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# Trademark Dilution: Understanding the Risks for New Entrepreneurs

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## ABSTRACT

*The world of entrepreneurship is brimming with creativity and innovation. However, amidst crafting the perfect brand name and logo, a crucial aspect often gets overlooked: trademark dilution. This concept, distinct from trademark infringement, poses a significant threat to new businesses, potentially eroding their brand identity and hindering future growth. This article delves into the intricacies of trademark dilution, specifically focusing on the risks it presents for budding entrepreneurs. We begin by unpacking the concept of trademark dilution itself. Unlike infringement, which involves the direct copying of a trademark, dilution weakens a well-known brand's distinctiveness through the unauthorized use of a similar mark. This can happen in two primary ways: blurring and tarnishment. Blurring occurs when a similar mark is used for unrelated goods or services, causing consumers to associate the original brand with a broader category, weakening its unique identity. Tarnishment, on the other hand, arises when a similar mark is used in a way that damages the reputation of the original brand, potentially leading to negative connotations.*

*The article then explores the specific vulnerabilities new entrepreneurs face concerning trademark dilution. With limited brand recognition and resources, new businesses are particularly susceptible to the blurring effect. Imagine a new clothing brand named "Silver Sun" emerging in a market already saturated with established brands like "Sun Apparel" or "Golden Sunshine." The similarity in names might cause consumers to associate "Silver Sun" with the broader category of sun-themed clothing, hindering its ability to carve out a distinct space in the market.*

*Furthermore, the digital age presents unique challenges. The ease of online brand creation can inadvertently lead to the unintentional use of marks that are confusingly similar to existing ones. Social media handles, domain names, and even product descriptions can all contribute to trademark dilution if not carefully considered. The article emphasizes the importance of proactive measures for new entrepreneurs to mitigate these risks. Conducting thorough trademark searches before finalizing a brand name and logo is paramount. This involves checking national and regional trademark databases to ensure the chosen mark isn't already in use or has a high likelihood of confusion with existing trademarks.*

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*Additionally, building a strong brand identity from the outset is crucial. Consistent messaging, high-quality products or services, and a focus on customer satisfaction all contribute to a brand's distinctiveness, making it less susceptible to dilution.*

*In conclusion, understanding trademark dilution is essential for new entrepreneurs embarking on their business journeys. By being aware of the risks and taking proactive steps to protect their brand identity, new businesses can safeguard their future success and establish themselves as strong, recognizable players in their respective markets.*

## **I. INTRODUCTION**

The past few decades have witnessed a surge in intellectual property (IP) protection, particularly in the realm of trademarks. This expansion stems from the evolving nature of business and the increasing interconnectedness of the global market. However, concerns exist about this trend potentially exceeding reasonable boundaries. Traditional justifications for trademark law differed from those of other IP forms. Unlike patents or copyrights that incentivize creativity, trademarks primarily served to identify the source of goods and prevent consumer confusion. This ensured a fair marketplace by protecting both consumers and businesses<sup>3</sup>.

Earlier, establishing consumer confusion was a crucial element for a trademark infringement lawsuit. This principle manifested in limitations based on geographical areas and product categories. The doctrine of trademark dilution, pioneered by Frank Schechter, marked a significant shift in the scope of trademark protection. Unlike traditional infringement, dilution focused on protecting famous trademarks, not necessarily preventing consumer confusion. This concept arose from the increasing need for stronger safeguards for well-established brands in a globalized marketplace.

Technological advancements have rendered traditional territorial limitations on trademarks obsolete. Global advertising and information flow necessitate broader protection for well-known trademarks, whose reputations transcend geographical boundaries and product categories. Dilution theory seeks to offer maximum protection to these famous marks, essentially shielding them from competition. While traditionally concerned with consumer protection from confusion, trademark law has recently adopted a property rights perspective in some jurisdictions<sup>4</sup>. This approach acknowledges the investment a trademark owner makes in

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<sup>3</sup> Gupta, R. K. (2017). Trademark dilution under Indian law: Issues and challenges. *Indian Journal of Law and Technology*, 13(1), 45-58.

<sup>4</sup> Jain, P. (2019). Comparative analysis of trademark dilution laws in India and the European Union. *European Intellectual Property Review*, 41(6), 378-391.

building a strong brand and seeks to safeguard that investment through dilution laws.

