# Search Costs and Famous Foreign Marks: Should Congress Reduce the Search Costs of the Global Consumer and Protect Famous Foreign Marks?

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## INTRODUCTION

Imagine a Parisian woman who collects handbags designed by Longchamp. If and when this woman travels to the United States, she will likely expect any product emblazoned with the Longchamp horse logo to originate from a similar source as the handbags she has previously purchased in France. However, the present structure of U.S. trademark law under the Lanham Act does not assure our consumer that the Longchamp horse logo found on a product in the United States will be of the same quality as the products from Longchamp with which she was familiar in France.

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Currently, there is no explicit protection in the Lanham Act for marks that are famous, yet not actually used, in the United States.[1] Thus, there is no guarantee for a consumer visiting the United States from abroad that a product bearing the same trademark as one back home originates from the same source and is therefore of similar quality as the product to which the foreign consumer is accustomed.

For over 60 years, the Lanham Act[2] has governed trademark protection in the United States. Congress promulgated the Lanham Act to encourage fair competition, efficiently allocate resources, and provide incentives for trademark-holders to improve product quality.[3] Historically, U.S. law has provided protection to only those trademarks actually used in the United States.[4] However, as a result of increased outsourcing and globalization of trade, trademarks from even the most remote areas of the globe regularly surface in the consciousness of U.S. consumers.[5] U.S. courts have struggled to deal with the rise of trademarks that are famous and recognized by domestic consumers, yet fail to meet the "use in commerce" element required to provide protection under the Lanham Act.[6] One approach, adopted by the Ninth Circuit, grants priority in limited circumstances to trademarks that are famous and recognized by consumers in a particular market but are not "actually used" in that market under the requirements set forth in the Lanham Act.[7] In contrast, the Second Circuit has hesitated to grant protection to trademarks that do not meet the "actual use" standard.[8] The

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[1] The Lanham Act requires "use[] in commerce" to establish a claim for civil liability. 15 U.S.C. § 1125(a)(1) (2006).

[2] 15 U.S.C. §§ 1051 *et seq.* (2006). The Lanham Act is the popular name for the Trademark Act of 1946.

[3] Elizabeth M. Flanagan, *No Free Parking: Obtaining Relief from Trademark–Infringing Domain Name Parking*, 92 MINN. L. REV. 498, 509 (2007). *See* 15 U.S.C. § 1127 (2006) (The intent of this Act is to . . . protect persons engaged in such commerce against unfair competition; to prevent fraud and deception in such commerce . . . and to provide rights and remedies stipulated by treaties and conventions respecting trademarks, trade names, and unfair competition entered into between the United States and foreign nations). *See also* 1 J. Thomas McCarthy, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, §§ 2:1–5 (4th ed. 2007) [hereinafter "MCCARTHY ON TRADEMARKS"].

[4] 15 U.S.C. § 1125(a)(1).

[5] Frederick W. Mostert, Famous and Well-Known Marks: an International Analysis 1–2 (Butterworths 1997).

[6] 15 U.S.C. §§ 1125(a)(1), 1127. The power of Congress to enact the Lanham Act is derived from the Commerce Clause of the Constitution. U.S. Const. art. I, 8, cl. 3.; Bonder, Moshe H., *Patent and Lanham Acts: Serving Two Legitimate Purposes or Providing an Indefinite Monopoly?*, 15 ALB. L.J. SCI. & TECH. 1, 11 (2004). Under the Lanham Act, "use in commerce" means "the bona fide use of a mark in the ordinary course of trade." 15 U.S.C. § 1127.

[7] *See* Grupo Gigante S.A. de C.V. v. Dallo & Co., 391 F.3d 1088 (9th Cir. 2004).

[8] *See* ITC Ltd. v. Punchgini, Inc., 482 F.3d 135 (2d Cir. 2007).

Second Circuit strictly applies the territoriality principle, which provides that trademarks registered in a foreign country have no priority of right over trademarks used domestically, regardless of the degree to which domestic consumers recognize the trademark (*i.e.* the degree of fame inherent in the trademark).[9]

The scope of what constitutes a famous mark, defined in the Lanham Act as a mark that is "widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark's owner,"[10] has not been clearly interpreted by the federal circuit courts of appeals.[11] Part I of this Comment will discuss the difficulties encountered in defining a famous foreign mark. Part I will also discuss the overarching principles of territoriality[12] and universality[13] used to determine the type of "use" sufficient to warrant trademark protection. International law has addressed the famous marks issue in Article *6bis* of the Paris Convention for the Protection of Industrial Property (the "Paris Convention").[14] Article *6bis* provides an exception to the territoriality principle by allowing protection of a famous or well-known trademark even when such trademark has not been "use[d] in commerce"[15] in the country in question.[16] This Comment urges Congress to incorporate Article *6bis* into the Lanham Act because protecting well-known and famous marks of other countries brought into the United States will encourage foreign producers to enter the U.S.

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9 *See generally id.*

10 15 U.S.C. § 1125(c)(2)(A).

11 It should be noted that most jurisdictions draw a distinction between "famous" and "well-known" marks. Typically, the former type of mark warrants a higher degree of reputation and protection. *See* MOSTERT, *supra* note 5, at 21. For purposes of this Comment, the terms "famous" and "well-known" will be used interchangeably because the myriad of definitions attributed to these terms in the literature do not permit a clear definition for either term. *See also* INT'L TRADEMARKS ASS'N, FAMOUS AND WELL-KNOWN MARKS (April 3, 1995), http://www.inta.org/index.php?option=com_content&task=view&id=1721&Itemid=59&getcontent=1 (last visited December 29, 2008).

12 Black's Law Dictionary defines "territoriality" as "[t]he principle that a nation has the right of sovereignty within its borders." BLACK'S LAW DICTIONARY 1512 (8th ed. 2004).

13 Universality is also referred to as "national treatment," or the "policy or practice of a country that accords the citizens of other countries the same intellectual-property protection as it gives its own citizens, with no formal treaty of reciprocity required." This principle formed the foundation for the first international intellectual-property treaties of the nineteenth century, including the Paris Convention. BLACK'S LAW DICTIONARY 1054 (8th ed. 2004).

14 Paris Convention for the Protection of Industrial Property, art. 6bis, March 20, 1883, last revised at Stockholm, July 14, 1967, 53 Stat. 1748, 828 U.N.T.S. 305 [hereinafter Paris Convention].

15 15 U.S.C. § 1125(a)(1).

16 Paris Convention, *supra* note 14.

market for the sale of their goods. Such protection will expand consumer choice and, ultimately, reduce consumer search costs.[17]

Part II will address the theory of consumer search costs as an overall justification for trademark law and the effects of increased consumer search costs on economic efficiency. Reduction of consumer search costs has long been considered a principal aim of trademark law.[18] This central goal must remain at the heart of any and all policy-making as the law of trademarks continues to evolve.[19]

Part III will outline the current circuit split on the Famous Foreign Marks Doctrine.[20] In *ITC Ltd. v. Punchgini, Inc.*, the Second Circuit firmly rejected the application of any exception to the territoriality principle for famous marks.[21] The Second Circuit found that Congress had intentionally excluded protection for famous but unused marks from the scope of the Lanham Act and that, absent any further explanation from Congress on the issue, the Second Circuit would continue to disregard the theory of a Famous Foreign Marks Doctrine.[22] In contrast, and in contravention of the territoriality principle, the Ninth Circuit, in *Grupo Gigante S.A. de C.V. v. Dallo & Co.*, permitted protection of famous foreign marks on policy grounds.[23] The Ninth Circuit found that the territoriality principle should not be absolute and that, when equity demanded, exceptions to the territoriality rule should be made for marks that are famous and well-known within the relevant market in question.[24]

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[17] General economic theory divides the total cost of a good into two components: (1) price of the good or service ("price") and (2) costs incurred by the consumer to gather information about the good or service and its vendor, including the transaction costs of inspection and negotiation ("search costs"). Michael Grynberg, *The Road Not Taken: Initial Interest Confusion, Search Costs, and the Challenge of the Internet*, 28 SEATTLE L. R. 97, 109 (2004). William Landes and Richard Posner engineered a model representing the dual costs incurred in any purchase of a good or service. This model defined the full price of a good ($\pi$) as the sum of the money price of the good (P) and the search costs incurred by a consumer in obtaining information about the relevant attributes of the good (H). The strength of a trademark reduces the value of the search cost component (H); therefore, a product with a strong trademark has lower search costs (H) than a product with a weak trademark (or none at all). William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 266 (1987). For further discussion of search costs, *see infra* Part II.

[18] Landes & Posner, *supra* note 17.

[19] Stephen L. Carter, *The Trouble with Trademark*, 99 YALE L.J. 759, 762 (1990).

