

## Trademark “Coexistence” Agreements: Legitimate Contracts or Tools of Consumer Deception?

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### Abstract

Coexistence agreements allow potentially confusing trademarks to coexist in the market without trademark infringement lawsuits. Although competitors frequently use coexistence agreements to avoid or settle lawsuits, there is no significant scholarship discussing the legal validity of such agreements in terms of antitrust and trademark law. This paper discusses the validity of coexistence agreements between manufacturers of similar products.

The discussion begins with historical reasons for trademark protection and goes on to explore whether trademarks are the property of their “owners.” The validity of coexistence agreements hinges on this concept. If trademarks are property of their “owners,” then coexistence agreements are valid despite the possible harm to the public interest. If, on the other hand, trademarks are not their “owners’” true property, then, in evaluating the validity of coexistence agreements, courts should consider the agreements’ usefulness or possible harm to the public.

Another relevant aspect of trademark law is the law and economics of trademark protection. The main effect of trademark protection in terms of economics is the reduction of consumer search costs. If manufacturers keep the quality of their product constant, then consumers will use a trademark as a proxy for the product’s quality. This gives manufacturers an incentive to invest in and maintain their products’ quality.

Next, the paper explores views of various international

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tribunals on the validity of coexistence agreements. Courts' interpretations vary from validating an agreement based solely on its terms without considering public interest to invalidating an otherwise legitimate agreement because it violates public policy. The proposed explanation for this difference is that courts consider the type of products subject to a coexistence agreement. If fashion items are involved, the courts will not consider public interest even if the trademarks are confusingly similar. If, on the other hand, the product in question is medication, courts will invalidate a coexistence agreement between manufacturers who own confusingly similar marks to protect public health.

The next section of the paper discusses antitrust implications of coexistence agreements. Generally, coexistence agreements do not violate antitrust laws, but they nevertheless may affect competition between manufacturers of similar products. Two possible aspects of competition affected by coexistence agreements are the price and quality of products. However, the effect of a coexistence agreement on quality and price is unpredictable. Depending on the behavior of a manufacturer, a coexistence agreement may increase or lower the price of a product; the same goes for the product's quality.

Finally, the paper concludes that, in evaluating the validity of coexistence agreements, courts should consider public interest based on a sliding scale. The more vital the public interest implicated by the agreement (such as public health), the more strictly should the court scrutinize it. The standard for invalidating an agreement in case of a vital public interest is the likelihood of confusion. If the trademarks involved in the agreement are likely to be confusing to the public, the agreement should be invalidated. Conversely, if the trademarks involved are not likely to cause public confusion, then the court should allow the agreement to stand.

## **I. Introduction**

Gerry and Lisa are newlyweds approaching their first anniversary. Lisa has always wanted to own a genuine Gucci handbag, and she thinks that she can make her dream a reality by dropping Gerry subtle hints. She leaves on Gerry's desk issues of *Vogue* open to the page with her dream bag. Gerry loves his wife very much, and he quickly catches on to why, wherever he goes, he sees a magazine open to a page displaying the same handbag. That weekend he went to the Bloomingdale's handbag section and bought a bag that looked like the one Lisa wanted. Proud of his thoughtfulness, he triumphantly presented the gift to Lisa on their

anniversary. Anxious to see whether Gerry got the hint, Lisa opened the box, saw the bag, felt a momentary joy, and then spent the rest of the evening trying to suppress tears because the bag was Coach, not Gucci. It certainly looked like the one she wanted, and she could not blame Gerry for making that mistake, but it was not the Gucci purse she dreamed of.

The example above illustrates the potential problem with coexistence agreements. Gucci and Coach logos are very similar. Both companies have handbags in the same shape, color and size. Normally, such similarity in logos leading to consumer confusion would result in a lawsuit for trademark infringement by one of the companies. However, in this case, Gucci and Coach entered into a coexistence agreement allowing both parties to use their logo on their merchandise in spite of the possibility of consumer confusion. This paper will discuss the legitimacy of such agreements and their effect on consumers.

An important reason for trademark protection is preventing consumer confusion. Nevertheless, registrations for similar marks in the same product category exist. For example, the marks for Chanel, Gucci, and Coach are similar, and they are all valid. All three companies manufacture fashion products like handbags, clothes, shoes and cosmetics.

In order to coexist in the market “peacefully,” companies with potentially infringing trademarks sometimes enter into coexistence agreements, which allow them to continue marketing their products to the public without the fear of defending a trademark infringement lawsuit.

The legitimacy of coexistence agreements depends on several factors. One side of the coin is consumer confusion; if coexistence agreements allow confusing marks to exist in the market, then such agreements undermine the original purpose of trademark law – consumer protection. Another aspect of the issue is whether trademarks are the property of their owners. If the manufacturers own trademarks in the same way people own property, then coexistence agreements are legitimate. In other words, if trademarks are property, then the law’s primary concern is protecting the rights of property owners, not the public. On the other hand, if trademark protection exists for the benefit of the consumers, then coexistence agreements that impact consumers adversely lose their legitimacy and should not be allowed.

Further, coexistence agreements possibly violate antitrust laws. If coexistence agreements have the effect of reducing competition in the way proscribed by antitrust laws, then they may be

simply illegal. Even if technically these agreements are within the bounds of antitrust laws, they may still reduce competition among manufacturers of similar products to the public's detriment.

Part I of this paper will explore the historical reasons for trademark protection, and discuss whether trademarks are property. Part II will discuss the possible anticompetitive effects of coexistence agreements; how they affect the public and their validity in terms of antitrust laws. Finally, the paper will conclude with a discussion of whether coexistence agreements are legal, and if so, whether they are beneficial or detrimental to the consumer. The paper will make a recommendation on how courts should scrutinize coexistence agreements.

## **II. Trademark protection**

Currently, trademark protection is provided under the Lanham Act. In order to get protection under the Act, the owner must register the mark with the Patent and Trademark Office ("PTO").<sup>1</sup> If the mark is not registered with the PTO, the owner can get relief for infringement under the common law. Historically, however, common law rights were all trademark owners had to protect them.

### **A. Historical Reasons for Trademark Protection**

Historically, trademark protection law has its origin in the law of unfair competition.<sup>2</sup> In order to prevail in a claim for unfair competition, a provider of goods or services would have to show that another merchant made a material misrepresentation relating to his goods or services that was likely to mislead consumers.<sup>3</sup> There were two reasons for trademark protection. The law aimed to protect consumers from confusion, and to protect merchants from free-riders who could hijack the goodwill of the product to sell their own.<sup>4</sup> However, the common law rights were limited. They were confined

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<sup>1</sup> Lanham Trade-Mark Act, 15 U.S.C. § 1057 (2000).

<sup>2</sup> See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 1 cmt. e (1995) (stating that the protection of trademarks and other indicia of origin or sponsorship is a fundamental of the law of unfair competition).

