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# TRADEMARKS AND SMALL BUSINESS IN INDUSTRIAL COUNTRIES -- HOW SMALL BUSINESSES USE THEM

*By Dr. Thomas A. Timberg, Fall 2001<sup>1</sup>*

## **WHAT ARE TRADEMARKS IN LEGAL PRACTICE**

Historically Trademarks emerge from the law merchant and the common law as a legal right for a tradesman to mark his products and keep anyone else from copying his trademark. In English common law, this was established by the Clothier's Case of 1656, though there was considerable lack of clarity at that point. Both in the United States and England anyone who has been using a trademark can sue those who use it without their permission.

Traditionally, trademarks have been primarily a way for manufacturers to reach over the wholesaling and retailing chain and establish a direct franchise with retail clients. In our present, more complex world, they are used by service providers, retailers etc. as well to establish the values of their own branded products.

In almost all other countries laws have now been passed that provide for the registration of trademarks and the right to prevent their copying. Even in the United States and England there are provisions for such registration though such registration is not necessary in order to assert the validity of a trademark. In the United States as well, there is legislation and registration at both national and state levels, and the trend of cases is that the national legislation in this case does not pre-empt the state legislation. Nonetheless, registration serves to clarify rights and has other benefits for those that register. Not the least is that it facilitates acquiring trademark protection in other countries. The first American trademark acts were in the early 20<sup>th</sup> century, but the present Lanham Act dates from 1946.<sup>2</sup> American and British legislation remains peculiar because of the Common Law history of trademarks, though it has also been quite influential because of the general influence of the Anglo-Saxon countries on world trade.

The registration process enabled a clarification of rights. Just as trademarks themselves were developed to prevent fraud, it was hoped to prevent fraudulent use of trademarks. Thus trademarks were not to so closely resemble others as to defeat their purpose. In general trademarks are not permitted to be generic, that is the normal name for a product. In fact, the United States and some other countries permit "genericide," in which a trademark can be lost, like Kleenex or shredded wheat, because despite the efforts of its owners it has become the customary word for the product. The leading case in this regard concerns Singer Sewing Machines, which lost their trademark once their patent expired. Registrations are generally refused if the trademark would incorrectly imply something about quality. Thus a firm

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<sup>2</sup> General Reference on US Trademark Law: Charles R. McManis, *Unfair Trade Practices*, St. Paul, Minnesota: West Publishing Company, 1992, pp. Pp. 97-196. Though there are excellent treatments on the World Wide Web, including on the sites of the various national registration offices.

outside of New York was refused the right to use "New York" in its trademark, which might have implied high quality New York clothing. On the other hand, where the name of a place has no quality implication it has been allowed. In the United States, the names of former Presidents who are still living or whose widows are living cannot be used without their permission. Normally, people can use their own names, but even this has been restricted in certain cases where the use would be deceptive. Actually the bias of United States and United Kingdom legislation has been to ban personal names as inherently generic -- unless they have "obtained a secondary meaning." Even if your name is McDonald's you can't use that as your trademark. Further, limits were established on the rights to register symbols that had general validity like national coats of arms etc. In fact, in the United Kingdom and some other European countries, the exclusive rights to coats of arms long preceded the general right to register trademarks.

Business names, the name by which a business is known, are treated differently, and generally more liberally than trademarks in the United States and the United Kingdom, but cannot generally be trademarked -- however, because they can be trademarked in other countries, over time they have achieved some protection and more importantly it has proved possible, in some cases, to introduce them into trademarks. On the other hand, design features of products, such as special bottle shapes etc. have been permitted in some cases, but disallowed in others as generic.

Other trademarks registrations are disallowed on general public policy grounds because they were offensive. In some cases, there are requirements on the language and form in which trademarks can be registered.

In many countries, trademark protection can be lost through non-use. This is certainly the case in the United States, where even nonuse in certain local markets can be fatal. It is also possible to lose an American trademark through "genericide," such general use that the trademark becomes the common name for the product concerned, like Kleenex or shredded wheat cereal.

In the United States, and most other countries, trademarks are protected from infringement by similar goods, but 66 countries follow the United Kingdom tradition and only protect trademarks for the precise products registered. Of course, trademarks can in some cases be protected by copyright or design patents, but standards of originality etc. then apply.

Trademarks are of various sorts. Certification trademarks are issued by quality assurance bodies and certify that those that use them have met certain prescribed standards. Collective trademarks are issued by groups of businessmen. At least in the United States these certification and collective trademarks (terms from the 1946 United States Lanham Act) are treated very differently -- and a certification trademark must be licensed to any firm that meets its prescribed standards. Certification trademarks have a particular importance for developing country exports today -- because such trademarks, often competing ones certify that products meet various standards -- don't use child labor, don't involve environmental destruction etc. Without these certifications it is often difficult to sell consumer products in the United States and Europe. One certification trademark with which those in Indonesia are certainly familiar is the Halal mark, which certifies that the product meets Shariah standards.

There are a number of legal issues which are allied to those of trademarks but which are technically separate in most legal systems. A first category is business names, which are also

registrable and can be protested to courts if they are likely to lead to deception. Now there has been a great deal of litigation on web names, which again can be banned because they are deceptive. The European Union has imposed a policy that city names can only be used as web names with the city's consent. Barcelona just reclaimed its name from a firm that had been using [www.barcelona.com](http://www.barcelona.com). Exactly how these two types of intellectual property are treated differs from system to system.

