The 'trade-mark-law-and-innovation' trap: why it would be wise to conceptualize innovation outside the realms of dilution protection

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1. Introduction

Trade mark protection against dilution is a controversial subject.[1] Unlike the traditional action which seeks to prevent consumer confusion when a sign similar or identical to a registered trade mark is used on similar or identical goods, dilution provisions apply against uses on dissimilar goods.[2] Moreover, under EU trade mark law, dilution protection is available for trade marks with a reputation against three types of negative consequences: unfair exploitation of the reputation or distinctiveness of the trade mark (ie free-riding), harm to its distinctiveness (ie blurring) or harm to its reputation (ie tarnishment),[3]

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Abstract

- Over the years, the policy underpinnings of trade mark protection against dilution have been severely challenged. In an attempt to find new justifications for dilution protection, policymakers, courts and international organizations have laid their eyes on the relation between trade marks, brand value and innovation. More specifically, they suggest that trade mark rights are both benchmarks and drivers of innovation.
- This contention however is as appealing as it can be deceiving. Drawing on the recent scholarship concerned with the relation between trade marks, brands and innovation, the article raises some questions with respect to the 'dark side' of innovation as conceptualized in the realms of trade mark law. Furthermore, the article challenges the relationship between brand value and innovation by way of scrutinizing the methodology adopted by the World Intellectual Property Organisation in gauging innovation and brand value.
- The conclusion argues that since brands can be used anticompetitively or for promoting the 'wrong' type of innovation, scepticism is required in construing and applying dilution law guided by the 'trade mark law and innovation' paradigm. Otherwise, the protection afforded to trade marks with reputation risks becoming a Trojan horse that will eventually undermine the purposes for which it was adopted.

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1 Hazel Carty, 'Do Marks with a Reputation Merit Special Protection' (1997) 19(12) EIPR 684, 687; Michael Spence, 'Section 10 of the Trade Marks Act 1994: Is There Really a Logical Lapse?' (2001) 23(9) EIPR 423; Martin Senftleben, 'The Trademark Tower of Babel—Dilution Concepts in International, US and EC Trademark Law' (2009) 40(1) IIC 46; Sandra L Rierson, 'The Myth and Reality of Dilution' (2012) 11 Duke Law & Technology Review 212; Ilanah Simon Fhima, *Trade Mark Dilution in Europe and the United States* (OUP 2011) 2; Jeremy N Sheff, 'Finding Dilution' in Graeme B Dinwoodie and Mark D Janis (eds) *Trademark Law and Theory II: Reform of Trademark Law* (Edward Elgar 2020).

2 Articles 5(2) and 10(2)(c) Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States relating to trade marks [2015] OJ L 336/1 (Recast Directive); Articles 8(5) and 9(c) Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union trade mark [2017] OJ L 154/1 (EUTMR); Sections 5(3) and 10(3) Trade Marks Act 1994.

3 Ibid.

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none of which require consumer confusion.[4] In practice, dilution infringement claims are allowed on the basis of logical deductions rather than actual proof of dilution.[5] Although dilution protection has long been characterized as offering broad protection,[6] the normative justification for granting extended rights to owners of trade marks with reputation represents 'an unresolved question of trade mark law to this day'.[7]

Recently, an argument based on the relationship between trade marks, brand value and innovation has emerged in the trade mark law discourse.[8] To this end, the European Commission (Commission), the Court of Justice of the European Union (CJEU) and the World Intellectual Property Organisation (WIPO), amongst others, suggest that trade mark rights are both benchmarks and drivers of innovation.

At first glance, the innovation-based arguments employed by the Commission, the CJEU or WIPO are not explicitly seeking to justify the extra protection granted by trade mark law to marks having a reputation. However, the logic behind these contentions considers the way in which trade marks operate in the market in their 'brand incarnation'[9] rather than when they are conceptualized as mere source indicators. Thus, as I will discuss in more detail in Section 2 below, the CJEU has acknowledged the role of trade mark law in stimulating investments in product quality 'particularly in sectors which rely heavily on brands and customers' brand loyalty'.[10] Additionally, when explaining the aims of trade mark protection, Advocate General (AG) Bobek purported that '[I]t allows traders to position their goods or services in the minds of consumers by associating quality, innovation or other features with a specific brand image'.[11] It follows that the trade-mark-law-and-innovation paradigm is based on the arguably positive impact that the preservation of a mark's image, prestige or attractiveness has on innovation and product improvement. This type of trade mark protection however rests within the remit of the dilution provisions, which provide a course of action to owners of reputable trade marks against blurring, tarnishment or free-riding rather than protecting against consumer confusion. This explains why, in refuting the idea that innovation could or should be used as justification for trade mark protection or the expansion of this protection, I shall rely on the framework provided by the provisions against dilution.

To this end, Section 2 clarifies why the conventional justifications for protection against trade mark dilution are increasingly challenged and introduces the trade-mark-law-and-innovation paradigm. Section 3 provides examples of the potentially undesirable effects of innovative branding practices and highlights the lack of precision in using innovation-related terminology in the trade mark law discourse. Section 4 critically analyses the soundness of the branding and innovation paradigm considering *inter alia* recent empirical research seeking to capture the effects of US dilution law on firms' investments in improving product quality and innovation.[12] Section 5 aims to demonstrate how disconnected the concepts of brand value and innovation are by way of scrutinizing the methodology adopted by WIPO in its 2020 Global Innovation Index Report. Because trade marks can be used anticompetitively or for promoting the 'wrong' type of innovations, the conclusion is that scepticism is required in applying dilution law guided by the 'trade-mark-law-and-innovation' paradigm. Otherwise, the risk is that protection afforded to trade marks with reputation becomes a Trojan horse that will eventually undermine the purposes for which it was adopted, that is: to provide accurate information to consumers and to foster consumer choice.

2. Setting the scene

2.1 Traditional trade mark law justifications and their challenges

Although there are several theories that seek to justify trade mark law, the economic argument proposed by

4 Case C-408/01 *Adidas-Salomon AG v Fitnessworld Trading Ltd* [2003] I—12558 [31].

5 Case C-383/12 P *Environmental Manufacturing v OHIM* [2013] ECLI:EU:C:2013:741 [42].

6 Gustavo Ghidini, *Rethinking Intellectual Property—Balancing Conflicts of Interest in the Constitutional Paradigm* (Edward Elgar 2018) 302.

7 Annette Kur and Martin Senftleben, *European Trade Mark Law. A Commentary* (OUP 2017) 16.

8 Michal Bohaczewski, *Special Protection of Trade Marks with a Reputation under European Union Law* (Wolters Kluwer 2020) 223; Tish Berard, 'Embracing Evolving Opportunities for Brand Owners and the Trade Mark Community' in Global Legal Group, *The International Comparative Legal Guide to Trade Marks 2018* (7th edn, Ashford Colour Press 2018) 4; Neil Wilkof, 'Branding, Co-Branding and Innovation: Expectations and Limitations' (2018) 13 *JIPLP* 611; Dev Gangjee, 'Trade Marks and Innovation?' in Graeme B Dinwoodie and Mark D Janis (eds) *Trademark Law and Theory II: Reform of Trademark Law* (Edward Elgar 2020); Tim Oliver Brexendorf and others, 'Understanding The Interplay Between Brand and Innovation Management: Findings and Future Research Directions' (2015) 43 Journal of the Academy of Marketing Science 548; Ansgar Ohly, 'Free-Riding on the Repute of Trade Marks: Does Protection Generate Innovation?' in Josef Drexl and Anselm Kamperman Sanders (eds) *The Innovation Society and Intellectual Property* (Edward Elgar 2019) 146.

9 Gangjee (n 8) 223.

10 Case C-207/15 P *Nissan Jidosha KK v EUIPO* [2016] ECLI:EU:C:2016:465 [22].

11 Case C-240/18 P *Constantin Film Produktion GmbH v European Union Intellectual Property Office* [2019] ECLI:EU:C:2019:553, Opinion of AG Bobek [62].

12 Davidson Heath and Christopher Mace, 'The Strategic Effects of Trade Mark Protection' (2020) 33 *The Review of Financial Studies* 1848.