<sup>3</sup> See *id.* § 2. See also *id.* § 3 cmt. b (defining materiality).

<sup>4</sup> See Rudolph Callman, *Unfair Competition Without Competition?*, 95 U. PENN. L. REV. 443, 445 (1947) (stating that unfair competition "affords relief wherever, by reason of an unjustifiable act, the goods of one party to the suit will probably be accepted by the purchasing public as the goods of another").

to instances where “the junior user is competing with the senior user and has imitated the mark in order to trade on the senior user’s goodwill.”<sup>5</sup>

## **B. Are Trademarks Property?**

Scholars have debated whether trademarks are property of their owners. Whether trademarks are property may affect the legitimacy of coexistence agreements. If trademarks are property, then their owners may use them as they wish, including entering into agreements allowing for coexistence of confusingly similar marks. In other words, property rights trump public rights. If, on the other hand, trademarks are not property, then the legitimacy of coexistence agreements depends on how such agreements affect public welfare. Freedom of contract is still important, but in certain cases, coexistence agreements may be declared to be against public policy.<sup>6</sup>

### **1. Arguments for “Trademarks Are Property” View**

Supporters of the trademarks as property approach argue that (1) trademarks have intrinsic value separate from the value of the company; (2) genericide may be likened to eminent domain; and (3) owners may license or assign trademarks in gross if the mark is famous.

Trademarks, like real property, have intrinsic value of their own. For example, the value of the Coca-Cola trademark alone is \$72,537,000.<sup>7</sup> Companies like Coca-Cola, McDonalds, Nike and Microsoft invest large sums of money into strengthening and promoting their marks, and their success should be rewarded with legal protection similar to the legal protection afforded to property rights.<sup>8</sup> Further, “[b]y granting ownership rights over trademarks, we

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<sup>5</sup> Stephen L. Carter, *The Trouble with Trademark*, 99 YALE L.J. 759, 765 (1990).

<sup>6</sup> See *infra* Part III(a).

<sup>7</sup> Netmark Patent & Trademark (2004), <http://www.netmarkpatent.com/eng/misyon.php> (last visited Nov. 18, 2005).

<sup>8</sup> See Felix S. Cohen, *Transcendental Nonsense and the Functional Approach*, 35 COLUM. L. REV. 809, 815 (1935) (stating that the argument for treating trademarks as property is that “[o]ne who . . . has induced consumer responsiveness to a particular name . . . has thereby created a thing of value; a thing of value is property; the creator of property is entitled to protection against third parties who seek to deprive him of his property”).

serve the twin goals of encouraging investment in product quality and preventing consumer deception.”<sup>9</sup>

In addition, trademark law recognizes the concept of genericide. Genericide occurs when a trademark becomes so common that it enters the everyday English language and becomes the most efficient way to describe the product.<sup>10</sup> If that happens, the mark loses legal protection.<sup>11</sup> The rationale is that the public has a right to efficient expressions, and that public right to the now-generic name outweighs the mark owner’s right to legal protection of the mark.<sup>12</sup>

The concept of genericide has an equivalent in real property: the eminent domain. According to the eminent domain principle, if a piece of land is required for public use, the owner of that property loses the ownership, and that property belongs to the public.<sup>13</sup> Scholars have likened the genericide concept in trademark law to the eminent domain concept in real property law.<sup>14</sup>

The final argument for the trademarks as property approach is that if a mark is famous, its owner can license its use to others without conveying its goodwill<sup>15</sup> and other assets.<sup>16</sup> For instance, sports fans wear shirts with their team logos. The team in question

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<sup>9</sup> Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687, 1688 (1999).

<sup>10</sup> See Stephen L. Carter, *Does It Matter Whether Intellectual Property is Property?*, 68 CHI.-KENT L. REV. 715, 722 (1993) (stating that “a trademark, even a very successful one, can become generic, should it lose its distinctive character and become an ordinary part of the market language”).

<sup>11</sup> *Id.*

<sup>12</sup> William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 271-73 (1987).

<sup>13</sup> *Id.*

<sup>14</sup> See *id.* (pointing out the analogy of genericide to eminent domain, but stating that if genericide is to be treated as eminent domain, the owner should be compensated).

<sup>15</sup> Infoplease, [www.infoplease.com/ipd/A0460423.html](http://www.infoplease.com/ipd/A0460423.html) (last visited October 18, 2005) (defining “goodwill” as “an intangible, salable asset arising from the reputation of a business and its relations with its customers, distinct from the value of its stock and other tangible assets”).

<sup>16</sup> See Lemley, *supra* note 9, at 1706-07 (discussing merchandizing rights and their effect on trademark law; stating that “the effect of . . . merchandizing right is to give trademark “owners” something they have never traditionally had: the right to control the use of the mark in totally unrelated circumstances”).

does not make shirts or any other products bearing the team logos. Instead, the team licensed the use of the mark to a clothes manufacturer who is otherwise unaffiliated with the team. This ability of famous mark owners to license their trademarks in gross represents another way law treats trademarks as property. If the “trademarks are property” view prevails, then coexistence agreements are legitimate, since in most cases, property rights trump public rights.

## 2. Arguments for “Trademarks are Not Property” View

The opposing view holds that trademark protection exists to benefit the public, even though their owners reap considerable profits from using them. The rationale is that trademarks exist to protect the public from consumer fraud,<sup>17</sup> lower the consumer search costs,<sup>18</sup> and not to benefit their owners directly. The fact that mark owners benefit a great deal from successful trademarks does not change the fact that the mark is not, strictly speaking, their property. The Holmes-Hand doctrine of a “qualified nature” of property in a trademark is that “a trade-mark is only a symbol of the good will of the business of the trade-mark owner.”<sup>19</sup> The proponents of the “trademarks are not property” approach cite the following arguments to support their case: (1) trademarks return to the public domain if not used; (2) trademark owners may not license a trademark without the accompanying product;<sup>20</sup> (3) trademark protection applies only if the mark is attached to the product; (4) if a mark becomes generic, it falls into the public domain; (5) there is no incentive to create more trademarks; (6) trademarks do not always belong to the first user; and (7) entering into coexistence agreements may diminish the distinctiveness of a mark and allow third parties to use similar marks.

When a trademark is not used for a certain period of time, it is considered abandoned, and returns to the public domain where others may begin using it.<sup>21</sup> If trademark protection rights attached for creation of trademarks and not their use to distinguish a product,

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<sup>17</sup> *See id.* at 1695 (stating that trademark protection exists “for one basic reason: to enable the public to identify easily a particular product from a particular source”).

<sup>18</sup> *See* Landes & Posner, *supra* note 12, at 269.

<sup>19</sup> *See* Callman, *supra* note 4, at 458.

<sup>20</sup> *See* Landes & Posner, *supra* note 12, at 284.

