**Balancing Trade Mark Protection with the Interests of Consumers and Competitors**

**Abstract**

In light of the legal recognition of the modern functions of trade marks, the debate on trade mark protection has been fuelled. This essay will explore the arguments for and against trade mark legal protection taking into account the interest of consumers and competitors. In conclusion, legal protection is justified because consumers embrace trade mark’s modern functions and the benefits of legal protection outweigh the risks of creating monopolies and unfair competition.

**Key words:** trade marks, protection, functions, competition, consumer.

**Resumen**

Tras el reconocimiento de las funciones modernas de las marcas, el debate sobre su protección se ha avivado. Este artículo explora los argumentos a favor y en contra de la protección legal de las marcas, teniendo en consideración los intereses de los consumidores y los competidores. Se justifica la protección legal porque los consumidores aceptan las funciones modernas de las marcas y porque los beneficios de la protección legal priman sobre los riesgos de creación de monopolios y competencia desleal.

**Palabras clave:** marcas, protección, funciones, competición, consumidor.

**List of Abbreviations**

CJEU Court of Justice of the European Union

EU European Union

VALs Values, attitudes and lifestyles

**Introduction**

A trade mark is a sign that an undertaking uses to identify and distinguish its goods and services for marketing purposes. It can be a name, logo, mark, symbol or any other kind of sign. Their owners seek a property right to exclude others from using their trade mark[[1]](#footnote-1). And the law gives a monopoly of use of the trade mark attached to the product or service, protecting it from infringement[[2]](#footnote-2).

The original function of a trade mark is to identify trade origin. This justifies its legal protection.

It is argued that trade marks should do no more than indicate trade origin and incentivise quality assurance. However, a trade mark is a commercial magnet, a valuable asset, for which their owners want effective legal protection.

The debate is centred in trade marks and competition. Harvard School of economics raised concerns about trade marks and monopolistic market power. Nevertheless, this concerns where diminished by the Chicago School of economics. It was argued that trade marks are an essential element in fair and undistorted competition.

The CJEU endorsed this view and extended the scope of trade mark legal protection by recognising its modern functions in Arsenal, L’Oréal, and Interflora cases[[3]](#footnote-3). The modern functions are the “communication, investment or advertising” functions. The CJEU recognised the link between legal protection of trade marks and the promotion of commercial investment and innovation. This raised a debate as to when trade marks cease to be socially useful and how much legal protection can be justified in the public interest.

**Brief background**

In the 1970s, attacks on trade marks grew out of a Chamberlinian model of monopolistic competition from the 1930s, refined by Harvard School economists in the 1950s and 1960s[[4]](#footnote-4). A monopoly is the acquisition of any degree of control over a market, which limits competition and enables the imposition of price policies to maximise profits[[5]](#footnote-5). Chamberlin claimed that trade marks were creators of monopolies that limit competition and saw no useful purpose for them.It is true that a trade mark on a product is a monopoly insofar as it excludes everyone else from using that product associated with that trade mark. However, the competitor can still use the product, as long as it is not associated with that trade mark. Therefore, a trade mark by itself does not give the owner power over the market, a real monopoly[[6]](#footnote-6).

Attacks on trade marks were also targeted at product differentiation by persuasive advertising, since this creates barriers for competitors to enter the market[[7]](#footnote-7). Advertising is not designed only to inform but to persuade and influence. Ultimately, the reason for advertising is economic, to gain monopoly power and profit. The practice of influencing and manipulating consumer behaviour dates back to the 1930 (Louis Cheskin). Brown argues that trade mark protection has transformed a trade mark intro a commercial tool to “manipulate purchase decisions” and to “delude consumers”. On the contrary, Swann argues that trade mark creates an emotional connection between a product and its consumer which should be protected by the law. In any case, achieving monopolistic power and profit through advertising is not an automatic process. Attempts to do so have often failed[[8]](#footnote-8).

In the 1980s and 1990s, general economic thinking shifted towards the view supported by the Chicago School of Economics. It was argued that trade marks and advertising were actually pro-competitive because they lower consumer search costs, facilitate entry by new competitors, and generate quality-control incentives. This ended the attacks on trade marks as anticompetitive[[9]](#footnote-9). It should be apparent that the benefits of trade marks in lowering consumer search costs by indicating trade origin and incentivising quality assurance, presuppose legal protection of trade marks. Extensive CJEU case law follows this view.