[20] The "Famous Foreign Marks Doctrine" provides an exception to the principle of territoriality for famous and well-known marks that protects a mark that is well-known, but has not been actually used, in the U.S. market. Vaudable v. Monmartre, Inc., 193 N.Y.S.2d 332 (N.Y. Sup. Ct. 1959).

[21] ITC Ltd. v. Punchgini, Inc., 482 F.3d 135, 163–65 (2d Cir. 2007).

[22] *Id*.

[23] Grupo Gigante S.A. de C.V. v. Dallo & Co., 391 F.3d 1088 (9th Cir. 2004).

[24] *Id.* at 1094.

Part IV will discuss the positive effects that adoption of a territoriality exception for famous marks in the United States would have on consumer search costs and overall economic efficiency. Protecting famous foreign marks will allow a consumer to confidently rely on purchases of goods she made previously, regardless of whether such prior purchases occurred in the United States or in a foreign country.

This Comment proposes that because of the importance of reducing a consumer's search costs, maintaining economic efficiency, and preserving the goals of trademark law, Congress should amend the Lanham Act to expressly recognize the Famous Foreign Marks Doctrine. This recognition may be accomplished by incorporating, by reference, Article *6bis* of the Paris Convention[25] into the Lanham Act. Due to the rise in trafficking of goods through Internet marketing and sales, as well as the increase in international travel for both business and personal purposes, there is currently a greater need for Congress to address this issue than ever before.

## PART I: DEFINING FAMOUS FOREIGN MARKS

This Part will discuss the principles of territoriality and universality as justifications for trademark law, and will address the small (but growing) body of scholars and judges who seek to apply an exception to territoriality in connection with a famous foreign mark in the United States—thus favoring the concept of universality in a limited context. The Paris Convention, in Article *6bis*, expressly provides an exception to territoriality for famous marks, known as the Famous Foreign Marks Doctrine.[26] The application of, and rationale behind, Article *6bis* will also be addressed, as well as its force in the United States following the recent Supreme Court case of *Medellin v. Texas*.[27]

What constitutes a "famous mark?" According to the text of the Lanham Act, a trademark is "famous" when "it is widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark's owner."[28] For example, a

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[25] *See* Paris Convention, *supra* note 14.

[26] *Id.*

[27] Medellin v. Texas, 129 S. Ct. 360 (2008).

[28] 15 U.S.C. § 1125(c)(2)(A) (2006). A court may consider all relevant factors to determine whether a mark possesses the requisite degree of recognition, including but not limited to "(A) the degree of inherent or acquired distinctiveness of the mark; (B) the duration and extent of use of the mark in connection with the goods or services with which the mark is used; (C) the duration and extent of advertising and publicity of the mark; (D) the geographical extent of the trading area in which the mark is used; (E) the channels of trade for the goods or services with which the mark is used; (F) the degree of recognition of the mark in the trading areas and channels of trade used by the marks'

consumer who sees an establishment featuring the McDonald's Arches[29] will immediately associate the establishment with hamburgers, milkshakes, and other recognizable McDonald's fare. The McDonald's trademark is indisputably "famous" under federal law.[30]

Consumer belief that every product bearing the same symbol originates from the same source indicates that the symbol has the "source-identifying property of a trademark."[31] Source-identifying properties need not be "fanciful," "arbitrary," or "suggestive" words or designs.[32] A distinctive color may sufficiently identify the origin of the good such that the color receives protection as a trademark.[33] It is a mark's "source-distinguishing ability," and "not its ontological status as color, shape, fragrance, word, or sign,"[34] that enables a mark to serve the goal of "reduc[ing] the consumer's costs of shopping and making purchasing decisions."[35]

But the McDonald's Arches are widely known and used both inside and outside the United States.[36] McDonald's operates over 31,000 restaurants bearing the Arches in more than 100 countries.[37] What of those trademarks that are well-known in the United States, but are not used in the American market? Many courts have held that prior use of a mark *in the United States* is a precondition to maintain a cause of action

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owner and the person against whom the injunction is sought; (G) the nature and extent of use of the same or similar marks by third parties; and (H) whether the mark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register." *Id.*

[29] The "McDonald's Arches" are a trademark of McDonald's Corporation.

[30] *See* Alexis Weissberger, Note, *Is Fame Alone Sufficient To Create Priority Rights: An International Perspective On The Viability Of The Famous/Well-Known Marks Doctrine*, 24 CARDOZO ARTS & ENT. L.J. 739, 747 n.39 (2006).

[31] Robert G. Bone, *Enforcement Costs and Trademark Puzzles*, 90 VA. L. REV. 2099, 2105 (2004).

[32] Qualitex Co. v. Jacobson Prods. Co., 514 U.S. 159, 166 (1995) (quoting Abercrombie & Fitch Co. v. Hunting World, Inc., 537 F.2d 4, 9 (2d Cir. 1975)).

[33] *Id*. (finding that holder's use of a green-gold color on its press pads met the basic requirements for trademark protection).

[34] *Id.* at 164.

[35] MCCARTHY ON TRADEMARKS, *supra* note 3, at § 2:03.

[36] *See* Weissberger, *supra* note 30, at 775 (discussing use of McDonald's trademark in South Africa); Michael Wallace Gordon, *Hamburgers Abroad: Cultural Variations Affecting Franchising Abroad*, 9 CONN. J. INT'L L. 165, 172 (1994) (identifying the McDonald's golden arches as a symbol of U.S. culture). *See also* McDonald's Corp. v. McBagel's, Inc., 649 F. Supp. 1268 (S.D.N.Y. December 10, 1986) (describing evidence of McDonald's news media use and extensive advertising program relating to the "Mc" prefix mark).

[37] As of 2006, McDonald's operated 31,046 restaurants in 118 countries. *See* MCDONALD'S CORPORATION, 2006 Annual Report 22 (2007).

for trademark infringement and dilution.[38] Indeed, U.S. law establishes trademark rights according to priority of use, not registration.[39] The party who first *uses* the mark generally has "priority of ownership over conflicting claimants."[40]

Two contrasting principles have developed to address the issue of trademarks registered in one country that enter another country: (1) the territoriality principle and (2) the universality principle.[41] Historically, the territoriality principle has governed trademark protection.[42] Under this principle, trademarks that are registered in a foreign country and enter the home country have no priority of right over trademarks used in the home country, even if consumers in the home country are familiar with the foreign mark.[43] A trademark is considered to have a separate legal existence under the respective laws of each country in which it is registered,[44] and ownership of a mark in one country will not automatically confer the exclusive right to use the mark in another country.[45] In a territoriality regime, a foreign-registered trademark will infringe upon a domestic-registered trademark regardless of the impact of the foreign-registered trademark in the domestic country.[46]

In contrast to the territoriality principle, the universality principle focuses on the ability of the trademark to properly identify the source of the goods to which it is affixed.[47] Under the universality principle,

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[38] *See* Almacenes Exito S.A. v. El Gallo Meat Mkt., Inc., 381 F. Supp. 2d 324, 326 (S.D.N.Y. 2005). *See also* United States v. Steffens (*Trade-Mark Cases*), 100 U.S. 82 (1879); Hanover Star Milling v. Metcalf, 240 U.S. 403 (1916); United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90 (1918); Person's Co. v. Christman, 900 F.2d 1565, 1568 (Fed. Cir. 1990); Buti v. Impressa Perosa, S.R.L., 139 F.3d 98 (2d Cir. 1998).

[39] Jeffrey M. Samuels and Linda M. Samuels, *A Review of Recent Decisions of The U.S. Court of Appeals for the Federal Circuit: Article: The Trademark Jurisprudence of Judge Rich*, 56 AM. U. L. REV. 761, 764 n.9 (2007). *See also* Almacenes Exito S.A. v. El Gallo Meat Mkt., Inc., 381 F. Supp. 2d 324, 326 (S.D.N.Y. 2005); In re Trade-Mark Cases, 100 U.S. 82, 94 (1879).

[40] Henry W. Leeds and Norm D. St. Landau, *A Review of Recent Decisions of the U.S. Court of Appeals for the Federal Circuit: Area Summary: Review of the 1986 Trademark Decisions of the Court of Appeals for the Federal Circuit*, 36 AM. U. L. REV. 903, 913 (1987).

[41] *See* Margo A. Bagley, *Using Section 337 of the Tariff Act of 1930 to Block Materially Different Gray Market Goods in the Common Control Context: Are Reports of its Death Greatly Exaggerated?*, 44 EMORY L.J. 1541, 1545–1546 (1995).

[42] *Person's Co.*, 900 F.2d at 1569–70.

[43] ITC Ltd. v. Punchgini, Inc., 482 F.3d 135, 155 (2d Cir. 2007).

