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Expert Analysis

Disillusioned With Dilution: Starbucks Versus Charbucks

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Starbucks, the bastion of baristas, has been unable to stop a small New England coffee company from using the name Charbucks.

The latest ruling in the case over the famous Starbucks mark concluded that it is not likely to be diluted by the defendant's conduct. Protecting the tremendous investment the owner of a strong brand makes in its trademark is the promise of dilution law, but the statute Congress passed to furnish brand owners with a specific claim for dilution falls short of the high expectations it raised. *Starbucks Corp. v. Wolfe's Borough Coffee,* 2011 WL 6747431 (S.D.N.Y. Dec. 23, 2011).

While it remains to be seen whether the defendant will be victorious after the parties' third trip to the court of appeals, the Charbucks case illustrates the tortured development of federal dilution law over the last decade and its current state of uncertainty. The original federal statute, the amended act, the pre-existing dilution doctrine, persistent misimpressions, differing state laws and deeply divided opinions about what dilution by blurring means in practical application have all contributed to the current state of dilution confusion in which brand owners find themselves.

Congress passed the Federal Trademark Dilution Act in 1996, providing the owner of a well-known brand with a cause of action against someone who used the owner's mark in a manner that reduced its strength, whether or not that use caused confusion as to source, affiliation or sponsorship.

When the U.S. Supreme Court ruled in *Moseley v. V Secret Catalogue Inc.*, 537 U.S. 418 (2003), that the FTDA required the accused mark to be identical to the plaintiff's mark, and the plaintiff to prove actual dilution and actual damage in order to establish a claim, Congress revisited its drafting effort. This led to the Trademark Dilution Revision Act of 2006, amending Section 43(c) of the Lanham Act, 15 U.S.C. § 1125(c).

As revised, the TDRA allows the owner of a famous and distinctive mark to seek injunctive relief against someone who commercially uses a mark that is "likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury."

Dilution by blurring is defined as an "association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark." No longer must the defendant's mark be identical to the plaintiff's famous mark, and likelihood of dilution is now sufficient to establish liability.

Starbucks brought its suit pursuant to the original federal dilution statute, but the trial took place after the Supreme Court's ruling in *Moseley*, so the trial court was obliged to rule against Starbucks because it had failed to prove actual dilution.

It also found in favor of the defendant on infringement, unfair competition and state law claims. Starbucks appealed.

Meanwhile, the TDRA had substantially changed the original statute, so the 2nd U.S. Circuit Court of Appeals vacated the District Court's judgment and remanded the case.

It may have seemed as though the TDRA would make victory on dilution by blurring grounds easier for brand owners, but that turned out not to be the case for Starbucks.

Again the District Court found no merit to the international coffee seller's claims that Charbucks was likely to dilute the famous brand by blurring or by tarnishment. Starbucks appealed again. The Court of Appeals agreed that the parties' marks were only minimally similar, noting that the defendant used additional words with Charbucks and very different design elements on its labels.

It also ruled, however, that the District Court erred in requiring substantial similarity of the marks and had likely put too much emphasis on the issue of similarity in its overall analysis.

The district court's error was significant in derailing its analysis of the dilution claim, the appeals court held, which "must ultimately focus on whether an *association*, arising from the similarity between the subject marks, 'impairs the distinctiveness of the famous mark.'"

The 2nd Circuit's opinion on "how not to decide a dilution case" also disapproved of the District Court's handling of the issue of defendant's intent.

The District Court improperly discounted the fact that the defendant adopted Charbucks with the intent to associate with the famous brand because it found that the defendant did not do so in bad faith, something that is not relevant to the analysis, according to the appellate court.

The 2nd Circuit also criticized the lower court for referring to Starbucks' survey evidence as not establishing a likelihood of confusion, when Starbucks had submitted the evidence to prove actual association.

Although Starbucks lost on the issue of dilution by tarnishment, it went back to the District Court optimistic about its remaining blurring claim.

In its opinion on remand, the District Court recited the six non-exclusive factors listed in the statute as being relevant to the blurring analysis. The factors are:

- Degree of similarity between the marks.
- Degree of distinctiveness of the plaintiff's mark.