Trade marks are indispensable in a modern economy, but create tension between conflicting theories of legal analysis. We find the conflict between: (i) access and protection; (ii) legal rules such as the likelihood of confusion and the generic, descriptive, suggestive, or arbitrary trade marks; (iii) property rights and competition; and (iv), natural rights and utilitarianism[[10]](#footnote-10).

**Original function of trade marks**

The original function of a trade mark is to allow consumers to identify the origin of the good or service with which the trade mark is associated. Information asymmetry is the economic justification of trade marks. Producers and sellers have more information than buyers about the product, information that may be essential to establish the value of the product, such as unobservable features of identical goods. Trade marks allow consumers to identify the product they want, even if they look identical in all features that are observable before purchase, thus contributing to effective competition in the market. They enable consumers to choose the product with the desired combination of features and encourage firms to maintain consistent quality and variety standards and to compete over a wide quality and variety spectrum[[11]](#footnote-11).

It is argued that trade marks do not provide any legally binding guarantee of product quality, only a guarantee of trade origin: all the products must have originated under the control of the trade mark owner (trade origin), regardless of their physical origin (origin). Therefore, trade marks only reflect an economic incentive not to disappoint consumers or to obtain consumer loyalty ("good will” or trade mark reputation). Nonetheless, this incentive is strong and may be more effective than a legal obligation, which contributes to the argument in favour of trade marks. Also, even though quality is only assured to gain brand reputation and increase consumer loyalty, trade mark law should protect this legitimate competitive advantage.

In order to create a valuable trade mark, the trade mark owner has to make an investment in advertising and offering products of consistent quality, whereas the free-riding competitor who copies the trade mark will incur (~~in~~) little expense(~~s)~~ in doing so. If the law does not prevent this from happening, the incentive of creating a valuable trade mark that offers products with consistent quality will be eliminated in the first place[[12]](#footnote-12).

Hence, monopoly theory is rejected by trade mark law, because even if monopoly price policies are imposed, trade marks enable the consumer to save on search costs. The consumer is willing to pay more to easily find the product he wants of the desired quality, thus economizing on a real cost. This justifies the original function of trade marks[[13]](#footnote-13).

**Marketing and brands**

Trade marks not only designate the source of the good and foster quality control. They are beneficial for their owners, since they: (i) allow access to consumers’ minds; (ii) make advertising less expensive or more impactful (or both); (iii) enable a manufacturer to communicate more directly with a consumer; (iv) assist in attaining channel powers[[14]](#footnote-14); (v) provide a more efficient and credible means of extending into related goods, and give rise to licensing opportunities; (vi) serve as certificates of authenticity; (vii) afford resilience; and (viii) constitute an asset – brand equity – that is frequently a company’s most valuable single property[[15]](#footnote-15).

Nowadays, companies build brands and protect them as they understand that they encompass not only consumer awareness, but also perceived quality, customer loyalty and a rich set of associations. They understand the importance of the products’ intangible characteristics, their “atmospherics”, their “emotional charge” and the “values, attitudes and lifestyles” (VALs) that they may represent.

The term “brand”, however, is not formally recognised in Trade Mark Law. It is only used in marketing terminology. A brand is the exclusive identity, commercial or otherwise, that a trade mark represents. Brands are registered as trade marks to protect the reputation, imagery and values associated (such as Apple, Ferrari, or Rolex. In other words, a brand is the trade mark plus the aura surrounding that trade mark, which is normally the positive image created in the mind of consumers.

Trade marks are used to tie in desired mental images with the advertised goods[[16]](#footnote-16). It is argued that freedom of choice is not real when consumers lack adequate information and alternatives, and they have to make their decisions “under a bombardment of stupefying symbols”[[17]](#footnote-17). Yet, consumers make the free choice of buying these illusions, however economically irrational this behaviour may be.[[18]](#footnote-18) Today, consumers look beyond mere quality. “They want to satisfy psychological as well as physical needs, and they are often more concerned with identifying themselves than with identifying the sources of the goods they buy”[[19]](#footnote-19).

