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## **Economic Rationale For Extending Protection To Smell Marks**

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# ECONOMIC RATIONALE FOR EXTENDING PROTECTION TO SMELL MARKS

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## ABSTRACT:

In the traditional view of trademark law, a trademark serves its brand-identifying function. Consequently, marks which consumers actually use to identify the source of a product were allowed protection. James Hawes was the first commentator to assert that product scent merits trademark protection. This paper presents a study which discusses the appropriateness of trademark protection for fragrances. It is also argued that there exists some economic justification for allowing new forms of non-standard marks and in particular smell marks.

*Key words: smell marks, fragrances and non-standard marks*

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## I. GENERAL NOTION OF TRADEMARKS

To simplify, a trademark is a word, symbol or other signifier used to distinguish a good or service produced by one firm from the goods and services of other firms. Accordingly Article 15(1) of TRIPS agreement provides that any sign, or combination of signs, capable of distinguishing goods and services from those of others, is eligible for trademark protection. Article 4 of the Community Trademark<sup>1</sup> defines trademark as, ‘any sign capable of being represented graphically<sup>2</sup>’, which is capable of distinguishing goods and services of one undertaking from those of other undertakings. The United States Law on trademark stems from a collection of laws and regulations<sup>3</sup>, accordingly the term ‘trademark’ includes any word, name, symbol or device or any combination thereof used by a person, or which a person has bona fide intention to use in commerce to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.

Thus the common function of the trademark law has been to afford rights to those who use words, names, symbols or devices to identify their goods or services. However in the recent past there have been numerous attempts to extend this trademark protection into unexplored areas which has resulted in disproportionate examination of new concepts in trademark law, the end result being perplexity and commotion. This paper reopens the debate and sets out to inspect the attempts of registering smell as marks and the cachet of

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<sup>1</sup> The Community Trademark, which covers the entire European Union, is obtained by a single registration procedure filed in by a single office and governed by a uniform law. It currently consists of countries, which include Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom. It is administered by the Office for Harmonization of the Internal Market (OHIM) headquartered in Alicante, Spain; **See**, Catherine Seville, “*Trademark Law: The Community’s thinking widens and deepens*”, 53 ICLQ 1013.

<sup>2</sup> An application for the registration of a trademark will be rejected if the trademark cannot be graphically represented. This essentially means that the mark must be capable of being represented or described in some way on paper. Thus, for the purposes of registration, trademarks must be represented in a form that can be recorded and published; **See** Bruce Clarke and Steve Kapnoullas, “*The New Forms of Registrable Marks: Market Uptake in the first five years*”, Deakin L. Rev 2001 (6) 70.

<sup>3</sup> Federal Trademark Law [15 U.S.C. §§ 1051-1127 (1994)] and Lanham Trademark Act of 1946 [15 .S.C. § 1052(e), f)]

such registrations. For the sake of succinctness we have considered the position of smell marks in United States, Europe, United Kingdom and Australia for carrying out this discussion. It is accordingly argued that only when one considers the economic justification of trademarks the desirability of registering smell as marks can be completely appreciated.

## II. ECONOMIC FUNCTIONS OF TRADEMARKS

The history of legal protection of trademarks indicates that the courts, at the behest of the traders, protected the signs or marks as trademarks as an indication of source, and thus ruled that if another trader were allowed to use the same sign, this would allow a fraud to be committed on public.<sup>4</sup> Furthermore the Courts of Chancery also ruled that if a trader had already used a mark, the deliberate use of the same mark by another would amount to a form of deceit.<sup>5</sup> Even the action of passing off was used to protect a trader who had developed a reputation or goodwill through use of a particular sign or symbol.<sup>6</sup>

To understand and appreciate the economic functions of trademark let's assume a scenario where there is no protection of trademarks or brand name. Accordingly failure to enforce trademarks would impose two distinct costs, one in the market for trademarked goods and the other in the distinct and unconventional market for languages.<sup>7</sup> For example let's consider that Levis brand had no name, then to order this brand in a shopping mall, one may have to ask for "the denim made by Levis". This takes longer to say and requires you to remember more about the goods. The problem would be even

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<sup>4</sup> See, Linoel Bently and Brad Sherman, *Intellectual Property Law* (New York: Oxford University Press, 2001)

<sup>5</sup> *Faulder v. Rushton* (1903) 20 RPC 477

<sup>6</sup> *Great Tower v. Langford* (1888) 5 RPC 273

<sup>7</sup> Jean Praniskas argues that benefits of trademark protection derives from the incentives that such protection creates to invest resources not in maintaining quality but also in inventing new words. These benefits however are small and not very important for our study; See Jean Praniskas, "Trade Name Creation: Processes and Patterns" *J. Econ.* 101 (1968); See also Jacon Marschack, "Economics of Language", 10 *Behavioral Science* 135 (1984).

more serious if Levis made more than one brand of denim. Rather than investigating the attributes of all goods to determine which one is brand Levis or equivalent to Levis, the consumer may find it less costly to search by identifying the relevant trademark and purchasing the corresponding brand. In short, a trademark conveys information that enables the consumer to identify the source of goods. The information produced by trademark is of two sorts. One is information that enables the consumer to identify the source of goods (by enabling to identify the source of goods the trademark reduces the search cost by lowering the cost of selecting goods on the basis of past experience or the recommendation of other consumers) and the other is the information about the product.<sup>8</sup>