<sup>21</sup> *See* Carter, *supra* note 10, at 720.

there would be no reason for the use requirement before the rights attached.<sup>22</sup> On the other hand, barring adverse possession,<sup>23</sup> a real property owner may visit his property once a year for a week or once in ten years for a day without losing ownership rights to that property. This difference cuts against treating trademarks as property.

Furthermore, barring famous trademark licensing discussed above, a mark owner may not license a mark without also licensing the product identified by that mark.<sup>24</sup> Allowing free transferability of a trademark would defeat the purpose of trademark protection, namely, enabling consumers to identify a product source.<sup>25</sup> When famous mark owners license their marks, the products bearing the famous marks are not the same as the original product identified by that mark. For example, Coca-Cola is undeniably a famous mark, but the company may not license its name to another soft drink producer without also licensing the right to make the soft drink. This restriction on alienability of rights runs contrary to real property law under which the owner may divide his bundle of rights as he wishes.<sup>26</sup>

Trademark protection applies only if the mark is attached to a product. A company that invents a beautiful mark will not receive legal protection for it unless the mark identifies some product or service. Doing otherwise would render the main reason for trademark protection – prevention of consumer confusion – completely ineffective. The entire purpose behind trademark protection is to allow consumers to identify the source of a product by recognizing the mark borne by the product. If a mark exists independent from a product, it does not serve to protect the public

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<sup>22</sup> *Id.* at 722.

<sup>23</sup> See BLACK'S LAW DICTIONARY 59 (8th ed. 2004) (defining adverse possession as "[t]he use or enjoyment of real property with a claim of right when that use or enjoyment is continuous, exclusive, hostile, open, and notorious").

<sup>24</sup> See Irene Calboli, *Trademark Assignment "With Goodwill": A Concept Whose Time Has Gone*, 57 FLA. L. REV. 771, 773 (2005).

<sup>25</sup> See Lemley, *supra* note 9, at 1696 (stating that giving trademarks "some of the indicia of real property, such as free transferability – defeats the purpose of linking trademarks to goods in the first place").

<sup>26</sup> See BLACK'S LAW DICTIONARY 1252 (8th ed. 2004) (defining bundle of rights as "[t]he right to possess, use, and enjoy a determinate thing (either a tract of land or a chattel); the right of ownership").

from product confusion.<sup>27</sup> Contrary to this condition for protection, the rights of real property owners are protected regardless of how they use the property.

A trademark may also lose legal protection if it is too successful. If a mark becomes so ubiquitous that the public uses it to identify all products of a certain type rather than the products manufactured by the owner of the mark, the mark will enter the public domain and lose legal protection.<sup>28</sup> As Judge Kozinski eloquently stated, “[w]ords and images do not worm their way into our discourse by accident; they’re generally thrust there by well-orchestrated campaigns intended to burn them into our collective consciousness.”<sup>29</sup> Although some argue that this feature of trademark law is equivalent to the eminent domain concept of real property,<sup>30</sup> it is another way that trademark owners do not have complete control over their trademarks, and thus, arguably, are not true “owners” of their marks. Further, if the government takes someone’s property under the eminent domain rule, it must compensate the owner fairly for the property.<sup>31</sup> Contrary to the eminent domain’s requirement of just compensation, the government does not compensate the owners of trademarks that enter public domain. This lack of compensation requirement is another indication that trademarks are not truly their owners’ property.

In addition, the reason for legal protection of trademarks is

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<sup>27</sup> *But see* J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS 2 §18:25 (4<sup>th</sup> ed. 2005) (stating that a service mark can be transferred without tangible assets as long as the new owner of the mark provides services similar to those provided by the old owner of the mark). *See also* Visa, U.S.A., Inc. v. Birmingham Trust Nat’l Bank, 696 F.2d 1371, 1375 (Fed. Cir. 1982), *cert. denied*, 464 U.S. 826 (1983) (upholding the validity of assignment of a mark for check cashing services without a transfer of tangible assets).

<sup>28</sup> *See* Murphy Door Bed Co., Inc. v. Interior Sleep Systems, Inc., 874 F.2d 95, 101 (2d Cir. 1989) (holding that the term “Murphy bed” has become generic and entered public domain).

<sup>29</sup> Alex Kozinski, *Trademarks Unplugged*, 68 N.Y.U. L. REV. 960, 975 (1993).

<sup>30</sup> *See* Carter *supra* note 10, at 722.

<sup>31</sup> *See* Brown v. Legal Foundation of Washington, 538 U.S. 216, 231 (2003) (stating that the state may confiscate private property if it satisfies the public use and just compensation requirements). *See also* Carter, *supra* note 10, at 722 (stating that “if genericide is like eminent domain, then the rest of the takings equation must follow as well: the owner should be compensated for the value of the property lost!”).

not so that more trademarks enter the market.<sup>32</sup> On the contrary, having fewer marks (up to a certain point) may benefit the public, because it prevents public confusion. With so many brands of the same product available, consumers spend more time, and thus incur higher costs, in choosing the suitable one. Rather, “the law encourages the development of goodwill and the association of that goodwill with a mark.”<sup>33</sup> In contrast, real property ownership is encouraged so that land is put to useful exploitation in the country.

Trademarks do not always belong to the first person to use them.<sup>34</sup> The law confers protection only to those trademarks that are actually in use; registering a mark for the purpose of preventing others from using it is illegal.<sup>35</sup> Lemley cited examples of “legal entrepreneurs” registering such phrases as “Class of 2000,” “Titanic,” and a smiley face and stated that infringement actions for the use of those marks would be frivolous.<sup>36</sup>

Finally, entering into a coexistence agreement may diminish the distinctiveness of a mark and allow third parties to use similar marks in the same industry. For instance, in *MGW Group Inc. v. Gourmet Cookie Bouquets.com*, the National Arbitration Forum held that because petitioner had entered into a coexistence agreement with a third party who had a similar trademark, it could not claim that respondent’s use of a similar mark would confuse the public.<sup>37</sup> This decision essentially created an estoppel on trademark infringement claims for companies who enter into coexistence agreements with direct competitors and stipulate in the agreement that the marks are not confusing. The court’s holding is contrary to real property law: if a property owner gives neighbor A an easement on the property, it does not stop him from suing neighbor B for trespassing.

If the “trademarks are not property” view prevails, then the legitimacy of coexistence agreements will depend on whether they sufficiently violate public policy to be declared illegitimate in spite of

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<sup>32</sup> See Carter, *supra* note 5, at 768.

<sup>33</sup> *Id.*

<sup>34</sup> See Lemley, *supra* note 9, at 1696.

<sup>35</sup> *Id.* at 1696-97 (stating that “[t]rademark law protects source identification; it does not allow people to own designs or phrases outright and to prevent their use regardless of context”).

