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Abstract

Trademarks, and other legislation giving business rights to contain competitor behaviour, are justified on the basis that they provide consumers with accessible and accurate information about the origin of the product. They are privileges justified on the basis that there is a corresponding responsibility to the public. Circumstantial evidence suggests that this responsibility has been forgotten. Government cannot be seen to condone the right of firms to confuse consumers about the origins of their products.

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Disputes about patents and copyrights are today part of the daily news, but trademark controversies are less likely to be reported, despite their economic significance as important intellectual property rights in many industries and firms. Yet the way trademarks are used by firms is by no means uncontroversial and perhaps this silence arises because, if they are being misused, it is generally consumers that suffer rather than firms. We examine here how far trademarks are serving the purpose for which they were designed and explore modifications to the law that might lessen abuse.

The origins of trademarks date back several centuries before their definition in law. In addition to identification of works by their suppliers' names, the practice of using hallmarks to identify the source and guarantee the quality of objects made from precious metals was used in ancient times and established in medieval European craft guilds. In the 19th century countries such as France, Britain and the US enacted legislation to permit the registration of marks belonging to suppliers of goods, while service marks were added in the early 20th century. (The term 'trademark' now refers to both trade and service marks.) This legislation recognised that marks that were distinctive of a trader's goods or services supported valuable goodwill and should be seen as a type of property. For the customer a trademark, supplemented by ingredient labelling, should offer precise information that is easily assimilated about the origin, content and quality of the good.

What is the economic logic of having a monopoly over a logo?[1] Registered trademarks are a state-granted right to exclude others from using an insignia or mark.[2] Since this creates some degree of monopoly power, its justification depends on there being a quid pro quo for society.[3] This 'quid' is information for consumers. It enables them to make more efficient choices (static efficiency) as the information contained in the trademark reduces their search and transaction costs. Because they know and trust the product, they do not waste time looking for alternatives or suffer a loss of satisfaction that could occur if they were to buy an inferior good or service from another producer. The alternative (without marks) is that consumers have to engage in costly trial and error based on the shape or appearance of the product. If quality is never observable pre-consumption[4] and the origin of the good is concealed, then there may be no accumulated learning at all. This is not only

[1] A trade mark is a sign, logo or insignia used, or intended to be used, to distinguish goods or services dealt with or provided in the course of trade by a person from goods or services so dealt with or provided by any other person (Australian Trade Marks Act 1995, Section 17).

[2] On the other hand, protection for unregistered marks is derived from the law of passing off which prevents one person from misrepresenting his or her products as being the products of the trademark 'owner'. It also prevents one person from holding out his or her products as having some association or connection with the 'owner' when this is not true.

[3] While the stated purpose of a trademark right is not to grant market power, the effect of a brand, coupled with marketing tends to change the elasticity of demand.

[4] And it is not feasible to write a contract over quality (Bar-Isaac and Tadalis 2008)

expensive but also wasteful if products are rejected. Furthermore, if buying is infrequent as is often true with durable goods, the consumer may never find their most preferred product.

From the seller's perspective, producers actively used the trademark system to register company names, logos and insignia and to differentiate their products by name and type (reflecting their varied characteristics). Their protected marks can have the dynamic effect of giving these firms the confidence to invest in research and development into new products. This incentive arises because they know that their trademarks will enable their customers to differentiate between product characteristics which are not apparent from casual observation (dynamic efficiency).[5] So the key is that the mark reduces consumer confusion over both the source (like a hallmark) and the characteristics of the product (whether trade or service marks). Society benefits if a seller cannot confuse consumers as to the origin or nature of the good.

But are trademarks doing their bit to provide consumers with accurate information? In the last few decades there has been an evolving use of trademarks which we would argue has led to deterioration in the value of marks to consumers, but appreciation in the value of marks to producers. Companies and their advertisers realised that trademarks can be designed which embody sentiment, gestalt, emotions, or personal image, and these engender psychological responses in buyers, leading to greater product loyalty. Such marks are the basis of building brand image for the company and its portfolio of products and they add value to the product over and above its substance — hence these kinds of labels and trademarks attract extra price and enhance profits.