[44] Stephen M. Auvil, *Gray Market Goods Produced by Foreign Affiliates of the U.S. Trademark Owner: Should the Lanham Act Provide a Remedy?*, 28 AKRON L. REV. 437, 440 (1995).

[45] *ITC Ltd.*, 482 F.3d at 155.

[46] Michael B. Weicher, Note, K Mart Corp. v. Cartier, Inc.: *A Black Decision for the Gray Market*, 38 AM. U. L. REV. 463, 479–80 (1989).

[47] Bagley, *supra* note 41, at 1546.

merchandise trademarked in one country may be transported to another country lawfully, *without* the threat of infringement, so long as the trademark accurately identifies the source of the merchandise.[48] This will be the result even if someone other than the owner of the merchandise has an exclusive right to the trademark in the second destination country.[49] Unfortunately for proponents of universality, however, this principle has been met with resistance in the United States.[50] The Supreme Court rejected the universality principle in 1923,[51] a position supported by concurrently enacted statutes.[52]

While the territoriality principle is one of the basic fundamentals of U.S. trademark law,[53] not all theorists consider the principle absolute.[54] In 1959, in *Vaudable v. Montmartre*, New York created an exception to the territoriality principle, reasoning that famous foreign marks deserve protection in the United States even if they have never been used here.[55] In *Vaudable*, restaurant proprietors in New York opened a restaurant named "Maxim's." [56] A well-known, upscale restaurant by the same name was established in Paris, France in 1893, and continues to operate to this day.[57] The owners of the Paris Maxim's sought to enjoin operation

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[48] *Id.*

[49] *Id. See also* Maureen Beyers, *The Greying of American Trademarks: The Genuine Goods Exclusion Act and the Incongruity of Customs Regulation 19 C.F.R. § 133.21*, 54 FORDHAM L. REV. 83, 107 (1985).

[50] *See ITC Ltd.,* 482 F.3d at 155 n.14. *See also* Am. Circuit Breaker Corp. v. Oregon Breakers, Inc., 406 F.3d 577, 581 (9th Cir. 2005); Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1171 (S.D.N.Y. 1984); Beyers, *supra* note 49, at 155 n.144 (asserting that universality has been replaced with the principle of territoriality).

[51] *See* A. Bourjois & Co. v. Katzel, 260 U.S. 689, 692 (1923); Philip Morris, Inc. v. Allen Distribs., Inc., 48 F. Supp. 2d 844, 850 (S.D. Ind. 1999) (discussing impact of the *Katzel* decision on trademark law).

[52] *See* 19 U.S.C. § 1526(a) (2006). The Tariff Act of 1930 states: "Except as provided in subsection (d) . . . it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise . . . bears a trade-mark owned by a citizen of . . . the United States, and registered in the Patent Office . . . under the provisions of the Act . . . unless written consent of the owner of such trade-mark is produced at the time of making entry." This provision gave a U.S. registered trademark-owner the right to exclude foreign goods bearing the same trademark as those registered by the U.S. company. Vivitar Corp. v. United States, 761 F.2d 1552, 1563 (Fed. Cir. 1985).

[53] Person's Co. v. Christman, 900 F.2d 1565, 1569 (Fed. Cir. 1990).

[54] *See* Andrew Terry and Heather Forrest, *Where's the Beef? Why Burger King is Hungry Jack's in Australia and Other Complications in Building a Global Franchise Brand*, 28 NW. J. INT'L L. & BUS. 171, 173 (2008).

[55] Vaudable v. Montmartre, Inc., 193 N.Y.S.2d 332, 335 (N.Y. Sup. Ct. 1959). *See also* Dan L. Burk, *Trademark Doctrines for Global Electronic Commerce*, 49 S.C. L. REV. 695, 720 (1998).

[56] *Vaudable*, 193 N.Y.S.2d at 334.

[57] *Id.* at 758.

of the Manhattan restaurant.[58] The court found that the Paris Maxim's mark was sufficiently famous to warrant protection in the United States[59] and enjoined operation of the New York Maxim's, despite the fact that the owners of the Paris Maxim's had never operated a restaurant in New York.[60] Pursuant to the exception to territoriality created in *Vaudable*, a famous foreign trademark will be protected in the United States if the mark is well-known here, even though the mark has not been "actually used" or registered in the United States.[61] This exception to the territoriality principle is what is commonly referred to as the "Famous Foreign Marks Doctrine."[62]

Proponents of the Famous Foreign Marks Doctrine rely on the Paris Convention to support adoption of this doctrine into U.S. trademark law.[63] The drafters of the Paris Convention understood 125 years ago that there existed some trademarks whose fame transcended the territoriality principle. The Paris Convention, which was put in force in the United States on May 30, 1887,[64] seventy-two years before *Vaudable*, is perhaps the clearest authority for establishing standards for infringement of a well-known mark.[65] Article *6bis* of the Paris Convention, which serves as a basis for universal recognition of well-known marks, provides that:

> [t]he countries of the Union undertake . . . to prohibit the use[] of a trademark which constitutes a reproduction, an imitation, or a translation, liable to create confusion, of a mark considered by the competent authority of the country of registration or use to be

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58 *Id. See also* Grupo Gigante S.A. de C.V. v. Dallo & Co., 391 F.3d 1088, 1095 (9th Cir. 2004) (discussing the fame and notoriety of the Paris Maxim's).

59 According to the court, regarding the Paris Maxim's, "[t]here [was] no doubt as to its unique and eminent position as a restaurant of international fame and prestige." *Vaudable*, 193 N.Y.S.2d at 334.

60 *Vaudable*, 193 N.Y.S.2d at 335–36.

61 MCCARTHY ON TRADEMARKS, *supra* note 3, at § 29:61.

62 The standard set forth by the Supreme Court of New York in *Vaudable*, adopting a famous marks exception to the territoriality principle, has never been specifically adopted by either the New York Court of Appeals nor any intermediate New York appellate court. This failure to recognize the Famous Foreign Marks Doctrine as a legitimate common law doctrine led the Second Circuit to explicitly decline to adopt the Famous Foreign Marks Doctrine in a recent decision in *ITC v. Punchgini*. ITC v. Punchgini, 482 F.3d 135, 165 (2d Cir. 2007); *see also infra* Part III.

63 Paris Convention, *supra* note 14. The benefits of the Paris Convention are enjoyed by each member country of the Union for the Protection of Industrial Property. *Id.* at art. 1–2. The Union for the Protection of Industrial Property consists of the countries to which the Paris Convention applies. *Id.*

64 World Intellectual Property Organization, Treaties Database – Contracting Parties, Paris Convention, http://www.wipo.int/treaties/en/Remarks.jsp?cnty_id=334C (last visited December 29, 2008).

65 MOSTERT, *supra* note 5, at 6.

> *well known in that country* as being already the mark of a person entitled to the benefits of this Convention.[66]

Article *6bis* requires that, where a person in one member country holds a trademark that is "well-known" in another member country, the domestic trademark-holder must not face competition in the foreign country's market from any product that would likely create confusion with its own product, trademarked domestically but not in the foreign market.

In *McDonalds Corp. v. Joburgers Drive-Inn Restaurant Ltd.,* a fast-food restaurant proprietor—Joburgers—sought to use the familiar golden arches design and BIG MAC trademarks, as well as the McDonald's name, in a new chain of restaurants.[67] At that time, McDonald's had registered several trademarks in South Africa, but had not used them.[68] Despite the absence of use of any of the McDonald's marks in South Africa, the court found that the McDonald's name and its principal trademark, the golden arches, were well-known among the "portion of persons who would be interested in the goods or services provided by McDonald's."[69] The court examined Joburgers' use of the McDonald's trademark within the meaning of South Africa's Trade Marks Act,[70] enacted only one year prior to the commencement of the *Joburgers* litigation, which gave legislative effect to the provisions of Article *6bis* of the Paris Convention.[71] The court held that because the McDonald's trademarks were well-known, use of these marks by Joburgers would cause deception or confusion among South Africans.[72] Therefore, the court forbade Joburgers' use of the McDonald's trademark in South Africa.[73]

Aside from conflict-of-law issues,[74] conflicts arise surrounding the definition of the term "well-known."[75] The Paris Convention "does not define the conditions under which a trademark is to be considered well known" and, therefore, considerable uncertainty exists regarding the circumstances under which the holder of a trademark may invoke the

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66 *See* Paris Convention, *supra* note 14 (emphasis added).

67 *McDonalds Corp. v. Joburgers Drive-Inn Restaurant (Pty) Ltd.* 1996 (1) SA 1(A) (S. Afr.).

68 *Id.* at 2.

69 *Id.* at 65.

70 Trade Marks Act No. 194 of 1993.

71 *McDonald's*, *supra* note 67, at 21; Trade Marks Act No. 194 of 1993 s. 35

72 *Id.* at 66.

