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Striking a balance between protecting commercial reputation and promoting competition

W van Caenegem*

Recent emphasis on the effect of the grant of intellectual property rights on competition has focused largely on “substantive” intellectual property rights (copyright, patents, designs), rather than on reputation (registered and unregistered marks, passing off). Arguably the nature and extent of rights in goodwill has a more direct and significant effect on the competitive operation of markets because established reputation is a formidable barrier to entry. In this light, the recent expansion of legal protection for trade marks should be closely scrutinised. It is important to maintain a productive balance between the legitimate ambitions of individual traders and the public interest in dynamic markets.

INTRODUCTION

A considerable amount of literature about the effects of patent, designs, and copyright “monopolies” on competition, innovation, and public welfare has been published in recent times.¹ A key question that much of the literature addresses is whether and to what extent intellectual property rights form a barrier to entry in markets for goods or services, including research and development services.

This literature addresses a question of fundamental importance to intellectual property law: how to strike a balance between exclusive rights and public access to knowledge, between limited exclusive rights and excessive market power. But is the overriding focus on copyright, patents, and design somewhat misdirected? After all, observing markets today as an ordinary consumer, one thing stands out: the power of brands.

Are we ignoring this power of brands, of trade marks, of rules protecting goodwill, and their effect on market access and competition?² Should not trade marks logically be the first target when it comes to analysing the effect of intellectual property rights on market dynamics? Trade marks are more directly concerned with markets than other forms of intellectual property. While copyrights, patents, and so on protect the efforts of authors irrespective of markets, there are really no trade mark rights without markets. Trade marks emanate from trading and commercial conduct, whereas other intellectual property rights flow from activities which are, or can be, totally unconnected to markets.

In terms of the operation of markets, reputation is a powerful tool: reputation allows firms to diversify production and to raise prices. Established reputation operates as a significant barrier to entry and the reputation of a single product can be leveraged over all products of the firm. In terms of market power, reputation and goodwill are sometimes said to be the most cost-efficient barrier to the entry of rivals into a given market. This chimes in well with the ordinary experience of a potential new entrant; that which stands in the way is the consumer’s knowledge of and adherence to already established brands.

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¹ See, eg Intellectual Property & Competition Review Committee (IPCRC), *Review of Intellectual Property Legislation under the Competition Principles Agreement* (Final Report, 30 September 2000) <<http://www.ipcr.gov.au>>. Only about 17 pages of this Report are devoted to trade marks, and the general introduction to the relationship between intellectual property and competition makes no reference to goodwill protection at all.

² The focus in trade marks law has been on the question of parallel importation and exhaustion of rights, see Australia: IPCRC, n 1; Europe: Heide T, “Trade marks and Competition Law after Davidoff” [2003] 25 EIPR 4, 163.

Recently, debate has arisen around the potential of goodwill protection, in particular trade mark registrations, to prolong the monopoly offered by patents or copyrights. For instance, some commentators are rightfully concerned that if works that have enjoyed copyright protection for life of the author plus 70 years (as yet not in Australia) are also able to be trade marked, this effectively extends the life of copyright to eternity.³ What of the bargain between author and society, which requires copyright to revert to the public domain once the copyright owner has enjoyed a limited period of monopolistic rights?

This is a significant issue, but maybe it puts the cart before the horse. Rather than look at goodwill protection as a method by which rights in copyright and the like can effectively be extended, why not recognise that in fact market power of large corporations rests on established reputation, that is, recognition by the public? Copyrights and patents are then important as a form of limited protection for innovative products which potential new entrants can rely on to gain a foothold in a market which is otherwise foreclosed by the high barriers to entry of established reputations. They can compete with some chance of success under the protective umbrella of substantive intellectual property rights, at least if they have a product that consumers find new, innovative, useful, or interesting. In other words, substantive intellectual property rights are daggers aimed at the heart of brands that are well-known and well-established in a market. They are springboards by which new entrants can attract attention and establish their reputation in a market, and thus gain market share and compete effectively.

Taking this approach further, one could say that the main impact and importance of substantive intellectual property rights is not to protect intellectual effort, but to enable new players to establish a competitive position in a market dominated by established consumer perceptions. Maybe this takes the point a little too far, but at the very least there is a complex and largely unexplored dynamic between innovation and reputation. Approaching the question of intellectual property rights and competition from this perspective draws greater attention to the importance of the rules protecting goodwill and reputation, to the efficient operation of markets.

So to keep registered trade marks and related rights within clearly defined boundaries is of cardinal importance to competitiveness and to reducing barriers to market entry. Overly restricting market entry renders markets static, with consequent high prices, low estimation of consumer need, and emphasis on consumer capture and manipulation (firms with established reputations will naturally advocate stronger goodwill protection). The rhetoric of fairness emanating from established trade mark owners demanding increased protection for goodwill, should therefore be balanced by a rhetoric emphasising market dynamics.

INNOVATION AND REPUTATION FROM THE FIRM'S PERSPECTIVE

Look at this question from the perspective of a firm's strategic choices rather than from the perspective of public policy in relation to markets, barriers to entry, and competition. What is more attractive to the established firm – innovation or reputation? In the context of the evolution from a risk to a survival economy,⁴ investment in goodwill becomes more attractive. It acts as insurance against the risks and uncertainties of innovation. That is, both the high failure rate of investment in in-house research and development, and the risk of *competitors'* innovation unpredictably undermining a firm's market position.

So, from an established firm's perspective, there are many advantages in investing in goodwill rather than in "substance"; reputation rather than innovation, even if the choices are not mutually exclusive. That is something that many firms have recently come to recognise more clearly.⁵ Think

³ This is also an issue in relation to patents, where branding has been argued to artificially extend the life of the patent monopoly: see *Trade Marks Act 1995* (Cth), s 25.

⁴ That is, from an economy in which innovation is a calculated risk and an investment alternative (whether and how) to one where innovation is essential to survival and thus an investment imperative (when and how).

⁵ Perversely this might explain the rise in patent grants going hand in hand with a reduction or stagnation in the spend on research and development, which has been observed in the US. Patents themselves take on a reputation or goodwill function,

again about the daily experience of a consumer; there is often little that distinguishes one firm's product line-up from that of another, or if there is, it does not last long. Most of the major brands of consumer goods sell virtually identical technologies. What distinguishes them is their image, reputation, style, appearance, promotional context and advertising feel.