Knowing that this sentiment effect can be eroded by the same factors that created it, companies have sought legal protection against so-called 'dilution'.[6] Dilution is said to have occurred if the reputation of a well-known mark is tarnished or blurred by the actions of another firm, even where there is no infringement of the trademark or where there is no prospect of consumer confusion. Typically such cases can arise when another firm seeks to use the same trademark, or a very close variation of it, in a completely different product field. Hence there is no confusion, but the new product is one which by its nature has an image contrary to that of the well-known mark. The

[5] At the limit, if consumers cannot distinguish between high and low quality products, the market may disappear (Akerlof 1970).

[6] In the US the Federal Trademark Dilution Act was enacted in 1996. In Australia the Trade Marks Act 1995 contains provisions that some commentators argue will protect against dilution, but there remains controversy over the interpretation of the Act (see this debate in Gonsalves and Flynn, 2006, and Handler, 2007). In an attempt to down play the deleterious effects of dilution provisions, commentators have argued that these provisions are not often used in court (see Janis and Yu 2008). However, this does not address the issue as to why dilution provisions should exist at all. Nor does it acknowledge the impact the dilution provision may have on economic behaviour. We know from surveys of patent enforcement that patents pre-empt and modify many behaviours before they become apparent.

arguments supporting this law are that the later user wilfully intended to trade on the established reputation of the earlier mark or that they intended to damage its reputation.

This 'right' of the marketing industry to buy and sell property rights over emotion has become so well entrenched that companies such as McDonalds feel justified in challenging organisations that use the prefix 'Mc' on their products, for example, a community rugby team for using the term 'McBrats' (the nick name of team sponsor Malcolm McBratney) on their shorts. Closely aligned with the view that organisations 'own' the right to exclude people from using insignia associated with their brand is anti-ambush marketing legislation.[7] It is becoming commonplace for international sporting associations to require nations, hoping to win the right to host the 'international cup', to enacted laws to prevent ambush marketing (Morgan 2008). Marketing practices thus appear to have co-opted an intellectual property right designed to help consumers identify the source and quality of a product and have made this into a weapon for enhancing their own profitability. So the question we are posing is: has trademark and associated laws (ie of the ambush marketing sort) been hi-jacked by the marketing industry at the expense of consumers?

First consider the fact that the buying and selling of trademarks, and leasing of marks, are permitted and frequent operations. When a mark is sold or licensed to another party this can lead to it being a source of confusion for the consumers about the origin of the good, rather than ensuring that they know the source. Where the whole production unit, embodying: plant and equipment; blueprints and algorithms; staff; and the established supply chain; is sold as a package, there are grounds for arguing that the trademark, as an integral part of this package, should be included in the sale. However, there is no scrutiny or oversight over sales of trademarks. Cases where the trademark is disembodied from the production unit appear, from the consumers' perspective, the same as trademark sales that are part of a production unit package. It might be argued that company ownership can be inferred from the supplier printing a name somewhere on the product, but small print on the reverse label is no substitute for a trademark prominently displayed on the front. Also with the sale of a mark it is quite possible that the new owner will decide to change the quality of the good or service, either to move the product to capture a different market segment or to cheapen its production and lower his costs. Tadelis (1999) argues that there are greater incentives for low quality producers, compared with high quality producers, to buy reputable trademarks since low-quality producers are unable to create a high quality reputation for themselves. After the sale of

[7] Ambush marketing occurs when a producer or seller associates themselves with a major event (often sporting, such as the Olympics or FIFA World Cup) without permission of the event organisers.

a trademark, it may well take time for existing consumers to realise their regular purchase is not what it was.

Another way in which the modern use of trademarks can lead to confusion is due to the common practice of one originator using many marks. The producer may do this to reach different segments of the market by appealing to differences in image and style, but at the same time this practice has the effect of implying more competition and more producers than actually exists. It can also be the case that producers want to realise the emotive value of trademarks to differentiate essentially identical products, so supply of homogenous products from the same factory can occur under different marks. In these situations a consumer who may have had a bad experience with a company, or has a diminished view of their standard of health and safety, and wants to avoid them may end up buying their good or service under the guise of a different company trademark. Well may a business use their brands in this way, but the question for public policy is should the law and the offices of the government be used to support this type of activity? Is the government acting as an agent of business working to increase consumer confusion?