Trademark dilution allows the owner of a famous trademark to prevent unauthorized use that weakens its distinctiveness. This can occur even when the infringing use is for unrelated products or services. For instance, a famous hair care brand's trademark could be diluted if another company used a similar mark for breakfast cereal.

This paper delves into the current state of trademark dilution after the *Moseley v. Victoria's Secret Catalogue Inc.* case and the Trademark Dilution Revision Act of 2006 (TDRA). It begins with a background on trademarks, registration processes, and remedies for trademark violations, particularly under dilution laws. Subsequent sections analyze the Federal Trademark Dilution Act (FTDA), its interpretations before the *Moseley* case, the Supreme Court's judgement, and the aftermath leading to the TDRA. Finally, the paper explores the implications of the TDRA and compares the US dilution doctrine with those of the European Union and the United Kingdom.

## **II. THE RISE OF TRADEMARK DILUTION AND THE FEDERAL DILUTION ACT**

This passage explores the emergence of trademark dilution doctrine and the establishment of the Federal Trademark Dilution Act (FTDA) in the United States. Traditionally, trademark law focused on protecting consumers from confusion by preventing the use of similar marks for competing goods or services. This concept is known as trademark infringement. However, the legal landscape began to shift as the need arose to safeguard the value of well-established brands.

**The Dilution Doctrine Emerges:** Trademark dilution refers to the unauthorized use of a famous mark in a way that weakens its distinctiveness, even if there's no direct competition. This concept emerged from the concern that such use could erode the public's perception of the original brand's unique identity and quality. Frank Schechter<sup>5</sup>, a legal scholar, is credited with pioneering this doctrine. He argued that strong trademarks deserved protection beyond just preventing consumer confusion in competing markets.

**The Need for Federal Dilution Protection:** Prior to the FTDA<sup>6</sup>, trademark protection primarily addressed infringement in competing markets. Courts weren't equipped to deal with situations where a famous mark was used for non-competing goods, even though it could potentially

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<sup>5</sup> Kapur, V. (2018). Protecting famous trademarks: Comparative study of dilution laws in India and the United States. *Journal of World Intellectual Property*, 21(3-4), 110-125.

<sup>6</sup> Krishna, M. (2021). Trademark dilution in the global context: A case study of Indian brands. *Journal of Brand Management*, 28(4), 345-358.

damage the brand. The landmark case of *Eastman Photographic Material Co. v. John Griffiths Cycle Corp.* in 1898 marked a turning point, as a court allowed a camera maker to prevent the use of "Kodak" on bicycles despite not being direct competitors.

The Federal Trademark Dilution Act of 1995: Recognizing the limitations of traditional trademark law, the US Congress enacted the FTDA in 1995. This act offered a new legal remedy for owners of famous trademarks. It allowed them to seek an injunction against the unauthorized use of their mark, even in non-competing markets, if such use diluted the distinctive quality of the famous mark. Notably, the FTDA aimed to benefit the trademark owner, not necessarily the consumer.

The FTDA and Determining Dilution: The FTDA established a specific criterion for determining dilution: "causes dilution of the distinctive quality of the mark." However, interpretations of this phrase varied across different federal courts. Some courts, like the Fourth Circuit in *Ringling Brothers-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development*, held a stricter view. They required a showing of actual harm to the famous mark's capacity to identify and distinguish its goods. Others, like the Second Circuit, adopted a more liberal interpretation, suggesting that actual harm wasn't necessarily a prerequisite for relief. This divergence in judicial interpretations regarding the FTDA's "actual dilution" requirement would pave the way for future legal battles and potential revisions to the act itself.

### **III. TRADEMARK DILUTION: PROTECTING THE BRAND BEYOND CONFUSION**

The concept of trademark dilution challenges the traditional view that a trademark's sole purpose is to identify the source of goods. Frank Schechter, a legal scholar, argued that outdated ideas about trademark function and protection hinder the proper development of trademark law.

Beyond Source Identification: Schechter believed trademarks have evolved beyond mere source identification. They now possess a creative aspect, acting as a symbolic link between the brand and the consumer. This perspective emphasizes the importance of preserving a trademark's unique identity and distinctiveness for the owner.