When advertising goes beyond conveying information of the physical and functional features of the product, such as lifestyle, as long as the information is accurate and do not misrepresent verifiable facts, then, the law should not intervene. Trade marks create benefits for their owners but also for consumers. They enhance the shopping experience: (i) they increase consumer understanding of unobservable characteristics of the product and they avoid risks in their purchase; (ii) they fulfil consumers’ emotional, self-expressive, and social needs; and (iii) they increase competition in the market, benefiting the consumer by creating a wider range of products and prices.[[20]](#footnote-20) The acceptance of this is a result of embracing modern commercial realities[[21]](#footnote-21).

**Modern functions of trade marks**

The European Commission claimed that trade marks create innovation and promote investments in research and development, which leads to product improvements. In addition, the recent jurisprudence of CJEU on trade marks and their functions has extended their protection[[22]](#footnote-22).

A trade mark that becomes appealing for the consumer is a commercial magnet and a valuable asset that can only be protected under the law if we recognise the modern function of trade mark. Consequently, trade mark owners invest in choosing and protecting their trade marks and their new functions. These new functions can be described as the “communication, investment, or advertising functions”[[23]](#footnote-23). The advertising and communication function refers to the use of a trade mark as an instrument of commercial strategy for advertising purposes, to inform and win over consumers (L’Oréal and Interflora cases)[[24]](#footnote-24). The investment function refers to the use of a trade mark to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty (Interflora)[[25]](#footnote-25).

The extended protection of these functions has created controversy because legal protection of these functions encourages monopolistic behaviour[[26]](#footnote-26). Also, “the ambiguous language used by the CJEU in defining these modern functions and the lack of clear boundaries between these newly recognised roles has created a deep tension at the heart of trade mark law and deterred recent attempts to formulate a coherent body of law”[[27]](#footnote-27). The Google France and Viking Gas cases were regarded as a significant development in the CJEU case law, since they limit the excessive protection conferred by the L’Oréal case and balance the interests of trade mark owners and competitors[[28]](#footnote-28).

“Protectionists” argue that the existence of a trade mark function itself justifies the protection, whereas “free traders” argue that only certain functions warrant such protection. Although trade mark protection is justified by the analysis of the Chicago School of Economics on the basis of the information provided as to trade origin, it cannot be stated conclusively whether there is an increase in social welfare in protecting the trade mark considering the modern functions[[29]](#footnote-29). Nevertheless, the modern functions derive from the essential functions. They depend on the ability of the trade mark to indicate trade origin and guarantee quality[[30]](#footnote-30). Therefore, trade marks should be protected for all their functions.

Benefits achieved from protection appear to cut the other way with respect to under-protection. However, to achieve a fair trade mark system for the owner, the competitors and consumers, it is necessary to strike a balance[[31]](#footnote-31).

**Conclusion**

Trade marks are the most convenient and effective way to establish a link between buyers and sellers. Trade marks help sellers to convey relevant information to consumers and help buyers to guide their purchasing choice. The legal protection of trade marks is mainly justified by their ability to provide undistorted information that reduces both the pecuniary and psychological search cost for consumers. This is essential when dealing with irrational economic operators such as consumers[[32]](#footnote-32).

Over time, the role of some trade marks has evolved from being signs that indicate trade origin and provide quality assurance, to symbols that represent positive and desirable values, increasing their commercial value or rather creating a commercial value of their own, since consumers buy the image associated with the trade mark instead of only the product. Trade mark owners recognise this and invest in their trade marks. Consequently, they seek protection for their investment by lobbying for the recognition and protection of the modern functions. With the recognition of the modern function of trade marks (L’Oréal and Interflora), the CJEU expanded the scope of protection too far. The protection through trade mark law of the social value of the intangible added quality (VALs) created through branding is debatable and controversial. An excessive legal protection contributes to a form of monopoly that is hard to justify in this context.

The implications of such extended legal protection has costs and benefits. The Legal protection of trade marks restricts the activity of other traders conferring unfair competitive advantage on their owners. Trade marks should not distort competition. Nevertheless, the law should protect trade marks form “unfair” damage or free-riding.

There remains confusion as to what exactly ~~is~~ a trade mark is, its functions, and the scope of the legal protection it should enjoy. These are basic concepts that should be clarified by the law in order to create a balance between the interests of trade mark owner and the interests of consumers and competitors. Surprisingly, the Directive (EU) 2015/2436 does not include the promotion of undistorted competition as a goal. Plus, the transformation of trade marks from consumer protection tools to investment and advertising tools makes the task even more complicated[[33]](#footnote-33).

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