<sup>36</sup> *Id.* at 1696-97.

<sup>37</sup> *MGW Group Inc. v. Gourmet Cookie Bouquets.com*, Claim No: FA0405000273996, (NAF, 2004), available at [http://www.brownwelsh.com/HPLowry\\_archive/273996.htm](http://www.brownwelsh.com/HPLowry_archive/273996.htm) (last visited Oct. 21, 2005).

freedom of contract.

### C. Law & Economics of Trademark Protection

As with all areas of the law, trademark law has economic underpinnings. The law and economics expert, Judge Posner, has explored the economic implications of trademark protection.<sup>38</sup> There are several economic issues embedded in trademark protection: (1) search cost reduction for customers; (2) the costs of enforcing trademark rights; and (3) incentives for manufacturers to improve the quality of their products.<sup>39</sup>

The first economic effect of trademark protection is the reduction of consumer search costs. According to Judge Posner, once consumers become familiar enough with the products of various manufacturers, they begin to associate the trademark with the quality of the product.<sup>40</sup> This assumes that trademarks signify consistent quality.<sup>41</sup> Let's assume a consumer is in the market for toothpaste. Once he has enough experience with a certain brand, he uses that brand's trademark as a proxy for the quality of the toothpaste. The consumer does not have to research various toothpaste brands every time he runs out. If trademark protection did not exist and anyone could market his toothpaste under another's name, the consumer would not trust the brand and would therefore spend considerable time searching for the right quality.<sup>42</sup> Thus, trademark protection *significantly* reduces consumer search costs, since consumers do not have to spend time investigating the attributes of a particular brand “because the trademark is a shorthand way” of signifying the consistency of quality.<sup>43</sup>

Coexistence agreements generally allow similar marks to exist in the market simultaneously. If, as a result of such agreements, consumers confuse the source of the goods they buy, they will stop associating trademarks for that product with a particular standard of quality. Trademarks will no longer serve as a proxy for the quality

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<sup>38</sup> See Landes & Posner, *supra* note 12.

<sup>39</sup> *Id.* at 268-80.

<sup>40</sup> *Id.* at 269.

<sup>41</sup> *Id.* (stating that “[t]he benefits of trademarks reducing consumer search costs require that the producer of a trademarked tool maintain a consistent quality over time and across consumers”).

<sup>42</sup> *Id.*

<sup>43</sup> See Landes & Posner, *supra* note 12.

the consumer is used to, and the consumer will stop relying on trademarks as quality indicators and begin spending more time evaluating the product for quality. Thus, if coexistence agreements create customer confusion, the effect of reduced consumer search costs will be eliminated.

Another economic effect of trademark protection is the cost of legally enforceable trademarks.<sup>44</sup> These costs are low, at least with respect to fanciful marks.<sup>45</sup> One argument is that trademark protection may spur their owners “to create . . . a spurious image of high quality that enables monopoly rents to be obtained by deflecting consumer from lower-price substitutes of equal or even higher quality.”<sup>46</sup> However, these arguments “have gained no foothold . . . in trademark law, as distinct from antitrust law.”<sup>47</sup> Even if consumers sometimes spend more money on a brand-name product when they could have gotten a store brand for less, the overall effect of trademark protection is that trademarks lower consumer search costs and “foster quality control rather than create social waste and consumer deception.”<sup>48</sup> As a result of trademark protection, consumers spend less time searching for products of desired quality, which enables them to economize on the real costs.<sup>49</sup>

This underscores, once again, the importance of reducing consumer confusion with respect to different brands as much as possible. To the extent coexistence agreements create such confusion, they subvert the economic impact of trademark protection of reducing the costs through reducing the search time for the right quality of the product.

Finally, trademark protection encourages manufacturers to invest in maintaining the quality of their product.<sup>50</sup> Without a legal right to use a mark exclusively, there would be no benefit in

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<sup>44</sup> *Id.* at 273.

<sup>45</sup> *Id.* at 273-74 (stating that the reasons for the low costs with respect to fanciful marks are that (1) “transfer of the mark is automatically effected by a transfer of the rights to make the branded product”; (2) there is no rent seeking associated with staking out a fanciful mark; and (3) the costs of enforcement are relatively low).

<sup>46</sup> *Id.* at 274.

<sup>47</sup> *Id.* at 274-75.

<sup>48</sup> *See* Landes & Posner, *supra* note 12, at 274-75.

<sup>49</sup> *Id.*

<sup>50</sup> *Id.* at 280.

maintaining consistent quality, since a free-rider could attempt to pass off his lower-quality product for another’s higher-quality product.<sup>51</sup> This would mislead consumers into believing they are buying higher-quality merchandise, when, in fact, that is not the case.<sup>52</sup> Such deception would, in turn, increase the consumer search costs, since consumers would no longer be able to rely on the mark as an indicator of quality.<sup>53</sup> As a result, “the average quality of the product as a whole would be lower than with legally enforceable trademarks.”<sup>54</sup>

To apply this principle to coexistence agreements, if they create consumer confusion, then consumers would not be able to rely on the trademark as quality indicators. This would provide a disincentive for the manufacturer to maintain a certain level of quality, which, according to Judge Posner, would lead to the overall lower quality of the products affected by the coexistence agreement.<sup>55</sup>

Thus, if coexistence agreements create consumer confusion, they will have adverse effects on the economics of trademark protection. Such agreements, in case of confusion, would increase consumer search costs and remove the incentives to maintain the higher product quality.

### III. Coexistence Agreements

The International Trademark Association (“INTA”) defines a coexistence agreement as an “[a]greement by two or more persons that similar marks can coexist without any likelihood of confusion; allows the parties to set rules by which the marks can peacefully coexist.”<sup>56</sup> For example, in 1989, Apple Corps, The Beatles record label, entered into a coexistence agreement with Apple Computer.<sup>57</sup>

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<sup>51</sup> *Id.*

<sup>52</sup> *Id.*

<sup>53</sup> See Landes & Posner, *supra* note 12, at 280.

<sup>54</sup> *Id.*

<sup>55</sup> *Id.*

<sup>56</sup> INTA Glossary, available at <http://www.inta.org/info/glossary.html> (last visited Oct. 13, 2005).

<sup>57</sup> *Indus. Indem. Co. v. Apple Computer*, 79 Cal.App.4th 817, 823 (Cal. Ct. App. 1999); See *Johnson Pub. Co., Inc. v. Willitts Designs Int’l Inc.*, 1998 WL 341618, at \*3 (N.D. Ill. 1998) (describing a coexistence agreement where parties agree to each other’s use of similar marks if such use is restricted to certain types of product).

