

SUMMARY RECORD :
OECD/INNO-TEC WORKSHOP ON TRADEMARKS AND TRADEMARK DATA

The OECD and INNO-tec have co-organised a workshop on trademarks and trademark data, held on 16-17 July 2009, in the OECD conference centre in Paris. The conference was opened by welcoming remarks from Dominique Guellec. He expressed the interest of the OECD in the analysis of trademark data, which constitutes a new and promising field in empirical research. The OECD, which since long provides analyses and guidelines on innovation measurement, has recently turned to trademarks to complement the other traditional indicators, notably in the field of non-technological and service-related innovation.

The purpose of the workshop was to present and discuss current research conducted on trademarks from various perspectives, so as to better understand their functioning and their effect on firms and markets. The workshop brought together researchers in law and in economics, which gave way to fruitful discussions between the two fields which are much interdependent in the analysis of intellectual property rights in general, and trademarks in particular. The analysis of trademark law is closely linked to economic considerations, as trademark law itself is grounded on economic motives, and economic studies on trademarks and trademark data require a precise knowledge of their legal contours.

As reminded during the conference, trademark law's initial purpose is to reduce the consumer search costs, by avoiding confusion over the actual source of products sold on the market. Trademark rights bear this specificity that although they are granted to product sellers, they are aimed at protecting consumers.

Nevertheless, the existence of trademark law has a major impact on firm organization¹. The legal protection of brands by trademarks provides a means for firms to refer to and to promote their products, which leads them to develop marketing. Besides, trademarks favour the disaggregation of the production into flexible networks based on contractual relationship through outsourcing and franchising, which enables to increase the returns and the performance of the firm.

The impact of trademarks on firms is the subject of various empirical research in economics, which relate trademarks to other variables at the firm level. It has been shown that trademarks are related to innovative activity. Indeed brand names are an important means of adding value to innovations, and they can even be used as a means to appropriate the benefits of innovation². Trademarks can then, under certain restrictions, be used as a proxy to measure innovation.³ As they help to value innovation, trademarks have an impact on the performance and productivity of firms⁴. Furthermore at the aggregate level they are closely related to the business cycle⁵.

However the impact of trademarks on the economy of the firm is very dependent of how firms use the trademarks, and how the law allows to use them. In this regard the analyses of the recent evolutions of trademark law are very important. The use of trademarks is currently evolving in directions which tend to restrict competition. First there is evidence that firms recently tend to use trademarks in a strategic purpose in order to deter entry⁶. Beyond that, trademark law seems to move away from its original purpose of protection against confusion⁷: trademarks which were previously signals intended to help and inform consumers are more and more considered as a property in itself that firms have the right to protect and exploit.

¹ Presentations by Dan Burk, Andrew Griffiths

² Presentations by Stuart Graham, Georg von Graevenitz

³ Presentations by Meindert Flikkema, Valentine Millot

⁴ Presentation by Lilia Dominguez

⁵ Presentation by Georg von Graevenitz

⁶ Presentation by Ken Port

⁷ Presentations by Stacey Dogan, Mark McKenna, Barton Beebe

SUMMARY OF THE PRESENTATIONS :

ECONOMICS

Several empirical studies were presented concerning trademarks or trademark-related variables and their impact on the economics of the firm. There are various stakes in those studies : understand how trademark use interacts with other components of the firm behavior, appraise the economic impact of trademark use, and also see if trademarks could be used to proxy other variables, notably innovation.

Meindert Flikkema presented the first results of a survey by three researchers of the Vrije Universiteit of Amsterdam aiming at better understanding firms' TM registration behavior and its relation with innovative activity, so as to properly use trademark data in innovation statistics. The results of the survey, conducted on a sample of 660 firms, showed that a large majority of trademark registrations are used with a reference to innovation, most frequently service innovation. However the reference to innovation varies depending on applicant's characteristics, such as firm type, business affiliation, NACE sector, as well as characteristics of the trademark such as the Nice classes. This survey, though still preliminary, tends to support the idea that trademarks could be used in the measurement of innovation, if the right filters are applied.