Landes and Posner has gained most traction.[13] According to Landes and Posner, trade marks are beneficial to society because they reduce the 'search costs' that consumers would incur at a higher rate if trade marks would not exist.[14] To this end, trade marks allow consumers to retrieve from memory useful information in a more efficient way, thus replacing consumers' need to spend additional time reading the label or making a test purchase.[15] Even if consumers are required to pay a premium for branded goods, this premium is arguably lower on average than the cost of searching for information.[16] At the same time, proponents of this theory posit that 'a firm with a valuable trademark will be reluctant to lower the quality of its brand because it would suffer a capital loss on its investment in the trademark'.[17] Furthermore, Landes and Posner explain that the informational capital of the trade mark can only be preserved if other traders are enjoined from using a similar sign; otherwise, consumers would be deceived by the junior use and thus the informational capital would be destroyed.[18]

In addition, trade marks' informational capital could be arguably destroyed if the mark's distinctiveness is whittled away even when consumers are not confused as to the origin of goods. Kratzke argues that, if multiple sellers are using the same sign to 'convey conflicting informational and identificatory messages, the mark loses value as a transmitter of informational and identificatory messages'.[19] For consumers this means that additional 'mental time and effort would be required to associate the name with a particular product'.[20] According to Landes and Posner this will evidently impose a cost on the trade mark owner.[21] Furthermore, consumers too 'would incur the "cost" of having to filter from their minds a wide variety of different uses of the same trademark'.[22] A similar cost is assumed in tarnishment cases where the trade mark owner is said to experience 'a negative premium [which] is particularly high because […] the association is hateful or offensive'.[23] In addition, protecting trade marks against tarnishment is also justified by the idea that consumers' choices and the way consumers express themselves are facilitated when the image of the mark is preserved.[24]

To reach this conclusion, Dilbary contends that when consumers make a purchase they buy 'a physical product, information about the physical product, and an intangible product such as fame, prestige, peace of mind or a pleasant feeling'.[25] As Assaf has astutely remarked, this conceptualization of trade marks has more to do with magic than with the law: '[J]ust like churinga makes a sick person feel better, brings courage and power, so too brands may bring a feeling of exclusivity, self-confidence, and even make one happier'.[26] Accordingly, in order for trade marks to be able to maintain their initial associations and not impose additional costs on trade mark owners and consumers, protection against blurring and tarnishment is required.[27]

Despite the apparent attractiveness of the economic arguments in favour of dilution law, some of the assumptions underpinning Landes and Posner's economic model have been severely challenged.[28] From an empirical point of view, recent studies have shown that any additional mental time spent by consumers in identifying goods and services is not necessarily the consequence of other third parties using similar signs. Rather, this delay may be attributed to the way in which the human brain functions and responds to stimuli.[29] Other studies have shown that associating a known brand with potentially tarnishing

13 William Cornish and others, *Intellectual Property:* Patents, *Copyright, Trade Marks and Allied Right*s (9th edn Sweet & Maxwell 2019) Ch. 16–022; Lionel Bently and others, *Intellectual Property Law* (5th edn OUP 2018) 853; Tanya Aplin and Jennifer Davis, *Intellectual Property Law: Text, Cases, and Materials* (3rd edn OUP 2017) 356; William P Kratzke, 'Normative Economic Analysis of Trademark Law' (1991) 21 *University of Memphis Law Review* 202; Robert G Bone, 'Enforcement Costs And Trademark Puzzles' (2004) 90 *Virginia Law Review* 2099; Mark P McKenna, 'The Normative Foundations of Trademark Law' (2013) 82 *Notre Dame L.Rev.* 1839, 1884. Other commentators, while accepting the narrative that trade marks are desirable to reduce consumers' search costs, have argued that this is not the ultimate goal of trade mark law. See Stacey L Dogan and Mark A Lemley, 'A Search-Costs Theory of Limiting Doctrines in Trademark Law' (2007) 97 *TMR* 1223, 1224.

14 William M Landes and Richard A Posner, *The Economic Structure of Intellectual Property Law* (Harvard University Press 2003) 168.

15 Ibid 167.

16 Graeme W Austin, 'Tolerating Confusion About Confusion: Trademark Policies and Fair Use' (2004) 50 *Ariz.L.Rev*. 157, 162.

17 Landes and Posner (n 14) 168.

18 Ibid.

19 Kratzke (n 13) 205; Landes and Posner (n 14) 207.

20 Landes and Posner (n 14) 207.

21 Ibid.

22 Austin (n 16) 159.

23 Landes and Posner (n 14) 207.

24 Shahar J Dilbary, 'Famous Trademarks and the Rational Basis for Protecting "Irrational Beliefs"' (2006) John M. Olin Program in Law and Economics Working Paper No. 285. Available at https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=1206&context=law_and_economics (accessed 7 June 2022).

25 Dilbary (n 24) 3.

26 Katya Assaf, 'Magical Thinking in Trademark Law' (2012) 37 *Law and Social Enquiry* 595, 617.

27 Kratzke (n 13) 206; Landes and Posner (n 14) 207; Rierson (n 1) 235.

28 Rebeca Tushnet, 'Gone in 60 miliseconds. Trade Mark Law and Cognitive Science' (2008) 86 *Tex.L.Rev.* 507; Barton Beebe and others, 'Testing for Trademark Dilution in Court and the Lab' (2019) 86 *U.Chi.L.Rev.* 611; Rierson (n 1); Christopher Buccafusco and others, 'Testing Tarnishment in Trademark and Copyright Law: The Effect of Pornographic Versions of Protected Marks and Works' (2017) 94 *Wash.U.L.Rev.* 341.

29 Beebe and others (n 28) 646. Cf. Chris Pullig and others, 'Brand Dilution: When Do New Brands Hurt Existing Brands?' (2006) 70 *Journal of Marketing* 52 and Maureen Morrin and Jacob Jacoby, 'Trademark Dilution: Empirical Measures for an Elusive Concept' (2000) 19 *Journal of Public Policy & Marketing* 265. However, the studies by Pullig et al and Morrin and Jacoby did not control the surprise factor when measuring subjects' response time, therefore their results must be treated with caution.

messages or goods and services does not make consumers change their views of that brand.[30]

When it comes to justifying free-riding, Landes and Posner move away from the 'search costs' wisdom. Instead, they use a two-tier economic explanation that in their own words 'has not yet gained a foothold in the case law'.[31] They argue that 'the benefits of its investment in creating a famous name would be more completely internalized and the amount of investing in creating prestigious names would rise'.[32] Internalization of advertising costs in this context means that famous trade mark owners would be able to charge royalties from those seeking to use an identical sign so that they can keep investing in advertising. However, as correctly pointed out by Fhima and Jacob, this argument presupposes that investment in trade marks by way of advertising is desirable.[33]

The assumption that advertising is inherently good or a socially desirable activity that should be incentivized has been rightly challenged on the basis that it creates artificial product differentiation,[34] can hinder consumer agency[35] (as will be discussed in more detail in Section 3 below), and it has the potential to inhibit competition in the marketplace.[36] With respect to the latter, Chamberlin explains that '[A]dvertising increases a seller's market by spreading information (or misinformation) on the basis of which buyers' choices as to the means of satisfying their wants are altered'.[37] In a similar vein, the Organisation for Economic Co-operation and Development Competition (OECD), in its 2005 competition policy report (OECD Report), cautioned that product differentiation and advertising could constitute barriers to entry.[38] The OECD Report explains that when customers are 'loyal to certain brands, customers are less likely to be willing to try a new brand'.[39] Thus, new entrants need to 'invest in promotional pricing or in their own advertising campaigns (or both) to induce customers to buy their products'.[40] The OCED Report further emphasizes that '[I]n some markets, the perceived risk may be so high that customers will be virtually unwilling to try a new product at any price until several other major customers try it first, making profitable entry extremely difficult'.[41]

Another category of criticism that calls into question the societal benefit of advertising argues that advertising and promotional costs can be wasteful activities if there is no actual 'increase in productivity and welfare'[42] stemming from these activities. For example, informative advertising can solve information asymmetries and so it can lead to favourable outcomes for consumers. However, as Brown points out 'persuasive advertising is, for the community as a whole, just a luxurious exercise in talking ourselves into spending our incomes'.[43] Therefore, it is difficult to justify a public interest in incentivizing advertising through trade mark law beyond the need to provide consumers with relevant information about goods and services. In this context, it is this author's opinion that trade mark law should not be rationalized on normative goals that are likely to hinder competition in the market[44] or objectives which only partially serve a public interest.

