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I. INTRODUCTION

The debate on trade mark use[1] would not be complete without a foray into the economics of distinctiveness in trade marks. Trade mark use is governed by statute in many jurisdictions, at the national level, and also by international treaties.[2] The protection of trade marks under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) in the World Trade Organization (WTO) can be found in

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1. In recent years, an insightful debate among some of the more eminent contemporary trademark scholars occurred over the existence and scope of the trademark use requirement. *See, e.g.*, Stacey L. Dogan & Mark A. Lemley, *Trademark and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777 (2004); *see also* Stacey L. Dogan & Mark A. Lemley, *Grounding Trademark Law Through Trademark Use*, 92 IOWA L. REV. 1669, 1670 (2007); Uli Widmaier, *Use, Liability, and the Structure of Trademark Law*, 33 HOFSTRA L. REV. 603, 604 (2004); Graeme B. Dinwoodie & Mark D. Janis, *Confusion Over Use: Contextualism in Trademark Law*, 92 IOWA L. REV. 1597, 1599 (2007); *see also* Graeme B. Dinwoodie & Mark D. Janis, *Lessons from the Trademark Use Debate*, 92 IOWA L. REV. 1703 (2007); Mark P. McKenna, *Trademark Use and the Problem of Sources in Trademark Law*, 101 U. ILL. L. REV. 773, 773–75 (2009); *see generally* Margreth Barrett, *Finding Trademark Use: The Historical Foundation for Limiting Infringement Liability to Uses "In the Manner of a Mark"*, 43 WAKE FOREST L. REV. 893 (2009) (discussing the existence and scope of the use requirement in light of common law and the Lanham Act).

2. *See* Paris Convention for the Protection of Industrial Property of March 20, 1883, as Revised at Brussels on December 14, 1900, and Washington on June 2, 1911, at the Hague on November 6, 1925, at London on June 2, 1934, at Lisbon on October 31, 1958, and at Stockholm on July 14, 1967, Mar. 20, 1883, 21 U.S.T. 1583, 828 U.N.T.S. 305; Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299 [hereinafter TRIPS Agreement].

Articles 15–21.[3] Under Article 15(1) of TRIPS, distinctiveness reverberates as the sole substantive condition for the protection of a trade mark.[4] TRIPS provisions on trade marks can be found in the national trade mark laws of many Member States of the WTO or TRIPS-plus[5] preferential trade agreements (PTAs), which adopt a higher standard of protection of intellectual property rights than that offered by TRIPS.[6] The definition of trade marks under TRIPS is similarly echoed in the European Union (EU), where applications can be made for a Community trade mark (CTM).[7] Under Article 4 of Regulation No. 40/94, the Community Trade Mark Regulation (CTMR),

> [a] Community trade mark may consist of any signs capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of goods or of their packaging, provided that such signs are capable of distinguishing the goods or services of one undertaking from those of other undertakings.[8]

The consistent definition of a trade mark both in international, regional, and national statutes tells us that trade marks are the same, irrespective of geographic boundaries. In the Lanham Act, where Section 1127 provides definitions, the term 'mark' includes any trade

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3. TRIPS Agreement, *supra* note 2, arts. 15–21.

4. Article 15(1) of TRIPS describes trademarks as

> [a]ny 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. Such signs, in particular words including personal names, letters, numerals, figurative elements and combinations of colours as well as any combination of such signs, shall be eligible for registration as trademarks. 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.

For a comparative discussion on trademarks under TRIPS and other international agreements, see generally Joanna Schmidt-Szalewski, *The International Protection of Trademarks after the TRIPS Agreement*, 9 DUKE J. COMP. & INT'L L. 189 (1998); NUNO PIRES DE CARVALHO, THE TRIPS REGIME OF TRADEMARKS AND DESIGNS 99–262 (2d ed. 2011) (examining the new rules of trademark protection under TRIPS as compared to the Paris Convention).

5. For recent discussion on TRIPS-plus, see generally Beatrice Lindstrom, Note, *Scaling Back TRIPS-Plus: An Analysis of Intellectual Property Provisions in Trade Agreements and Implications for Asia and the Pacific*, 42 N.Y.U. J. INT'L. L. & POL. 917 (2010) (examining TRIPS-plus preferential trade agreements in the Asia-Pacific region).

6. *Id.* at 927.

7. *Council Regulation (EC) No 40/94 of 20 December 1993*, 1994 O.J. (L 11) 1; amended and replaced by Council Regulation (EC) No. 207/2009 of 26 February 2009, 2009 O.J. (L 78) 1 [hereinafter CTMR].

8. *Id.* art. 4.

mark, service mark, collective mark, or certification mark, while the term 'trade mark' includes any word, name, symbol, or device, or any combination thereof (1) used by a person, or (2) which a person has a *bona fide* intention to use in commerce.[9] Thus, a trade mark, according to the Lanham Act, is used by a person in commerce to "identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown."[10]

Another key word in the definition section of the Lanham Act, which is inextricably linked to trade marks, is the word 'commerce.' The definition of commerce includes "all commerce which may lawfully be regulated by Congress."[11] Arguably, the best interpretation of the Lanham Act, similar to TRIPS and the CTMR[12] mentioned above, is that it guarantees trade mark rights. Though the debate on trade mark use focuses on the Lanham Act, which does not explicitly mention trade mark use,[13] the arguments in this article focus on the doctrinal distinctiveness of trade marks, especially as developed in the EU.

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9. Lanham Act, Pub. L. No. 79-489, 60 Stat. 427 (1946) 15 U.S.C. § 1127 [2004] [hereinafter Lanham Act].

10. *Id.*

11. *Id.* Lanham Act, section 1127 explains that the term "use in commerce" means:

> [T]he bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark. For purposes of this chapter, a mark shall be deemed to be in use in commerce— (1) on goods when— (A) it is placed in any manner on the goods or their containers or the displays associated therewith or on the tags or labels affixed thereto, or if the nature of the goods makes such replacement impracticable, then on documents associated with the goods or their sale, and (b) the goods are sold or transported in commerce, and (2) on services when it is used or displayed in the sale or advertising of services and the services are rendered in commerce, or the services are rendered in more than one State or in the United States and a foreign country and the person rendering the services is engaged in commerce in connection with the services.

12. *See* CTMR, *supra* note 7.

13. See the discussions in Dogan and Lemley, *supra* note 1, at 1672, and Dinwoodie and Janis, *supra* note 1, at 1609–18, on the varied interpretations of trade mark use in the Lanham Act. *See also* Trademark Dilution Revision Act of 2006, 15 U.S.C. § 1125(c)(1) (2006), which states that

> [s]ubject 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.

The legal regime for trade mark law in the EU is covered by the harmonizing Trade Marks Directive[14] and the CTMR.[15] According to its provisions, the Trade Marks Directive itself is not necessarily intended to harmonize the trade mark laws of Member States in every aspect, but rather just "those national provisions of law which most directly affect the functioning of the internal market."[16] In *Levi Strauss & Co. v. Casucci SpA*, the Court of Justice of the European Union (ECJ)[17] said that "the purpose of [the Trade Mark Directive] is generally to strike a balance between the interest of the proprietor of a trade mark to safeguard its essential function, on the one hand, and the interests of other economic operators in having signs capable of denoting their products and services."[18]

Here, it is possible to draw a direct comparison between the "interests of economic operators" and those of monopolies. Regardless of whether such a comparison affects the normal operating functions of trade marks, the fundamental question that remains is whether the distinctiveness of trade marks is one of the root causes of monopolization in trade mark law.

This article hypothesizes that distinctiveness in trade mark law is a source of monopolization, and consequently, the lens of antitrust law should focus on whether the distinctiveness requirement is relevant in modern trade mark use.

Part II of this article begins with a discussion of trade marks and monopolies, establishing the framework for the rest of the article. Part II also addresses the role of market power in trade marks within the framework of antitrust law and suggests that the market power held by trade marks presents problems for antitrust law.

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14. *See* 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, O.J. (L 299) 25.

15. *See* CTMR, *supra* note 7.

16. Directive 2008/95/EC, *supra* note 14, at 25.

17. The Treaty of Lisbon changed the name of the Court of Justice of the European Communities to the Court of Justice of the European Union. *See* Treaty of Lisbon Amending the Treaty on European Union and the Treaty Establishing the European Community, Dec. 13, 2007, 2007 O.J. (C 306) 1, art 1(20)(1) [hereinafter Treaty of Lisbon]. The former Court of First Instance was renamed the General Court and the supreme body is now called the Court of Justice (ECJ). *See id.* In EU Law, the term Court of Justice of the European Union (CJEU) refers to the two levels of jurisdiction taken together. *See id*; *see also id.* art. 1(2)(b) ("The Union shall be founded on the present Treaty and on the Treaty on the Functioning of the European Union . . . Those two Treaties shall have the same legal value. The Union shall replace and succeed the European Community.").

18. Case C-145/05, Levi Strauss & Co. v. Casucci SpA, 2006 E.C.R. I-3717, ¶ 29.

Part III offers a thorough discussion on the literature of the law and economics of trade marks. This literature on the law and economics of trade marks establishes the role trade marks play in the economic activity of modern society and their commercial magnetism.

Part IV examines the main claim of the article, that the economics of distinctiveness leads to monopolization. The section analyzes cases before the ECJ and highlights the point of departure in how the court treats distinctiveness.

Part V further develops the antitrust arguments briefly introduced in Part II, and argues that trade marks' exclusive rights preserve monopoly rights in violation of Article 102 of the Treaty on the Functioning of the European Union (TFEU) (formerly Article 82 of the EC Treaty).[19]

Part VI then gives an analysis of the arguments in the previous sections. Part VII concludes the article, asserting that distinctiveness is key to transforming trade marks into monopolies.

II. Monopolies and Trade Marks

The argument that trade mark rights are monopolistic is not new. What distinguishes the arguments in this article from others previously made, however, is their focus on the need for both a new direction in trade mark rights and the interpretation of such rights in the antitrust jurisprudence of the ECJ.[20] Although the majority of the ECJ's cases involve trade mark infringement, the Court only occasionally acknowledges the monopoly aspect of trade marks. Even then, however, the ECJ forgoes any concrete discussion of trade marks and the effects of monopolies on competition law. For example, in *Libertel Groep BV v. Benelux-Merkenbureau*, the ECJ held that an "extensive monopoly [of trade marks] would be incompatible with a system of undistorted competition, in particular because it could have the effect of creating an

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19. On December 1, 2009, the Lisbon Treaty renamed the Treaty Establishing the European Community (TEC), otherwise knows as the Rome Treaty, as the Treaty on the Functioning of the European Union (TFEU). *See* Treaty of Lisbon, *supra* note 17; *see also* Consolidated Versions of the Treaty on European Union and the Treaty on the Functioning of the European Union, Mar. 3, 2010, O.J. (C 83) [hereinafter TFEU]. Several articles, including the antitrust provisions, were renumbered, and former Articles 81 and 82 of the TEC are now Articles 101 and 102 respectively of the TFEU. *See id.* This article will use one or the other throughout, where appropriate.

20. In this article, the focus is on Article 102 of the TFEU and the case law of the European Court of Justice (ECJ); relevant citations to the antitrust principles of Article 101 will also be made, however. For similar arguments, see Charles R. Mandly, Jr., *Article 82 of the E.C. Treaty and Trademark Rights*, 93 TRADEMARK REP. 1314, 1320 (2003) (arguing that "[u]nlike other intellectual property rights, trademarks may be perpetual, potentially lasting as long as does the underlying goodwill.").

unjustified competitive advantage for a single trader."[21] This is not the first time courts have associated trade marks with monopolies.[22] Previous decisions in the United Kingdom (U.K.), the United States, and other parts of Europe have made similar pronouncements.[23] Those courts, however, have failed to articulate the argument that trade marks may constitute monopolies and, as such, may be a source of concern in the context of antitrust law.

Cases that involve antitrust infringement both in Europe and the rest of the world involve claims of anticompetitive practices by dominant firms using market power or monopoly power.[24] The European Commission's Notice on the Definition of the Relevant Market (Relevant Market Notice) provided guidance on the possibility of preventing the exercise of market power.[25] The Relevant Market Notice pointed to the relevant product market and geographic market when determining the impact of an undertaking on competition law, which comes about when "[a] relevant product market comprises all those products and/or services which are regarded as interchangeable or substitutable by the consumer."[26]

The geographic market is a geographic area in which the market power of an undertaking must be operating. The Relevant Market Notice defines the relevant geographic market as comprising

> the area in which the undertakings concerned are involved in the supply and demand of products or services, in which the conditions of competition are sufficiently homogenous and which can be distinguished from neighboring areas because the conditions of competition are appreciably different in those area [sic].[27]

The above provision suggests a degree of flexibility in interpreting the relevant market in specific sectors and the determination of the relevant market in intellectual property cases; competition, however, will influence how such cases will be decided.

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21. Case C-104/01, Libertel Groep BV v. Benelux-Merkenbureau, 2003 E.C.R. I-3822, ¶ 54.

22. *See* Harold R. Weinberg, *Is the Monopoly Theory of Trademarks Robust or a Bust?*, 13 J. INTELL. PROP. L. 137, 142 (2005).

23. *See id.*

24. *See, e.g.*, Nicholas Economides & Ioannis Lianos, *The Elusive Antitrust Standard on Building in Europe and in the United States in the Aftermath of the Microsoft Cases*, 76 ANTITRUST L.J. 483, 483–84 (2009).

25. *See* Commission Notice 97/3, 1997 O.J. (372) 1, ¶ 1 (EU) (stating "The purpose of this notice is to provide guidance as to how the Commission applies the concept of relevant product and geographic market in its ongoing enforcement of Community competition law.").

26. *Id.* ¶ 7.

27. *Id.* ¶ 8.

Where intellectual property owners are differentiating their products, they will tend to prevent the entry into the market of similar products and embrace a monopolist nature, which could distort competition. As James Keyte observed, "product differentiation and indirect competition are encompassed within the concept of 'monopolistic competition' developed in the 1930s." [28] For example, Keyte clarifies Joan Robinson's and Edward Chamberlin's explanation that "significant differentiation made every producer a 'monopolist' over its own product to the extent it faced a downward-sloping demand curve."[29] The same argument can be used when discussing products that are the subject of intellectual property rights and trade marks in particular. As Keyte argued, "product differentiation itself indicates the existence of some degree of market power since it gives the producer the ability to price above cost."[30] This article will further expand upon the arguments surrounding product differentiation in Part VI below.

A. Economic Definition of Monopoly

In order to get a firm grasp of the concept of monopolies, one must examine how economic theorists have discussed the concept. The standard textbooks on microeconomics tell us that a monopoly is a single seller of a product for which there is no close substitute, and that market power is the ability of the monopolist to charge a price above marginal cost and earn a positive profit.[31] For instance, one of the more popular textbooks in European schools of economics, authored by Hal Varian, explains that when there is only one firm in the market, that firm is unlikely to take the market price as given.[32] Instead, a "monopoly would recognize its influence over the market price and choose that level of price and output that maximized its overall profits."[33] The definition of monopoly in industrial organization (a sub-branch of microeconomics) literature similarly defines monopoly as a

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28. James A. Keyte, *Market Definition and Differentiated Products: The Need for a Workable Standard*, 63 ANTITRUST L.J. 697, 701 (1995).

29. *Id.*

30. *Id.* at 698.

31. HAL R. VARIAN, INTERMEDIATE MICROECONOMICS: A MODERN APPROACH 423 (7th ed. 2006).

32. *Id.* at 423–24.

33. *Id.*; *see also* ROBERT H. FRANK, MICROECONOMICS AND BEHAVIOR 409 (6th ed. 2006) (stating that "[a] monopoly is a market structure in which a single seller of a product with no close substitutes serves the entire market").

single seller facing competitive consumers in one or several markets.[34] As such the monopoly can determine either the price of the product or the quantity supplied.[35]

Monopoly pricing can be divided into two distinct categories: a single product monopoly and a multi-product monopoly.[36] In the former, a monopolist sells only one good and, as such, represents a model of imperfect competition.[37] In the latter, on the other hand, the "demand and cost of one product do not affect demand and cost for other products."[38]

The definition of monopoly is essential to identifying the issue and arguments in this article, especially the relationship between competition (or antitrust policy) and intellectual property, specifically trade marks. Since a monopoly encompasses a markedly different form of market structure, as compared to perfect competition, monopolies can dominate the market. Perfect competition and monopolies are two market structures at opposite ends of the competitive spectrum. In contrast to perfect competition, monopolies involve barriers to market entry, long-run abnormal profits, and differentiated products.[39] As a result, monopolists can abuse their market power by restricting output and forcing price increases on the customer.[40] In this regard, as Robert Frank explains, the key feature that differentiates the monopoly from the competitive firm, is the price elasticity of the demand facing the firm.[41]

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34. *See, e.g.*, HERBERT HOVENKAMP, FEDERAL ANTITRUST POLICY: THE LAW OF COMPETITION AND ITS PRACTICE § 1.4(b) (2d ed. 1999).

35. OZ SHY, INDUSTRIAL ORGANIZATION: THEORY AND APPLICATIONS 71–72 (1995); *see also* WILLIAM G. SHEPHERD, THE ECONOMICS OF INDUSTRIAL ORGANIZATION 1 (3d ed. 1990).

36. MASSIMO MOTTA, COMPETITION POLICY: THEORY AND PRACTICE 533 (2004).

37. *Id.*

38. *Id.* at 535.

39. The concept of perfect competition is based on a large range of assumptions, however. The assumptions frequently applicable are: (1) the firm is a price taker (every firm in the market is so small relative to the market that it cannot exert any perceptible influence on price); (2) the product is homogenous (in the eyes of the consumer, the product of one seller is identical to that of another seller); (3) there is freedom of entry and exit; (4) free mobility of resources; and (5) the participants in the market have perfect knowledge (consumers know prices, producers know costs, etc.). *See also* G.S. MADDALA & ELLEN MILLER, MICROECONOMICS: THEORY AND APPLICATIONS 283 (1989) (explaining that in a market characterized by perfect competition, no individual buyer or seller influences the price by his or her purchases or sales).

40. *See* FRANK, *supra* note 33, at 409; Thomas G. Krattenmaker et al., *Monopoly Power and Market Power in Antitrust Law*, 76 GEO. L.J. 241, 245 (1987) ("When economists use the terms 'market power' or 'monopoly power', they usually mean the ability to price at a supracompetitive level."). *See also "Market Power"*, *Economics: A-Z*, THE ECONOMIST, http://www.economist.com/economics-a-to-z/m#node-21529856 (last visited Jan. 29, 2012).

41. *See* FRANK, *supra* note 33, at 409.

In relation to intellectual property rights, monopolies held by individuals or organizations may begin by the granting of a patent or copyright, by the possession of a superior skill or talent, or by the ownership of strategic capital. Thus, the monopolist establishes a market position through the ability to control absolutely the supply of a product or service offered for sale and the related ability to set the price.[42]

However, another area of intellectual property rights that is often ignored when it comes to applying the theory of monopoly, is trade marks. While monopoly power is normally associated with government franchise agreements or with businesses that operate privately and amass significant market power,[43] the connection between monopolies and trade mark protection does not get the same amount of scrutiny. The degree of monopoly, especially as the discussion on economic literature in Part III below will show, is crucial to further understanding antitrust law and its relationship to intellectual property rights, particularly trade marks.

To this end, market power, which is a crucial aspect of the economics of competition law, is also significant to how we conceptualize and understand the economic effect of trade marks. In this respect, and also from what we have gleaned from the economic theory of monopoly, the behavior of monopolists must then be put under the microscope. From a legal perspective, such microscopic examination can only be done through the legal provisions that regulate or prohibit abuse of a dominant position.[44] These legal provisions are Article 102 of the TFEU[45] in the EU and Section 2 of the Sherman Antitrust Act in the United States.[46]

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42. ENCYCLOPEDIA OF ECONOMICS 672 (Douglas Greenwald ed. 1982).

43. *See, e.g.*, Michael D. Blanchard, *Regulated Industries—Statutory Construction of Section 541(a) of the Cable Television Consumer Protection and Competition Act of 1992: A Presumption in Favor of Practical Reason*, 18 W. NEW ENG. L. REV. 437 (1996) (discussing the market power of private cable companies); *see also* Solveig Singleton, *The Patent Prejudice: Intellectual Property As Monopoly*, PROGRESS ON POINT, Oct. 2006, at 4–5.

