4 Substantive Policy
Convergent Foundations

> Substantive law is both the origin and the terminus of private international law analysis. This is the natural cycle, not the all-too-often vicious circle. All conflicts norms have been developed—and will be developed anew every day—based on substantive law norms. Constructing a private international law regime without such a substantive law foundation would be akin to setting a spire into the vacuous air.
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> Author's translation from Franz Kahn, *Über Inhalt, Natur und Methode des internationalen Privatrechts*, 40 JherJB 1, 56 (1898)

Introduction

As seen in the preceding chapters, the fields of trademark and unfair competition conflicts law and choice of law suffer from a number of defects. Most of these deficiencies are due to misconceptions at the level of substantive law—specifically the interplay of substantive law and conflicts law, or choice of law.

One problem is the distortive positioning of substantive unfair competition law between the sectors of private law and economic, or regulatory, law. Theory and practice still primarily define unfair competition prevention as part of tort law and delicts protecting individual rights rather than as a sector of regulatory policies aimed at protecting market information infrastructure. This improper classification on the basis of an obsolete fundament necessarily also prevents a correct assessment of the relationship between policies of trademark protection and unfair competition prevention. Rather than explaining the two fields on the basis of their widely overlapping policies as part of a largely uniform and homogeneous sector of regulatory law, current doctrine differentiates between trademark "rights" protection and unfair competition "conduct" prevention. This misperceived trademark/unfair competition dichotomy accounts for a common sweeping explanation of trademark protection as a subdomain of intellectual property law in general rather than as a facet of economic regulation with a special focus on market information. Terminology is

revealing: intellectual property—like *propriété intellectuelle* or *geistiges Eigentum*[1]—implies the existence of a comprehensive concept of unitary rights. This is where fallacy looms, particularly with respect to trademarks and trademark conflicts. While the law does protect many different products of human creativity, innovation, and labor, there is no uniform or comprehensive structure of immaterial rights. And since there is no uniformity of substantive law policies, no uniform choice-of-law doctrine exists. For trademark and unfair competition conflicts law and choice of law, this necessarily means that neither the traditional doctrine of international tort law nor the old-age formalism of intellectual property territoriality can provide for consistent rules of conflicts attachment.

Before I try to correct these issues related to conflicts resolution, however, I will take a closer look at substantive law doctrine in the fields of tort law, unfair competition and trademark law, the remainder of intellectual and industrial property law, and antitrust law. Although the debate has come a long way, the vast majority of arguments and explanations put forward have failed to adequately discuss the most distinctive feature: the fields' core policy aimed at protecting the market information infrastructure. Correct information transmission and processing within the marketplace is the most essential condition for an unmanipulated consumer decision making as the quintessence of market mechanics. The theoretical underpinnings of economic competition and the consumer's function as a referee in competition will thus be my starting point for the analysis (*see infra* p. 275 *et seq.*). As this will highlight, the concept of unmanipulated consumer decision making stands at the center of both trademark and unfair competition policies. Only in light of this tenet can a topography of substantive law policies succeed. In order to highlight the demarcations between different sectors of private law and economic regulatory law, I will start with a delineation of tort and unfair competition policies. In addition, I will take a closer look at the integral distinction between different "rights" in the field of intellectual property and will illustrate that antitrust law is a segment of economic regulatory law that must be distinguished from unfair competition and trademark law. On this basis, I will conclude by describing trademark and unfair competition law as a sector of widely overlapping policies aimed at the protection of market information infrastructure (*see infra* p. 295 *et seq.* and p. 348 *et seq.*).

[1] For the terminology (and the shift toward propertization), *see, e.g.*, Andreas Heinemann, *Immaterialgüterschutz in der Wettbewerbsordnung—Eine grundlagenorientierte Untersuchung zum Kartellrecht des geistigen Eigentums* 2 *et seq.* (2002).

Section 1 Foundations—The Market Mechanism

As we have seen so far, for both trademark and unfair competition law, the issue of marketplace determination is essential.[2] The question is inseparably connected with the notion of competition. My analysis will therefore start by exploring the economic and legal foundations of competition in a market economy.

I The Concept of "Economic Competition"

While, for instance, the nature and characteristics of "property" have been debated from the beginning of legal thinking, the notion of "competition" has become an object of legal analysis only relatively recently, in the late nineteenth century.[3] It is thus not too surprising that legal theories on competition are far from being fully developed. But it is not only the fact that ideas in the field still need more analysis and debate. The problem is more fundamental: economic concepts can seldom be comprehensively and convincingly explained in legal terms and with the traditional conceptions developed by lawyers. In most cases, their implementation needs a modification, if not alteration, of legal terminology and concepts. Looking for a solid reconceptualization therefore requires stepping outside the boundaries of traditional legal methodology. This is particularly important for an analysis of trademark and unfair competition law: at their core, both fields are concerned with decision making and transacting among consumers and other market participants. What matters are the microdynamics of market transacting—dynamics that are situated within an overall order of competition.

A The Legal Framework

Individual freedom is the centerpiece of a competitive order.[4] It thus also functions as the pacemaker of the market economy. Here, the law already comes into play: only if the legal backdrop of constitutional, public, and private law allows for economic activities to freely evolve will the market mechanism function unhinderedly.[5] Most basically, the degree of freedom and the corresponding characterization of the economy is an issue of

[2] *See supra* chapter 3 *passim*. [3] *See supra* chapters 1 and 2 *passim*.

[4] *See, e.g.*, Restatement of the Law—Unfair Competition (Third), § 1, comment a (1995) ("The freedom to engage in business and to compete for the patronage of prospective customers is a fundamental premise of the free enterprise system.").

[5] *See also* Ernst-Joachim Mestmäcker, *Der verwaltete Wettbewerb—Eine vergleichende Untersuchung über den Schutz von Freiheit und Lauterkeit im Wettbewerbsrecht* 78 *et seq.*, 83 (1984); Franz Böhm, *Wettbewerb und Monopolkampf—Eine Untersuchung zur Frage des wirtschaftlichen Kampfrechts und zur Frage der rechtlichen Struktur der geltenden Wirtschaftsordnung* 302 (1933).

constitutional law. An institutional order of competition results from the overall structure of civil rights protection and general regulatory legislation.[6] From such a macroperspective, we can identify different scenarios of the competitive order: market economies, social market economies, and socialist or communist state-directed economies.[7] In addition, a macroperspective may look at the structure of markets or, more concretely, the *status* of competition. It then provides a more specific snapshot of competitive relations. This is the primary domain of antitrust law. The allocation of power within a certain market may be characterized as a monopoly, oligopoly, polypoly, or any combination or variant thereof. With respect to trademark and unfair competition law, however, these macrostructures are only indirectly relevant. It is not the idea of competition as a constitutional or static order, but as a concrete description of market activity, that matters. The subject matter of protection, therefore, is a dynamic and individualized phenomenon—it is the evolution of competition within the macrostructures. Accordingly, any analysis of trademark and unfair competition policies requires a specific microperspective: it must focus on individual market participants and their transacting in the market.

B The Rediscovery of Chaos

There is consensus that competition is largely beneficial per se.[8] However, this is as far as the consensus goes. Despite innumerable

[6] *See also* Walter R. Schluep, *Was ist Wirtschaftsrecht?*, 25, 78, in *Festschrift für Walther Hug zum 70. Geburtstag* (Riccardo L. Jagmetti & Walter R. Schluep eds., 1968); Walter R. Schluep, *Allgemeines Wirtschaftsrecht und Schweizerisches Kartellgesetz*, 569, 574, in *Wirtschaftsordnung und Staatsverfassung—Festschrift für Franz Böhm zum 80. Geburtstag* (Heinz Saubermann & Ernst-Joachim Mestmäcker eds., 1975); *see also* BVerfGE vol. 4, 7, 17—*Investitionshilfe* (20 July 1954); BVerfG 1972 NJW 573, 573—*Grabsteinwerbung* (8 February 1972). For the 1986 Swiss Unfair Competition Act (UWG), this has been explicitly expressed by lawmakers: "Schutzobjekt ist . . . der freie und lautere Wettbewerb als eine der wesentlichsten Grundlagen unserer Wirtschaftsverfassung . . . ." (Botschaft zu einem Bundesgesetz gegen den unlauteren Wettbewerb (UWG), 18 May 1983, Bundesblatt (BBl.) 1983 II 1009, 1038).

[7] Walter Eucken was the first to promulgate a categorial foundation for Germany. *See, e.g.*, Walter Eucken, *Die Wettbewerbsordnung und ihre Verwirklichung*, 2 ORDO 1, 19 *et seq.* (1949).

[8] *See, e.g.*, Josef Kohler, *Der unlautere Wettbewerb—Darstellung des Wettbewerbsrechts* 18 (1914) ("Keiner hat im Verkehr ein Anrecht darauf, daß sein Geschäft gedeiht, und das individualistische System unserer Zeit beruht gerade darauf, daß jeder mit seinen wirtschaftlichen Kräften sich bestrebt, das Beste zu erreichen und dadurch das kaufende Publikum zu gewinnen. Dadurch soll die Kraft der Nation aufs höchste gesteigert, Produktion und Handel zur höchsten Blüte gebracht werden. Jeder soll seinen Egoismus anspannen, um zu leisten, was er leisten kann; er soll Tag und Nacht auf Verbesserung sinnen, um dadurch sein Geschäft empor zu bringen und den Gegner aus dem Felde zu schlagen."); for the United States, *see, e.g.*, Restatement of the Law—Unfair Competition (Third), § 1, comment a (1995).

attempts to define economic competition,[9] there is still no universally accepted definition. Neither economic nor legal theories have been able to comprehensively explain the functions of competition in a market economy or to address the complexity of the market mechanism.[10]

"Perfect competition" was the paradigm of early twentieth-century theory.[11] A market with perfect competition is the antithesis of a monopoly market. It requires a maximum number of participants on both the supply and the demand side, a homogeneity and substitutability of products, a uniformity of prices, and a lack of entry barriers to the market.[12] But it is questionable to assume that each market will and should consist of a plentitude of market participants (suppliers and consumers) and that all participants will always act rationally. Indeed, this model is unrealistic for a number of reasons[13] and, in the 1930s, began to lose its ground to new paradigms of competition policy. The most contrary and influential

[9] For legal theory in Germany, *see, e.g.*, Knut Borchardt & Wolfgang Fikentscher, *Wettbewerb, Wettbewerbsbeschränkung, Marktbeherrschung* (1957); Wolfgang Fikentscher, *Wettbewerb und gewerblicher Rechtsschutz—Die Stellung des Rechts der Wettbewerbsbeschränkungen in der Rechtsordnung* 39 (1958); Robert Knöpfle, *Der Rechtsbegriff „Wettbewerb" und die Realität des Wirtschaftslebens* (1966); Otto Sandrock, *Grundbegriffe des Gesetzes gegen Wettbewerbsbeschränkungen* (1968); Jürgen F. Baur, *Das Tatbestandsmerkmal „Wettbewerb,"* 134 ZHR 97 (1970); for an overview on recent doctrine, *see, e.g.*, Helmut Köhler, in Helmut Köhler & Joachim Bornkamm, *Gesetz gegen den unlauteren Wettbewerb*, Einl UWG para. 1.6 (33rd edn., 2015).

[10] Indeed, it has been suggested that a concise and comprehensive definition of the concept for legal theory may be impossible. *See, e.g.*, Jürgen F. Baur, *Das Tatbestandsmerkmal „Wettbewerb,"* 134 ZHR 97, 116, 150 (1970); Peter Ulmer, *Der Begriff „Leistungswettbewerb" und seine Bedeutung für die Anwendung von GWB und UWG-Tatbeständen*, 1977 GRUR 565, 567; Fritz Rittner, *Über das Verhältnis von Vertrag und Wettbewerb*, 188 AcP 101, 119 (1988); Stefan Koos, *Europäischer Lauterkeitsmaßstab und globale Integration—Beitrag zu einer weltmarktorientierten Sichtweise des nationalen und gemeinschaftlichen Wettbewerbsrechts* 7 (1996); Susy Frankel, *Unfair Competition Law—"Over Protection Stifles the Very Creative Force it is Supposed to Nurture,"* 267, 271, in *International Intellectual Property and the Common Law World* (Charles Rickett & Graeme Austin eds., 2000).

[11] For a first conception, *see* F.H. Knight, *Cost of Production and Price over Long and Short Periods*, 29 J. Pol. Econ. 304 (1921). Concepts of "perfect" and "pure" competition have differred in ways that are not relevant here. *See, e.g.*, Erich Hoppmann, *Workable Competition als wettbewerbspolitisches Konzept*, 145, 151–152, in *Theoretische und institutionelle Grundlagen der Wirtschaftspolitik: Theodor Wessels zum 65. Geburtstag* (Hans Albert et al. eds., 1967).

[12] Details vary and numerous definitions exist. For a concise summary, *see, e.g.*, Wolfgang Fikentscher, *Wirtschaftsrecht, vol. II: Deutsches Wirtschaftsrecht* § 22 III 3a (1983); Axel Beater, *Unlauterer Wettbewerb* § 2 para. 124 (2011).

[13] For an instructive debate on economics, law, and terminology in the legal context, *see, e.g.*, Knut Borchardt & Wolfgang Fikentscher, *Wettbewerb, Wettbewerbsbeschränkung, Marktbeherrschung* 1 *et seq.* (1957); Jürgen F. Baur, *Das Tatbestandsmerkmal „Wettbewerb,"* 134 ZHR 97, 100 *et seq.* (1970); more recently, *see, e.g.*, Otto-Friedrich Freiherr von Gamm, *Wettbewerbsrecht, vol. I*, ch. 1 para. 9 (5th edn., 1987); Inge Scherer, *Privatrechtliche Grenzen der Verbraucherwerbung* 24–25 (1996); Colin Scott & Julia Black, *Cranston's Consumers and the Law* 30 *et seq.* (3rd edn., 2000).

concept at the time was the model of "workable competition," conceived by John Maurice Clark.[14] Workable competition, he explained, is not a state of perfect competition. Nonetheless, it can still provide the foundation for a satisfactory and beneficial functioning of the market mechanism. Products may be heterogeneous, prices may vary, and market entry barriers may exist. And still, this kind of competition, "with all its defects—and these are serious—is better than the 'pure and perfect' norm, because it makes for progress."[15] Hence, workable competition, sometimes also called "monopolistic" or "effective" competition,[16] can contain elements of a monopoly market while still fostering economic progress.[17] The concept of workable competition, however, soon also came under attack for its rather static perspective. Clark had begun to stress the elements of progress and dynamics in his later works on the issue. Over time, it became questionable whether the *status* of competition in a specific marketplace was necessarily determinative for individual transacting and the overall development of competition. As suggested, for example, by Erich Hoppmann in the 1960s, the intensity of competition within a marketplace would not necessarily result from or be affected by the structures of market power or market shares: debates on static functions and on the quality of rivalry in competition are useless as long as the dynamics of competition are ignored.[18]

[14] A situation of workable competition in a certain market will not provide a perfectly competitive market. Certain inefficiencies must be accepted due to their beneficial effects for cost development and innovation. *See, e.g.*, J.M. Clark, *Toward a Concept of Workable Competition*, 30 Am. Econ. Rev. 241 (1940).

[15] In addition, as he described in his later modified concept, giving more regard to the dynamic aspect of competition, "Some departures from 'pure and perfect' competition are not only inseparable from progress, but necessary to it. The theory of effective competition is dynamic theory." J.M. Clark, *Competition As a Dynamic Process* ix (1961).

[16] *See* Edward Hastings Chamberlin, *The Theory of Monopolistic Competition—A Re-Orientation of the Theory of Value* (7th edn., 1956); J.M. Clark, *Toward a Concept of Workable Competition*, 30 Am. Econ. Rev. 241 (1940); J.M. Clark, *Imperfect Competition Theory and Basing-Point Problems*, 33 Am. Econ. Rev. 283 (1943); J.M. Clark, *Competition as a Dynamic Process* ix (1961) ("I am shifting the emphasis from 'workable' to 'effective competition' . . . ."); for Germany, *see* Wolfgang Fikentscher, *Wettbewerb und gewerblicher Rechtsschutz—Die Stellung des Rechts der Wettbewerbsbeschränkungen in der Rechtsordnung* 36–37 (1958); Jürgen F. Baur, *Das Tatbestandsmerkmal „Wettbewerb,"* 134 ZHR 97, 102 (1970).

[17] For the theory of workable competition in German scholarship, *see* Erhard Kantzenbach, *Die Funktionsfähigkeit des Wettbewerbs* 32 *et seq.* (2nd edn., 1967). More recent commentary can be found in Thomas C. Arthur, *The Costly Quest for Perfect Competition: Kodak and Nonstructural Market Power*, 69 N.Y.U. L. Rev. 1 (1994). For modern European unfair competition law and the paradigm of establishing workable competition in the marketplace, *see, e.g.*, Hans-W. Micklitz, in Norbert Reich & Hans-W. Micklitz, *Europäisches Verbraucherrecht* 438–439 (4th edn., 2003).

[18] *See, e.g.*, Erich Hoppmann, *Das Konzept der optimalen Wettbewerbsintensität—Rivalität oder Freiheit des Wettbewerbs: Zum Problem eines wettbewerbspolitisch adäquaten Ansatzes der Wettbewerbstheorie*, 179 JBNSt 286, 302 *et seq.*, 305 *et seq.* (1966); Erich Hoppmann,

Emphasizing these dynamics established an evolutionary concept of competition.

The gist of this concept has been captured most fittingly in Friedrich A. von Hayek's model of the market mechanism as a process of discovery. Under this model, markets are evolutionary chaos:[19] it is impossible to pay sufficient attention to all available information. Yet the transmission of information is at the core of competition. Individual decisions will therefore rarely ever be perfect in the sense of economic rationality. Nonetheless, the results of an ideally functioning market mechanism will be approximated if individual activity is allowed to develop spontaneously and on the basis of a principally unhindered flow of information. This free and dynamic process was already present in Adam Smith's understanding of the economy and his allegory of the invisible hand. Its conceptual parallel is the modern characterization of the market mechanism and competition as a self-regulating system.[20] For Smith, market participants' freedom to transact was vital.[21] Hayek extended and modified this concept of freedom into a general model of order for many different contexts. Accordingly, competition is a process of constant and repeated discovery in which individual participants promote progress

Workable Competition als wettbewerbspolitisches Konzept, 145, 180 and *passim*, in *Theoretische und institutionelle Grundlagen der Wirtschaftspolitik: Theodor Wessels zum 65. Geburtstag* (Hans Albert et al. eds., 1967). For process dynamics and a contemporary critique of the static perspective, *see* Rudolf Lukes, *Zum Verständnis des Wettbewerbs und des Marktes in der Denkkategorie des Rechts*, 199, 216 *et seq.*, in *Wirtschaftsordnung und Rechtsordnung: Festschrift zum 70. Geburtstag von Franz Böhm am 16. Febr. 1965* (Helmut Coing et al. eds., 1965).

[19] This has of course also been a finding in Joseph Schumpeter's work. His concept of the market mechanism as a process of continuous innovation and creative destruction laid the foundation for the rediscovery of an evolutionary concept. *See, e.g.*, Joseph A. Schumpeter, *Theorie der wirtschaftlichen Entwicklung—Eine Untersuchung über Unternehmergewinn, Kapital, Kredit, Zins und den Konjunkturzyklus* 88 *et seq.*, 93 *et seq.* (2nd edn., 1926); Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy* (2nd edn., 1947). For Clark's foundation on Schumpeter, *see* Erich Hoppmann, *Workable Competition als wettbewerbspolitisches Konzept*, 145, 153 n. 29, in *Theoretische und institutionelle Grundlagen der Wirtschaftspolitik: Theodor Wessels zum 65. Geburtstag* (Hans Albert et al. eds., 1967).