Trademark protection encourages expenditures on quality. A firm's incentive to invest resources (through advertising) in developing and maintaining a strong mark depends on its ability to maintain consistent product quality. In other words trademarks are valuable because they denote consistent quality, and a firm has an incentive to develop trademark only if it is able to maintain consistent quality.<sup>9</sup> What happens when the brands quality becomes inconsistent is the consumers will learn that the trademark does not enable them to relate their past to future consumption experiences and the branded product will be like a good without trademark and accordingly the fixed cost of the company will increase in developing and maintaining the trademark without lowering the search cost.<sup>10</sup> The value of the trademark can be interconnected with the savings in the search cost made possible by the information or reputation that the trademark conveys.<sup>11</sup> Once the reputation is created the firm will obtain greater profits because repeated purchases will generate higher sales and consumers will be willing to pay higher prices for lower search costs and greater assurance of consistent quality.<sup>12</sup> The enforcement of the trademark becomes

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<sup>8</sup> Ibid.

<sup>9</sup> See, Carl Shapiro, "Premiums for High Quality Products as Returns to Reputations", Q.J. Econ. 659 98 (1983)

<sup>10</sup> See, William M. Landes and Richard A. Posener, "Trademark law: An Economic Perspective", Journal of Law and Economics 1987 (30) 265

<sup>11</sup> Ibid

<sup>12</sup> Ibid

highly important since the cost of duplicating someone else's mark is rather low and the incentive to incur this cost of duplicating in the absence of legal protection gets greater with well established trademarks. If the law does not prevent free riding it will destroy the information capital and accordingly eliminate incentive to develop a valuable trademark.

Thus the rationale for protecting trademarks can be accordingly concluded by the words of Schechter<sup>13</sup> and Gielen<sup>14</sup>. Schechter showed in his seminal work that trademarks in addition to its indication of origin function perform the most important functions of product differentiation (to identify products and distinguish them from goods or services sold by others), guarantee function (to guarantee that all producers bearing a certain trademark are of an equally satisfactory level of quality) and advertising function (to promote goods and services).<sup>15</sup> Gielen, in his work summarizes that the character of a trademark changed from rational and physical to emotional and psychological. According to him the modern approach is that trademark functions as a means of identification and communication, in other words, trademark is a messenger.<sup>16</sup>

### III. NON-STANDARD MARKS

Over the past few decades it is established that the world is moving away from the 'industrial driven economy' to 'people driven economy' and as a result consumers are put in the seat of power. This has forced the traders and the brand owners to look out for new and stirring ways to make their products more distinctive than those of their competitors. As a result the generally and readily perceived marks such as words, designs, logos, acronyms and slogans, which form part of standard or traditional form of marks, are no longer preferred by brand owners and the desire to register non-standard marks such as

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<sup>13</sup> See, Schechter, "*The Rational Basis of Trademark Protection*", 40 Harv. L. R. 813 (1927)

<sup>14</sup> See, Gielen, "*Harmonisation of Trademark Law in Europe: The First Trademark Harmonisation Directive of the European Council*", (1992) E.I.P.R. 263 at 264

<sup>15</sup> Supra note 13

<sup>16</sup> Supra note 14

shape, colour, taste, smell and sound is noticeably increasing. The new track of marks has brands which go beyond sight and sound to reach consumers through smell, touch and taste. The acceptance of non-standard marks finds immense support in the branding literature<sup>17</sup>. In this section we consider the issue of distinctiveness of non-standard marks with specific regard to smell marks in different countries.

### **Position of Smell Marks in United States**

1. Development of Trademark Law: In United States the trademark protection is afforded to traders to promote competition, a fundamental idea underlying any capitalist economy. The Trademark Act of 1946 ("Lanham Act") furthers this objective by allowing traders to register marks and defining the rights of the "holder"<sup>18</sup>. The aims of the Lanham Act are to balance and protect the trader's investment in a mark by preventing another company from gaining via "free riding"<sup>19</sup> and accordingly protecting "consumer interests"<sup>20</sup>.

In United States federal registration does not establish trademark rights, the actual or

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<sup>17</sup> See, Martin Lindstorm, "BRAND Sense: Build Powerful brands through touch, taste, smell, sight and sound (Free Press: New York 2005), If branding wishes to survive another century it will need to change track. More communication in an already overcrowded world simply won't do it.; See also, Marc Gobé, *Emotional Branding: The New Paradigm for Connecting Brands to People* (Allworth Press; New York 2001), Sensory experiences are immediate, powerful, and capable of changing our lives profoundly, but they are not used to their full extent in branding initiatives, given the competition among today's corporations, it is my feeling that no business can afford to neglect the five senses. See also, Bernd H. Schmitt, *Experiential Marketing: How to Get Customers to Sense, Feel, Think, Act, and Relate to Your Company and Brands* (Free Press: New York 1999), Sensory marketing can be a powerful strategic and tactical tool for motivating customers directly, for adding value to customers, and for differentiating the product internally and externally.