44. The dominant position referred to in Article 102 of the TFEU relates to a position of economic strength enjoyed by an undertaking that enables it "to hinder the maintenance of effective competition on the relevant market by allowing it to behave to an appreciable extent independently of its competitors, its customers and, ultimately consumers." Case T-201/04, Microsoft Corp. v. Commission, 2007 E.C.R. II-3601, ¶ 229; *see also* Case 27/76, United Brands v. Commission, 1978 E.C.R. 207.

45. *See* TFEU, *supra* note 19, art. 102.

46. Sherman Antitrust Act, 15 U.S.C. § 2 (2004).

B. Trade Marks: "One of Those Monopolies"[47]

Intellectual property rights protection is not granted out of thin air. The granting of intellectual property rights protection is a legal process that covers a period of time for the right holder to benefit from the fruits of his labor.[48] This period of protection varies. For instance, in copyrights, the period of protection is the life of the author plus seventy years.[49] While in patents, the protection generally lasts for twenty years.[50] In trade marks, however, protection is normally indefinite.[51] What these areas of protection do tell us however is that they are a form of legal monopoly resulting from the exclusivity and absoluteness of the intellectual property protection. This form of legal monopoly then is bound to present problems for antitrust law. One such problem is the abuse of a dominant position by the right holder.

A distinguished legal scholar on intellectual property rights in the EU, Guy Tritton, has identified three schools of thought "to considering whether the exercise of [intellectual property rights] is or is not an abuse of a dominant position."[52] The schools of thought are: (1) "the exercise of [intellectual property rights] can never amount to an abuse;" (2) "the grant of a monopoly to an [intellectual property rights] owner is in effect a state-granted sanction to exploit the market in the protected product to the full extent that the market place can bear;" and, (3) "the exercise of [intellectual property rights] by a dominant undertaking must be subject to the same controls as the exercise of other types of economic power by a dominant undertaking."[53]

Tritton's schools of thought are somewhat similar to the U.S. schools of thought, especially the law and economics perspectives of Chicago and Harvard.[54] The U.S. schools of thought on law and economics have significantly influenced antitrust policy-making in the EU and can be considered as one of the great American exports to the

47. Blanchard v. Hill, (1742) 26 Eng. Rep. 692, 692–94; 2 Atk. 484, 484–86 (as described by Lord Hardwicke in his opinion).

48. *See* Justin Hughes, *The Philosophy of Intellectual Property*, 77 GEO. L.J. 287, 291 (1988).

49. U.S. DEP'T OF STATE, FOCUS ON INTELLECTUAL PROPERTY RIGHTS 92 (2006).

50. *Id.*

51. *Id.*

52. GUY TRITTON ET AL., INTELLECTUAL PROPERTY IN EUROPE 996 (3d ed. 2007).

53. *Id.* at 996–97.

54. *See* Alan J. Meese, *Debunking the Purchaser Welfare Account of Section 2 of the Sherman Act: How Harvard Brought Us a Total Welfare Standard and Why We Should Keep It*, 85 N.Y.U. L. REV. 659, 691–94 (2010).

EU.[55] The rules regulating monopoly or attempts at monopolization in the EU are strikingly similar to the relevant provisions in the Sherman Act.[56] For instance, Section 2 of the Sherman Antitrust Act states that

> every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be guilty of a felony.[57]

Although the European legal counterpart is worded differently, it sends the same legal message by providing that

> any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market in so far as it may affect trade between Member States.[58]

Thus, under the U.S. approach, monopolization contains two elements that correspond to dominance and abuse: (1) the possession of monopoly power and (2) the willful acquisition of that power.[59] In the EU, Article 102 of the TFEU does not define dominance *per se*.[60] It does require, however, two broad categories of abuse, namely exploitative abuse and exclusionary abuse.[61] In principle, the other categories, such as tying and discrimination, are more or less included in these two categories.[62] Equating trade marks to monopolies arises from the legal protection of trade marks, which "allows an investment in quality to be rewarded by repeat purchase and other reputation effects."[63] It is this form of reward that generates monopoly power over

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55. *See generally id.*; EUROPEAN ECON. & MKTG. CONSULTANTS, MODERNISATION ARTICLE 102 TFEU 1, *available at* http://www.ee-mc.com/files/Modernisation%20Article%2010 2.pdf.

56. *See* Sherman Antitrust Act § 2; TFEU, *supra* note 19, art. 102.

57. Sherman Antitrust Act § 2.

58. TFEU, *supra* note 19, art. 102.

59. United States v. Grinnell Corp., 384 U.S. 563, 570–71 (1966). A 2005 U.S. Congressional Report distinguished monopoly and monopolization as separate concepts by analysing the statements of the Antitrust Division of the Department of Justice and the Federal Trade Commission on merger enforcement and some government actions against Microsoft and Intel Corporations. *See* H. Rpt. 109-541, Internet Freedom and Nondiscrimination Act of 2006.

60. *See* ALISON JONES & BRENDA SUFRIN, EC COMPETITION LAW: TEXT, CASES AND MATERIALS 262 (4th ed. 2010); TFEU, *supra* note 19, art. 102.

61. *See* JONES & SUFRIN, *supra* note 60, at 269.

62. *Id.* at 271 (describing price discrimination as exploitative abuse), 277 (suggesting that tying is an exclusionary abuse).

63. Pierre Régibeau & Katharine Rockett, *The Relationship Between Intellectual Property Law and Competition Law: An Economic Approach*, *in* THE INTERFACE BETWEEN INTELLECTUAL PROPERTY RIGHTS AND COMPETITION POLICY 505, 520 (Steven D. Anderman ed., 2007).

the distinctive trade mark in the sense that others can be excluded from using the same or a confusingly similar trade mark.[64]

Perhaps the earliest signal that trade mark protection constitutes a monopoly was the 1742 judgment in *Blanchard v. Hill*.[65] There, Lord Hardwicke referred to a trade mark charter as "one of those monopolies."[66] Since this landmark ruling, equating trade marks to monopolies has been a roller coaster ride in the courts on both sides of the Atlantic.[67] In addition, the discussion on the monopolistic nature of trade mark protection has been even more prevalent in scholarly debate.

III. THE LITERATURE ON THE LAW AND ECONOMICS OF TRADE MARKS

In contemporary times, where trade mark rights encourage more economic activities, law and economics[68] approaches to trade mark are somewhat under-theorized, as explained by Graeme Dinwoodie.[69] One reason for the under-theorizing of trade mark law may well be that the simplicity of trade marks does not warrant much of an *intellectual* inquiry. In other words, trade marks are just signs[70] and symbols that signify a brand[71] or quality.[72]

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64. *See also id.* at 505–52.

65. *Blanchard*, (1742) 26 Eng. Rep, *supra* note 47, at 692–93 (2 ATK 484–85).

66. *Id.*

67. *See* Monopoly Rights and Registered Trademarks—Sample Registered Trademark Cases, BATTLE FOR TRADEMARKS, http://www.battle.ie/monopoly.html (last visited Jan. 29, 2012); Weinberg, *supra* note 22, at 141–45.

68. At this stage, the reader should note that this article will not be mathematically oriented, but rather explanatory. The reader should also note that the terms 'competition' and 'antitrust' are used interchangeably and should not alter the linguistic tone of this article. Secondly, 'firms' or 'manufacturers' are also used interchangeably. Thirdly, 'market power' and 'monopoly power' are one and the same for the purposes of this paper. For similar discussion to the latter, see generally Krattenmaker et al., *supra* note 40 (arguing that attempting to distinguish between 'market power' and 'monopoly power' creates a false dichotomy). *See also* DENNIS W. CARLTON & JEFFREY M. PERLOFF, MODERN INDUSTRIAL ORGANIZATION 97–98 (1989) (explaining that monopoly power and market power are used interchangeably in their book to mean "the ability to profitably set price above competitive levels (that is, above marginal cost)"). There, one of the more common concepts in microeconomics is introduced for the first time—marginal cost. *See id.* at 98. As such, economists use both 'market power' and 'monopoly power' to refer to the power of a single firm or group of firms to price profitably above marginal cost. *See id.*

69. Graeme B. Dinwoodie, *Trademark Law and Social Norms* 6 (2007) (unpublished manuscript) (on file with the Loyola of Los Angeles International & Comparative Law Review). Dinwoodie listed a few notable exceptions such as Landes & Posner and Schechter. *Id.* at n.18; *see also* Edward S. Rogers, *The Lanham Act and the Social Function of Trade-Marks*, 14 LAW & CONTEMP. PROBS. 173 (1949) (explaining the social values behind trademarks).

70. Section 1127 of the Lanham Act stipulates that the term "trademark" means:

> [A]ny word, name or symbol, or device, or any combination thereof— (1) used by a person, or (2) which a person has a bona fide intention to use in commerce to identify and distinguish the services of one person, including a unique service,

Another explanation may well be that, given the abundance of trade marks, it is just natural to register a trade mark when starting a business. In this regard, like the common surname, trade marks can be explained in a historical context rather than through 'theoretical approaches.' Dinwoodie's assertion that the law and economics approaches to trade marks are under-theorized does not necessarily reflect the true picture, however. As discussed in this section, scholars such as Landes & Posner, Barnes, Lemley, and a host of others have actually made significant contributions in this area.

Whatever the explanations for the under-theorizing of trade mark law, trade marks are powerful symbols or service marks. They serve as carriers of information[73] or as company assets and indicators of corporate strengths. These roles put trade marks at the very heart of society, and thus causes trade marks to have a beneficial effect on society. This effect stems from the interaction between variations in trade marks and consumers. Trade marks relay information to consumers, and therefore are essential to the very existence of competition.[74]

> from the services of others and to indicate the source of the services, even if that source is unknown.

Lanham Act, *supra* note 9, § 1127. This latter definition of trademarks in the Lanham Act is similar to language that was first used to define trademarks in the first written treatise on trademark law:

> A trademark is the name, symbol, figure, letter, form or device, adopted and used, by a manufacturer, or merchant, in order to designate the goods that he manufacturers, or sells, and distinguish them from those manufactured or sold by another; to the end that they may be known in the market, as his, and thus enable him to secure such profits as result from a reputation for superior skill, industry or enterprise.

FRANCIS H. UPTON, A TREATISE ON THE LAW OF TRADE MARKS 9 (1860).

71. *See* Lanham Act, *supra* note 9, § 1127. This article loosely refers to brand as part of trademark protection. Brands are special intangible assets and for most companies are the most important asset due to the economic impact that brands have.

72. Though this article will not discuss at length the quality functions of trademarks, it has long been the favorite of legal academics that began with the writings of the American academic Frank I. Schechter's 1927 article in the Harvard Law Review, cited *infra* note 76. The courts rarely depart from emphasizing the quality function of trademarks and in the *Park 'N Fly* decision, the U.S. Supreme Court stated that trademarks "foster competition and the maintenance of quality by securing to the producer the benefits of a good reputation." Park 'N Fly, Inc. v. Dollar Park and Fly, Inc., 469 U.S. 189, 198 (1985).

73. *See, e.g.*, Barton Beebe, *The Semiotic Analysis of Trademark Law*, 51 UCLA L. Rev. 621, 645–46 (outlining some of the theoretical intricacies of the relationship between a mark, a marked product, and the information supposedly conveyed by the mark), 623 (explaining how trade marks function as a company asset and indicator of corporate strength) (2004) [hereinafter *Semiotic Analysis*].

74. *See generally* Spyros M. Maniatis, *Competition and the Economics of Trade Marks*, in INTELLECTUAL PROPERTY AND MARKET FREEDOM 63–130 (Adrian Sterling ed., 1997).

A. Economic Functions of Trade Marks Versus the Commercial Magnetism of Trade Marks

Inquiries into trade mark protection, especially from a law and economics perspective,[75] have been a rich form of academic scholarship in the past century.[76] That tradition continues to this day, especially within the context of the economic effects of antitrust and intellectual property law.[77]

The trouble with trade mark law as opposed to other areas of traditional intellectual property law is that trade mark protection differs from the traditional intellectual property regime. This difference is even more evident in the legal basis and economic functions of trade marks.[78] One could argue that the difference is due to the fact that the purpose of traditional intellectual property protection is to create incentives in return for the inventor or creator realizing economic gains, even though the creation of trade marks does not necessarily require any form of 'innovativeness.' However, this line of argument may not sit well with

75. The economic analysis of law draws upon the principles of microeconomic theory which concerns decision-making by individuals and small firms. For a thorough discussion, see, for example, ROBERT COOTER & THOMAS ULEN, LAW & ECONOMICS (4th ed. 2004); *see also* John Kay, *The Economics of Intellectual Property Rights*, 13 INT'L REV. L. & ECON. 337 (1993) (explaining how much a copyright is worth).

76. The law and economics movement, which began to take shape at the turn of the twentieth century, was not exclusively applied to trademarks *per se* but other forms of law that would entail trademarks as a form of intellectual property right such as contract law. The law and economics approaches to law emerged from the legal realism movement especially in American legal literature. For a discussion on the historical perspectives on this, see generally MORTON J. HORWITZ, THE TRANSFORMATION OF AMERICAN LAW, 1870–1960: THE CRISIS OF LEGAL ORTHODOXY (1992). Perhaps one of the earliest enquiries into the pure law and economics of trademarks was the seminal piece by Frank Schechter, which appeared in the legal literature in 1927. *See generally* Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813 (1927) (explaining the nature and function of trademarks). Since Schechter's work, other influential pieces have popped up in bits and pieces that essentially shook the foundation under the law and economics of trademarks without much serious aftershocks, see, e.g., William M. Landes & Richard A. Posner, *The Economics of Trademark Law*, 78 TRADEMARK REP. 267 (1988), and more recently, David W. Barnes, *A New Economics of Trademarks*, 5 NW. J. TECH. & INTELL. PROP. 22 (2006). This is by no means an exhaustive list and as the reader will discover in the next few sections of this article several other important works have made similar contributions.

77. *See, e.g.*, Mark A. Lemley, *A New Balance Between IP and Antitrust*, 13 SW. J.L. & TRADE AM. 237, 237 (2007) (arguing that "when intellectual property laws are strong, then antitrust laws should also be strong and vice versa").

78. *See* Stanley M. Besen & Leo J. Raskind, *An Introduction to the Law and Economics of Intellectual Property*, 5 J. ECON. PERSP. 3, 20 (1991).

the owners of trade marks who clearly believe that their trade marks and brands provide economic incentives.[79]

Once a trade mark has been established, the trade mark owner has something of value.[80] In *Mishawaka Rubber*, Justice Frankfurter declared that "[a] trademark is a merchandising 'short-cut' which induces a purchaser to select what he wants, or what he has been led to believe he wants."[81] Justice Frankfurter reasoned that "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."[82] Justice Frankfurter further opined that:

> [w]hatever 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 trademark owner has something of value. If another poaches upon the commercial magnetism of the symbol he has created, the owner can obtain legal redress.[83]

In the above case, Justice Frankfurter framed the functions of trade mark for its "commercial magnetism" as part of the economic activity of modern society.[84] Thus, one could further argue that in doing so, Justice Frankfurter declared the functions of trade mark to be both economic and legal. The dual functions of trade mark are evident in the opinion, which addresses the economic function in terms of the trade mark owner's having "something of value" and "commercial magnetism" while describing the fact that "the owner can obtain legal redress" as the legal function.[85]

Similarly, the ECJ developed the concept of how the "essential function" of a trade mark guarantees the identity of the origin of the

79. Brands contribute to companies by building shareholder's value, and in 2009 the brand value of the world's top five companies were valued respectively as: Coca-Cola (USD$70B); IBM (USD$64B); Microsoft (USD$60B); Google (USD$43B); and GE (USD$42B). See full ranking at *Best Global Brands 2010*, INTERBRAND, http://www.interbrand.com/en/best-global-brands/Best-Global-Brands-2010.aspx (last visited Jan. 29, 2012). The top three global brands have only slipped three to five percentage points since 2001. For a legal discussion on brands and the law, see generally Deven R. Desai & Spencer Waller, *Brands, Competition, and the Law*, 2010 BYU L. REV. 1425 (discussing how trademarks and antitrust law have misunderstood brands).

80. Goodwill as an intangible asset serves as a major reason for consumers' choice among brands. Stephen L. Carter, *The Trouble with Trademark*, 99 YALE L.J. 759, 761 (1990).

81. Mishawaka Rubber & Woolen Mfg. v. S.S. Kresge Co., 316 U.S. 203, 205 (1942).

82. *Id.*

83. *Id.*

84. *Id.*

85. *Id.*

trade marked product to the consumer.[86] In addition to the guarantee of trade mark origin, the ECJ in *Ideal-Standard* said the essential function of a mark is also as a form of guarantee of unitary control.[87] Thus, based on its legal definition, the essential function of a trade mark is to describe "the purpose and rationale of trade marks."[88] Another rationale for trade mark protection is the fact that trade marks have been in existence since primitive man began to trade with his animals, and the "branding of cattle and other animals" developed as the first kind of marking.[89] Despite the nuances surrounding its history, a trade mark's fundamental function is therefore to identify products and their origin.

In modern times, the owner of a new product may apply to register his or her trade mark under the applicable rules in the territory where that particular product will be sold or marketed.[90] The historical development of trade mark protection is nevertheless important since trade mark protection has been known to protect the economic trading activities of man.[91] Furthermore, in the modern era, "the value of trademarks to both consumers and owners is an incentive to preservation, and the exclusive ownership"[92] of an established trade

86. For instance, in *Arsenal FC v. Reed*, the ECJ said "the essential function of a trademark is to guarantee the identity of origin of the marked goods [. . .]." Case C-206/01, Arsenal Football Club plc v. Reed, 2002 E.C.R. I-10299, ¶ 48. *See also Hoffman-La Roche*, where the court said that the essential function of a trademark is to guarantee the identity of the origin of the trade-marked product to the consumer and to prevent confusion and interference. Case 102/77, Hoffmann-La Roche v. Centrafarm, 1978 E.C.R. 1139, ¶ 7.

87. Case C-9/93, IHT Internationale Heiztechnik GmbH v. Ideal-Standard GmbH, 1994 E.C.R. I-2789, 3 C.M.L.R. 857 (1994), especially ¶ 37, where the court said, "for the trademark to be able to fulfill its role, it must offer a guarantee that all goods bearing it have been produced under the control of a single undertaking which is accountable for their quality." (citing Case C-10/89, SA CNL-SUCAL NV v. HAG GF AG, 1990 E.C.R. I-3752, ¶ 13.)

88. *See* TRITTON ET AL., *supra* note 52, at 261. For earlier discussions on trademarks quality *see generally* Schechter, *supra* note 76.

89. Sidney A. Diamond, *The Historical Development of Trademarks*, 73 TRADEMARK REP. 222, 223 (1983). The early development or discovery of trademarks has been credited to archaeologists and other collectors who were not concentrating on trademarks. For more on this, see generally *id.* Diamond explained that in legal writings there have been nuances surrounding the historical development of trademarks and cited inconsistencies with the invention of pottery, which was claimed to have been invented in China in 2698 BC but was also found in Egyptian tombs in 3500 BC. *See id.* at 222–23. Other claims to the early discovery of trademarks have been made, but it would be beyond the scope of this article to get into the proper historical developments of trademarks.

90. *Compare* Besen & Raskind, *supra* note 78, at 21 (identifying the origin of trademark protection with the medieval guild practice of affixing an identifying mark to a goblet or like product) *with* Diamond, *supra* note 89, at 223 (identifying various inconsistencies with the origin of trademarks).

91. *See* Patricia Kimball Fletcher, *Joint Registration of Trademarks and the Economic Value of a Trademark System*, 36 U. MIAMI L. REV. 297, 302–03 (1982).

