</sup> *Ibid*.

<sup>48</sup> *Ibid*, para 60.

<sup>49</sup> *Ibid*, paras 52-61.

<sup>50</sup> European Court of Justice October 23, 2003, C-408/01, *Adidas Salomon v. Fitnessworld Trading LTD*, (2003), ECR I-4881 ff., case “Adidas”, para 41.

<sup>51</sup> *Interactive Products Corporation v. A2 Z Mobile Office Solutions, Inc.*, 326 F.3d 687, 695 (6th Cir. 2003).

<sup>52</sup> Indeed Campbell appears to have been savvy enough to appreciate the free advertising. In 1965 the company provided Warhol with actual soup can labels to be used as invitations for an exhibit and, in 1985, commissioned the artist to paint a series of their dry soup mixes. The company recognized the third-party promotion, without actual competition, his paintings provided.

<sup>53</sup> S. L. DOGAN, M. A. LEMLEY, *A Search-cost Theory of Imitating Doctrines in Trademark Law*, in G. B. DINWOODIE, M. D. JANIS, *Trade Mark Law and Theory, a Handbook of Contemporary Research*, Edward Elgar, Cheltenham UK, Northampton MA USA, 2008, 65-94.

<sup>54</sup> W. M. LANDES, R. POSNER, *The Economic Structure of Intellectual Property Law*, *supra* at note 5, 169.

<sup>55</sup> M. BARRETT, *Internet Trademark Suits and the Demise of “Trademark Use”*, *supra* at note 7, 379; Cf., G. B. DINWOODIE, M. D. JANIS, *Lessons from the Trademark Use Debate*, in *Iowa L. Rev.* 2007, 1714 (opining that “[t]he trademark use doctrine is simply not an effective surgical tool for defining the normative boundaries within which the likelihood of confusion doctrine can operate, but is instead a clumsy stratagem for rendering *a priori* judgments without the benefit of a contextual inquiry”).

<sup>56</sup> See, for example, Court of Appeal (Civil division) on Appeal from Chancery division, Mr. Justice Laddie, May 21, 2003, WCA Civ. 96 Case No: A2/2003/007, *Arsenal Football Club v. Matthew Reed*, case “Arsenal”.

<sup>57</sup> I. SIMON, *Embellishment: Trade Mark Use Triumph or Decorative Disaster?*, *supra* at note 46, 321-328.

<sup>58</sup> S. L. DOGAN, M. A. LEMLEY, *A Search-Cost Theory of Imitating Doctrines in Trademark Law*, in G. B. DINWOODIE, M. D. JANIS, *Trade Mark Law and Theory, a Handbook of Contemporary Research*, *supra* at note 53, 65-94, 70; See *Beanstalk Group, Inc v AM Gen. Corp.*, 283 F.3d 856, 861 (7<sup>th</sup> Cir. 2002) (stating that “a trademark is an identifier, not a free standing piece of intellectual property; hence the rule that a trademark cannot be sold in gross, that is, without the assets that create the product that it identifies”); *Marshak v. Green*, 746 F.2d 927, 929 (2d Cir.1984) (invoking the rule against assignments of trademarks in gross, which states that “(a) trade name or mark is merely a symbol of goodwill; it has no independent significance apart from the goodwill it symbolizes”); see generally *ETW Corp. v. Jireh Publ’g, Inc.*, 332 F.3d 915, 922 (6<sup>th</sup> Cir. 2003) (differentiating between trademarks and patents because the latter confer a property right in gross rather than a limited interest). Professor Landes and Judge Posner explain the rule against the transfer of trademarks in gross is important to prevent consumer deception during a “last-period” game in which the company is going out of business and wishes to spend its goodwill; the long-term effect of permitting confusion of consumers in this way would be to increase aggregate search costs, W. M. LANDES, R.A. POSNER, *The economic structure of Intellectual Property Law*, *supra* at note 5, 185-186.

<sup>59</sup> S. L. DOGAN, M. A. LEMLEY, *A Search-Cost Theory of Imitating Doctrines in Trademark Law*, in G. B. DINWOODIE, M. D. JANIS, *Trade Mark Law and Theory, a Handbook of Contemporary Research*, *supra* at note 53, 65-94, 71; see *Taylor v. Carpenter*, 23 Fed. Cas. 742, 744 (CCD Mass. 1844).

<sup>60</sup> European Court of Justice January 25, 2007, case C-48/05, Adam Opel v. Autec, (2007), ECR I-1017 ff., case “Autec”.

<sup>61</sup> In full, the referring court asked: “When a trade mark is registered both for motor vehicles and for toys, does the affixing by a third party, without authorisation from the trade mark proprietor, of a sign identical to that trade mark on scale models of that make of car, in order to reproduce it faithfully, and the marketing of those scale models, constitute, for the purposes of Article 5(1)(a) of the Directive, a use which the trade mark proprietor is entitled to prevent?” in European Court of Justice January 25, 2007, in case C-48/05, Adam Opel v. Autec, (2007), ECR I-1017 ff., case “Autec”, para 14.

<sup>62</sup> Opinion of the Advocate General Ruiz-Jarabo Colomer, March 7, 2006, C-48/05, Adam Opel v. Autec, (2007), ECR I-905 ff., case “Autec”, para 46.

<sup>63</sup> *Ibid*, para 32.