<sup>18</sup> A "holder" of a mark, for the purposes of this comment, stands for any person or business who holds the registration of a trademark for a good or service

<sup>19</sup> See, Robert Unikel, "*Better By Design: The Availability of Trade Dress Protection for Product Design and the Demise of Aesthetic Functionality*", 85 TMR. 312, 334 (1995)

<sup>20</sup> See, William M. Landes & Richard A. Posner, "*Trademark Law: An Economic Perspective*", 30 J.L. & ECON. 265, 268-70 (1987), "A trademark permits consumers quickly to identify a particular product, assures them of that product's source, and provides them with some indication of the product's expected quality, either because they have purchased the product previously, have heard about or had experience with the producer, or have been exposed to advertising for the product"; See also, Daniel J. Gifford, "*The Interplay of Product Definition, Design and Trade Dress*", 75 MINN. L. REV. 769 (1991), the trademark protection assures consumers of their reasonable expectations regarding quality of an item from a particular source.

constructive use<sup>21</sup> of the mark in commerce triggers federal protection. Thus, trademark rights are created by use and registration is not necessary to create rights. Therefore, rights may exist in both registered and unregistered marks. While rights exist in unregistered marks, the system of federal registration arises from the Lanham Act,<sup>22</sup> which derives its legitimacy from the Commerce Clause of the Constitution.<sup>23</sup>

The Lanham Act codifies United States trademark law. It grants national protection for trademarks in a single statute.<sup>24</sup> Its purpose is to eliminate judicial obscurity, to simplify registration and to make it stronger and more liberal, to dispense with mere technical prohibitions and arbitrary provisions, to make procedure simple, and relief against infringement prompt and effective.<sup>25</sup> In *Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.*<sup>26</sup> the court in discussing how incontestability provisions further the purposes of trademark law ruled that trade-marks encourage the maintenance of quality by securing to the producer the benefit of the good reputation which excellence creates. To protect trade-marks,

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<sup>21</sup> See, *In re Int'l Flavors & Fragrances*, 183 F.3d 1361, 1366 (Fed. Cir. 1999) (noting that the federal registration of a trademark does not create an exclusive property right in the mark. The owner of the mark already has the property right established by prior use)

<sup>22</sup> Section 43(a) of Lanham Act provides as follows:

(a) Civil action

(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which,

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

<sup>23</sup> See, Kenneth L. Port, *The Illegitimacy of Trademark Incontestability*, 26 IND. L. REV. 519, 526-27 (1993)

<sup>24</sup> In the United States, there is a dual system of trademark law. Trademark rights can be granted at the state and federal levels. Federal registration under the Lanham Act provides national protection, whereas state registration provides rights and protection only within the geographic territory of the state.

<sup>25</sup> See [*Bongrain Int'l Corp. v. Delice de France, Inc.*, 811 F.2d 1479, 1485 (Fed. Cir. 1987)], it was observed that in passing the Lanham Act, Congress sought to encourage the presence of as many trademarks as possible on the register so that they would be available for search purposes.

<sup>26</sup> 469 U.S. 189, 198 (1985)

therefore, is to protect the public from deceit, to foster fair competition, and to secure to the business community the advantages of reputation and good will by preventing their diversion from those who have created them to those who have not.<sup>27</sup>

The federal statute defines “trademark” to include any word, name, symbol, or device, or any combination thereof - (1) used by a person, or (2) which a person has a bona fide intention to use in commerce and applies to register on the principal register established by this chapter, to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.<sup>28</sup> The term trade dress, which trademark law also protects, traditionally denotes the total image of a product. In *Two Pesos, Inc. v. Taco Cabana, Inc.*<sup>29</sup>, the Supreme Court relied on the following definition, “trade dress includes features such as size, shape, color or color combinations, texture, graphics, or even particular sales techniques”. It is a well settled position of law that trade dress is eligible for federal registration if it meets the “federal standards of trademark or service mark protection” and identifies or distinguishes a product or service.<sup>30</sup> Accordingly McCarthy<sup>31</sup> gives some examples of color as protectable trade dress such as the green-gold color protected in *Qualitex*, the color and appearance of a restaurant, colored bands on an athletic shoe, and the polka-dotted colors used on the background of a container. Sensory marks, which include scent and color marks, are a subset of trade dress.<sup>32</sup>

2. Smell or Olfactory Marks: The United States trademark system poses no theoretical nor practical bar, to the registration of scents, as long as the scent is distinctive and not an

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<sup>27</sup> See, Anne Hiarling, Basic Principles of Trademark Law, in *Understanding Basic Trademark Law 2004*, at 11-12 (PLI Patent, Copyrights, Trademarks, & Literary Prop. Course Handbook Series, 2004)

<sup>28</sup> 15 U.S.C. § 1127 (1994).