92. *See id.* at 325.

mark. On the one hand, trade mark owners benefit from exclusive ownership in order to properly deploy their trade mark-protected goods or services; on the other hand, consumers benefit from quality and choice under a trade mark system "that preserves trademarks as source identifiers," leading to economies of scale and lower prices.[93] Thus, it is hard for one to ignore the economic effect of trade marks.[94]

B. Do Trade Marks Create Monopolies?

A trade mark is a form of property and as a form of property it becomes valuable to the "extent that it carries with it some degree of monopoly power."[95] The economic effect of trade marks is felt once trade mark protection has been granted.[96] As Papandreou explained in his 1956 article, the exclusiveness of a monopoly has not changed in modern times, since a monopoly entails "the power to affect the choice or decision of the buyer."[97]

In a regulatory environment where antitrust laws are shaped to curb the market power of firms—if a firm gains too much market power it is deemed a monopoly and thus in breach of antitrust laws—then there should be no exception for trade mark protection. In trade marks, monopolies are created from the 'exclusivity' and the 'absoluteness' of the mark.[98] Firms with well-known marks are able to corner the consumer with effective advertising, market entry barriers for other firms, and thus create monopoly profits.[99] Consumers caught in the middle may pay little attention to the market power of the firm and thus find it impossible to tell whether they are benefiting from lower search costs, or are enhancing the monopoly profits of the firm.[100]

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93. *See id.* at 326–27.

94. For a concise discussion of some of the economic roles of trademarks, such as helping the consumer to identify the "unobservable features of the trademarked product," see Nicholas S. Economides, *The Economics of Trademarks*, 78 TRADEMARK REP. 523, 526 (1988).

95. A.G. Papandreou, *The Economic Effect of Trademarks*, 44 CALIF. L. REV. 503, 504 (1956).

96. *Id.* ("The essence of this power is the asymmetrical character of the seller-buyer relationship. The seller, if he has monopoly power, sets his price in full view of the anticipated reaction of the buyer to the set price. The capacity of the seller to set higher alternative prices without losing all his customers to competitors is the evidence of his monopoly power. In view of this concept of monopoly power, it follows that to argue that a trademark has been put to influential use is tantamount to arguing that it has given rise to monopoly power.").

97. *Id.*

98. *See* Dan Shanahan, *The Trademark Right: Consumer Protection or Monopoly*?, 72 TRADEMARK REP. 233, 240 (1982).

99. *See id.* at 248.

100. For similar arguments, see Dan Shanahan, *The Trademark Right: Consumer Protection or Monopoly?*, 72 TRADEMARK REP. 233, 248–49 (1982).

Monopolies or firms with excess market power reduce consumer choice and place on the consumer higher purchasing costs by raising prices.[101] Monopolies also impose what economists call a '"deadweight loss' on society by reducing their output below the level which consumers would be willing to purchase at a competitive price."[102] The intellectual property system, which grants monopoly rights to investors by the granting of patents, has been compared to the government system that pays rewards to innovators and found that the intellectual property system does not have much advantage over the government rewards system.[103]

The question then becomes whether trade mark protection creates monopolies.[104] This question is not new and has been posed several times in the literature on both law and economics.[105] According to Economides, "[c]ontrary to a widespread belief, competition is not always beneficial to society,"[106] and three distortions may result from perception advertising.[107] "By perception advertising, a mental image may be added to the quality and variety features of a trademarked product, permitting competition in yet another dimension."[108] The three possible distortions are:

> (a) the ability of firms to differentiate products in perceived features may result in more than the optimal number of brands, counteracting economies of scale; (b) precommitted advertising may initially create monopoly power and profits, which then result in the entry of more than the optimal number of firms and the underproduction of each brand; and (c) perception advertising may distort purchasing decisions, depending on whether mental images are considered

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101. *See* Lemley, *supra* note 77, at 241.

102. *Id.*; *see also* Barnes, *supra* note 76, at 39 (stating that deadweight loss results from the failure to supply search information to people who would be willing to pay some amount greater than the marginal cost of supplying a good to them but less than the price with a mark-up to cover the cost of producing search information).

103. *See* Steven Shavell & Tanguy van Ypersele, *Rewards Versus Intellectual Property Rights,* 44 J.L. & ECON. 525, 525–26 (2001).

104. In hindsight, the straightforward answer is affirmative "since a trademark is principally an open ended monopoly for exclusive use—a monopoly that is legally assigned and enforced by extending the property rights concept far into the realm of intangibles." Hannes Rösler, *The Rationale for European Trade Mark Protection*, 29 EUR. INTELL. PROP. REV. 100, 100 (2007); *see also* Papandreou, *supra* note 95, at 504.

105. *See, e.g.*, Economides, *supra* note 94, at 532 (citing EDWARD CHAMBERLIN, THE THEORY OF MONOPOLISTIC COMPETITION 56–70 (8th ed. 1969) [hereinafter CHAMBERLIN 8th ed.]).

106. Economides, *supra* note 94, at 533.

107. *Id.* at 532.

108. *Id.*

> valuable. These potential distortions, however, are more than offset by the efficiencies arising from a trademark's ability to distinguish between goods with unobservable variances in quality and variety features.[109]

These views by Economides are interesting, and the above passage captures both the law and economics of trade marks, as well as the overriding theme of this article: that trade marks create monopolies.

One of the earliest known court cases where trade mark protection was equated with monopoly was the eighteenth-century English case *Blanchard v. Hill*.[110] The case concerned a charter granted by King Charles to a card-maker who was given the exclusive right to use a certain stamp.[111] The court refused to enjoin a second card-maker from using the same stamp on his playing cards.[112] During the course of the opinion, Lord Hardwicke referred to the charter as "one of those monopolies which were so frequent" under certain earlier monarchs.[113] This tells us that the courts have always treated trade marks as another form of intellectual property: monopolies. Trade mark protection seemed to enjoy a certain period of monopoly protection, however, before it was again brought before the courts due to the enactment of antitrust law in the United States, and other consumer protection laws in parts of Europe, prior to the creation of the European Union. Outside of the courts, academic literature on the law and economics of trade marks took the debate to a new level.

The literature on the law and economics of trade marks is not so large and it is at best divided into two competing camps: the Harvard School and the Chicago School (and to be fair to Europe, the Austrian School).[114] The Chicago School is often seen as the more domineering of the two schools, as is evidenced in the writing of scholars such as Landes & Posner, and Barnes. The law and economics of other areas of intellectual property on the other hand, is voluminous, in particular relating to copyrights and patents.[115]

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109. *Id.*

110. *See Blanchard*, (1742) 26 Eng. Rep. *supra* note 47, at 692–94 (2 ATK 484–86); for comments, see, for example, Norma Dawson, *English Trade Mark Law in the Eighteenth Century: Blanchard v. Hill Revisited—Another 'Case of Monopolies'?*, 24 J. LEGAL HIST. 111 (2003).

111. *Blanchard*, (1742) 26 Eng. Rep., *supra* note 47, at 692–93 (2 ATK 484–85).

112. *Id.*

113. *Id.* at 693.

114. *See, e.g.*, JONES & SUFRIN, *supra* note 60, at 33 ("The Austrian School embraces a theory of dynamic competition which goes beyond that advanced by Schumpeter.").

115. The modern literature has its historical foundation in the legacy of Frank I. Schechter's 1927 seminal article, see *supra* note 76. Since then, the economic effects of trademarks have

The different sets of literature used in this paper thus far reveals one thing—they all advocate different approaches to the economic analyses of trade marks. For instance, Professor David Barnes argues that a trade mark is a public good and "the entire trademark literature has failed to appreciate the market failures associated with the supply of trademarks and the information they provide about products and sources of products."[116] This recent work by Professor Barnes is impressive and gives a thorough discussion of trade marks as public goods. He argues that public goods theory demonstrates that market failures justify government intervention and therefore are similar to other branches of intellectual property such as patents and copyrights. This thesis supports my argument that the relationship between trade marks as a branch of intellectual property and antitrust needs clarification.[117] Another argument that is quite popular in the literature is that trade mark is a tool for pursuing efficiency.[118] This argument is represented in the scholarship of Landes & Posner, using an economic model of property rights.[119] Furthermore, even more recent scholarship argues that "property-based trademark protection risks . . . creating unjustified and inappropriate market power."[120]

The two sparring camps on the literature on the law and economics —the Chicago School and the Harvard School—both have their advantages and disadvantages. The Chicago School[121] of thought, as developed by Posner, argues that trade mark protection lowers the

appeared roughly every ten years, see for instance Papandreou, *supra* note 95. This began to change course with Richard Posner's economic analysis of the law, RICHARD A. POSNER, ECONOMIC ANALYSIS OF LAW (1974), and subsequent works such as William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265 (1987) [hereinafter *Trademark Law*] and also sources cited therein; other notable economic analyses of trademark law in recent years include Barnes, *supra* note 76, at 35 (arguing that trademarks are a species of public goods, in particular, mixed public goods).

116. Barnes, *supra* note 76, at 24.

117. *Id.* at 35.

118. *Trademark Law*, *supra* note 115, at 265–66.

119. *Id.* at 266–68.

120. Glynn S. Lunney, Jr., *Trademark Monopolies*, 48 EMORY L.J. 367, 373 (1999).

121. The Chicago School of law and economics is more dominating in the literature to the extent that there is no "alternative account of trademark law doctrine." *Semiotic Analysis*, *supra* note 73, at 623–24; *see generally Trademark Law*, *supra* note 115.

consumer search cost,[122] while the Harvard School centers on the monopolistic nature of trade marks.[123]

The Chicago School analysis of antitrust is entrenched in the model of perfect competition which is based on the assumption that all sellers sell a homogenous product so that buyers are indifferent about from whom they buy if prices are the same.[124] This is by no means the only assumption of the model of perfect competition on which the Chicago School is based. The model also assumes that each seller is small in proportion to the entire market so that his determinations about output and price do not affect output and price in the market, that all sellers have the same access to all kinds of inputs, and that all participants have full knowledge about all the relevant factors in the market.[125]

The Harvard School (the monopolist school of thought) argues that trade mark protection, through the control of distinct product markets by their owners, inherently leads to monopoly.[126] This article fits within this camp. Regardless, these schools of thought add considerable support for the rational basis of trade mark protection, and seemingly agree that trade marks reduce the consumer's search cost and open more choices to the consumer. Thus, the consumer is able to distinguish quality goods from those whose origin may not necessarily be of the same standard. The results of the early case law discussion and the economic literature suggests that trade marks evolve into monopolies.

IV. TRADE MARK DISTINCTIVENESS AND ECONOMIC DISTINCTIVENESS

A recent empirical study reported that 26.7% of respondents thought that the word "wonderful" indicated the source of the chocolate coconut macaroons (cookies) depicted in the stimulus, even when the authors regarded the use as 'non-trademark use' and placed the word in small font at the bottom-right-hand corner of the package.[127] The authors advocated abandoning the non-inherently distinctive category of

122. For empirical evidence in support of search cost rationale, see I.P.L. Png & David Reitman, *Why are Some Products Branded and Others Not?*, 38 J.L. & ECON. 207, 208–11 (1995).

123. *See, e.g.*, CHAMBERLIN 8th ed., *supra* note 105, at 56–70, 270–74; Lunney, Jr., *supra* note 120, at 368 (especially n.6); Papandreou, *supra* note 95, at 504.

124. *See, e.g.*, HOVENKAMP, *supra* note 34, § 1.1(a).

125. *See id.*

126. *See* Lunney, Jr., *supra* note 120, at 370.

127. *See* Thomas R. Lee et al., *An Empirical and Consumer Psychology Analysis of Trademark Distinctiveness*, 41 ARIZ. ST. L.J. 1033, 1090, 1097, fig. 5d. (2009).

word marks in the threshold evaluation of trade mark distinctiveness.[128] Although the authors admitted that their proposal is "heretical," [129] this part of the article will seek to actually develop the arguments for distinctiveness and examine more closely what this article terms the economics of distinctiveness in trade marks. The arguments are centered primarily on analysis of cases in the ECJ and the Office for Harmonization of the Internal Market (Trade Marks and Designs) (OHIM).

Professor Barton Beebe has identified two forms of trade mark distinctiveness, namely "source distinctiveness, which describes the trademark's distinctiveness of source, and differential distinctiveness, which describes the trademark's distinctiveness from other trademarks."[130] These two forms of trade mark distinctiveness form part of the overall concept of distinctiveness in trade mark law, and the concept of distinctiveness "is the hinge on which trademark law turns."[131] It is an undisputed fact that "[t]rade marks are a source of information[;] [t]hey are the byproduct of market enterprise and market place competition."[132] As such, trade marks' distinctiveness is an essential component of the registration of trade marks.[133]

A trade mark becomes eligible for registration when it has, among other things, a distinctive character. Under the EU's Trade Marks Directive, a trade mark may be refused registration or declared invalid where it is registered, if it is found to be "devoid of any distinctive character."[134] On a comparative note, similar language can be found in similar statutes in other jurisdictions. For example, under Section 41 of

128. *Id.* at 1038.

129. *Id.* at 1039.

130. *Semiotic Analysis*, *supra* note 73, at 621; *see also* Barton Beebe, *Search and Persuasion in Trademark Law*, 103 MICH. L. REV. 2020, 2028 (2005).

131. GRAEME B. DINWOODIE & MARK W. JANIS, TRADEMARK LAW AND THEORY: A HANDBOOK OF CONTEMPORARY RESEARCH 52 (2008).

132. CATHERINE COLSTON & KIRSTY MIDDLETON, MODERN INTELLECTUAL PROPERTY LAW 501 (2d ed. 2005).

133. As recently argued by one scholar, "trade mark law only protects 'distinctive' marks, because only distinctive marks are likely to signify product source to consumers and because effective competition requires that competitors have access to commonplace, descriptive, and generic words and symbols." Margreth Barrett, *Internet Trademark Suits and the Demise of "Trademark Use"*, 39 U.C. DAVIS L. REV. 371, 378 (2006) [hereinafter Barrett, *Internet Trademark Suits*].

134. Directive 2008/95/EC, *supra* note 14, at L 299/27; "[T]he grounds for refusal or invalidity concerning the trade mark itself, for example, the absence of any distinctive character." *Id.* at L 299/26.

the Australian Trade Marks Act,[135] distinctiveness is a condition of registration,[136] and in other parts of the Australian Trade Marks Act, a lack of distinction may be used to oppose registration of the mark.[137]

In addition, a lack of distinctiveness may be used to rectify the register and cancel a mark.[138] Furthermore, the concept of distinctiveness is key to determining whether there has been an infringement.[139] Distinctiveness under Section 41 of the Australian Trade Marks Act has been tested on several occasions before Australian courts, where the courts confirmed that Section 41 conceives three methods by which a word or symbol may be capable of distinguishing the applicant's goods or services from goods or services of other persons.[140]

In the United States, distinctiveness is covered by the Lanham Trademark Act,[141] where eligibility for trade mark protection requires that the mark be distinctive and used in commerce.[142] The 'distinctiveness' requirement in the United States addresses a trade mark's capacity for identifying and distinguishing goods and services from one producer.[143] Trade marks are traditionally divided into four categories of distinctiveness: arbitrary/fanciful, suggestive, descriptive, and generic.[144] These four conditions were earlier established in *Abercrombie & Fitch v. Hunting World*, pertaining to word marks.[145]

To ascertain the distinctiveness criteria in Europe, this article will turn to cases from the ECJ and the Board of Appeals of the OHIM, but

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135. *Trade Marks Act 1995* (Cth) (Austl.). Under Section 41, there are indications of three main types of distinctiveness. First, Section 41(3) provides "the trade mark is inherently adapted to distinguish . . ."; second, Section 41(5) provides that "the trade mark is to some extent inherently adapted to distinguish . . . that the mark is capable of so distinguishing . . ."; and last, Section 41(6) provides that "the trade mark is not to any extent inherently adapted to distinguish."

136. *Id.* § 41(2).

137. *Id.* §§ 41(2), 88(1)(a)–(2)(a).

138. *Id.*

139. *See id.* § 120.

140. *Id.* § 41. Therese Catanzariti, Mark of Cain—Distinctiveness in the Trade Marks Act 5 (unpublished manuscript) (on file with the Loyola of Los Angeles International and Comparative Law Review) (citing Unilever Austl. Ltd. v. Karounos (2001) 113 FCR 322, 335 ¶ 46 (Austl.)) available at http://www.13wentworthselbornechambers.com.au/pdfs/distinctivenessintrademarklaw.pdf; *see also* Chocolaterie Guylian NV v. Registrar of Trade Marks (2009) 82 IPR 13 (Austl.); ROBERT R. BURRELL & MICHAEL M. HANDLER, AUSTRALIAN TRADEMARK LAW 77–138 (2011).

141. *See generally* Lanham Act, *supra* note 9.

142. *Id.* §§ 1051(b)(3)(B), (D).

143. *Id.* § 1052.

144. Zatarains, Inc. v. Oak Grove Smokehouse, Inc., 698 F.2d 786, 790 (5th Cir. 1983).

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

first will properly define distinctiveness[146] and try to make sense, if any, out of economic distinctiveness.

A. 'Distinguish' and 'Distinctive': The Dichotomy of Distinctiveness

One of the recurring features, or more precisely, frequent words in the various trade mark laws mentioned above is the appearance of the verb 'distinguish' or its adjective 'distinguishing.'[147] The meaning of a word or phrase has an impact on how the law is interpreted. In hindsight, one could easily argue that the verb 'distinguish' points out a difference between two people or things. Similarly, it could be argued that the adjective 'distinctive,' from which 'distinctiveness' is derived, serves to distinguish a person or thing from others. As coherent (or perhaps incoherent) such an argument may be, it is not authoritative for the purposes of legal interpretation, although some courts refer to dictionaries for literal interpretation of words in order to reach a decision.[148] Depending on the jurisdiction, courts and arbitrators generally turn to dictionaries in their language or versions of a language to obtain precisely the meaning of words that need interpretation for legal purposes.[149] This article relies on Webster's College Dictionary to argue that 'distinguish' means "to mark off as different" or "to set apart as different."[150] 'Distinctive' is also defined in the same dictionary as "serving to distinguish; characteristics."[151]

In a legal context, consumers in the Anglo-Saxon world are easily informed by the mark 'Coca-Cola' that the item is a genuine product of The Coca-Cola Company Inc.; however, consumers outside the Anglo-Saxon world, might easily confuse the sign 'Coco-Coke' or 'Coca-Colla' as that of The Coca-Cola Company Inc., when it is in fact that of a domestic rival marketing a similar product to stimulate healthy competition in the economy.[152] The argument here is that because

146. A mark that is inherently distinctive qualifies for registration under the Lanham Act. Lanham Act, *supra* note 9, § 2(f). Furthermore, a mark can also qualify for trade mark protection under Section 2(f) of the Lanham Act if the mark has become distinctive through use in connection with the applicant's goods commerce, known as acquired distinctiveness. *See* In re Chippendales USA, Inc., 622 F.3d 1346, 1350–52 (Fed. Cir. 2010).

147. *See, e.g.*, *Trade Marks Act* 1995 § 41.

148. *See, e.g.*, CSX Transp., Inc. v. Ala. Dept. of Revenue, 131 S. Ct. 1101, 1108 (2011).

149. *Id.*

150. RANDOM HOUSE WEBSTER'S COLLEGE DICTIONARY 358 (2005).

151. *Id.*

152. *See* Rory Carroll, *Coca Colla: The New 'Real Thing' in Bolivia*, GUARDIAN.CO.UK (Apr. 14, 2010, 19:23 BST), http://www.guardian.co.uk/world/2010/apr/14/coca-colla-real-thing-bolivia. For similar line of arguments, see generally Dinwoodie & Janis, *supra* note 1 (examining trademark use theory).