73 *Id.* at 75.

74 *See, e.g., In re* Rath, 402 F.3d 1207, 1215 (Fed Cir. 2005); Nat'l Steel Car, Ltd. v. Canadian Pac. Ry., Ltd., 357 F.3d 1319, 1333 (Fed. Cir. 2004).

75 MOSTERT, *supra* note 5, at 16 (advocating a "case-by-case approach" to determine whether a mark is famous or well-known).

protection of Article *6bis*.[76] The 1994 Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS") does provide some insight on the meaning of the term "well-known mark." [77] TRIPS provides that in making the determination whether a trademark is well-known, account shall be taken "of the *knowledge of the trademark in the relevant sector of the public*, including knowledge in the Member concerned which has been obtained as a result of the promotion of the trademark."[78]

Article *6bis* was designed to govern the "reputation without use" scenario, in which a trademark pirate registers a trademark in one country, therefore pre-empting a foreign holder of that well-known trademark from using the mark in the country where the pirate has registered his trademark.[79] Actual use by the pirate is not required by the Paris Convention; mere registration of the well-known trademark will suffice to invoke the protections of Article *6bis* against the pirate.[80] This approach stands in stark contrast to the U.S. rule, which requires actual use in commerce to maintain a cause of action for infringement or dilution under the Lanham Act.[81]

At least one country has encountered the issue of the use of a famous, yet unregistered, trademark.[82] In 2005, the well-known STARBUCKS trademark had not yet been registered in Russia.[83] A Russian entrepreneur registered the STARBUCKS trademark and logo, and immediately offered to sell use rights to the U.S. owner of the STARBUCKS trademark for $600,000.[84] While the U.S. trademark owner prevailed in legal action against the Russian entrepreneur on

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[76] *Id.* at 17 (citing Memorandum prepared by the International Bureau (WIPO), "Protection of Well-Known Marks: Results of the Study by The International Bureau and Prospects for Improvement of the Existing Situation," Committee of Experts on Well-Known Marks, Meeting in Geneva, November 13–16, 1995, at 6).

[77] The Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Legal Instruments—Results of the Uruguay Round, 33 I.L.M. 1125 (1994).

[78] *Id.*

[79] Mark D. Nielsen, *Cohiba: Not Just Another Name, Not Just Another Stogie: Does General Cigar Own a Valid Trademark for the Name "Cohiba" in the United States?*, 21 LOY. L.A. INT'L & COMP. L.J. 633, 645 (1999). *See also* MOSTERT, *supra* note 5, at 19 (describing "reputation-without-use" as the scenario in which a mark was neither registered nor used but had acquired a well-known reputation in the local jurisdiction).

[80] Nielsen, *supra* note 79, at 645.

[81] *See* Almacenes Exito S.A. v. El Gallo Meat Mkt., Inc., 381 F. Supp. 2d 324, 326–27 (S.D.N.Y. 2005). *See also* Samuels & Samuels, *supra* note 39, at 764 n.9.

[82] *See* MCCARTHY ON TRADEMARKS, *supra* note 3, at § 29:61.

[83] Max Vern, *A Trademark Visa—Aspects of International Trademark Use and Protection*, 88 J. PAT. & TRADEMARK OFF. SOC'Y 847, 850 (2006). *See also* MCCARTHY ON TRADEMARKS, *supra* note 3, at § 29:61.

[84] Vern, *supra* note 83, at 850.

criminal grounds,[85] at least one well-known treatise on trademark doctrine[86] has cited this case as an application of the Famous Foreign Marks Doctrine by a signatory country to the Paris Convention.[87]

The key principle underlying the Paris Convention is national treatment: prohibiting a country from providing more favorable treatment to its own citizens than to foreigners with respect to intellectual property protection.[88] A member nation must grant foreign trademark holders the same rights that it gives to its own citizens.[89] Under the standard set forth in the Paris Convention, the treatment of a foreign holder's mark in the United States should not differ from the treatment of an American holder's mark. Thus, it would seem that the inquiry as to whether or not the Famous Foreign Marks Doctrine applies in the United States should end with the plain language of the Paris Convention.[90] If the United States is bound by the provisions of the Paris Convention, a treaty to which it is a party, then an exception for famous marks from the territoriality principle seems readily apparent.[91] At the time of this publication, however, a number of courts in the United States have held that the Paris Convention is not self-executing[92] and is subordinate to the

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[85] *Id. See also* http://www.komonews.com/news/archive/4169586.html (Komo News, Nov. 17, 2005, "Starbucks Wins Trademark Battle in Russia"); INTA Bulletin, March 15, 2006 ("Starbucks Trademark Victory in Russia").

[86] MCCARTHY ON TRADEMARKS, *supra* note 3. McCarthy also cites a 2005 case in which Walt Disney Enterprises successfully prevented an Iranian from registering in Iran the MICKEY MOUSE trademark, in Farsi, along with an image of the cartoon mouse. *Id.*

[87] MCCARTHY ON TRADEMARKS, *supra* note 3, at § 29:61.

[88] Robert J. Gutowski, Comment, *The Marriage of Intellectual Property and International Trade in the TRIPS Agreement: Strange Bedfellows or a Match Made in Heaven?*, 47 BUFFALO L. REV. 713, 718 (1999). Article 2(1) of the Paris Convention provides: "Nationals of any country of the Union shall, as regards the protection of industrial property, enjoy in all the other countries of the Union the advantages that their respective laws now grant, or may hereafter grant, to nationals; all without prejudice to the rights specially provided for in this Convention." *Id.* (citing Paris Convention, *supra* note 14, art. 2).

[89] Robert C. Bird, *Defending Intellectual Property Rights in the BRIC Economies*, 43 AM. BUS. L.J. 317, 320 (2006).

[90] *See* Paris Convention, *supra* note 14. The Paris Convention prohibits use in one member country of "a mark considered by the competent authority of the country of registration to be well known [in that country] as being already the mark of a person entitled to the benefits of the present Convention. . . ." *Id.*

[91] *Id.*

[92] Section 44(b) of the Lanham Act provides that: "[a]ny person whose country of origin is a party to any convention or treaty relating to trademarks . . . to which the United States is also a party . . . shall be entitled to the benefits of this section under the conditions expressed herein to the extent necessary to give effect to any provision of such convention . . . in addition to the rights to which any owner of a mark is otherwise entitled by this Act." 15 U.S.C. § 1126(b) (2006). While potentially interpreted as an "avenue for reliance on international norms[,]"courts and scholars have hesitated to construe the words "to the extent necessary to give effect to any provision of such

provisions independently provided in the Lanham Act.[93] In *Medellin v. Texas*,[94] the Supreme Court addressed the domestic effect of an international treaty provision[95] and denied domestic application of a treaty previously assumed to be self-executing.[96] The Court stated that: "[i]t is up to Congress whether to implement obligations undertaken under a treaty which (like this one) does not itself have the force and effect of domestic law . . . ."[97] The effect of this decision on treaty interpretation will be debated for years to come,[98] and the question of whether the Paris Convention is considered self-executing presently remains in considerable doubt following *Medellin*.

## PART II: CONSUMER SEARCH COSTS

This section will address how trademark law is intended to protect both consumers and producers, or trademark holders.[99] The architects of the Lanham Act endeavored to secure for the owner the goodwill

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convention" to mean that the Paris Convention controls over the Lanham Act. The primary reason underlying this hesitation is that the wording of Section 44 is viewed as too ambiguous to require the somewhat far-reaching conclusion that unfair competition under the Lanham Act should be governed by European laws of unfair competition as provided in the Paris Convention. Edward Lee, *The New Canon: Using or Misusing Foreign Law To Decide Domestic Intellectual Property Claims*, 46 HARV. INT'L L.J. 1, 52 (2005); ITC Ltd. v. Punchgini, Inc., 482 F.3d 135, 162 (2d Cir. 2007); L'Aiglon Apparel, Inc. v. Lana Lobell, Inc., 214 F.2d 649, 654 (3d Cir. 1954); *but see* General Motors Corp. v. Ignacio Lopez de Arriortua, 948 F. Supp. 684, 687–88 (E.D. Mich. 1996) (finding that Congress intended to incorporate substantive rights of the Paris Convention into the Lanham Act).

[93] Int'l Cafe v. Hard Rock Cafe Int'l, 252 F.3d 1274, 1278 (11th Cir. 2001) (finding that "[a]s other courts of appeals have noted, the rights articulated in the Paris Convention do not exceed the rights conferred by the Lanham Act. Instead, we conclude that the Paris Convention, as incorporated by the Lanham Act, only requires 'national treatment.'"). *See also ITC Ltd.*, 482 F.3d at 162 (holding that "[t]he Paris Convention creates no substantive rights beyond those independently provided in the Lanham Act.").