To put it differently, goodwill can be leveraged over any and every product the firm sells, enhancing differentiation and returns. There is thus a strong incentive for established firms to protect and enhance existing goodwill, both by commercial practices (ongoing advertising and promotion) and by lobbying for enhanced legal protection for existing brand-based reputations. Network economic effects further enhance the incentive to invest in reputation rather than in innovation.⁶

Some other advantages that trade mark rights have over "substantive intellectual property rights" from the perspective of the firm:

- trade marks are flexible: any product within a relatively broad category can be sold under a brand name;⁷
- trade marks can live forever, as long as minimal use is maintained and some other conditions are met;⁸
- trade mark coverage can more readily be expanded geographically, as brands can be instilled with universal appeal;
- the value of a trade mark increases rather than decreases over time, encouraging brand owners to invest more rather than less in the maintenance and policing of the relevant intellectual property rights, and to become more proactive;⁹
- trade marks mediate between producer and consumer: brands allow products to be coated with a veneer of suggestion; they enable so-called perception advertising, appealing to emotions rather than the consumer as rational maximiser.

IS THERE "TROUBLE WITH TRADE MARKS"?

Trade marks law *does* reflect a recognition that legal rights in goodwill or reputation act as barriers to entry. To give a single example, as a general rule, descriptive terms are not registrable as trade marks: others in the market or entering the market must be able to use such terms.¹⁰ Furthermore, trade marks law is a dynamic system: if a term *becomes* generic over time, that is, becomes the term by which all products of a certain kind are known, the trade mark owner may have to relinquish the exclusive right to use the term in relation to its goods alone. This prevents a genericised mark from acting as an unwarranted barrier to entry by prohibiting another supplier of the same product from referring to it by the name by which it has become generally known amongst consumers.¹¹ This dynamic interaction between proprietary terms and common language is a critical characteristic of trade marks law.¹²

they form part of the firm's goodwill rather than technological inventory: the firm is not particularly concerned with the substantive value of patents. Although I make a distinction between substance and goodwill intellectual property rights this indicates that that distinction does not rigidly run along the break-line of patents/copyrights/designs vs trade marks/passing off/unfair competition.

⁶ See Lemley M and McGowan D, "Legal Implications of Network Economic Effects" (1998) 86 Calif L Rev 479.

⁷ The law now allows more goods to be covered by a single mark than was previously the case. I return below to the point that the expansion of the contents of classes of goods or services which can be covered by one trade mark registration is a major issue in the context of the effect of trade mark registrations on competition. Also the relatively recent change in the law which allows one application to nominate multiple classes of goods or services.

⁸ One of the most significant legal issues in this context of trade marks and competition is the level of use required to maintain a valid trade mark.

⁹ Hence the increased protection for famous marks, causing exponential growth in their value.

¹⁰ This has recently come to the fore in shape mark cases, see eg *Kenman Kandy Australia Pty Ltd v Registrar of Trade Marks* [2002] FCAFC 273 (28 August 2002); *Koninklijke Philips Electronics NV v Remington Products Australia Pty Ltd* [2000] FCA 876 (30 June 2000).

¹¹ Naturally the *combination* of powerful brands with strong legal protection, and powerful product monopolies with legal protection will erect the greatest barriers to entry. Strikingly, in markets with a high level of consolidation the heaviest reliance

But even though trade marks law has always endeavoured to strike an acceptable balance, recent developments suggest that the balance has shifted dramatically. Reading contemporary case reports and observing legislative changes leaves one with the impression that there has been a considerable expansion and strengthening of rights over established trade marks and related rights both nationally and in global markets.

So is there “trouble with trade marks”?¹³ It is difficult to argue that public welfare benefits by allowing a trader to misrepresent characteristics of its goods or services, including whether they are in some way connected with products of another trader. Some form of legal protection against misrepresentations of this sort is readily justifiable. How far such protection of common law marks should go is also a significant question, but the protection gained by actions such as passing off or breach of s 52 of the *Trade Practices Act 1974* (Cth) will never be as far-reaching as the statutory protection granted to registered trade marks.

The legal rules protecting *registered* marks are not so readily justifiable. Why allow a trader to restrain others from using a mark where no consumer is actually misled by the use? Why allow a trader to restrain others (even if only for a limited period) from using a mark that the registered owner does not use? It is when we enter the realm of the more absolute property rights over signs, rather than simple protection against misrepresentation, that is, in the realm of registered trade marks law, that the “trouble with trademark” may begin. Because registered trade marks protection exists, there is a level of automatic acceptance of the extent of rights it provides; also, owners with vested interests obviously argue, sometimes cunningly, in favour of registered trade marks in general. Registered trade marks also have the magic of property rights about them. All this adds up to a hard-to-resist dynamic of growth in trade mark rights, and a modification of established legal principles and rules to that effect.

Below I suggest a few ways in which this dynamic has arguably affected registered trade marks law recently. But a brief survey of some of the principal arguments advanced in favour of trade mark protection follows first.

WHY GRANT LEGAL PROTECTION FOR MARKS?

Consumer search cost reduction

Certainly in the case of un-testable experience goods, that is, goods the consumer cannot test or try before purchase,¹⁴ the mark or brand constitutes a shorthand message. To consumers, protected brands are signs indicating origin and, indirectly, certain qualities and characteristics of goods. If the law protects trade marks against imitation, the cost to consumers of ascertaining the qualities and characteristics of goods is reduced.

To reduce search costs to the minimum trade marks must be simpler to search than the products themselves. Simple and striking marks rather than complex and indistinguishable marks will be the most efficient.¹⁵ This economic imperative results in many rules of trade marks law concerning distinctiveness and prohibition on confusing and similar marks.

both on strong branding and on some substantive form of IP such as patents is found: for instance in the pharma sector. But legal product monopolies are always limited in time.

¹² See the recent decision concerning the Sony Walkman in the Austrian Supreme Court (January 2002; OGH 40b269/01i 29/1/2002 <<http://www.ris.bka.gv.at/jus>> (the term “Walkman” was held to have entered common parlance as a descriptive term.

¹³ See Carter SL, “The Trouble with Trademark” (1990) 99 Yale LJ 759.

¹⁴ The consumer is also more mobile so is more likely to be in situations where the consuming choice is not made on the basis of the experience of the product, for example, one would expect that petrol stations near motorways would be more likely to sell branded petrol than those found in communities where the consumer base is more stable; this seems to be the case: Png and Reitman, “Why are some products branded and others not?” (1995) 38 J of Law & Economics 207.

¹⁵ Landes WM and Posner RA, “Trademark Law: An Economic Perspective” (1987) 30 J of Law & Eco 265 at 269.