The agreement acknowledged the “similarity between their respective Trade Marks” and the parties’ wishes to “to avoid confusion between their respective business activities and to preserve their respective Trade Mark rights.”<sup>58</sup> According to the terms of the agreement, Apple would not use its name and logo on any computer products “specifically adapted for use in the recording or reproduction of music or of performing artist works,” and both parties would not oppose or attempt to cancel the registration of their trademarks.<sup>59</sup>

### A. Judicial Interpretations of Coexistence Agreements

Various tribunals around the globe weigh the validity of coexistence agreements differently. The decisions range from complete reliance on the terms of the agreement, to giving heavy weight to the agreement, to feeling free to invalidate an agreement if it is detrimental to public interest. Trademark examination offices around the world also have their own policies when it comes to allowing registration of marks for companies who have coexistence agreements with senior users of confusing marks.<sup>60</sup>

In *Ron Cauldwell Jewelry Inc. v. Clothestime Clothes Inc.*, the petitioner applied for a trademark Eye Candy to be used on fashion accessories such as belts, handbags, watches, etc.<sup>61</sup> The respondent owned a store named Eye Candy where it sold fashion accessories, but did not use Eye Candy as a trademark.<sup>62</sup> The petitioner and the respondent entered into a coexistence agreement, by which the respondent would not oppose the petitioner’s trademark application for Eye Candy, and the petitioner would not object to the respondent using Eye Candy for a store name.<sup>63</sup> The respondent opposed

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<sup>58</sup> *Indus. Indem. Co.*, 79 Cal. App. 4th at 823.

<sup>59</sup> *Id.*

<sup>60</sup> See, e.g., <http://english.jaw-hwa.com.tw/main.php?ID=a0003&NID=C0007> (stating that Chinese Trademark office “will accept a Letter of Consent or a co-existence agreement when two marks and their designated goods/services are similar to each other. However, if two marks and their designated goods/services are identical to each other, such Letter of Consent or co-existence agreement will not be accepted”).

<sup>61</sup> *Ron Cauldwell Jewelry Inc. v. Clothestime Clothes Inc.*, 63 U.S.P.Q.2d 2009, 2009 (Trademark Tr. & App. Bd. 2002) available at <http://www.uspto.gov/web/offices/com/sol/foia/ttab/2dissues/2002/121784.pdf>, 1 (last visited Oct. 21, 2005).

<sup>62</sup> *Id.*

<sup>63</sup> *Id.*

petitioner’s trademark application, arguing that the contract was ambiguous and without consideration.<sup>64</sup> The Trademark Trial and Appeal Board (“TTAB”) granted summary judgment to the petitioner based on the coexistence agreement.<sup>65</sup> The TTAB based its decision solely on the agreement, without considering any outside policy questions, such as consumer confusion, injury to public interest, etc.<sup>66</sup> It viewed the coexistence agreement as a contract, and it only concerned itself with contractual issues of ambiguity and adequacy of consideration.<sup>67</sup> Having decided that the contract was unambiguous on its face and not lacking in consideration, the TTAB had no difficulty granting summary judgment to the petitioner.<sup>68</sup>

In *Swatch Group Inc. v. Movado Corp.*, Swatch sued Movado for trademark infringement, claiming that Movado’s mark VENTURE infringed on Swatch’s mark VENTURA.<sup>69</sup> Unfortunately for Swatch, it had a coexistence agreement with a third party for an identical mark used for the sale of watches.<sup>70</sup> The court held that the agreement seriously diluted the distinctiveness of Swatch’s mark VENTURA.<sup>71</sup> In addition, the court stated that because the marks coexisted in the market place for four years, and the consumers of Swatch and Movado watches are sophisticated buyers, the likelihood of confusion did not exist.<sup>72</sup>

In *Times Mirror Magazines v. Field & Stream Licenses Co.*, the Second Circuit affirmed the grant of summary judgment to the defendant.<sup>73</sup> The plaintiff sued for breach of contract and trademark infringement and sought cancellation of its coexistence agreements with the defendant with respect to the “FIELD & STREAM” mark.<sup>74</sup>

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<sup>64</sup> *Id.*

<sup>65</sup> *Id.*

<sup>66</sup> *Id.*

<sup>67</sup> See *Ron Cauldwell Jewelry Inc.*, 63 U.S.P.Q.2d at 2013.

<sup>68</sup> *Id.*

<sup>69</sup> *Swatch Group Inc. v. Movado Corp.*, 2003 WL 1872656, at \*1 (S.D.N.Y. 2003).

<sup>70</sup> *Id.* at \*3.

<sup>71</sup> *Id.*

<sup>72</sup> *Id.* at \*4.

<sup>73</sup> *Times Mirror Magazines v. Field & Stream Licenses Co.*, 294 F.3d 383, 384 (2d Cir. 2002).

<sup>74</sup> *Id.*

The district court held that claims of trademark infringement, unfair competition and false designation of origin were precluded by the coexistence agreement.<sup>75</sup> The plaintiff argued that the agreement must be rescinded because coexistence of trademarks would “cause substantial consumer confusion and thus injure the public interest.”<sup>76</sup> The district court declined to set aside the contract to protect public interest.<sup>77</sup> The Second Circuit agreed and held that the party seeking to cancel a coexistence agreement must show that “the public interest will be significantly injured if the contract is allowed to stand.”<sup>78</sup> The showing required to overcome the validity of the agreement is higher than the likelihood of confusion in trademark infringement cases.<sup>79</sup> In this case, the harm to the public would be minimal, which is not sufficient to outweigh the public interest in holding parties responsible for their contractual commitments.<sup>80</sup>

Finally, the Andean Court of Justice placed perhaps the strongest emphasis on consumers in the resolution of a dispute between Merrell Pharmaceuticals Inc. (“Merrell”) and Allergan Inc. (“Allergan”).<sup>81</sup> Merrell applied to the Trademark Office for registration of its mark ALLEGRA.<sup>82</sup> Allergan opposed the registration based on its use of the name ALLERGAN and its registered marks ALLERGAN, ALLERGAN BOTOX and ALLERGAN GAS PERM.<sup>83</sup> In support, Merrell cited a coexistence agreement between itself and Allergan.<sup>84</sup> The Andean Court of Justice held that the coexistence agreement did not make ALLEGRA per se registrable.<sup>85</sup> The reason was not just the similarity between the two marks, but also because “the main intention is to protect

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<sup>75</sup> *Id.* at 389-90.

<sup>76</sup> *Id.* at 395.

<sup>77</sup> *Id.* at 390.

<sup>78</sup> *Id.*

<sup>79</sup> *Times Mirror Magazines.*, 294 F.3d at 390.

<sup>80</sup> *Id.*

<sup>81</sup> The Eleventh Annual Int’l Rev. of Trademark Jurisprudence, 94 TRADEMARK REP. 277, 355-56 (March-Apr. 2004).

<sup>82</sup> *Id.* at 355.