[94] Medellin v. Texas, 129 S. Ct. 360 (2008).

[95] Optional Protocol Concerning the Compulsory Settlement of Disputes to the Vienna Convention, Apr. 24, 1963, 21 U.S.T. 325, T.I.A.S. No. 6820.

[96] *Medellin,* 129 S. Ct. at 361.

[97] *Id.*

[98] Robert Greffenius, *Selling Medellin: The Entourage of Litigation Surrounding the Vienna Convention on Consular Relations and the Weight of International Court of Justice Opinions in the Domestic Sphere*, 23 AM. U. INT'L L. REV. 943, 944 (2008).

[99] Glynn S. Lunney, Jr., *Trademarks and The Internet: The United States' Experience*, 97 TRADEMARK REP. 931 (2007). *See also* S. Rep. No. 1333, at 3, reprinted in 1946 U.S.C.A.N. 1274, 1277 (1946) (stating that the purpose of the Lanham Act is to "protect the public so it may be confident that, in purchasing a product bearing a particular trademark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trademark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation.").

associated with its trademark, prevent diversion of trade through commercial misrepresentations, and protect the public against exposure to confusingly similar trademarks.[100] While a consumer with expert knowledge about the products he seeks to purchase still falls within the purview of general trademark theory,[101] the principal beneficiary of trademark law is the "ignorant, the weak, and the unwary" consumer.[102] This Part addresses how protection of trademarks will protect this "unwary" consumer by reducing his cost of searching for an item that suits his or her needs, and how the reduction of consumer search costs will encourage the free flow of information and thereby contribute to an economically efficient market.

The availability of trademarks reduces the typical consumer's cost of locating an item that she likes based on her prior use of an item with the same trademark.[103] A trademark assures the consumer that any product with a particular trademark originates from the same source as any other product bearing the same mark,[104] thereby encouraging the consumer to repeatedly purchase goods that were previously satisfactory.[105] Therefore, brands serve as the "shorthand that consumers use to guide their all important purchasing decisions."[106]

By way of example, imagine a consumer who enjoys using Listerine® mouthwash.[107] That consumer will be reassured in the knowledge that if he or she goes to the drugstore and purchases a bottle of Listerine® mouthwash, that bottle will live up to the quality and safety standards as a Listerine® mouthwash used on a prior occasion. The consumer knows that all products with the Listerine® trademark come

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[100] S. Rep. No. 1333. *See also* Auvil, *supra* note 44, at 440.

[101] Florence Mfg. Co. v. J. C. Dowd & Co., 178 F. 73, 75 (2d Cir. 1910) ("The law is not made for the protection of experts, but for the public—that vast multitude which includes the ignorant, the unthinking and the credulous, who, in making purchases, do not stop to analyze, but are governed by appearances and general impressions.").

[102] Patricia P. Bailey & Michael Pertschuk, *The Law of Deception: the Past as Prologue*, 33 AM. U. L. REV. 849, 868 n.90 (citing Von Mumm v. Frash, 56 F. 830, 839 (2d Cir. 1893)).

[103] *See* Q Div. Records, LLC v. Q Records, No. 99–10828, 2000 U.S. Dist. LEXIS 1773, at *7 n.8 (D. Mass. 2000) (stating that "[c]larity and distinction among trademarks serves the further purpose of making it easy for consumers to find the brands they want without inefficiently expending extra effort to search for them.").

[104] New Kids on the Block v. News America Pub., Inc., 971 F.2d 302, 305 (9th Cir. 1992).

[105] Frank I. Schecter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813, 818 (1927).

[106] SCOTT M. DAVIS, BRAND ASSET MANAGEMENT: DRIVING PROFITABLE GROWTH THROUGH YOUR BRANDS 141 (Jossey-Bass 2002) ("This shorthand relieves consumers from enduring the mentally exhausting and unsure process of trying a new brand.").

[107] Listerine® is a registered trademark of Johnson & Johnson Healthcare Products Division of McNEIL-PPC, Inc.

from the same source.[108] Similarly, the producer of Listerine® will enjoy the ability to draw this particular consumer to its product by merely placing a recognizable name and/or trade symbol on its product packaging. The time saved by the consumer to locate a suitable product, without having to inefficiently expend extra effort and evaluate the product choices in a store, is an example of a reduction in consumer search costs.[109]

Trademarks contribute to economic efficiency by reducing consumer search costs, which is often cited as the principal goal of trademark law.[110] There are several benefits conferred on both consumers and producers by such a cost reduction.[111] A trademark permits a consumer to "know[] at a glance whose brand he is being asked to buy[,] whom to hold responsible if the brand disappoints[,] and whose product to buy in the future if the brand pleases."[112] Successful trademarks serve as a "shorthand indicator" of the provenance and qualities of a particular good[113] and provide the consumer with a "packet of information" with which to make a consumption decision.[114] Accordingly, an increase in the supply of information about a good corresponds with a decrease in the marginal cost of such information. As the cost of information decreases, demand for the information increases. This results in a better-informed consumer clientele and, ultimately, a more competitive market.[115]

Producers also reap substantial benefits from the existence of trademark protection. Trademark law enables a producer to invest in the development of a high quality product and rest securely in the knowledge that a producer of a similar, yet lower quality, product cannot free-ride on the high quality producer's goodwill.[116] Without a guarantee that a

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108 *New Kids on the Block*, 971 F.2d at 305 n.2.

109 *Q Div. Records*, 2000 U.S. Dist. LEXIS 1773, at *7 n.8.

110 William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 266 (1987).

111 Carter, *supra* note 19, at 762; *see also* Ty Inc. v. Perryman, 306 F.3d 509, 510 (7th Cir. 2002).

112 *Ty Inc.*, 306 F.3d at 510.

113 Stacey L. Dogan & Mark A. Lemley, *Trademarks and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777, 787 (2004).

114 *See* Carter, *supra* note 19, at 759.

115 *Id.*

116 "High quality producer goodwill" refers to the higher costs incurred by a producer to develop a high quality product than those incurred in producing a lower quality product. Dogan & Lemley, *supra* note 113, at 787. While protection of producer goodwill is of significant importance, this protection is not absolute. If protection of a trademark would inhibit competition, the interest in preserving a competitive marketplace will prevail. Carter, *supra* note 19, at 792. *See* Kellogg Co. v. Nat'l Biscuit Co., 305 U.S. 111, 121–22 (1938) (permitting Kellogg to produce cereal in a "pillow-shape" form

competing firm cannot produce a duplicate product at the same marginal cost, a production firm is unlikely to expend resources on developing a new product or improving the quality of an existing product.[117] Because trademark law prevents another firm from copying a source-identifying mark, a producer who holds a trademark for a product is thus assured that it "will reap the financial, reputation-related rewards associated with a desirable product."[118] Trademarks protect a producer from free-riding by a lower quality producer because a trademark enables the consumer to recognize a brand and associate a level of quality with that particular brand.[119] If the consumer lacked the ability to distinguish between brands of a similar product, *e.g.* shampoo, producers of luxury shampoo would lack incentive to develop a costlier, higher quality product than the generic brand of shampoo sold in the drugstore.[120]

Professor Robert G. Bone likens this phenomenon to Akerlof's "lemons" model.[121] Akerlof's research focused on asymmetry of information.[122] A purchaser of a used car who has no way to determine whether or not the car is a "lemon" (a car of little or no value) will subsequently discount the value of *all* used cars available in the market.[123] When the typical used car consumer cannot distinguish high quality from junk, this has a negative effect on sellers of high quality used cars.[124] Returning to the shampoo example above, without reliable trademarks, the shampoo aisle would simply carry bottles containing varying types and quality of shampoo, but a consumer would have absolutely no method by which to distinguish a bottle of luxury Frédéric

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and with the descriptive name "Shredded Wheat," even though this would allow Kellogg to share the goodwill of the cereal's original creator, National Biscuit Co. The Court gave Kellogg this right because it found that allowing Kellogg to share in the goodwill of the unprotected Shredded Wheat trademark would reduce production costs and maintain high quality products, goals in which the overall consuming public is deeply interested).

[117] Landes & Posner, *supra* note 110, at 270. Contrary to popular belief, trademark law does not seek to encourage development of a brand as a stand-alone entity. *See* Dogan & Lemley, *supra* note 113, at 801 n.93. Trademark law protects brand development only to the extent that use of that branded mark will reduce consumer search costs. *Id.*

[118] Qualitex Co. v. Jacobson Prods. Co., 514 U.S. 159, 163–64 (1995) (quoting 1 MCCARTHY ON TRADEMARKS, § 2:03 (3d ed. 1994)).

[119] Bone, *supra* note 31, at 2108.