The second string of Landes and Posner's argument is that prohibiting free-riding is necessary in order to stop the production of cheap copies of products 'that tell the world that they [the purchasers of the original goods] are people of refined or flamboyant taste or high income'.[45] Arguably, if cheap copies are allowed and permitted by trade mark law, 'the signal given out by the purchasers of the originals is blurred'.[46] In this scenario, trade mark law works as a tool for promoting competition in the market of the original products and as an instrument that sanctions the behaviour of impudent consumers who want to pass off as wealthy.[47] Jacob LJ pointed out that in this scenario, 'poor consumers are the losers. […] Yet they are denied their right to receive information which would

30 Buccafusco and others (n 28) 391; Christo Boshoff, 'The Lady Doth Protest Too Much: A Neurophysiological Perspective on Brand Tarnishment' (2016) 25 *Journal of Product & Brand Management* 196, 204. Cf. Suneal Bedi and David Reibstein, 'Measuring Trademark Dilution by Tarnishment' (2020) 95(3) Ind.L.J. 648.

31 Landes and Posner (n 14) 207.

32 Ibid 208.

33 Ilanah Simon Fhima and Sir Robin Jacob, 'Unfair Advantage Law in the European Union' in Daniel R Bereskin (ed), *International Trademark Dilution* (Thomson Reuters 2018) 266.

34 Brown posited that '[T]he result of successful differentiation is higher prices than would otherwise prevail'. See Ralph S Brown Jr, 'Advertising and the Public Interest: Legal Protection of Trade Symbols' (1948) 57 Yale L.J. 1165, 1186.

35 Competition and Markets Authority, 'Online Platforms and Digital Advertising Market Study Final Report' (1 July 2020). Available at https://assets.publishing.service.gov.uk/media/5fa557668fa8f5788db46efc/Final_report_Digital_ALT_TEXT.pdf (accessed 7 June 2022).

36 Jessica Litman, 'Breakfast with Batman: The Public Interest in the Advertising Age' (1996) *The Yale Journal* 1717, 108(7): 1729.

37 Edward Hastings Chamberlin, *The Theory of Monopolistic Competition: A Re-orientation of the Theory of Value* (OUP 1949) 118.

38 OECD, 'Roundtable on Barriers to Entry' (6 March 2006) (DAF/COMP(2005)42). Available at https://www.oecd.org/daf/competition/abuse/36344429.pdf (accessed 7 June 2022).

39 Ibid 37.

40 Ibid.

41 Ibid 31.

42 Litman (n 36) 1725.

43 Brown (n 34) 1186.

44 Recital 3 of the EUTMR provides that the creation of a harmonious internal market entails not only a removal of the barriers to free movement of goods and services but also the adoption of measures 'which ensure that competition is not distorted'.

45 Landes and Posner (n 14) 208.

46 Ibid 209.

47 Landes and Posner (n 14) 209.

give them a little bit of pleasure; the ability to buy a product for a euro or so which they know smells like a famous perfume'.[48]

The morality of using trade mark law to ban low-cost versions of items which only the wealthy 'should' be able to afford will escape many of us, perhaps. It may seem that dilution law, by prohibiting the sale of goods having the look and feel of more expensive or luxurious items, is achieving a type of class discrimination. Obvious parallels can be drawn to the anachronistic practice dating back to the 14th-century when European noblemen regulated the circulation of luxurious attire so as to distinguish themselves from the 'upstarts' that were the nouveau riche.[49] As Beebe rightly concludes, this sort of rationale accepted in trade mark law discourse is proof 'of courts' essentially normative commitment to policing the sumptuary code'.[50]

A similar practice, originating in 17th-century North America and exhibiting deeper social injustices, is exposed by Virginia DeJohn Anderson in her work on the colonizing process that took place in the New England and the Chesapeake regions.[51] DeJohn Anderson describes how the legislatures of Rhode Island, Plymouth and Massachusetts passed laws between 1666 and 1672 that prohibited the indigenous population from ear-marking their livestock.[52] DeJohn Anderson explains that this prohibition was aimed at preventing the indigenous population from participating in the economic life of the region and sought to 'render Indian animals vulnerable to unscrupulous colonists who merely had to mark the creatures' uncut ears and claim possession'.[53] The parallels between trade mark law's exclusionary mentality and these reprehensible practices of the past again call not only the legitimacy of the reasons underpinning the ban on free-riding into question but also the social consequences that this approach may trigger in today's society.

In 2006, Croghan et al investigated whether the way in which 'working class' young people (aged between 11 and 18 years) construct their identities is related to their consumption habits.[54] Their research revealed that '[C]heap versions of designer goods were seen as a sign of style error'.[55] What is even more worrying is that the authors found that the 'ability to maintain a style identity that other young people accepted as authentic could mean the difference between being popular and being socially ostracized, or bullied'.[56] This research suggests that the 'exclusivist' mentality which the law against dilution operates and promotes by characterizing affordable versions of otherwise expensive products as something 'bad' or 'undesirable', may sometimes have deeper social consequences. Given the well-founded criticism of the assumptions which underpin Landes and Posner's economic model, as well as the classism that underpins the economic arguments in favour of free-riding, it is understandable why scholars, policymakers and courts are struggling to find a more convincing and 'socially-positive' explanation in support of dilution protection.

2.2 The trade-mark-law-and-innovation paradigm

The alternative justification that has recently emerged in the trade mark law discourse is concerned with the relationship between trade marks and innovation. Bohaczewski argues that '[F]rom an economic point of view, it is agreed that trade marks are used to promote innovation and business investment'.[57] The Commission in the Explanatory Memorandum to the Proposal for the Recast Trade Mark Directive, emphasized that trade marks allow businesses to 'attract and retain customer loyalty and create value and growth'.[58] Additionally, the Commission suggested that '[T]he mark works in this case as an engine of innovation: the necessity to keep it relevant promotes investments in R&D, which leads in turn to a continuous process of product improvement and development'.[59]

AG Maduro's Opinion in *Google France* advanced the idea that trade marks incentivize innovation:

> A trade mark protects the investment that the trade mark proprietor has made in the good or service associated with it and, in so doing, creates economic incentives for further innovation and investment innovation. The other functions of the

48 *L'Oreal SA & Ors v Bellure NV & Ors* [2010] EWCA Civ 535 [14].

49 Landes and Posner (n 14) 209; Barbara W Tuchman (Barbara Wertheim), *A Distant Mirror: The Calamitous Fourteenth Century* (2nd edn Papermac 1989).

50 Barton Beebe, 'Intellectual Property Law and the Sumptuary Code' (2010) 123(4) HLR 810, 855.

51 Virginia DeJohn Anderson, *Creatures of Empire: How Domestic Animals Transformed Early America* (OUP 2004) 218.

52 Ibid.

53 Ibid.

54 Rosaleen Croghan and others, 'Style Failure: Consumption, Identity and Social Exclusion' (2006) 9 *Journal of Youth Studies* 463. Their study was based within fifteen 'mixed-gender state schools, with a predominantly working-class intake' in Birmingham, Oxford and Milton Keynes.

55 Ibid 469.

56 Ibid 470.

57 Bohaczewski (n 8) 223.

58 European Commission, 'Explanatory Memorandum Proposal for a Directive of the European Parliament and of the Council to Approximate the Laws of Member States relating to Trade Marks (Recast)' COM(2013)162 final, Available at https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0162:FIN:EN:PDF (accessed 7 June 2022).