"[t]rademark law centers its analysis on consumer confusion . . . the basic rule of trademark law is that a defendant's use of a mark is illegal if it confuses a substantial number of consumers."[153] Furthermore, due to the current state of law, the judiciary increasingly exercises a "willingness to find an actionable likelihood of confusion" of any unauthorized use of a strong trade mark "with the potential to undermine the symbol's trademark distinctiveness."[154]

According to Professor Barton Beebe, the traditional notions of 'inherent' and 'acquired' distinctiveness tend to be confusing, not clarifying.[155] This article strives, therefore, to provide a proper definition of distinctiveness in trade mark law. Professor Beebe himself provides the following explanation:

> Under current doctrine, to fall within the subject matter of trademark protection, a trademark must be found to be inherently distinctive or to possess acquired distinctiveness. An inherently distinctive trademark is one whose signifier cannot reasonably be understood to be descriptive or decorative of the product to which it is affixed.[156]

In order to ascertain inherent distinctiveness in trade mark litigation, trade marks must be "suggestive" and "arbitrary or fanciful."[157] In contrast, acquired distinctiveness evolves through "secondary meaning."[158] Secondary meaning is achieved when a mark has become so distinctive that the public closely associates the mark with a single source.[159] Trade marks with inherent distinctiveness, however, are marks that are capable of functioning immediately upon use.[160]

The ECJ's decision in *Baby-Dry* defined the nature of distinctiveness in the EU.[161] The Court said that the term 'Baby-Dry' was an invented term and as such does not form part of the English

153. Mark A. Lemley & Mark McKenna, *Irrelevant Confusion*, 62 STAN. L. REV. 413, 414 (2010).

154. Jessica Litman, *Breakfast with Batman: The Public Interest in the Advertising Age*, 108 YALE L. J. 1717, 1722 (1999).

155. *See supra* note 131, at 52.

156. Beebe, *supra* note 73, at 669–70.

157. *Abercrombie & Fitch Co.*, 537 F.2d at 9.

158. *See* Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 769 (1992), where the Court described trade marks with "secondary meaning" as those which "may acquire the distinctiveness which will allow them to be protected under the [US Lanham] Act."

159. *Id.* at 765, n.4.

160. *See id.* at 770.

161. Case C-383/99 P, Procter & Gamble v. Office for Harmonisation in the Internal Mkt. (Trade Marks and Designs) (OHIM), 2001 E.C.R. I-6251, ¶¶ 39–42.

language, making it eligible for registration.[162] The Court reasoned that such words "are lexical inventions bestowing distinctive power on the mark so formed and may not be refused registration."[163] The case concerned an application filed by Procter & Gamble for a CTM regarding disposable diapers for babies, which was refused registration for being devoid of any distinctive character.[164] Upon appeal to the ECJ, the Court reversed the OHIM decision and thus defined distinctiveness in the EU.[165]

Overall, distinctiveness is a broad term that has littered trade mark litigation and is merely what Professor Beebe refers to as "a general term which trademark lawyers have long used to refer indiscriminately—and apparently unwittingly—to one or the other of two very different species of distinctiveness."[166]

B. Economic Distinctiveness

U.S. Supreme Court Justice Blackmun once proclaimed that the "free flow of commercial information is indispensable."[167] His proclamation confirms the widely held theory that trade marks reduce consumer search cost, given that "consumer acquisition of information has a search cost,"[168] and the "informational efficiency of trademarks permits entry at a low cost, particularly when consumers already recognize a trademark from another market."[169] In addition, the search cost rationale for trade mark protection has been echoed by several scholars, such as Professor Nicholas Economides, who argued that from

162. *Id.* ¶ 43. The court further stated: "Whilst each of the two words in the combination may form part of expressions used in everyday speech to designate the functions of babies' nappies, their syntactically unusual juxtaposition is not a familiar expression in the English language, either for designating babies' nappies or for describing their essential characteristics." *Id.*

163. *Id.* ¶ 44.

164. *Id.* ¶¶ 4–5.

165. *Id.* ¶¶ 39–46.

166. Beebe, *Search and Persuasion*, *supra* note 130, at 20–28.

167. Va. State Bd. of Pharmacy v. Va. Citizens Consumer Council, Inc., 425 U.S. 748, 765 (1976).

168. William P. Kratzke, *Normative Economic Analysis of Trademark Law*, 21 MEMPHIS STATE L. REV. 199, 215 (1991); *see also* Qualitex Co. v. Jacobson Prods. Co., 514 U.S. 159, 163–64 (1995).

> [T]rademark law, by preventing others from copying a source identifying mark, "reduce[s] the customer's costs of shopping and making purchasing decisions," (citation omitted) for it quickly and easily assures a potential customer that *this* item—the item with this mark—is made by the same producer as other similarly marked items that he or she liked (or disliked) in the past.

Id.

169. Kratzke, *supra* note 168, at 217.

an economic standpoint, the argument for trade marks is an easy one.[170] In plain language, Economides explained that the economic role of the trade mark is to help the consumer identify the unobservable features of the trade marked product.[171]

Taking a cue from this statement, where the words 'economic' and 'unobservable' are in the same sentence,[172] it is possible to argue that these words form the nuclei of economic distinctiveness—which, in trade mark law, is the ability of a trade mark proprietor who seeks registration to be able to distinguish his goods or services from that of the competitor. The proprietor has invented a new word, sign, or symbol that is capable of being represented graphically to be the source of information for his goods and services. The trade mark proprietor seeks to foster competition by being able to distinguish himself and reap the economic benefits of his distinctiveness.

Thus in its broadest sense, economic distinctiveness in trade mark law "reduces consumer search costs, promotes market place efficiency, and enables producers to reap the benefits of their investment in product quality and business goodwill, thus providing an incentive to strive for quality."[173] On the other side of the coin is the need for competitors to be in one or more product markets, and the presence of a competitor in more than one product market affects consumer perceptions of trade marks in those markets, and eventually, the messages that trade marks convey.[174]

C. Distinctiveness in SAT.2*: As Seen by the ECJ*

The trade mark regime in the EU is an autonomous system with its own set of rules and objectives peculiar to it and applied independently

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170. *See* Economides, *supra* note 94, at 526–27.

> In many markets, sellers have much better information as to the unobservable features of a commodity for sale than the buyers. This is known as information asymmetry. Unobservable features, valued by the consumer, may be crucial determinants of the total value of the good. . . . [I]f there is a way to identify the unobservable qualities, the consumer's choice becomes clear . . . . The economic role of the trademark is to help the consumer identify the unobservable features of the trademarked product. This information is not provided to the consumer in an analytic 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.

Id.

171. *Id.* at 526.

172. *Id.*

173. Barrett, *Internet Trademark Suits*, *supra* note 133, at 376.

174. Kratzke, *supra* note 168, at 209.

of any national system.[175] This autonomous system of trade mark regime in the EU has consistently been confirmed by the highest judicial body—the ECJ. The ECJ has held that distinctiveness needs to be viewed as a whole and has set aside a judgment of the General Court (previously known as the Court of First Instance).[176]

In *SAT.2*, the General Court had found that the OHIM had not infringed Article 7(1)(b) of Regulation 40/94 (now the CTMR) by refusing to register as a Community trade mark the term 'SAT.2,' in respect of services which are connected with satellite broadcasting.[177] The bone of contention in *SAT.2* was the German broadcaster SAT.1's application to register the mark 'SAT.2' as a CTM for certain goods and various services, mainly in the media and information sector.[178] The OHIM refused the application on the ground that that term was devoid of any distinctive character.[179] SAT.1 contested the OHIM's decision before the General Court which focused on the interpretation of Article 7(1)(b) of Regulation 40/94.[180]

Article 7(1)(b) of Regulation 40/94 states that trade marks devoid of any distinctive character shall not be registered, unless "the trade mark has become distinctive in relation to the goods or services for which registration is requested in consequence of the use which has been made of it."[181] The General Court annulled the decision of the OHIM in relation to all other services, but stated that there was an absolute ground in refusing to register the trade mark with regard to services that have a connection to satellite broadcasting.[182]

The General Court's decision was appealed before the ECJ, which rendered its decision on September 16, 2004.[183] The ECJ confirmed that

> the essential function of a trade mark is to guarantee the identity of the origin of the marked product to the consumer or end-user by

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175. *See* Case C-488/06, L & D SA v. Office for Harmonisation in the Internal Mkt. (Trade Marks and Designs) (OHIM) (citing Case C-238/06 P, Develey Holding GmbH & Co. Beteiligungs KG v. Office for Harmonisation in the Internal Mkt. (Trade Marks and Designs) (OHIM), 2007 E.C.R. I-9375, ¶¶ 65–66)).

176. Case C-329/02 P, SAT.1 SatellitenFernsehen GmbH v. Office for Harmonisation in the Internal Mkt. (Trade Marks and Designs) (OHIM), 2004 E.C.R. I-8338, ¶ 25.

177. *Id.* ¶¶ 9–15.

178. *Id.* ¶ 6 (stating that the application was made on April 15, 1997).

179. *Id.* ¶ 8.

180. *Id.* ¶ 9.

181. CTMR, *supra* note 7, art. 7(3) (the OHIM decision was also contested under Article 7(1)(c)).

182. *SAT.1*, 2004 E.C.R. I-8338, ¶ 12.

183. *Id.* at 1.

> enabling him, without any possibility of confusion, to distinguish the product or service from others which have another origin.[184]

The Court held, "Article 7(1)(b) of the regulation is thus intended to preclude registration of trade marks which are devoid of distinctive character which alone renders them capable of fulfilling that essential function."[185] It reasoned that

> in order to determine whether a sign presents a characteristic such as to render it registrable as a trade mark, it is appropriate to take the viewpoint of the relevant public. Where the goods or services with which the registration application is concerned are intended for all consumers, the relevant public must be deemed to be composed of the average consumer, reasonably well-informed and reasonably observant and circumspect.[186]

Further, the Court held that

> as regards a trade mark comprising words or a word and a digit . . . the distinctiveness of each of those terms or elements, taken separately, may be assessed, in part, but must, in any event, depend on an appraisal of the whole which they comprise.[187]

Citing *Campina* and *KPN*,[188] the Court said that the mere fact that each of those elements, considered separately, "is devoid of distinctive character does not mean that their combination cannot present a distinctive character."[189] The ECJ in *SAT.2* said the General Court misinterpreted the provision of Article 7(1)(b) and failed to make an examination of the distinctive character of a compound trade mark "as a whole."[190] The General Court based its decision

> on the presumption that elements individually devoid of distinctive character cannot, on being combined, present such a character instead of, as it should have done, on the overall perception of that word by the average consumer.[191]

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184. *SAT.1*, 2004 E.C.R. I-8338, ¶ 23 (citing Case 102/77, Hoffmann-La Roche v. Centrafarm, 1978 E.C.R. 1139, ¶ 7).

185. *Id.*

186. *Id.* ¶ 24.

187. *Id.* ¶ 28.

188. Case C-265/00, Campina Melkunie BV v. Benelux-Merkenbureau, 2004 E.C.R. I-1705, ¶¶ 40–41; Case C-299/99, Koninklijke Philips Elecs. NV v. Remington Consumer Prods. Ltd., 2002 E.C.R. I-5490, ¶¶ 99–100.

189. *SAT. 1*, 2004 E.C.R. I-8338, ¶ 28.

190. *Id.* ¶¶ 29–30.

191. *Id.* ¶ 35.

The ECJ observed that "[r]egistration of a sign as a trade mark is not subject to a finding of a specific level of linguistic or artistic creativity or imaginativeness on the part of the proprietor of the trademark," but rather that "the trademark should enable the relevant public to identify the origin of the goods or services protected thereby and to distinguish them from those of other undertakings."[192] Furthermore, the Court argued that the "frequent use of trade marks consisting of a word and a number in the telecommunications sector indicates that that type of combination cannot be considered to be devoid, in principle, of distinctive character,"[193] and went on to annul the General Court's ruling.

In later cases, the ECJ followed reasoning similar to that in *SAT.2* by arguing that the assessment of a compound mark

> of its distinctive character cannot be limited to an evaluation of each of its words or components, considered in isolation, but must, on any view, be based on the overall perception of that mark by the relevant public and not on the presumption that elements individually devoid of distinctive character cannot, on being combined, have a distinctive character.[194]

In *Eurohypo*, the Court said that the correct way to interpret Article 7 is to do a separate and independent examination of the grounds for refusal listed in Article 7(1) of the CTMR.[195]

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192. *Id.* ¶ 41.

193. *Id.* ¶ 44.

194. Case C-304/06, Eurohypo AG v. Office for Harmonisation in the Internal Mkt. (Trade Marks and Designs) (OHIM), 2008 E.C.R. I-03297, ¶ 41.

195. *Id.* ¶ 54. Eurohypo AG was denied registration of the word/sign "EUROHYPO" by OHIM, which essentially "held that the components EURO and HYPO contained a clearly understandable indication of the characteristics" of financial services in class 36 of the Nice Agreement and that:

> the combination of those two components in one word did not render the mark less descriptive. Therefore, it held that the word sign EUROHYPO was descriptive of "financial affairs; monetary affairs; real estate affairs; provision of financial services; financing" and that it was, therefore, devoid of any distinctive character within the meaning of Article 7(1)(b) [of the Community trade mark regulation], at least in German-speaking countries, and that that ground was sufficient, under Article 7(2) of the regulation, to justify a refusal of protection.

Id. ¶ 10. The OHIM decision was contested before the General Court in 2004 claiming infringement of Article 74(1) and Article 7(1)(b) of the Community trademark regulation. The General Court rejected both pleas, which was appealed to the EUCJ, which in turn dismissed the action against the OHIM and set aside the judgment of the General Court. *Id.* ¶¶ 11, 13, 23, 65.

D. Acquired Distinctiveness

1. The OHIM Board of Appeals and Acquired Distinctiveness in Color Marks

As with the many developments in trade mark law, one must constantly turn to the judicial bodies for legal guidance and often the state of play. The results of surveys are often some of the more compelling evidence that a proprietor can use to argue that a mark has acquired distinctiveness through use (or secondary meaning, as it is referred in some jurisdictions). Acquired distinctiveness or secondary meaning refers to the situation that arises when a mark might be ineligible for registration were it not for the fact that its use has come to be closely associated with particular goods in a relevant market.[196]

In a recent decision, the Board of Appeals of the OHIM confirmed the examiner's decision that Andreas Stihl AG & Co KG's[197] color mark was not inherently distinctive, but held that the mark had acquired distinctive character under Article 7(3) of the CTMR. The Board of Appeals relied mostly on survey evidence and other evidence on its distribution channels in the Community submitted by Stihl, which showed that it has used the mark in all of the relevant Member States of the EU and that by far it is the market leader in the specific, definable market segment of power-driven cut-off saws or hand-held chainsaws.[198]

The case by Stihl arose from an application to the OHIM in 2005 for a CTM under "class 7" for power tools, and claimed the colors orange and grey; however, in 2007, the mark was refused registration and the examiner argued that the mark "is devoid of any distinctive character to distinguish the goods in question."[199] Stihl appealed the decision and argued that

> even a color *per se* can be inherently distinctive in exceptional circumstances, and particularly where the number of goods . . . for which the mark is claimed for [sic] is very restricted and the relevant market is very specific.[200]

196. *Cf.* Case R 355/2007-4, Andreas Stihl AG & Co. KG, Decision of the Fourth Board of Appeal of 30 November 2009, ¶ 27, *available at* http://oami.europa.eu/LegalDocs/BoA/2007/en/R0355_2007-4.pdf.

197. *Id.* ¶¶ 25–26, 48.

198. *See id.* ¶ 38.

199. *Id.* ¶ 6(d).

200. *Id.* ¶ 7(b).

Having considered the inherent distinctiveness of the mark, the OHIM Board of Appeal concluded that the combination of orange and grey itself could not perform the function of a trade mark and that such distinctiveness would have to have been acquired and the relevant public would have to have become accustomed to the colors as a result of "intense" use.[201]

> Article 7(3) CTMR not only requires intense use of the sign by the appellant, but goes further than that. . . . The identification, by the relevant public, of the product as originating from a given undertaking must be the result of the use of the mark as a trade mark and thus the result of the nature and effect of it, which make it capable of distinguishing the products concerned from those of other undertakings.[202]

Stihl, in its appeal, claimed that the mark in question had acquired distinctiveness in the Community through use within the meaning of Article 7(3) of the CTMR, and consequently was eligible for registration.[203] The Board of Appeals was satisfied that the two market surveys conducted in France and Germany were sufficient for acquired distinctiveness.[204]

> These figures are impressive and come close to the maximum of what can be reasonably obtained in a market survey . . . [and] shows that the majority of the public not only recognises the colours and sees them as a mark, but also has a strong affinity to the producer.[205]

The Board of Appeals argued that at least one of the surveys showed that Stihl acquired distinctiveness in both France and Germany, and therefore could be

> extrapolated to the other Member States of the Community under the proviso that the amount of use is comparable so that it can be expected that the same amount of use triggers the same consumer recognition.[206]

In concluding, the Board of Appeals said Stihl was "successful in demonstrating that the subject-matter of the CTM application in question has acquired distinctiveness . . . within the meaning of Article 7(3) CTMR."[207]

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201. *Id.* ¶ 26.
202. *Stihl*, *supra* note 196, ¶ 30.
203. *Id.* ¶ 28.
204. *Id.* ¶ 45.
205. *Id.* ¶ 42.
206. *Id.* ¶ 45.
207. *Id.* ¶ 48.

2. The ECJ and Acquired Distinctiveness in Slogans: The *Audi* Decision

More recently, the ECJ had the opportunity to review the requirements for distinctiveness in trade mark registration and its ruling was of particular importance. In the *Audi* decision,[208] the ECJ annulled the General Court's refusal[209] to register as a CTM Audi's 'Vorsprung durch Technik'[210] mark for a broad range of goods and services ranging from jewelry to insurance (other than vehicles).[211]

The sequence of events leading up to the *Audi* decision began in the OHIM in 2003 when Audi applied for registration of 'Vorsprung durch Technik' as a CTM under the various classes.[212] The OHIM refused to register the word mark and argued that it constituted a form of "descriptive advertising," and as such is devoid of any distinctive character in respect to those goods and services in the classes for which it applied, but could be accepted for motor vehicles and components.[213]

Audi challenged the findings of the OHIM, and the Board of Appeal "considered that the distinction drawn by the examiner between goods and services relating to technology was dubious."[214] The General Court upheld the Board of Appeal decision, ruling that an advertising slogan was "distinctive only if it could be immediately perceived as an indication of the commercial origin of the goods or services in question."[215] Audi appealed the decision to the ECJ to annul the General Court's decision.[216]

The ECJ argued that "distinctive character must be assessed, first, by reference to the goods or services in respect of which registration has been applied for and, second, by reference to the relevant public's perception of the mark."[217] But the Court directed most of its observation to the word mark, stating that regarding "marks made up of signs or indications that are also used as advertising slogans, indications of quality or incitements to purchase the goods or services covered by

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208. Case C-398/08 P, Audi AG v. Office for Harmonisation in the Internal Mkt. (Trade Marks and Designs) (OHIM), 2010 E.C.R. I-00535, ¶ 18 [hereinafter *Audi II*].

209. Case T-70/06, Audi AG v. Office for Harmonisation in the Internal Mkt. (Trade Marks and Designs) (OHIM), 2008 E.C.R. II-131.

210. Loosely translated as "advantage through technology" or "progress through technology."

211. *Audi II*, 2010 E.C.R. I-00535, ¶ 4.

212. *Id.*

213. *Id.* ¶ 54.

214. *Id.* ¶ 9.

215. *Id.* ¶ 18.

216. *Id.* ¶ 1.

217. *Audi II*, 2010 E.C.R. I-00535, ¶ 34.

those marks, registration of such marks is not excluded as such by virtue of such use."[218] The Court, citing *Merz & Krell* and *OHIM v. Erpo Mobelwerk*, said the distinctive character of such marks was inappropriate to apply to slogan criteria which are stricter than those applicable to other types of signs.[219] The Court reasoned that,

> while the criteria for the assessment of distinctive character are the same for different categories of marks, it may be that, for the purposes of applying those criteria, the relevant public's perception is not necessarily the same in relation to each of those categories and it could therefore prove more difficult to establish distinctiveness in relation to marks of certain categories as compared with marks of other categories.[220]

The ECJ held that

> difficulties in establishing distinctiveness which may be associated with word marks consisting of advertising slogans because of their very nature . . . do not justify laying down specific criteria supplementing or derogating from the criterion of distinctiveness as interpreted in [previous] case-law.[221]

The ECJ was particularly harsh on the General Court regarding what it perceived as an "erroneous interpretation" of the principles that had been established by the case law.[222] The Court said "the General Court did not substantiate its findings to the effect that the mark applied for will not be perceived by the relevant public as an indication of the commercial origin of the goods and services in question" and "merely highlighted the fact that [the] mark consists of, and is understood as, a promotional formula."[223]

> [I]t should be noted that the laudatory connotation of a word mark does not mean that it cannot be appropriate for the purposes of guaranteeing to consumers the origin of the goods or services which it covers. Thus, such a mark can be perceived by the relevant public both as a promotional formula and as an indication of the commercial origin of goods or services. It follows that, in so far as the public perceives the mark as an indication of that origin, the fact that the mark is at the same time understood—perhaps even

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218. *Id.* ¶ 35.
219. *Id.* (citing Case C-517/99, Merz & Krell GmbH & Co., 2001 E.C.R. I-6959, ¶ 40; Case C-64/02 P, Office for Harmonisation in the Internal Mkt. (Trade Marks and Designs) (OHIM) v. Erpo Möbelwerk GmbH, 2004 E.C.R. I-10051, ¶ 41).
220. *Id.* ¶ 37.
221. *Id.* ¶ 38.
222. *Id.* ¶ 40.
223. *Audi II*, 2010 E.C.R. I-00535, ¶ 46.