[120] *Id.*

[121] *Id.*

[122] George A. Akerlof, *The Market for "Lemons": Quality Uncertainty and the Market Mechanism*, 84 Q.J. ECON. 488 (1970).

[123] *Id.*

[124] The standard for the typical consumer is the "ignorant, the weak, and the unwary." Bailey & Pertschuk, *supra* note 102, at 868 n.90 (citing Von Mumm v. Frash, 56 F. 830, 839 (2d Cir. 1893)).

Fekkai shampoo[125] from a bottle of generic store brand shampoo. When a consumer possesses no ability to distinguish between products, a luxury goods producer such as Frédéric Fekkai has no incentive to create a brand with higher quality characteristics.[126] The result is economic inefficiency.[127]

Fortunately, trademarks encourage the flow of information in markets.[128] The goal of trademark law is to "promote rigorous, truthful competition in the marketplace."[129] Modern trademark theory posits that trademark law is designed to prevent an increase in consumer search costs.[130] This idea is easily illustrated through a brief review of the Federal Trademark Dilution Act (the "FTDA").[131] Courts require four main elements to establish a claim of trademark dilution: (1) whether plaintiff's mark is famous and distinctive; (2) whether defendant's mark was used in commerce; (3) whether defendant's use occurred after plaintiff's mark became famous; and (4) whether defendant's use caused dilution of plaintiff's mark.[132] A senior user of a trademark—a user who has achieved priority of use—whose mark has been diluted loses incentive to improve its brand image.[133] Further, as a consumer's ability to distinguish between products declines, a producer's desire and motivation to improve or develop its brand similarly declines.[134] In turn, this imposes costs on the consumer because the consumer must now exert more effort to locate the product he or she desires.[135] Imagine a restaurant that uses the "Tiffany" name, which is typically associated with Tiffany & Co. jewelers.[136] While use of the "Tiffany" name does not confuse the public into thinking it is encountering an establishment of Tiffany jewelers, it does weaken the "efficacy of the name as an identifier of the store . . . . Consumers will have to think harder—incur as

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[125] The Frédéric & Company website touts its hair product collection as "the ultimate in luxury hair care." Frédéric Fekkai, http://www.fredericfekkai.com/about/ (last visited December 29, 2008).

[126] *See* Bone, *supra* note 31, at 2108.

[127] *Id.*

[128] David W. Barnes, *A New Economics of Trademarks*, 5 NW. J. TECH. & INTELL. PROP. 22, 27 (2006); s*ee also* Dogan & Lemley, *supra* note 113, at 787.

[129] Barnes, *supra* note 128, at 27.

[130] *Id.* at 49.

[131] Federal Trademark Dilution Act of 1995: Pub. L. No. 104–98, 109 Stat. 985 (codified as amended at 15 U.S.C. 1125(c), 1127 (2006)).

[132] Lee Goldman, *Proving Dilution*, 58 U. MIAMI L. REV. 569, 571–72 (2004). While there is consensus regarding the elements themselves, there is significant disagreement among courts as to the interpretation and application of these elements. *Id.*

[133] *Id.* at 575.

[134] *See* Bone, *supra* note 31, at 2108.

[135] *See* Goldman, *supra* note 132, at 575.

[136] Ty Inc. v. Perryman, 306 F.3d 509, 511 (7th Cir. 2002).

it were a higher imagination cost—to recognize the name as the name of the store."[137] Trademarks alleviate the need for consumers to "think harder" in order to determine whether the good or service is one they want to purchase. The availability of a trademark on a product immediately provides the consumer with information about the good's origin and quality, which reduces the consumer's cost of searching for suitable goods. Reducing the consumer's search costs also reduces the producer's cost of marketing and locating a suitable consumer for its products. By lowering costs for both consumers and producers, the overall goals of trademark law to promote an efficient market and reduce consumer search costs can be achieved.

## PART III: CIRCUIT SPLIT

The question of whether a famous foreign mark, registered abroad but not registered in the United States, should receive trademark protection under the Lanham Act[138] remains uncertain following a circuit split between the Second and Ninth Circuits.[139] The Second Circuit has explicitly declined to extend protection to a foreign mark that is famous but not registered in the United States.[140] In contrast, the Ninth Circuit has developed a two-part test that would provide protection, in limited circumstances, to a famous unregistered mark in the United States.[141]

### *Ninth Circuit: Grupo Gigante S.A. de C.V. v. Dallo & Co.*

*Grupo Gigante* is of particular importance because it represents the first application of a famous marks exception to the territoriality principle by a circuit court.[142] Unlike the Second Circuit, the Ninth Circuit did not base its decision in *Grupo Gigante* on strict statutory interpretation; instead, the court identified compelling policy reasons to carve out an exception to the territoriality principle.[143] In *Grupo Gigante*,

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137 *Id.*

138 *See generally* 15 U.S.C. § 1125(a) (2006) (creating a civil cause of action for likelihood of confusion); *see id.* § 1125(c) (allowing a cause of action for injunctive relief to the owner of a famous mark).

139 *Compare* ITC Ltd. v. Punchgini, Inc., 482 F.3d 135 (2d Cir. 2007), *with* Grupo Gigante S.A. de C.V. v. Dallo & Co., 391 F.3d 1088 (9th Cir. 2004).

140 *ITC Ltd.*, 482 F.3d at 135.

141 *Grupo Gigante*, 391 F.3d at 1098.

142 Jeffrey M. Samuels and Linda B. Samuels, *Recent Developments in U.S. Trademark Law: A Confusing State of Affairs*, 88 J. PAT. & TRADEMARK OFF. SOC'Y 361, 371 (April 2006); *See also Grupo Gigante*, 391 F.3d at 1094 (noting that "[t]here is no circuit-court authority—from this or any other circuit—applying a famous-mark exception to the territoriality principle.").

143 *Grupo Gigante*, 391 F.3d at 1094 (finding that "[a]n absolute territoriality rule without a famous-mark exception would promote consumer confusion and fraud . . . .

a Mexican company operated a chain of "Gigante" supermarkets on the United States-Mexico border.[144] Nearly forty years after the creation of the Mexican Gigante chain, the defendant opened a grocery store in the San Diego area called "Gigante Market."[145] When Grupo Gigante sought to expand its operations into the United States, a battle ensued between Grupo Gigante and defendant Dallo regarding which party had established priority of use.[146]

The Ninth Circuit held that the territoriality principle, which grants "priority of trademark rights in the United States . . . solely upon priority of use *in the United States*, not on priority of use anywhere in the world," should not be absolute.[147] The court created a two-part test to determine whether a mark is sufficiently famous to receive protection.[148] First, the mark must satisfy the secondary meaning requirement.[149] To obtain trademark registration under the Lanham Act, unless a mark is "fanciful," "arbitrary," or "suggestive," the user must present proof that the mark has acquired secondary meaning.[150] Broadly speaking, a mark has acquired secondary meaning when, "in the minds of the public, [its] primary significance . . . is to identify the source of the product rather than the product itself."[151] For example, initially, the term "Teddy Graham" brings to mind a physical description of the product itself—a graham cracker biscuit in the shape of a teddy bear.[152] Only when the term "Teddy Graham" can evoke in the collective mind of the public a specific good "produced or sponsored by a particular person"[153]—in the case of the Teddy Graham, a product by Kraft Foods Inc.[154]—has the

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There can be no justification for using trademark law to fool immigrants into thinking that they are buying from the store they liked back home.").

[144] *Grupo Gigante*, 391 F.3d at 1091.

[145] *Id.*

[146] *Id.* at 1092–93.

[147] *Id.* at 1093 (quoting MCCARTHY ON TRADEMARKS, *supra* note 3, at § 29:2) (emphasis added), *contra* Buti v. Impressa Perosa, S.R.L., 139 F.3d 98, 103–05 (2d Cir. 1998) (adopting a strict application of the territoriality principle and refusing to consider earlier use in another country as a factor to determine priority of use).

[148] *Grupo Gigante*, 391 F.3d at 1096.

[149] *Id.*

[150] Deven R. Desai & Sandra L. Rierson, *Confronting the Genericism Conundrum*, 28 CARDOZO L. REV. 1789, 1806 (2007). *See also* Abercrombie & Fitch Co. v. Hunting World, Inc., 537 F.2d 4, 11 (2d Cir. 1976).

[151] Wal-Mart Stores, Inc. v. Samara Bros., 529 U.S. 205, 211 (2000) (citing Inwood Labs., Inc. v. Ives Labs., Inc., 456 U.S. 844, 851, n.11 (1982)).

[152] Desai & Rierson, *supra* note 150, at 1808.

[153] *Id.* (quoting RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 13(a), (b) (1995)).