[20] *See* Friedrich A. von Hayek, *Der Wettbewerb als Entdeckungsverfahren*, 3, 10, in *Kieler Vorträge gehalten am Institut für Weltwirtschaft an der Universität Kiel* (Erich Schneider ed., 1968); Friedrich A. von Hayek, *Bemerkungen über die Entwicklung von Systemen von Verhaltensregeln*, 144 *et seq.*, in *Freiburger Studien: Gesammelte Aufsätze* (Friedrich A. von Hayek, 1969) (on the evolutionary aspect of social behavior). *See also* Franz Böhm, *Freiheit und Ordnung in der Marktwirtschaft*, 22 ORDO 11, 18 (1971). With reference to Niklas Luhmann's 1986 work, *Ökologische Kommunikation*, and beyond, *see* Michael Lehmann, *Das Prinzip Wettbewerb*, 1990 JZ 61, 63.

[21] *See, e.g.*, Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations, vol. I*, ch. 7 (1776).

and innovation through trial, error, and correction of their conduct on the basis of prior experience.[22]

C The Dynamics of Competition

The rediscovery of the chaotic nature of economic competition was the first crucial step toward modernization. The second step, particularly important for trademark and unfair competition law, was the description of competition as a process of two-tiered sequential transacting.

1 A Tradition of Competitor Protection

Early theoretical definitions of unfair competition referred only to the offer side of the market. Their focus, hence, was on the vulnerability of one competitor to the other.[23] This lopsidedness was also implemented in early court practice, which generally found competition to be an attempt to foster one's own enterprise at the expense of other enterprises.[24] Scholarly commentary throughout the first part of the twentieth century adopted the same perspective.[25] The Bundesgerichtshof's early

[22] *See, e.g.*, Friedrich A. von Hayek, *Der Wettbewerb als Entdeckungsverfahren*, 3, 3, 7 *et seq.*, 10, in *Kieler Vorträge gehalten am Institut für Weltwirtschaft an der Universität Kiel* (Erich Schneider ed., 1968). On the "fragmentation of knowledge," *see* Friedrich A. von Hayek, *Law, Legislation and Liberty, vol. I: Rules and Order* 11 *et seq.* (1973). For a detailed view of von Hayek's foundations, *see* Manfred E. Streit, *Wissen, Wettbewerb und Wirtschaftsordnung—Zum Gedenken an Friedrich August von Hayek*, 43 ORDO 1, 12 *et seq.* (1992); on the so-called Ordoliberal School in Germany, *see* Andreas Heinemann, *Die Freiburger Schule und ihre geistigen Wurzeln* 18 *et seq.* (1989).

[23] *See, e.g.*, Josef Kohler, *Der unlautere Wettbewerb—Darstellung des Wettbewerbsrechts* 17 (1914) ("Jeder soll seinen Egoismus anspannen, um zu leisten, was er leisten kann; er soll Tag und Nacht auf Verbesserung sinnen, um dadurch sein Geschäft empor zu bringen und den Gegner aus dem Felde zu schlagen. Ein jeder ist daher der vernichtenden Tätigkeit eines einsichtsvolleren und wirtschaftliche mächtigeren Wettbewerbers preisgegeben ....") and Adolf Lobe's famous explanation of competition in terms of sports in *Die Bekämpfung des unlauteren Wettbewerbs, vol. I: Der unlautere Wettbewerb als Rechtsverletzung* 8 (1907) ("Gesetzt, es findet ein Wettrudern statt. Wollte sich hierbei eine Partei ausserdem noch heimlich der treibenden Kraft eines versteckten Motors bedienen, so wäre das auf ihrer Seite zweifellos ein unlauteres Wettrudern."). *See also* Eugen Ulmer, *Sinnzusammenhänge im modernen Wettbewerbsrecht—Ein Beitrag zum Aufbau des Wettbewerbsrechts* 11 (1932).

[24] *See, e.g.*, RGSt vol. 58, 429, 430 (1 December 1924); RGZ vol. 134, 342, 351 *et seq.*—*Benrather Tankstelle* (18 December 1931).

[25] *See, e.g.*, Alfred Rosenthal, *Wettbewerbsgesetz nebst den materiellen Vorschriften des Warenzeichengesetzes systematisch erläutert, Kommentar, "Begriffsbestimmungen"* 2 (7th edn., 1928) ("Wettbewerb im wirtschaftlichen Sinne ist der Kampf mehrerer, mindestens zweier Personen (oder Personengruppen), von denen die eine vor der anderen einen Vorrang anstrebt."); Wolfgang Hefermehl, *Der Anwendungsbereich des Wettbewerbsrechts*, 283, 290, in *Festschrift für Hans Carl Nipperdey zum 60. Geburtstag* (Rolf Dietz et al. eds., 1955); Kamen Troller, *Das internationale Privatrecht des unlauteren Wettbewerbs in vergleichender Darstellung der Rechte Deutschlands, Englands, Frankreichs, Italiens, der Schweiz und der USA* 5 (1962); Robert Knöpfle, *Der Rechtsbegriff „Wettbewerb" und die Realität des Wirtschaftslebens* 81 *et seq.* (1966).

adjudication in the second half of the century also began with a restricted focus that saw competition as an invasion of customer relations and of a competitor's goodwill in order to divert business for the invader's own benefit.[26] But this perspective has changed over time. In modern scholarly commentary, Wolfgang Fikentscher's definition has remained an evergreen reference for the extended conception.[27] He described competition as the autonomous striving of competitors (whether supplying or demanding) to conclude transactions with third parties (customers) by advertising contractual terms and conditions in as beneficial a manner as possible. In addition, he stressed that competitors can and will affect one another through their market conduct.[28] This aspect is also key to this inquiry: over time, the perspective has changed from one focused on competitors alone to one that considers both sides of the market—in other words, one that gives regard to consumers and other market participants.

2 *The Advent of (Consumer) Decision Making*

Even though the perspective has been extended beyond mere intercompetitor relations, many definitions of competition still place little emphasis on the most determinative stage of the market mechanism: participants' decision making and transacting. Only if the actual transaction remains unmanipulated can individual decision making fulfill its function as the quantum part of the market economy. Accordingly, any legal conception of regulating competition must give regard not only to pretransactional conduct but also to the implementation of parties' decision making as the final stage of the competitive process.

As discussed earlier, European nineteenth-century doctrine of trademark protection largely excluded consumer interests from the field of

[26] *See* BGHZ vol. 19, 392, 396—*Freiburger Wochenbericht* (27 January 1956); BGHZ vol. 23, 365, 370—*SUWA* (22 February 1957); BGHZ vol. 51, 236, 242—*Stuttgarter Wochenblatt I* (18 December 1968).

[27] For a recent approval, *see, e.g.*, Matthias Leistner, in *Handbuch des Wettbewerbsrechts*, § 4 para. 20 (Michael Loschelder & Willi Erdmann eds., 4th edn., 2010).

[28] Wolfgang Fikentscher, *Wettbewerb und gewerblicher Rechtsschutz—Die Stellung des Rechts der Wettbewerbsbeschränkungen in der Rechtsordnung* 39 and 42 (1958) ("[W]ird daher der Wettbewerb … definiert als das selbständige Streben sich objektiv gegenseitig im Wirtschaftserfolg beeinflussender Anbieter oder Nachfrager (Mitbewerber) nach Geschäftsverbindung mit Dritten (Kunden) durch Inaussichtstellen möglichst günstiger Geschäftsbedingungen." (*id.* at 39)); Wolfgang Fikentscher, *Neuere Entwicklungen der Theorie zum Tatbestandsmerkmal der Wettbewerbsbeschränkung* § 1 *GWB*, 1961 WuW 788, 798. For a modern reformulation, *see* Helmut Köhler, in Helmut Köhler & Joachim Bornkamm, *Gesetz gegen den unlauteren Wettbewerb*, Einl UWG para. 1.7 (33rd edn., 2015) ("Im Regelfall geht es um das Verhalten von Unternehmen, die auf einem bestimmten Markt unter Anwendung der verschiedensten Mittel (Aktionsparameter) zu Geschäftsabschlüssen mit Dritten (Kunden/Lieferanten) zu gelangen suchen.").

relevant considerations.[29] And the picture was not much different with respect to unfair competition prevention. Part of the debate surrounding the enactment of the 1896 and 1909 Unfair Competition Acts in Germany was whether unfair competition prevention would look only at competitors' concerns or whether it would also protect the concerns of consumers and the public. In the end, consumers' interests were deemed of secondary importance at best.[30] Even in the decades that followed, consumers and their functions within the marketplace only slowly became integrated into the conceptual framework of unfair competition policies. For most of the twentieth century, consumer protection was merely an instrument for determining the inadmissibility of competitive conduct vis-à-vis the competitor. Individual competitor protection was achieved by means of preventing consumer confusion; it was not an aim as such.[31]

Starting in the second half of the century, however, a genuine concern for consumer protection entered the stage in European unfair competition law.[32] The interest in free and fair competition sought to protect not only competitors but also—and above all—consumers. After all, the argument went, consumers were interested in optimal competition since it guarantees the best quality at the lowest prices.[33] At first, this interest led to a sweeping extension of consumer protection policies. More specifically, in 1975, the Council of the European Communities proclaimed

[29] *See supra* p. 24–27.

[30] *See, e.g.*, Otto von Gierke, *Der Rechtsgrund des Schutzes gegen unlauteren Wettbewerb*, 1895 GRUR (ZfGewRS) 109, 113; Gerhard Schricker, *Möglichkeiten zur Verbesserung des Schutzes der Verbraucher und des funktionsfähigen Wettbewerbs im Recht des unlauteren Wettbewerbs*, 139 ZHR 208, 213 (1975); Olaf Sosnitza, in *Münchener Kommentar zum Lauterkeitsrecht, vol. I,* § 1 UWG para. 3 *et seq.* (Peter W. Heermann et al. eds., 2nd edn., 2014) (with further references to the Reichsgericht's heterogeneous case law on the issue).

[31] *See, e.g.*, RGZ vol. 58, 281, 284–285—*Leinen garantiert vierfach* (17 June 1904); RG 1917 GRUR 125—*Unkosten* (30 March 1917); RGZ vol. 99, 23, 28—*Treuhänder* (23 April 1920); BGHZ vol. 13, 244, 253—*Cupresa-Seide* (11 March 1954); Hans Freiherr von Godin, *Wettbewerbsrecht, Kommentar zum Gesetz gegen den unlauteren Wettbewerb nebst Warenzeichenverletzungen, Zugabeverordnung und Rabattgesetz*, U § 1 para. 48 (2nd edn., 1974) ("Das Verbraucherinteresse zu wahren, war nicht die Aufgabe des Gesetzes, wie heute immer wieder fälschlich angenommen wird."); *see also* Axel Beater, *Verbraucherschutz und Schutzzweckdenken im Wettbewerbsrecht* 13 and 106–107 (2000) (with extensive illustration of the 1896 act's *travaux préparatoires*).

[32] *See, e.g.*, Colin Scott & Julia Black, *Cranston's Consumers and the Law* 292–293 (3rd edn., 2000) (for the United Kingdom); also Axel Beater, *Verbraucherschutz und Schutzzweckdenken im Wettbewerbsrecht* 14–15 (2000) (for Germany); for the effects of European law on German doctrine, *see* Hans-Wolfgang Micklitz, in *Münchener Kommentar zum Lauterkeitsrecht, vol. I,* EG D para. 5 *et seq.* (Peter W. Heermann et al. eds., 2nd edn., 2014).

[33] More recently, *see, e.g.*, BGH 2000 GRUR 521, 525—*Modulgerüst* (8 December 1999); Axel Beater, *Verbraucherschutz und Schutzzweckdenken im Wettbewerbsrecht* 122 *et seq.* (2000); Axel Beater, *Unlauterer Wettbewerb* § 14 para. 1084 (2011).

the paradigm of an "informed consumer."[34] And the Court of Justice implemented the idea through a "consumer information model" that was established in *Cassis-de-Dijon* and subsequent cases. Ever since, providing sufficient information to the consumer has become a means to facilitate the free movement of goods and services within the community market.[35] Protecting the consumer's informed decision making has thus gradually moved center stage.

At this point, an important caveat regarding the terms "consumer" and "consumer decision making" is in order. Any market transaction requires consideration of at least two sides of the market. Either side may consist of natural persons acting outside their trade or profession (usually termed "consumers") or professionals acting in an entrepreneurial or business function, including corporate entities. When looking at market transacting in general, however, the focus must be on the function, not the status, of the market participants involved. Yet for the sake of simplicity, I will use "consumer" and "consumer decision making" in order to illustrate that a market transaction concerns the "other side" of the market. This simplification does not, however, imply a limitation to transactions including natural persons.

3 *The Complementary Spheres of Transactional Freedom*

Against this backdrop, it is clear that two complementary spheres of participants' transacting exist. The starting point for competition is the entrepreneur's freedom to act and transact. Each competitor may autonomously decide on her activities. The freedom to conduct business is the most basic prerequisite for the formulation of a free market.[36] In addition,

[34] *See* Council of the European Communities, *Resolution of 14 April 1975 on a preliminary programme of the European Economic Community for a consumer protection and information policy*, O.J. EU (25 April 1975), No C 92/1; *further also* Council of the European Communities, *Resolution of 19 May 1981 on a second programme of the European Economic Community for a consumer protection and information policy*, O.J. EC (3 June 1981), No C 133/1; *see also* Holger Fleischer, *Vertragsschlußbezogene Informationspflichten im Gemeinschaftsprivatrecht*, 2000 ZEuP 772, 782; Wolfgang Schön, *Zwingendes Recht oder informierte Entscheidung—zu einer (neuen) Grundlage unserer Zivilrechtsordnung*, 1191, 1200, in *Festschrift für Claus-Wilhelm Canaris zum 70. Geburtstag* (Andreas Heldrich ed., 2007).

[35] *See Rewe v. Bundesmonopolverwaltung für Branntwein*, C-120/78 (20 February 1979), [1979] E.C.R. 649; *Pall v. Dahlhausen*, C-238/89 (13 December 1990), [1990] E.C.R. I-4827; *Verband Sozialer Wettbewerb v. Clinique Laboratoires and Estée Lauder*, C-315/92 (2 February 1994), [1994] E.C.R. I-317; *GB-INNO-BM v. Confédération du Commerce Luxembourgeois*, C-362/88 (7 March 1990), [1990] E.C.R. I-667; *Schutzverband gegen Unwesen i.d. Wirtschaft v. Rocher*, C-126/91 (18 May 1993), [1993] E.C.R. I-2361; *see also* Holger Fleischer, *Vertragsschlußbezogene Informationspflichten im Gemeinschaftsprivatrecht*, 2000 ZEuP 772, 782; Matthias Leistner, *Behavioural Economics und Lauterkeitsrecht*, 1 ZGE 3, 40–41 (2009).

[36] *See* Franz Böhm, *Wettbewerb und Monopolkampf—Eine Untersuchung zur Frage des wirtschaftlichen Kampfrechts und zur Frage der rechtlichen Struktur der geltenden*

on the consumer side of the market, the freedom of transacting complements the entrepreneur's freedom. This is the exact opposite of early twentieth-century theory explaining that "the public provides the ground upon which the competitors compete; the public is the instrument upon which the commercial actor plays."[37] Today, entrepreneurs' freedom and their activities provide the substrate for the consumer to effectuate her decision making. More drastically put, it is the consumer's decision that will both complement and complete the most essential element of the market mechanism. This is the gist of explanations of the consumer as the "referee" in competition and of consumer sovereignty as most fundamental.[38]

Seen in this light, it is clear that securing the consumer's freedom to transact has two basic prerequisites. Most generally, the consumer must be free to make the ultimate decision whether or not to transact. Prior to the decision, however, she must have access to optimal information. This is a more specific aspect of her freedom of decision making. Only if the consumer has complete and correct information on the relevant market parameters—particularly regarding quality, price, and available alternatives—can she execute a rational transaction. In this regard, the modern understanding of the market mechanisms is no longer based on the model of exchanging goods or services alone; rather, it is founded on a concept of information transmission.[39] It is these major phases of consumer decision making—the transmission and processing

Wirtschaftsordnung 302 (1933) ("Die möglichst vollkommene rechtstechnische Ausgestaltung und Ausstattung der Freiheits- und Herrschaftssphäre des Unternehmens ist eine der wichtigsten Vorbedingungen für das Funktionieren einer freien, kampfbeherrschten Verkehrswirtschaft."). More recently, *see, e.g.*, BGH 2009 GRUR 685, 689—*ahd.de* (19 February 2009); Peter Bülow, *Lauterkeitsrecht oder Unlauterkeitsrecht?*, 2012 GRUR 889, 890.

[37] *See* Rudolf Callmann, *Der unlautere Wettbewerb* 43 (2nd edn., 1932) ("Die Allgemeinheit gibt den Boden ab, auf dem sich die Mitbewerber begegnen; das Publikum ist das Instrument, auf dem der Gewerbetreibende spielt; . . . ." (author's translation)).

[38] For the concept of consumer-as-referee, *see, e.g.*, Colin Scott & Julia Black, *Cranston's Consumers and the Law* 8 *et seq.* (3rd edn., 2000); Hans W. Micklitz & Jürgen Keßler, *Europäisches Lauterkeitsrecht—Dogmatische und ökonomische Aspekte einer Harmonisierung des Wettbewerbsverhaltensrechts im europäischen Binnenmarkt*, 2002 GRUR Int. 885, 890. For an early explanation of the consumer's referee function, *see* Franz Böhm, *Wettbewerb und Monopolkampf—Eine Untersuchung zur Frage des wirtschaftlichen Kampfrechts und zur Frage der rechtlichen Struktur der geltenden Wirtschaftsordnung* 260 *et seq.* (1933) ("kampfrechtliche Schiedsrichterfunktion des freien Kunden").

[39] *See, e.g.*, Hans W. Micklitz & Jürgen Keßler, *Europäisches Lauterkeitsrecht—Dogmatische und ökonomische Aspekte einer Harmonisierung des Wettbewerbsverhaltensrechts im europäischen Binnenmarkt*, 2002 GRUR Int. 885, 889; Jürgen Keßler, *Vom Recht des unlauteren Wettbewerbs zum Recht der Marktkommunikation—Individualrechtliche und institutionelle Aspekte des deutschen und europäischen Lauterkeitsrechts*, 2005 WRP 1203, 1210 *et seq.*

of information, along with the subsequent transacting—that will guide my analysis.

II The "Triangular" Structure of the Market Mechanism

Looking at the two spheres of transactional freedom, it becomes obvious that different categories of regulatory policies can be at play when competition-related conduct is at issue. Figure 1 helps clarify this point. As mentioned above, my depiction of "consumers" does not imply that other market participants (e.g., commercial buyers or vendors) instead of consumers may not stand on the demand side of the market in a situation of competition between two or more market participants.

