Coffee Dilution: Court Finds Grounds For Ruling On Starbucks' Famous Trademark

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In a trademark infringement and dilution lawsuit brought by Starbucks Corporation against a competitor using the trademark "Charbucks" for its coffee, the Second Circuit Court of Appeals in New York partly affirmed the federal district court's decision in favor of the defendant but also partly vacated it. Starbucks Corp. v. Wolfe's Borough Coffee, Inc., 588 F.3d 97 (2d Cir. Dec. 3, 2009).

The court's decision involved issues under the Federal Trademark Dilution Act, Section 43(c) of the U.S. Trademark (Lanham) Act, 15 U.S.C. §1125(c). The purpose of the statute is to protect a famous trademark from subsequent uses that blur or tarnish the distinctiveness of the mark, even when there is no likelihood of confusion.

Trademark dilution protects a trademark owner against the "dilution" of a distinctive trademark, where the use might blur, tarnish or whittle away the mark's distinctiveness. Trademark dilution is different from trademark infringement, which occurs when a subsequent user adopts the same or similar trademark on competing or closely related goods so that consumers are likely to be confused as to the source of the goods. Trademark dilution can occur when someone uses a mark that is likely to cause dilution by blurring or tarnishment of a famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury to the owner of the famous mark.

Examples of dilution, as noted by Congress when it enacted the statute, are DuPont shoes, Buick aspirin, and Kodak pianos. If Kodak were used for pianos, the distinctive character of that famous mark could be blurred, reduced and weakened. For another example, if Tiffany were used for an X-rated adult movie theater (as it once was), Tiffany's mark could be tarnished and degraded.

In the Starbucks case, the court ruled that the district court did not clearly err in finding that Charbucks' trademarks were minimally similar to Starbucks trademarks and did not tarnish Starbucks' marks because the Charbucks line of coffee was marketed (like Starbucks') as a product of very high quality, which is inconsistent with the concept of tarnishment. However, the court vacated the judgment in part so that the district court could conduct further proceedings to determine whether Starbucks demonstrated a likelihood of dilution by blurring.

Starbucks, founded in Seattle in 1971, has over 8,700 retail locations in the U.S., Canada, and 34 foreign countries, and also supplies coffees to hundreds of restaurants, supermarkets, airlines, sport and entertainment venues, movie theaters, hotels, and cruise ship lines. Black Bear, a small family-run business in New Hampshire, manufactures and sells roasted coffee beans and related goods via mail order, the Internet, and in some New England supermarkets.

In 1997, Black Bear started selling coffee under the names "Charbucks Blend" and "Mister Charbucks." Despite Starbucks' objections to the use of "Charbucks," Black Bear kept selling its coffee, and in 2001 Starbucks filed suit. At trial, Starbucks' expert testified that consumers he surveyed had "many negative associations" with the Charbucks name and coffee, including the image of bitter and over-roasted coffee.

On appeal from the decision for the defendant on Starbucks' trademark dilution claims, the court focused on the issue of dilution by blurring, which is an "association arising from the similarity between a trademark or trade name and a famous mark that impairs the distinctiveness of the famous mark," 15 U.S.C. §1125(c)(2)(B).

The district court had found that the Starbucks mark was famous and distinctive and that there was a high degree of recognition of the Starbucks mark. The appeals court concluded that the district court was correct in finding that the marks were only "minimally similar," but ruled that the dissimilarity alone should not have defeated the blurring claim because similarity is only one factor in an analysis of dilution by blurring. Bad faith and actual confusion are also not required in a blurring claim, and therefore the district court had erred in considering these factors.

The appeals court also ruled on dilution by tarnishment, which is an "association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark." 15 U.S.C. §1125(c)(2)(C). Tarnishment may occur when a mark is linked to products of inferior quality or if the mark loses its ability to serve as an identifier of plaintiff's product. The appeals court determined that the district court properly rejected Starbucks' tarnishment claim because Charbucks coffee was marketed as very high quality, and the Starbucks survey that showed a negative consumer impression of the name "Charbucks" did not also show a negative consumer reaction to Starbucks' coffee as a result of the Charbucks name.

The court thus affirmed on the tarnishment issue but remanded to the district court for further consideration of Starbuck's claim of dilution by blurring.

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