<sup>29</sup> 505 U.S. 763, 764 n.1, 23 U.S.P.Q.2d (BNA) 1081, 1086 (1992) (quoting *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966, 980, 219 U.S.P.Q. (BNA) 515, 528 (11th Cir. 1983)

<sup>30</sup> See, [*Aromatique, Inc. v. Gold Seal*], 28 F.3d 863, 868, 31 U.S.P.Q.2d 1481, 1483 (8th Cir. 1994) (noting that trade dress is registrable on the PTO's principle register)

<sup>31</sup> See, J. Thomas McCarthy, “McCarthy on Trademarks and Unfair Competition” (4th ed. 1997)

<sup>32</sup> *Supra* note 13

inherent attribute or natural characteristic of the goods. The United States Trademark Association Committee, in its review of the Lanham Act, explicitly stated that a scent can fall under the federal definition. The Committee determined that the terms 'symbol, or device' should not be deleted or narrowed to preclude registration of such things as colour, shape, smell, sound, or configuration which functions as a mark.<sup>33</sup>

The Trademark Trial Appeal Board (TTAB) in *In Re. Clarke*<sup>34</sup> decided that the non-functional scents are eligible for federal trademark registration. The applicant, Celia Clarke, manufactured sewing thread and embroidery yarn. She applied for a mark that she described as "a high impact, fresh, floral fragrance reminiscent of Plumeria blossoms. The Examining Attorney rejected the application on the ground that the mark did not distinguish Clarke's goods from other competitors; that is, the mark did not function as a trademark. Clarke argued that hers was the only scented embroidery yarn, and therefore, was inherently distinctive. The Examining Attorney responded that the scent did not function to indicate origin, rather it was an arbitrary scent to make the product more pleasant. Furthermore, the Examining Attorney noted that Clarke had made no showing that the particular scent indicated origin, nor did Clarke specify a fragrance on the products packaging.<sup>35</sup>

Clarke appealed to the TTAB, and the TTAB in a landmark decision, held that there was no reason that a scent could not identify and distinguish certain types of products.<sup>36</sup> Thus, the Board allowed registration of an arbitrary, nonfunctional scent ("high impact, fresh, floral fragrance reminiscent of Plumeria blossoms") for sewing thread and embroidery yarn. The TTAB reasoned that Clarke was the only manufacturer of yarn with a scent; she advertised her yarn with the scent feature, and she had demonstrated that consumers

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<sup>33</sup> United States Trademark Association Trademark Review Commission Report and Recommendations to USTA President and Board of Directors, 77 TMR 375, 421 (1987)

<sup>34</sup> **See**, *In re Clarke*, 17 U.S.P.Q.2d 1238, 1239 (T.T.A.B. 1990).

<sup>35</sup> *Ibid* at 1238

<sup>36</sup> *Ibid* at 1239

recognized the scent as an indicator of origin.<sup>37</sup> Thus, according to the TTAB, these facts presented a "prima facie case of distinctiveness" for the fragrance mark.<sup>38</sup> In *Qualitex Co. v. Jacobson Prods. Co.*<sup>39</sup> the Supreme Court acknowledging the Board's decision of using fragrance as a mark in Clarke case ruled that, "scent marks can be affixed directly to or infused into the product, like the Plumeria blossom-scented yarn or hypothetical raspberry-scented upholstered furniture, or could even be affixed as a scratch-and-sniff or scented card".

There has been few registration of scent marks following the decision of Clarke's case. For example, one manufacturer has filed an application for a scent mark that consists of a lemon fragrance<sup>40</sup> for use in connection with a toner for digital laser printers, photocopies, microfiche printers, and telecopiers. The unusual relationship of a lemon scent for printer toner places this mark in the unique scent mark category. Arguably, functionality will not hinder this registration because a lemon scent has no necessary relationship to toner and is not required for its commercial success. The United States Patent and Trademark Office (U.S.P.T.O) has recently granted the mark its first extension.<sup>41</sup> The U.S.P.T.O has registered the "cherry scent" for "synthetic lubricants for high performance racing and recreational vehicles"<sup>42</sup>. The same registrant owns two registrations on the Supplemental Register for "lubricants and motor fuels for land vehicles, aircraft, and watercraft": "the grape scent of the goods"<sup>43</sup> and "the strawberry scent of the goods"<sup>44</sup>.

From the above discussion it becomes clear that in United States the modern trademark law has expanded trade dress protection, especially sensory mark protection in recent

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<sup>37</sup> Ibid at 1239

<sup>38</sup> Ibid at 1240

<sup>39</sup> 514 U.S. 159, 173-74; 34 U.S.P.Q. 2d (BNA)1161, 1167(1995)

<sup>40</sup> Serial No. – 75-120036. The mark was filled June 17, 1996 and published February 11, 1997.

<sup>41</sup> Ibid.

<sup>42</sup> Reg. No. 2463044

<sup>43</sup> Reg. No. 2568512

<sup>44</sup> Reg. No. 2596156

years. In light of Clarke and Qualitex ruling it becomes clear that applicants can overcome possible functionality arguments, in both primary and secondary scent applications, by merely proving that the particular scent is not necessary for the function of the product.