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- Whether the plaintiff's use of the mark is substantially exclusive.
- Degree of recognition of the plaintiff's mark.
- Whether the defendant intended to create an association with the famous mark.
- Whether there is actual association of the defendant's mark with the plaintiff's famous mark.

The court acknowledged that there was no dispute that four factors weighed in favor of Starbucks:

- The Starbucks mark was distinctive.
- Its use was exclusive.
- The mark enjoyed a high degree of recognition.
- The defendant had intended to associate its marks with the plaintiff's mark.

Focusing on the remaining two factors, the court decided that the issue of similarity between the marks weighed in the defendant's favor, and that the evidence of actual association weighed "minimally" in the plaintiff's favor. Though five out of six factors were in the plaintiff's favor, judgment was issued for the defendant.

The cases decided to date, including the Charbucks case, provide scant guidance on how to demonstrate a famous mark is likely to be diluted by a defendant's use of the same or similar mark. Therefore, potential plaintiffs should be realistic about the prospects of success in bringing a dilution claim.

Courts still refer to older decisional law in groping their way through dilution claims, but in many ways, traditional concepts of dilution are completely out of place under the statute, and the former principles do not fit neatly.

Starbucks case history

Starbucks Corp. v. Wolfe's Borough Coffee, 2005 WL 3527126 (S.D.N.Y. Dec. 23, 2005)

Judgment vacated by

Starbucks Corp. v. Wolfe's Borough Coffee, 477 F.3d 765 (2d Cir. Feb 15, 2007)

On remand to

Starbucks Corp. v. Wolfe's Borough Coffee, 559 F. Supp. 2d 472 (S.D.N.Y. June 5, 2008)

Affirmed in part, vacated in part by

Starbucks Corp. v. Wolfe's Borough Coffee, 588 F.3d 97 (2d Cir. Dec. 3, 2009)

On remand to

Starbucks Corp. v. Wolfe's Borough Coffee, 2011 WL 6747431 (S.D.N.Y. Dec. 23, 2011)

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As conceived, the law of dilution was intended to create a new form of trademark protection that would be "limited to situations where the junior mark was identical, when the famous mark was coined or arbitrary, and only if the uses were on noncompeting and non-similar goods or services." It is no wonder there is so much confusion; the TDRA does not incorporate any of these three fundamental criteria.

As discussed above, there is no requirement that the marks be identical. Indeed, the 9th U.S. Circuit Court of Appeals has said the plain language of 15 U.S.C. § 1125(c) does not require a plaintiff to establish that the junior mark is identical, nearly identical or substantially similar to the senior mark in order to obtain injunctive relief. The first of the traditional elements is clearly gone.

The TDRA also does not require the famous mark to be coined or arbitrary, as re-quired by the second element. Courts over the years have given examples of a number of famous marks: Nissan, Nike, Pepsi, Audi, Victoria's Secret, Budweiser, Camel and Barbie.

None of these marks were "merely descriptive," or even suggestive. Under the TDRA, however, the degree of the mark's inherent or acquired distinctiveness is simply one of the factors a court may weigh in deciding whether a mark is famous and distinctive. Thus, although NYC Triathlon was a descriptive and unregistered mark, a court ruled that it was famous under the act, relying on many facts concerning the level of publicity, advertising and recognition of the event.

Finally, the TDRA does not exclude competing goods from its ambit. A persuasive argu-ment can and has been made that dilution law has no place in cases of competing goods, and classic hypothetical dilution examples combine a famous mark with an unrelated good: "Tylenol snowboards, Netscape sex shops and Harry Potter dry cleaners."

These examples no longer encompass the nature of dilution as it is defined under the act, since dilution by blurring occurs when a mark loses its ability to trigger an association between the trademark and its owner's goods or services in consumers' minds.

A plaintiff's mark must be famous, and the standard is higher than in the context of analyzing the strength of a mark in an infringement analysis. "B-list" marks need not apply, since the act defines a famous mark as one that "is widely recognized by the general public."

Starbucks coffee made the cut. Cristal champagne, Mensa, App Store and, not surprisingly, Taxi-Wallet did not.

Visa, NYC Triathlon, Miss USA, America's Team, The Other White Meat and Hot Wheels are famous, according to recent cases.

Trade dress can be famous; the stitching pattern on the back pockets of Levi's jeans is a famous mark. The Hummer marks and trade dress are famous, as is the Hershey's chocolate bar packaging and the Burberry checked pattern.