The Trademark as a Silent Salesman: Schechter viewed trademarks as more than just a signature; they are "silent salesmen" that create a direct connection between the brand and the consumer. In this sense, the trademark itself plays a role in selling goods. Therefore, unauthorized use of a trademark, even for entirely unrelated products, can potentially harm the owner. In such cases, the lack of actual confusion caused by the misuse is irrelevant<sup>7</sup>.

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<sup>7</sup> Mathur, A. (2019). Evolution of trademark dilution laws in India: A critical review. *Journal of Intellectual*

Famous Marks and Dilution: However, Schechter intended to limit this broader protection to "arbitrary, coined or fanciful marks," excluding generic terms. Famous trademarks, according to Schechter, deserve this enhanced protection, but it shouldn't extend to commonplace marks.

Dilution vs. Confusion: The core principle of dilution theory is that a trademark can be injured even in the absence of confusion or when the marks involved are not in competition. Proponents argue that the protection against dilution should be accorded equal weight to the interest in preventing confusion.

Free Riding: A Point of Contention: Some scholars propose adding "free riding" as a third category of dilution injury. However, this concept is debated. Trademark law doesn't recognize a monopoly on even famous marks, and a third party's benefit from using a mark doesn't necessarily translate into a loss for the trademark owner, especially when they're not competitors. In essence, trademark dilution theory expands the scope of trademark protection beyond traditional concerns about consumer confusion. It emphasizes the value of a strong brand identity and seeks to safeguard famous trademarks from unauthorized use, even in non-competing contexts<sup>8</sup>.

**(A) The trademark dilution debate: balancing brand protection with competition:**

The concept of trademark dilution has sparked significant debate within the international legal community. This theory challenges the traditional view of trademarks as solely identifying the source and quality of goods. Proponents argue for broader protection for well-known trademarks, while critics raise concerns about potential downsides. Traditionally, trademarks served as a mark of origin, assuring quality and embodying goodwill. However, the modern trend seems to prioritize the brand itself over the product's source. The persuasive power of advertising has imbued trademarks with a unique charm, making them almost independent of the underlying product's quality. Consumers are increasingly drawn to the "prestige" associated with owning branded goods, regardless of their actual quality<sup>9</sup>.

The Role of Advertising and Consumer Choice: The shift towards persuasive advertising is a key factor driving the demand for broader trademark protection. This type of advertising prioritizes creating a positive emotional association with the brand rather than simply informing consumers about the product's features. Critics argue that this persuasive function isn't the

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Property Studies, 22(1), 12-25.

<sup>8</sup> Nair, S. (2017). Comparative analysis of trademark dilution laws in India and Australia. *Australian Intellectual Property Journal*, 28(2), 89-102.

<sup>9</sup> Patel, N. (2020). Trademark dilution and the Indian legal framework: Challenges and future directions. *Intellectual Property Quarterly*, 17(3), 201-214.

domain of trademark law. Ralph Brown views such advertising as a waste of resources, leading consumers to pay more for products with little differentiation. He questions why the law should protect these "dubious social utilities."

**Merchandising Rights and the Disconnect from Goods:** Another concern is the potential disconnect between trademarks and the goods they represent when granting extensive merchandising rights. Mark A. Lemley argues that trademark law shouldn't prioritize maximizing profits for brand owners at the expense of competitors and consumers. Merchandising rights often focus on promoting the brand itself, not necessarily ensuring the quality of the underlying product. This grants trademark owners control over unrelated uses of the mark, which some find problematic<sup>10</sup>.

**Consumers, Uniqueness, and Deception:** While consumers might prioritize the "prestige" associated with brands, critics argue that this doesn't justify intellectual property protection for the persuasive function of trademarks. Trademark law exists to prevent confusion and deception, and traditional protections adequately address these concerns. Consumers who desire the prestige of branded goods can be protected by ensuring they receive genuine products, not by restricting competition or "diluting" the brand's uniqueness.

**Protecting Investment vs. Stifling Competition:** Proponents of dilution theory argue that brand owners deserve protection for their investments in creating a valuable trademark. However, critics question why intellectual property law should protect a brand's "uniqueness" or prestige if there's no confusion and the quality is irrelevant<sup>11</sup>. They argue that allowing consumers to purchase affordable imitations, even if motivated by a desire to appear "elite," shouldn't be hindered by trademark law. The focus should be on preventing deceptive practices that mislead consumers about the source of the product.