<sup>83</sup> *Id.*

<sup>84</sup> *Id.*

<sup>85</sup> *Id.*

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consumers.”<sup>86</sup> That is especially true in the field of pharmaceutical products “where confusion could generate irreversible damages to human health.”<sup>87</sup> Accordingly, the registration of ALLEGRA was refused.<sup>88</sup>

## B. Making Sense of Divergent Decisions

Courts and arbitration fora seem to diverge widely in their decisions. However, each case has its own circumstances to which the courts respond. In the case of Eye Candy trademark, one of the parties applied to register Eye Candy as trademark to use on their merchandise, while the other party simply used it as the name of its store.<sup>89</sup> In this case, there was not even a question of trademark confusion. The Eye Candy store was not a chain; it was a single store in New York City.<sup>90</sup> Nothing sold in the store bore the mark of Eye Candy,<sup>91</sup> and the possibility of consumer confusion was slight at best. Even if some people were confused, the overall effect on the public, the economy and the competition was negligible. Thus, it was reasonable for TTAB to rely solely on the contract.

In the *Swatch* case, the court mentioned the effect of similarity of trademarks on the public, but instead of focusing on the public interest, it used the public to support its conclusion that there is no infringement.<sup>92</sup> The members of public in question were sophisticated customers who paid hundreds of dollars for a watch.<sup>93</sup> The court reasoned that before investing a large sum of money into a watch, such customers would make sure that they are buying what they want.<sup>94</sup> However, the court did not discuss what would happen if

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<sup>86</sup> See Eleventh Annual Int’l Rev. of Trademark Jurisprudence *supra* note 81, at 356.

<sup>87</sup> *Id.* at 355-56.

<sup>88</sup> *Id.*

<sup>89</sup> See *Ron Cauldwell Jewelry Inc. v. Clothestime Clothes Inc.*, 63 U.S.P.Q.2d 2009, 2011 (Trademark Tr. & App. Bd. 2002) *available at* <http://www.uspto.gov/web/offices/com/sol/foia/ttab/2dissues/2002/121784.pdf>, 1 (last visited Oct. 21, 2005).

<sup>90</sup> *Id.*

<sup>91</sup> *Id.*

<sup>92</sup> *Swatch Group Inc.*, 2003 WL 1872656, \*4-5.

<sup>93</sup> *Id.* at \*4.

<sup>94</sup> *Id.*

a relatively unsophisticated consumer decided to buy an expensive watch as a present. For example, if a woman who had never purchased an expensive watch wanted to buy her boyfriend a Movado watch, she may not be as discerning as someone who is used to buying expensive items. Under these facts, not only would the similarity between Movado and Swatch watches be against public interest, but so would the coexistence agreement between Swatch and the third party. The court in *Swatch* seems either to have assumed that only sophisticated consumers buy expensive items, or that the number of unsophisticated people who buy expensive items is negligible. If the assumption is the latter, then the potential for confusion becomes minimal, and the coexistence agreement plays a larger, albeit collateral, role of weakening the distinctiveness of Swatch's mark.

To move from *Swatch* to *Times Mirror*, the court rejected the plaintiff's assertion that the coexistence agreement should be invalidated because it violates public policy, but it gave more consideration to the public.<sup>95</sup> By stating that the public interest must be greater than confusion to invalidate a coexistence agreement, the court tacitly acknowledged that there are situations where public interest may prevail over contract enforcement. The court did not indicate what the circumstances under which a coexistence agreement violates public policy would be, but it gave the impression that such circumstances exist. The court also did not identify the standard a proponent of agreement invalidation must meet in order to prevail. One possibility is that the industries agreeing to use a confusingly similar mark must be engaged in a similar trade, but that is unlikely, since in *Swatch v. Movado*, both parties were in the watch-making business, yet the case was decided by the same court as *Times Mirror*.

It is possible that the court would be persuaded that the public interest is important enough to outweigh the contract if the products in question were affecting public health, as was the case in *Merrell Dow Inc. v. Allergan Inc.*<sup>96</sup> In *Merrell Dow*, public interest prevailed over the interest of enforcing contractual agreements.<sup>97</sup> The parties

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<sup>95</sup> *Times Mirror Magazines v. Field & Stream Licenses Co.*, 294 F.3d 383, 395 (2d Cir. 2002).

<sup>96</sup> *Merrell Pharmaceuticals Inc. v. Superintendency of Industry and Commerce*, (Proceeding 50 IP 2001) (Andean Court of Justice), at <http://www.comunidadandina.org/normativa/sent/50-IP-2001.htm> (last visited Nov. 18, 2005).

<sup>97</sup> *Id.*

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had a coexistence agreement, according to which the defendant should not have opposed the plaintiff’s trademark application.<sup>98</sup> Under the above-discussed precedent (none of which is admittedly binding), the court should have ruled for the plaintiff. But, unlike *Ron Cauldwell*, where the arbitration forum relied solely on the contract without considering the public interest,<sup>99</sup> the ruling in *Merrell Dow* was based solely on public interest, without any weight given to the contract.<sup>100</sup> The difference in facts between these two cases is obvious: one involved fashion accessories, and the other, pharmaceutical products. In light of these differences, it is easy to understand the divergence of outcomes between *Ron Cauldwell* and *Merrell Dow*. Where coexistence agreements potentially affect public health, courts should question their validity much more readily.

### C. Do Coexistence Agreements Potentially Violate Antitrust Law?

Coexistence agreements may violate antitrust law. By entering into such agreements, competitors agree to limit the scope of the competition, which may implicate antitrust provisions. Below is the discussion of relevant antitrust law and how it affects coexistence agreements.

#### 1. Antitrust and Trademark Law

The Sherman Act criminalizes illegal monopolies<sup>101</sup> and restraint on commerce.<sup>102</sup> Examples of illegal monopolies include

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<sup>98</sup> *Id.*

<sup>99</sup> *See* *Ron Cauldwell Jewelry Inc. v. Clothestime Clothes Inc.*, 63 U.S.P.Q.2d 2009, 2022 (Trademark Tr. & App. Bd. 2002) *available at* <http://www.uspto.gov/web/offices/com/sol/foia/ttab/2dissues/2002/121784.pdf>, 1 (last visited Oct. 21, 2005).

<sup>100</sup> *Merrel Pharmaceuticals Inc.*, Proceeding 50 IP 2001.

<sup>101</sup> Sherman Act, 15 U.S.C. § 2 (2000). (stating that “[e]very person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony”).