Put most succinctly, the mark must be a "household name." The concept of fame in a niche market, judicially created under the original act, is long gone.

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National brand prominence, level of consumer recognition, advertising reach and spending and sales volume are all types of evidence that have sustained a finding that a mark was eligible for protection from dilution under the federal act.

Extensive media coverage, commercial success and relentless customer service have proven persuasive, but broad incidental media coverage, opinions of industry commentators and provincial bias have not swayed courts. Survey evidence is not required, but helpful.

Tracking studies that are routinely performed for business reasons apart from litigation are also useful support for brand recognition and fame.

Even if a brand owner is confident that its mark was famous before the defendant's accused conduct began, an early consideration is whether the potential defendant slips into one of the statutory exclusions.

Any noncommercial use of a mark is outside the TDRA's reach. Also specifically excluded are news reporting and commentary. The TDRA carves out safe territory for fair use, that is, use other than as a designation of source for the person's own goods or services. Categories of fair use include comparative advertising, parody, criticism and commentary on the famous mark's owner or the branded goods or services.

Thus, as a practical matter, many unwel-come uses of a brand owner's mark fall into one of the exclusions, and proper classification of the prospective defendant's use may rule out dilution as a possible cause of action from the outset.

Finally, the potential plaintiff must demonstrate that the defendant's use of its famous mark is likely to impair the distinctiveness of that mark. As described above, the TDRA provides six non-exclusive factors.

The author of a leading treatise is harshly critical of the list of factors, characterizing it as "both incomplete and misleading because none of the factors directs attention to the crucial issue: is there a likelihood that this defendant's mark 'impairs the distinctiveness of the famous mark?'"

As the decisional law develops, a dilution plaintiff would be well advised to focus on the critical task of proving the defendant's conduct harms the distinctiveness of its famous mark. Courts have demonstrated a reluctance to allow the law of dilution to mutate into a sufficiently powerful weapon to eliminate all unauthorized uses of a famous mark.

Under the TDRA, it is not enough to show that a famous mark, or a mark that is similar to it, is being used without authorization. Instead, the question is whether the public would have a different impression of the famous mark after encountering the defendant's mark.

According to some courts, since survey evidence is not mandatory, a plaintiff may rely entirely on the characteristics of the marks at issue.

Given the conceptual vagueness of dilution, however, it would be a rare case that could be confidently tried without empirical evidence on the issue of how the defendant's conduct has affected the consumer's impression of the plaintiff's mark and its goods or services.

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A brand owner who feels any unauthorized use of its famous mark is harmful and a violation of its rights will not find solace with a claim for dilution. This was essentially the plaintiff's position in a case against the seller of Chewy Vuitton dog chew toys that imitated the look of luxury brand Louis Vuitton bags. Dilution does not go that far, though.

A mental connection reinforcing the strength of the famous mark's link with its owner is logically not an "association that impairs the distinctiveness" of the mark as proscribed by the act.

Parody trademarks that do not escape the reach of the statute through an exception may nonetheless enhance the iconic status of the famous mark rather than dilute the mark's significance, in the view of some courts.

Apparently these courts are more inclined to enjoy a play on words than the Trademark Trial and Appeal Board panels, which recently ruled that Crackberry is likely to dilute Blackberry, and Jesu Do It is likely to dilute Just Do It.

Dilution jurisprudence is in flux at a time when the licensing of famous names is so extensive and reaches such a broad array of completely unrelated goods that it seems as though no type of product or service is immune from being branded with a highly recognized mark, regardless of how remote from the core business of the famous mark's owner.

Entertainment content is saturated with famous marks. Owners of big brands engage in highly visible enforcement campaigns against unauthorized users. In this environment, where a consumer likely expects that if a famous mark appears on anything, it must be with the blessing of the brand owner, it will be increasingly difficult to rationalize a difference between the concept of confusion as to source or affiliation and the idea of dilution by blurring.

The distinction between the doctrines is not aided by the TDRA's list of factors and its abandonment of the requirement that the parties' marks be identical. The good news is that if a plaintiff can show its brand is so powerful that the public assumes anything bearing the mark must be authorized by the brand owner, it has a well-recognized recourse: a suit for trademark infringement.

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