One explanation of the relation between trademarks and innovation is that they are used by firms as a means to appropriate the benefits of innovation. This was pointed out by **Stuart Graham**, who presented results of the *2008 Kauffman-Berkeley patent survey*, focusing on the use of IPRs by firms in four different industries : biotech, medical device, IT/software/internet, and cleantech. The results, built on a sample of 10 500 firms, showed that there is a complementary use by firms of the various appropriability means such as patents, trademarks or secrecy. However there are differences depending on firm characteristics, e.g. the type of firm (patents are more important compared to trademarks for venture-capital –backed firms), or the sector (trademarks achieve better results for software firms and not for biotech and medical firms).

As a proxy of innovative activity, trademarks are likely to impact firm performance. **Lilia Dominguez** presented a study on the impact of the use of intellectual property on the productivity of firms in the Mexican industry, based on three sources of information : the Mexican Economic census, the National Survey on Employment, Wages, Technology and Training and the Annual Industrial Survey. The results showed that trademarks have a positive impact on the value added of the firms, but only significant for firms that conduct R&D. Trademarks would then have a positive impact on productivity only when they are accompanied by activities related to technological effort, which supports the idea that they are highly related to innovative activity.

Another line of empirical research on trademark use by firms consists in using administrative IP data matched with firm data. **Valentine Millot** gave a presentation on the patterns of use of trademarks by French firms, based on trademark data from the OHIM matched with firm data from ORBIS and EPO patent data. The results of the study showed that trademark and patent use are highly correlated, suggesting a link between trademarks and innovation, although this link varies significantly across sectors. Besides, other factors are found to be related to trademark deposits which are susceptible to alter the link, such as the level of exporting activity or the general dynamism of the market.

Also based on administrative data (OHIM trademarks and EPO patents) combined with firm data (from Reuters, for 2000 publicly quoted companies), **Georg von Graevenitz** presented a study on the complementarity of advertising and R&D activities, enquiring if the investment in one of the activity increases the return of the investment in the other. The results showed that advertising is a complement

to R&D for companies relying mainly on R&D, but the inverse does not hold. This signifies that advertising is a key-factor to give value to research, and this should be taken into account in analyses of market power in R&D intensive industries. It also implies that trademarks, which are related to advertising activity, could relevantly be used to proxy for innovation for R&D intensive industries.

Georg von Graevenitz then presented analyses led by Dietmar Harhoff and himself on the utilization of IPRs over the business cycle. Those analyses, based on aggregate data, showed that trademark deposits behave more like an indicator of market value than of economic growth. Trademark filings are related to future expectations, they increase when the expectation on the market dynamism are good and inversely, hence the emergence of “trademark bubbles”, like during the internet boom in the early-2000s

LAW

The various presentations given by lawyers focused both on the normative goals of trademark law and on its impact on firms and markets. They also highlighted a recent tendency in the use of trademark consisting in considering them more and more as a property in itself rather than as a simple signal.

Andrew Griffiths presented an analysis on the impact of trademark law on the organization of the firm. By removing the threat of misappropriation of the branding effort, trademark protection enables firms to engage into large-scale marketing and advertising. Indeed thanks to trademarks, firms are able to reach the consumer directly across intermediaries. Besides, the notion of product source associated with the trademark is actually quite flexible, it refers roughly to control of supply more than to the production source itself. Firms can consequently build a reputation and in the same time organize their production quite freely, internally or externally, with a flexible network of production based on contractual alliances. This reduces production cost and increases the return on the product. This also tends to lead to a separation of marketing from production. To the extreme, this has led to the emergence of “weightless firms”, which specialize entirely in marketing and rely on contractual relationships upstream for production and downstream for distributions.

In the same line of analysis, **Dan Burk** presented a paper entitled “Trademarks and the boundaries of the Firm”. He argued that the legal regime is likely to have an impact on the size and structure of firms. Firms face both internal (employee mobility) and external (make or buy decision) transaction costs, and their boundaries are determined by those costs : they integrate or disintegrate depending on what yields the lowest cost. Trademark law enable to reduce the transaction costs both within and between firms, regulating the goodwill repartition within the firm, and the relation with other firms for outsourcing, franchising. Both for intra and inter-firms relations, there is an optimal level of protection where the effect of trademark law minimizes the transaction costs.