In the upper area of the figure—the horizontal level—a competitive relationship exists.[40] Freedom here requires that competitors be free from external restrictions resulting from state or private-party activities. A significant part of unfair competition doctrine concerns scenarios of restrictions of freedom among competitors.[41] This is the case, for

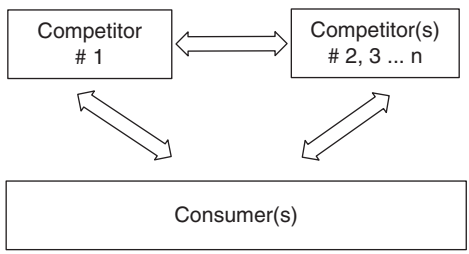

Figure 1 The "Triangular" Structure of the Market Mechanism

[40] For the distinction between horizontal and vertical relations, *see, e.g.*, Adair Dyer, *Unfair Competition in Private International Law*, 211 Recueil des Cours 373, 394 (1988-IV); Deutscher Bundestag, *Drucksache: Gesetzentwurf der Bundesregierung, Entwurf eines Ersten Gesetzes zur Änderung des Gesetzes gegen den unlauteren Wettbewerb*, 16. Wahlperiode, 16/10145 (20 August 2008), at 21; Axel Beater, *Unlauterer Wettbewerb* § 12 para. 901 (2011); *see also* Erich Hoppmann, *Zum Problem einer wirtschaftspolitisch praktikablen Definition des Wettbewerbs*, 9, 15 *et seq.*, in *Grundlagen der Wettbewerbspolitik, Schriften des Vereins für Socialpolitik, vol. 48* (Hans K. Schneider ed., 1968).

[41] WIPO has described these instances as a "direct attack on an individual competitor" (contrasting it with "surreptitious deception of the 'referee,' who in economic competition typically is the consumer"). *See* WIPO, *Protection against Unfair Competition—Analysis of the Present World Situation*, WIPO Publ. no. 725(E), 11 (1994). For deception of the "referee," *see infra* p. 287 *et seq.* Recitals 6 and 8 of the Unfair-Commercial Practices Directive provide a similar distinction. *See* Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market and amending Council Directive 84/450/EEC, Directives 97/7/EC, 98/27/EC and 2002/65/EC of the

instance, if a trade secret is stolen or if a competitor's business assets are destroyed. Strictly speaking, however, these instances of competition are not part of the core of process-oriented policies. They are devoid of an immediate influence on the market mechanism. Of course, many scenarios of direct hindrance to a competitor may completely cut off the market mechanism by isolating the victim-competitor from the competitive process. Such a situation thus necessarily comprises a factual reduction of the victim-competitor's sphere of activities. Yet there is no immediate effect on consumer decision making. This kind of anticompetitive effect is thus governed by the second category of unfair competition policies.

In the second category, limitation of competitor freedom ensues from conduct targeted primarily and directly toward the consumer. These limitations occur between the upper and the lower levels of the model, within the vertical relationship. There is no competition between competitors and consumers.[42] Nonetheless, their relationship is the pathway directly connected to the market mechanism. If a competitor addresses the consumer in order to execute a transaction, she will directly affect the consumer's freedom to transact, but at the same time, she will indirectly restrict her competitors' freedom to transact. This indirect relation among market participants on the upper level has also been laid out in the Unfair Commercial Practices (UCP) Directive.[43] While the directive's policy foundation ("purpose") in article 1 is centered on consumer protection,[44] its recitals explain that protecting consumer decision making also indirectly protects competitors' legitimate interests in competition.[45] Hence, what must remain untouched by external influences is consumer

European Parliament and of the Council and Regulation (EC) No 2006/2004 of the European Parliament and of the Council ("Unfair Commercial Practices Directive"), O.J. EU (11 June 2005), L 149/22.

[42] *See, e.g.*, Adair Dyer, *Unfair Competition in Private International Law*, 211 Recueil des Cours 373, 388 (1988-IV); Andrew Dickinson, *The Rome II Regulation: The Law Applicable to Non-Contractual Obligations* para. 6.05 (2008); Axel Beater, *Unlauterer Wettbewerb* § 12 para. 903 (2011).

[43] Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market and amending Council Directive 84/450/EEC, Directives 97/7/EC, 98/27/EC and 2002/65/EC of the European Parliament and of the Council and Regulation (EC) No 2006/2004 of the European Parliament and of the Council ("Unfair Commercial Practices Directive"), O.J. EU (11 June 2005), L 149/22.

[44] Article 1 reads: "The purpose of this Directive is to contribute to the proper functioning of the internal market and achieve a high level of consumer protection by approximating the laws, regulations and administrative provisions of the Member States on unfair commercial practices harming consumers' economic interests."

[45] *See* recital 6: "This Directive therefore approximates the laws of the Member States on unfair commercial practices, including unfair advertising, which directly harm consumers' economic interests and thereby indirectly harm the economic interests of legitimate competitors."

decision making. The consumer-as-referee must remain free to transact or not to transact, for consumer self-determination and sovereignty (*Konsumentensouveränität*) is the precondition of market efficiency.[46]

Before moving on, yet another clarification is necessary. As Figure 1 illustrates, the competitive process is actually not triangular but multi-angular. Each market transaction directly involves at least one party at the upper level and one at the lower level.[47] Of course, unless there is a monopoly on both sides of the market, there will be more parties involved. Almost always, the number of market participants on either side is much bigger. Yet in essence, the structure remains triangular: the consumer represents the decision maker choosing between two alternatives in the market.

III The Stages of Consumer Decision Making and Transacting

A casual look at the dichotomy between horizontal and vertical relations, particularly the emphasis accorded to the consumer's freedom of decision making, might imply that the distinction is merely an issue of consumer information—more specifically, the *transmission* of information. Such a perspective, however, would unduly restrict the analysis. Consumer transacting can be influenced and manipulated by more than misinformation. One example is the pressuring of a consumer. If a consumer is pressured, she may make a decision that she would not have made otherwise. Even though information may have been transmitted correctly, her transaction is the result of a restricted decision-making process. In such a case, the quality of pretransactional information and its transmission is not relevant. Therefore, in order to correctly assess the multiple possibilities of affecting the consumer's decision making, consumer behavior must be divided into stages.[48] First, the consumer collects information.

[46] *See also* Jürgen Keßler, *„Marktordnung, Wettbewerb und Meinungsfreiheit"—wettbewerbstheoretische und verfassungsrechtliche Aspekte des § 6e UWG*, 1987 WRP 75, 79; Jürgen Keßler, *Die umweltbezogene Aussage in der Produktwerbung—dogmatische und wettbewerbstheoretische Aspekte des Irreführungsverbots*, 1988 WRP 714, 716; Frauke Henning-Bodewig & Annette Kur, *Marke und Verbraucher—Funktionen der Marke in der Marktwirtschaft, vol. I: Grundlagen* 171 (1988). As to European unfair competition law, *see* Hans-W. Micklitz, in Norbert Reich & Hans-W. Micklitz, *Europäisches Verbraucherrecht* 439 (4th edn., 2003).

[47] Insofar, as I have explained *supra*, it does not make a difference whether the lower-level participant is a consumer or a commercially acting party.

[48] *See, e.g.*, Frauke Henning-Bodewig & Annette Kur, *Marke und Verbraucher—Funktionen der Marke in der Marktwirtschaft, vol. I: Grundlagen* 59 *et seq.* (1988); Michael Lehmann, Vertragsanbahnung durch Werbung—Eine juristische und ökonomische Analyse der bürgerlich-rechtlichen Haftung für Werbeangaben gegenüber dem Letztverbraucher 55 *et seq.* (1981); Inge Scherer, *Privatrechtliche Grenzen der Verbraucherwerbung* 69 *et seq.* (1996); Matthias Leistner, *Richtiger Vertrag und lauterer Wettbewerb—Eine grundlagenorientierte Studie unter besonderer Berücksichtigung der europäischen Perspektive* 133 *et seq.* (2007).

She then stores this information and processes it by comparing alternatives and eliminating unsuitable or less promising options. Ultimately, she implements the results of her information collecting and processing by concluding a transaction in the marketplace. The consumer's ultimate decision whether and how to transact—the principal subject matter of protection in trademark and unfair competition law—can be influenced during any stage of this process.

A Information Transmission

It is commonly understood that information transmission within the marketplace must be complete and undistorted. Yet even more fundamentally, a market-internal infrastructure of information transmission as such must exist. This problem has been well explored. George J. Stigler has addressed it as a central aspect of his theory of information economics.[49] As he explains, the market, in order to function, requires that its participants search for information. Stigler uses market prices as an example, but the principle applies universally: a market participant who wants to ascertain the most favorable conditions for her transaction must search for available options. While conditions of the ultimate transaction may improve with increased search efforts, the consumer will have to subtract her searching costs from the relative gains obtained from the transaction. This is the concept of search costs.[50] As Stigler goes on to explain, advertising is a method of providing information about market participants and market conditions; most optimistically, it is an "immensely powerful instrument for the elimination of ignorance—comparable in force to the use of the book instead of the oral discourse to communicate knowledge."[51] In essence, the effect of advertising is "equivalent to that of the introduction of a very large amount of search by a large portion of the potential buyers."[52] This theory has provided the foundation for today's understanding of market communication and the importance of information economization. A functioning system of information transmission—in other words, an infrastructure of market information—is essential for the marketplace to exist.

On a second level, the information transmitted through this infrastructure must be correct and truthful. This has been explained by George

[49] *See* George J. Stigler, *The Economics of Information*, 69 J. Pol. Econ. 213 (1961).
[50] *Id.* at 213. For further implications of information economics theory, *see, e.g.*, Kenneth J. Arrow, *Uncertainty and the Welfare Economics of Medical Care*, 53 Am. Econ. Rev. 941 (1963). For a general overview in the context of trademark and unfair competition doctrine, *see, e.g.*, Roger Van den Bergh & Michael Lehmann, *Informationsökonomie und Verbraucherschutz im Wettbewerbs- und Warenzeichenrecht*, 1992 GRUR Int. 588.
[51] George J. Stigler, *The Economics of Information*, 69 J. Pol. Econ. 213, 220 (1961).
[52] *Id.* at 224.

A. Akerlof, who illustrates the concept using the example of a used-car market, which features an asymmetry of information (a "market for lemons"). Usually, sellers have better and more knowledge than customers regarding the true value of a used car. But chances are high that sellers will not share this additional information with customers. This leads to bad deals for the buyers: because they cannot distinguish between cars on the basis of quality, they may therefore pay the same price for a good car as for a bad one (the latter being the proverbial "lemon"). Over time, then, if complete and correct information remains unavailable to consumers, the quality of products within a market will deteriorate. After all, sellers have no incentive to provide quality products if suboptimal quality guarantees the same return. Since buyers will increasingly avoid transacting in this market, it will ultimately vanish.[53] The ensuing costs of dishonesty have two components: the costs paid by cheated purchasers and the losses on behalf of the public resulting from the nonexistence of a market for quality products.[54] Protecting truthfulness in market information, therefore, has both individual and public aspects.

In order to overcome this informational asymmetry, the consumer has two resources. First, she can rely on existing information. This is the body of information developed by her own or other consumers' experiences. Existing information may also consist of information provided by intermediaries or authorities (e.g., product-testing information). In legal terms, this sort of information is transmitted through the product's or a competitor's market goodwill.[55] Second, the consumer can look to advertising as a source of newly created information.[56] This is information transmission beyond the goodwill mechanism; it need not rely on existing information within the marketplace. Together, both categories make up the "market language."[57] In general terms, therefore, market

[53] George A. Akerlof, *The Market for "Lemons": Quality Uncertainty and the Market Mechanism*, 84 Quarterly J. Econ. 488 *et seq.*, 495 (1970). For information asymmetries, *see also* Joseph E. Stiglitz, *Information and the Change in the Paradigm in Economics*, 92 Am. Econ. Rev. 460, 466 *et seq.*, 470 *et seq.* (2002).

[54] George A. Akerlof, *The Market for "Lemons": Quality Uncertainty and the Market Mechanism*, 84 Quarterly J. Econ. 488, 495 (1970).

[55] Howard Beales, Richard Craswell & Steven C. Salop, *The Efficient Regulation of Consumer Information*, 24 J. L. & Econ. 491, 493 and 501 *et seq.* (1981).

[56] Roger Van den Bergh & Michael Lehmann, *Informationsökonomie und Verbraucherschutz im Wettbewerbs- und Warenzeichenrecht*, 1992 GRUR Int. 588, 591–592.

[57] For the concept and terminology of market language, *see, e.g.*, Stephen L. Carter, *The Trouble with Trademark*, 99 Yale L.J. 759, 763 (1990); for an extended concept in trademark doctrine, *see* Rochelle Cooper Dreyfuss, *Expressive Genericity: Trademarks as Language in the Pepsi Generation*, 65 Notre Dame L. Rev. 397, 397 (1990).

language identifies sellers, buyers, prices, and product quality—parameters and conditions that are important for economically rational decision making. Market language—its existence and truthfulness—is the essence of every marketplace. It actually *is* the marketplace.[58]

B Information Processing

In addition to collecting market information, the consumer must also properly process the information in order to transact rationally. The outcome of decision making will depend both on the quality of information that has been transmitted and gathered, and on the decision-making process as such. In addition to manipulating market information, competitors can thus also try to exert an impact that is not based on incorrect information content but that affects the subsequent processing of information. This category of manipulation, although still within the reign of unfair competition prevention, is not necessarily governed by trademark law.[59]

Indeed, modern legal instruments for unfair competition also distinguish between an outright distortion of market information and other kinds of impact on consumer decision making. The UCP Directive,[60] for instance, separates "misleading" (arts. 6 and 7) and "aggressive" commercial practices (arts. 8 and 9). A commercial practice is regarded as misleading "if it contains false information and is therefore untruthful or in any way, including overall presentation, deceives or is likely to deceive the average consumer, even if the information is factually correct."[61] Quite differently, an aggressive commercial practice is not necessarily founded on information transmission. On the contrary, the focus is oriented toward the consumer's last stage of transacting. Article 8 explains a practice to be considered aggressive if,

[58] *See* Wolfgang Fikentscher, *Wirtschaftsrecht, vol. I: Weltwirtschaftsrecht, Europäisches Wirtschaftsrecht* § 1 I 11 (1983) ("Der Markt ist die Gesamtheit der Dialoge über wirtschaftliche Werte untereinander austauschbarer Güter. Für die Dialoge über wirtschaftliche Werte ist dabei die grundsätzliche Freiheit erforderlich, diese Dialoge zu führen. Das Ergebnis der Meinungsfreiheit, wirtschaftlich betrachtet, heißt Markt."). For a general explanation in the traditional terms of unfair competition doctrine, *see* WIPO, *Protection against Unfair Competition—Analysis of the Present World Situation*, WIPO Publ. no. 725(E), 37 (1994).

[59] *See* Mark P. McKenna, *A Consumer Decision-Making Theory of Trademark Law*, 98 Va. L. Rev. 67, 85 (2012). For the exact demarcations, *see infra* p. 359 *et seq*.

[60] Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market and amending Council Directive 84/450/EEC, Directives 97/7/EC, 98/27/EC and 2002/65/EC of the European Parliament and of the Council and Regulation (EC) No 2006/2004 of the European Parliament and of the Council ("Unfair Commercial Practices Directive"), O.J. EU (11 June 2005), L 149/22.

[61] *See* article 6 para. 1. "Misleading omissions" are defined in article 7.

in its factual context, taking account of all its features and circumstances, by harassment, coercion, including the use of physical force, or undue influence, it significantly impairs or is likely to significantly impair the average consumer's freedom of choice or conduct.

Examples of such manipulation can be found in annex I of the directive. According to number 30 of the so-called black list, for instance, a practice is considered unfair when a competitor "[e]xplicitly inform[s] a consumer that if he does not buy the product or service, the trader's job or livelihood will be in jeopardy." Information on the product or service may be correct; ultimately, however, this practice might affect the transaction by appealing to the addressee's feelings of sympathy. Since this kind of "ancillary information" is apt to pressure the consumer, it is considered an aggressive practice.[62] Of course, the directive's blacklisted scenarios do not necessarily require an actual distortion of consumer behavior. Yet, as the example illustrates, some of these scenarios are apt to create a risk of undue impact beyond the actual content of essential product information. This is manipulation of the consumer's decision making on an intermediary level—between information transmission and final transacting. With regard to the importance of freedom of competition, both the protection of decision-making economization on the basis of correct information *and* the prevention of subsequent improper information processing have the same function.

C Implementation of the Consumer's Decision

Finally, there is a last stage of the decision-making process that is often neglected: the consumer's free implementation of her decision in the marketplace. Her decision-making process may be flawless and unmanipulated, and the outcome may be economically rational, but the market mechanism will still be distorted if her decision's final implementation is affected. Quite often, manipulation of this last stage cannot and need not be distinguished from improper impact on the processing. Take, for example, the case where consumers are physically prevented from entering a business's premises in order to divert them to another's business.[63] According to the definition in article 8 of the UCP Directive, this is an aggressive practice. There need not be an effect on information transmission or processing. Instead, the simple execution of the consumer's decision (i.e., its implementation in the market) is being frustrated. Like an improper impact on earlier stages,

[62] *See, e.g.*, Helmut Köhler, in Helmut Köhler & Joachim Bornkamm, *Gesetz gegen den unlauteren Wettbewerb*, Anh zu § 3 III UWG para. 30.1 (33rd edn., 2015).
[63] *See also* no. 24 and 25 in Annex I of the Unfair Commercial Practices Directive.

invasion of the final stage of the transaction process invalidates the entire mechanism.

Notwithstanding general acknowledgment of the consumer's referee function, the protection of her decision making is regularly limited to the mere preservation of information correctness and processing. The question of where a transaction is or would have been implemented is then simply overlooked. As a result, particularly in choice of law, the place of impact on information correctness or processing—and not the place where the consumer will actually effectuate or would have effectuated her decision through a market transaction—is deemed to matter as a point of attachment. One example is illustrative here: as the leading practitioners' legal commentary on the German Unfair Competition Act (UWG) explains, submitting an offer to the consumer (e.g., by e-mail) will be deemed to "affect" or "impact" the market at the place where the message is being received. Hence, ultimately, it is irrelevant how the consumer reacts after she has received the letter.[64] In particular, it will not matter in which jurisdiction the consumer will subsequently transact (or forbear to transact). This position is in line with the Bundesgerichtshof's decision in *Kauf im Ausland* and subsequent adjudication on cross-border unfair competition conduct.[65] Nevertheless, it does not duly accommodate the function of the consumer's transaction as the core element of a market economy. A slight modification of the facts suffices to take this simplified attachment rule ad absurdum: if the e-mail has been received during the consumer's holiday trip, where she is far away from her country of residence (and usual place of transacting), attaching choice of law to the temporary place of receipt would be incorrect. I will address this particular scenario in more detail in the last chapter.[66] Worth pointing out for now is that if consumer decision making is the most important factor for the functioning of the market mechanism, and if it is the consumer's referee function that can be described as the core element of free competition, then the ultimate outcome of decision making must not be disregarded—especially not in choice-of-law analysis.

In essence, therefore, the complete scope of the consumer's decision-making process must be protected against improper invasion. The protected domain starts with the transmission of information within the

[64] Helmut Köhler, in Helmut Köhler & Joachim Bornkamm, *Gesetz gegen den unlauteren Wettbewerb*, Einl UWG para. 5.34 and 5.35 (33rd edn., 2015).

[65] *See* BGH 1991 GRUR 463, 465—*Kauf im Ausland* (15 November 1990); *see also* BGH 1998 GRUR 419, 420—*Gewinnspiel im Ausland* (26 November 1997); BGH 2006 GRUR 513, 515—*Arzneimittelwerbung im Internet* (30 March 2006). *See supra* p. 207 *et seq*. and *infra* p. 539 *et seq*.