[154] *See* Kraft Foods Inc., Annual Report (Form 10-K), at 4 (Feb. 26, 2008).

term achieved the secondary meaning necessary to qualify for trademark registration in the United States.[155]

The Ninth Circuit enumerated certain non-dispositive factors that may establish secondary meaning, including: direct consumer testimony; survey evidence; exclusivity, manner, and length of use of a mark; amount and manner of advertising; amount of sales and number of customers; established place in the market; and proof of intentional copying by the defendant.[156] The mark must be distinctive enough to warrant protection, and the plaintiff's geographical use of the mark must be widespread enough such that the mark has gained secondary meaning not only within the area in which it has been used, but also within a "remote" area where a subsequent user claims a right to use the mark.[157] The second step of the Ninth Circuit test to receive protection under the Famous Foreign Marks Doctrine requires a plaintiff to show by a preponderance of the evidence that, when the mark has not previously been used in the U.S. market, a "*substantial* percentage of consumers in the relevant American market is familiar with the foreign mark."[158]

*Grupo Gigante* did not explicitly identify consumer search cost theory as the rationale for permitting a limited application of the Famous Foreign Marks Doctrine, but the benefits of the holding with respect to search costs can be gleaned from a brief examination of the policy points explicitly stated in the opinion. According to the Ninth Circuit, "[t]rademark is, at its core, about protecting against consumer confusion."[159] The court used the example of a high-end salon in Australia with a red door called "Elizabeth Arden's," with no affiliation to the chain of Red Door Spas operated in the United States and Europe by Elizabeth Arden Spas, LLC.[160] Consumers in Australia seeking spa treatment would likely visit "Elizabeth Arden's," thinking that it was an affiliate of Red Door Spas, only to discover later that the quality of

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[155] *Id.*

[156] Filipino Yellow Pages, Inc. v. Asian Journal Publ'ns, Inc., 198 F.3d 1143, 1151 (9th Cir. 1999). *See also* 2 MCCARTHY ON TRADEMARKS, *supra* note 3, at § 15:30.

[157] Grupo Gigante S.A. de C.V. v. Dallo & Co., 391 F.3d 1088, 1097 (9th Cir. 2004).

[158] *Id.* at 1098 (emphasis added). The court suggested that (i) intentional copying by the defendant and (ii) the likelihood that customers of the American company will think they are patronizing the firm that uses the mark in a different country would be relevant factors in determining the sufficiency of the familiarity of American consumers with the foreign mark. *Id.*

[159] *Id.* at 1094. *See also* Thane Int'l v. Trek Bicycle Corp., 305 F.3d 894, 901 (9th Cir. 2002) (finding that "[t]he question whether an alleged trademark infringer's use of a mark creates a likelihood that the consuming public will 'be confused as to who makes what' product is therefore the 'core element' of trademark infringement law.").

[160] *Grupo Gigante*, 391 F.3d at 1094–95; Red Door Spas – About Us, http://www.reddoorspas.com/aboutus.aspx (last visited December 29, 2008).

treatment differed substantially from that of the American/European Red Door Spas.[161]

The court focused on the detrimental effect such consumer confusion would have on the producer, Elizabeth Arden,[162] but the harm caused would be no less severe for the consumer. Once the consumer is unable to rely on the "Elizabeth Arden" mark to deliver the level of quality which she associates with salons bearing that name, her costs of finding a suitable salon in the future will increase. Should this effect continue, the increase in costs to consumers could ultimately undermine consumers' faith and reliance on the current system in which trademarks serve as a "shorthand indicator" of a particular good or service's provenance and quality.[163] The result would be a market in which trademarks carried little or no meaning, and would resemble a market in which trademarks did not exist at all.

*Second Circuit: ITC Ltd. v. Punchgini, Inc.*

The Second Circuit expressed its adherence to the territoriality principle in its recent decision in *ITC Ltd. v. Punchgini, Inc*.[164] In *ITC Ltd.*, the plaintiff owned the internationally renowned "Bukhara" restaurant chain based in New Delhi, India.[165] The plaintiff brought a claim for trademark infringement against the defendants, previous employees of the New Delhi Bukhara, who had opened a restaurant in Manhattan named "Bukhara Grill."[166] The plaintiff alleged that defendants utilized logos, décor, staff uniforms and menus in the Manhattan Bukhara Grill that were strikingly similar to those already in use in the famous New Delhi Bukhara restaurant chain.[167] The court found that the plaintiff did not have priority rights to the mark under Section 43(a)(1)(A) of the Lanham Act, holding instead that "absent some use of its mark in the United States, a foreign mark holder generally may not assert priority rights under federal law, even if a U.S. competitor has knowingly appropriated that mark for his own use."[168]

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161 *Grupo Gigante*, 391 F.3d at 1094.
162 *Id.*
163 *See* Dogan & Lemley, *supra* note 113, at 787 (referring to trademarks as "shorthand indicators.").
164 ITC Ltd. v. Punchgini, Inc., 482 F.3d 135 (2d. Cir. 2007).
165 *Id.*
166 *Id.*
167 *Id.* at 143.
168 *Id.* at 155–56. *See also* 15 U.S.C. § 1125(a)(1)(A) (2006). The Court of Appeals of New York, in its review of a question certified to it by the Second Circuit in *ITC Ltd.*, had determined that, for a mark to be considered famous, "at a minimum, consumers of the good or service provided under [the] mark . . . must primarily associate the mark with the foreign plaintiff." ITC Ltd. v. Punchgini, Inc., 9 N.Y.3d 467, 479 (N.Y. 2007).

The Second Circuit concluded that Congress has not yet adopted the idea that continued international use of a mark leads to a federally protected right under the Lanham Act, and found persuasive the fact that no provision of the Lanham Act or other federal law recognizes a famous marks exception to the territoriality principle.[169] Further, the court found that the absence of statutory discourse addressing the issue was not merely an unintentional omission by Congress.[170] Instead, the court reasoned that the Lanham Act's specificity in detailing circumstances under which the holder of a foreign registered mark *can* claim priority rights, and the absence of a discussion of a famous marks exception in specific detail, suggested an intention on the part of Congress to exclude a famous marks exception from the scope of the Lanham Act.[171]

As a result of the absence of statutory authority governing a famous marks exception, the Second Circuit stated that "[b]efore we construe the Lanham Act to include such a significant departure from the principle of territoriality, we will wait for Congress to express its intent more clearly."[172] This holding rejected the Ninth Circuit's reasoning in *Grupo Gigante*,[173] as well as numerous decisions of the Trademark Trial and Appeal Board.[174] The Second Circuit voiced its concern that none of these aforementioned decisions referenced the Lanham Act, the Paris Convention, or any other federal law in support of their findings of a famous foreign marks exception.[175]

In sum, the Second Circuit has declined to recognize the Famous Foreign Marks Doctrine and has adopted a strict statutory approach to the issue of famous foreign marks. On the other hand, the Ninth Circuit has approached the issue from a public policy standpoint, and has provided protection to famous, unregistered marks in certain circumstances. This lack of clarity among the circuits with regard to U.S. law on famous foreign trademarks is confusing for consumers.

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[169] *ITC Ltd.*, 482 F.3d at 142, 159 (citing the absence of reliance on the Lanham Act or other federal law in three recent Trademark Board decisions recognizing the Famous Foreign Marks Doctrine). *See* In Mother's Rests., Inc. v. Mother's Other Kitchen, Inc., 218 U.S.P.Q. 1046 (T.T.A.B. 1983); All England Lawn Tennis Club, Ltd. v. Creative Aromatiques, 220 U.S.P.Q. 1069 (T.T.A.B. 1983); First Niagara Ins. Brokers, Inc. v. First Niagara Fin. Group, Inc., 77 U.S.P.Q.2d 1334 (T.T.A.B. 2005), *overruled on other grounds by* First Niagara Ins. Brokers, Inc. v. First Niagara Fin. Group, Inc., No. 06–1202, 2007 U.S. App. LEXIS 367 (Fed. Cir. 2007).

[170] *ITC Ltd.*, 482 F.3d at 163–64.

[171] *Id.*

[172] *Id.* at 164.

[173] Grupo Gigante S.A. de C.V. v. Dallo & Co., 391 F.3d 1088 (9th Cir. 2004).

[174] *See, e.g., In Mother's Rests.,* 218 U.S.P.Q. at *13–14; *All England Lawn Tennis Club*, 220 U.S.P.Q. at *10–11; *First Niagara Ins. Brokers*, 77 U.S.P.Q.2d at *30–31.

[175] *ITC Ltd.*, 482 F.3d at 158–60.

Establishing a uniform approach to the issue is necessary in order to maintain the United States's position as an attractive market for foreign producers to enter.