Without stopping to consider the implications, the practice of multi-trademarks or brands by a given owner has become pervasive among industry, especially in the area of consumer goods. Common examples include newspapers (News Limited, Fairfax); bread (George Weston Foods, Quality Bakers); cleaning products (Colgate-Palmolive); toilet paper (Kimberly-Clark, AB SCA Finans); canned fruit (SPC Ardmona); tea (Tetley), multiple goods (Simplot Australia, Campbells, Fonterra). Web sites and packaging can be sufficiently obscure that it is difficult for the consumer to identify the original manufacturer. Try, for example, to find out who owns the best fish from John West, or who owns Guest's Teddy Bears.

Consumer confusion can also ensue when companies share trademarks. For instance, a consumer can buy a ticket from Qantas and end up travelling on another airline. Some trademarks are quite simply misleading. Should the legal system condone the use of the trademark 'UGG-AUSTRALIA' by an American firm manufacturing boots in China? Should the confusion threshold be set higher for government-sanctioned trademarks? We, the public, are so accustomed to wily marketing practices that we may assume that when a mark is sold, it is our responsibility to learn about the change to the quality or origin of the product. But is this good public policy? Should we assume that it is up to us to learn that two apparently distinct trademark-sanctioned products are rolling off the same production line? Or it is the responsibility of other parts of the law — such as consumer protection — to mop up any problems created by an overly generous trademark law?

The concerns raised above suggest that policy makers who design and implement laws in the area of trade marks and branding should re-consider their intent. Laws which grant businesses a privilege are typically justified on the basis that there is a corresponding responsibility to the public. There is enough circumstantial evidence to suggest that, with respect to trademark and branding laws, this responsibility has been forgotten. Government however cannot be seen to condone the right of firms to confuse consumers about the origins of their products. Whereas the evidence on the extent of consumer confusion is thin (see for example Huang *et al* 2012), there is a prima facie case for arguing that current practice of buying, selling and creating trade marks, does confuse consumers. Any jurisdiction that includes dilution clauses in their legislation might be using the law to protect mere sentiment. It has become commonplace among IP professionals to accept without questioning that since sentiment *is* protected as a form of property, then it is right and proper that it should be. However, our paper asks: Should this be? We argue that the default position ought to be that the force of the law be used only when a case can be made in the public interest

An extension of this idea is whether the law should bear down on the use of marks to confuse consumers as to non-significant product differences between essentially identical products from the same producer. Currently, a trademark can be registered if it is distinctive from other marks — there is no test for whether the product is distinctive (if it has the same owner) or it clearly denotes the origin of the product.

At present, little is expected of the trademark applicant either in terms of adequate clarification of the source of production or genuine product differentiation from those of competitors. To obtain a patent the applicant has to demonstrate novelty; to obtain copyright a creator has to assert the item is his own work. To obtain a trademark it might also be reasonable to require some element of genuine product distinction and that when in use the mark should denote the company of origin. Furthermore the mark should not be used to suppress valid competition within the product group or to uphold claims of dilution. For example, lookalikes (products with essentially similar colours and styles of packaging) can at present be prohibited in law, even where they are clearly labelled with a different product name that should not confuse any but illiterate consumers.

Consider what happened after a law concerning geographic indications was introduced. Prior to their adoption it was confusing to consumers for firms to use terms such as ‘burgundy’ for wines and ‘parma’ for hams that were not produced in these regions of France and Italy. Enforcing more restrictive clarification of the origin of a product has had the effect of forcing local producers in other areas to develop their own marks. This has boosted the reputations of previously unknown regions, while underlining the true origins of different wines and hams.

This model could be adapted for trademarks. Ensuring genuine novelty and clarifying the origins of products could lessen consumer confusion. It could also mean that the right to buy, sell or license a trademark would be withdrawn from a situation involving significant changes in supplier.

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