[66] *See infra* p. 539 *et seq*.

marketplace. It continues with the consumer's processing of information and then proceeds to cover the final result of the information processing—the consumer's transaction. Only if the consumer can carry out all of these stages without being externally manipulated can the outcome be considered to be economically rational.

D Caveat: Limitations of Consumer Decision Making

We have now seen that consumer sovereignty guarantees competitive efficiency and that it must be the subject matter of protection for regulation in terms of trademark protection and unfair competition prevention. But this is a mere theoretical ideal. In reality, human decision making is never perfect or completely rational. Indeed, many instances of consumer decision making will result in economically imperfect transactions. Not all consumers are *homines oeconomici*. Such imperfections were actually addressed quite early in economic theory. In the 1950s, Herbert A. Simon described a fundamental flaw in the concept of consumer autonomy—the phenomenon of bounded rationality.[67] His model illustrates that there will rarely ever exist a situation that allows for a perfectly rational *ex ante* processing of all relevant factors. While the individual may believe that she is making a rational decision, she seldom is. Furthermore, as critical theory went on to explain, maximum information will not bring out optimum competition, either. In fact, giving market participants a maximum of information may result in information overload, for consumers are limited in their cognitive capacities to collect and process market information.[68] In recent decades, many more doubts concerning consumer skills and capacities have been raised.[69]

[67] *See* Herbert A. Simon, *A Behavioral Model of Rational Choice*, 69 Quarterly J. Econ. 99 (1955) ("Traditional economic theory postulates an 'economic man,' who, in the course of being 'economic' is also 'rational.' This man is assumed to have knowledge of the relevant aspects of his environment which, if not absolutely complete, is at least impressively clear and voluminous. He is assumed also to have a well-organized and stable system of preferences, and a skill in computation that enables him to calculate, for the alternative courses of action that are available to him, which of these will permit him to reach the highest attainable point on his preference scale. . . . [T]he concept of 'economic man' (and, I might add, of his brother 'administrative man') is in need of fairly drastic revision."); reprinted in Herbert A. Simon, *Models of Man, Social and Rational—Mathematical Essays on Rational Human Behavior in a Social Setting* 241 *et seq.* (1957).

[68] *See, e.g.*, Jürgen Keßler, *Wettbewerbstheoretische Aspekte des Irreführungsverbotes—eine ökonomische und dogmengeschichtliche Analyse*, 1990 WRP 73, 83.

[69] *See, e.g.*, Christine Jolls, Cass R. Sunstein & Richard H. Thaler, *A Behavioral Approach to Law and Economics*, 13 *et seq.*, 47, in *Behavioral Law and Economics* (Cass R. Sunstein ed., 2000); Richard H. Thaler, *Quasi Rational Economics* 3 *et seq.*, 77 *et seq.*, 137 *et seq.* and *passim* (2001); Mark Kelman, *Law and Behavioral Science: Conceptual Overviews*, 97 Nw. U. L. Rev. 1347 (2003); Faruk Gul & Wolfgang Pesendorfer, *Self-Control and the Theory of Consumption*, 72 Econometrica 119 (2004); Faruk Gul & Wolfgang Pesendorfer, *The Revealed Preference Theory of Changing Tastes*, 72 Rev. Econ. Stud. 429 (2005); *see*

An extended debate on behavioral economics is not necessary here, though one question is inevitable: If consumer decision making by its nature tends to result in irrational transacting, can it still serve as a factor for analysis in trademark and unfair competition law or choice of law? This is the point at which the characteristics of competition dynamics come into play again. As we have seen, the market economy is built on the sum of individual transactions.[70] By definition, these transactions are imperfect. Looking at competition from a perspective that embraces it as a dynamic and evolutionary process even requires a "natural" consumer, with all her decision-making deficits. Intrinsic limitations on rationality must then not only be accepted as a preexisting given—they may in fact be essential to the model.[71] Indeed, the steadfastly rational and profit-maximizing individual would be the death of discovery and innovation, and any regulation trying to substitute the consumer's decision with an artificially determined proxy that yields correct, just, and optimal results would disable the evolutionary mechanism of competition. Hence, there is no alternative to consumer decision making.

IV Summary

Economic competition requires freedom of transacting. The dynamic structure of competition reflects two different aspects of this freedom,

also Daniel Kahneman, *Thinking, Fast and Slow* (2011). For consumer protection policies in general, *see* Colin Scott & Julia Black, *Cranston's Consumers and the Law* ch. 1 and 9, in particular at 30 *et seq.* and 372 *et seq.* (3rd edn., 2000). For an extensive debate on consumer conduct, behavioral economics, and unfair competition law (in Germany, Switzerland, and Europe), *see* Axel Beater, *Verbraucherverhalten und Wettbewerbsrecht*, 87, 88 *et seq.*, in *Festschrift für Winfried Tilmann zum 65. Geburtstag* (Erhard Keller et al. eds., 2003).

[70] *See supra* p. 275 *et seq.*

[71] *See* Franz Böhm, *Wettbewerb und Monopolkampf—Eine Untersuchung zur Frage des wirtschaftlichen Kampfrechts und zur Frage der rechtlichen Struktur der geltenden Wirtschaftsordnung* 261–262 (1933) ("Eine Rechtsordnung, die der freien Willensentschließung derjenigen, die wirtschaftliche Leistungen nachfragen, eine so zentrale Gewalt über das Schicksal der Wirtschaft und der in ihr Tätigen einräumt, muß naturgemäß ein durchschnittlich hohes Maß von Urteilskraft bei der Masse der Nachfragenden voraussetzen. … Diese Fähigkeit setzt nun die Rechtsordnung voraus. … Ob diese Annahme nun aber zutrifft oder nicht, im rechtlichen System einer Wettbewerbsordnung wird sie jedenfalls als Fiktion unterstellt. Die Wahl, die der freie Kunde unter den konkurrierenden Angeboten trifft, kann nicht unter dem Gesichtspunkt rechtlich beanstandet werden, der Kunde verstehe sein eigenes Interesse nicht. Der Schaden, der für die Gesamtwirtschaft wie für den Einzelunternehmer daraus entstehen kann, daß die Fähigkeit zu verständiger Interessenwahrnehmung bei den Nachfragenden, sei es im ganzen, sei es in Einzelfällen, versagt, muß als ‚höhere Gewalt', als Schicksal, als Folge des Systems hingenommen werden. Es gibt keinen Rechtsanspruch darauf, daß der Kunde sein wirtschaftliches Selbstinteresse in intelligenter Weise wahrnimmt."). For a *sans alternatives* approach, *see* Mark P. McKenna, *A Consumer Decision-Making Theory of Trademark Law*, 98 Va. L. Rev. 67, 120 (2012) ("[D]ue regard for consumer autonomy requires us to live with these decisions even if they are bad.").

each concerning a separate relationship between market participants. First, freedom of transacting must exist between competitors (horizontal relationship). In addition, it must be preserved between competitors and the other side of the market, usually the consumers (vertical relationship). With respect to the mechanics of competition, the latter relationship is central, since it is the consumer's role as the "referee" in competition that is the most important factor for the functioning of the market mechanism. From a historical perspective, it becomes clear that legal doctrine initially focused on the horizontal level and only lately moved on to consider the vertical relationship. Initially, unfair competition law was aimed at protecting competitors—consumers were considered the substrate upon which competitors' battles were fought and decided. Under a modern understanding of competition, however, consumers' interests are considered determinative. The understanding of economic competition as a dynamic process of market communication and transacting provides the microstructure for our analysis. It is consumer decision making and transacting that serves as the core subject matter of protection under modern doctrines of trademark and unfair competition law. This subject matter necessarily also determines the reconceptualization of choice of law.

Section 2 Implementation—Substantive Law

The previous chapters have unveiled a number of defects in current doctrine. One major flaw is the alleged dichotomy between, on the one hand, subjective "rights" and "property" protected under tort and trademark law and, on the other, the system of objective rules of market "conduct" implemented under the regime of unfair competition law. Similarly problematic is unfair competition law's alleged socialization toward an often unqualified protection of "consumer interests." All of these defects require a reconceptualization—this also plays out with regard to choice of law. The key to the promulgation of a consistent conflicts doctrine lies in a precise definition of legal purposes in trademark and unfair competition law, as well as in a clear separation of the area from other fields of market regulation. Substantive law policies will thus provide my starting point. The following discussion will address the relevant questions of overlap and demarcation for the fields of torts and delicts, intellectual property, and antitrust law.

I Tort and Unfair Competition Law

As we have seen, legal doctrine has never managed to liberate unfair competition law from its tort heritage, whether in substantive law or

choice of law. US law still treats intellectual property and unfair competition as a subspecies of business torts and tort law in general.[72] In Europe, the Rome II Regulation's treatment of both tort and unfair competition choice of law in a single instrument is a prominent example of their common heritage.[73] Nonetheless, notably in European law, it is also widely contended that the two areas pursue different purposes. Roughly speaking, tort law is deemed to protect absolute private rights. Unfair competition law is characterized as establishing a system of objective rules of market conduct.[74] While this characterization may often help support practically adequate results, it is not a doctrinally consistent explanation of the interrelation. Run-of-the-mill torts mostly concern noncompetitive activity, and they usually do not overlap with unfair competition law. With regard to commercial conduct, however, the picture is far more complex: legal policies of unfair competition prevention, especially at the horizontal level of intercompetitor relations, may be an issue of protecting "individual rights." Similarly, it is debated whether a "subjective right" can be found to exist in a competitor's position in the marketplace. In virtually all scenarios, therefore, both a tort concern for property or subjective right protection *and* an issue of fairness in competition may be at stake. This conundrum of overlapping policies reflects a general debate over how individual rights and freedom should be delimited in free markets. A close look at developments in US and European tort and unfair competition law highlights the most relevant aspects.

A The Mirage of Practical and Formal Differences

The debate on the interplay between tort and unfair competition policies and the question of how to differentiate the two sectors is mostly founded on practical and formalist arguments. Two aspects are regularly highlighted in order to explain the difference, though both are unconvincing. First, with regard to remedies, conventional wisdom usually refers to the practical realities that seem to illustrate that tort law is focused on compensation, while unfair competition law provides primarily for injunctive relief.[75] Some scholars have concluded therefrom that the system of

[72] For the early common law characterization, *see, e.g.*, John Henry Wigmore, *Select Cases on the Law of Torts—with Notes, and a Summary of Principles*, vol. I §§ 70 *et seq.* (1912); further also Restatement (First) of Torts §§ 711 *et seq.* (1938); more recently, *see, e.g.*, 1 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 2:7 (4th edn., 2016) ("Since trademark infringement is a type of unfair competition and unfair competition is a tort, it follows that trademark infringement is a commercial tort.").

[73] *See supra* p. 64 *et seq.* and p. 203 *et seq.*

[74] *See supra* p. 64 *et seq.* and p. 203 *et seq.*

[75] *See, e.g.*, Karl F. Kreuzer, *Wettbewerbsverstöße und Beeinträchtigung geschäftlicher Interessen (einschl. der Verletzung kartellrechtlicher Vorschriften)*, 232, 265–266, in *Vorschläge und*

unfair competition prevention is prohibitive yet noncompensatory. As they contend, prevention—not restitution—governs.[76] The divergent frequency of occurrence of different remedies in practice, however, hardly allows for a conclusion to be drawn. On the contrary, a look at the substantive law foundations of the field suggests a different outcome. First, history reveals that injunctive relief has only recently achieved its current importance in practice. Unfair competition prevention in early German doctrine, for instance, favored penal sanctions and compensatory relief at the expense of the victim's injunctive relief.[77] Furthermore, modern tort and unfair competition law largely provide for both injunctive relief and damages.[78] The difference in frequency is due to a mere practical necessity: in unfair competition disputes, an accounting of the plaintiff's actual damages is often difficult, sometimes even impossible. Injunctive relief, therefore, prevails as a practical matter in most proceedings.[79] In principle, however, unfair competitive conduct (if intentional or negligent) may of course also result in a finding of compensation—in addition to the remedy of injunctive relief.[80] Conversely,

Gutachten zur Reform des deutschen internationalen Privatrechts der außervertraglichen Schuldverhältnisse, vorgelegt im Auftrag der Zweiten Kommission des Deutschen Rates für internationales Privatrecht (Ernst von Caemmerer ed., 1983); Max-Planck-Institut für ausländisches und internationales Patent-, Urheber- und Wettbewerbsrecht, *Stellungnahme zum Entwurf eines Gesetzes zur Ergänzung des internationalen Privatrechts (außervertragliche Schuldverhältnisse und Sachen)*, 1985 GRUR Int. 104, 106 (for intellectual property rights protection); Karl-Heinz Fezer & Stefan Koos, in *Staudingers Kommentar zum Bürgerlichen Gesetzbuch: Internationales Wirtschaftsrecht,* Internationales Wettbewerbsprivatrecht para. 397 (15th edn., 2010); Helmut Köhler, *Die wettbewerbsrechtlichen Abwehransprüche (Unterlassung, Beseitigung, Widerruf)*, 1992 NJW 137, 137 (characterizing injunctive relief as a core area of unfair competition prevention).

[76] *See* Wilhelm Gloede, *Der deutsche Außenhandel und seine wettbewerbsrechtliche Beurteilung nach deutschem internationalem Privatrecht*, 1960 GRUR 464, 471; Karl F. Kreuzer, *Wettbewerbsverstöße und Beeinträchtigung geschäftlicher Interessen (einschl. der Verletzung kartellrechtlicher Vorschriften)*, 232, 265–266, in *Vorschläge und Gutachten zur Reform des deutschen internationalen Privatrechts der außervertraglichen Schuldverhältnisse, vorgelegt im Auftrag der Zweiten Kommission des Deutschen Rates für internationales Privatrecht* (Ernst von Caemmerer ed., 1983); Rainer Hausmann & Inés Obergfell, in *Lauterkeitsrecht: Kommentar zum Gesetz gegen den unlauteren Wettbewerb (UWG)*, *vol. I*, Einleitung I para. 220 (Karl-Heinz Fezer ed., 2nd edn., 2010); *see also* Karl-Heinz Fezer & Stefan Koos, in *Staudingers Kommentar zum Bürgerlichen Gesetzbuch: Internationales Wirtschaftsrecht*, Einleitung para. 21 (15th edn., 2010).

[77] *See supra* p. 10–14.

[78] *See, e.g.*, Otto Teplitzky, *Wettbewerbsrechtliche Ansprüche und Verfahren*, ch. 29 (10th edn., 2011).

[79] *See id.* at ch. 53 para. 1. For the problem of calculating and proving damages, *see* Otto Teplitzky, *Die Durchsetzung des Schadensersatzzahlungsanspruchs im Wettbewerbsrecht*, 1987 GRUR 215; Gerd Leisse & Fritz Traub, *Schadensschätzung im unlauteren Wettbewerb*, 1980 GRUR 1; for case law on the issue, *see, e.g.*, BGH 2001 GRUR 329, 331—*Gemeinkostenanteil* (2 November 2000).

[80] Remarkably, the German Unfair Competition Act (sec. 9) even grants compensation for mere monetary or economic losses ("Vermögensschäden") in cases of simple negligence.

even though most tort suits center on the issue of compensation, injunctive relief is also available and (like in unfair competition law) does not require the defendant's fault.[81] In some areas of tort law, injunctions may even be the dominant practical remedy.[82] It is therefore true, as the Restatement of Unfair Competition Law (Third) explains, that "the judicial preference for injunctive relief in unfair competition cases is not an exception to ordinary remedial principles, but rather an application of those principles in a context in which injunctive relief is ordinarily the most appropriate remedy."[83]

Moreover, a formalist differentiation based on the alleged "absoluteness" of rights that are protected under tort law is no more helpful than a look at practical remedies. Historically, of course, unfair competition has been qualified as a tort or delict. Yet the discussion increasingly centers around the fact that the two sectors differ with respect to the relevant subject matter of protection. Unfair competition law, it is contended, aims to regulate market behavior through objective rules of conduct.[84] Quite differently, the subject matter in torts comprises absolute rights.[85]

This is more extensive than the general principles of tort law, where monetary losses without infringement of an absolute right (*see* section 823(1) of the German Civil Code (BGB)) will be compensated in cases of intentional delicts only.

[81] For the general doctrinal foundation of injunctive relief in German tort doctrine, *see* Hermann Reichold, *Lauterkeitsrecht als Sonderdeliktsrecht—Zur Rolle zivilistischen Denkens bei der Anwendung von* § 1 *UWG*, 193 AcP 204, 218 (1993) (with further references).

[82] Examples are defamation and personality rights protection.

[83] Restatement of the Law—Unfair Competition (Third), § 35, comment a (1995) (also explaining the usual "difficulty of proving the amount of loss and a causal connection with the defendant's wrongful conduct").

[84] It protects not individual entitlements but competitors, consumers, and the public alike. For case law, *see, e.g.*, RGZ vol. 108, 272, 274—*Merx* (27 May 1924); RGZ vol. 120, 47, 49—*Markenschutzverband* (24 January 1928); BGHZ vol. 81, 291, 295—*Bäckerfachzeitschrift* (3 July 1981). For scholarly commentary, *see* Kamen Troller, *Das internationale Privatrecht des unlauteren Wettbewerbs in vergleichender Darstellung der Rechte Deutschlands, Englands, Frankreichs, Italiens, der Schweiz und der USA* 33 (1962); Hans-Albrecht Sasse, *Grenzüberschreitende Werbung* 42–43 (1974); Karl F. Kreuzer, *Wettbewerbsverstöße und Beeinträchtigung geschäftlicher Interessen (einschl. der Verletzung kartellrechtlicher Vorschriften)*, 232, 265, in *Vorschläge und Gutachten zur Reform des deutschen internationalen Privatrechts der außervertraglichen Schuldverhältnisse, vorgelegt im Auftrag der Zweiten Kommission des Deutschen Rates für internationales Privatrecht* (Ernst von Caemmerer ed., 1983); Frauke Henning-Bodewig, *Was gehört zum Lauterkeitsrecht?*, 9, 18–19, in *Lauterkeitsrecht und Acquis Communautaire* (Reto M. Hilty & Frauke Henning-Bodewig eds., 2009); Reto M. Hilty, *The Law Against Unfair Competition and Its Interfaces*, 1 *et seq.*, in *Law Against Unfair Competition—Towards a New Paradigm in Europe?* (Reto M. Hilty & Frauke Henning-Bodewig eds., 2007).