### **Position of Smell Marks in Europe**

European trademark law has undergone historic changes<sup>45</sup>, first through the introduction of Harmonisation Directive of 1989<sup>46</sup> and secondly by adopting the Community Trademark Regulation in 1993<sup>47</sup>. The 1989 directive applies to all marks registered in the national offices for products and services including individual, collective and certification marks.<sup>48</sup> The Community Trademark Regulation which forms the second part of a community trademark integration plan creates a community-wide mark; it offers a unitary system<sup>49</sup>, which simplifies trademark registration, enabling a mark holder to maintain the mark throughout the European Union through use in a single country. A registration in

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<sup>45</sup> See, Luis-Alfonso Duran, “*The New European Trademark Law*”, 23 Denv. J. Int’l. & pol’y 489, 499 (1995). The European Union adopted the Regulation and Directive in an attempt to harmonize E.U. trademark law and remove internal barriers restricting free trade and competition.

<sup>46</sup>First Council Directive 89/104/EEC of 21 Dec. 1988 to Approximate to the Laws of the Member States Relating to Trade Marks, recitation 9, 1989 O.J. (L 40/1) [hereinafter Directive]. The trademark laws of its Member States contained disparities, which impeded, rather than furthered, economic cohesion accordingy the Directive provides “it is fundamental, in order to facilitate the free circulation of goods and services, to ensure that henceforth registered trade marks enjoy the same protection under the legal systems of all the Member States”

<sup>47</sup> See, Justin A. Horwitz, “*Conflicting Marks: Embracing the Consequences of the European Community and Its Unitary Trademark Regime*”, 18 Ariz. J. Int’l & Comp. Law 245, 261 (2001). “The Regulation sought to create a harmonious development of economic activities and a continuous and balanced expansion by completing an internal market which functions properly and offers conditions which are similar to those obtaining in a national market...[T]o create a market of this kind...barriers to [the] free movement of goods and services [must] be removed and arrangements [must] be instituted which ensure that competition is not distorted. Moreover, variables in each nation's laws make it more difficult for individuals to buy and sell”. In the long march of history, we will see the development of intellectual property laws at the global level.

<sup>48</sup> See, Eric P. Raciti, “*The Harmonisation of Trademarks in the European Community: The Harmonisation Directive and Community Trademark*”, 78 J. Pat. & Trademark Off. Soc’y 51; See also, Charles Gielen, “*Harmonisation of Trademark Law in Europe: The First Trademark Harmonisation Directive of the European Council*”, 14 (8) E.I.P.R. 262-269 (1992).

<sup>49</sup> See, Catherine Seville, “*Trademark Law: The Community’s Thinking Widens and Deepens*”, 53 ICLQ 1013.

one region will affect the registrant's ability to obtain or register trademarks in the entire European Union.<sup>50</sup>

Article 4 of the Regulation defines trademark as, “any sign capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of goods or of their packaging, provided that such signs are capable of distinguishing the goods or services of one undertaking from those of other undertakings”. The explanatory memorandum to the EC Harmonisation Directive also made it plain that a trademark could comprise any sign which performed the basic function of distinguishing the goods and services of one business from those of another.<sup>51</sup> Shortly after the decision of the United States Supreme Court in *Qualitex* ruling<sup>52</sup>, where in the court adopted a broad view on registration of marks and supported its practices of registering fragrances, the smell of freshly cut grass for tennis balls<sup>53</sup> was registered in the European Union.

Although theoretically, the European trademark permits registration of olfactory marks, in practice, the European trademark registries took the regressive line in *Sieckmann v. Deutsches Patent-und Markenamt*<sup>54</sup>. The *Sieckmann* case involved the registration of a “balsamically fruity smell with a slight hint of cinnamon” for services ranging from advertising and education to medical, agricultural, and scientific services. The application included representation of the scent by a chemical formula, a description of the scent, and a sample of the scent. Two questions were referred to the ECJ: (1) whether a mark which cannot be reproduced visibly can nevertheless be reproduced with certain aids, and (2) whether the requirement for graphic representation in Article 2 is met when

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<sup>50</sup> See, Vincent O'Reilly, “*The Community Trademark System: A Brief Introduction and Overview*”, 8 Marq. Intell. Prop. L. Rev. 93 (2004)

<sup>51</sup> See, Debrett Lyons, “*Sounds, Smells and Signs*”, 16 (12) E.I.P.R. 540-543 (1994)

<sup>52</sup> Supra note 23

<sup>53</sup> *Venootschap onder Firma Senta Aromatic Marketing's Application* [1999] E.T.M.R. 429 (Eur. Comm. Trade Marks Office, Second Board of Appeal).

<sup>54</sup> Case C-273/00, 2003 E.T.M.R. 37.

an odour is reproduced by (a) a chemical formula, (b) a description, (c) a sample or (d) a combination of these elements.<sup>55</sup>

The Court held that the list of signs in Article 2 of the Trademark Directive is not exhaustive and that the provision does not expressly exclude signs which are not in themselves capable of being perceived visually, such as odours.<sup>56</sup> Instead, Article 2 must be interpreted as meaning that a trade mark may consist of a sign which is not in itself capable of being perceived visually, provided that it can be represented graphically.<sup>57</sup> Turning to the graphic representation requirement the Court held that graphic representation must enable the sign to be represented visually, particularly by means of images, lines or characters, so that it can be precisely identified.<sup>58</sup> In sum, the representation must be clear, precise, self-contained, easily accessible, intelligible, durable and objective.<sup>59</sup> Accordingly the court observed that in the present case the applicant had attempted to describe the sign, a scent, by using a chemical formula. The Court ruled that this did not constitute sufficient representation<sup>60</sup>; Further, the formula did not represent the odour of a substance, but the substance as such.<sup>61</sup> It was further held that none of the means the applicant had used satisfied these criteria. The policy behind this decision was to enable people checking the trade marks register to be clear about what is registered, given the nature of the registry.<sup>62</sup> The [Sieckmann] decision makes it very difficult, if not impossible, to register a smell as a mark, at least until such time as it can be demonstrated that technology exists which can identify smells with sufficient clarity,