The previous presentations considered trademarks in its original function of protection against confusion over product source. However since recent years this sole function of trademarks is challenged.

First, the way firms concretely use trademark law is moving towards strategic purposes. In his presentation of the *Mitchell study on trademark litigation*, **Ken Port** argued that trademark owners tend to use trademarks to restrict competition on the market. Indeed, the study based on analysis of all reported trademark cases since 1947, shows that all data regarding trademark litigation (number of trials, amount of damages awarded, etc.) are dropping precipitously since 2001 whereas the number of claims initially filed increased. This reveals the existence of trademark extortion : trademark holders file suit with no intent to go to the end of the procedure but with the intention to increase competitors costs of market entrance. By doing this, firms also broaden the scope of their trademarks, which become more distinctive not through use but only through litigation.

Beyond the strategic use of trademark litigation, trademark function is progressively changing. **Stacey Dogan** gave a presentation entitled “trademark law’s identity crisis”, where she argued that trademark law is now moving away from its initial objectives. The initial normative goals of trademark law was to facilitate competitive markets, through better informing consumers and reducing their search costs. It is now moving away from this objective, which is visible in several manifestations of trademark legal treatment where confusion is no longer the issue. For example in merchandising, the trademark is not used to identify source but to only show an affiliation. Another example is trademark cases related to their use on the internet : some firms block the use of their mark by search engines or market places online, whereas this use is normally intended to bring information. This practice actually boils down to block information, and reduce competition.

The presentation by **Marc McKenna** on the paper “Irrelevant Confusion” explained how trademark law has gradually extended its scope of action, from the strict protection of consumers against confusion over the source of products, to the prohibition of the use of trademark which are likely to confuse consumers in any way. First it extended to claims against uses that might confuse consumers about whether the trademark owner sponsors or is affiliated with the defendant’s good. Then since 1995 trademark law extended to protection against dilution, that is protection against use of famous trademarks that are likely to dilute their distinctiveness, even if there is no confusion or competition. Those extensions of the scope of the law seem irrelevant, as they concern trademark uses that do not affect consumer purchasing decision. Besides the costs of extending trademark law are likely to be very high as this would importantly affect the functioning of the market.

Another interpretation of trademark law’s recent evolution was lastly given by **Barton Beebe**, who argued that Intellectual Property law, including trademark law, had adopted a new role of preserving the system of consumption-based social distinction. This system is threatened by the increasingly powerful copying technology in all domains (see the rise of counterfeited goods), so that rarity has almost disappeared in modern societies. In this context, trademarks can provide to individuals a means to distinguish themselves from others through their consumption, increasing this way what economists call their relative utility. The emergence of antidilution law is a sign of this function of trademark law. Indeed one justification of protection against dilution is that the distinctiveness of marks must be preserved because distinctiveness constitutes value. Antidilution cases are then a symptom of a shift in the focus of trademark law from protection of the mark as a signal of the product source towards protection of the capacity to differentiate.

CONCLUSIONS :

Trademarks are one of the most important assets of firms. They have to a large extent shaped the modern economic world, affecting both the producer-consumer relation and the organization of the firm itself.

They besides represent a rich source of data, that can be relevant to study several aspects of firm activity. They play notably a role in innovative activity, as they constitute an important means to value innovations. It is then possible, under certain restrictions, to use them to proxy the level of innovative activity.

However one should be very careful when using trademark statistics as an indicator because the meanings of trademark can be very diverse, they may correspond to various strategies of firms. Hence the necessity to narrow the scope of economic research on trademarks to specific sectors where trademark behavior is more homogeneous. Another recommendation is to look at the actual use of trademarks on the market so as to move apart trademarks filed on strategic purpose.

Various sources of information can be used on trademarks, bearing drawbacks and advantages : firm-surveys enable to get precise information on firm behavior, but they concern only a sample of firm which might be a problem regarding statistical relevance, whereas the use of integrated databases combining IPR administrative data and firm data provides more exhaustive and objective data, but may not enable to deeply understand the firm behavior.

Lastly, recent trends encourage firms to use their trademark more and more like a property rather than as a signal. Those developments bear major implications on the trademarking behavior of firms and their consequences on the market, which should be considered in the economic study referring to trademarks.

LIST OF PARTICIPANTS

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