General Counsel Corner

By Peter H. Gunst, Esquire

Dual Branding and Trademark Law

Since before the massive *Bogosian v. Gulf Oil Corp.* class-action litigation — which lasted throughout the 1970s and half the 1980s until Class Action Settlement Order No. 16 was approved in 1985 — oil companies and dealers have battled the antitrust implications of the major oil companies' insistence that dealers sell only their lessors' trademarked brand of gasoline.

Dealers have argued with little success that the major oil companies violate antitrust law by illegally tying the sale of gasoline either to the lease of the station premises or to the use of the supplier's trademark.

Fairly recently, the issue arose in *Shell Oil Co. v. A.Z. Services, Inc.*, 990 F.Supp. 1406 (S.D.Fla. 1997), in which the court entered an injunction evicting a dealer who had debranded his leased station in order to sell competitive gasoline. One factor that weighed heavily with the court and strongly influenced its conclusion that Shell could insist that its dealer continue to sell Shell gasoline upon pain of termination was the absence of any evidence that the dealer was prevented from installing separate tanks in order to "dual brand" the leased premises.

But how would Shell respond if a dealer in fact attempted to "dual brand" his or her station? An answer is found in the recent lawsuit instituted by Shell for trademark infringement in the federal district court for the Northern District of California, *Shell Trademark Management BV v. Canadian American Oil Co.*, Civil No. 02-01365.

Canadian American, which owns or operates eleven service stations in the San Francisco Bay area, was a long-time Shell dealer at a station that it subleased from its supplier. In 2001, it purchased the station and installed new underground storage tanks, one for Shell-branded gasoline and the other for gasoline bearing Canadian American's own "Touchless" brand.

While Canadian American retained the station's typical Shell trade dress and continued to sell Shell gasoline from six pumps, it converted two pumps located away from the Shell pumps to the sale of Touchless gasoline, which it sold for approximately twelve cents per gallon less than the Shell gasoline.

Although Canadian American used a different color scheme for its Touchless pumps and posted a prominent placard on each Touchless pump disclaiming any affiliation between Touchless and Shell, it did attach a smaller Touchless brand price sign immediately underneath the larger Shell price sign at the station.

Shell responded by suing Canadian American for trademark infringement and seeking a preliminary injunction to stop the dealer immediately from continuing to sell Touchless branded gasoline. Shell raised a panoply of arguments based on federal trademark law: (1) causing infringement by use of a confusingly similar mark; (2) causing "initial interest confusion" in the minds of motorists; and (3) causing a wrongful "dilution" of Shell's famous marks.

In a lengthy unpublished opinion issued on May 21, 2002, the magistrate judge considered each of Shell's contentions.

First, she rejected Shell's traditional trademark argument that customers were likely to be confused about the source of the Touchless product. "The complete absence of similarity between the Shell and Touchless marks," she concluded, was "crucial" in establishing the absence of any likelihood of confusion. Moreover, Shell could not rely upon the close proximity of the two products at the station to demonstrate a likelihood of confusion because Shell itself had authorized its dealer to use its marks, and the dealer had posted signs that clearly differentiated between the two products.

Second, the magistrate judge considered Shell's "initial interest confusion" argument. "Initial interest confusion" is an emerging trademark law concept dealing with the use of a competitive trademark to attract consumers' initial attention to the infringer's product, even though any conceivable confusion is dispelled before the infringer's product actually is sold.

An example would be a competitive dealer posting a highway sign that Shell gasoline was available at Exit 7 when it was not, and then selling a competitive brand of gasoline to motorists who were initially induced to leave the highway in a futile search for Shell gasoline.

The magistrate judge concluded that the facts did not fit Shell's theory. Canadian American sold Shell gasoline just as advertised. Moreover, the Shell and Touchless trademarks were completely dissimilar, arguing against any intent to create initial interest confusion.

Finally, Shell argued that a violation of the recent Antidilution Act — passed by Congress in 1996 to protect famous marks against either a "blurring" or "tarnishment" of identification — had occurred. Of critical importance, an owner of a famous mark need not demonstrate a likelihood of confusion in order to obtain an injunction under that Act.

The magistrate judge concluded that Shell had not demonstrated dilution through "tarnishment" of its name and goodwill because Shell had not shown that Touchless gasoline was inferior to Shell gasoline, or that negative associations were stirred in the consumer's mind, which would diminish the reputation of Shell gasoline.

The magistrate did conclude, however, that Shell had raised a serious issue as to a "blurring" of identity between the Shell and Touchless product because of the proximity of the two products' price signs and the sale of Touchless gasoline against the backdrop of Shell's trade dress.

To address this problem, the court was prepared to issue an injunction requiring Canadian American to move its Touchless price sign, and to repaint the station canopy so that Shell's colors would not extend over the Touchless pumps. Shell refused that limited injunction, however, demanding either that the sale of Touchless gasoline be absolutely prohibited or that no injunction at all be entered. A final trial on the merits has been scheduled for this December.

Very few dealers, of course, could even contemplate the cost and risk of installing new storage and dispensing equipment at a leased station. Nor is it surprising that a major oil company would go to great lengths to protect the goodwill associated with its trademarks. What this litigation reveals, however, is that any attempt to sell competitive product at a service station franchised by a major oil company is likely to result in an aggressive legal challenge directed against the dealer. The potential for dual branding envisioned by the court in the *Shell Oil v. A.Z. Services* case appears far removed from reality.

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