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<sup>55</sup> See, Seiko Hikada and Nicola Tatchell et al., “A Sign of the Times? A Review of Key Trade Mark Decisions of the European Court of Justice and Their Impact Upon National Trademark Jurisprudence in the EU”, 94 Trademark Rep. 1105 at 1115

<sup>56</sup> In [*Sieckmann v. Deutsches Patent-und Markenamt*] Case C-273/00, 2003 E.T.M.R. 37

<sup>57</sup> Ibid at 45

<sup>58</sup> Ibid at 46

<sup>59</sup> Ibid at 48-54

<sup>60</sup> Ibid at 55

<sup>61</sup> Ibid at 69

<sup>62</sup> Ibid at 73

precision and objectivity.<sup>63</sup>

Further illustrating the barriers to scent mark registration in the E.U., as well as the E.U.'s arguable opposition to scent mark registrations, the Fourth Board of Appeals recently rejected a scent mark application with a graphic representation consisting of a rectangle with various bands of color resulting from digitized electronic signals emitted from the sense itself.<sup>64</sup> The Board reasoned as follows:

“[T]he coloured matrix filed does not comply with the graphic representation requirements...as it does not allow the relevant public to perceive the identity of the sign or to determine the extent of its protection. It is not sufficient for the sign to be technically capable of reproduction. The [sign] must also be perceived as such by users of the register and it must enable them to obtain the necessary indications in order to be able to interpret this”

The Court's reasoning reveals the European Union's hesitancy to grant property rights in a scent, and arguably illustrates its opposition to the registration of scent marks altogether.<sup>65</sup>

### **Position of Smell Marks in United Kingdom**

The Trademark Act of 1994 broadened the definition of what constitutes a mark and potentially brought the law closer to that of United States. Ever since the functioning of new act, applications to register smells, shapes and sounds as trademarks have been filled. The idea was that human responses can be stimulated by other senses apart from sight.<sup>66</sup> Initially the registry made it clear that it felt that smell marks could be adequately described in words, which was followed by Unicorn Products Limited successfully

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<sup>63</sup> See, David Vaver, “*Recent Trends In European Trademark Law of Shapes, Senses and Sensation*”, 95 Trademark Rep. 895

<sup>64</sup> See, Case R 186/2000-4, Institut pour la Protection des Fragrances' Application, 2005 E.T.M.R. 42.

<sup>65</sup> See, Melissa E. Roth, “*Something Old, Something New, Something Borrowed, Something Blue: A New Tradition in Non-traditional Trademark Registrations*”, 27 Cardozo L. Rev. 457.

<sup>66</sup> See, Helen Bruton, “*The UK Trademarks Act 1994: An Invitation to an Olfactory Occasion*”, 17 (8) E.I.P.R. 378-384 (1995)

registering the smell of bitter beer in respect of flights for darts under the simple description “the mark comprises of the strong smell of bitter beer applied to flights.”<sup>67</sup>

Since Sieckmann case there has been no pro “smell” mark decision in the United Kingdom, France and Germany<sup>68</sup> or the Benelux Courts. It therefore appears that until a thorough smell classification system, smells will not be registrable. Some granted smell marks do still exist that may now be vulnerable to revocation, such as the smell of roses for tyres in the United Kingdom.

### **Position of Smell Marks in Australia**

Australia follows the restrictive approach set by European courts. The definition of ‘sign’ in the 1995 Act specifically recognises that shapes, colours, sounds, and scents can potentially perform the function of trademark. Thus ‘the smell of beer applied to flights for darts was accepted in principle for registration in Australia’<sup>69</sup>. However, it is very important to note that the Australian courts are also following the Sieckmann test for determining non-standard marks. In other words an application for the registration of a trademark will be rejected if the trademark cannot be represented graphically.<sup>70</sup>

## **IV. ARGUMENTS FOR AND AGAINST PROTECTING SMELL MARKS**

From the above study it becomes clear that United States and European Union with other countries have formulated different approaches in dealing with smell mark applications. The characteristic features of non-standard marks and the test for distinctiveness, whether inherent or acquired, is still in the process of developing. The standards laid down have been conflicting, and are evolving from a relatively generous approach to the rather

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<sup>67</sup> See, *Distinctly Peculiar: UK Trademark Trends, 1999-2000* Managing Intellectual Property at 30.

<sup>68</sup> German trade mark practitioners now seem to be taking the approach post-Sieckmann that smell marks are incapable of registration as they are incapable of graphic representation per se. 5 December 2001 (R711/1999-3).