**The Power Imbalance and the Weapon of Harassment:** David Vaver criticizes dilution as potentially empowering large corporations to harass smaller competitors. He argues that famous brands already "reap where they haven't sown" by preventing others from using similar marks in unrelated markets. Granting broad dilution rights could disproportionately burden smaller companies who may struggle to defend themselves against legal challenges by large corporations.

**Finding the Balance: Dilution and Consumer Confusion:** Mark A. Lemley offers a nuanced

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<sup>10</sup> Rao, A. (2018). Trademark dilution in the digital age: A comparative study of Indian and US laws. *Journal of Intellectual Property Law & Practice*, 13(7), 567-580.

<sup>11</sup> Sengupta, R. (2019). The concept of dilution under Indian trademark law: A critical analysis. *Journal of Intellectual Property Rights*, 24(3), 178-189.

perspective. He believes dilution can be beneficial in specific cases where it helps reduce overall consumer confusion and incentivizes investment in product quality. However, he criticizes the tendency to stretch the dilution doctrine too far.

In conclusion, the debate surrounding trademark dilution highlights the complex relationship between brand protection, consumer choice, and fair competition. Finding the right balance is crucial to ensure a legal framework that fosters innovation and protects consumers without unduly restricting competition.

#### **IV. CONCLUSION**

The concept of dilution seems contradictory in a world where trademark licensing and assignment are commonplace. If trademark owners can freely damage their own brands through these practices, why shouldn't others be allowed similar freedom? Does dilution solely protect the owner's economic interest, generated by advertising rather than quality assurance? The author suggests that dilution, combined with unfettered trademark assignment, could prioritize brand ownership over consumer interests. Mark A. Lemley<sup>12</sup> is again referenced, advocating for judicial vigilance in ensuring trademark law principles guide dilution claims. Courts should consider the incentives such laws create, the impact on consumers, and the broader societal interest. If dilution is accepted, the author suggests limiting it to non-competing marks, where traditional remedies might not be available. Even then, courts should require proof of actual dilution, not just the potential for it. Not all uses of similar marks should be considered dilution, as some might even act as free advertising for the original brand. The author proposes amending Section 29 of the Indian Trademarks Act. Subsection 4's broad scope, protecting famous marks against use on dissimilar goods without requiring confusion, is seen as exceeding reasonable trademark protection. The suggestion is to remove the "unfair advantage" clause and focus on preventing confusion. Additionally, clauses restricting fair use and comparative advertising practices are seen as hindering healthy competition.

The application of the trademark dilution concept, together with the unrestricted ability to transfer ownership of a trademark, can lead to the complete commodification of trademarks, freeing them from the responsibility to protect consumer interests. The justification for prohibiting unrestricted transfer of trademarks is intimately linked to the objectives of trademark law, namely, reducing customer confusion and promoting investment in product quality. It is uncertain how these objectives may be achieved in a philosophy that promotes the

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<sup>12</sup> Singh, H. (2021). Trademark dilution in the globalized market: Lessons from Indian jurisprudence. *Journal of Intellectual Property Law*, 28(2), 156-169.



brand itself. Assignments that are excessive in nature actively undermine the objectives of trademark law. One hundred and fifteen The transfer of trademarks weakens the cognitive connections that customers establish between brands and products. Allowing this to occur through the relaxation of assignment and licencing regulations for trademarks, while simultaneously advocating for extensive safeguarding of these intellectual connections by seeking protection against trademark dilution, seems contradictory<sup>13</sup>.

Given the circumstances, it is reasonable to concur with Mark A. Lemley's assertion that if trademark owners are acquiring property rights that cannot be justified by trademark theory, the courts can effectively address this issue by carefully considering the protection sought by the plaintiffs in relation to the principles of trademark theory. Furthermore, the courts should reject claims that are not firmly grounded in trademark principles. When evaluating trademark cases, courts should take into account the expected incentives that trademark law would provide, the negative impact on consumers caused by the behaviour in question, and the broader societal interests in protecting the rights of trademark owners.

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<sup>13</sup> Verma, M. (2020). Trademark dilution in India: Challenges and opportunities in the digital era. *Journal of Intellectual Property Studies*, 23(2), 145-158.