> primarily understood—as a promotional formula has no bearing on its distinctive character.[224]

Equally, the ECJ said the analysis of Article 7(1)(b) of Regulation 40/94 was misapplied by the General Court. According to the Court, where such marks are not descriptive for the purposes of Article 7(1)(c), "they can express an objective message . . . and still be capable of indicating to the consumer the commercial origin of the goods or services in question."[225] The aura of psychological impact was key to how the ECJ framed the idea of an "objective message" when it stated that, where the mark is not purely an ordinary advertising message, "but possess[es] a certain originality or resonance, requiring at least some interpretation by the relevant public, or setting off a cognitive process in the minds of that public," it can "express an objective message, even a simple one, and still be capable of indicating to the consumer the commercial origin of the good or service in question."[226]

> Even if it were to be supposed that the slogan 'Vorsprung durch Technik' conveys an objective message to the effect that technological superiority enables the manufacture and supply of better goods and services, that fact would not support the conclusion that the mark applied for is devoid of any inherently distinctive character. However simple such a message may be, it cannot be categorized as ordinary to the point of excluding, from the outset and without any further analysis, the possibility that that mark is capable of indicating to the consumer the commercial origin of the goods or services in question.[227]

The ECJ then concluded that the slogan "exhibits a certain originality and resonance which makes it easy to remember."[228] It has been widely used by Audi for years, and as such, "it cannot be excluded that the fact that members of the relevant public are used to establishing the link between that slogan and [Audi] motor vehicles . . . also makes it easier for that public to identify the commercial origin of the goods or services covered."[229]

By its judgment in *Audi*, the ECJ essentially confirmed that evidence of acquired distinctiveness is crucial to the assessment of

224. *Id.* ¶ 45.
225. *Id.* ¶ 57.
226. *Id.*
227. *Id.* ¶ 58.
228. *Id.* ¶ 59.
229. *Audi II*, 2010 E.C.R. I-00535, ¶ 59.

distinctiveness under the European trade mark regime.[230] Similarly, in *Adidas v. Marca*, the ECJ ruled that trade marks are a sign of origin and as such the defendant's mark was similar to that of the plaintiff.[231]

V. ANTITRUST AND TRADE MARK RIGHTS IN THE CONTEXT OF ARTICLE 102 OF THE TFEU

Article 102 is one of the two main antitrust provisions of the TFEU.[232] Article 102 seeks to prevent the abuse of a dominant position, such as a monopoly. Since a trade mark is in essence a legal monopoly, the relationship between trade mark rights and Article 102 is an important one. We are reminded of this important relationship in the ECJ's *Arsenal* case. In *Arsenal*, the ECJ held that trade mark rights constitute an essential component in a system of undistorted competition, which the TFEU intends to establish and maintain.[233] In contrast, in *Magill* the Court examined the substance of Article 102 and intellectual property, notwithstanding its focus on copyright.[234] *Magill* involved an Article 102-based action by Independent Television Publications, Ltd (ITP), Radio and Television of Ireland (RTE), and the British Broadcasting Corporation (BBC), seeking to enjoin Magill, which allegedly abused its dominant position by publishing a comprehensive weekly television guide.[235]

In addition to case law such as *Arsenal*, the legal regime for trade marks in the European Union is covered by the Trade Mark Directive

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230. *See generally id.* ¶¶ 58–59.

231. Case C-102/07, Adidas v. Marca and Others, 2008 E.C.R. I-2439, ¶ 35.

> In the present case, it must therefore be determined whether the average consumer, when he sees sports or leisure garments featuring stripe motifs in the same places and with the same characteristics as the stripes logo registered by Adidas, except for the fact that they consist of two rather than three stripes, may be mistaken as to the origin of those goods, believing that they are marketed by Adidas AG, Adidas Benelux BV or an undertaking linked economically to those undertakings.

Id.

232. Articles 101 and 102 are the main antitrust provisions of the TFEU. Article 102 regulates abusive conducts "by one or more undertakings of a dominant position within the internal market." TFEU, *supra* note 19, art. 102.

233. *Arsenal*, 2002 E.C.R. I-10299, ¶ 47. *See* ¶ 48, where the Court of Justice states "[f]or the trade mark to be able to fulfil its essential role in the system of undistorted competition which the Treaty seeks to establish and maintain, 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."

234. *See generally* Joined Cases C-241 & C-242/91 P, Radio Telefis Eireann (RTE) v. Commission, 1995 E.C.R. I-808.

235. *Id.* ¶¶ 9–10.

and the CTMR,[236] and it is fair to argue that European trade mark law is one of the most harmonized branches of law in the Union. The ECJ frequently churns out trade mark cases interpreting the Trade Mark Directive and the CTMR.[237] Under Article 4 of the CTMR, the signs that comprise a Community trade mark "[are] any signs capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of goods or of their packaging, provided that such signs are capable of distinguishing the goods or services of one undertaking from those of other undertakings."[238]

The ECJ confirmed the legal effect of Article 4 in *Henkel v. OHIM*.[239] In *Henkel*, the Court held that based on Article 4, a product's shape and color clearly fall among the signs that may constitute a Community trade mark.[240] The provisions of Article 7[241] of this regulation are equally important. In *OHIM v. Borco*, the Court discusses provisions of Article 7(1)(b), which states that trade marks devoid of any distinctive character shall not be registered.[242] The ECJ dismissed

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236. CTMR, *supra* note 7; Directive 2008/95/EC, *supra* note 14.

237. *See, e.g.*, Case C-235/09, DHL Express France SAS v Chronopost SA, 2011 E.C.R. ____ (delivered Apr. 12, 2011), *available at* http://curia.europa.eu/juris/document/document.jsf?text=&docid=81436&pageIndex=0&doclang=EN&mode=doc&dir=&occ=first&part=1&cid=212665; Case C-263/09 P, Edwin Co. Ltd v. Office for Harmonisation in the Internal Mkt. (Trade Marks and Designs) (OHIM), 2011 E.C.R. ____ (delivered July 5, 2011), *available at* http://curia.europa.eu/juris/document/document.jsf?text=&docid=106861&pageIndex=0&doclang=EN&mode=doc&dir=&occ=first&part=1&cid=212693; Case C-317/10, Union Investment Privatfonds v UniCredito Italiano SpA, 2011 E.C.R. ____ (delivered June 16, 2011), *available at* http://curia.europa.eu/juris/document/document.jsf?text=&docid=85093&pageIndex=0&doclang=EN&mode=doc&dir=&occ=first&part=1&cid=212712; Case C-96/09, Anheuser-Busch Inc., v Budejovicky Budvar, 2011 E.C.R. ____ (delivered Mar. 29, 2011), *available at* http://curia.europa.eu/juris/document/document.jsf?text=&docid=80814&pageIndex=0&doclang=EN&mode=doc&dir=&occ=first&part=1&cid=212775; Case C-552/09, Ferrero SpA v. Office for Harmonisation in the Internal Mkt. (Trade Marks and Designs) (OHIM), 2011 E.C.R. ____ (delivered Mar. 24, 2011), *available at* http://curia.europa.eu/juris/document/document.jsf?text=&docid=80741&pageIndex=0&doclang=EN&mode=lst&dir=&occ=first&part=1&cid=212799.

238. CTMR, *supra* note 7, ¶ 4; *see also* Directive 2008/95/EC, *supra* note 14, art. 2.

239. Joined Cases C-456/01 & C-457/01 P, Henkel KGaA v. Office for Harmonisation in the Internal Mkt. (Trade Marks and Designs) (OHIM), 2004 E.C.R. I-5115, ¶¶ 30–31.

240. *Id.* ¶ 31.

241. Article 7 of the Regulation lists the absolute grounds for refusal. *See* CTMR, *supra* note 7, art. 7. This list is comparable to the provisions of Article 3 of the Trademark Directive. *See* Directive 2008/95/EC, *supra* note 14, art. 3.

242. *See generally* Case C-265/09 P, Office for Harmonisation in the Internal Mkt. (Trade Marks and Designs) (OHIM) v. BORCO-Marken-Import Matthiesen GmbH & Co. KG., 2010 E.C.R. ____ (delivered Sept. 9, 2010), *available at* http://curia.europa.eu/juris/document/document.jsf?text=&docid=83142&pageIndex=0&doclang=EN&mode=doc&dir=&occ=first&part=1&cid=212903; *see also* CTMR, *supra* note 7, art. 7(1)(b); Directive 2008/95/EC, *supra* note 14, art. 3(1)(b) ("trademarks which are devoid of any distinctive character").

the appeal by the OHIM, however, which claimed that the provisions of Article 7(1)(b) had been incorrectly applied.[243] The Court applied its examination of the distinctive character of a sign based on Article 7(1)(b).[244]

In addition to the Trade Mark Directive and the CTMR, another relevant piece of legislation that regulates Community trade marks is the IP Enforcement Directive.[245] The IP Enforcement Directive lists the measures, procedures and remedies necessary to ensure the enforcement of intellectual property rights.[246] These pieces of legislation have a common purpose in that they protect the monopoly rights of the trade mark owner. Considering this protection, the competition rules set out in Article 102 of the TFEU suggest that consumers (or potential market entrants) can seek remedies under Article 102 specifically against the monopoly rights of trade mark owners.

A. Monopoly Rights Conferred by Article 5 of the Trade Mark Directive in the Context of Article 102 of the TFEU

The wording of Article 5 of the Trade Mark Directive, under the heading "Rights conferred by a community trade mark," is a clear signal that trade mark rights are monopoly rights. The wording is as follows:

> 1. The registered 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 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 mark . . . .[247]

It could be deduced from the above provision of the Trade Mark Directive that the mere conferral of such exclusive rights provides monopoly rights. However, the *Magill* Court argued that the "mere

243. *BORCO*, 2010 E.C.R. ____, ¶ 20.
244. *Id.*
245. Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights, 2004 O.J. (L 195) 16.
246. *Id.* art. 1.
247. Directive 2008/95/EC, *supra* note 14, art. 5(1)(a-b).

ownership of an intellectual property right cannot offer such a [dominant] position."[248] Nonetheless, the Court said that where the appellants enjoy a *de facto* monopoly over the information used to compile listings for television programs they are "thus in a position to prevent effective competition on the market in weekly television magazines."[249] Thus, like the appellants in *Magill*, the exclusive rights conferred by trade marks are also, *arguendo*, able to prevent effective competition.

As Judge Friehe-Wich explained in a recent paper, "trade mark law is competition law: like the proprietors of other IP rights, a trade mark owner has an exclusive right."[250] There, the learned Judge succinctly explained the nexus between trade mark law and competition law:

> The justification for the monopoly rights of the trade mark proprietor is that trade mark protection encourages enterprises to produce and offer high quality goods that the consumer will recognize because of its marking. Other undertakings are excluded from using the same trade mark (and from using confusingly similar signs) so that they may not exploit the reputation of the producer of the genuine goods associated with a desirable, high-quality product.[251]

This observation by Judge Friehe-Wich is similar to the view that trade marks, unlike other intellectual property rights, "may be perpetual, potentially lasting as long as does the underlying goodwill."[252]

What is more potent, however, is the fact that one could further argue that trade mark law, though protecting the exclusive rights of the owner, is also in fact preserving a monopoly. Indeed, Article 2 of the Trade Marks Directive provides that a trade mark must be capable of distinguishing the goods or services of one undertaking from those of other undertakings,[253] while the eleventh recital in the preamble to the Directive states that the functioning of the protection conferred by the mark is primarily to guarantee the indication of origin.[254] This is crucial for the trade mark to fulfill its essential role in the system of undistorted competition which the TFEU seeks to establish; "it must offer a

248. RTE, 1995 E.C.R. I-808, ¶ 46.

249. *Id.* ¶ 47.

250. Karin Friehe-Wich, *Infringement Litigation of Trade Marks* 3 (Mar. 2, 2007) (lecture to the European Patent Academy) (on file with the Loyola of Los Angeles International and Comparative Law Review).

251. *Id.*

252. Mandly, Jr., *supra* note 20, at 1320.

253. Directive 2008/95/EC, *supra* note 14, art. 2

254. *Id.* recital 11.

guarantee that all the goods or services bearing it have originated under the control of a single undertaking which is responsible for their quality."[255]

The problem that arises from interpreting a trade mark as guaranteeing origin and preventing undistorted competition is that it also creates a new competition issue via the preservation of a monopoly, which is prohibited under Article 102 of the TFEU.[256] As seen in *Sea Containers v. Stena*, a dominant undertaking, which owns or controls an essential facility, refuses to grant access to competitors, and places the competitors at a competitive disadvantage, infringes Article 102 of the TFEU.[257] A product or service that possesses a large market share through its trade mark, as the result of heavy marketing, for example, is evidence that a dominant position exists. Case law has confirmed that a market share of fifty percent is *per se* evidence of the existence of a dominant position.[258] As the ECJ explained in *Imperial Chemical Industry v. Commission*,

> [an] undertaking which has a very large market share and holds it for some time, by means of the volume of production and the scale of the supply which it stands for—without those having much smaller market shares being able to meet rapidly the demand from those who would like to break away from the undertaking which has the largest market share—is by virtue of that share in a position of strength . . . which is the special feature of a dominant position.[259]

The *Imperial* Court further said that, a share of between seventy percent and eighty percent is, in itself, "a clear indication of the existence of a dominant position in the relevant market."[260] *Arguendo*, where a trade mark owner has gained "a very large market share and holds it for some time,"[261] the proprietor may take steps to prevent a competitor from registering similar marks.[262] For example, Advocate

255. *Id.* ¶ 28.

256. TFEU, *supra* note 19, art. 102.

257. Commission Decision of 21 December 1993 Relating to a Proceeding Pursuant to Article 86 of the EC Treaty (IV/34.689—Sea Containers v. Stena Sealink—Interim Measures), 1994 O.J. (L 15) 8, ¶ 66.

258. *See* Case C-62/86, AKZO Chemie BV v. Commission, 1991 E.C.R. I-3439, ¶ 60.

259. Case T-66/01, Imperial Chem. Indus. v. Commission, 2010 E.C.R. II-02631, ¶ 256.

260. *Id.* ¶ 257 (citing Case T-30/89, Hilti AG v. Commission, 1991 E.C.R. II-1441, ¶ 92 and Joined Cases T-191, T-212 & T-214/98, Atl. Container Line v. Commission, 2003 E.C.R. II-3275, ¶ 907).

261. *Imperial*, 2010 E.C.R. II-02631, ¶ 256.

262. The grounds for refusal of an application are contained in Article 7 of the regulation. For purposes of this article, the relevant sections are:

General Mengozzi, in his recent opinion on *Lego Juris*,[263] argued that the monopoly conferred by a trade mark on a product may eliminate competition in the market:

> I have accepted that comparing the optional shapes is potentially relevant in order to assess the state of competition . . . [and] it makes sense in order to determine whether the monopoly conferred by a trade mark on a product with certain functional characteristics may eliminate competition in the market.[264]

Lego Juris A/S appealed the General Court's judgment of November 12, 2008, holding that Lego Juris's trade mark was unenforceable against Mega Brands, their main competitor.[265] The issue on appeal to the ECJ was whether Lego Juris could register a trade mark of "a photographic representation of a typical Lego brick."[266]

The dispute focused on whether the trade mark's design contained "essential characteristics of the shape of the brick."[267] If so, the functionality of these characteristics would have to "remain available to any toy manufacturer," therefore prohibiting Lego Juris from registering the trade mark.[268]

> 1. The following shall not be registered:
>
> . . . .
>
> (b) trade marks which are devoid of any distinctive character;
>
> (c) trade marks which consist exclusively of signs or indications which may serve, in trade, to designate the kind, quality, intended purpose, value, geographical origin or the time of production of the goods or of rendering of the service, or other characteristics of the goods or service;
>
> . . . .
>
> (e) signs which consist exclusively of:
>
> (i) the shape which results from the nature of the goods themselves;
>
> (ii) the shape of goods which is necessary to obtain a technical result;
>
> (iii) the shape which gives substantial value to the goods;
>
> . . . .
>
> 2. Paragraph 1 shall apply notwithstanding that the grounds of non-registrability obtain in only part of the Community.
>
> 3. Paragraph 1(b), (c) and (d) shall not apply if the trade mark has become distinctive in relation to the goods or services for which registration is requested in consequence of the use which has been made of it.

CMTR, *supra* note 7, art. 7.

263. Opinion of Advocate General Mengozzi, Case C-48/09 P, Lego Juris A/S v. Office for Harmonisation in the Internal Mkt. (Trade Marks and Designs) (OHIM), *available at* http://curia.europa.eu/juris/document/document.jsf?docid=74742&pageIndex=0&doclang=en&mode=lst&dir=&occ=first&cid=213859 [hereinafter Mengozzi Opinion].

264. *Id.* ¶ 96.

265. Case T-270/06, Lego Juris A/S v. Office for Harmonisation in the Internal Mkt. (Trade Marks and Designs) (OHIM), 2008 E.C.R. II-3117, ¶¶ 91–95.

266. Mengozzi Opinion, *supra* note 263, ¶ 3.

267. *Id.*

268. *Id.*

On appeal, Lego Juris argued that the General Court infringed Article 7(1)(e)(ii) of Council Regulation (EC) 40/94 by incorrectly interpreting the provision and incorrectly assessing the subject matter of the mark.[269] According to Lego Juris, Article 7(1)(e)(ii) does not intend to "exclude functional shapes per se" from trade mark registration.[270] Rather, Lego Juris argued, the provision turns on "whether trade mark protection would create a monopoly on technical solutions or the functional characteristics of the shape in question."[271] When the ECJ delivered its judgment, however, it said the monopoly issue was "outside the scope of these proceedings," and instead, examined the case under the laws of unfair competition.[272]

B. Monopoly in Trade Mark Protection: Lego *and* Philips

The ECJ dismissed the appeal in *Lego* and upheld the decisions of the General Court and the Grand Board of Appeal of the OHIM preventing the Lego brick's being registered as a CTM.[273] Lego Juris argued the purpose behind Article 7(1)(e)(ii) was to prevent monopolies on "technical solutions" or "functional characteristics."[274] Therefore, the provision disallows registrations that would "illegitimately restrict competitors," but not all shapes that perform "a technical function."[275]

The ECJ pointed out that "'technical solution' should be distinguished from the term 'technical result' in that a technical result can be achieved by various solutions."[276] Therefore, according to the ECJ,

> the General Court . . . erred in law when it stated . . . that Article 7(1)(e)(ii) . . . precludes a shape from registration, even if the technical result can be achieved by another shape using the same technical solution. . . . The court failed to have regard to the fact that

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269. Case C-48/09 P, Lego Juris A/S v. Office for Harmonisation in the Internal Mkt. (Trade Marks and Designs) (OHIM), 2010 E.C.R. ____, ¶ 20 (delivered Sept. 14, 2010), *available at* http://curia.europa.eu/juris/document/document.jsf?text=&docid=82838&pageIndex=0&doclang=EN&mode=doc&dir=&occ=first&part=1&cid=141229 [hereinafter *Lego II*]; CTMR, *supra* note 7, art. 7(1)(e)(ii).

270. *Lego II*, *supra* note 269, ¶ 21.

271. *Id.*

272. *Id.* ¶ 61.

273. *Id.* ¶ 87.

274. *Id.* ¶ 29.

275. *Id.* ¶ 29.