[85] *See, e.g.*, Kamen Troller, *Das internationale Privatrecht des unlauteren Wettbewerbs in vergleichender Darstellung der Rechte Deutschlands, Englands, Frankreichs, Italiens, der Schweiz und der USA* 33, 111–112 (1962); Karl F. Kreuzer, *Wettbewerbsverstöße und Beeinträchtigung geschäftlicher Interessen (einschl. der Verletzung kartellrechtlicher Vorschriften)*, 232, 265, in *Vorschläge und Gutachten zur Reform des deutschen internationalen Privatrechts der außervertraglichen Schuldverhältnisse, vorgelegt im Auftrag der Zweiten*

But this also leads into the wrong direction. Rights and entitlements are always relative. Most illustratively, the relativity of rights can be shown to govern rules on tangible property. Owners of real property never enjoy unlimited power.[86] The statutory rule in the German Civil Code illustrates this point with clarity. As the code's provision on tangible property provides, "The owner of a thing may, as far as the law and the rights of others are not violated, deal with his property as he wishes and exclude others from interference."[87] Of course, this express relativity stands in stark contrast to William Blackstone's oft-enunciated definition of property as the "sole and despotic dominion which one man claims and exercises over the external things of the world, in total exclusion of the right of any other individual in the universe."[88] Yet this no longer represents a consensus on the nature of property rights and other entitlements. The German lawmakers' determination of limitations on tangible property, like all modern conceptions in the field, has been designed without the slightest remainder of such absolutist dominion.[89] And *a fortiori*, the relativity of rights also governs with regard to *intangible* subject matter.[90] The scope of personality rights and protection of personal reputation provides for an illustrative example. The protection of an individual's reputation against improper invasion by a competitor may be granted

Kommission des Deutschen Rates für internationales Privatrecht (Ernst von Caemmerer ed., 1983) ("Während Schutzgut des allgemeinen Deliktsrechts grundsätzlich ein (absolutes) subjektives Recht oder Rechtsgut eines individuellen Rechtsträgers bildet, das Ausdruck einer ausschließlichen Zuweisung des Gutes an den Inhaber ist, schützt das Wettbewerbsrecht die Interessen der Schutzadressaten (Mitbewerber, sonstige Marktbeteiligte, Allgemeinheit) an der Hintanhaltung unlauterer Wettbewerbshandlungen mit dem Instrument objektiver Verhaltensnormen; dies geschieht ohne Rücksicht auf Schadenseintritt oder auch nur (konkrete) Interessengefährdung."); more recently, *see, e.g.*, Frauke Henning-Bodewig, *Nationale Eigenständigkeit und europäische Vorgaben im Lauterkeitsrecht*, 2010 GRUR Int. 549, 552.

[86] *See* Elinor Ostrom, *Governing the Commons—The Evolution of Institutions for Collective Action* (1990); on aspects of public property doctrine and sociability, *see* Carol Rose, *The Comedy of the Commons: Custom, Commerce, and Inherently Public Property*, 53 U. Chi. L. Rev. 711, 774 *et seq.* and *passim* (1986); *see also* Michael A. Carrier, *Cabining Intellectual Property Through A Property Paradigm*, 54 Duke L.J. 1, 52 *et seq.* (2004).

[87] Section 903 German Civil Code (BGB) reads: "Der Eigentümer einer Sache kann, soweit nicht das Gesetz oder Rechte Dritter entgegenstehen, mit der Sache nach Belieben verfahren und andere von jeder Einwirkung ausschließen." The translation is borrowed from Jeremy Waldron, *What Is Private Property?*, 5 Ox. J. Leg. Stud. 313, 334 (1985).

[88] William Blackstone, *Commentaries on the Laws of England in Four Books, vol. I, Second Book: Of the Rights of Things*, ch. 1, at 393 (1893). For Blackstonian absolutist theory and its gradual dephysicalization, *see* Kenneth J. Vandevelde, *The New Property of the Nineteenth Century: The Development of the Modern Concept of Property*, 29 Buff. L. Rev. 325, 331 *et seq.* (1980).

[89] Jeremy Waldron, *What Is Private Property?*, 5 Ox. J. Leg. Stud. 313, 334 (1985).

[90] *See* Anselm Kamperman Sanders, *Unfair Competition Law—The Protection of Intellectual and Industrial Creativity* 78 *et seq.* (1997).

concurrently under a general theory of tort law and under the system of unfair competition law.[91] But the right must always be balanced against other concerns—particularly freedom of speech.[92] In essence, therefore, the law creates an individual right only to the extent that this right fulfills a function and serves a common end or collective good. Truly absolute rights in intangibles do not exist. Accordingly, neither the actual state of affairs in courtroom practice nor the traditional formalist perspective on absolute personal entitlements helps provide a clear demarcation between the fields of torts and delicts on the one hand and unfair competition law on the other.

B The Relativity of Protection Levels

The determinative aspect must be sought elsewhere. All personal entitlements may be relative under modern private law doctrine. However, the metric for assessing the relativity of these rights varies. As we will now see, the relevant standard for a demarcation is based on the different regulatory policies that are designed to establish and maintain the state of free competition.

1 Early Starting Point: Claims "against the World at Large"

An early approach to the issue of rights relativity stems from Roscoe Pound. The definition of "property" in his 1922 *Introduction to the Philosophy of Law* illustrates the different options, notably with respect to the intensity of protection for different categories of individual entitlements. His explanation may not provide for a very practical guideline, but it lucidly illustrates the fundamental question: To what extent is a private entitlement to be considered "relative," and at what point does it become a "right against the world at large"?

In addition to rights in corporeal things, the freedom of industry and contract, and the guarantee of enforcement for promised performances, Pound explained a fourth category of claims that constitute "property":

> [T]here is a claim to be secured against interference by outsiders with economically advantageous relations with others, whether contractual, social, business, official or domestic. For not only do various relations which have an economic value involve claims against the other party to the relation, which one may demand that the law secure, but they also involve claims against the world at large that these advantageous relations, which form an important part of the

[91] *See, e.g.*, W. Page Keeton, *Prosser and Keeton on the Law of Torts* ch. 19 and ch. 24 (5th edn., 2004); further, *e.g.*, sections 823, 826 German Civil Code (BGB) and section 4 no. 1 and no. 2 Unfair Competition Act (UWG).

[92] For a comparative account, *see, e.g.*, Konrad Zweigert & Hein Kötz, *An Introduction to Comparative Law* § 43, 685 *et seq.*, 713 (3rd edn., 1998).

substance of the individual, shall not be interfered with. Legal recognition of these individual claims, legal delimitation and securing of individual interests of substance is at the foundation of our economic organization of society.[93]

This general understanding of claims "against the world at large" highlights what would soon become the central issue in twentieth-century unfair competition doctrine. My overview on the historical debate traced the contemporary struggle with trademark-as-property and goodwill protection, as well as other formalist constructs.[94] Pound's explanation did clarify that the determination of distinct categories and boundaries of such claims must be considered constitutive for socioeconomic transacting. After all, without protection, there was no incentive to explore, create, or maintain elements of the respective subject matter. Yet what he left unanswered was the question how to delimit the public domain from such claims "against the world at large." In terms of trademark and unfair competition doctrine, this question concretely asked whether individual competitors can claim an absolute and exclusive "right in competition," notably in the preservation of their customer base, their market share, or another kind of achievement in competition. A closer look at the development of legal thought in the United States and Germany will highlight the most crucial aspects of a journey from the initially sweeping if-value-then-right approach to the modern segmentation of market-regulation policies.

2 *United States: From Property to Policy and Back Again*

As we saw in chapters 1 and 2, throughout the nineteenth century, plaintiffs phrased their requests in terms of property, or subjective, rights. The propertization and protection of ever more interests accommodated a practical penchant to think in categories of absolute entitlements, especially in trademark and unfair competition disputes. This conceptual victory of individual property protection was an heir to Lockean theory: any position that could be related to someone's labor, effort, or investment was found to constitute an absolute, subjective, and exclusive right.[95] As we have also seen, this concept came under pressure in US legal thought at the beginning of the twentieth century.[96] Two aspects

[93] Roscoe Pound, *An Introduction to the Philosophy of Law* 192 (1922).
[94] *See supra* chapter 1 *passim* and chapter 2 *passim*.
[95] *See* once more Roscoe Pound, *An Introduction to the Philosophy of Law* 194–195 (1922). With particular regard to trademark doctrine and the paradigm of "if value, then right," *see* Rochelle Cooper Dreyfuss, *Expressive Genericity: Trademarks as Language in the Pepsi Generation*, 65 Notre Dame L. Rev. 397, 405 (1990); most famously, Felix S. Cohen, *Transcendental Nonsense and the Functional Approach*, 35 Colum. L. Rev. 809, 815 (1935). For a general historical account, *see* Morton J. Horwitz, *The Transformation of American Law, 1780–1860*, 258–259 (1977).
[96] *See supra* p. 110 *et seq*.

of the development are relevant here. First, the concept of property as such was redesigned soon after the turn of the century. Second, this also led to a change of paradigms in trademark and unfair competition doctrine, at least at the theoretical level.

The modern reconceptualization of property was influenced greatly by Wesley Newcomb Hohfeld. In 1913 and 1917, he presented a new scheme of property rights analysis, which consisted of eight fundamental legal relations as constituent elements of "property." This approach, he argued, was intended to establish "the lowest common denominators of the law."[97] Hohfeld attempted to explain all existing relations and facets of "property" as consisting of a basic toolbox of "rights," "privileges," "powers," and "immunities," as well as their jural opposites and correlatives.[98] Hohfeldian theory has been extensively analyzed and discussed, and while the debate's details go beyond the scope of this inquiry, two points are relevant. First, it appears that Hohfeld, even though a critic of legal formalism, ultimately perfected the formalist dephysicalization of property. This trend started much earlier, but Hohfeldian thought spurred the dissolution. Under his segmented system of differentiated property components, every individual entitlement or value could ultimately be classified as a property right. This malleability may have been convenient in terms of theory, but it had a fatal effect in practice: as reflected by case law at the time, the ubiquity and potential infinity of property rights resulted in the concept's ultimate demise.[99] Property had become arbitrary, and a new concept had to be found.

The second aspect concerns the structural foundations. Hohfeld, in clarifying the difference between legal "liberties" and legal "rights,"[100]

[97] Wesley Newcomb Hohfeld, *Some Fundamental Legal Conceptions as Applied in Judicial Reasoning*, 23 Yale L.J. 16, 30 *et seq.*, 58 (1913) ("If a homely metaphor be permitted, these eight conceptions,—rights and duties, privileges and no-rights, powers and liabilities, immunities and disabilities,—seem to be what may be called 'the lowest common denominators of the law.' "); *see also* Wesley Newcomb Hohfeld, *Fundamental Legal Conceptions as Applied in Judicial Reasoning*, 26 Yale L.J. 710 *et seq.* (1917).

[98] *E.g.*, the opposite of "right" was "no right," and its correlative was "duty."

[99] For an extensive discussion, *see* Kenneth J. Vandevelde, *The New Property of the Nineteenth Century: The Development of the Modern Concept of Property*, 29 Buff. L. Rev. 325, 362–363 (1980); Duncan Kennedy, *The Role of Law in Economic Thought: Essays on the Fetishism of Commodities*, 34 Am. U. L. Rev. 939, 954 (1985) ("[T]hey began by thinking of property in terms of objects, and ended by thinking of it, in very abstract terms, as ability to invoke state force to prevent interference with some position of advantage in the market system."). With particular regard to unfair competition and trademark law, *see* Daniel M. McClure, *Trademarks and Unfair Competition: A Critical History of Legal Thought*, 69 Trademark Rep. 305, 317–318 (1979).

[100] For an extensive discussion, *see* Joseph William Singer, *The Legal Rights Debate in Analytical Jurisprudence from Bentham to Hohfeld*, 1982 Wis. L. Rev. 975, 987 *et seq.* and *passim*.

actually set the stage for a remodeling of individual rights theory. The then-governing formalist reasoning had established a system of wide-ranging property and private rights protection. Hohfeld illustrated that injury alone would not imply a remedy. As he explained, an individual's liberty (or, in Hohfeld's terms, "privilege") to do something was not necessarily accompanied by a duty of others not to invade this sphere of freedom. Hence, liberty alone would not automatically signify a right.[101] By this means, he opened the debate for a new perspective on the metric used for delimiting individual rights from the public domain—one that was no longer a merely value-based rule of assumption. On this basis, realist critics suggested that value protection should be determined by reference to the policies of the community.[102] This open reorientation toward a new paradigm of policies was particularly influential for trademark and unfair competition theory.

One famous example—mentioned in chapter 2—is the realist critique in Oliver Wendell Holmes's writings and authored opinions. In the 1917 Supreme Court decision *E.I. Du Pont Nemours*, for instance, he explained the protection of trademarks and trade secrets under the rubric of property as a legally created construct: "The word 'property' as applied to trademarks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith."[103] Good faith—as the expression of a general standard delimiting competitive conduct—was what determined whether something could be protected as a trademark, trade secret, or other intangible value. The following year, in his dissenting opinion in *International News Service*, Holmes further explained that "[p]roperty, a creation of law, does not arise from value, although exchangeable—a matter of fact."[104] Hence, policy, not value, should determine whether a position could be found protectable subject matter in unfair competition law.[105]

[101] *Id.* at 988.

[102] For an extensive discussion, *see, e.g.*, Duncan Kennedy, *The Role of Law in Economic Thought: Essays on the Fetishism of Commodities*, 34 Am. U. L. Rev. 939, 951 (1985).

[103] *E.I. Du Pont de Nemours Powder Co. v. Masland*, 244 U.S. 100, 102 (1917) (Holmes, J.).

[104] *International News Service v. Associated Press*, 248 U.S. 215, 246 (1918) (Holmes, J., dissenting).

[105] Justice Brandeis—also dissenting in *International News Service*—explained the concept of "property" in similarly policy-founded terms: "An essential element of individual property is the legal right to exclude others from enjoying it. If the property is private, the right of exclusion may be absolute; if the property is affected with a public interest, the right of exclusion is qualified. But the fact that a product of the mind has cost its producer money and labor, and has a value for which others are willing to pay, is not sufficient to ensure to it this legal attribute of property. The general rule of law is, that the noblest of human productions—knowledge, truths ascertained, conceptions, and

In 1935, no less famously than Holmes, Felix Cohen extended the attack on "property" in his seminal *Columbia Law Review* article.[106] I have already explained Cohen's criticism from a historical perspective.[107] Important here is that his article pointed to something else—a structure to be found below the surface of the skirmishes between formalists and realists:

> The prejudice that identifies the interests of the plaintiff in unfair competition cases with the interests of business and identifies the interests of business with the interests of society, will not be critically examined by courts and legal scholars until it is recognized and formulated. It will not be recognized or formulated so long as the hypostatization of "property rights" conceals the circularity of legal reasoning.[108]

In his critique of the distortion in contemporary interest analysis, Cohen anticipated the modern debate on the area's change from mere competitor protection to the protection of consumers and the public good. He did not elaborate further on the correlation of interests, though. Rather, the successor theory to legal realism built on this concept.

Cohen's "interests of society" (in modern terms, market efficiency and welfare) ultimately came center stage when the law and economics movement established what has become the dominant approach to many fields of modern US law ever since.[109] The law and economics approach seemed equipped to overcome traditional foundations. Its proponents substituted the background regime of formal property in trademarks and other entitlements with an objective efficiency calculus. After all, welfare economics in legal theory, as Duncan Kennedy has explained, helped purge legal theory of such concepts as "freedom," "justice," and "naturalness." In the end, efficiency would remain the eternal constant of legal purposes—a metric of absolute objectivity.[110] It is also true that modern

ideas—become, after voluntary communication to others, free as the air to common use. Upon these incorporeal productions the attribute of property is continued after such communication only in certain classes of cases where public policy has seemed to demand it" (*id.* at 250 (Brandeis, J., dissenting)). *See also* Oliver Wendell Holmes, Jr., *Privilege, Malice, and Intent*, 8 Harv. L. Rev. 1, 3 (1894) ("But whether, and how far, a privilege shall be allowed is a question of policy. Questions of policy are legislative questions, and judges are shy of reasoning from such grounds. Therefore, decisions for or against the privilege, which really can stand only upon such grounds, often are presented as hollow deductions from empty general propositions.").

[106] Felix S. Cohen, *Transcendental Nonsense and the Functional Approach*, 35 Colum. L. Rev. 809 (1935).

[107] *See supra* p. 112 *et seq.*

[108] Felix S. Cohen, *Transcendental Nonsense and the Functional Approach*, 35 Colum. L. Rev. 809, 817 (1935).

[109] *See supra* p. 121 *et seq.*

[110] Duncan Kennedy, *The Role of Law in Economic Thought: Essays on the Fetishism of Commodities*, 34 Am. U. L. Rev. 939, 949 (1985).

US trademark law has come to be dominated by the ideas of the Chicago school of law and economics. The concept is simple and comprehensive: "trademark law, like tort law in general . . . can best be explained on the hypothesis that the law is trying to promote economic efficiency."[111] As a result, today's economists and lawyers view trademarks as essential aids for establishing and maintaining market efficiency.[112] As we have seen, the reduction of consumer search costs has become the most important trademark function. Even case law has integrated the concept.[113]

But a broader look reveals a different picture—one where the fortress of trademark-as-property protection still solidly stands. As we saw in my exploration of the post-Chicago development of US trademark law, despite the economization of policies, courts often pay only lip service to the change.[114] Indeed, ideas of property and goodwill protection and of the prevention of misappropriation and free riding, as well as a growing concern for trademark functions beyond the traditional concept of confusion prevention, have taken over. In the end, neither the realist attack nor the law and economics movement has initiated a groundbreaking change. In fact, trademark and unfair competition law has even become increasingly repropertized in recent decades.

3 Germany: The Eternal Dichotomy of Rights and Competition

Like in the United States, nineteenth-century formalist reasoning had developed an extended concept of individual rights protection in Germany and Europe.[115] In its attempt to construe the legal order as a consistent system of rights and duties, contemporary civil law thought introduced the concept of so-called subjective rights as subject matter or protection in tort and property law. The concept may seem strange and unfamiliar to common law jurists. Yet it mirrors the debate on common law property formalism. Theoretically, the subjective right was understood as an expression of personal autonomy and free will.[116] In practice,

[111] William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J. L. & Econ. 265, 265–266 (1987); William M. Landes & Richard A. Posner, *The Economic Structure of Tort Law* (1987).

[112] Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 Yale L.J. 1687 (1999).

[113] *See, e.g.*, *Qualitex Co. v. Jacobson Prods. Co., Inc.*, 514 U.S. 159, 164 (1995); *New Kids on the Block v. News America Pub., Inc.*, 971 F.2d 302, 305 (9th Cir. 1992); *see also* Barton Beebe, *The Semiotic Analysis of Trademark Law*, 51 UCLA L. Rev. 621, 624 (2004). *See also supra* p. 123 *et seq.*

[114] *See supra* p. 126–127. [115] *See supra* p. 9 *et seq.*

[116] Andreas von Tuhr explained in 1910: "Der zentrale Begriff des Privatrechts und zugleich die letzte Abstraktion aus der Vielgestaltigkeit des Rechtslebens ist das Recht des Subjekts, das ‚subjektive Recht', wie man es im Gegensatz zum objektiven Recht

however, the issue was always whether a position could be seen as truly private and therefore not part of the public domain.[117] To use Pound's terminology, the question was whether there is a right "against the world at large."[118]

With regard to trademark rights, the situation should be clear—though it has been anything but. Following the concept of trademark-as-property protection, dominant case law and scholarly commentary have usually found trademarks to be subjective rights.[119] Remarkably, however, critical voices have forcefully rejected this view by arguing that trademarks are indications of product source only. As they contend, trademarks are not full-fledged assignments of intellectual property rights; they merely prevent unfair competition by prohibiting consumer confusion. Accordingly, the trademark owner is not entitled to (and thus has no subjective right in) the exclusive and comprehensive use of the symbol.[120] The situation has been even more contested with respect to the question whether subjective rights exist under a system of unfair competition prevention. While courts are still undecided on the issue, scholarly commentary largely rejects a subjective right of victim-competitors that could be found sufficiently absolute to warrant protection. Agreement exists only under a very narrow perspective: in cases of unfair product imitation and theft of trade secrets, a subjective right may be found.[121] Most other cases, however, are disputed. Some scholars, for instance, suggest finding a subjective right whenever the specific purpose of the norm at issue is to protect the

(der Rechtsnorm) zu nennen pflegt." (Andreas von Tuhr, *Der Allgemeine Teil des Deutschen Bürgerlichen Rechts, vol. I: Allgemeine Lehren und Personenrecht* 53 (1910)). For a concise overview of nineteenth-century legal thought, particularly the theories of von Savigny, Puchta, and Windscheid, *see* Ludwig Raiser, *Der Stand der Lehre vom subjektiven Recht im Deutschen Zivilrecht*, 1961 JZ 465; Walter R. Schluep, *Das Markenrecht als subjektives Recht* 265 *et seq.* (1964).

