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**United States**

Recent developments in  
trademark dilution law

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# United States

## Recent developments in trademark dilution law

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Much has changed since the Federal Trademark Dilution Act (FTDA) became effective in 1996. In the wake of the Supreme Court's 2003 decision in *Moseley v Victoria's Secret Catalogue Inc* (537 US 418), the lower courts have attempted to make sense of the Supreme Court's sometimes cryptic opinion and Congress has been asked to enact new legislation amending the FTDA.

### A dilution primer

A trademark is infringed when the mark or a similar mark is used in a way that is likely to confuse the public into believing that the trademark owner is the source or sponsor of products that it does not actually make or endorse. Trademark anti-dilution laws are intended to enable trademark owners to prevent the gradual weakening or whittling away of the strength of their marks, through blurring or tarnishing, even if the public is not likely to be confused.

Dilution by blurring can occur when a trademark is used by someone other than the trademark owner on products that are very different from those normally produced by the trademark owner (eg, KODAK pianos). A trademark can be tarnished when it is used in a way that degrades the mark or presents it in an unsavoury context. For example, the owner of the PEPSI trademark stopped a company from modifying Pepsi soda cans to add a hidden compartment in which illegal drugs could be concealed.

From 1947, when Massachusetts enacted the first state anti-dilution statute, until the FTDA legislation was proposed, more than 25 states passed such laws. This patchwork of state laws lacked uniformity and raised questions, such as whether it is appropriate for courts to issue nationwide injunctions in dilution cases brought solely under the law of one state when nearly half the states grant no such protection.

### Federal Trademark Dilution Act

To address these and other problems Congress enacted the FTDA. This legislation amended the Lanham Act (the federal statute governing trademark rights) to provide a new federal cause of action for dilution. Under the FTDA a mark need not be registered to be the subject of an action. A trademark owner must show that:

- its mark is famous within the meaning of the statute;
- after the mark became famous, another party began to make commercial use of the mark in commerce; and
- the unauthorised use causes dilution of the distinctive quality of the trademark owner's famous mark.

'Dilution', in turn, is defined as the lessening of a famous mark's capacity to identify and distinguish goods or services, no matter whether the trademark owner and another party are in competition or there is a likelihood of confusion. Fair use in comparative advertising and non-commercial use of a mark such as news reporting do not constitute dilution.

No sooner did the FTDA become law than it began to change the legal landscape, focusing attention on dilution and raising a number of questions which, it is fair to say, advocates of a federal dilution law had not anticipated.

Although state anti-dilution laws typically provided that dilution could occur in the absence of likely confusion, very few court decisions granted relief on dilution grounds without also finding that the defendant's activity was likely to cause at least confusion as to sponsorship. For example, in one dilution case a court held that the public would be likely to believe that The Coca-Cola Company sponsored red and white posters that displayed "Enjoy Cocaine" in the familiar script used to print the COCA-COLA trademark.

In this legal climate, parties rarely (if ever) brought dilution claims without also bringing claims for

trademark infringement and unfair competition that require proof of likely confusion. Moreover, state dilution claims were typically pleaded almost as an afterthought in complaints that alleged that the facts underlying the plaintiff's trademark infringement and unfair competition claims also stated a dilution claim.

The FTDA changed this situation. Some parties began to bring only claims for dilution under federal law, believing perhaps that they could not prove a likelihood of confusion. Moreover, it has become apparent that the elements of a typical trademark infringement or state dilution claim are not the same as a dilution claim under federal law and that a federal dilution claim may in fact be harder to prove.

### Actual dilution or likely dilution

In *Moseley* the Supreme Court held that actual dilution, not just a likelihood of dilution, is required to establish a violation of the FTDA. However, the court did not require (as some lower courts had) a showing of the actual consequences of the dilution such as lost sales.

The Supreme Court's opinion did not make clear how actual dilution can be proved. The court drew a distinction between cases in which the defendant's mark is the same as the plaintiff's mark and cases in which it is not, without clearly spelling out how the difference in proof may vary in those two types of cases.

The court said that, at least in cases where the marks are not identical, the plaintiff will have to prove more than that consumers associate the defendant's mark with the plaintiff's mark. There must be some actual evidence – not specified by the court – that the defendant's mark has reduced the capacity of the plaintiff's mark to identify the goods of the owner. On the other hand, the court did not clearly state that mere association will prove dilution where the marks are identical or say how such an association can be proved.

The court also said that circumstantial evidence, rather than direct evidence of dilution such as a survey, may suffice in some cases, but it did not identify these types of cases. It may well be that circumstantial evidence will suffice where the parties' marks are identical. However, even if that is so, it is not clear what type of circumstantial evidence should be submitted.

In one of the first cases to interpret *Moseley*, a Sixth Circuit court dismissed the plaintiff's dilution claim because the plaintiff did not present evidence that fewer members of the public recognised its trademark as an identifier of its product after the defendant began to use its mark than before use began (*Kellogg Co v Toucan Golf Inc*, 67 USPQ2d 1481 (Sixth Circuit 2003)). Such a standard can pose problems of proof for a plaintiff.

Unless the plaintiff has (or can somehow replicate) a pre-distribution benchmark of public recognition, it will be very difficult to show that the level of recognition declined as a result of the defendant's activity (see also *Nitro Leisure Products LLC v Acushnet Company*, 2003 US App LEXIS 17822 (Federal Circuit 2003)).