59 Ibid.

trade mark, as named by the Court, relate to that promotion of innovation and investment.[60]

As foreshadowed in this article's introduction, AG Bobek's Opinion in *Constantin Films* similarly contends that trade mark protection 'allows traders to position their goods or services in the minds of consumers by associating quality, innovation or other features with a specific brand image'.[61] Likewise, a WIPO report in 2013 entitled 'Brands - Reputation and Image in the Global Marketplace' (WIPO Brands Report) suggests that:

> Branding is one of the ways that helps firms recover the investments they have made in innovating [...] [which] provides a further incentive for firms to continue investing in innovative activities.[62]

Furthermore, the WIPO Brands Report highlights that the idea of preserving the brand image is underpinned by a public interest. In this respect, the Report argues that in the long run 'diluting the image value of a brand may reduce the economic rents'[63] and thus 'may undermine investments in innovation, possibly rendering society worse off'.[64]

At first glance, supporting trade mark protection against dilution based upon innovation rationales might seem at odds with trade mark law's traditional justifications, discussed above. Nevertheless, Gangjee describes how the concept of innovation has a 'causal relevance for productivity and economic growth 'making it 'part of economic orthodoxy'.[65] To him, this explains why the idea that trade marks play a role in facilitating innovation 'resonates with policymakers, courts, and researchers across a range of disciplines'.[66]

Nonetheless, the conflation of trade mark law and innovation-related goals can be problematic in many ways. To this end, Ohly points out that trade marks can be obstacles to innovation in some cases because 'broad trade mark protection might divert resources from research and development to advertising'.[67] Along the same lines, Wilkof emphasizes that even if 'strong brands can reasonably be expected to be related to innovation, there is no certainty that the owners of such brands will seek to leverage their brands in the service of innovation'.[68]

Gangjee concludes that 'the incentivization of innovation cannot form the normative basis for justifying the current (or indeed, any future) shape of trade mark law'[69] on several well-founded arguments. First of all, he explains that 'trade mark law is consciously uncoupled from innovation' because the logic of trade mark law is to protect signs that provide important information to consumers rather than incentivizing the creation of trade marks.[70] Secondly, trade mark law lacks the same safeguards that patent law, for example, has (ie the patent term is set at a maximum of 20 years whereas trade mark rights can be perpetual) to ensure that trade marks which do not contribute to innovation, do not end up hindering innovation instead.[71] Next, Gangjee points out that the term 'innovation' is conceptualized differently in the realms of management studies and economics than in the sphere of IP laws where the threshold of what counts as innovative is higher.[72] Finally and perhaps most importantly, Gangjee highlights that the available empirical evidence fails to demonstrate a causal relationship between trade marks and innovation.[73]

This article continues the discussion started by the above-quoted authors who—rightfully in my view—criticize the idea of justifying or extending the protection against dilution on arguments related to the relationship between trade marks, brands and innovation. To this end, Section 3 below showcases certain objectionable digital advertising practices (uncovered by consumer protection watchdogs in the UK and Norway) which, in the realm of marketing, were considered 'innovative' branding activities. The purpose of this analysis is to emphasize the need to be sceptical that all conceptions of 'innovation' are 'good' because some innovations, such as those discussed in this subsection, can generate undesirable social consequences. Furthermore, this section expands on Gangjee's work with respect to the meaning of the 'innovation' within the business studies and economic fields and aims to explain what types of innovation deserve to be considered as such. Section 4 then elaborates on Ohly's arguments regarding the anti-innovation potential of branding activities fostered by dilution law.

60 Joined Cases C-236/08 to C-238/08 *Google France v Louis Vuitton et al* [2010] ECR I-2417, Opinion of AG Maduro [96].

61 *Constantin Film* (n 11) [62].

62 WIPO, 'World Intellectual Property Report: Brands – Reputation and Image in the Global Marketplace' (WIPO Publication No. 944E/2013). Available at https://www.wipo.int/edocs/pubdocs/en/intproperty/944/wipo_pub_944_2013.pdf (accessed 7 June 2022).

63 Ibid 95.

64 Ibid.

65 Gangjee (n 8) 223.

66 Ibid.

67 Ohly (n 8) 154.

68 Wilkof (n 8) 624.

69 Gangjee (n 8) 224.

70 Gangjee (n 8) 196–98.

71 Ibid 199.

72 Ibid 207.

73 Ibid 211.

It discusses the findings of empirical studies and the economic literature which have grappled with this specific issue. Finally, Section 5 raises a new argument that supports the view that there is no causal relationship between innovation, trade marks and brand value. It highlights how the methodology that WIPO has used to measure the quantum of innovation taking place in different countries is far removed from a conception of innovation that deserves to be encouraged.

3. The concept of innovation and its (mis)use in the context of trade mark law

3.1 The dark side of innovative branding

As discussed in subsection 2.2, above, the CJEU, policymakers and other trade mark law stakeholders invoke innovation in a way, which implies that innovation is something which is inherently good or beneficial to society. However, this conventional wisdom is called into doubt by certain recent examples of innovative branding activities implemented with the help of equally innovative technologies that have proved dangerous for consumers' agencies. Before delving into examine examples that expose the dark side of innovation, it might be helpful to briefly re-cap on the link between marketing, advertising, branding and trade mark law protection against dilution.

As noted in the literature, marks' communication, investment and advertising functions acknowledged by the CJEU in the context of interpreting the scope of dilution protection have brought the concept of 'registered trade mark' closer to the marketing concept of 'brand'.[74] In addition, the CJEU has further emphasized that the image of a trade mark is the result of 'the marketing effort expended by the owner of that mark'[75] such that other traders should not seek unjust benefit from the owner's efforts or undermine the image of the trade mark so created in any way. Therefore, trade mark protection against dilution represents the legal mechanism, which ensures that trade mark owners will be unfettered in reaping the benefits of their marketing efforts. However, the marketing efforts which a company may engage in involve a wide range of activities such as behavioural advertising, analytics, digital display advertising or segmentation.[76] With respect to the specific ways in which branding[77] can be induced, Meenaghan identifies that the use of advertising is 'central to the process by informing consumers of inherent product benefits and positioning the brand in the mind of the consumer'.[78]

Increasingly, innovative branding is linked to digital advertising practices focused on leveraging the power of artificial intelligence and consumer data.[79] Strictly speaking, 'digital advertising' refers to 'a message of persuasion (regarding products, services, and ideas) that interacts with consumers through digital media'.[80] Although there are various classifications of digital advertising, according to the OECD, the main categories are 'search advertising, display advertising and online video advertising'.[81] Subclasses of search advertising include 'content providers and social media platforms […], such as native advertising and user-generated ads, including "influencer" advertising'.[82]

One of the things that not only distinguishes the digital environment from traditional advertising but also makes it more appealing to advertisers is that the commercial message a brand conveys is rendered even more effective due to the use of technologies such as 'artificial intelligence (AI) and machine learning, […] coupled with the stores of personal data available'.[83] A recent investigation by the UK's Competition and Markets Authority (CMA) into online platforms and digital advertising (the 2020 CMA Report) concluded that consumers' personal data 'has a key role in digital advertising as it is an essential input used to provide targeted digital advertising to

74 Ilanah Simon Fhima, 'Trade mark law meets branding?' in Deven Desai and others (eds) *Brands, Competition Law and IP* (CUP 2015); Ghidini (n 6) 321; Dev Gangjee, 'Property in Brands: The Commodification of Conversation' in Helena R Howe and Jonathan Griffiths (eds), *Property Concepts in Intellectual Property Law* (CUP 2013).

75 Case C-487/07 *L'Oréal S.A. v Bellure N.V. and others* [2009] I-05185 [49].

76 American Marketing Association, 'Definitions of Marketing'. Available at https://www.ama.org/the-definition-of-marketing-what-is-marketing/ (accessed 7 June 2022).

77 Branding can be defined as a way of 'achieving and managing an identity'. See Wilson Bastos and Sidney J Levy, 'A History of the Concept of Branding: Practice and Theory' (2012) 4 *Journal of Historical Research in Marketing* 347, 360.

78 Tony Meenaghan, 'The Role of Advertising in Brand Image Development' (1995) 4 *Journal of Product & Brand Management* 23, 27.

79 V Kumar and others, 'Understanding the Role of Artificial Intelligence in Personalized Engagement Marketing' (2019) 61 *California Management Review* 135; Rosanna Passavanti and others, 'The Use of New Technologies for Corporate Marketing Communication in Luxury Retailing: Preliminary Findings' (2020) 23 *Qualitative Market Research* 503.

80 Heejun Lee and Chang-Hoan Cho, 'Digital Advertising: Present and Future Prospects' (2020) 39 *International Journal of Advertising* 332, 335.