But the search cost argument cannot be the primary basis for a legal trade mark regime. The only reason that there is a search cost in the first place is that there are multiple providers supplying differentiated products to the market; and arguably the only reason that there are multiple suppliers providing actually differentiated goods is that legal protection of trade marks is available. In other words, a market for experience goods without trade mark protection would logically tend to be oligopolistic, if not monopolistic. In a monopolistic market the consumer requires no information because there is no informed choice to make. The more logical approach is therefore not to emphasise search cost reduction, but the quality differentiation (or product diversification) effect, as the primary basis for providing registration based proprietary rights in trade marks.¹⁶ The differentiation analysis is presented in more detail below.

Information asymmetry

To expand on the search cost reduction theory, trade mark protection can be placed in the broader framework of “information asymmetry” in markets. Information asymmetry comes about because of the unknowability of the qualities of many products – search, experience and credence goods. Producers know everything about their goods but consumers know little or nothing, which results in inefficient bargains. On the contrary, in a situation of perfect information, that is, where both consumer and producer know all the characteristics of the goods, welfare would be maximised by producers supplying maximum quality at minimum cost. But as product information is usually asymmetrical in origin, it is expensive to arrive at a situation of information symmetry:

while better consumer information has advantages in terms of overall wellbeing, the cost [of supplying the information] is significant: a balance thus has to be struck between the two.¹⁷

Firms can take measures that go part-way to decreasing information asymmetry, private advertising being the most current. Governments can also take steps to increase information in cost-effective ways, for instance by setting quality standards or labelling requirements. If all products have to have the same qualities, then the consumer does not have to suffer search costs to determine whether a given product has the desired characteristic or not. Governments can also legally protect trade marks or brands as a significant informational tool, which is how trade mark registration increases economic efficiency.¹⁸

Rather than giving information about goods *as such* through trade marks, firms provide information about the commercial origin of goods. That can be accompanied by explicit claims concerning the characteristics of the goods.¹⁹ The legal principle that trade marks indicate that the marked goods originate with the trade mark owner (“badge of origin” function) simply represents identification of origin as one step on the way to identification of quality and characteristics. Whereas

¹⁶From this perspective, the real goal of trade marks law therefore is to find a balance so that the encouragement to enter a market and provide a consistent differentiated product is not outweighed by a search for rents without diversification based on perception advertising. If trade marks law encourages too many suppliers into the market, who see a chance of gaining a rent without actual product differentiation, this imposes an overall cost because of loss of economies of scale etc. But if, because of the absence of legal trade mark protection, there were no way for producers to identify goods as theirs, because they could not stop anybody from misleading consumers (and this affects trade marks law as well as passing off and the like), there would be only very limited numbers of suppliers in the market and the competition would revolve around price and availability.

¹⁷ OECD, Directorate for Food, Agriculture and Fisheries; Trade Directorate, Working Party on Agricultural Policies and Markets of the Committee for Agriculture Joint Working Party of the Committee for Agriculture and the Trade Committee, “Appellations of origin and geographical indications in member countries: economic and legal implications”, COM/AGR/APM/TD/WP(2000)15/FINAL, p 8.

¹⁸ See OECD, n 17, p 8.

¹⁹ The origin may be geographical rather than commercial, ie a product may be simply labelled “Made in ...” or it may be labelled as made in a place that has an established reputation for a certain quality (eg, Solingen or Sheffield for certain steel products). It may be labelled with a geographical term which has become a quality descriptor, eg, this wine is a Burgundy, or a Beaujolais, or this cheese is a Roquefort or this pullover is a Jersey or Guernsey!

the requirement of consistency of origin is a legal one, consistency of quality is motivated by commercial imperatives.²⁰

Quality differentiation

Other economists stress that legally protecting trade marks against imitation is essential to ensure the supply of diversified goods. In the absence of legally protected trade marks supply would tend towards uniformity, and markets towards oligopoly.

N S Economides²¹ postulates that without brands there would be no product diversification when products have unobservable differences in quality or variety. In the absence of legally enforceable trade marks producers have no incentive to produce goods above minimum cost, since higher quality which would command higher price and thus a greater return to producers cannot be consistently signalled to consumers. Competitors would copy the mark but not the quality and thus undercut the higher quality, higher cost producer.²² This holds true where the goods are experience goods, which arguably the majority of goods are in consumer mass-markets, where economies of scale dominate industrial organisation.

The existence of legally exclusive trade marks acts as an incentive for producers to “produce products of desirable qualities even when these are not observable before purchase”,²³ and to produce those products with consistent and predictable quality.²⁴

Advertising and trade mark economics

Advertising inserts an element of complexity into the equation. Whether or not the goods are experience goods, the mark encourages development and promotion of a perceived image.

Now, advertising of a brand is useless without a trademark – anyone can imitate the product and profit from the advertising of the first maker. Thus the existence of a trademark makes advertising of perceived images possible.²⁵

In other words, instead of a consumer learning the qualities of a product from experiencing that product, and using the trade mark as a guarantee of repetition of that quality for future purchases, the consumer “learns” the qualities of a product from advertising. If that advertising is perception rather than information advertising then the consumer’s adherence to the brand becomes less rational. The consumer is buying on the basis not of learned or experienced qualities but of perceived qualities, which do not necessarily reflect reality.

A shift has occurred from the notional model of the consumer as rational maximiser, to that of the consumer as emotionally driven purchaser, manipulated rather than informed.²⁶ From this perspective trade mark registration not so much enables higher returns from product differentiation, but higher returns from consumer manipulation. This secondary effect is one that trade marks law,

²⁰ Whether a trade mark is legally a badge of origin or of quality has nonetheless given rise to controversy, see, eg Davis J, “To Protect or Serve? European trade mark law and the decline of the public interest” [2003] EIPR 180.

²¹ Economides NS, “The Economics of Trademarks” (1988) 78 *Trademark Reporter* 523.

²² See Economides, n 21.

²³ Economides, n 21 at 526.

²⁴ Where the goods are not experience goods, the effect of marks observed from this perspective is less clear but it is said that the trade mark allows consumers to predict the quality of goods across a wider category in which they make frequent purchases, eg although a search buyer of washing machines, a consumer may be an experienced purchaser of white goods, or electrical goods. Thus it can make sense to have trade marks covering a wide variety of goods within some perceived broad category.

²⁵ Economides, n 21 at 532.

²⁶ In other words, in terms of consumers, the increase in cost will not be matched by a genuine increase in quality, or substantive choice; it is a dead hand on the economy, a negative economic effect. The product differentiation which allows limited monopoly pricing is then illusory. There is no necessary relationship between a diversifying trade mark and the characteristics of the trade marked product. In other words, trade marks allow a seller to create the illusion, through advertising, of a different product without necessarily creating a different product. It could be or remain the same as all other sellers’ products.

with its prohibition against misleading marks, only partly alleviates. Perception advertising survives not on conscious deliberate misrepresentation, but subtle and subconscious association.