The Court of Appeals for the Second Circuit partly clarified the law when it ruled that a party's use of another's famous mark creates a presumption of dilution if the marks are identical (*Savin Corp v Savin Group*, 391 F 3d 439 (Second Circuit 2004)). That decision was relied on by another court of appeal in *Everest Capital Ltd v Everest Funds Management* (393 F 3d 755 (Eighth Circuit 2005)).

### Is fame enough?

Although the Lanham Act provides that the owner of a famous mark is entitled to bring a dilution claim, it goes on to say that in determining whether a mark is distinctive and famous, a court should consider a number of factors including the "degree of inherent or acquired distinctiveness of the mark".

An inherently distinctive mark is a mark that does not describe a feature of the product (eg, KODAK for cameras). It is entitled to trademark protection as soon as it is used. A term that describes a feature of a product, such as RAISIN-BRAN for cereal, is not entitled to protection as soon as it is used. However, if it becomes associated with one party's product, it can acquire distinctiveness and become a trademark.

The references to distinctiveness in the statute have led to confusion. Some courts have held that distinctiveness is not a separate element of a federal dilution claim and that proving fame is enough (eg, *Times Magazines Inc v Las Vegas Sports News LLC*, 212 F 3d 157 (Third Circuit 2000)). Others have ruled that a party must prove its mark is both distinctive and famous and, going further, have indicated that only inherently distinctive marks are entitled to federal dilution protection (eg, *TCPIP Holding Co Inc v Haar Communications Inc*, 244 F 3d 88 (Second Circuit 2001), *Nabisco Inc v PF Brands Inc*, 191 F 3d 208 (Second Circuit 1999)).

The latter view reflects the courts' belief that commonly used marks such as AMERICAN or UNITED should not be accorded dilution protection even if the marks are so well known that they can be said to be famous (as that term is ordinarily understood). However, this interpretation is hard to square with the statute, which provides that both inherent and acquired distinctiveness should be considered in deciding whether a mark is famous (within the meaning of the statute). Moreover, the statute appears to address the courts' concern when it says that the use by others of the

mark should be considered in determining whether a mark is a famous mark entitled to dilution protection.

#### Proposed amendments to the FTDA

Since *Moseley* was decided, draft legislation has been introduced in Congress seeking to amend the FTDA. Among other things, the bills address the actual dilution versus likely dilution issue and the fame requirement, or both. Bar associations across the country have lined up to comment on the proposals. At the time of writing, it is unclear what action Congress will take.

#### Dilution in the Patent and Trademark Office

Although the FTDA came into force in 1996, it was not until 1999 that dilution became a basis on which an application or registration of a mark could be challenged in a Patent and Trademark Office opposition or cancellation proceeding. It still is not a basis on which an examiner can reject an application during an *ex parte* examination.

In *Toro Co v ToroHead Inc* (61 USPQ2d 1164 (TTAB 2001)) the Trademark Trial and Appeal Board decided its first major dilution case. Among other things, the board:

- set a generally high standard of proof for the fame requirement;
- appeared to agree with the Second Circuit that inherent distinctiveness is an element of an action brought under the FTDA;
- stated that doubts would be resolved in favour of the applicant or registrant, rather than the prior owner (which reverses the rule that applies in disputes involving a likelihood of confusion); and
- held that dilution may be pleaded in an opposition to an intent-to-use application.

The actual dilution requirement set out in *Moseley* briefly raised doubts over the last point because it would be difficult, if not impossible, to prove that a mark had actually caused dilution if the mark has not yet been used. However, the board subsequently held after *Moseley* that a party could prevail in an opposition or cancellation by showing a likelihood of dilution rather than actual dilution (*NASDAQ Stock Market Inc v Antarctica Srl* (Trademark Trial and Appeal Board 2003)).

#### Recommendations

In light of the FTDA and the subsequent developments, trademark owners should pause before relying on federal dilution law in either a court or a Patent and Trademark Office proceeding.

The questions to ask before proceeding in court include the following:

- Is it necessary to plead a federal dilution claim? The need to prove that a mark is famous and actually diluted may make it more difficult to prove a federal dilution claim than a trademark infringement or state dilution claim, particularly if the parties' marks are not identical. If that is the case it may make sense not to plead a federal dilution claim in the first place.
- Is the trademark inherently distinctive? Some courts simply will not accord dilution protection to a mark that is not inherently distinctive no matter how well known it has become. If an action can only be brought in a court where that rule applies, a federal dilution claim is unlikely to succeed.
- Are the parties' marks identical? Although *Moseley* did not spell out the type of evidence that will be required to prove actual dilution, that decision and several subsequent lower court decisions indicate that it should be easier to prove dilution where the parties' marks are identical than when they are different.
- Is the mark being blurred or tarnished? *Moseley* raised the spectre that a federal dilution claim may not even apply to tarnishment. Although that is probably not the case, defendants in such cases may make this argument. On the other hand, a federal dilution claim may be worth considering where tarnishment, rather than blurring, takes place in a state that has no anti-dilution law, as some activity that tarnishes a famous mark may not necessarily create the likelihood of confusion that is needed to prove trademark infringement.

Finally, careful attention should be paid to the *Toro* decision before a trademark owner alleges dilution as a basis for an opposition or cancellation proceeding with the Patent and Trademark Office. Although the Trademark Trial and Appeal Board has held that only likely dilution needs to be proved, it has set out stringent tests for determining which marks are entitled to dilution protection in the first place.

#### Conclusion

Federal dilution law today appears to owe a good deal to the unfortunate wording of the FTDA. Congress probably did not intend to make inherent distinctiveness a separate element of a dilution claim or to require proof of actual dilution. Nevertheless, these concepts have crept into the law, where they will remain unless and until Congress amends the statute.

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