81 OECD, 'Competition in Digital Advertising Markets'. Available at http://www.oecd.org/daf/competition/competition-in-digital-advertising-markets-2020.pdf (accessed 7 June 2022).

82 Ibid 13.

83 Ibid.

consumers and attribution services to advertisers'.[84] The 2020 CMA Report notes that personalized advertising represents a significant revenue flow for major platforms such as Facebook or Google.[85] Hence advertisers and publishers have significant impetus 'to maximise the volume of data they collect from their users by limiting consumer engagement and control'.[86] The CMA found that often times, data collection and processing by these platforms is performed with 'no or limited controls available to consumers'.[87] This is detrimental to consumers by 'undermining the very agency empowerment that is so important in the fight against online harms'.[88] Zuboff estimates that extracting consumer data at this scale and the intensification of competition on this level paves the way to a more insidious practice: firms' interference with 'our experience to shape our behaviour in ways that favour surveillance capitalists' commercial outcomes'.[89]

The 2020 Report of the Norwegian Consumer Council (2020 NCC Report) provides additional examples of harmful online advertising practices exacerbated by personal data collection which aim at enhancing the selling power of the trade mark. This report identifies several harms posed by advertising to 'consumers in vulnerable positions' such as rape victims or patients suffering from erectile dysfunction or HIV.[90] Targeting vulnerable Internet users was made possible via Google's real-time targeting technology, technology which purportedly has the advantage 'of reaching consumers at the exact "micro-moment" when the consumer is uniquely receptive because they need or want something'.[91] The 2020 NCC Report emphasized that this kind of technology which 'increase[s] the chances of influencing behaviour' is harmful because it is specifically 'designed to circumvent the defence mechanisms most of us passively employ when we see traditional advertising'.[92]

In addition, the use of artificial intelligence and data collection can also power discriminatory or even racist advert targeting.[93] The 2020 NCC Report found that Facebook permitted ad targeting for 'Jew haters' and provided audience segments based on proxies such as 'ethnic affinity', which enabled advertisers to exclude African-Americans from seeing certain housing ads.[94]

It follows that if trade mark law's normative goal will be expanded to include the incentivization of innovative branding practices, policymakers and courts need to be wary of submitting to any conventional wisdom purporting that these practices are inherently good or desirable.

3.2 The need to distinguish between various forms of innovation

A second category of criticism refers to the use of the term 'innovation' in the trade mark law discourse, a term which does not have a definition in the European trade mark law. As far as the research carried out for this article has been able to reveal, the meaning of 'innovation' has not been subject to an interpretation by the CJEU in any trade mark cases. However, the term 'innovation' is used in various ways by different actors as part of the trade mark law discourse without too much concern for its meaning. This seems problematic: in the absence of a definition of innovation it is difficult to understand what types of innovation European trade mark law is supposed to support and why.

For example, Christensen classifies innovation as belonging to three categories.[95] The author first distinguishes between 'empowering' innovations which 'transform complicated, costly products that previously had been available only to a few people, into simpler, cheaper products available to many' and 'sustaining' innovations which merely substitute old goods with new ones.[96] According to Christensen, each time a customer buys a new product manufactured following a process of sustaining innovation, the old product ceases to be sold. Thus, while empowering innovations serve a new market and create jobs in that market, sustaining innovations do not have the same effect on jobs.[97] Christensen's third category of innovations is that of 'efficiency' innovations which 'reduce the cost of making and distributing existing

84 Competition and Markets Authority, 'Online Platforms and Digital Advertising Market Study Final Report' (1 July 2020). Available at https://assets.publishing.service.gov.uk/media/5fa557668fa8f57 88db46efc/Final_report_Digital_ALT_TEXT.pdf (accessed 7 June 2022).

85 The 2020 CMA Report revealed that Google had more than 'a 90% share of the £7.3 billion search advertising market in UK, while Facebook has over 50% of the £5.5 billion display advertising market'. See Competition and Markets Authority (n 84).

86 Competition and Markets Authority (n 84).

87 Ibid.

88 Ibid.

89 Shoshana Zuboff, *The Age of Surveillance Capitalism* (Profile Books 2019) 19.

90 Norwegian Consumer Council, 'Out of Control. How Consumers are Exploited by the Online Advertising Industry' (14 January 2020). Available at https://fil.forbrukerradet.no/wp-content/uploads/2020/01/2020-01-14-out-of-control-final-version.pdf (accessed 7 June 2022).

91 Ibid.

92 Ibid.

93 Ibid.

94 Ibid.

95 Clayton Christensen, 'Christensen: We are living the capitalist's dilemma' (*CNN* 21 January 2013). Available at http://edition.cnn.com/2013/01/21/business/opinion-clayton-christensen/index.html (accessed 7 June 2022).

96 Ibid.

97 Ibid.

products and services [...]'.[98] While efficiency innovations do not have a positive impact on job creation, they do however 'emancipate capital for other uses'.[99]

Thus, given the different social implications which innovations might generate, from a policymaking perspective it is paramount to understand what category of innovation the Commission or WIPO are advocating for. As Davies in his paper examining how innovation policy experts conceptualize innovation explains, policymakers need 'to know the underlying logic of haphazard processes of discovery, in order that money can be better targeted towards economic goals'.[100]

The CJEU has provided some guidance as to what the term 'innovation' might mean in the realms of trade mark law in *Nissan Jidosha KK*.[101] The case concerned an appeal against the General Court's (GC) application of European trade mark law relating to trade mark renewals. More specifically, the GC gave a strict interpretation to Article 47(3) of the Council Regulation concerning community trade marks (ex-EUTMR) and considered that once a partial application for renewal had been submitted by Nissan within the deadline, a subsequent renewal application covering additional goods and services should not be allowed.[102] Nissan appealed before the Court of Justice. The Court of Justice, in construing the scope of Article 47(3), found it appropriate to elaborate on the objectives pursued by the Council Regulation. In this respect, the Court made express reference to the Commission's Communication on Boosting Creativity and Innovation[103] when it noted that 'the protection of brand equity stimulates investment in the quality of products and services, particularly in sectors which rely heavily on brands and customers' brand loyalty'.[104] Thus, the Court equated innovation with improvements in 'the quality of products and services' rather than innovative marketing or branding techniques.

The Court's conceptualization of innovation as product improvement and development overlaps to a certain extent with the definition in the Oslo Manual,[105] according to which innovation is: a 'new or improved product or process (or combination thereof) that differs significantly from the unit's previous products or processes and that has been made available to potential users (product) or brought into use by the unit (process)'.[106] The Oslo Manual also distinguishes between the concepts of 'innovation'—being a new or improved product or process—and 'innovation activities' such as marketing, brand equity and intellectual property-related activities.[107] The distinction between innovation and innovation activities lies in the fact that the former is perceived as an outcome, while the latter are only 'activities by which innovations come about'.[108] In this respect, the Oslo Manual suggests that '[F]or many companies only a small fraction of marketing expenditures is likely to be linked to product innovations'.[109] Thus, conceptualized through the lens of the Oslo Manual, innovation-related activities, including branding or trade mark registrations, are not innovation *per se*. Instead, as Wilkof explains, the relationship between brands and innovation can be seen as one of interdependency since '[M]ediated by the conduct of the consumer, brands can provide a direction for innovation, while brands are also supported by innovation'.[110]

In this respect, Brexendorf et al have identified three main ways in which the relationship between brands and innovations engenders innovative outcomes.[111] First, they argue that 'branding gives that strategic focus and guidance to the development of new product innovations by helping to identify brand potential, define brand boundaries and cohesiveness, and optimize brand timing and sequence of market entry'.[112] Next, brands can be used in order to 'support the introduction and adoption of innovation' by way of understanding and shaping consumer expectations with respect to the new product.[113] Finally, successful innovations can be leveraged in order

98 Ibid.

99 Ibid.

100 William Davies, 'Knowing the Unknowable: The Epistemological Authority of Innovation Policy Experts' (2011) 25 *Social Epistemology* 401, 404.

101 *Nissan* (n 10).

102 *Nissan* (n 10) [22].