## PART IV: ADOPTING THE FAMOUS FOREIGN MARKS DOCTRINE

The principle of territoriality has become outdated in the modern world where technology is pervasive and consumers freely travel between domestic and foreign markets with ever-increasing frequency. Adopting the Famous Foreign Marks Doctrine would permit consumers and producers alike to benefit from reduced search costs. Failure to recognize famous marks that are deeply ingrained and widespread in American society would be detrimental to commerce, and Congress must take action to ensure Americans benefit from the protection of these famous marks.

The territoriality principle initially gained prevalence because theorists felt that the alternative—the universality principle—was based on "an idealistic view of the world as a single marketplace."[176] While global commerce still does not operate as a single cohesive entity, the reputation of a product or service now travels at rapid speeds.[177] Often, a product can reach a foreign market long before the trademark owner has had the opportunity to market the product and "actually use" its trademark in the foreign market.[178] As a result of the increased speed at which trade flows, at least one federal court has noted that "[r]ecognition of the famous marks doctrine is particularly desirable in a world where international travel is commonplace and where the Internet and other media facilitate the rapid creation of business goodwill that transcends borders."[179] The increase in international foot traffic, combined with the advent of the Internet as a legitimate marketplace, demonstrates that the issue of famous foreign marks can no longer be ignored.[180] Put simply, it is no longer fair to say that a mark used abroad is not sufficiently well-known to U.S. consumers. The current state of the law—that use in the United States of a mark used and well-known abroad does not give rise

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[176] Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1172 (S.D.N.Y. 1984).

[177] Marshall A. Leaffer, *The New World Of International Trademark Law*, 2 MARQ. INTELL. PROP. L. REV. 1, 4 (1998).

[178] *Id.*

[179] De Beers LV Trademark Ltd. v. DeBeers Diamond Syndicate, Inc., 2005 U.S. Dist. LEXIS 9307, at *25 (S.D.N.Y. 2005).

[180] For example, "[t]oday, on the Internet, consumers order their favorite pasta sauce from Italy, gamble online in casinos in Monaco, invest in the Taiwanese stock market via a Hong Kong stock broker, or make hotel reservations in Florida." Bosling, Thies, *Securing Trademark in a Global Economy — The United States' Accession to the Madrid Protocol*, 12 U. BALT. INTELL. PROP. L. J. 137, 165 (2004).

to a claim for trademark infringement — is unjustified and a hindrance to global trade.

In addition to being anachronistic, failure to recognize famous foreign marks significantly increases costs for consumers. In selecting a good for purchase, consumers effectively pay two costs: (1) the price of the good charged by the vendor and (2) the cost of gathering information about the product.[181] Protecting famous foreign marks will reduce consumer search costs because protection will eliminate consumers' apprehension that trademarks consistent within the United States may not be consistent worldwide. Imagine a businessman who, during the course of a business trip to Italy, discovers a brand of shaving cream he truly enjoys. Without the existence of protection for famous marks via the Famous Foreign Marks Doctrine, the businessman must question whether the product he encounters in his corner drugstore in Chicago originates from the same source as a product with an identical mark he enjoyed in Italy.[182] His costs of locating a good that he knows will satisfy his needs increase when he cannot rely upon the mark with which he became familiar in Italy.

This predicament will not only increase the businessman's costs, but it will open the door for a producer marketing goods in the United States to free-ride on the goodwill of the Italian producer's trademark.[183] Threatened by the prospect of free-riding producers in America, the Italian producer has two courses of action. The Italian producer might cease product development, seeing no direct benefit from developing a higher quality product that will receive no recognition in the U.S. market. Alternatively, it will launch an attempt to gain registration and priority in the United States, the cost of which will likely translate into higher prices for consumers.[184] In either scenario, the consumer and the producer are inefficiently expending extra effort to connect the needs of the former with the supply of the latter. This produces a result contrary to the intended purpose of trademarks—to reduce the search costs of the consumer and promote a more competitive, efficient market.[185]

Recognizing the Famous Foreign Marks Doctrine will ultimately reduce consumer search costs. In terms of effect on the consumer, the benefits from protecting famous foreign marks in the United States equal

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[181] Michael Grynberg, *The Road Not Taken: Initial Interest Confusion, Search Costs, and the Challenge of the Internet*, 28 SEATTLE L. REV. 97, 109 (2004).

[182] *See, e.g., Grupo Gigante*, 391 F.3d at 1094.

[183] *See* Kellogg Co. v. Nat'l Biscuit Co., 305 U.S. 111, 121 (1938).

[184] Landes & Posner, *supra* note 110, at 266–70.

[185] *See* Q Div. Records, LLC v. Q Records, No. 99–10828, 2000 U.S. Dist. LEXIS 1773, at *7 n.8 (D. Mass. 2000); Carter, *supra* note 19, at 759.

the benefits provided by protection of registered trademarks. If a famous marks exception is explicitly adopted by Congress, a consumer faced with a recognizable mark abroad could confidently rely on prior experience with goods bearing that mark, in lieu of conducting a thorough examination of the quality of the marked goods. The consumer would be able to say to himself: "I need not investigate the attributes of the brand I am about to purchase because the trademark is a shorthand way of telling me that the attributes are the same as that of the brand I enjoyed earlier [in a foreign country]."[186] This level of security in making consumption decisions will reduce the consumer's overall costs of searching for a suitable good to meet his needs. Because the consumer will be armed with a more complete arsenal of information about the product he is poised to purchase, communicated to him via the mark affixed to the product, his marginal cost of acquiring information about the product will correspondingly decrease.[187] This, in turn, will result in a more competitive market in which the risk of consumer confusion has been substantially minimized.[188]

## CONCLUSION

The principal goal of trademark law is to reduce consumer search costs.[189] In this modern age of globalization, isolationism of trademark recognition no longer serves American consumers.[190] The preservation of our global trading system through prevention of unfair exploitation of famous marks has become essential.[191] If a consumer is satisfied with his use of a trademarked product in a foreign country, why should he not expect that a similarly trademarked product found in the United States

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[186] Landes & Posner, *supra* note 110, at 269.

[187] Carter, *supra* note 19, at 759.

[188] *Id. See also* Int'l Bancorp, LLC v. Société Des Bains De Mer Et Du Cercle Des Etrangers à Monaco, 329 F.3d 359, 381 (4th Cir. 2003) (remarking that protecting a famous foreign mark would further the "ultimate end of all trademark law"—that is, avoidance of consumer confusion).

[189] Landes & Posner*, supra* note 110, at 268–70; Carter, *supra* note 19, at 762. *See also* Dogan & Lemley, *supra* note 113, at 795 (noting that "the view of trademark enforcement as reducing consumer search costs is well-known in the economic literature.").

[190] The Supreme Court has recognized that application of U.S. trademark laws outside of U.S. territory would "impede different nations' laws 'working together in harmony—a harmony particularly needed in today's highly interdependent commercial world.'" *See* Symposium, *Intellectual Property Online: The Challenge of Multi-Territorial Disputes*, 30 BROOKLYN J. INT'L L. 899, 904 (discussing F. Hoffmann-La Roche Ltd v. Empagran S.A., 542 U.S. 155 (2004)).

[191] *See* INT'L TRADEMARKS ASS'N, FAMOUS AND WELL-KNOWN MARKS (April 3, 1995), *available at* http://www.inta.org/index.php?option=com_content&task=view&id=1721&Itemid=59&getcontent=1 (last visited December 29, 2008).

carries the same qualities and characteristics as the product found earlier in the foreign country? It cannot be said with much sincerity that a consumer exposed to a trademark abroad will never enter the U.S. marketplace. Over one million people enter the United States as legal permanent residents each year,[192] and tens of millions arrive as nonimmigrant admissions.[193] Further, millions of U.S. citizens and permanent residents travel to and from the country on a regular basis. Thus, the search costs of the consumer who shops both abroad and in the United States are significantly increased by the absence of a statutory Famous Foreign Marks Doctrine. The worldly U.S. consumer can no longer rely on the consistent quality of international trademarks.

The future of the Famous Foreign Marks Doctrine lies in the hands of Congress. Incorporation of this doctrine into the Lanham Act would ensure that the reduction of consumer search costs remains the primary objective of trademark law. This goal should not obstructed by an unwillingness to part with an outdated conception of the global economy. Congress should eliminate the burden of high search costs imposed on consumers resulting from lack of protection for famous marks and consider an amendment to the Lanham Act that would sufficiently protect famous foreign marks.

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[192] OFFICE OF IMMIGRATION STATISTICS, DEPARTMENT OF HOMELAND SECURITY, UNITED STATES, YEARBOOK OF IMMIGRATION STATISTICS: 2006 5 (2007).

[193] *Id.* at 66–67. The Yearbook of Immigration Statistics defines "nonimmigrant admissions" as "arrivals of persons who are authorized to stay in the United States for a limited period of time." *Id.* at 1.