If the trade mark's reputation rests on rational grounds, then there is a countervailing benefit in terms of quality differentiation and in terms of search cost minimisation. But if the preference is entirely irrational and built up by advertising that speaks only to the subconscious, in other words if only the image but not the goods themselves are differentiated, the advantage of protecting the mark is less clear. The only argument in favour of marks that do not in fact differentiate products, such as merchandising marks, is that consumer welfare is increased because the consumer pays for the product *and* the image (a holistic whole!), and values the combination highly enough to pay the extra price for the trade-marked good; the trade mark is internalised with the product. But as well as being highly artificial, this ignores the irrational nature of consumers' responses to trade mark promotion.²⁷

TRADE MARKS AND COMPETITION

Trade marks, costs, and barriers to entry

In a market with no differentiation and perfect substitutability, there is perfect competition and maximum efficiency. To generate monopolistic returns, one choice the producer has is to differentiate the product. Trade marks are one way of differentiating a product and are thus a step back from perfect competition – they affect perfect substitutability.

Thus trade marks have a price effect in that they allow the mark owner to derive some monopoly returns from differentiation. Consumers will still buy at a higher than marginal cost because *they perceive* the product to have differentiation characteristics which make it more desirable than lower priced substitutes. From this perspective trade marks impose a cost, both in terms of the owner's expenditure on advertising and maintenance, and in terms of price to consumers.

But arguably protected trade marks make up for this increase in cost because of the greater quality of the underlying product, because they limit search costs over time and between products emanating from the same trade mark owner.²⁸ They also prevent confusion and deception of consumers.

Arguably the key in terms of barriers to entry is that trade marks make advertising possible, which generates consumer loyalty and thus consumer resistance to new entrants. M H Davis²⁹ gives a lot of credence to E H Chamberlin's analysis in *The Theory of Monopolistic Competition*,³⁰ and postulates that whatever the approach, trade marks are barriers to competition, not solely because of the language availability argument but because established preferences of consumers constitute a barrier to entry (it is easy to agree with Davis that the language availability argument is readily overstated). This can reduce competitive pressure on markets. It all depends on the size of the

²⁷ See Massey DS, "A Brief History of Human Society: the origin and role of emotion in social life" (2002) 67 *American Sociological Rev* 1 at 20: "emotional cognition precedes rational cognition in evolutionary time and in real time, and feedback between the two is such that emotional traffic into the rational brain dominates that going in the reverse direction." One important consequence, according to Massey, is that reaction to advertising, centred around brands, is to an important degree emotional. Through advertising, humans are conditioned to react in a certain way to the choice of purchasing a branded product: "Neoclassical economics assumes that tastes and preferences are given and that people enter markets to satisfy them though the rational process of utility maximization ... Although professors of economics may accept these assumptions and use them to derive complicated behavioral models, their colleagues in business schools do not. On the contrary, professors of marketing for years have sought to teach students specifically how to influence preferences, tastes and motivations through advertising and public relations efforts. It has been years since the overlords of Madison Avenue have tried to appeal to our rational brains in marketing consumer products" (at 21). Massey goes on to ask what the rational connection is "between an entity labeled 'the Swedish bikini team' and a popular brand of beer?". He contends that the juxtaposition is quite obviously not meant to appeal to the rational brain.

²⁸ See Chamberlin EH, *Theory of Monopolistic Competition*, (Harvard UP, 1959) for a useful approach to the concept of differentiation and a handy connection between the differentiation/quality approach and the search cost approach.

²⁹ Davis MH, "Death of a Salesman's Doctrine: A critical look at trademark use" (1985) 19 *Georgia LR* 233.

³⁰ Chamberlin, n 28, esp Ch IV.

deterrent caused by brand loyalty.³¹ If the deterrent is too great, social welfare will not be maximised and there will be a sub-optimal number of competitors in the market.³² The negative effects in terms of suppression of competition will outweigh the positive effects in terms of differentiation, search cost reduction etc.

Differentiation as a barrier to entry in static and dynamic markets

Economides also makes reference to the fact that trade marks act as a barrier to entry if they have an established reputation, that is, consumers will prefer the goods with known trade marks to those with the unknown trade marks of new entrants.³³ The known-brand owner will be able to command a premium price for its product, and will be encouraged to increase quality to retain the reputation the owner has built and keep out competitors. But according to Economides, this leads to inefficiency caused by the legal protection, because at the same time competitors will be tempted to enter the market by the premium returns visibly enjoyed by the producer with an established reputation.

Too many players will enter the market, which will result in loss of economies of scale. In other words there is a tendency toward proliferation of brands or trade marks. As long as the market remains dynamic, that is, there are constant new entrants who must discount the price of their goods considerably to compete with the established brand owners, the overall price effect for the market segment may be tempered (that is, the premium price for quality product is offset by the discounted price for new entrant goods). However, this is not the case if the market is mature or static.

For legal policy, the goal is to strike a delicate balance in terms of the exact level of legal protection. For the seller, the question is whether the additional cost of differentiation is outweighed by the increased price which the product can command, that is, by increased returns. That includes the cost of producing a differentiated product, and the cost of advertising.

Investment choices induced by brand protection

The critical view of trade marks posits that they enhance the firm's ability to create illusory want. The resultant problem is that firms will be inclined to invest in promoting the image of the mark rather than in the quality of the product.³⁴ Thus the promised benefit to the consumer and society as a whole does not necessarily come about. The trade mark may also hide the real characteristics of the product (which is saying the same thing); trade marks would assist in distorting competition away from concentration on price and quality. From this point of view, and here Davis again calls in aid Chamberlin, trade marks are a barrier to entry because they

interfere with the ability of the consumer to judge new products – only because the assumed rational, intelligent choice of the consumer is a fiction.³⁵

Products that are really mutually substitutable are irrationally and artificially distinguished. Davis makes a valuable point when he says:

³¹ All the arguments considered above are premised on the symbol, be it a word or device, being without primary meaning to a consumer (the "Nike" model) rather than, as is often in fact the case with legally protected marks, the symbol containing some suggestion (eg "Mothercare") in relation to the goods or services in relation to which it is used. The beneficial market effects of trade mark protection are further undermined if there is utility derived from the symbol as such, ie, irrespective of the mental image created through advertising or promotion: "Most of the value of any trademark will be created with its identification with the product. Any advantage from the monopoly right of the use of the 'best' symbol can only be temporary and small. This is true under the assumption that the trade marked name was not generic or descriptive, of the item sold. If the name were generic or descriptive, its protected exclusive use could create significant difficulties in the effective functioning of the market": Economides, n 21 at 538. In other words, the overall beneficial effect of the protection of trade marks is dependent on the trade marks not being required by other traders.