103 Communication from the Commission, 'A Single Market for Intellectual Property Rights -Boosting creativity and innovation to provide economic growth, high-quality jobs and first-class products and services in Europe' (Brussels, 24.5.2011 COM (2011) 287 final).

104 *Nissan* (n 10) [54].

105 The Oslo Manual is an 'international reference guide for collecting and using data on innovation' published by the OECD and updated from time to time. It is one of the most widely used guides by policymakers for the measurement of scientific, technological and innovation activities. See OECD and Eurostat, 'Oslo Manual 2018: Guidelines for Collecting, Reporting and Using Data on Innovation' (4th edn, 2018 OECD Publishing). Available at https://www.oecd-ilibrary.org/docserver/9789264304604-en.pdf?expires=1628256751&id=id&accname=guest&checksum=8E19903154CA348DD72BBED0EA5444D4 (accessed 7 June 2022).

106 OSLO Manual (n 105) 20.

107 Ibid 35.

108 Ibid 86.

109 Ibid 88.

110 Wilkof (n 8) 618.

111 Brexendorf and others (n 8) 549.

112 Ibid.

113 Ibid 552.

to 'improve brand perceptions, attitude, and usage'.[114] Thus, in the model proposed by Brexendorf et al, brands can make a positive contribution to the innovative process or the dissemination of innovation *if* they relate to an innovative product in itself. In other words, innovative branding alone cannot create an innovative product or service.

Distinguishing between innovation (conceptualized as a new and improved product) and innovation activities (such as branding and trade marking) has several implications for the research aims of this article. First, it seems that when the Court and the Commission are explaining the role of trade mark law in fostering innovation, they have this in mind the narrower conception of innovation, ie, innovation seen as new and improved goods and services. This is why, in the next sections where the trade-mark-law-and-innovation paradigm will be challenged, I will consider the notion of innovation in its strict sense, namely product development and improvement.

Secondly, the CJEU's attempts to justify dilution on the basis that protecting brand equity incentivizes firms to further invest in innovation is questionable. Similarly, WIPO's suggestion that firms must be allowed to secure the return of their branding costs by way of economic rents if the investments in innovation that society needs are to be secured is without foundation. Furthermore, even if the notion of innovation outputs could be stretched to capture innovative marketing practices that make the marketing and sale of goods and services more efficient, such innovative practices might not always render society better off. As discussed above, innovative marketing techniques can sometimes have harmful effects for consumers.

Consequently, the proclamation of innovation as one of the normative goals of trade mark law is problematic as long as the boundaries of innovation are not clearly established. The main issue with using this concept loosely is that it can be used to justify extending the scope of trade mark law to offer legal protection to undesirable or non-innovative practices. Nonetheless, as not all branding innovations have harmful effects, it seems possible that trade mark law's application could be adapted so that it would only encourage improvements in the quality of goods and services and potentially new types of goods and services. Thus, a solution could be achieved if a narrow definition of innovation, such as the one proposed by the Oslo Manual would be adopted.

All this said, apart from the definitional discrepancies between the various conceptualizations of innovation in the trade mark law discourse and how economists perceive this notion, there are some additional concerns raised by the way in which the Commission, the CJEU and WIPO frame the relationship between trade marks and innovation. In this respect, the next section will provide examples and empirical evidence that contradict the pervading logic which argues that the granting of monopolistic rights invariably incentivizes companies to invest in product development and innovation.

4. Does brand protection incentivizes innovation?

As mentioned above, the normative argument in favour of the trade-mark-law-and-innovation paradigm suggests that companies that recover their branding costs will be incentivized to invest in innovation.[115] Arguably, this is something that needs to be actively pursued by the law since 'diluting the image value of a brand may reduce the economic rents' and thus 'may undermine investments in innovation, possibly rendering society worse off'.[116] According to WIPO: '[B]randing is one of the ways that helps firms recover the investments they have made in innovating'.[117] This in turn, 'provides a further incentive for firms to continue investing in innovative activities'.[118] At the same time, branding is seen as an activity that creates demand, loyalty and trust 'which in the future is said to offer 'another incentive for firms to continue producing innovative products'.[119]

Yet WIPO's explanations are difficult to reconcile with the scholarship that explores the relationship between firms' behaviour and their strategic use of intellectual property law from an economic perspective. For example, firms' strategic use of trade mark rights aimed at extending their monopolies past the expiration date of their patents is well documented in the literature.[120] Certain pharma companies leverage their trade mark rights against generic drug manufacturers in a way that induces 'consumers to artificially differentiate between bioequivalent branded and generic medications, leading to wasteful spending and even substantial morbidity'.[121] Additionally, they engage in 'evergreening' practices which are aimed

114 Ibid 553.

115 Opinion of AG Maduro (n 60) [96]; WIPO Brands Report (n 62) 95.

116 WIPO Brands Report (n 62) 95.

117 Ibid.

118 Ibid.

119 Ibid.

120 Jennifer Davis and Spyros Maniatis, 'Trade marks, Brands, and Competition' in Teresa da Silva Lopes and Paul Duguid (eds) *Trade marks, brands, and competitiveness* (Routledge 2010) 131; Gangjee (n 8) 203.

121 Hannah Brennan, 'The Cost of Confusion: The Paradox of Trademarked Pharmaceuticals' (2015) 22 *Mich. Telecomm. & Tech.L.Rev.* 1, 3.

at 'artificially extending the life of a patent or other exclusivity by obtaining additional protections to extend the monopoly period'.[122] Sometimes, pharmaceutical firms' desire to preserve their monopolies goes so far that they engage in anti-competitive agreements with generic manufacturers such as pay-for-delay arrangements.[123] Pay-for-delay arrangements occur when 'an originator of a branded drug agrees to pay a generic producer to settle or avoid litigation that may invalidate the originator's patent(s), in exchange for the generic's commitment not to compete with originator's drug for a period of time'.[124] This type of behaviour was recently sanctioned by the CJEU in *Lundbeck* where the Court found that generic drug manufacturers preferred to be compensated by Lundbeck in exchange of their contractual undertaking to not challenge the patent in suit and refrain from entering the market.[125]

Furthermore, according to Baumol 'at times the entrepreneur may even lead a parasitic existence that is actually damaging to the economy'.[126] To support this contention, Baumol gives the example of various US firms that—rather than focusing on strategies to enhance productivity—decided that a more efficient way to increase their profits was by filing frivolous lawsuits instead.[127] Along the same lines, Davis posits that '[…] trademark protection does not necessarily lead to more investments in innovative activities'.[128] Instead, she argues that: 'strong trademark production induces the firm to allocate more resources to strengthening the trademark per se – and thus fewer to investments in innovation – than otherwise would be the case'.[129]

Additionally, Bronnenberg et al argue that 'brands, advertising or other past experiences and social milieu, such as childhood, lead to "preference capital", which could be a valuable asset for incumbent firms and a source of long-term economic rents for them'.[130] It is indeed accepted that economic rents are compatible with competitive markets and thus they do not always lead to an increase in the price of goods.[131] Mazzucato et al explain that 'earning income from a short-term patent, might indeed be to some extent desirable as they can increase the incentive for innovation and investment'.[132] Nevertheless, the authors caution that if the duration of the monopoly right which allows a company to secure economic rents increases, 'then this becomes a burden for innovation in the form of high overhead costs for new innovators'.[133] Moreover, the authors explain that there are additional requirements, which must be met for patents to incentivize innovation.[134] More precisely, Mazzucato et al argue that patents need to be narrow as in 'limited to the downstream part of the innovation chain relevant to the new invention' and 'easily licensable'.[135]

If we were to apply Mazzucato et al's reasoning to the way in which trade mark rights protecting against dilutive acts function, the conclusion would be contrary to the logic cited by the Commission, WIPO and the CJEU. For example, trade mark rights (as opposed to patent rights) can be renewed in perpetuity, meaning that an essential precondition that creates the premise for economic rents to be an incentive for investments in innovation is not fulfilled. Next, the protection of trade marks with reputation against blurring, tarnishment and free-riding is the broadest form of trade mark protection since neither similarity of goods, nor a likelihood of confusion are required. Finally, trade mark protection against dilution is intended to ensure the market exclusivity of the reputed trade mark. For example, luxury brands such as Louis Vuitton, Hermès or Robert Clergerie are well-known for implementing a no-licencing policy.[136] Hence, the last two ingredients that are necessary for economic rents to stimulate investment in innovation are not met by the provisions protecting reputable trade marks against dilution.