[117] *See* Philipp Heck, *Grundriß des Schuldrechts* 421 (1929).

[118] *See supra* p. 300–301.

[119] *See, e.g.*, Wolfgang Fikentscher, *Wettbewerb und gewerblicher Rechtsschutz—Die Stellung des Rechts der Wettbewerbsbeschränkungen in der Rechtsordnung* 6 (1958); Walter R. Schluep, *Das Markenrecht als subjektives Recht* 328 *et seq.* (1964); Ernst von Caemmerer, *Bereicherung und unerlaubte Handlung*, 333, 398–399, in *Festschrift für Ernst Rabel—Rechtsvergleichung und internationales Privatrecht, vol. I* (Hans Dölle ed., 1954); for modern scholarly commentary, *see, e.g.*, Reinhard Ingerl & Christian Rohnke, *Kommentar zum Markengesetz: Gesetz über den Schutz von Marken und sonstigen Kennzeichen*, Vor §§ 14–19d para. 288 (3rd edn., 2010); for case law, *see, e.g.*, BGH 1987 GRUR 520, 523—*Chanel No. 5 (I)* (18 December 1986); BGH 2009 GRUR 515 para. 41—*Motorradreiniger* (18 December 2008).

[120] This is different for patents and copyrights. *See* Ernst-Joachim Mestmäcker, *Eingriffserwerb und Rechtsverletzung in der ungerechtfertigten Bereicherung*, 1958 JZ 521, 525; Ernst-Joachim Mestmäcker, *Recht und ökonomisches Gesetz* 534 *et seq.* (2nd edn., 1984). *See also* Ludwig Raiser, *Der Stand der Lehre vom subjektiven Recht im Deutschen Zivilrecht*, 1961 JZ 465, 468.

[121] *See* section 4 no. 3, and sections 17 and 18 Unfair Competition Act (UWG).

individual competitor only. They accordingly deny such rights if the norm is also aimed at protecting consumers or the public. Under a more tort-based foundation, again, subjective rights are denied unless a specific benefit has accrued on the side of the invader as a result of the violation.[122]

This doctrinal insecurity reflects historical developments. The subject matter of protection in unfair competition law was never satisfactorily defined—a void that, until today, accounts for many misperceptions. As we have seen, the idea of subjective rights protection under unfair competition law dates back to the paradigm of personality rights protection.[123] Participation in competition was deemed an emanation of the competitor's personality, which was characterized as a subjective right. And a subjective right was also seen in other elements of the business. In this regard, a look at Swiss law is particularly enlightening. As in Germany, practice had begun to identify competitor personality as the subject matter of protection.[124] Later on, however, protecting the competitor's business as such became determinative.[125] Article 48 of the 1911 Swiss Law of Obligations is characteristic: relations between a competitor and her customers were deemed a property-like entitlement. Accordingly, the improper invasion of customer relations (*Geschäftskundschaft*) was a tort.[126]

Ultimately, the debate in both Germany and Switzerland lost its focus on what the object of protection should be. Instead, like in the United States, scholarly attention was drawn toward the question of what policy

[122] For the mainstream opinion, *see, e.g.*, Ernst von Caemmerer, *Bereicherung und unerlaubte Handlung*, 333, 356, 396 *et seq.*, in *Festschrift für Ernst Rabel—Rechtsvergleichung und internationales Privatrecht, vol. I* (Hans Dölle ed., 1954); Ulrich Loewenheim, *Bereicherungsansprüche im Wettbewerbsrecht*, 1997 WRP 913; Helmut Köhler, *Zur Bereicherungshaftung bei Wettbewerbsverstößen*, 167 *et seq.* in *Festschrift für Werner Lorenz zum 80. Geburtstag* (Thomas Rauscher & Heinz-Peter Mansel eds., 2001). For a view that does not take sides on the issue, *see* BGH 1990 GRUR 221, 221 *et seq.*—*Forschungskosten* (9 March 1989); BGH 1991 GRUR 914, 916–917—*Kastanienmuster* (23 May 1991).

[123] *See supra* p. 21 *et seq.*

[124] *See, e.g.*, BGE vol. 21 I 1181, 1188 (23 November 1895); BGE vol. 22 I 155, 161 (27 March 1896); BGE vol. 39 II 264, 267 (13 June 1913); BGE vol. 52 II 444, 445 (15 November 1926) ("Individualrecht des Gewerbetreibenden auf Anerkennung seiner Persönlichkeit"); Alois Troller, *Das Delikt des unlauteren Wettbewerbs nach dem Entwurf des Bundesrates vom 11. Juni 1934* 18 *et seq.* (1937); more recently, Dieter Dubs, *Das Lauterkeitsstatut nach schweizerischem Kollisionsrecht—Zugleich ein Beitrag zur Materialisierung des Internationalprivatrechts* 2 *et seq.* (2000).

[125] For a similar approach in German theory *see, e.g.*, Rudolf Callmann, *Der unlautere Wettbewerb, Kommentar*, 28 *et seq.*, 43 *et seq.* (2nd edn., 1932); Eugen Ulmer, *Sinnzusammenhänge im modernen Wettbewerbsrecht—Ein Beitrag zum Aufbau des Wettbewerbsrechts* 7–8 (1932); Heinrich Tetzner, *Gesetz gegen den unlauteren Wettbewerb* Vorbem. para. 12 (2nd edn., 1957).

[126] Carl Baudenbacher, in *Lauterkeitsrecht: Kommentar zum Gesetz gegen den unlauteren Wettbewerb (UWG)*, Art. 1 para. 3–4 (Carl Baudenbacher ed., 2001).

the law should pursue. As we saw earlier,[127] a trend toward socialization began in the first half of the twentieth century, and the concept of unfair competition law as an area of objective market regulation took over.[128] But there have always been attempts to reintroduce the concept of rights that are valid "against the world at large." Among the most prominent examples are Max Kummer's concept of the competitor's right to maintain her position in the marketplace (*Wettbewerbsstellung*)[129] and Wolfgang Fikentscher's suggestion that the individual's freedom to transact should be protected as such.[130] Both concepts are paradigmatic for the perseverance of subjective-right concepts in unfair competition law.[131] Kummer's concept proposing protection for the competitor's position in the marketplace was an attempt to create a right in intangibles directly under the regime of unfair competition law. As he explained, this right should be founded on an objective norm of market regulation, but it did not provide its own metric for delimiting the scope of protection.[132] Kummer saw subjective rights and regulatory policy as two sides of the same coin. This, however, was where his concept drifted

[127] *See supra* p. 50–52.

[128] *See, e.g.*, RGZ vol. 120, 47, 49 *et seq.*—*Markenschutzverband* (24 January 1928); Eugen Ulmer, *Wandlungen und Aufgaben im Wettbewerbsrecht*, 1937 GRUR 769, 771 ("Inhaltlich hat sich … ein Wandel von einer individual- zu einer sozialethischen Beurteilung vollzogen."). For Swiss law, *see, e.g.*, E. Matter, *Zur Generalklausel im Bundesgesetz über den unlauteren Wettbewerb*, 87 ZBJV 449, 459 (1951); Mathis Berger, *Die funktionale Konkretisierung von Art. 2 UWG* 121 *et seq.* (1997); Dieter Dubs, *Das Lauterkeitsstatut nach schweizerischem Kollisionsrecht—Zugleich ein Beitrag zur Materialisierung des Internationalprivatrechts* 6 *et seq.* (2000).

[129] Max Kummer, *Anwendungsbereich und Schutzgut der privatrechtlichen Rechtssätze gegen unlauteren und gegen freiheitsbeschränkenden Wettbewerb* 77 *et seq.*, 87 *et seq.* (1960).

[130] *See infra* p. 309.

[131] *See* Max Kummer, *Anwendungsbereich und Schutzgut der privatrechtlichen Rechtssätze gegen unlauteren und gegen freiheitsbeschränkenden Wettbewerb* 89 (1960) ("Mit dem Persönlichkeitsrecht teilt es zunächst die Eigenschaft, absolutes Recht zu sein. Wie jenes richtet es sich virtuell gegen jedermann, allemal sofort zur Aktualität in Form eines Abwehranspruches gegen denjenigen aufspringend, der es unzulässigerweise stört—im Gegensatz zum obligatorischen Recht, das sich nur gegen einen bestimmten Schuldner richtet."); Wolfgang Fikentscher, *Wettbewerb und gewerblicher Rechtsschutz—Die Stellung des Rechts der Wettbewerbsbeschränkungen in der Rechtsordnung* 162, 226–227 and *passim* (1958).

[132] *See* Max Kummer, *Anwendungsbereich und Schutzgut der privatrechtlichen Rechtssätze gegen unlauteren und gegen freiheitsbeschränkenden Wettbewerb* 106 (1960) ("[T]rägt auch [das Recht an der Wettbewerbsstellung] dieses ausgesprochene Doppelgesicht von subjektiv- und objektivrechtlicher Prägung; subjektiv-rechtlich insoweit, als seine Verwirklichung im Einzelfall dem Berechtigten überlassen bleibt; objektivrechtlich in der Notwendigkeit, seinen Schutzumfang in jedem Einzelfall vermöge einer objektivrechtlichen Norm neu wertend auszumessen ….."). For a similar conception, *see* Wolfgang Portmann, *Wesen und System der subjektiven Privatrechte* para. 279 *et seq.* (1996). *See also* the critique of Florent Thouvenin, *Funktionale Systematisierung von Wettbewerbsrecht (UWG) und Immaterialgüterrechten* 120 (2007).

into circular reasoning: if the competitor's right is dependent on a case-by-case assessment—that is, if her subjective right exists only as far as rules of fair dealing and honesty prescribe[133]—then its substance is not independent and self-contained. Rather, rights are a reflex of public policy—not genuinely established or preexisting.

Wolfgang Fikentscher, by contrast, drew on an external position—the market participant's constitutional right to demand free and fair conduct in competition.[134] The position he conceived of was deemed largely independent of unfair competition policy. Taking individual freedom as a subjective right of the competitor (and the consumer) thus avoided the conceptual conundrum. But it could not escape the practical problem: individual rights do not come with a built-in metric for determining what is fair competition and what is not.[135] If we want to avoid falling back on the traditional view that standards of honesty and fairness should provide the demarcation,[136] we must address the fields' multitude of underlying substantive law policies.

C The Heterogeneity of Policies: Vertical and Horizontal Competition

The debate on the protectable subject matter in unfair competition law reflects a much deeper and older problem. Legal philosophy and private law theory still regularly inquire whether property is decreed by the sovereign or whether it is a prestate institution and thus a natural

[133] Max Kummer, *Anwendungsbereich und Schutzgut der privatrechtlichen Rechtssätze gegen unlauteren und gegen freiheitsbeschränkenden Wettbewerb* 104 (1960) ("[D]ie Wettbewerbsstellung ist nur im genannten Rahmen geschützt, nämlich gegen Treu und Glauben verletzende Angriffe, und nur insoweit zum subjektiven Recht erhoben . . . .").

[134] Wolfgang Fikentscher, *Wettbewerb und gewerblicher Rechtsschutz—Die Stellung des Rechts der Wettbewerbsbeschränkungen in der Rechtsordnung* 209 *et seq.*, 215–216, 226–227 and n. 40, and *passim* (1958).

[135] For this lack of structure in subjective rights models, *see* Niklas Luhmann, *Zur Funktion der subjektiven Rechte*, 322, 329, in *Die Funktion des Rechts in der modernen Gesellschaft, Jahrbuch für Rechtssoziologie und Rechtstheorie* (Rüdiger Lautmann et al. eds., 1970) ("[Die liberale Staats- und Gesellschaftslehre] belegt exemplarisch, wie leicht die Betonung des subjektiven Rechts als Recht zur Vernachlässigung von Strukturfragen führen kann.").

[136] *But see* Wolfgang Fikentscher's explanation of the contents of the subjective right in *Wettbewerb und gewerblicher Rechtsschutz—Die Stellung des Rechts der Wettbewerbsbeschränkungen in der Rechtsordnung* 229 (1958) ("Das Schutzgut des UWG . . . ist wiederum das Recht des einzelnen auf wirtschaftliche Betätigung, nun aber nicht in der Form der Wettbewerbsfreiheit . . ., sondern in der Form der Lauterkeit des Wettbewerbs. Hier liegt der Schwerpunkt des Rechts vom unlauteren Wettbewerb. . . . Vielmehr hat das subjektive Recht auf wirtschaftliche Betätigung den zweifachen Inhalt, daß man bei der Ausübung dieses Rechts sowohl von Eingriffen anderer in die Freiheit frei, als auch gegen unlautere Maßnahmen anderer geschützt wird.").

right.[137] The question is, does it come from the top down or from the bottom up? Does it ensue from lawmakers' institutionalization, or is it a preexisting Something?[138] These and similar questions have been long debated and still await a resolution. Full clarification cannot be provided in an analysis as specific as this one. My focus here—which will, however, provide clarity for the field of trademark and unfair competition regulation—is on the characteristic stratification of policies that helps explain why subjective rights and the process of competition are detached, and how they nevertheless remain interrelated.

1 Two Types of Unfair Competition Cases and Regulatory Policies

Any invasion of a competitor's marketplace position represents a redistribution of value. Courts have always, and often rather sweepingly, referred to this in terms of free riding, unjust enrichment, or misappropriation. What they have thereby neglected is the fact that the scenarios of such "misappropriation" differ. As we have seen, among the plethora of policies in tort and unfair competition law, different categories exist. Some aim to protect individual rights without giving immediate regard to the market mechanism. Others aim to regulate market dynamics with regard to consumer decision making. Revisiting two landmark cases—*International News Service* and *Apollinarisbrunnen*—analyzed in chapters 1 and 2 illustrates the key distinction within the institutional framework.

The majority in *International News Service* found misappropriation in the defendant's use of the plaintiff's "hot" news. The defendant directly usurped what the plaintiff had acquired through the investment of its own resources.[139] No consumer confusion was involved. Accordingly, the question the court found most relevant was "not so much the rights of either party as against the public but their rights as between themselves."[140] The scenario, therefore, can be explained as being situated at the horizontal

[137] *See, e.g.*, John Austin, *The Province of Jurisprudence Determined* (1832); with reference to Austin, *see also* H. L. A. Hart, *The Concept of Law* 26 *et seq.* (2nd edn., 1961); more recently, *e.g.*, N. Stephan Kinsella, *Against Intellectual Property*, 15 J. Libertarian Stud. 1 (2001).

[138] *See also, e.g.*, Richard A. Epstein, *International News Service v. Associated Press: Custom and Law as Sources of Property Rights in News*, 78 Va. L. Rev. 85, 85 (1992); for German and European doctrine, *see, e.g.*, Helmut Coing, *Zur Geschichte des Begriffs „subjektives Recht,"* 7 *et seq.*, in *Das subjektive Recht und der Rechtsschutz der Persönlichkeit* (Helmut Coing et al. eds., 1959); Ludwig Raiser, *Der Stand der Lehre vom subjektiven Recht im Deutschen Zivilrecht*, 1961 JZ 465, 465–466.

[139] *International News Service v. Associated Press*, 248 U.S. 215, 236 and 239–240 (1918) ("[T]he right to acquire property by honest labor or the conduct of a lawful business is as much entitled to protection as the right to guard property already acquired. . . . [A]nd that defendant in appropriating it and selling it as its own is endeavoring to reap where it has not sown and . . . is appropriating to itself the harvest of those who have sown.").

[140] *Id.* at 236.

level.[141] Seen in this light, the issue was actually whether a right "against the world at large" existed.[142] Quite differently, *Apollinarisbrunnen* featured a scenario at the vertical level.[143] The issue at hand was not limited to an analysis of subjective rights "as between" competitors. In fact, *Apollinarisbrunnen* was not a two-party scenario at all. Unlike *International News Service*, the *Apollinarisbrunnen* defendant had invaded the plaintiff's domain by means of deceiving the customer. Hence, the dispute concerned the multiangular structure of the market mechanism.[144]

Looking at this difference in light of the concept of economic competition explained above allows us to distinguish the policies involved. Above all, of course, unfair competition law regulates all kinds of market dynamics. Under the Hayekian concept of competition, the law serves as a necessary condition for the formation of a spontaneous order.[145] Any order delimits individual actors' spheres of sovereignty. The guarantee of protection against invasion by a fellow citizen or competitor establishes the groundwork for private individual planning. This is the most important function of the rules of just conduct—namely, to make clear which of the citizens' and competitors' expectations are justified. In other words, "Good fences make good neighbors."[146] This institutional framework, however, is further segmented internally. As von Hayek himself pointed out, a planned order, particularly by concrete legal regulation, is necessary whenever competition cannot work effectively. In this regard, as he explained by reference to patent protection, it will not suffice to recognize private property and freedom of contract alone to uphold a self-contained system of regulation by free competition.[147] Some areas of economic transacting cannot be adequately provided by private actors. In these sectors of the economy, legal regulation is indicated. In modern terms, the lawmakers' direct interference will be legitimate only whenever market failures must be corrected. Ultimately, this understanding of the legal order establishes a principle of subsidiarity. It is founded on the priority of self-regulation by the mechanics of competition.

Phrased in terms of unfair competition policy, two categories ensue. Even though both categories are designed to guarantee competition's

[141] *See supra* p. 285–286. [142] *See supra* p. 300–301.
[143] For the case and its analysis, *see supra* p. 27 *et seq.* [144] *See supra* p. 285–286.
[145] *See supra* p. 276 *et seq.*
[146] Friedrich A. von Hayek, *Law, Legislation and Liberty—A New Statement of the Liberal Principles of Justice and Political Economy, vol. I: Rules and Order* 102 and 107 (1973) (reference to Robert Frost's poem "Mending Wall"). *See also*, with further references, Hermann Reichold, *Lauterkeitsrecht als Sonderdeliktsrecht—Zur Rolle zivilistischen Denkens bei der Anwendung von § 1 UWG*, 193 AcP 204, 218 (1993).
[147] Friedrich A. von Hayek, *The Road to Serfdom: Text and Documents* 87 (Bruce Caldwell ed., 2007 (original edn. 1944)).

unhindered evolution by the correction of market failure, their regulatory qualities differ—only one provides for claims "against the world at large." Protecting consumer decision making from improper information transmission and undue impact is the core policy. This is also the single specific paradigm of dishonesty reflected in the Paris Convention's norm on unfair competition in article $10^{bis}(3)$.[148] By definition, subjective rights cannot exist under this policy of confusion prevention. The allocation of values in this category is not an issue for the legal order to establish. The process of consumer decision making, rather, is tasked with separating success from defeat and ultimately allocating and distributing values among competitors.[149]

The second category covers regulatory policies beyond competitor-consumer interactions. This is the horizontal level of intercompetitor relations. The Restatement of Unfair Competition (Third) clarifies the demarcation line quite lucidly. As the restatement's comments explain in general, the function of the law of unfair competition is "to delimit the circumstances in which a person may prohibit the appropriation by another of intangible business assets created through an investment of time, money, or effort."[150] Yet while one category of misappropriation concerns "appropriation of another's good will through misrepresentation" (especially with regard to trademark infringements), the category of "other appropriations can be more direct."[151] Within the latter category, patent and copyright laws provide for a delimitation at the level of federal

[148] Article 10^{bis} Paris Convention states: "(1) The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition. (2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition. (3) The following in particular shall be prohibited: 1. all acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor; 2. false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor; 3. indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods." For an analysis of the reflection of the principles in article $10^{bis}(3)$ in numerous national regimes, *see* Anselm Kamperman Sanders, *Unfair Competition Law—The Protection of Intellectual and Industrial Creativity* 22 *et seq.* (1997).