³² This insight leads some economists to argue that advertising is the cheapest barrier to entry (cheaper than economies of scale, technological innovation, etc): see, eg Bain JS, *Barriers to New Competition* (Harvard UP, 1956), esp Ch IV.

³³ Economides, n 21 at 532ff.

³⁴ See Davis, n 29 at 239.

³⁵ Davis, n 29 at 240.

The conventional view assumes that trademark rights relate only to the use of the mark itself. The critical view recognises that far more is at stake, for domination of the mark in today's economy frequently leads to domination of the marketplace.³⁶

This intuitively rings true.

LANGUAGE

A struggle for power over language

The phrase "domination of the mark" suggests that in essence trade marks law contains the rules that control a contest for domination over language. An alternative to a strict market economic analysis is to focus primarily on the role of language (in the broad sense, including all symbols) in markets, competition and communication in general. There is considerable consonance between the economics of language and many of the rules of trade marks law, which is very much concerned with preventing the monopolisation of signifying words and symbols.

Monopolisation of existing language interrupts the information flow to consumers and disturbs the ability of a trader to communicate in relation to its goods. This cannot be a good thing, and as a result trade marks law tends to insist on symbols not having inherent significance in relation to the goods or services on which they appear. On the other hand it has to be recognised that terms of the language can acquire secondary meaning and that language is not static but dynamic. One of the things that makes it so is the dynamic addition of brands and trade marks to the stock of language: that is, brands become descriptors of products.

Economics of language: trade marks as signifiers

S L Carter³⁷ contends that even if marks do not have any significance before they are used (they do not say anything about origins or qualities of a product) – for example, because they are totally artificial – they can form an important barrier to entry, because it is clear, from the investments made by firms searching for new brand names, that some brands are more desirable than others. Carter argues that therefore there is a strong argument against allowing registration of marks that have not built up an actual reputation in the market (what he calls allowing "protection of marks devoid of market significance").³⁸ Carter maintains that it is a fallacy that marks have no value or significance or legal existence independent from the goodwill that they signify. In his view, in fact some marks without market significance or reputation are more valuable than others, and the more valuable they are the more they act as barriers to entry, or vice versa. Carter speaks of "market language":

[it is] the language in which firms speak to consumers, and it consequently includes all the words and phrases that might be used to provide information about products and services.³⁹

Marks are part of this language and when the law allows a mark to be monopolised a word is removed from the language. This imposes a cost which is cancelled out by the usefulness of the mark as an "information-economising" device.⁴⁰

Furthermore, if the mark has no meaning to consumers then search costs are increased if that mark is taken out of the available market language;⁴¹ in other words, if a mark without use, and thus without goodwill, is registered. From this perspective a trade mark registration is an incentive to do, to act, to use the mark created, not an incentive to create a mark in the first place; it thus has a different rationale than copyright or patents. The monopoly of concern to Carter is

³⁶ Davis, n 29 at 240.

³⁷ Carter, n 13.

³⁸ Carter, n 13 at 760.

³⁹ Carter, n 13 at 763.

⁴⁰ See Carter, n 13 at 763.

⁴¹ See Carter, n 13 at 766.

not the monopoly or the "product differentiation" critique of trademark, which holds that firms will make socially wasteful investments in advertising to encourage consumers to make choices on grounds other than price among undifferentiated goods. [Rather] trademark protection matters because it allows a firm to remove a word from the market language, in the sense that it allows the firm to prevent others from using the word or anything confusingly similar to it. This creates what might be called language exclusivity.⁴²

This would not matter much if what Carter calls the "irrelevant mark assumption" always held true; that is, to use the quote from W M Landes and R A Posner that Carter uses: "A proper trademark is not a public good; it has social value only when used to designate a single brand". However, some trade marks are better and more desirable than others and thus cheaper to build goodwill around, so the irrelevancy of the precise form or appearance of the mark is not a correct assumption. In any case, firms tend to try to select marks that have some significance or descriptive quality, further reducing the available market language. Thus, the costs of later entrants are augmented and barriers to entry raised.⁴³

Besides, not only can *suggestive* marks sometimes be owned, so can *descriptive* marks. This makes sense because a stage may be reached where the secondary meaning is so strong that it is more cost effective, by lowering search costs, to allow one person to monopolise a mark, rather than to allow the confusion to continue of having various persons able to use what has become effectively a trade mark.

The most significant conclusion from Carter's approach is that his arguments result in later entrants having to choose marks which are less effective and which will require a greater investment in turning them into effective repositories of goodwill, thus significantly raising barriers to entry.⁴⁴ The main point of Carter's argument is that "if IM [irrelevant mark] presents an accurate vision of the marketing world, then search cost economies will nearly always outweigh losses to the market language". But if some marks are better information economisers than others, "costs and benefits must be measured with more care".⁴⁵

Davis criticises Carter's emphasis on the importance of language simply by saying that the monopolisation of words is really not a big problem: "The monopolisation of a word can hardly compare to the monopolisation of an industry."⁴⁶ If it holds true then according to Davis this analysis via language economics indicates that trade marks law has little negative impact on public welfare. Arguably this misses the point which is that the two may become co-extensive, and that Davis' dismissal of Carter's argument is only sustainable if trade marks law does not permit proprietary rights to extend too far into ordinary language.

Language markets

Landes and Posner take the economics of language seriously, referring to a market in language. They identify as a benefit of trade marks the investment in the creation of new words that it encourages.⁴⁷ This has advantages because language then becomes more efficient because the stock of names of things increases thus economising on information and communication costs. The stock of words to describe things also increases because many trade marks become generic descriptors rather than just product-specific terms. And they enrich the language "by creating words that people value for their intrinsic pleasingness as well as their information value".⁴⁸ In terms of language economics Landes and Posner have few concerns about trade mark monopolies since the potential stock of new trade

⁴² Carter, n 13 at 768-769.

⁴³ See Carter, n 13 at 771.

⁴⁴ See Carter, n 13 at 772.

⁴⁵ Carter, n 13 at 775.

⁴⁶ Davis, n 29 at 242

⁴⁷ See Landes and Posner, n 15 at 271ff.