Trademarks have gained new importance because of their international protection. This has always been one of their aspects as demonstrated through the various reciprocal and multilateral schemes, but since the development of the World Trade Organization and the signing of the Agreement on TRIPS, on Trade Related Intellectual Property, honoring trademarks has become as a condition of adherence to the international trading order. This agreement defines trademarks and prescribes the minimum rights they must be accorded. Owners of foreign trademarks cannot be compelled to couple them with domestic trademarks. Misleading geographic designations are forbidden.<sup>3</sup>

The exact terms and conditions of the WTO and its commitments, both in regard to the United States and Indonesia are available in English on the website, <http://www.wto.org>.

### **TRADEMARK AS A TOOL IN BRANDING AND MARKETING PRODUCTS**

Commercial Trademarks are the legal side of the strategy of Branding and Marketing Brands, which lies at the root of much commercial development. Every merchant tries to differentiate his brand, so it is not part of a general commodity category. Rather than simply being soda, Coca Cola and Pepsi establish and market their brands as involving guarantees of quality and satisfaction. Rather than simply providing higher education, Harvard University vigorously tries to prevent others from registering products using its name, attempting to benefit from its brand.

This branding is simply the continuation of the tradition of the medieval European craftsmen who originally used trademarks -- but the development and promotion of brands has become almost a separate discipline in sophisticated marketing. The world's largest firms, particularly those selling consumer products devote millions of dollars to defending and promoting their brands. The brands in turn constitute a major portion of their "franchise" the specific, and peculiar business attributes from which they earn money. In the case of shredded wheat cereal, General Mills spent more than \$17 million promoting the brand (and this was in 1938 when prices were a lot lower), before it lost its rights through genericide. Needless to say, American companies also spend a lot of money preventing genericide, and being sure people now that there trademark is just that, rather than a generic name.

Without branding a product is a commodity and most compete solely on the basis of price and fairly narrowly defined quantitative measures. Commodities can and are trade interchangeably. The futures exchanges are based on the fact that every standard 100,000 bushels of wheat is treated the same as every other.

By branding products it is possible to reap advantages from having a higher quality. It is certainly possible to advertise and promote the reputation for such quality. Certification

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<sup>3</sup> Bernard Hoekman and Michel Kostecki, *The Political Economy of the World Trading System: From GATT to WTO*, Oxford, UK:Oxford University Press, 1995, pp. 153-157.

trademarks, of course, enable the higher quality to be made explicit and publicized. Collective trademarks enable small producers to band together to develop, but more importantly promote a common branded product and thus achieve economies of scale in promotion that they could not achieve individually.

## **WHAT CAN BRANDING AND TRADEMARKS DO FOR SMALL AND MEDIUM ENTERPRISES**

### Protecting Brands in Local Markets

Interestingly, a fair number of the legal cases involving trademarks involve small and medium enterprises. One group involves small firms serving a local market. Another firm appears with a name and trademark which is identical to or slightly different from theirs'. They demonstrate that business has been diverted. Some leading American cases involve restaurants. Though restaurant and hotel trademarks are typically only protected in specific local markets in which they are known. This is a somewhat archaic feature in the era of franchising.

More difficult is the case where the competing firm does not directly compete, but the established firm thinks that its activities detract from the value of a recognized trademark. Frequently in the United States the courts have ruled that this is an infringement -- Harvard University has been a frequent litigator to protect its trademark (the Veritas shield) as have other universities and sports teams. Again the basic issue in American law is whether some deception is involved. I do not know either how this issue is treated in theory or practice by Indonesian courts.

### Protecting Brands in National and International Markets -- Collective and Certification Trademarks

Of course, small firms which produce quality products are interested in protecting their brands nationally and internationally -- though the resources to do this are often lacking which is the reason that the most successful marks are typically collective and certification marks. Along with the protection now provided by WTO rules to place of origin designations these have enabled a wide variety of enterprises to promote high quality brands. Such promotion requires not only programs of promotion, but also quality control and vigilant protection of trademarks.

A reverse consideration is present when the marketing strategy is to enter a market at the bottom by promoting a product that has the attributes of a branded product, but is cheaper. This is a difficult issue, though attempting to infringe an existing trademark is now both legally difficult and likely to lead to problems with customs authorities. As the general level of protection has declined worldwide, customs authorities have become the enforcement arm for much in the way of trade regulation including intellectual property protection. The US Customs Service claims that it enforces 38 external sets of laws. On the other hand, the countries that permit negative and comparison advertising like the United States permit competitors to explain why their product compares favorably with a more expensive trademarked brand.

Certification marks in particular enable products to establish a reputation and avoid suspicions that they are produced under unfavorable conditions.

Though such cases have now become more common in the United States it is particularly in Europe where the defense of regional trademarks has enabled local groups of producers, often from less developed regions, to establish and promote their regional collective certification marks. Scotch whiskey, Swiss cheese, even Swatch are good examples.

Another interesting group of cases are antitrust cases, where the American courts have ruled in some cases that combinations of businesses to run a common marketing campaign using a common trademark was justified as enhancing competition, because it enabled the smaller firms to effectively challenge a larger one. Of course, the groups of businesses may also provide other common services related to technology and raw materials purchase.

Of course, a contrary strategy is to license the trademark itself and get the benefit of the brand development the owners have done, as well often as their technical and marketing assistance.

### Grey Trade

This refers to products which are produced under license in one country and then shipped to another country -- typically one where another producer has the trademark. Since the product is likely to be cheaper in the country from which it is shipped, the shipments may undercut the price for the product in the receiving country. It would be an understatement to say that this is one of the most divisive issues between countries in the European Union. The United States is generally in favor of such imports, as are some of the smaller European Countries.