<sup>69</sup> Trade Mark 700019

<sup>70</sup> Section 40 of the Trademark Act of 1995

protective public interest approach. The Sieckmann criterion has provided the required guidance for handling smell marks in Europe and the Qualitex ruling has accordingly provided the required guidance for handling smell marks in United States. It is far from certain which is the best or the correct position in law.

**Arguments against protecting smell marks:** Bettina Elias<sup>71</sup> in her scholarly work has laid down two important arguments against affording trademark protection to fragrances. In order for a fragrance to function as a trademark before a sale is made, two conditions must be satisfied. First, consumers must have access to a product's scent before they purchase the product; only if this is true can the scent indicate origin and thereby influence the decision to purchase. If the consumer must wait until the product is put to use at home in order to smell its scent, the opportunity for scent to function as a trademark at the point of sale is lost.<sup>72</sup> Second, the consumer must not only be able to recognize a product's scent as familiar, but he or she must also be able to link the scent with the identity of the product (or manufacturer) on a reliable basis. In her opinion these two conditions will not be met in majority of the cases.<sup>73</sup> From this follows her second argument: even if a product's fragrance functions as an origin-identifier, the manufacturer seeking to protect that mark from infringement must be able to demonstrate that similar scents will create a likelihood of confusion.<sup>74</sup>

Accordingly she also compared fragrance and color marks. It is a fact that fragrance and colours both are composed from a spectrum of primary elements that can be blended into a vast number of combinations. On the other hand, similar fragrance blends, like similar colors can be difficult to distinguish without expert assistance.<sup>75</sup> For these reasons, judicial application of the color depletion and shade confusion theories is likely to

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<sup>71</sup> See, Bettina Elias, “*Do Scents Signify Source: An Argument Against Trademark Protection for Fragrances*”, 82 Trademark Rep. 475

<sup>72</sup> Ibid at 477

<sup>73</sup> Ibid at 477

<sup>74</sup> Ibid at 479

<sup>75</sup> Ibid at 479

parallel possible future treatment of the issues of fragrance depletion and scent confusion. If anything, the practical difficulties in the administration of fragrance marks are likely to prove even more onerous than in the color mark context.<sup>76</sup>

**Arguments for protecting smell marks:** James Hawes a California intellectual property attorney and one of the first commentators on this subject, asserts that product scents merit trademark protection.<sup>77</sup> Hawes observes, that the role of fragrance in many of today's products highlights the function of a product's smell not only to sell but also to distinguish.<sup>78</sup> Further Hammersley<sup>79</sup> in his scholarship explains that a strong relationship exists between scent and human memory, which makes scents effective trademarks. According to him whenever people think they are recalling odors, they are actually thinking of some object associated with an odor.<sup>80</sup> Trygg Engen<sup>81</sup>, a leading researcher in psychophysics, also states that a long-term odor memory can be established with only one exposure and then, like a bad habit, this odor connection is difficult to unlearn and forget. Engen also reveals that once humans have made one association with a scent, it is difficult for them to replace the association with another one.<sup>82</sup> Hammersley also addresses the practical difficulties by taking a very different approach. Accordingly to him registration of fragrance marks must be differentiated from other types of trademarks. For example, a drawing required for the application of a color mark requires no more of a definition than pink, although there are many variations on the color pink. Accordingly the registrant in Clarke defined her scent as plumeria blossoms, and the applicant for the scented toner defined the scent as lemon. Therefore, a brief description of the scent should satisfy the drawing requirement.<sup>83</sup>

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<sup>76</sup> Ibid at 480

<sup>77</sup> See, James E. Hawes, "Fragrances as Trademark", 79 TMR 134 (1989)

<sup>78</sup> Ibid at 142

<sup>79</sup> See, Faye M. Hammersley, "The Smell of Success: Trade Dress Protection Fro Scent Marks", 2 Marq. Intell. Prop. L. Rev. 105

<sup>80</sup> Ibid at 118

<sup>81</sup> See, Trygg Engen, Odor Sensation and Memory (1991)

<sup>82</sup> Ibid at 6

<sup>83</sup> See, Supra note 79 at 119

## V. ECONOMIC JUSTIFICATION OF SMELL MARKS

Richard A. Posner and William M. Landes<sup>84</sup> in their scholarly work proposed a formal legal model describing the function of trademark as reducing consumer search cost. As already studied they argued that information produced by trademark is of two sorts. One is information that enables the consumer to identify the source of goods through distinctive marks and the other sort of information produced by the trademark is the information about the product itself.<sup>85</sup> We find that the justification of smell marks revolves around Posner's model. As provided by Posner's model we define the full price ( $\alpha$ ) of good "Y" as its money price (M) plus the search cost (S) incurred by the buyer in obtaining information about the relevant attributes of Y:-<sup>86</sup>

$$\alpha = M + S (T; A \& W)$$

$\alpha$  = full price of good 'Y'

M = money price of good 'Y'

S = search cost incurred by buyers in obtaining information of good 'Y'

T = trademark of good 'Y'

A = search cost (S) also depends on factors other than 'T', such as cost of advertising, the technology available for producing information and the number of competitors for good 'Y'

W = index of availability of words and symbols, which can be used as trademarks

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<sup>84</sup> This model was formulated by Richard A. Posner and William M. Landes and is referred to as Posner's model in our study; See, Supra note 8.