⁴⁸ See Landes and Posner, n 15 at 271ff.

marks is infinite in their view. Carter would say, the stock of marks may be infinite but some marks are more desirable than others.⁴⁹

BUT WHY PROPERTY RIGHTS?

All the arguments proffered above may support some right of action against misrepresentation or even misappropriation. They only partly answer the question why registration based, property style, a priori rights in registered trade marks are required. Some of the arguments referred to above even militate against certain crucial aspects of the registered trade mark system, such as the ability to own marks that do not have an established reputation. Additional arguments that address this question more specifically are required. Mostly these seem to revolve around specific reductions in transactions costs.

Reducing transaction costs

One approach is to focus on the importance of the register as a cost saving device. It is the reduction in costs to the trader, who is able to determine whether or not a mark is available for use, which is the most important reason for having a registration system rather than relying on passing off. From this perspective, it is not the reduction of search costs for consumers, but of rival traders that should be stressed. However, the ability to quickly and cheaply search registered trade marks does not obviate the need to also search and detect common law or unregistered marks, if a trader wishes to escape liability for misrepresentation, for which no intention is required to be shown. Nonetheless, registration does arguably promote competition by simplifying market entry of rivals.

The proprietary system with registration also tends to limit transaction costs in terms of establishing both ownership rights and infringement. At least in certain categories of case, the plaintiff will not suffer the onerous burden of having to prove reputation and deception of consumers to obtain a remedy. Furthermore, clarity about ownership increases the ability to structure production rationally, by way of licensing of rights. Disputes concerning ownership in the context of transfers of business or goodwill will also be prevented to a greater degree.

Other arguments

Two further arguments must be central to justifying registered property rights: the anti-dilution and the window of opportunity argument. Dilution is damage caused to the reputation of a mark by association in the absence of misrepresentation or deception as to the true commercial origin of goods. It might occur where the defendant references a rival trade mark to promote its own mark. In other words, although the mark owner may not be able to prove diversion of custom, it may be that the future value of the mark is reduced because an unrelated party (a fortiori a competitor) has used the mark, for instance in association with an inferior product. This way of reasoning emphasises not so much the role of a trade mark as an indication of origin, but the fact that it is a valuable commodity in itself to which goodwill attaches as such.

Helen Norman⁵⁰ points out that Shechter's seminal article in the *Harvard Law Review* which posited that a trade mark is not so much important as an indication of origin but "to create and retain custom", has little impact on judges in the United Kingdom, who continue to interpret the Trade Marks Acts narrowly without considering "what the proper basis for protection ought to be".⁵¹ From this point of view, the fact that the consumer is not necessarily misled by the rival use does not matter; the damage lies in the attenuation of the attractive power, the exclusivity of the mark.

The window of opportunity argument posits that rational industrial organisation is aided by the ability of a trader to choose and protect a symbol for a period while developing business – hence a

⁴⁹ See also Shuy R, *Linguistic Battles in Trademark Disputes* (Palgrave, 2002).

⁵⁰ Norman H, "Shechter's 'The rational basis of trade mark protection' Revisited" in *Perspectives on IP, Vol 7, Trade Marks Retrospective* (S&M, 2000).

⁵¹ Norman, n 50, pp 191, 192; see also Davis, n 20.

trade mark should be able to be owned and controlled even in the absence of a threat of misrepresentation – and a fortiori, reputation – otherwise the risk of wasteful investment is too great.

For example, if firm X chooses trade mark XYZ for its new product, and invests in product development, design, promotional planning and advertising and the like, only to find that firm A can adopt the same mark with impunity any time before a sufficient reputation has been built up, this would result in an irrational interruption of investment in product development and marketing, with no overall benefit. As long as the window of property style protection is not too big (in term and in scope, that is, the mark has the potential to become distinctive) it serves a rational and efficient economic purpose encouraging the development of new products.

TREND TOWARDS EXPANSION OF TRADE MARK RIGHTS

It may be difficult to formulate strong conclusions from the often divergent strands of argument represented above. However, one thing is clear, and that is that trade marks do represent a potentially formidable barrier to entry which should not be underestimated. It is important to maintain a balance between the legitimate need for trade mark protection, and competition. Any growth of legal protection of trade marks beyond fairly narrow and carefully policed confines should be informed by a close analysis of its potential effect on the competitive balance in markets. Many arguments stack up quite firmly against having overly broad or overly strong legal protection of trade marks.

Nonetheless, as pointed out above, there seems to be an opposing trend in trade marks law towards enabling the further entrenchment of market power on the basis of brands. Without any pretence at comprehensiveness, I list some of the areas of registered trade marks law, which arguably illustrate this trend. My identification of various areas of law is not exhaustive, and is at times more in the nature of a suggested line of inquiry.

Signs that can be registered as trade marks: shapes and colours

The expansion of the kinds of symbols that can be registered as marks, to include sounds, scents, colours as such, shapes and aspects of packaging has generated considerable comment and litigation in various jurisdictions.

Registrations for scent marks have been rather limited, partly because of the difficulties experienced in meeting the requirement for graphic representation. The number of sound mark registrations is also limited. What elicits greater excitement and has greater implications in terms of competition and market access is the registrability of colours as such, aspects of packaging and of shapes.

In terms of impact on the competitive balance, the question of registrability of the shape of goods themselves is maybe the most significant. In Australia, the cases have made it clear that the *Trade Marks Act 1995* (Cth) is to be read as having effected a major change in the law.⁵² Whereas previously, shapes of goods themselves were not registrable, since a trade mark had to be something additional to the goods, that rule has now been abandoned in favour of treating the question purely on the basis of distinctiveness.⁵³ The implication of the legislative and judicial decisions is that the scope for extending monopoly over shapes through the use of trade mark registration is now greatly increased.

⁵² See Hughes S, "Protection of Shape Marks in Australia: Extending the permanent monopoly" (2002) 49 IP Forum 49, 28. But Australia is just one example of a global trend: see eg the ECJ's decision in *Koninklijke Philips Electronics NV v Remington Consumer Products Ltd* (ECJ Case C299-99, 18 June 2002; [2003] Ch 159); see also the pending appeal to the ECJ in *Mag Instruments v OHIM* which concerns the registrability of the shape of a Maglite torch.

⁵³ In *Kenman Kandy Australia Pty Ltd v Registrar of Trade Marks* [2002] FCAFC 273 (28 August 2002) on appeal it has been held that shape of the goods – marks applications relating to marks not yet in use will not necessarily fail for want of distinctiveness although it is difficult to distil from the decision any precise rules as to when the shape of goods can be registered and when not. The clear guidelines that the 1994 Act contained excluding certain shapes of goods from registration, and which were also to be found in certain foreign statutes, were unfortunately abandoned in the 1995 Act. This has resulted in rather a confused state of the law, in which the appeal decision in *Kenman Kandy* is the final word.