<sup>102</sup> *Id.* § 1. (stating that “[e]very contract . . . or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal”).

price fixing, market share fixing, etc.<sup>103</sup> Courts have applied antitrust laws to trademark infringement cases.<sup>104</sup> Generally, it is not an antitrust violation to sue for infringement, unless the suit is a “sham” designed to keep legitimate competition off the market.<sup>105</sup> Similarly, the law encourages trademarks agreements between competitors that avoid expensive litigation.<sup>106</sup> However, if competitors enter into a trademark agreement that in reality divides the market between two companies, courts would invalidate such an agreement as an antitrust violation.<sup>107</sup>

There are two antitrust standards: the *per se* standard (where the practice is anticompetitive on its face), and the rule of reason standard (where anticompetitive effects must be proven with detailed economic analysis).<sup>108</sup> Coexistence agreements could fall into either

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<sup>103</sup> See *Susser v. Cavel Corp.*, 332 F.2d 505, 510 (2d Cir. 1964) (holding that “[e]ven in the absence of express contractual provisions which evidence an unlawful scheme, a charge of unlawful price-fixing may be substantiated by proof of a course of conduct by which the seller or licensor effectively maintains control of the ultimate retail price at which a product is sold”).

<sup>104</sup> See *Coca-Cola Co. v. Overland, Inc.*, 692 F.2d 1250, 1257 (9th Cir. 1982) (declining to decide whether filing a meritorious suit can ever constitute sham litigation that violates antitrust laws); *Alberto-Culver Co. v. Andrea Dumon, Inc.*, 466 F.2d 705, 711 (7th Cir.1972) (stating that “plaintiff’s good faith effort to enforce its copyright and trademark is not the kind of exclusionary conduct condemned by § 2 of the Sherman Act”); *Drop Dead Company v. S.C. Johnson & Son, Inc.*, 326 F.2d 87, 96 (9th Cir.1963) (registering multiple marks for wax products, mass advertising, mass sales and bringing of colorable infringement suits are lawful acts which do not “constitute the sort of aggressive competition and promotion that anti-trust law seeks to protect, particularly within the limits of lawful monopolies granted by Congress”).

<sup>105</sup> Shinder I. Jeffrey, *Role of Antitrust*, 785 TRADEMARK & ANTITRUST LAW 7, 22-24 (2004).

<sup>106</sup> See *Clorox Co. v. Sterling Winthrop, Inc.*, 117 F.3d 50, 61 (2d Cir.1997) (holding that a trademark agreement between the parties did not violate antitrust law, because the agreement did not prevent plaintiff from making a disinfectant; it simply prevented plaintiff from using the mark PINE-SOL on its disinfectant; thus, no illegal monopoly existed).

<sup>107</sup> See, e.g., *Timken Roller Bearing Co. v. United States*, 341 U.S. 593, 606 (1951) (stating that an agreement that serves to divide markets between competitors is illegal *per se* under antitrust law).

<sup>108</sup> See *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71 (1966) (setting out the elements of 15 U.S.C. §2). In order to prove impermissible monopoly, plaintiff must show “1) the possession of monopoly power in the relevant market, and 2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product-, business acumen,

category, depending on the terms of the agreement. For instance, parties could not enter legally into an agreement that prohibits one of them from making a certain product.<sup>109</sup>

Thus, although the law encourages competitors to enter into agreements in order to avoid expensive litigation and most trademark agreements do not violate antitrust law, some agreements could potentially create illegal monopolies or restraint of trade. As the *Clorox* court stated, “the goal is to determine whether restrictions in an agreement among competitors potentially harm consumers.”<sup>110</sup> Below is a discussion of the line competitors may not cross in entering into trademark agreements.

## 2. Apply Coexistence Agreements’ Effects on Consumers to Antitrust Law

As shown by the cases described above,<sup>111</sup> the main effect of coexistence agreements on consumers is the potential for confusion. Taking it to the broadest extreme, in some cases, coexistence agreements may lead to such blurring of the differences between various brands that consumers will come to view them as the same brand. This is more likely to happen with everyday goods than with luxury goods, since luxury goods consumers are more discerning.<sup>112</sup> Even with luxury goods, however, although pre-sale confusion is less likely, post-sale confusion is just as probable as with everyday goods, since the contingent of the relevant population includes the unsophisticated as well as the sophisticated consumer.

The question then becomes, if widespread confusion results from a coexistence agreement allowing confusingly similar marks to exist in the market, is this the kind of agreement that was proscribed by antitrust law? The purpose of antitrust law is to encourage competition and prevent companies from creating barriers to entry into a trade. Thus, the answer to the question would depend on whether an agreement between competitors with similar marks would result in a virtual monopoly preventing others from entering the market for similar goods. If no barrier is created, then there is no antitrust violation; conversely, if others find it impossible to enter the

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or historic accident.” *Id.*

<sup>109</sup> See Jeffrey *supra* note 105 and attached notes.

<sup>110</sup> *Clorox*, 177 F.3d at 56.

<sup>111</sup> See *infra* Part III(a).

<sup>112</sup> *Swatch*, 2003 WL 1872656, at \*1.

market for similar goods, then antitrust law is violated.

*Clorox Co. v. Sterling Winthrop, Inc.*<sup>113</sup> sheds light on this issue. In that case, the plaintiff's and the defendant's predecessors entered into a trademark agreement prohibiting Clorox from making certain products under the name PINE-SOL.<sup>114</sup> Clorox sued Sterling, alleging that the agreement violated antitrust law, since it created a barrier to entry into the market of disinfectants.<sup>115</sup> The court, however, rejected Clorox's claim and held that the agreement did not violate antitrust law.<sup>116</sup> The court pointed out that a trademark does not confer monopoly on the idea, but rather "a right to a name only."<sup>117</sup> Thus, the agreement between Clorox and Sterling did not prevent Clorox from making a disinfectant; it prevented Clorox only from using the name PINE-SOL on its disinfectants.<sup>118</sup> The court stated that the "antitrust laws protect consumers by prohibiting agreements that unreasonably restrain overall competition; thus, in order to fulfill the requirement of showing an actual adverse effect in the relevant market, 'the plaintiff must show more than just that he was harmed by the defendant's conduct.'"<sup>119</sup>

Clorox also asserted that its inability under the agreement to use the name PINE-SOL in its disinfectant effectively prevented it from competing with Sterling.<sup>120</sup> However, the court was not moved by this argument; it stated that "antitrust laws do not guarantee competitors the right to compete free of encumbrances . . . so long as competition as a whole is not significantly affected."<sup>121</sup>

The *Clorox* decision illustrates that the threshold for proving that a trademark agreement creates a monopoly is high.<sup>122</sup>

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<sup>113</sup> *Clorox*, 117 F.3d at 50.

<sup>114</sup> *Id.*

<sup>115</sup> *Id.*

<sup>116</sup> *Id.*

<sup>117</sup> *Id.* at 56.

<sup>118</sup> *Clorox*, 117 F.3d at 56.

<sup>119</sup> *Id.* at 57 (quoting *K.M.B. Warehouse Distrib., Inc. v. Walker Mfg.Co.*, 61 F.3d 123, 127 (2d Cir. 1995)).

<sup>120</sup> *Id.*

<sup>121</sup> *Id.* at 59.