[149] With regard to the lack of subjective rights in a system of free competition, *see* Ernst-Joachim Mestmäcker, *Eingriffserwerb und Rechtsverletzung in der ungerechtfertigten Bereicherung*, 1958 JZ 521, 526; Ludwig Raiser, *Der Stand der Lehre vom subjektiven Recht im Deutschen Zivilrecht*, 1961 JZ 465, 469; Erwin Deutsch, *Entwicklung und Entwicklungsfunktion der Deliktstatbestände*, 1963 JZ 385, 387; *see also* Franz Böhm, *Wettbewerb und Monopolkampf—Eine Untersuchung zur Frage des wirtschaftlichen Kampfrechts und zur Frage der rechtlichen Struktur der geltenden Wirtschaftsordnung* 290 (1933); Werner Flume, *Verbotene Preisabsprache und Einzelvertrag*, 1956 WuW 457, 465.

[150] Restatement of the Law—Unfair Competition (Third), § 1, comment f (1995).

[151] *Id.*

laws. Concerning unfair competition prevention, it is the law on protection of trade secrets, as well as on the "security against wrongful physical intrusions,"[152] that complements the horizontal level of protection policies. With respect to protection at this level, legislation must expressly decide how to delimit individual competitors' freedom of transacting and, ultimately, how to distribute resources and values. This second category of policies can thus truly be characterized as allocating and distributing subjective rights.

2 *Clarification: The Horizontality of* Neminem Laedere

In light of this segmentation, one last point requires clarification. Agreement exists that unfair competition law protects the *par conditio concurrentium*.[153] This seems to stand in contrast to tort doctrine, which exclusively protects the right owner. While tort law aims to prevent injury to private rights, unfair competition law upholds the state of a constant competitive struggle. Correspondingly, the tort principle of *neminem laedere* has been described as inapplicable under unfair competition doctrine. To the contrary, competition is said to require intentional harming of one's competitors.[154]

This imprecision invites misunderstanding. As we have discussed, tort law does not define absolute limitations on individual conduct; nor does unfair competition law. No absolute rights exist. The determination of individual spheres of activity and freedom is what defines the scope of private entitlements with regard to other individuals' respective domains.

[152] *Id. See also id.* at §§ 39 *et seq.* (on trade secrets).

[153] *See, e.g.*, Karl F. Kreuzer, *Wettbewerbsverstöße und Beeinträchtigung geschäftlicher Interessen (einschl. der Verletzung kartellrechtlicher Vorschriften)*, 232, 265, in *Vorschläge und Gutachten zur Reform des deutschen internationalen Privatrechts der außervertraglichen Schuldverhältnisse, vorgelegt im Auftrag der Zweiten Kommission des Deutschen Rates für internationales Privatrecht* (Ernst von Caemmerer ed., 1983) ("Ein wichtiges Ziel des Wettbewerbsrechts ist die Wahrung der Chancengleichheit aller Wettbewerber am Markt. … In diesem Sinne ist das Wettbewerbsrecht ein Komplex von Kampfregeln, eine Wett(bewerbs)kampfordnung."); more recently, *e.g.*, Peter Mankowski, in *Münchener Kommentar zum Lauterkeitsrecht, vol. I,* IntWettbR para. 138 (Peter W. Heermann et al. eds., 2nd edn., 2014).

[154] *See, e.g.*, Paul Gieseke, *Recht am Unternehmen und Schutz des Unternehmens—Alte und neue deutsche Rechtsprechung*, 1950 GRUR 298, 303; Erwin Deutsch, *Commentary to BGH, decision of 23 October 1971 (I ZR 86/69)—Tampax*, 1971 JZ 732, 733 ("Auszugehen ist … von der Sonderstellung der Wettbewerbsverstöße im Gesamtgebiet des Haftungsrechts. Vom Wettbewerb wird nämlich der Grundsatz 'neminem laedere' auf den Kopf gestellt. Es ist geradezu erwünscht, den Mitbewerber zu treffen."); Kamen Troller, *Das internationale Privatrecht des unlauteren Wettbewerbs in vergleichender Darstellung der Rechte Deutschlands, Englands, Frankreichs, Italiens, der Schweiz und der USA* 27–28 (1962); more recently, Andreas Höder, *Die kollisionsrechtliche Behandlung unteilbarer Multistate-Verstöße—Das Internationale Wettbewerbsrecht im Spannungsfeld von Marktort-, Auswirkungs- und Herkunftslandprinzip* 105–106 (2002).

Per se, therefore, the principle of *neminem laedere* is a rule of relativity at best.[155] In addition, the principle's scope of application varies across the field. Again, a distinction between the horizontal and vertical levels is crucial. Horizontal relations (i.e., those among competitors) without a market relation are directly subjected to policy makers' decisions on how to calibrate the allocation of rights and duties. This is different for the sector of market-related transacting, where the main policy is to protect consumer decision making. At the horizontal level, it may thus actually be a background regime of *neminem laedere* that provides for a rule of non-invasion in legally determined rights. One example is the protection of trade secrets; another is the quasi intellectual property scenario of *International News Service*. In vertical relations, by contrast, individual rights are nonexistent by definition. Here, the principle of *neminem laedere* has no function.[156]

D Summary

Formal distinctions between tort and unfair competition law are not helpful, for they merely scratch the surface. In particular, the practical divergence between remedial relief and the terminological noise concerning absolute and subjective individual rights will not establish a workable distinction between the fields. From a deeper perspective, the contrary is true: the two fields widely overlap. The overall regime of background rules sets the stage for socioeconomic evolution. Tort and

[155] *See also* Friedrich A. von Hayek, *Law, Legislation and Liberty—A New Statement of the Liberal Principles of Justice and Political Economy, vol. I: Rules and Order* 103 (1973) ("The harm that one does to another which the law aims to prevent is thus not all harm but only the disappointment of such expectations as the law designates as legitimate. Only in this way can 'do not harm others' be made a rule with meaningful content for a group of men who are allowed to pursue their own aims on the basis of their own knowledge."); John Stuart Mill, *On Liberty* 79–80 (1859) ("In many cases, an individual, in pursuing a legitimate object, necessarily and therefore legitimately causes pain or loss to others, or intercepts a good which they had a reasonable hope of obtaining. . . . [I]t is, by common admission, better for the general interest of mankind, that persons should pursue their objects undeterred by this sort of consequences. In other words, society admits no right, either legal or moral, in the disappointed competitors, to immunity from this kind of suffering; and feels called on to interfere, only when means of success have been employed which it is contrary to the general interest to permit—namely, fraud or treachery, and force.").

[156] This is what Wolfgang Fikentscher has explained. It is the antinomy of freedom of transacting and individual rights protection that is to be found in protection of the competitor's personality right. *See* Wolfgang Fikentscher, *Wettbewerb und gewerblicher Rechtsschutz—Die Stellung des Rechts der Wettbewerbsbeschränkungen in der Rechtsordnung* 214 (1958) ("Der Grundsatz des ‚neminem laedere' bezieht sich nur auf die ‚Rechte anderer', also auf die geschützten Einzelrechte, nicht aber auf das Recht zur freien Entfaltung. Sonst wäre der Wettbewerb ein Unrecht. . . . [W]enn man ein allgemeines Persönlichkeitsrecht anerkennen will, man auch die ihm innewohnende Antinomie von Entfaltungsfreiheit und Güterschutz zugestehen muß . . . . ").

unfair competition law alike provide the institutional background for individuals' conduct to unfold. But depending on the specific situation of improper competitive conduct, these background rules will be drawn from different sources. Within the multiangular model of market-related conduct, protecting unmanipulated consumer decision making is one specific sector of the overall background regime. Consumer decision making is the blueprint for the construction of a liberal order of competition. Other cases of unfair competition, however—particularly those at the horizontal level of intercompetitor relations—must be decided under the rules of a different sector.

II Antitrust and Unfair Competition Law

In light of modern tendencies in both unfair competition and antitrust doctrine, the two fields' complementary policies are often unduly intermingled.[157] Yet a functional concept of market effects not only allows for a separation of tort and unfair competition law on the basis of the respective subject matter of regulation but also helps draw a clear line between the sectors of unfair competition and antitrust law.

For a long time, US theory and practice have seen unfair competition and antitrust governed by largely homogeneous policies. By contrast, in Europe, the approximation of policies in modern doctrine constitutes a more dramatic paradigm shift.[158] Previously, theory used to distinguish between antitrust and unfair competition law on the basis of a so-called specialty rule. Antitrust law was designed to preserve freedom of competition as a legal institution by preventing restraints on trade and abuses of economic power. Unfair competition prevention, on the other hand, was aimed at establishing and maintaining individual fairness in competition. It was deemed to protect only against minor wrongs below the threshold of antitrust violations.[159] But the picture has recently changed. Under a macroperspective, both areas are described as constituting a uniform

[157] *See supra* p. 220 *et seq*.

[158] Wilhelm Wengler, in his report to the Fourth International Congress of Comparative Law in Paris in 1954, summarized the difference between European and US doctrine as follows: "In the minds of European lawyers, there is still a gap between the rules against unfair competition and the rules against trusts and monopolies, whereas in the United States all these rules are generally regarded as a whole, the rules against unfair competition aiming primarily at certain means, the rules against monopolies at certain effects of competition." Wilhelm Wengler, *Laws Concerning Unfair Competition and the Conflict of Laws*, 4 Am. J. Comp. L. 167, 179 n. 38c (1955).

[159] For the doctrines of antitrust exclusivity ("Sperrwirkung"), specialty ("Vorfeldthese"), and separation ("Trennungstheorie"), *see, e.g.*, Hans Würdinger, *Freiheit der persönlichen Entfaltung, Kartell- und Wettbewerbsrecht*, 1953 WuW 721, 730 *et seq.*; Peter Ulmer, *Der Begriff „Leistungswettbewerb" und seine Bedeutung für die Anwendung von GWB und UWG-Tatbeständen*, 1977 GRUR 565, 577; Ernst-Joachim Mestmäcker, *Der verwaltete*

system of market regulation.[160] At the same time, antitrust law has gradually turned toward individual rights protection.[161] The Court of Justice, early on, began to spur the implementation of private remedies against antitrust violations.[162] Only recently have European lawmakers enacted a directive allowing for private damage actions with respect to antitrust violations.[163] As it appears, then, modern antitrust and unfair competition law (including trademarks) are part of a comprehensive framework of rules providing for free and unhindered competition.

The alleged homogeneity of substantive law policies also seems to have spurred uniformity in choice of law. As seen earlier, US law has never adhered to a clear-cut distinction.[164] Practice has actually made a great effort to align antitrust and trademark conflicts law. The Ninth and the First Circuit, in particular, have extrapolated the Supreme Court's antitrust-effects argument in *Steele*, literally applying antitrust conflicts principles to trademark conflicts.[165] In Europe, even though the merger of the fields has not come full circle, scholarly theory aims at a unification. Yet as the Rome II Regulation illustrates, the rules for conflicts resolution in article 6(1) and (3) are still—at least formally—supposed to differ.

Indeed, as a closer look at the fields' substantive law policies and their conflicts law structures explains, a genuine effects test must not be imported into trademark and unfair competition choice of law. While an unmodified effects test suits substantive law policies of regulating

Wettbewerb—Eine vergleichende Untersuchung über den Schutz von Freiheit und Lauterkeit im Wettbewerbsrecht 56 *et seq.*, 78 *et seq.*, and 143 *et seq.* (1984).

[160] Among the plethora of scholarly theses on the issue, *see, e.g.*, Walter R. Schluep, *Vom lauteren zum freien Wettbewerb*, 1973 GRUR Int. 446, 447; Karsten Schmidt, *Kartellverfahrensrecht—Kartellverwaltungsrecht—Bürgerliches Recht* 409 (1977); Wolfgang Fikentscher, *Wirtschaftsrecht, vol. II: Deutsches Wirtschaftsrecht* § 22 I 6b cc (1983).

[161] For this development, *see, e.g.*, Winfried Tilmann, *Über das Verhältnis von GWB und UWG*, 1979 GRUR 825, 829; for the modern development of antitrust and unfair competition uniformity, *see* Frauke Henning-Bodewig, *Was gehört zum Lauterkeitsrecht?*, 9, 20, in *Lauterkeitsrecht und Acquis Communautaire* (Reto M. Hilty & Frauke Henning-Bodewig eds., 2009).

[162] *See Van Gend en Loos v. Administratie der Belastingen*, C-26/62 (5 February 1963), [1963] E.C.R. 1; *Courage and Crehan*, C-453/99, para. 25 *et seq.* (20 September 2001), [2001] E.C.R. I-6297; *Manfredi,* C-295/04 to 298/04, para. 58 *et seq.* (13 July 2006), [2006] E.C.R. I-6619.

[163] Directive 2014/104/EU of the European Parliament and of the Council of 26 November 2014 on certain rules governing actions for damages under national law for infringements of the competition law provisions of the Member States and of the European Union, O.J. EU (5 December 2014), L 349/1.

[164] *See supra* p. 164 *et seq.*

[165] *See Wells Fargo & Co. v. Wells Fargo Exp. Co.*, 556 F.2d 406 (9th Cir. 1977); *McBee v. Delica Co., Ltd.*, 417 F.3d 107 (1st Cir. 2005); for an overview of the "antitrust transfer model" in the circuits' tests, *see* Gary D. Feldon, *The Antitrust Model of Extraterritorial Trademark Jurisdiction: Analysis and Predictions After F. Hoffmann-La Roche*, 20 Emory Int'l L. Rev. 651, 656 *et seq.* (2006).

marketplace activity under a macroperspective, it is problematic for choice of law in trademark and unfair competition conflicts. This is due to the fact that trademark and unfair competition policies are not designed to regulate the marketplace *in toto*. Their impetus is focused on the microdynamics of market activity, not on the static allocation of market power.[166] More concretely, antitrust regulation is not concerned with the market information infrastructure. It thus lacks a focus on consumer decision making as a qualitative determinant of both substantive law policy and conflicts structure. With respect to trademark and unfair competition conflicts, by contrast, an accordingly structured qualification of effects is indicated. This qualification must be oriented toward the triangular structure of marketplace transactions illustrated earlier.[167] Within this structure, the two levels of horizontal and vertical relations between market participants determine the choice of substantive law policies and the correlating choice-of-law principles.

In order to avoid misunderstanding, of course, we must acknowledge that this reconceptualization does not invalidate the model of two overlapping circles of unfair competition and antitrust prevention.[168] Policy makers may decide to characterize specific antitrust violations as also concurrently violating norms of unfair competition prevention, or vice versa. Nonetheless, at its core, trademark and unfair competition doctrine—characterized by a policy aimed at protecting consumer decision making—does not coincide with the field of antitrust law.[169]

III The Intellectual Property Dichotomy: Innovation vs. Competition

Now that we have explored the relationship between tort, antitrust, and unfair competition law, the next step is to analyze correlations and antinomies between trademark protection and unfair competition prevention. Before addressing this point, however, a closer look at the current model of formally uniform intellectual property rights is necessary. As we will see, several doctrinal frictions emerge from the perceived uniformity and functional homogeneity of rights. Trademark protection on the one side and copyright and patent protection on the other have separate foundations and characteristics. Identifying these demarcations will lay the groundwork for a reintegration of trademark and unfair competition law into the larger field of market communication regulation.

[166] *See supra* p. 275 *et seq*. and also *infra* p. 325 *et seq*.
[167] *See supra* p. 285–286.
[168] For this common allegory in European doctrine, *see, e.g.*, Helmut Köhler, *Zur Konkurrenz lauterkeitsrechtlicher und kartellrechtlicher Normen*, 2005 WRP 645, 647.
[169] For choice of law in cases of unfair competition and antitrust concurrence, *see infra* p. 563–565.

A The Mistaken Concept of Intellectual Property Uniformity

As we have seen, the formal concept of "property" serves as an overarching paradigm between the different categories of intellectual property rights, especially copyrights, patents, and trademarks. Unfair competition prevention, by contrast, appears to be a separate field where no absolute rights exist and, consequently, a different system of protection governs. As a closer look reveals, however, the demarcation does not run between intellectual property and unfair competition law. The gap must be found between the fields of trademark and unfair competition law on the one hand and the rest of intellectual property on the other.

1 Historical Remnants: The "Immaterialization" of Trademarks

The meandering assessment of trademark rights and their ultimate propertization by inclusion in the category of intellectual property reflects a historical struggle. In the first chapter, I explored how Josef Kohler's theory of personality rights, combined with a paradigm of state-granted privileges, contributed to trademark-as-property protection and, eventually, to the reign of strict territoriality in trademark choice of law.[170] With regard to the distinction between trademarks, patents, and copyrights, another look at history illustrates yet another facet of doctrinal misconceptions.

Kohler's conception of intellectual property distinguished between two categories of individual entitlements. The first category, personality rights, comprised the prevention of unfair competition and the protection of trademark rights.[171] The second category concerned absolute rights in so-called immaterial goods (*Immaterialgüter*). This was where he located copyrights and patents.[172] However, his categorization was

[170] *See supra* p. 21 *et seq.* and p. 53 *et seq.*

[171] *See, e.g.*, Josef Kohler, *Das Recht des Markenschutzes mit Berücksichtigung ausländischer Gesetzgebungen und mit besonderer Rücksicht auf die englische, anglo-amerikanische, französische, belgische und italienische Jurisprudenz* 5 (1884) ("Zu den Individualrechten eines jeden subjectiven Rechtswesens gehört aber vor Allem das Recht zu verlangen, dass das Individuum als solches in seiner Besonderheit und Individualität anerkannt und jede Vermischung mit andern Individuen ferngehalten wird."); further also Josef Kohler, *Warenzeichenrecht—Zugleich zweite Auflage des Rechts des Markenschutzes mit Berücksichtigung ausländischer Gesetzgebungen (1884)* 67 (2nd edn., 1910).

[172] *See, e.g.*, Josef Kohler, *Das Autorrecht, eine zivilistische Abhandlung* (1880); Josef Kohler, *Lehrbuch des Patentrechts* 13 *et seq.* (1908); Josef Kohler, *Das Recht des Markenschutzes mit Berücksichtigung ausländischer Gesetzgebungen und mit besonderer Rücksicht auf die englische, anglo-amerikanische, französische, belgische und italienische Jurisprudenz* (1884); Josef Kohler, *Die Idee des geistigen Eigentums*, 82 AcP 141 (1894); *see also* Albert Osterrieth, *Lehrbuch des gewerblichen Rechtsschutzes* 13 (1908) ("Indessen darf man sich nicht verleiten lassen, den Namen, die Firma oder die Warenzeichen den Erfindungen oder Mustern, oder allgemein, den immateriellen Gütern gleichzusetzen.

never universally acknowledged. In particular, the characterization of trademarks as personality rights provoked criticism. Critics contended that trademarks were more akin to tangible business assets than to their owners' personality.[173] In the end, they won but did not reject Kohler's categorization per se—instead, they simply transferred trademarks from the category of personality rights to the class of immaterial goods.[174] From then on, trademarks were deemed to be immaterial rights alongside patents and copyrights. This would ultimately prove problematic since trademarks seemed to have become somewhat isolated from the issue of marketplace competition.