As to colours, the courts have recently handed down some decisions interpreting the provisions of the Act which allow for registration of colours per se: note the recent decision by Mansfield J, concerning the terracotta colour, *Philmac Pty Ltd v Registrar of Trade Marks* [2002] FCA 1551.⁵⁴ Again, extending trade mark rights over an area that previously was not amenable to registration has increased the potential for trade mark registrations to act as barriers to entry in certain cases.⁵⁵

Trade mark use requirement

Others have convincingly argued that the requirement of trade mark use has been greatly watered down.⁵⁶

Although it may be desirable that a trade mark should be registrable on the basis of intended use in good faith, and that a trade mark should not be removed during a limited periods of non-use (for instance imposed by commercial or business requirements), a careful balance should be observed. A registration should not be able to function simply to deny other traders the use of a symbol that may be useful in their trade or business.⁵⁷

As argued above, some marks are more valuable than others, because they have an inherent attraction or because they have a permissible element of suggestion. It is therefore not a trivial matter that they are not available for a longer than justifiable period. L Bently and R Burrell argue that the requirement of use is often set at such an artificial level, that it is too easy to satisfy and artificially maintain a monopoly over a sign.⁵⁸ Keep in mind that these days this could apply, not only to word signs but also to shapes of goods, colours etc!

Furthermore, the fact that intended use has been translated into actual used can only be tested after a relatively long term (see Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Art 16 (3)).

Width of registrations for goods or services

An important factor limiting the extent of the absolute rights of the trade mark owner is the principle of "specialty": the fact that trade mark rights are limited to goods or services specified in the application. Those goods or services specified are naturally supposed to be of a kind, or to have some close connection.

The wider the category of goods or services that a trade mark owner is allowed to identify, the broader the owner's right may be. There has been a tendency which has given rise to concern in some quarters, to allow registrations for very wide categories of goods or services, in other words, for too many goods or services to be specified.

This again has the effect of extending the monopoly rights of the trade marks owner.⁵⁹

Protection of well-known marks: expansion beyond the goods or services of the registration

Provisions relating to famous marks,⁶⁰ inspired by TRIPS, Art 16(2) and (3), mean that the rights of the owner of a well-known or famous mark in relation to goods on which the mark is not actually

⁵⁴ See also the Cadbury application where a colour mark was refused initially by the Registrar: *Cadbury Ltd* [2002] ATMO 56 (28 June 2002). As to the situation in Europe, see Schulze C, "Registering colour trade marks in the EU" (2003) 25 EIPR 2, 55.

⁵⁵ In fact concern is not limited to shapes and colours; absolutely anything is in theory able to be registered as a trade mark, eg the red and yellow M&M characters as portrayed in a video clip.

⁵⁶ See, eg Bently L and Burrell R, "The requirement of trade mark use" (2002) AIPJ 181.

⁵⁷ As to the question of what amounts to use for non-use assessment purposes, see eg *South Australian Brewing Co Pty Ltd v Carlton & United Breweries Ltd* [2001] FCA 902 (13 July 2001).

⁵⁸ See Bently and Burrell, n 56.

⁵⁹ See further, Wilkinson D, "Broad Trade Mark Specifications" (2002) 24 EIPR 228.

⁶⁰ For example *Trade Marks Act 1995* (Cth), s 120.

used have been expanded, even if a relatively heavy burden of proof is imposed on the trade mark owner.

Note also that statutory provisions allow for a trade mark to be considered famous or well-known on the basis of promotion alone.

Expansion of geographical scope of trade marks

Even irrespective of the effect of the Madrid Protocol, the ability of trade mark proprietors to monopolise their marks in jurisdictions other than those where they are registered appears to have grown in recent times.

Courts have been ready to accept sufficient reputation within a jurisdiction on a very narrow basis for the purpose of establishing proprietorship or ownership to determine who can legitimately apply for registration of the mark.⁶¹ This has gone hand in hand with a more liberal approach in passing off actions, which allows plaintiffs to bring an action even in the absence of local business activity.⁶²

Control of the trade mark owner over the authorised user

Another important question is when authorised use or alleged authorised use actually amounts to relevant use for statutory purposes.

Again there is an apparent relaxation in the requirements that need to be observed for the use of a mark by a non-owner to amount to sufficient use. All that is required in line with the cases from before the introduction of s 8 of the *Trade Marks Act 1995* (Cth) is that there be a "relevant connection in the course of trade". This seems in essence to mean that the owner or proprietor should have selected the licensee or user, and has some form of ongoing agreement, and little more.⁶³

Genericness: the "fault" requirement

It has always been difficult to determine in what circumstances a trade mark owner should lose the exclusive right to use the mark because of genericness. Arguably trade mark owners should not automatically be the victims of their own success. There are two alternatives in Australia under the *Trade Marks Act 1995* (Cth):

- first, that the registered owner cannot enforce trade mark rights from the date that the mark has become "generally accepted within the relevant trade as the sign that describes or is the name of an article, substance or service" (s 24(1)); and

⁶¹ For a recent decision concerning this issue, see *Renaud Cointreau v Cordon Bleu Int Ltee* [2001] FCA 1170 (29 August 2001); see also *Winton Shire Council v Lomas* [2002] FCA 288 (20 March 2002).

⁶² See *Conagra Inc v McCain Foods Pty Ltd* (1992) 23 IPR 193 and subsequent cases.

⁶³ It does not seem to be required that there be actual quality or financial control provisions in the agreement between owner and authorised user: see *Toddler Kindy Gymparoo Pty Ltd v Gymparoo Pty Ltd* [2000] FCA 618 (12 May 2000); see also *CA Henschke & Co v Rosemount Estates Pty Ltd* [2000] FCA 1539 (31 October 2000), although there arguably there was control: there was no express agreement but that a factual situation of control had arisen was sufficient. In *Asia Television v Yau's Entertainment Pty Ltd [No 2]* [2000] FCA 838 (22 June 2000), the fact that the alleged authorised user was furnished with the master tapes of videos and was entitled to reproduce them constituted sufficient control. In most of these kind of cases a passage is trotted out from *Pioneer Kabushiki Kaisha v Registrar of Trade Marks* (1977) 137 CLR 670 at 683 per Aickin J: "These cases demonstrate that the essential requirement for the maintenance of the validity of a trade mark is that it must indicate a connection in the course of trade with the registered proprietor, even though the connection may be slight, such as selection or quality control or control of the user in the sense in which a parent company controls a subsidiary. Use by either the registered proprietor or a licensee (whether registered or otherwise) will protect the mark from attack on the ground of non-user, but it is essential both that the user maintains the connection of the registered proprietor with the goods and that the use of the mark does not become otherwise deceptive. Conversely registration of a registered user will not save the mark if there ceases to be the relevant connexion in the course of trade with the proprietor or the mark otherwise becomes deceptive." This passage does not set a high standard or level of control to begin with.