<sup>85</sup> Ibid.

<sup>86</sup> Ibid.

The proposition provided by Posener's model is very simple, if the full price of good 'Y', i.e.  $\alpha = 500$ , a producer with (search cost)  $S = 200$  will sell its brand of 'Y' for 300, and a producer with (search cost)  $S = 100$  will sell its brand of 'Y' for 400. It is pertinent to note at this juncture that Posener's model ignores factor (A) and assumes that factor (W) is always greater. In other words the greater the availability of words and so on for the use as trademarks (the greater is 'W'), the lower will tend to be values of 'S' for a given value of trademark 'T' making the mark distinctive. It is our argument that the market for words is getting congested. Accordingly if the availability of words and so on for the use of trademarks is lower (the lower is 'W'), the greater will tend to be values of 'S' for a given value of trademark 'T'. In other words any decrease in the market for words would increase the search cost and will make the mark non-distinctive and accordingly lack of distinctiveness would make the mark incapable of identifying the good and recalling to a consumer the information which will lower his search costs and enable the producer to charge a higher price. Furthermore the distinctive marks need more than mere traditional television and print advertising to reach consumers. Our argument is also well supported by the words of branding guru Martin Lindstorm who states that, "if branding wishes to survive another century it will need to change track and more communication by using mere words in an already overcrowded world simply won't do it"<sup>87</sup>. Lindstorm<sup>88</sup> further argues for new track which would have brands go beyond sight and sound to reach consumers through smell and taste.

Secondly it is our argument that smell marks increases the cost of duplication and accordingly the incentive to free ride is much lesser when compared to other standard marks, where the cost of imitation is minimal. Incentive to free ride in case of standard marks depends on three factors:

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<sup>87</sup> See, Martin Lindstorm, "*BRAND Sense: Build Powerful brands through touch, taste, smell, sight and sound*" (Free Press: New York 2005)

<sup>88</sup> His ideas come from a market research study that began with focus groups in 13 countries exploring the role of the senses in creating brand loyalty to ten global and local brands. The study also involves an online survey with 2000 people in United States and United Kingdom providing information on sensory associations and purchase intent and more.

- Profits generated by the marks of good Y [P(T)]
- Cost of duplication (D)
- Cost of Infringement (I)

If we write a firm's incentive to free ride function 'β' as

$$\beta = P(T) - D - I$$

It is argued that every firm would have incentives to free ride on the profits generated by the marks until the  $P(T) > (D + I)$ ; the moment  $P(T) < (D + I)$ , there is less incentives to free ride. In a given case where the cost of infringement is fixed, the smell marks by their very nature increase the cost of duplication or imitation and thereby ensure that marks produce information which identify the source and reduce the search cost for the producer of the good (Y) and thus encourages expenditures on quality. A firm's incentive to invest resources (through advertising) in developing and maintaining a strong mark depends on its ability to maintain consistent product quality. In other words trademarks are valuable because they denote consistent quality, and a firm has an incentive to develop trademark only if it is able to maintain consistent quality.<sup>89</sup> It is our argument that non standard marks with specific regard to smell marks will increase the cost of duplication and consequently help in preserving the quality, which is the most important function of any mark.

## VI. CONCLUSION

From the outset it looks like European courts have formulated the Sieckmann test based on the arguments of Bettina Elias and the courts in United States have decided the Qualitex ruling based on the arguments of Hammersley. From the point of view of traders it is argued that the approach of United States is considered necessary. However Sieckmann test cannot be ignored and the policy behind the decision has been to enable people to check the trademark register and to be clear about what is registered.

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<sup>89</sup> A firm with a valuable trademark would be reluctant to lower the quality of its brand because it would suffer a capital loss on its investment in the trademark. See Carl Shapiro, "Premiums for High Quality Products as Returns to Reputations", Q.J. Econ. 659 98 (1983)

However from the perspective of European harmonisation the approach adopted in Sieckmann case looks problematic because it interferes with the freedom of member states to determine questions of trademark procedure. Such interference is contentious because the objective of the directive intended to leave member states free to fix the provisions of the procedure concerning the registration, the revocation and invalidity of trademarks. It is still being debated that Sieckmann criteria rests on unarticulated and problematic assumptions. Concerns have also been raised on the role that bureaucratic requirements of registering intellectual property rights play in shaping intellectual property law and policy.

A trademark's objective is to trigger the source of a product in a consumer's mind. Companies that add fragrances to products report the scent to be an important indicator of the product's identity.<sup>90</sup> General Motors, with the help of focus groups and a laboratory, recently created a scent it called Nuance. It is the ethereal scent of factory freshness, a new car smell, that since 2003 has been infused into the leather seats of every new Cadillac put on the road. Furthermore researchers in France have found that customers stayed longer and spent more in a restaurant infused with the scent of lavender, concluding that scents could influence even consumption environments. Since scents are being used as a marketing tool it is argued that the protection should be extended as well.

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<sup>90</sup> See, H. Dunlop, *Fragrance for Today and Tomorrow?*, Volume 13, Number 2, PERFUMER & FLAVORIST 59

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