<sup>122</sup> *Id.* at 57 (stating that "because the antitrust laws protect competition, not competitors, . . . and trademarks are non-exclusionary, it is difficult to show that an unfavorable trademark agreement raises antitrust concerns").

Trademark agreements are almost presumptively valid under antitrust law, and even if as a result of an agreement one competitor acquires a tremendous market power, that power is insufficient to invalidate the agreement.<sup>123</sup> Even if a party is effectively barred from introducing its product as a result of an agreement, antitrust law is not implicated as long as *someone* can introduce a similar or identical product under a different mark.<sup>124</sup> Thus, a coexistence agreement would violate antitrust law only if, as a result, no one can enter the market for the same type of product. Therefore, consumer confusion, while an important policy consideration in analyzing the validity of coexistence agreements, does not render such agreements illegal under antitrust law.

#### **D. Even in the Absence of Antitrust Violation, Do Coexistence Agreements Limit or Decrease the Competition Among the Parties to Such Agreements?**

Even in the absence of antitrust violations, coexistence agreements have a potential for stifling the competition. After all, antitrust law does not prohibit natural monopolies; rather, it prohibits monopolies formed as a result of collusion between companies for anticompetitive purposes. Nevertheless, coexistence agreements may create situations where others find it harder to compete. One of the instances would be the situation in the *Clorox* case, where Clorox could not use the mark PINE-SOL for its disinfectants. While they could introduce the same product under a different mark, the success of the product would not be nearly as great, because the mark PINE-SOL already had a consumer base, and Clorox would not have to invest as much money into marketing the brand and educating the consumer about the PINE-SOL brand. Below is a discussion of the effect of coexistence agreements on competition.

##### **1. Effect of Coexistence Agreements on Marketing Expenditure and Resulting Price Effects**

In some situations, a coexistence agreement may not restrict competitors from introducing products under a certain brand; an agreement may be a simple covenant not to sue for trademark infringement.<sup>125</sup> For example, if two fashion accessories companies

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<sup>123</sup> *Clorox*, 117 F.3d at 59.

<sup>124</sup> *Id.*

<sup>125</sup> Before arriving at such an agreement, competitors would probably try

with similar trademarks enter into that type of a coexistence agreement, each may find that it spends less money on the marketing of its brand, since consumers who are unable to differentiate between the brands would view both companies' advertising as one and the same. If the trademarks and the type of goods are quite similar, one company's commercials would create the demand for both companies' products. This would be truer with lower-end products where many of the consumers are not sophisticated, and the consumer pool is larger.

The upside of companies spending less money on marketing and advertising would be decreased prices. If companies save money, they might pass the savings to the consumers in an effort to win them over. If that result materializes, coexistence agreements would benefit the consumers from an economic standpoint.

On the other hand, coexistence agreements between companies with similar trademarks and products may increase the competition. Now that neither company can sue for infringement and force the other to change its trademark or stop making the same type of goods, companies may feel that they have to fight harder for consumers, and spend more money and effort to differentiate themselves from the other similar brands. This additional expenditure may lead to increased prices, and the consumer would suffer. The same result, however, might occur even in the absence of a coexistence agreement. If companies do not arrive at coexistence agreements, the same money might be spent in litigation, and the result would be the same – higher prices to the detriment of consumers.

## **2. Effect of Coexistence Agreements on Quality of Products**

Another possible effect of coexistence agreements is on the quality of the product. As was the case with price, quality may go in either direction. If there is sufficient consumer confusion as a result of coexistence of two similar marks for similar products, a party to an agreement may want to take advantage of a competitor's reputation and devote less effort to maintaining the product's quality. On the other hand, if a company feels more pressure to differentiate itself from a competitor in the resulting confusion, it may invest more into its product quality, advertise the superior quality, and differentiate itself from the competitor in the mind of the consumer based on the

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suing for infringement, or simply decide that litigation would be more expensive than entering into a coexistence agreement where competitors are not restricted in what kind of product they can introduce under a certain brand.

product’s quality. The other party to the agreement may feel compelled to do the same, and the coexistence agreement would have created more competition between the two than existed before. As with the price effect, the consumers would be affected in either scenario, but it is not clear that the price and quality effects are predictable. It is possible that, with price and quality variables, different companies will choose to behave differently even with similar coexistence agreements.

#### IV. Conclusion

It is not clear how coexistence agreements affect consumers. Much would depend on whether and to what extent coexistence agreements create consumer confusion. The greater the potential for confusion, the greater the possibility that consumers would be affected by a coexistence agreement. The potential for confusion would depend on several factors: (1) whether the parties to an agreement produce luxury goods consumed mostly by sophisticated consumers who are less prone to confusion; (2) the similarity of the trademarks subject to a coexistence agreement (the more similar the marks, the greater the potential for confusion); and (3) the similarity of the products subject to a coexistence agreements (the more similar the products, the greater the potential for confusion). The second and third factors must be taken together to get a more precise evaluation for the potential for confusion: if the trademarks *and* the products are similar, then the confusion is likely to be much greater than if only the trademark or the product subject to an agreement were similar.

In evaluating coexistence agreements for adherence to public policy considerations, the courts should balance the welfare of consumers with freedom and sanctity of contracts. The triggering factor would be likelihood of confusion: if there’s a potential for confusion, then a court should evaluate a coexistence agreement for violation of public policy. Courts should judge the legitimacy of the agreements on a sliding scale. On one end of the spectrum would be agreements affecting fashion items where confusion would not lead to public disasters like purchasing wrong medication. This is the Eye Candy type of situation where the court relied on the agreement without giving any consideration to the possibility of confusion or public interest. On the other extreme would be agreements affecting serious issues like public health. In this situation, as in *Merrell Dow*, courts should afford little deference to the parties to the agreement and strongly consider public interest in scrutinizing a coexistence agreement. The similarity of the marks should also be a factor in

considering the legitimacy of the agreement. The more similar the marks are, the less deference the parties should get. If the trademarks are largely identical, the agreement should be invalidated. For practical purposes, the stronger the brand, the more protective its owner will be, and even if a strong-branded company entered into a coexistence agreement with a competitor who owns a very similar mark, the company with a strong brand will invest a lot of effort in differentiating itself from the competitor and thus prevent consumer confusion.

Additionally, consumers should be able to petition the PTO for trademark cancellation if coexistence of confusingly similar marks pose a threat to public welfare. The PTO evaluation should be the same as that of the courts described above.

Thus, public welfare would be protected from harmful coexistence agreements by two avenues of possible attack. One of them is a consumer petition to the PTO for a cancellation of one of the confusingly similar marks. The other is a competitor suing directly in court to invalidate an agreement that allows coexistence of confusingly similar marks. As stated above, both the PTO and the courts should overrule the parties' right to freedom of contract only in the event of a significant detriment to public interest, such as public health.