276. *Lego II*, *supra* note 269, ¶ 30.

> the availability of alternative shapes is highly relevant, since it proves that there is no risk of creating a monopoly.[277]

Mega Brands, on the other hand, argued that "registration of the sign at issue as a trade mark would allow Lego Juris to prevent any competitor from using, on the toy-brick market, the best, most functional shapes."[278] In this regard, Mega Brands claimed that Lego Juris "would regain the monopoly it once enjoyed under its patents."[279]

Furthermore, according to the OHIM, Lego Juris's

> argument is contrary to the letter and spirit of Article 7(1)(e)(ii) . . . [and] the inclusion of the words 'exclusively' and 'necessary' in that provision does not imply that only shapes which are necessary as such for the function sought are barred from registration. The ground for refusal at issue covers all essentially functional shapes attributable to the result.[280]

In addition, the OHIM argued "if the appellant's argument were upheld, competitor's freedom of access to alternative shapes would not be guaranteed."[281]

> If a trade mark registration were obtained in respect of a specific shape, the appellant could then successfully prevent not only any identical shape, but also similar shapes. That would include, for example, bricks with slightly higher or wider projections than the Lego brick.[282]

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277. *Id.* ¶ 31.

278. *Id.* ¶ 33.

279. *Id.* ¶ 33 ("[T]he General Court failed to have regard to the fact, that, often, the same patented invention may be created with several shapes."); *see also id.* ¶ 34 ("While accepting that mere disclosure of a shape in a patent is not by itself a bar to the shape being registered as a trade mark, Mega Brands observes that such a disclosure can nevertheless be evidence that the shape is indeed functional.").

280. *Id.* ¶ 35 ("[B]y restricting the ground for refusal set out in Article 7(1)(e)(ii) of Regulation No 40/94 to signs which consist 'exclusively' of the shape of goods which is 'necessary' to obtain a technical result, the legislature duly took into account that any shape of goods is, to a certain extent, functional and that it would therefore be inappropriate to refuse to register a shape of goods as a trade mark solely on the ground that it has functional characteristics. By the terms 'exclusively' and 'necessary', that provision ensures that solely shapes of goods which only incorporate a technical solution, and whose registration as a trade mark would therefore actually impede the use of that technical solution by other undertakings, are not to be registered."); *see also Lego II*, *supra* note 269, ¶ 48.

281. *Id.* ¶ 36.

282. *Id.*

The ECJ began its analysis in *Lego* by citing cases such as *Arsenal*, *Alcon*, and *Merz* and declaring that trade mark law constitutes an essential element of the system of competition in the EU.[283]

> In that system, each undertaking must, in order to attract and retain customers by the quality of its goods or services, be able to have registered as trade marks signs enabling the consumer, without any possibility of confusion, to distinguish those goods or services from others which have another origin.[284]

In considering the argument that the provision of Article 7(1)(e)(ii) has been interpreted too broadly and incorrectly by the General Court and the Grand Board of Appeal, the ECJ said the underlying interest of that provision is to prevent trade mark law which grants an undertaking monopoly on technical solutions or functional characteristics of a product.[285] The Court then said

> the inclusion in Article 7(1) of Regulation No 40/94 of the prohibition on registration as a trade mark of any sign consisting of the shape of goods which is necessary to obtain a technical result ensures that undertakings may not use trade mark law in order to indefinitely perpetuate exclusive rights relating to technical solutions.[286]

The ECJ concluded that the arguments of Lego Juris, that the provisions of Article 7(1)(e)(ii) were interpreted incorrectly, "cannot be upheld."[287]

> [T]he position of an undertaking which has developed a technical solution cannot be protected—with regard to competitors placing on the market slavish copies of the product shape incorporating exactly the same solution—by conferring a monopoly on that undertaking through registering as a trade mark the three-dimensional sign consisting of that shape, but can, where appropriate, be examined in the light of rules on unfair competition.[288]

The ECJ also dismissed Lego Juris's arguments concerning the application of incorrect criteria in the identification of the essential

283. *Id.* ¶ 38 (citing *Arsenal*, 2002 E.C.R. I-10299, ¶¶ 47–48; Case C-412/05 P, Alcon Inc. v. Office for Harmonisation in the Internal Mkt. (Trade Marks and Designs) (OHIM), 2007 E.C.R. I-3569, ¶¶ 53–54; *Merz*, 2001 E.C.R. I-6959, ¶¶ 21–22).

284. *Id.*

285. *Lego II*, *supra* note 269, ¶ 43.

286. *Id.* ¶ 45.

287. *Id.* ¶ 62.

288. *Id.* ¶ 61.

characteristics of a shape of a mark.[289] Instead, the Court said the correct application of Article 7(1)(e)(ii) requires that the essential characteristics of the three-dimensional sign must be properly identified by the authority deciding the application to register the sign as a trade mark.[290]

Importantly, the Advocate General struck the tone that makes the *Lego* judgment crucial to the argument that trade mark protection perpetuates monopolies. The Advocate General observed that the appeal was the Court's second opportunity in ten years to explore the intricacies of Article 7(1)(e)(ii), "which justifies the attempt to provide a reply which goes beyond the limits imposed by the grounds of the appeal."[291]

In *Philips v. Remington*, which concerned the graphic representation of the head shape of an electric razor designed by Philips,[292] the Court set the tone for what was to come in the *Lego* decision. The *Philips* case interpreted Articles 3(1),[293] 3(3),[294] 5(1),[295]

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289. *Id.* ¶ 77.

290. *Id.* ¶ 68.

291. Mengozzi Opinion, *supra* note 263, at ¶ 53.

292. *Philips*, 2002 E.C.R. I-5490, ¶¶ 11–12.

293. The Grounds for Refusal or Invalidity under Article 3 of the Trade Mark Directive state, in part:

> The following shall not be registered or, if registered, shall be liable to be declared invalid:
>
> . . . .
>
> (b) trade marks which are devoid of any distinctive character;
>
> (c) trade marks which consist exclusively of signs or indications which may serve, in trade, to designate the kind, quality, quantity, intended purpose, value, geographical origin, or the time of production of the goods or of rendering of the service, or other characteristics of the goods or services;
>
> (d) trade marks which consist exclusively of signs or indications which have become customary in the current language or in the bona fide and established practices of the trade;
>
> (e) signs which consist exclusively of:
>
> (i) the shape which results from the nature of the goods themselves;
>
> (ii) the shape of goods which is necessary to obtain a technical result;
>
> (iii) the shape which gives substantial value to the goods . . . .

Directive 2008/95/EC, *supra* note 14, art. 3(1).

294. *Id.* art. 3(3) ("A trade mark shall not be refused registration or be declared invalid in accordance with paragraph 1(b), (c) or (d) if, before the date of application for registration and following the use which has been made of it, it has acquired a distinctive character. Any Member State may in addition provide that this provision shall also apply where the distinctive character was acquired after the date of application for registration or after the date of registration.")

295. *See id.*, *supra* note 14, art. 5(1).

and 6(1)(b)[296] of the Trade Marks Directive. Similar to Article 7 of the CTMR,[297] Article 3 of the Trade Marks Directive lists the grounds that a trade mark can be refused for invalid registration.[298] Philips argued that it had acquired a *de facto* monopoly, and as such, distinctiveness, by fulfilling the criterion in Article 3(3) of the Directive. Specifically, Philips argued that because of its extensive use of a particular shape, both the relevant trade industry and the public at large associate goods of that shape with a particular undertaking.[299]

The Court was cautious and held that the factual analysis should focus on relevant matters in cases involving a monopoly supplier of goods.[300] In an earlier opinion, Advocate General Ruiz-Jarabo Colomer expressed his skepticism of Philips' arguments when he said that "nothing would stop an undertaking from registering as trade marks *all* imaginable shapes which achieved such a result, thus obtaining a permanent monopoly over a particular technical solution."[301] The U.K., as a party to the dispute, also argued "the requirements of Article 3(3) are not satisfied where the public's recognition has come about not because of the trade mark but because of the monopoly on the supply of the goods."[302] The Commission of the European Communities concurred with the U.K.'s reasoning in a similar submission.[303] It noted that as long as a large portion of the relevant public associate a trade mark with a particular undertaking, the requirements of Article 3(3) are satisfied regardless of the means of distinction.[304]

Moreover, in interpreting Article 3(1)(e) of the Trade Marks Directive, the Commission noted that if other shapes readily available to competitors can obtain the same technical result, then denying registration does not impose unreasonable restraint on industry and

296. "[I]ndications concerning the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of goods or of rendering of the service, or other characteristics of goods or services." *Id.* art. 6(1)(b).

297. CTMR, *supra* note 7, art. 7.

298. *See* Directive 2008/95/EC, *supra* note 14, art. 3.

299. *Philips*, 2002 E.C.R. I-5490, ¶ 52 (Philips argued that "a long-standing *de facto* monopoly on products with the relevant shape is important evidence which supports the acquisition of distinctiveness. If a trader wishes to base an application for registration upon distinctiveness acquired through use, a *de facto* monopoly is almost a prerequisite for such registration.")

300. *Id.* ¶ 53.

301. Opinion of Advocate General Colomer, Case C-299/99, Koninklijke Philips Elecs. NV v. Remington Consumer Prods. Ltd., 2002 E.C.R. I-5478, ¶ 39.

302. *Philips*, 2002 E.C.R. I-5490, ¶ 54.

303. *Id.* ¶ 56.

304. *Id.*

innovation.[305] Philips rebutted this assertion by submitting that the purpose of Article 3(1)(e) was to use trade mark protection to prevent monopolies.[306] The ECJ, however, established the criterion as "the availability of alternative shapes to achieve the desired technical result" in light of legislative history and its desire to construe exceptions narrowly.[307] The Court further explained that

> the rationale of the grounds for refusal of registration laid down in Article 3(1)(e) of the Directive is to prevent trade mark protection from granting its proprietor a monopoly on technical solutions or functional characteristics of a product which a user is likely to seek in the products of competitors. Article 3(1)(e) is thus intended to prevent the protection conferred by the trade mark right from being extended, beyond signs which serve to distinguish a product or service from those offered by competitors, so as to form an obstacle preventing competitors from freely offering for sale products incorporating such technical solutions or functional characteristics in competition with the proprietor of the trade mark.[308]

This reasoning led the Court to conclude that the provisions of Article 3(1)(e) "must be interpreted to mean that a sign consisting exclusively of the shape of a product is unregistrable by virtue thereof if it is established that the essential functional features of that shape are attributable only to the technical result."[309]

C. Further Evidence from the ECJ of Monopoly Rights in Trade Marks

The remainder of this section further examines some of the other cases from the ECJ where the issue of monopoly (market dominance) and trade mark goods collided, and considers how the court treated these issues within the realm of competition law, in particular Article 102 of the TFEU. The approach of this article is through the lens of law and economics; therefore, it is important to note that monopoly power and market power are often used differently by economists and lawyers.[310] The discussion will begin with the current legal regime for

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305. *Id.* ¶¶ 66–67.
306. *Id.* ¶ 67.
307. *Id.* ¶ 72.
308. *Philips*, 2002 E.C.R. I-5490, ¶ 78.
309. *Id.* ¶ 84; *see also* points 1–4 of the ruling.
310. For instance, economists use both 'monopoly power' and 'market power' to refer to the power of a single firm or group of firms to price profitably above marginal cost. For a similar discussion of the economic meaning of market power and monopoly power, see, e.g., F.M. SCHERER, INDUSTRIAL MARKET STRUCTURE AND ECONOMIC PERFORMANCE 14–16 (2d ed. 1980).

monopoly and later explore how the courts often define market power.[311]

Two sets of legal regulations that mirror the same content serve as the most tangible doctrines regulating monopolies, thereby curbing market power. These sets of regulations are embedded in Article 102[312] and Section 2 of the Sherman Act.[313] To understand the construction of market power in the law, one must first understand the legal context in which it is shaped.

Section 2 of the Sherman Act deems it illegal to "monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations."[314]

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311. For a comparative discussion, see Eleanor M. Fox, *Monopolization, Abuse of Dominance, and the Indeterminacy of Economics: The U.S./E.U. Divide*, 3 UTAH. L. REV. 725 (2006).

312. The Lisbon Treaty was entered into force on 1 December 2009 and several articles, including the antitrust provisions, were renumbered (the former Articles 81 and 82 EC Treaty are now Articles 101 and 102 respectively). *See* Treaty of Lisbon, *supra* note 17; *see also* TFEU, *supra* note 19. For the ease of reference this article will use both the prior reference of the EC Treaty in addition to the new numbering in the Lisbon Treaty.

313. Sherman Antitrust Act, § 2, *supra* note 46. For instance, in the recent *Trinko* case the U.S. Supreme Court held that firms with market power are not necessarily required to share its property with its competitors. *See* Verizon Commc'ns Inc. v. Law Offices of Curtis V. Trinko, LLP, 540 U.S. 398, 409 (2004). The Supreme Court stated that:

> Firms may acquire monopoly power by establishing an infrastructure that renders them uniquely suited to serve their customers. Compelling such firms to share the source of their advantage is in some tension with the underlying purpose of antitrust law, since it may lessen the incentive for the monopolist, the rival, or both to invest in those economically beneficial facilities. Enforced sharing also requires antitrust courts to act as central planners, identifying the proper price, quantity, and other terms of dealing—a role for which they are ill suited. Moreover, compelling negotiation between competitors may facilitate the supreme evil of antirust: collusion.

The *Trinko* decision arguably reflects the primacy of the incentive theory in justifying intellectual property, like prior case law in the United States. *See, e.g.*, Mazer v. Stein, 347 U.S. 201, 219 (1954), where the Supreme Court explained that:

> "The copyright law, like patent statutes, make reward to the owner a secondary consideration." (Citations omitted.) However, it is "intended definitely to grant valuable, enforceable rights to authors, publishers, etc., without burdensome requirements: 'to afford greater encouragement to the production of literary [or artistic] works of lasting benefit to the world.'" (Citations omitted.) The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that . . . [it] is the best way to advance public welfare through the talents of authors and inventors in "Science and useful Arts." Sacrificial days devoted to such creative activities deserve rewards commensurate with the services rendered.

Id.

314. Sherman Antitrust Act, *supra* note 46, § 2.

Under the TFEU any abuse by one or more undertakings of a dominant position will fall afoul of the treaty.[315] The requirements of Article 102 of the TFEU can be categorized as (a) a dominant position, (b) abuse, (c) which affects trade between Member States, (d) in a substantial part of the Common Market, and (e) by one or more undertakings.[316] The first requirement of a dominant position is connected to the construction of market power.[317] The determination of dominance by a firm requires a number of tests, including the definition of the relevant market.[318] In addition to the relevant market,[319] an assessment of dominance will also take into account the competitive structure of the market, such as expansion, entry, and countervailing buying power.[320]

The first step in the application of Article 102 is an assessment of whether a firm is in a dominant position and the degree of market power it holds.[321] In *United Brands v. Commission of the European*

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315. TFEU, *supra* note 19, art. 102.

316. *Id.*

317. *See Communication from the Commission—Guidance on the Commission's Enforcement Priorities in Applying Article 82 of the EC Treaty to Abusive Exclusionary Conduct by Dominant Undertakings,* 2009 O.J. (C 45) 7, ¶ 10 [hereinafter *Guidance on Article 82*]:

> Dominance has been defined under European Community law as a position of economic strength enjoyed by an undertaking, which enables it to prevent effective competition being maintained on a relevant market, by affording it the power to behave to an appreciable extent independently of its competitors, its customers and ultimately of consumers.

Id.; *see also* Case 85/76, Hoffman-La Roche v. Commission, 1979 E.C.R. 461, ¶ 38. Note that Article 82 of the TEC has now been renamed Article 102 of the TFEU. *See* TFEU, *supra* note 19, art. 102. *Cf.* TEC, *supra* note 19, art. 82.

318. The European Commission, for instance, has issued a Notice on the Definition of Relevant Market for the purposes of Community Competition law, which states:

> Market definition is a tool to identify and define the boundaries of competition between firms. It serves to establish the framework within which competition policy is applied by the Commission. The main purpose of market definition is to identify in a systematic way the competitive constraints that the undertakings involved face. The objective of defining a market in both its product and geographic dimension is to identify those actual competitors of the undertakings involved that are capable of constraining their behavior and of preventing them from behaving independently of an effective competitive pressure. It is from this perspective, that the market definition makes it possible, inter alia, to calculate market shares that would convey meaningful information regarding market power for the purposes of assessing dominance or for the purposes of applying Article [85].

Commission Notice 97/3, 1997 O.J. (372) 1, ¶ 2 (EU).

319. Market shares provide a useful first indication for the Commission of the market structure and of the relative importance of the various undertakings active on the market. *See AKZO*, 1991 E.C.R. I-3439, ¶ 60; Case T-340/03, *Fr. Télécom*, 2007 E.C.R. II-107, ¶ 100.

320. *Guidance on Article 82*, *supra* note 317, ¶ 12.

321. *Id.* ¶ 9.

Communities, the ECJ defined "dominance" as "a position of economic strength enjoyed by an undertaking which enables it to prevent effective competition being maintained on the relevant market by giving it the power to behave to an appreciable extent independently of its competitors, customers and ultimately of its consumers."[322]

Various case law has also shown that a dominant position derives from a combination of several factors which, taken separately, are not necessarily determinative.[323] This is particularly apparent in examining the relevant markets for medicinal pharmaceutical products.

1. *Lelos v. Glaxo*: Abuse of Dominance Under Article 102

This section will discuss the recent *Lelos v. Glaxo* judgment by the ECJ regarding the interpretation of Article 102 of the TFEU.[324] On September 16, 2008, the ECJ held that Article 102 must be interpreted as meaning that an undertaking occupying a dominant position on the relevant market for medicinal products is abusing its dominant position if it refuses to meet the ordinary orders by wholesalers in order to prevent parallel exports.[325]

i. The main question referred to the court and surrounding facts

The Greek courts asked the ECJ for a preliminary ruling on whether or not it is an abuse of a dominant position in violation of Article 102 for a pharmaceuticals company occupying such a position on the national market to refuse to fill orders by wholesalers who are engaged in parallel exports.[326] The facts surrounding the case involved the Greek subsidiary of GlaxoSmithKline plc, GSK AEVE which imports, warehouses, and distributes pharmaceutical products of the GSK group in Greece. It also holds "the marketing authorization in Greece" for the medicinal products involved in the dispute.[327]

The other applicants to the dispute had for a number of years bought those medicinal products from GSK AEVE for local distribution

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322. *United Brands*, 1978 E.C.R. 207, ¶ 65.

323. *See, e.g.*, Case C-250/92, Gøttrup-Klim Grovvareforening v. Dansk Landbrugs Grovvareselskab AmbA (DLG), 1994 E.C.R. I-5671, ¶ 47.

324. *See generally* Joined Cases C-468 & C-478/06, Sot. Lélos kai Sia EE v. GlaxoSmithKline AEVE Farmakeftikon Proïonton, 2008 E.C.R. I-7139.

325. *See also* Press Release No. 65/08, Judgment of the Court of Justice in Cases C-468/06 to C-478/06 (Sept. 16, 2008), *available at* http://curia.europa.eu/jcms/upload/docs/application/pdf/2009-03/cp080065en.pdf.

326. *Lélos*, 2008 E.C.R. I-7139, ¶ 28.