- secondly, that a court on the application of a person aggrieved cancels the registration of a mark that has become generic under s 24 (s 87).

In the latter case, if the “registered owner of the trade mark satisfies the court that the ground relied on by the applicant has not arisen through any act or fault of the registered owner”, then the court can refuse to order the cancellation of the mark (s 89).

Although this is a difficult area of the law, it seems to be the case that there are now fewer circumstances in which a trade mark owner will be blamed for the mark becoming generic, and thus being removed from the register, than was the case under the previous Act. This affects the dynamic nature of the system.

Parallel importation

Australian trade marks law does not grant trade mark owners the right to prevent grey imports, although there are some circumstances in which a trade mark owner can restrict such importation, as is also the case in some other jurisdictions where similar provisions may or may not exist.⁶⁴

Maybe unfortunately, the courts have countenanced ways in which trade mark owners have attempted to circumvent restrictions on parallel importation, by reversible assignments of trade marks: see *Transport Tyre Sales Pty Ltd v Montana Tyres Rims and Tubes* [1999] FCA 329 (29 March 1999).

The introduction of “back door” parallel importation restrictions in trade marks law has potentially negative effects on prices and consumer access for trade marked goods, enhancing the monopoly position of the trade mark owner as it does.

Other issues for investigation in relation to registered trade marks

Some other areas deserve attention from a competition perspective, for instance:

- has the requirement of distinctiveness been watered down since the abolition of Pt A and Pt B marks, and if so, to what extent?⁶⁵
- is there slippage in the determination whether goods are of a similar kind, thus allowing expansion of the right of action into kinds of goods that previously would not have been caught within the trade mark owner’s net?
- to what extent has the onus of proof shifted too much onto the opponent in trade mark application proceedings?⁶⁶

CONCLUSIONS

The trend towards expansion of exclusive rights in goodwill is concerning, given the fact that existing reputation is a considerable barrier to entry. Although the focus above has been on registered trade marks, there is arguably a discernable trend to protect goodwill more broadly by other legal means as well. For instance, it has been argued that trade mark owners have been too readily able to extend

⁶⁴ See in particular the current debate in Europe concerning parallel importation of trade marked goods, and some recent ECJ decisions on this question, eg *Zino Davidoff v A&G Imports* (case C-414/99).

⁶⁵ The concern that distinctiveness requirements have been watered down too far also exists in other jurisdictions: see the *Baby-Dry* decision in Europe, as commented upon by Ian Kilby, “‘Baby-Dry’: A victory for the Ephemera of Advertising?” [2002] EIPR 10, 493.

⁶⁶ On the appeal in the *Waltzing Matilda* case (*Winton Shire Council v Lomas* [2002] FCA 288 (20 March 2002)) the respondent was successful, the court finding that there was not sufficient prior use of the trade mark to defeat the ownership of the mark of the original applicant for registration. Concerning onus of proof in opposition, the court stated that an opponent may have to do more than raise a ground of opposition on the balance of probabilities, and has to establish that the relevant trade mark should clearly not be registered.

their power over the internet in relation to domain name registration.⁶⁷ There has also been considerable growth across the globe in the protection afforded to geographical indications of origin. Furthermore, in terms of common law actions some courts have arguably been less concerned to hold the line between imitation as legitimate competition and the rights of established suppliers, or to adhere to the traditional insistence on distinctiveness as a precondition for success in passing off actions.⁶⁸

Whereas the anti-competitive and other deleterious effects of expansion of rights in copyright, patents, designs and allied rights have received great scrutiny and attracted concern, there has not been the same level of general debate in relation to goodwill and reputation. Specific areas have attracted attention, such as trade-marking of product shapes, but reflection on the impact of overall growth of monopolisation of signs by various legal means has been more muted. Arguably, in terms of consumers' day-to-day experience and the realities of the market place, the steady enhancement of the power of established brands deserves greater attention.

⁶⁷ In *British Telecommunications plc v One in a Million Ltd* [1999] 1 WLR 903 the court readily found that the tort of passing off would lie even in the absence of any misrepresentation to the public, in a case where the domain names concerned were merely registered and not used. The registration of the name was held to be an instrument of fraud: any possible use that the registrant would make could only constitute a passing off (ignoring the fact that offering a domain name, such as *marksandspencer.com* to the owner of the trade mark Marks & Spencer could hardly be said to constitute passing off, and it was this that the defendant One in a Million intended to do). In terms of dispute resolution mechanisms, it is clear that the purpose of the Uniform Domain-Name Dispute-Resolution Policy (UDRP) is to protect trade mark owners on the internet, as is country-specific anti-cybersquatting legislation. But it has been argued that UDRP decisions too greatly favour trade mark owners, by way of a liberal interpretation of the bad faith requirement. Trade mark owners' rights have effectively been extended into the internet sphere without any careful considerations of the market and economic implications. An immediate effect of this extension is to bring the distribution of products via the internet largely within the control of the trade mark owner, potentially pre-empting the use of a trade mark as a domain name where the business of the website owner is to distribute the trade marked product. Note also the discussions concerning the rights of the owner of a famous trade mark to pre-empt registration of the mark as or in a domain name. As to arguments that the UDRP is stacked in favour of trade mark owners: see Gheist M, "Fair.com?: An examination of the allegations of systemic unfairness in the ICANN UDRP", as reported and critiqued in INTA Internet Committee, 6 May 2002: "The UDRP by all accounts works effectively: rebuttal; to analysis and conclusions of Professor Michael Gheist in "Fair.com?" and "Fundamentally Fair.com?"

⁶⁸ See, eg *Architects Australia Pty Ltd t/a Architects Australia v Witty Consultants Pty Ltd* [2002] QSC 139 where Chesterman J applied the instrument of fraud analysis in a passing off case. The plaintiff was successful, even though the defendant operated the referencing website *architectsaustralia.com.au*, unaware of the existence of the plaintiff's business Architects Australia; he was not in competition with the plaintiff, the plaintiff had a very limited reputation, the name was clearly highly descriptive and it was accepted that there would be no real damage to the plaintiff resulting from the continued use of the website name.