Fortunately (or not) the above explanations are not mere theories as we will shortly learn. Heath and Mace have analysed the effects of the adoption of the Federal Trademark Dilution Act 1996 (FTDA) 'on product quality, innovation and product market strategy'[137] at the level of US firms. More precisely, their study considered the

122 Robin Feldman, 'May Your Drug Price Be Evergreen' (2018) 5 *JLB* 590, 591.

123 Case C-591/16 P *Lundbeck Ltd v Commission* [2021] ECLI:EU:C:2021:243.

124 Concurrences, Pay-for-delay. Available at https://www.concurrences.com/en/dictionary/pay-for-delay (accessed 7 June 2022).

125 *Lundbeck* (n 123) [135].

126 Mariana Mazzucato, *The Value of Everything* (Penguin Books 2019) 206 citing William J Baumol, *Entrepreneurship, Management and The Structure of Payoffs* (Cambridge Massachusetts 1994) 25.

127 Baumol (n 126) 25.

128 Lee Davis, 'How Do Trademarks Affect Firms' Incentives to Innovate?' (DIME IPR Conference, London, September 2006) 21.

129 Ibid.

130 Bart J Bronnenberg, Jean-Pierre H Dubé and Matthew Gentzkow, 'The Evolution of Brand Preferences: Evidence from Consumer Migration' (2012) 102 *The American Economic Review* 2472, 2473.

131 Mariana Mazzucato and others, 'Theorising and Mapping Modern Economic Rents' (2021) UCL Institute for Innovation and Public Purpose Research Paper 2020-13. Available at https://www.ucl.ac.uk/bartlett/public-purpose/sites/public-purpose/files/final_iipp-wp2020-13-theorising-and-mapping-modern-economic-rents_8_oct.pdf (accessed 7 June 2022).

132 Ibid 4.

133 Ibid.

134 Ibid 13.

135 Ibid.

136 Gerald Mazzalovo and Michel Chevalier, *Luxury Brand Management: A World of Privilege* (2nd edn Wiley 2012) Ch. 11.

137 Heath and Mace (n 12) 1856.

way both firms' expenses with product innovation and the quality of the these firms' products changed before and after the adoption of the FTDA, respectively during 1982 and 2005.[138] In order to assess the causal relationship between dilution protection and firms' profits and investments in product quality and innovation, the authors considered, inter alia, the number of product recalls, data on 'new product announcements gathered from newspapers or magazines',[139] as well as data on the number of patents obtained by the surveyed companies.[140]

Their findings showed that 'treated firms reduced R&D spending over assets by 0.32 pp following the FTDA'.[141] In addition, treated firms 'were 13% less likely to announce a major new product in the post-treatment period, with the number of new products announced showing a 24% decrease'.[142] Moreover, the Heath and Mace findings highlight that post-FTDA, there was a rise in treated firms' product recalls which suggests that the quality of treated firms' products dropped.[143]

The authors point out that although this increase in recalls may have been due to an overly-cautions attitude by the treated firms, in reality, this was not the case. To eliminate this alternative explanation, the researchers verified how many voluntary recalls were made by treated firms, and concluded that 'treated firms were slightly less likely to initiate a recall voluntarily'.[144] Another interesting finding is that 'post-FTDA treated firms reduced their ad spending slightly and registered slightly fewer new trademarks per year'.[145] Overall, their examination seems to 'suggest that firms responded to stronger trademark protection by pursuing a more exploitative and less innovative product-market strategy'.[146]

The above analysis suggests that while organizations such as WIPO promote the idea that the premiums paid by consumers for branded goods are financing research and development of innovative products, the reality, at least the one discussed in this article, looks a bit different. Furthermore, it seems that the safety net granted to companies by way of dilution law prompts behaviours contrary to the conventional wisdom advocated by WIPO. In this context, the CJEU's acceptance that preserving brand equity encourages investments in improved product quality, without distinguishing between idealized depictions of brand owners' behaviours and actual behaviour of firms, is questionable.

5. Trade marks and brands as innovation benchmarks

5.1 WIPO's global innovation index

The idea that innovative companies register more trade marks, or that they own marks of higher value is an interesting proposition. However, as it will be shown in this section, brand valuations based on trade mark counts that purport to measure the level of innovation in a firm do not consider the actual improvements or developments made by firms in new products or processes. To this end, and to try to fathom more comprehensively just how disconnected the concepts of brand value, trade mark registrations and innovation really are, it is necessary to scrutinize the methodology used by WIPO in assessing innovation.

For the analysis in this part, I selected WIPO's methodology in preparing the 2020 WIPO Global Innovation Index (2020 WIPO GII),[147] basing this choice on the significant role WIPO has in shaping the development of trade mark law, not only internationally but also at the European level.[148] Therefore, WIPO's vision with respect to the relationship between innovation, brand value and trade mark registrations is relevant in the context of examining the normative goals that could drive in the future the interpretation and application of the European trade mark law.

To this end, the conceptual framework of the 2020 WIPO GII uses two sub-indices to assess global economies' innovation levels.[149] These indices are the Innovation Input Sub-Index and the Innovation Output Sub-Index.[150] The Innovation Output Sub-Index is built around two outputs sub-pillars: knowledge and technology outputs and creative outputs. In turn, the creative output sub-pillar consists of intangible assets, creative goods and services and online creativity.[151]

138 Ibid.
139 Ibid.
140 Ibid.
141 Ibid 1865.
142 Ibid 1866.
143 Ibid 1862.
144 Ibid 1863.
145 Ibid 1870–71.
146 Ibid 1865.

147 As I will explain in detail, WIPO's Global Innovation Index considers trade mark registrations and brands' value as intangible assets related to innovation in pillar 7.1. See WIPO, 'Global Innovation Index 2020. Who Will Finance Innovation?' (3rd edn, 2020). Available at https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2020.pdf (accessed 7 June 2022).

148 In this respect, it should be noted that the EUIPO signed a joint work program with WIPO which arguably 'reflects a common vision on the fundamental role of IP'; EUIPO, 'WIPO-EUIPO meeting and signature of Joint Work Programme' (*EU Intellectual Property Network*, 9 February 2021). Available at https://euipo.europa.eu/ohimportal/en/news/-/action/view/8513192 (accessed 7 June 2022).

149 WIPO Global Innovation Index 2020 (n 147) 204.

150 Ibid.

151 Ibid.

The 'intangible assets' sub-pillar includes data on the number of trade mark applications 'by residents at the national office' and a new indicator that measures 'which economies have the most valuable brands'.[152] As I will show below, the qualification of these two indicators (ie the number of registered marks and the value of the brand) as innovation outputs is problematic and furthermore, contradicts the notion of 'innovation output' used by the Oslo Manual.

5.2 Lack of causality and other issues

Using trade mark registrations counts as indicators of innovation output is questionable considering that it has not been shown that there is a causal relationship between trade mark registrations and the degree of innovation in a company. The lack of a causal link derives indirectly from the examination of the Oslo Manual definition of innovation and has been confirmed in other studies and reports concerned with trade mark law. For example, the 2016 Intellectual Property Arrangements inquiry report by the Australian governmental Productivity Commission concluded that there was no empirical evidence demonstrating a causal link between trade mark use and innovation.[153] Rather, the report recounted that at best, 'some studies have found a weak association between the two'.[154] Similar examples of weak associations between trade marks and innovation have been found at the EU level as well. For example, a 2019 joint study by the EUIPO and the European Patent Office suggests that 'an SME is 1.13 times more likely to experience high growth if it has been filing trade marks in the previous period, and its likelihood of experiencing a positive turnover growth is up to 1.25 times higher'.[155]

However, these findings are not enough to support the proposition that the number of trade mark registrations owned is a direct indication of a company's level of innovation. As correctly emphasized by Flikkema et al, companies can choose to register trade marks for other reasons than for the promotion of innovative goods or services.[156] Conversely, trade mark registrations can be made 'to obtain meaningless or nil differentiation, for exchange reasons, to prolong other Intellectual Property Rights (IPRs), to leverage brand equity, to avoid trademark squatting, to pack product spaces, to control franchisees, to support low-risk entry in foreign markets, to enable ingredient marketing, to protect slogans, or for advertising purposes'.[157] Moreover, the Oslo Manual classifies trade marks data as an indicator capable of gauging innovation activities and not innovation outcomes.[158] Hence, trade mark registration counts are improperly qualified by WIPO's methodology as indicators of output innovation.