327. *Id.* ¶ 9.

and export to other Member States of the EU.[328] Towards the end of October 2000, GSK AEVE altered its system of distribution in the Greek market, citing a shortage of the medicinal products in the dispute. From November 6, 2000, GSK AEVE stopped meeting the orders of the appellants and began to distribute those products to Greek hospitals and pharmacies through the company Farmacenter AE.[329] Lelos, its co-applicants, and other Greek pharmaceutical wholesalers applied to the Greek Competition Commission for a declaration that the sales policy of GSK AEVE and its parent company in respect of the medicinal products constituted an abuse of a dominant position under Article 102 and corresponding Greek antitrust laws.[330]

The Greek Competition Commission issued an interim ruling on August 3, 2001, that GSK AEVE should meet the orders of the applicants for medicinal products pending a final decision.[331] However, GSK AEVE lodged an application with the Administrative Appeal Court for a stay of execution and an annulment of that decision.[332] The court rejected the application.[333]

The Greek Court of First Instance in the *Lelos v. Glaxo* saga, held in 2003 that GSK AEVE's refusal to supply was justified and could not constitute an abuse of its dominant position.[334] The case was appealed to the Court of Appeal in Athens, which then referred it to the ECJ for a preliminary ruling.[335] Before the ECJ ruling, the Greek Competition Commission on September 6, 2006, ruled that GSK AEVE did not occupy a dominant position on the market for two of its medicinal products but found it did hold a dominant position for one.[336]

328. *Id.* ¶ 10. Co-applicants to the dispute were Farmakemporiki AE Emporias kai Dianomis Farmakeftikon Proionton (C-469/06); Konstantinos Xidias kai Sia OE (C-470/06); Farmakemporiki AE Emporias kai Dianomis Farmakeftikon Proionton (C-471/06); Ionas Stroumsas EPE (C-472/06); Ionas Stroumsas EPE (C-473/06); Farmakemporiki Farma-Group Messinias AE (C-474/06); K.P. Marinopoulos AE Emporias kai Dianomis Farmakeftikon Proionton (C-475/06); K.P. Marinopoulos AE Emporias kai Dianomis Farmakeftikon Proionton (C-476/06); Kokkoris D. Tsanas K. EPE and Others (C-477/06); Kokkoris D. Tsanas K. EPE and Others (C-478/06) listed in *Lélos*, 2008 E.C.R. I-7139.

329. *Id.* ¶ 11.

330. The corresponding provision of Article 82 in Greek law was laid down in Diatagma (1977:703) Peri elegxoymonopwliwn kai oligopwliwn kai prostasias toy eleygerry antagwnismoy [On Monopolies and Oligopolies Control and Protection of Free Competition] Government Gazette [FEK A'] 1977, A:278 (Greece).

331. *Lélos*, 2008 E.C.R. I-7139, ¶ 16.

332. *Id.*

333. *Id.*

334. *Id.* ¶ 20.

335. *Id.* ¶ 23.

336. *Id.* ¶ 24.

ii. Market power in pharmaceuticals: The law and economics of a refusal to supply as analyzed in *Lelos v. Glaxo*

There are few cases involving intellectual property rights and the abuse of dominance in the EU.[337] *Lelos v. Glaxo* did not depart from the established case law on abuse of dominance. The existence of a dominant position is one of the key requirements for a violation of Article 102 of the TFEU.[338] In *Lelos v. Glaxo*, the ECJ cited its own case law and explained that a refusal to supply by an undertaking with a dominant position on the market of a given product constitutes an abuse of dominance under Article 102 of the TFEU.[339]

In a style typical of the ECJ, the Court addressed the issue in two parts. The first issue was whether such behavior constituted a refusal to supply, liable to eliminate competition. If so, the second issue was whether the refusal to supply was abusive.[340] The court stressed the entrenched case law and observed that a dominant undertaking's refusal to meet the orders of an existing customer, without objective justification, is abusive if that conduct is liable to eliminate a competitor.[341]

The court further observed that though a firm has a legitimate right to protect its commercial interest, if it is attacked, "such behaviour cannot be accepted if its purpose is specifically to strengthen the dominant position and abuse it."[342] The ECJ in *Lelos v. Glaxo* gradually, and in line with the Guidance on the Application of Article 82 (Guidance on Article 82),[343] attempted to apply a more economics effects-based approach to its case law.[344] The Guidance on Article 82

337. *See generally* Joined Cases C-241 & C-242/91 P, Radio Telefis Eireann (RTE) v. Commission, 1995 E.C.R. I-808; Case C-418/01, IMS Health GmbH & Co. OHG v. NDC Health GmbH & Co. KG, 2004 E.C.R. I-5039; *Microsoft*, 2007 E.C.R. II-3601.

338. *Lélos*, 2008 E.C.R. I-7139, ¶ 49.

339. *See, e.g.*, Joined Cases 6 & 7/73, Istituto Chemioterapico Italiano SpA v. Commission, 1974 E.C.R. 223, ¶ 25 [hereinafter *Commercial Solvents*] and *United Brands*, 1978 E.C.R. 207, ¶ 183.

340. *Lélos*, 2008 E.C.R. I-7139, ¶ 34.

341. *Id.* (citing *Commercial Solvents*, 1974 E.C.R. 223, ¶ 25 and *United Brands*, 1978 E.C.R. 207, ¶ 183).

342. *Lélos*, 2008 E.C.R. I-7139, ¶ 50; *see also United Brands*, 1978 E.C.R. 207, ¶ 189.

343. *See* Guidance on Article 82, *supra* note 317. Article 82 under the old Treaty is now Article 102 of the TFEU. *Id.*

344. The economics or effects-based approach to Article 102 stemmed from a 2005 report, which the Commission published, that called for a more effects-based approach to case law. The report argued in favor of an economics-based approach to Article 82 (now Article 102), similar to the reform of Article 81 (now Article 101) and merger control. *See* ECON. ADVISORY GRP. FOR COMPETITION POLICY, AN ECONOMICS APPROACH TO ARTICLE 82, 2 (2005) [hereinafter EAGCP REPORT]. The thinking was that an economics-based approach, according to the report,

ushered in an increased degree of legal clarity with regard to the analytical framework of dominant firms' conduct under Article 102 of the TFEU.[345] In *Lelos v. Glaxo*, however, the application of economic effect was ambiguous, leaving room for further interpretation and clearer application of economic analysis. In fact, the court did not apply substantive economic arguments to its ruling or utilize any comprehensive survey regarding the market share of the GSK Group.

The closest mention by the Court of the overall market share, and thus market power, was the agreement by GSK AEVE following discussions with the Greek Competition Commission to "deliver quantities of medicines equivalent to national consumption plus 18%."[346] In addition, the Greek National Organization for Medicines published a circular on November 27, 2001, which compelled pharmaceutical companies and all distributors of medicines to deliver the equivalent of those required for prescription medicines plus twenty-five percent.[347] The ECJ took these economic factors into consideration, however the court did not perform sufficient economic analysis, especially in light of the Guidance on Article 82.

"will naturally lend itself to a rule of reason approach to competition policy, since careful consideration of the specifics of each case is needed, and this is likely to be especially difficult under per se rules." (internal quotations omitted). EAGCP REPORT, at 3. On December 19, 2005, the European Commission published a discussion paper on the application of Article 82 to exclusionary abuses, which covered, *inter alia*, the assessment of dominance, a framework for analysis of exclusionary abuses, and a proposed individual approach to each of the four main types of exclusionary abuse. *See DG Competition Discussion Paper on the Application of Article 82 of the Treaty to Exclusionary Abuses* (Dec. 2005), *available at* http://ec.europa.eu/competition/antitrust/art82/discpaper2005.pdf. Following the consultations in February 2009, the Commission published a guidance on the application of Article 82, to which the courts have since turned when assessing violations under Article 82. *See Guidance on Article 82*, *supra* note 317. *Guidance on Article 82* covers the application of Article 82 to exclusionary conduct by dominant undertakings, which addresses specific abuses such as exclusive dealing, tying and bundling, predation, refusal to supply, and margin squeeze. *Id.* For criticisms of *Guidance on Article 82*, see, e.g., John Temple Lang, *Article 82 EC—The Problems and the Solution* 6–23 (Aug. 27, 2009), *available at* http://ageconsearch.umn.edu/bitstream/54282/2/65-09.pdf; Case C-95/04 P, British Airways plc v. Commission, 2007 E.C.R. I-2331, ¶ 69 (The judgment states that there is a need to examine "whether there is an objective economic justification for the discounts and bonuses granted.").

345. The *Guidance on Article 82* states,

> [a]longside the Commission's specific enforcement decisions, it is intended to provide greater clarity and predictability as regards the general framework of analysis which the Commission employs in determining whether it should pursue cases concerning various forms of exclusionary conduct and to help undertakings better assess whether certain behavior is likely to result in intervention by the Commission under Article 82.

Guidance on Article 2, *supra* note 317, ¶ 2.

346. *Lélos*, 2008 E.C.R. I-7139, ¶ 14.

347. *Id.* ¶ 17.

iii. *Lelos v. Glaxo*: The ECJ's old religion

Lelos v. Glaxo was an important case that the ECJ decided during the reform process of Article 102.[348] As shown above, the reform process of Article 102 advocates a more effects-based approach to proceedings involving Article 102, but the case was decided using the same old *per se* approach. That is, the court used the form-based approach and did not employ the rule of reason approach in any substantive way.[349] The court stuck to what it believed to be best, its old religion of form-based approach, rather than ushering in the effects-based approach with extensive economic analysis.

This approach by the ECJ suggests that the law on abuse of market power is far from settled.[350] One may argue that analyses, which rely on qualitative and quantitative evidence, such as one assessing harm to the consumer, are time-consuming. If the goal of the court was for the tenets of the Article 102 reform to be taken seriously, however, it failed to do so. The ECJ in *Lelos v. Glaxo* did not use empirical arguments, which could have utilized a more effects-based approach in line with the Guidance on Article 82.[351]

2. *AstraZeneca*: Trade Mark Branding and Market Entry

Can antitrust rules be flouted in order to keep a competitor off the market for generic drugs? In short, the answer is yes. With innovative branding and abuse of a dominant position, a patent holder may be able to achieve such a goal. This was seen in *AstraZeneca*, regarding Omeprazole, marketed as Prilosec and Losec.[352] "Brands, and by

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348. Frances Murphy & Francesco Liberatore, *The European Commission's Guidance on the Application of Article 82 EC* (Jun. 25, 2009), http://www.mayerbrown.com/publications/article.asp?id=6883&nid=6. Several cases and Commission decisions on Article 82 were decided since the Commission's discussion paper was published and leading up to the adoption of the *Guidance on Article 82*. *See, e.g.*, Case T-340/03, *Fr. Télécom v. Commission*, 2007 E.C.R. II-107; Summary of Commission Decision of 11 October 2007 Relating to a Proceeding Pursuant to Article 82 of the EC Treaty (Case COMP/B-1/37.966—Distrigaz), 2008 O.J. (C 9) 5.

349. For a discussion on the rule of reason approach, see, e.g., Claudia Desogus, *Parallel Trade and Pharmaceutical R&D: The Pitfalls of the Rule of Reason*, 29 EUR. COMPETITION L. REV. 649 (2008).

350. For more on this, see, e.g., John Vickers, *Abuse of Market Power*, 115 ECON. J. F244, F248 (2005).

351. *See also* EAGCP REPORT, *supra* note 344, at 13 (stating that effects-based approach requires the verification of competitive harm).

352. *See generally* Case T-321/05, AstraZeneca AB v. Commission, 2010 E.C.R. ____ (delivered July 1, 2010), *available at* http://curia.europa.eu/juris/document/document.jsf?text=&docid=82135&pageIndex=0&doclang=EN&mode=doc&dir=&occ=first&part=1&cid=149187 [hereinafter *AstraZeneca*]. The General Court's decision concerns the Commission decision of June 2005 that imposed a fine of €60 million on AstraZeneca for misusing the patent and the

extension trademarks, . . . are an important weapon in the arsenal of competition," because they can promote competitiveness and cause competition infringements.[353] The legal definition of a trade mark was discussed above,[354] and as Lopes and Duguid observe, "[a] trademark is then that aspect of the brand that can gain legal protection through registration."[355] Despite a broad approach to the concept of a brand[356] (and trade marks),[357] Lopes and Duguid acknowledge "brands, as a kind of monopoly, can distort markets, inhibit innovation, provide unreasonable barriers to entry, and promote rent-seeking behaviour."[358]

Despite anti-competitive functions of brands, it is not necessarily the case that that they are addressed by either competition law or trade mark law. Both trade mark law and competition law address business competition. As a recent paper points out: "[O]ne might expect [trade mark and competition law] to address brands as they fit into each doctrine's areas of concern and that together trademark and antitrust law would offer a coherent legal regime to manage the way in which brands affect competition."[359] Desai and Waller submit that "trademark law fails to recognize that trademarks are only a subset of a business' broader brand strategy in the real world."[360]

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procedures for marketing pharmaceutical products to prevent or delay the market entry of competing medicinal products. *Id.* ¶¶ 1–9. *See* Press Release, Competition: Commission Fines AstraZeneca €60 Million for Misusing Patent System to Delay Market Entry of Competing Generic Drugs, IP/05/737 (June 15, 2005), *available at* http://europa.eu/rapid/pressReleases Action.do?reference=IP/05/737 [hereinafter Commission Press Release].

353. TRADEMARKS, BRANDS, AND COMPETITIVENESS 1 (Teresa da Silva Lopes & Paul Duguid eds., 2010). The authors argue that the general definition of a brand as a name, term, symbol, or design (or combination of these) is "used by a firm to identify its goods or services and differentiate them from the competition." *Id.*

354. *See* CTMR, *supra* note 7, art. 4.

355. TRADEMARKS, BRANDS, AND COMPETITIVENESS, *supra* note 353 at 1.

356. *See, e.g.*, Desai & Waller, *supra* note 79, at 1449 ("Brands are complex strategic tools that perform a variety of functions including creating demand, circumventing middlemen so that a company can reach consumers directly, controlling prices, managing quality, providing a platform for trademark enforcement, defining national identities, and satisfying a consumer's emotional and psychological needs. These functions, separately and in combination, allow a company to differentiate products, avoid commoditization of its products or services, and distinguish the company and its goods or services from its competition, thus building loyal customer bases for whom no other brand or item will suffice.")

357. *See, e.g.*, TRADE MARKS AND BRANDS: AN INTERDISCIPLINARY CRITIQUE (Lionel Bently, Jennifer Davis & Jane C. Ginsburg eds. 2008) xv.

358. TRADEMARKS, BRANDS, AND COMPETITIVENESS, *supra* note 353 at 1.

359. Desai & Waller, *supra* note 79, at 1425–26.

360. *Id.* at 1428. Desai and Waller further argue that a successful brand encompasses more than a source and quality functions. They contend that "trademark law is incomplete" because it "regulates only a fraction" of the real business behavior that matters, and the claimed "protection for a *mark,* first subtly . . . has transformed into protection for a *brand*." *Id.* at 1429.

When the General Court upheld a decision by the European Commission[361] that AstraZeneca was abusing its dominant position by adopting strategies designed to delay or limit generic entry,[362] the court said that though the "abuse is novel," such practices were "manifestly contrary to competition on the merits."[363]

Clearly, therefore, lurking between the lines in this judgment were concerns about the branding of a drug, widely known on the European markets as Losec,[364] by AstraZeneca with the use of "novel" strategies that were limiting competitors' entry into the relevant generic drug market and infringing Article 102 of the TFEU.[365] AstraZeneca blocked or delayed parallel imports and generic entry to a number of markets in the EU and the European Economic Area and thus abused its dominance in the proton pump inhibitor (PPI), the relevant product market.[366]

A fine was imposed on AstraZeneca, which it appealed in September 2005.[367] An oral hearing took place before the Sixth Chamber of the General Court on November 26 and 27, 2008, when the

361. Commission Press Release, *supra* note 352. The fine imposed on AstraZeneca was for two abuses of a dominant position contrary to Article 102 TFEU.

362. The first abuse was that AstraZeneca engaged in a pattern of deliberate misrepresentation to national courts and patent offices in order to obtain SPC for Losec (omeprazole), between 1993 and 2000, the so called SPC abuse. The second abuse was that in 1998/1999, AstraZeneca operated a strategy of selectively withdrawing its Losec capsules, replacing them with Losec tablets, and requesting deregistration of the marketing authorizations for the capsules in Denmark, Norway and Sweden, the so called "deregistration abuse." *See AstraZeneca*, *supra* note 352, ¶ 8.

363. *Id.* ¶ 901.

364. The active substance in Losec is omeprazole, a proton pump inhibitor (PPI) used in treating gastro-intestinal acid-related conditions. *Id.* ¶ 62.

365. *Id.* ¶ 7. The first alleged abuse consisted of a pattern of allegedly misleading representations made before the patent offices in a number of European countries in which AstraZeneca operates and the national Courts in Germany and Norway. The second alleged abused consisted of the submission for requests for deregistration of the marketing authorizations for Losec capsules in Scandinavia, combined with the withdrawal from the market of Losec capsules and the launch of Losec MUPS tablets in those territories. *See id.* ¶ 8.

366. *AstraZeneca*, *supra* note 352, ¶ 70–71. The court upheld the Commission's finding of national markets for PPI's, stating, "[The] finding is to a large extent supported by the statements of the medical experts submitted by the applicants during the administrative procedure . . . that PPIs were generally used to treat the severe forms of the conditions while H2 blockers were reserved more for their milder forms." The General Court further explained that PPIs and H2 blockers were prescribed to treat the same conditions and that both constituted first-line treatments. *See id.* ¶ 151.

367. *Id.* ¶ 10. *See also* Commission Decision 332/24, 2006 O.J. (L 857) 2 (EC). The 60 million euro fine was reduced by the General Court because the Commission had failed to establish that deregistration of the Losec capsule marketing authorization was capable of restricting parallel imports of Losec capsules. *AstraZeneca*, *supra* note 352, ¶¶ 865, 920.2.

parties presented oral arguments.[368] The General Court, after an extensive analysis of the case, essentially summed up its arguments by stating that AstraZeneca cannot

> use regulatory procedures in such a way as to prevent or make more difficult the entry of competitors on the market, in the absence of grounds relating to the defense of the legitimate interests of an undertaking engaged in competition on the merits or in the absence of objective justification.[369]

The General Court acknowledged that "brand loyalty" derives from "past reputation or advertising."[370]

In the background of this decision was the fact that the burden of proof was on the Commission to demonstrate that AstraZeneca was in a dominant position by examining the relevant product market, which was constituted of AstraZeneca's PPIs.[371] The court said that doctors' prescribing practice was characterized by a certain "inertia," and the applicants argued that in the pharmaceutical sector, competition takes place primarily at the level of innovation rather than at the level of price.[372] Thus, it was the Commission in its arguments that acknowledged that the "inertia" of the prescribing practice is an

> exogenous characteristic of the market, unrelated to competition on the merits, which autonomously dampens demand for a new product. Thus, 'inertia' on the part of prescribing doctors cannot be regarded as a competitive constraint imposed by H2 blockers, akin to brand loyalty generated by past reputation or advertising.[373]

The reference to H2 blockers is part of the dispute regarding the definition of the relevant product market and the competitive interaction of H2 blockers (also known as 'antihistamines') with PPIs. [374] The Court was more succinct about Losec's brand image: "Losec enjoyed a

368. *AstraZeneca*, *supra* note 352, ¶ 19. The European Federation of Pharmaceutical Industries and Associations (EFPIA) intervened in the dispute. *Id.* ¶ 21.

369. *Id.* ¶ 672.

370. *Id.* ¶ 56.

371. *Id.* ¶ 28. *See also* Commission Notice 97/3, 1997 O.J. (372) ¶¶ 1–6 (EU). As the court said, for the purposes of investigating the possibly dominant position of an undertaking, the possibilities of competition must be judged in the context of the market comprising the totality of the products. *AstraZeneca*, *supra* note 352, ¶ 31. To this effect the court cited, for example, Case T-219/99, British Airways v. Commission, 2003 E.C.R. II-5917. *Id.* ¶ 91.

372. *AstraZeneca*, *supra* note 352, ¶¶ 34, 41.

373. *Id.* ¶ 56.

374. *See id.* ¶ 62 for a full description.

solid brand image and reputation on account of its status of 'first product on the market,' and had the most experience behind it."[375]

Furthermore, in establishing the factual context of the second abuse of a dominant position identified by the Commission, the court cited documents which identified "key actions to minimize sales erosion following patent expiry" and develop "products with significant medical benefits/differential to compete with cheap generic omeprazole . . . and to retain price and volume."[376] The court explained that "[the] diversification of the brand before patent expiry is intended to protect sales in the short- to medium-term after that expiry through customer loyalty/use habits in the absence of similar generic products."[377]

Another internal document stated that the switch from capsules to tablets would "vitalise the Losec brand" and that the switch was "intended to increase the protection of the . . . brand ([against] future generics) and make the brand more competitive."[378] Nonetheless, the court found

> no reason to reproach [AstraZeneca] either for launching Losec [tablets] or for withdrawing Losec capsules from the market, since those acts were not such to raise the legal barriers to entry complained of by the Commission that were capable of delaying or preventing the introduction of generic products and parallel imports.[379]

The reference to brand loyalty by the ECJ[380] is a subtle reference to AstraZeneca's use of umbrella branding[381] to move ahead of its competitors and to gain doctors' reliance on Losec's "solid brand image."[382] Umbrella branding—"the practice of selling several products under the same brand name"[383]—is used widely within several

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375. *Id.* ¶ 278.