<sup>64</sup> European Court of Justice, September 20, 2001, Case C-2/00, Hölterhoff v. Ulrich Freiesleben, (2002), ECR I-4187, case “Hölterhoff”, para 16.

<sup>65</sup> *Ibid*, para 51.

<sup>66</sup> A. KUR, *Small Cars, Big Problems? An Analysis of the ECJ’s Opel/Autec Decision and its Consequences*, *supra* at note 20, 329-352.

<sup>67</sup> European Court of Justice January 25, 2007, case C-48/05, Adam Opel v. Autec, (2007), ECR I-1017 ff., case “Autec”, para 29.

<sup>68</sup> The fair use doctrine in the United States acknowledges that trademark protection is an exception to the rule of free competition. Fair use provides a safe haven for uses of trademarked terms that belong beyond the boundaries of trademark enforcement. A strong fair use defence alleviates concerns of free riding because there is little justification for eliminating free riding for its own sake since the purpose of trademark law has never been to maximize profits for trademark owners at the expense of competitors and consumers. The fair use defence is meant to accommodate the special concerns that arise when businesses claim exclusive rights in surnames and descriptive words and symbols. Thus fair use defence focuses on a defendant’s purpose in applying a surname or descriptive word or symbol, determined through examination of circumstantial evidence, not on the impact of the use on consumers. The fair use defence provides defendants who are acting in good faith leeway to make descriptive use of words and symbols in their primary meaning even if consumers may perceive the use as source-indicating. Thus, even though a plaintiff demonstrates that the defendant made a trademark use of it symbol, and even though plaintiff demonstrates that this trademark use is likely to confuse consumers, the defendant can avoid liability by demonstrating that it applied the word or symbol in good faith merely for the purpose of describing its own goods or services. Occasionally the fair use defence is denied because of its propensity to cause consumer confusion. In *KP Permanent Make-up v. Lasting Impressions*, 543 U.S. 111, 122 (2004), the Supreme Court continues its tendency to restrain protection in favour of preserving competition and recognizing distinctiveness as the essential ingredients of trademark protection when it recognized that fair use and some confusion may coexist. It rejected the approach of the Ninth Circuit which shifts the burden of proof to the defendant to prove a lack of consumer confusion. See Margreth Barrett, *Reconciling Fair Use and Trademark Use*, unpublished, pp. 8-12.

<sup>69</sup> European Court of Justice, January 25, 2007, case C-48/05, Adam Opel v. Autec, (2007), ECR I-1017 ff., case “Autec”, para 44.



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<sup>70</sup> European Court of Justice January 25, 2007, case C-48/05, *Adam Opel v. Autec*, (2007), ECR I-1017 ff., case “Autec”, para 31 (emphasis supplied).

<sup>71</sup> European Court of Justice, June 13, 2002, case C-206/01, *Arsenal Football Club plc v. Matthew Reed*, (2002), ECR I-10273 ff., case “Arsenal”, para 24. The German Supreme Court recently held that there has been no trademark infringement according to Article 5(1)(a) and 5(2) (decision forthcoming); but see Decision of the Spanish Supreme Court (Sala 1a), 8 March 2004, case 168/2004, *Harley Davidson Inc. v. Juguetes Faber S.A.*, Repertorio de Jurisprudencia Aranzadi Nr. 2004/813.

<sup>72</sup> G. B. DINWOODIE, M. D. JANIS “*Confusion Over Use: Contextualism in Trademark Law*”, *Iowa L. Rev.* 2007, 1597-1667.

<sup>73</sup> European Court of Justice, January 25, 2007, case C-48/05, *Adam Opel v. Autec*, (2007), ECR I-1017 ff., case “Autec”, para 24.

<sup>74</sup> *Ibid*, case “Arsenal”.

<sup>75</sup> Opinion of the Advocate General Ruiz-Jarabo Colomer, March 7, 2006, C-48/05, *Adam Opel v. Autec*, (2007), ECR I-905 ff., case “Autec”, para 33.

<sup>76</sup> *Ibid*, paras 37, 40.

<sup>77</sup> *Or* takes an “unfair advantage” of the reputation of the motor car trademark if the plaintiff is an automobile producer.

<sup>78</sup> T. C. JEHORAM, M. SANTMAN, *Opel /Autec: Does the ECJ Realize What it Has Done?*, *supra* at note 75, 507-510.

<sup>79</sup> Spanish Supreme Court (Sala 1a), 8 March 2004, case 168/2004, *Harley Davidson Inc. v. Juguetes Faber S.A.*, Repertorio de Jurisprudencia Aranzadi Nr. 2004/813.

<sup>80</sup> S. L. DOGAN, M. A. LEMLEY, *A Search-Cost Theory of Imitating Doctrines in Trademark Law*, in G. B. DINWOODIE, M. D. JANIS, *Trade Mark Law and Theory, A Handbook of Contemporary Research*, *supra* at note 53, 65-94, 66

<sup>81</sup> *Ibid*, 65-94, 70; the danger of monopolization of trademarks is explored by G. S. LUNNEY Jr., *Trademark Monopolies*, 48 *Emory L. J.* 1999, 367, 370.

<sup>82</sup> *American Honda Motor Co., Inc. v. Pro-Line Protoform and T. Mattson Enterprise, Inc.*, 2004 U.S. Dist. LEXIS 13949.

<sup>83</sup> M. RICOLFI, *Strategic Branding (Opel/Autec, Eventmarke)*, Max Planck Institute paper, 2009, *supra* note 5.