Next, qualifying brand value as innovation output is equally problematic. This indicator which measures 'which economies have the most valuable brands'[159] is calculated by adding up 'the values of all the top 5000 most valuable brands of each economy and then scales this brand value by GDP'.[160] Thus, according to the 2020 WIPO GII's methodology, the more valuable the brands originating in a specific jurisdiction are, the more points are scored by that jurisdiction's economy on the innovation scale.[161]

In assessing brands' value, the 2020 WIPO GII relied on the valuation and ranking provided by the 2020 Global 500 Report (Global 500 Report)[162] drafted by Brand Finance.[163] According to Brand Finance's methodology 'brand value' is defined as 'the value of the trade mark and associated IP marketing within the branded business'.[164] More specifically, the Global 500 Report claims that the brand's value reflects '[t]he net economic benefit that a licensor would achieve by licensing the brand in the open market'.[165] This method employed by Brand Finance for determining brand value which is said to comply with the international accounting standards ISO

152 Ibid 208.

153 Productivity Commission, *Intellectual Property Arrangements*, (Inquiry Report No. 78, 2016 Canberra) 376.

154 Ibid.

155 EUIPO and EPO, 'High-growth firms and intellectual property rights. IPR profile of high-potential SMEs in Europe' (May 2019) page 52. Available at http://documents.epo.org/projects/babylon/eponet.nsf/0/F59459A1E64B62F3C12583FC002FBD93/$FILE/high_growth_firms_study_en.pdf (accessed 7 June 2022).

156 Meindert Flikkemaa and others, 'Trademarks' Relatedness to Product and Service Innovation: A Branding Strategy Approach' (2019) 48 *Research Policy* 1340, 1341.

157 Citations omitted. See Flikkemaa and others (n 156) 1341.

158 OSLO Manual (n 105) 222.

159 WIPO Global Innovation Index 2020 (n 147) 208.

160 Ibid.

161 Ibid.

162 Ibid 360.

163 Brand Finance is a relatively well-known brand valuation consultancy firm whose evaluations are frequently cited or relied on by the European Patent Office and the EUIPO. See EUIPO and EPO, 'Intellectual property rights and firm performance in the European Union. Firm-level analysis report' (February 2021) page 17. Available at https://euipo.europa.eu/tunnel-web/secure/webdav/guest/document_library/observatory/documents/reports/IPContributionStudy/IPR_firm_performance_in_EU/2021_IP_Rights_and_firm_performance_in_the_EU_en.pdf (accessed 7 June 2022).

164 Brand Finance, 'Global 500. The Annual Report on The World's Most Valuable and Strongest Brands' (January 2020). Available at https://brandirectory.com/download-report/brand-finance-global-500-2020-preview.pdf (accessed 7 June 2022).

165 Ibid.

10668:2010[166] is based on the following metrics: brand royalty rate, brand strength index (calculated 'using a balanced scorecard of metrics assessing marketing investment, stakeholder equity, and business performance')[167] and brand revenues.[168] I will refer to each of these in turn.

The brand royalty rate, according to the Brand Valuation ISO Standard, is:

> '[t]he value of the brand as the present value of expected future royalty payments, assuming that the brand is not owned but licensed. The value calculated through the royalty relief method thus constitutes the present value of the royalty payments saved through the ownership of the brand'.[169]

Hence, for the calculation of the royalty rate 'data from licensing arrangements for comparable brands and an appropriate split of brand earnings between licensor and licensee'[170] must be considered. The methodology laid down by the ISO Standard does not seem a direct measure of the improvements generated by the products or services sold under a specific brand. Conversely, what this metric gauges is either the licensing potential of the mark or the savings that the company is making by way of owning a brand rather than licensing it.

Innovation appears in Brand Finance's methodology as a metric considered for determining 'stakeholder equity'[171] which along with marketing investment and business performance, are in turn considered for the calculation of the brand strength index.[172] However, the publicly available methodology of the Global 500 Report does not explicitly show how innovation impacts upon the value of the brand strength index. Furthermore, the term 'innovation' is not defined in the Global 500 Report thus casting doubt on whether Brand Finance uses the term in the Oslo Manual sense or in a different, broader sense. It seems therefore that the value of a brand, assessed according to the methodology endorsed by the WIPO, does not represent a direct measure of innovation. Instead, the brand value reflects the rent-seeking potential of the brand, which, as shown above is not necessarily linked to how innovative the products or services of the brand are.

It follows that there are some discrepancies between the Oslo Manual conceptualization of innovation and the way in which WIPO's methodology qualifies trade mark registrations and brand value as proxies of innovation outputs. This finding is not without consequences for the application of trade mark law protection against dilution. More specifically, if the CJEU can be persuaded that a broader notion of innovation must be considered when applying trade mark law, one then sees the potential of a brand to generate revenue from licensing as an innovative practice *per se*. In turn, this would lead to a further and undesirable expansion of the scope of dilution protection.

6. Concluding remarks

The obsession with innovation is now pervasive, reaching far beyond those sectors which are traditionally linked to technology advancements, and spreading to areas, including higher education, which at first glance are not required to meet any innovation-related standards. This shift can be conceptualized as either good or bad depending on the policy that justifies it and the type of innovation, which is expected in any particular area, because, as this article has hopefully shown, the concept of innovation is neither a fixed nor a neutral one.

The discussion above has revealed that trade mark law policymakers and other stakeholders involved in the development and application of trade mark law have an inaccurate, or at best, a wishful-thinking-type understanding of how innovation comes about, its purported all-encompassing positive effects and its relationship with trade mark law. In explaining why what I have called the trade-mark-law-and-innovation paradigm might serve to fill a gap, I have exposed the shortcomings in the standard justifications of anti-dilution protection and in the references to 'innovation' in CJEU jurisprudence. The Oslo definition which distinguishes between 'innovation outputs' and 'innovation activities' is a helpful tool in understanding this concept, in contrast to the misguided approaches to innovation advocated by the Commission, the CJEU and WIPO. This latter observation is troubling since the conversation about the relationship between marks and innovation seems to be carried out as part of an attempt to recalibrate the normative goals of trade mark law.

In any event, in its current form, trade mark law, and in particular the provisions that protect against dilution, are not designed to accommodate this purpose, namely, to stimulate investments in innovation. Moreover, the goal of encouraging innovation is not mentioned in the recitals (or indeed elsewhere) of either the Recast Directive or the EUTMR, meaning that the application of trade mark law that is guided by this principle lacks any statutory basis and hence should be abandoned. This

166 ISO, 'ISO 10668:2010 Brand Valuation — Requirements for Monetary Brand Valuation' (September 2010). Available at https://www.iso.org/standard/46032.html (accessed 7 June 2022).

167 Brand Finance (n 164).

168 Ibid.

169 See section 5.2.2.7 of ISO (n 166).

170 Ibid.

171 Brand Finance (n 164).

172 Ibid.

is even more necessary given that the dilution provisions are reserved for trade marks owned by established companies which can demonstrate a certain considerable market share (among other things). In this context, seeking to extend the protection offered to reputable trade marks on the basis that such protection benefits innovation could enter into conflict with the rules that safeguard the unfettered competition in the market.

Insofar as policymakers wish to introduce innovation as a new or additional normative goal of trade mark law, they should engage not only with the marketing literature that can accurately describe how branding and digital advertising innovations work, but also with competition or consumer protection research which can shed light on the potential pitfalls that such innovations might present. Finally, once the parameters of innovation have been rigorously set, it would be useful to consider the fact that 'rent extraction business models are dynamic, institutionally specific and will differ across space and time'.[173] This would ensure that the specific legal mechanism chosen by policymakers to stimulate innovation through trade mark law is indeed effective and not a Trojan horse which will eventually undermine the main purposes of trade mark law.

173 Mazzucatto and others (n 131) 4.