376. *Id.* ¶ 762.

377. *Id.* ¶ 763.

378. *AstraZeneca*, *supra* note 352, ¶ 775.

379. *Id.* ¶ 811.

380. *Id.* ¶ 56.

381. *See* CHINMAYA PADHI, ET AL., BUSINESS INSIGHTS, THE OTC OUTLOOK FOR 2007 (2003) 116, 138, *available at* http://www.globalbusinessinsights.com/rbi/content/rbhc0090t.pdf (last visited Jan. 29, 2012); Luís M.B. Cabral, *Umbrella Branding with Imperfect Observability and Moral Hazard*, 27 INT'L J. INDUS. ORG. 206, 206 (2009). The terms 'brand stretching' and 'brand extension' are used often in the literature. For more discussions on umbrella branding, see, for example, Chong Ju Choi & Carlo Scarpa, *Credible Spatial Preemption Through Reputation Extension*, 10 INT'L. J. INDUS. ORG. 439, 440 (1992); Fredrik Andersson, *Pooling Reputations*, 20 INT'L J. INDUS. ORG. 715, 719 (2002).

382. *AstraZeneca*, *supra* note 352, ¶ 278.

383. Jeanine Miklós-Thal, *Linking Reputations Through Umbrella Branding* 1 (Nov. 4, 2010) (unpublished manuscript) (on file with the Loyola of Los Angeles International and Comparative

industries, as it allows firms "to leverage brand equity"[384] and as such, "helps firms with strong brands to successfully introduce new products by convincing consumers that new and existing products are of similar quality."[385] Therefore, because Losec enjoyed a "solid brand image and reputation"[386] the use of umbrella branding by AstraZeneca helped to portray the quality of the new generic product and may have contributed to "inertia" by prescribing doctors.[387] Jeanine Miklós-Thal points out, that as "firms can condition their branding decisions on qualities, umbrella branding can convey information to consumers even in the absence of any technological quality correlation."[388]

The effect of umbrella branding is that it creates a "signaling effect" and a "feedback effect,"[389] arguably fostering a sense of "loyalty" and "lock-in" effects on the consumer. The implication of the lock-in effects is that it distorts competition by creating a brand, and by extension a trade mark, that constitutes a monopoly.

The General Court in its judgment confirmed that misrepresentations by a dominant company before public authorities, such as patent offices and national courts, which lead to the grant of an exclusive right not entitled by an undertaking, or entitled for a shorter period, "may be particularly restrictive of competition" and may constitute an abuse within the meaning of Article 102.[390] The General Court further confirmed that a dominant company cannot use regulatory procedures to prevent the entry of competitors into the market, irrespective of its compliance or non-compliance with other legal rules.[391]

The *AstraZeneca* decision is important for intellectual property rights, as it demonstrates that the holders of intellectual property rights can be held liable for violating the competition rules under Article 102. The decision further provides guidance as to when raising legal barriers that are capable of delaying or preventing the introduction of generic

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Law Review) (citing DAVID A. AAKER, BRAND PORTFOLIO STRATEGY: CREATING RELEVANCE, DIFFERENTIATION, ENERGY, LEVERAGE, AND CLARITY xiii (2004)). *See also* Hendrik Hakenes & Martin Peitz, *Umbrella Branding and the Provision of Quality*, 26 INT'L J. INDUS. ORG. 546, 546 (2008).

384. *Id.* at 24.

385. *Id.* at 1.

386. *AstraZeneca*, *supra* note 352, ¶ 278.

387. *Id.* ¶¶ 34, 41.

388. Miklós-Thal, *supra* note 383, at 2.

389. *Id.*

390. *AstraZeneca*, *supra* note 352, ¶ 355.

391. *Id.* ¶¶ 656, 677 (stating "[t]he illegality of abusive conduct under Article [102 TFEU] is unrelated to its compliance or non-compliance with other legal rules").

products or parallel trade will constitute abusive conduct and a breach of Article 102 of the TFEU.

VI. TRADE MARK MONOPOLIES, PRODUCT DIFFERENTIATION, AND ANTITRUST LAW

The enactment of antitrust law is seen as a way of curbing and breaking up monopolies that have significant market share and abuse their market power. Intellectual property rights confer exclusive rights on their owners.[392] Yet different types of intellectual property pursue different goals and may produce different effects on the market. For instance, trade marks and copyrights pursue different goals from each other,[393] and in doing so, they employ different legal mechanisms to reach these goals.[394] The same can be said of patent law, which promotes innovation.[395] Professor Mark Lemley has argued that intellectual property rights are exclusive and indefinite, and as such, they confer market power.[396] This has always been the view of the courts, and thus an abuse of market power is a violation of antitrust law.[397]

Trade mark protection is not exempt from antitrust law since it is "one of those monopolies,"[398] yet one of the aims of trade mark law is to protect consumers from confusion and ultimately enhance competition in the market place.[399] The infinite nature of trade mark protection may affect antitrust law when it prevents competitors from

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392. Professor Mark Lemley has argued that

> in economic terms, intellectual property rights prevent competition in the sale of a particular work or invention covered by the intellectual property right, and therefore allow the intellectual property owner to raise the price of that work above the marginal cost of reproducing it . . . . In many cases fewer people will buy the work than if it were distributed on a competitive basis, and they will pay more for the privilege.

Mark A. Lemley, *The Economics of Improvement in Intellectual Property Law*, 75 TEX. L. REV. 989, 996 (1997) [hereinafter Lemley, *Economics of Improvement*].

393. Copyright for example, "allows its owner to exploit ideas once they have been expressed and recorded in a work, and provides the means for allocating the risks of doing so." COLSTON & MIDDLETON, *supra* note 132, at 279.

394. *See, e.g.*, Barnes, *supra* note 76, at 29.

395. FED. TRADE COMM'N TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY 1 (2003)

396. *See* Lemley, *Economics of Improvement*, *supra* note 392, at 992.

397. *See* Sherman Antitrust Act § 2.

398. *Blanchard*, (1742) 26 Eng. Rep. at 693 (2 ATK 484–85).

399. *See, e.g.*, H.R. rep. No. 76-944, at 3 (1939), stating that, "[t]he public is thus assured of identity, and is given an opportunity to choose between competing articles. To protect trade-marks, i.e., marks which permit the goods of different makers to be distinguished from each other, is to promote competition . . .".

engaging in any attempt to reproduce a successful mark or packaging design.[400]

Economic theory tells us that public goods are those goods and services a number of individuals are able to consume without affecting the value of such goods and services.[401] Furthermore, public goods are not only those goods that are publicly provided by governments, but public goods can also be provided by private means.[402] Most forms of intellectual property protection are filed by private individuals and corporations and are provided as a form of 'public goods.' The modern theoretical foundation for other forms of intellectual property rights, such as patents and copyrights, were based on a public goods theory.[403] As Professor David Barnes points out,

> [p]ublic goods analysis is . . . an emerging approach to trademark law issues. . . . [The] characteristics of public goods mean, respectively, that information once created can be simultaneously enjoyed by many people without interfering with the benefits each derives and that it is difficult to exclude people from enjoying those benefits.[404]

The relevance of the public goods theory is that in relation to trade mark, public goods inherently contain a normative argument, for example, in relation to antitrust.[405]

The trouble with antitrust is that the concept of market power has to be properly defined in the law. The Guidance on Article 82 and the case law of the ECJ state that dominance is when a firm enjoys economic strength.[406] If a firm has a low market share, then that firm may not run afoul of the antitrust laws in Europe since "low market shares are generally a good proxy for the absence of substantial market power."[407] Furthermore, according to the European Commission, "experience suggests that dominance is not likely if the undertaking's

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400. *See* Besen & Raskind, *supra* note 78, at 21. *See also* Kurt Borchardt, *Are Trademarks an Antitrust Problem?*, 31 GEO. L.J. 245, 246 (1943).

401. *See, e.g.*, Barnes, *supra* note 76, at 24.

402. RAYMOND G. BATINA & TOSHIHIRO IHORI, PUBLIC GOODS: THEORIES AND EVIDENCE 2 (2005).

403. *See* Barnes, *supra* note 76, at 22–23.

404. David W. Barnes, *Trademark Externalities*, 10 YALE J. L. & TECH. 1, 22 (2007).

405. A discussion on public goods theory and intellectual property (trademarks) is beyond the scope of this paper, and is taken up elsewhere; however, see also DINA KALLAY, THE LAW AND ECONOMICS OF ANTITRUST AND INTELLECTUAL PROPERTY: AN AUSTRIAN APPROACH 56 (2004).

406. *Guidance on Article 82*, *supra* note 317, ¶ 10; *See, e.g.*, *United Brands*, 1978 E.C.R. 207, ¶ 66.

407. *Guidance on Article 82*, *supra* note 317, ¶ 14.

market share is below 40% in the relevant market."[408] Recall that Article 102 of the TFEU and Section 2 of the Sherman Act apply to dominance or monopoly. The applicability of those two laws is significant since there are two elements in a monopoly: "[the] possession of monopoly power [and] the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen or historic accident."[409]

Thus, the Sherman Act applies to both the possession of a monopoly and to attempts to monopolize.[410] On the other hand, EU case law has defined dominance as the power "to prevent effective competition being maintained on the relevant market."[411] Therefore, the concept of dominance in both the EU and the United States becomes relevant when a certain degree of economic power is involved. Market power arises out of the concept of dominance, and the Guidance on Article 82 states that, "[t]he assessment of whether an undertaking is in a dominant position and of the degree of market power it holds is a first step in the application of Article 82."[412] The Guidance on Article 82 adds that "[a]ccording to the case-law, holding a dominant position confers a special responsibility on the undertaking concerned, the scope of which must be considered in the light of the specific circumstances of each case"[413] meaning any assessment must be carried out on a case by case basis.

The Guidance on Article 82 further states that from experience, a firm that enjoys less than forty percent market share is not in a dominant position.[414] This approach to the definition of market power (the Guidance on Article 82 mentions only market share) appears to contain flaws and "should be evaluated in the context of the alleged

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408. *Id.*

409. *See* Vickers, *supra* note 350, at F247 (citing United States v. Grinnell Corp., 384 U.S. 563, 570–71 (1966)). Vickers further explained the distinction between U.S. and EU Law on dominance:

> Note that in the US, the law is engaged only if there is a causal link from the conduct to the market power. By contrast, though Article 82 applies only if there is market power—to the extent of dominance—conduct can be abusive even if it does not maintain or strengthen that power. So in Europe, but not in the US, pure exploitation of market power—e.g. excessive pricing—can breach competition law.

Id.

410. *Id.*

411. *United Brands*, 1978 E.C.R. 207, ¶ 65; *see also Centrafarm*, 1978 E.C.R. 1139, ¶ 10 (reasoning that abusing a dominant position is a violation of Article 86).

412. *Guidance on Article 82*, *supra* note 317, ¶ 9.

413. *Id.*

414. *Id.* ¶ 14.

anticompetitive conduct and effect."[415] By using a threshold to analyze market power, there is a risk of ignoring other important market information, such as the ability of competing firms to expand.

The trouble with trade mark protection is that it grants exclusive and absolute power.[416] These powers are rooted in legal protection, which serve as an incentive to innovate (though an incentive to invest might be more appropriate in this context since trade mark law does not provide any incentive to create new marks). As discussed above, the present body of work on trade marks generally states that the main benefit of trade mark protection is that it lowers the consumer's search cost.[417] Although this "economic argument for protecting marks is straightforward and quite forceful,"[418] the exclusivity and absoluteness of trade marks breed monopolies which are inherently in conflict with antitrust law.[419] Strong trade marks then effectively lead to monopoly profits due to the ability of the trade mark owner to influence the consumer.[420] The monopoly created by trade mark protection and excess market power presents flaws, which are "at odds with social welfare."[421] Therefore, the purpose of trade marks should be "simply to help identify goods accurately to consumers, so that they may obtain the precise price/quality mix they desire."[422]

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415. *See* Steven C. Salop, *The First Principles Approach to Antitrust, Kodak, and Antitrust at the Millennium*, 68 ANTITRUST L. J. 187, 191 (2000) (stating that "[m]arket definition and market power should be evaluated in the context of the alleged anticompetitive conduct and effect, not as a flawed filter carried out in a vacuum divorced from these factors.").

416. *See* Fletcher, *supra* note 91, at 323 (citing UPTON, *supra* note 70, at 10); *cf.* Marcia B. Paul & Anthony F. Lo Cicero, *Litigating Trademark and Unfair Competition Cases*, 463 PLI/Pat 83, 118–19 (delineating four categories of trademark protection from per se exclusive protection, to conditional protections, to no protection) (1996).

417. *See, e.g.*, Png & Reitman, *supra* note 122, at 208–11.

418. Carter, *supra* note 80, at 762.

419. Fletcher, *supra* note 91, at 323.

420. For similar arguments, see, e.g., Charles E. Mueller, *Sources of Monopoly Power: A Phenomenon Called "Product Differentiation"*, 18 AM. U. L. REV. 1, 4–9 (1968). *Cf.* 1 CALLMANN ON UNFAIR COMPETITION, TRADEMARKS & MONOPOLIES § 4:54 (4th ed. 2010) (explaining why "there is no real conflict . . . between the antitrust laws on the one hand and trademark laws on the other"). *See also* Daniel M. McClure, *Trademarks and Competition: The Recent History*, LAW & CONTEMP. PROBS., Spring 1996, at 13 (highlighting the current trend of trademark protection's and antitrust law's being "perfectly compatible").

421. Lunney, Jr., *supra* note 120, at 373.

422. *Id.* at 461. Lunney, Jr. concluded by stating that "[b]y creating market power and anticompetitive losses without offsetting efficiency advantages, property-based trademark protection fully deserves the label 'trademark monopoly.'" *Id.* at 487.

"Product differentiation[423] refers to such variations within a product class that some consumers view as imperfect substitutes."[424] The economic literature, for instance, tells us that what differentiates products are the characteristics that they each possess.[425] Hence, product differentiation involves making a particular firm's product either actually or apparently different from that of its rival.[426] The authors tell us that "[i]f firms in a particular group produce goods which are differentiated, the products of the different firms are imperfect substitutes for each other and . . . this gives each firm the potential" for monopoly profits.[427] This is a result of the fact that "monopoly reduces the sensitivity to competitive moves that provide firms with the basic incentive to differentiate their product."[428]

In the general scheme of things, product differentiation occurs when competing goods act as imperfect substitutes for one another.[429] The argument is that "product differentiation encourages competition by making entry possible,"[430] as "[t]rademarks, in turn, facilitate the differentiation that facilitates entry."[431]

According to Clarkson and Miller, the sources of product differentiation are generally grouped into the following four categories:

1. Differences in quality or design

423. Product differentiation leads to a variety of products being produced. For discussions on the economic benefits of product differentiation, see, for example, Randall G. Holcombe, *Product Differentiation and Economic Progress*, 12 Q. J. AUSTRIAN ECON. 17, 17, 26–27 (2009).

424. *See* Simon P. Anderson, *Product Differentiation*, *in* THE NEW PALGRAVE DICTIONARY OF ECONOMICS 662, 662 (Steven N. Durlauf & Lawrence E. Blume eds., 2d ed. 2008) (footnote not in original).

425. JOHN BEATH & YANNIS KATSOULACOS, THE ECONOMIC THEORY OF PRODUCT DIFFERENTIATION 4 (1991).

426. *Id.* at 4–6.

427. *Id.* at 6.

428. *Id.* Earlier analysis of monopolistic competition provided a theory of product variety in a market economy, and this was well documented in EDWARD CHAMBERLIN, THE THEORY OF MONOPOLISTIC COMPETITION 56–70 (1st ed. 1933); *see also* JOAN ROBINSON, THE ECONOMICS OF IMPERFECT COMPETITION 143–54 (1933).

429. This is the general concept that is standard in the economic literature. *See, e.g.*, BEATH & KATSOULACOS, *supra* note 425, at 6; JEFFREY CHURCH & ROGER WARE, INDUSTRIAL ORGANIZATION: A STRATEGIC APPROACH 368 (2000).

430. Kratzke, *supra* note 168, at 218 (citing, Yale Brozen, *Entry Barriers: Advertising and Product Differentiation*, *in* INDUSTRIAL CONCENTRATION: THE NEW LEARNING 115, (Harvey J. Goldschmid et al. eds. 1974) and Bates v. State Bar of Ariz., 433 U.S. 350, 377–78 (1977)).

431. Kratzke, *supra* note 168, at 219, further adding: "[I]f legal rules accord no protection to trademarks' product differentiation role, sellers are likely to exit from a market. The law should recognize as exclusive those trademark interests that facilitate transmission of the informational and identificatory messages that promote competition by lowering the barrier to entry of consumers' lack of information of the advertiser's product." *Id.*

> 2. Differences in consumer ignorance regarding essential characteristics and qualities of the goods purchased (for example, durable goods that are infrequently purchased and are complex in design)
> 3. Brand names, trademarks, or company names derived from sales promotion activities of sellers, particularly advertising and service
> 4. Differences in the location of sellers of similar goods.[432]

Product differentiation becomes a grey area, with no signs of being bad or good, when it is integrated into law and economics and its antitrust implications. On one hand, consumers benefit from the wide variety of product offerings in order to satisfy their differing preferences.[433] On the other hand, product differentiation can facilitate the potentially harmful exercise of market power, since "the producer of a differentiated product often enjoys a localized monopoly and may, in consequence, be able to charge a higher price than it otherwise could."[434] The grey area presented by product differentiation does not necessarily mean that there are no grave antitrust implications. Product differentiation may encourage price fixing among similar products when monetary transfers are absent.[435] Price fixing or cartels, however, are still illegal under antitrust law, and would fall under Section 2 of the Sherman Act or Article 102 of the TFEU.[436]

VII. CONCLUSION

This article has demonstrated (or attempted to demonstrate) that the distinctiveness requirement in trade mark registration is a core principle that paves the way for trade marks to become monopolies. This article has further argued that trade mark protection is a form of monopoly, given that the property rights in trade marks are "exclusive

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432. KENNETH W. CLARKSON & ROGER LEROY MILLER, INDUSTRIAL ORGANIZATION: THEORY, EVIDENCE, AND PUBLIC POLICY 168 (1982).

433. Jonathan B. Baker, *Product Differentiation Through Space and Time: Some Antitrust Policy Issues*, 42 ANTITRUST BULL. 177, 179 (1997).

434. *Id. See also* Ulf Bernitz, *Brand Differentiation Between Identical Products: An Analysis From a Consumer Law Viewpoint*, 5 J. CONSUMER POL'Y 21, 21 (1981) (discussing brand differentiation as a problem of antitrust law).

435. For more on product differentiation, see Philippe Jehiel, *Product Differentiation and Price Collusion*, 10 INT'L J. INDUS. ORG. 633, 634 (1992). The relationship between product differentiation and the ability of firms to collude has been expounded upon in both the legal and economics literature. *See, e.g.*, Myong-Hun Chang, *The Effects of Product Differentiation on Collusive Pricing*, 9 INT'L J. INDUS. ORG. 453, 453 (1991); Qihong Liu & Konstantinos Serfes, *Market Segmentation and Collusive Behavior*, 25 INT'L J. INDUS. ORG. 355, 358 (2007).

436. Sherman Antitrust Act, *supra* note 46, § 2; TFEU, *supra* note 19, art. 102.

and absolute."[437] Although laws regulate monopolies in order to protect the interest of the consumer,[438] the behavioral patterns of consumers towards a product may enable the product to sustain its monopoly since only consumer demands increase the value of the product.[439]

437. *See* Fletcher, *supra* note 91, at 323, citing UPTON, *supra* note 70, at 10.
438. *See* Lemley, Jr., *supra* note 77, at 242.
439. *Id.* at 241.