2 *Current Doctrine: Intellectual Property Homogeneity*

The historical immaterialization of trademark rights can still be found in modern law. As we have seen, US intellectual property law sometimes tends to neglect differences between trademarks, patents, and copyrights.[175] In addition, trademark propertization has increasingly diluted the traditional idea of market information protection as the central policy. The trend is to categorize broadly; patents, copyrights, and trademarks are often seen as just another species of property.[176] The same problem exists in Europe. Overall, intellectual property law provides for the right owner's effective protection under a concept of

Denn sie tragen ihren Wert nicht in sich selbst, sie gewinnen ihn erst aus der Beziehung zum Inhaber und zu dessen Betätigung.").

[173] For a representative critique, *see, e.g.*, Richard Alexander-Katz, *Die rechtliche Natur des Markenrechts sowie des Rechts an Waarenausstattungen*, 1901 GRUR 102, 103 *et seq.*; Adolf Lobe, *Die Bekämpfung des unlauteren Wettbewerbs, vol. I: Der unlautere Wettbewerb als Rechtsverletzung nach dem Bürgerlichen Gesetzbuch und den Nebengesetzen* 163 (1907) ("Endlich sind auch Name, Marke und Zeichen keine Persönlichkeitsrechte, weil keine Teile der Persönlichkeit. Sie sind lediglich Mittel, um die Persönlichkeit in ihrer Individualität zu bezeichnen, Individualisierungsmittel und als solche immaterielle Güter."); *see also* Wolfgang Fikentscher, *Wettbewerb und gewerblicher Rechtsschutz—Die Stellung des Rechts der Wettbewerbsbeschränkungen in der Rechtsordnung* 146–147 (1958) (illustrating the Reichsgericht's meandering position).

[174] *See, e.g.*, Julius Magnus, *Warenzeichenrecht*, 1923 GRUR 162, 163; Kurt Bußmann, *Verfolgung ausländischer Zeichenverletzungen in Deutschland*, 1929 MuW 419; *see also* Eugen Ulmer, *Warenzeichen und unlauterer Wettbewerb in ihrer Fortbildung durch die Rechtsprechung* 9 (1929); for a summary, *see* Wolfgang Fikentscher, *Wettbewerb und gewerblicher Rechtsschutz—Die Stellung des Rechts der Wettbewerbsbeschränkungen in der Rechtsordnung* 146–147 (1958); Walter R. Schluep, *Das Markenrecht als subjektives Recht* 333–335 (1964); Adriano Vanzetti, *Funktion und Rechtsnatur der Marke (2. Teil)*, 1965 GRUR Ausl. 185, 189.

[175] *See supra* p. 236 *et seq.*

[176] Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 Yale L.J. 1687, 1688 (1999); Michael A. Carrier, *Cabining Intellectual Property Through A Property Paradigm*, 54 Duke L.J. 1, 8 *et seq.* and *passim* (2004); Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 Tex. L. Rev. 1031, 1033 *et seq.* (2005).

absolute and exclusive property rights.[177] Trademarks are deemed a foundational pillar of this system, equivalent to other categories of intellectual property, particularly copyrights and patents.[178]

Of course, ideas on the functions of trademarks have varied. But ultimately, as the Court of Justice's case law illustrates, the concept of homogeneity prevailed. The court's 1971 *Sirena* decision was still influenced by a certain disdain—and thus an idea of trademark rights being different from other kinds of intellectual property rights:

> The exercise of a trade-mark right is particularly apt to lead to a partitioning of markets, and thus to impair the free movement of goods between States which is essential to the Common Market. Moreover, a trade-mark right is distinguishable in this context from other rights of industrial and commercial property, inasmuch as the interests protected by the latter are usually more important, and merit a higher degree of protection, than the interests protected by an ordinary trade-mark.[179]

This cavalier attitude toward trademarks, however, changed twenty years later, in the *HAG II* decision.[180] The public's interest in trademark protection was expressly acknowledged in Advocate General Jacobs's opinion:

> The truth is that, at least in economic terms, and perhaps also "from the human point of view", trade marks are no less important, and no less deserving of protection, than any other form of intellectual property. They are, in the words

[177] *See, e.g.*, Norbert Reich, in Norbert Reich & Hans-W. Micklitz, *Europäisches Verbraucherrecht* 225–226 (4th edn., 2003); Pedro A. De Miguel Asensio, *The Private International Law of Intellectual Property and of Unfair Commercial Practices: Convergence or Divergence?*, 137, 141, in *Intellectual Property and Private International Law* (Stefan Leible & Ansgar Ohly eds., 2009).

[178] *See, e.g.*, article 2 Council Regulation (EC) No 1383/2003 of 22 July 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights, O.J. EU (2 August 2003), L 196/7; Recital 26 of Regulation (EC) No. 864/2007 of the European Parliament and of the Council of 11 July 2007 on the law applicable to non-contractual obligations (Rome II), O.J. EU (31 July 2007), L 199/40; *see also* Eugen Ulmer, *Die Immaterialgüterrechte im internationalen Privatrecht—Rechtsvergleichende Untersuchung mit Vorschlägen für die Vereinheitlichung in der Europäischen Wirtschaftsgemeinschaft* 4–5 (1975); WIPO, *Protection Against Unfair Competition—Analysis of the Present World Situation*, WIPO Publ. no. 725(E), 10 (1994); Andrew Dickinson, *The Rome II Regulation: The Law Applicable to Non-Contractual Obligations* para. 8.13 (2008).

[179] *Sirena v. Eda*, C-40/70, para. 7 (11 February 1971), [1971] E.C.R. 69. Advocate General *Dutheillet de Lamothe* had paved the way toward this finding by extended reference to a "human point of view": "Both from the economic and from the human point of view the interests protected by patent legislation merit greater respect than those protected by trade-marks. … From the human point of view, the debt which society owes to the 'inventor' of the name 'Prep Good Morning' [a brand of shaving cream] is certainly not of the same nature, to say the least, as that which humanity owes to the discoverer of penicillin" (opinion to case 40/70 *Sirena* [1971] E.C.R. 69, at 87).

[180] *CNL-SUCAL v. HAG* ("HAG II"), C-10/89 (17 October 1990), [1990] E.C.R. I-3711.

of one author, "nothing more nor less than the fundament of most market-place competition".... Like patents, trade marks find their justification in a harmonious dovetailing between public and private interests. Whereas patents reward the creativity of the inventor and thus stimulate scientific progress, trade marks reward the manufacturer who consistently produces high-quality goods and they thus stimulate economic progress. Without trade mark protection there would be little incentive for manufacturers to develop new products or to maintain the quality of existing ones.[181]

Even though *HAG II* appeared to introduce a policy-oriented perspective and emphasized marketplace competition as the foundation of trademark protection, it maintained the immaterialization of trademarks. As the advocate general had explained, intellectual property rights were generally conceived of as "dovetailing" public and private interests. Yet whether trademarks and other categories of intellectual property should be further distinguished remained untouched.

B Rectification: A Grounded Intangibility of Trademarks

While historical doctrine may have been justified in rejecting trademarks' character as personality rights, its lumping together of trademarks, copyrights, and patents under the umbrella of intellectual property is questionable. Trademarks are different from copyrights, patents, and other categories of intellectual property insofar as rights acquisition, protection, and maintenance are inextricably connected to their owner's ongoing marketplace activity.

1 The Difference in Intellectual Property Incentive Structures

Much ink has been spilled on the economic foundations and doctrinal structures of intellectual property rights, especially with respect to the characteristics of different rights.[182] What we need to look at closely are the incentives that are provided for under the categories.

Quite early, the internal dichotomy within intellectual property was succinctly and fittingly expressed in the US Constitution, which gives Congress the power "[t]o promote the Progress of Science and useful

[181] Opinion of Advocate General Jacobs, para. 17–18 (13 March 1990), [1990] E.C.R. I-3725. Jacobs started this explanation with explicit reference to Dutheillet de Lamothe in the *Sirena* case (*see* fn. 179 *supra*) and the depreciation of trademark functions and values founded on the comparison between penicillin and day-to-day trademarks: "It is noteworthy that this conception of the relative merits of trade marks and other forms of intellectual property was based on an invidious comparison between a rather trivial trade mark and one of the most important discoveries in the history of medicine. Different comparisons might have produced different results, more favourable to trade marks."

[182] For an instructive and comprehensive analysis, *see, e.g.*, Andreas Heinemann, *Immaterialgüterschutz in der Wettbewerbsordnung—Eine grundlagenorientierte Untersuchung zum Kartellrecht des geistigen Eigentums* 11 *et seq.* (2002).

Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."[183] At times, this clause may have caused confusion,[184] but it unequivocally illustrates two things: First, the protection of copyrights and patents concerns the promotion of creativity and innovation. Second, trademarks fall outside this category.[185] Under the patent regime, the invention itself is the relevant subject matter. If the invention has been reduced to practice, then it is eligible for protection. Application for the patent, its disclosure, and its registration constitute formal prerequisites. In this regard, details may vary among national systems, but the fundamentals correspond.[186] A similar concept governs in copyright law. The author's expression of an idea is protected from the moment of promulgation and creation.[187] Patents and copyrights are granted protection once patentable or copyrightable subject matter has been developed; there are no further requirements.[188] In this regard, patents and copyrights are true "intangibles." Their only subject matter of protection is the product of the human mind.[189]

Trademarks are another story. While the public has an interest in encouraging innovation and creativity in general, it does not have an interest in the mere creation of symbols or marketing concepts. As a result, there is no protection for a trademark symbol's creation or

[183] U.S. Const. art. 1, § 8, cl. 8.

[184] Apparently, early lawmakers were not overly precise about how to characterize and distinguish different sectors of intellectual property. As least with regard to terminology, a clear distinction did not exist. *See* Justice Miller's explanation in *In re Trade-Mark Cases* (100 U.S. 82, 92 (1879)): "The entire legislation of Congress in regard to trade-marks is of very recent origin. It is first seen in . . . the act of July 8, 1870, entitled 'An Act to revise, consolidate, and amend the statutes relating to patents and copyrights.' . . . The part of this act relating to trade-marks is embodied in chap. 2, tit. 60, sects. 4937 to 4947, of the Revised Statutes."

[185] Stephen L. Carter, *Owning What Doesn't Exist*, 13 Harv. J. L. & Pub. Pol'y 99, 102 (1990); Lionel Bently & Brad Sherman, *Intellectual Property Law* 814–815 (4th edn., 2014).

[186] *See* article 27 para. 1 of the TRIPS Agreement: "[P]atents shall be available for any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application."

[187] For more details, *see, e.g.*, William Cornish, David Llewelyn & Tanya Aplin, *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* para. 11.32 *et seq.* (8th edn., 2013); for continental regimes, *see, e.g.*, Florent Thouvenin, *Funktionale Systematisierung von Wettbewerbsrecht (UWG) und Immaterialgüterrechten* 308–309 (2007).

[188] *See* Stephen L. Carter, *The Trouble with Trademark*, 99 Yale L.J. 759, 767 (1990). For European patent law and the instantaneous assignment of rights, *see, e.g.*, *Centrafarm BV and Others v. Sterling Drug*, C-15/74, para. 9 (31 October 1974), [1974] E.C.R. 1147.

[189] For an iconic liberal perspective, *see* Ayn Rand, *Patents and Copyrights (The Objectivist Newsletter, May 1964)*, reprinted in *Capitalism: The Unknown Ideal*, 141, 141 (1967) ("Patents and copyrights are the legal implementation of the base of all property rights: a man's right to the product of his mind.").

invention as such. In principle, the owner is not selling the trademark—she is marketing a branded product.[190] In other words, the subject matter of protection is the "trade," not the "mark." Consequently, the incentive provided for by the system of trademark protection is different. The use of trademarks in commerce results in an accumulation of goodwill for the branded product and the creation and maintenance of its owner's reputation. A trademark's use in commerce builds up a stock of information on product and producer properties. Only upon the accumulation of market information will the owner receive a corresponding share of protection. Trademark protection is thus the quid pro quo for competitive commitment and investment in the marketplace.

Viewed in this way, it becomes clear that trademark protection (unlike patent and copyright protection) does not insulate the right owner from competition. In fact, it encourages—even requires—constant competitive commitment and investment.[191] Strictly speaking, competition ends with the invention or creation of patentable or copyrightable subject matter; it starts, however, with the acquisition of a trademark.[192]

2 *An Apparent Exception: The Trademark Register*

Though registered trademarks appear to be more closely aligned with patents and copyrights, in that such rights can be acquired immediately upon registration, the similarities end there. Registration only temporally suspends the correlation between rights and competition. Trademarks remain market related, whether acquired by use or by registration. As we have seen, Eugen Ulmer was the first to point out that registration promotes the development of trademark rights for a registrant's nascent trade.[193]

[190] *See Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 157 (1989) ("[The law of unfair competition's] general concern is with protecting consumers from confusion as to source. While that concern may result in the creation of 'quasi-property rights' in communicative symbols, the focus is on the protection of consumers, not the protection of producers as an incentive to product innovation."); *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 24 (2003) (" 'The Lanham Act,' we have said, 'does not exist to reward manufacturers for their innovation in creating a particular device; that is the purpose of the patent law and its period of exclusivity.'"). *See also* Edwin Katz, *Weltmarkenrecht* 2–3 (1926); Stephen L. Carter, *The Trouble with Trademark*, 99 Yale L.J. 759, 767 (1990).

[191] Stacey L. Dogan & Mark A. Lemley, *The Merchandising Right: Fragile Theory or Fait Accompli?*, 54 Emory L.J. 461, 467 (2005); Mark A. Lemley & Mark P. McKenna, *Owning Mark(et)s*, 109 Mich. L. Rev. 137, 173–174 (2010).

[192] For a similar description, *see* Alois Troller, *Das internationale Privat- und Zivilprozeßrecht im gewerblichen Rechtsschutz und Urheberrecht* 41 (1952); Alois Troller, *Die territoriale Unabhängigkeit der Markenrechte im Warenverkehr*, 1960 GRUR Ausl. 244, 246; Frank Peter Regelin, *Das Kollisionsrecht der Immaterialgüterrechte an der Schwelle zum 21. Jahrhundert* 76 (2000).

[193] *See supra* p. 42–46.

In addition, the register informs the public about the stock of existing rights,[194] thereby providing legal certainty for later-comers and junior users in their choice of new brands and helping avoid the social costs of wasted resources resulting from a duplication of trademarks.[195] Later on, in the case of trademark collisions, the registration system offers a convenient and practical way to decide on priority disputes.[196] These functions of the register, however, may run counter to the core trademark policy. Indeed, seen in light of the market information paradigm, the early stage of trademark protection gives the registrant more than she deserves.[197] Such an assignment goes beyond the markets in which she has done or is doing business. The register-provided benefits exceed the actual investment in market activity. In other words, without prior use of a symbol in the marketplace, the benefits that consumers expect from the trademark cannot come into existence.[198] Accordingly, rights acquisition upon registration (or application) distorts the natural *do ut des* of the market-based goodwill mechanism. Registration, therefore, provides an advance performance to the registrant without demanding the counterperformance of goodwill creation and maintenance that the public is interested in. It is just for the early stages of the trademark's life cycle that the correlation between right protection, market investment, and competition is suspended. Only in this regard will the actual and potential detriments of advance performance to the registrant be outweighed by concurrent benefits of the register.

In the same vein, the ultimate dependence of registered rights on goodwill is also illustrated by the fact that under most trademark regimes there exists only a limited grace period for nonuse after a trademark's application or registration.[199] If the trademark is not animated through actual use in the marketplace within a certain period, then it will be

[194] *See, e.g.*, BGH 2005 GRUR 1044, 1046—*Dentale Abformmasse* (22 September 2005); Karl-Heinz Fezer, *Markenschutzfähigkeit der Kommunikationszeichen (§§ 3 und 8 MarkenG) und Kommunikationsschutz der Marken (§§ 14 und 23 MarkenG)*, 2010 WRP 165, 172.

[195] William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & Econ. 265, 282 (1987); William P. Kratzke, *Normative Economic Analysis of Trademark Law*, 21 Mem. St. U. L. Rev. 199, 231 (1991).

[196] *See, e.g.*, Eugen Ulmer, *Warenzeichen und unlauterer Wettbewerb in ihrer Fortbildung durch die Rechtsprechung* 70 (1929).

[197] Stephen L. Carter, *The Trouble with Trademark*, 99 Yale L.J. 759, 786 (1990).

[198] William P. Kratzke, *Normative Economic Analysis of Trademark Law*, 21 Mem. St. U. L. Rev. 199, 231 (1991).

[199] *See also, e.g.*, article 5(C) Paris Convention and article 19 TRIPS. For a comparative overview, *see, e.g.*, Gerhard Schricker, *Der Benutzungszwang im Markenrecht—Rechtsvergleichende Betrachtungen zur Einführung des Benutzungszwangs in das deutsche Warenzeichengesetz*, 1969 GRUR Int. 14.

subject to cancellation. The same happens in cases of abandonment. The trademark must be used to distinguish products in the market. Registered or not, the trademark is not a property right in gross.[200] Seen in this light, registration is just a shell. The formal right will be invigorated only as far as equity can resort to a stock of information capital in the marketplace.[201]

C Summary

The field of intellectual property is far from homogeneous. Trademark rights are directly connected to and based on marketplace activities. Market goodwill and information capital are critically important for the acquisition and existence of rights. Although the possibilities of rights acquisition by registration have sometimes clouded these characteristics, the dominance of registration systems in modern trademark regimes around the world has not altered the fundamental conception. Conversely, patent and copyright protection is granted immediately, exclusively, and absolutely, without regard to the owner's subsequent marketplace or competitive activities. While the unification of intellectual property under a common umbrella of formal rights may not cause many problems in substantive law, this is not the case for choice of law. Here, we must take a close look at the parallel layers of "rights" that exist whenever a trademark is both registered and actually used in commerce. The shell and its substance need to be kept separate. The following section will thus address the relation between legal rights and substantive equity.

IV Trademark and Unfair Competition Law: Framing the Information Infrastructure

European law separates the areas of trademark protection and unfair competition prevention: in principle, one area exists to protect individual property, while the other takes care of the public interest.[202] This propertization/socialization dichotomy has also been projected into choice of law, particularly articles 6 and 8 of the Rome II Regulation. As we will now see, this distinction is particularly questionable with regard to the

[200] *See, e.g., United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 101 (1918).

[201] For a similar explanation contrasting "trademark right" and "possessory position," *see* Eugen Ulmer, *Warenzeichen und unlauterer Wettbewerb in ihrer Fortbildung durch die Rechtsprechung* 15 (1929) ("Berufener Träger der Werte, die wir im Registersystem sehen, ist das Warenzeichenrecht; der Schutz derjenigen, die im Besitzstand begründet liegen, kommt dem Wettbewerbsrecht zu."). For the general property/possession dichotomy, *see supra* p. 42 *et seq.*

[202] *See supra* p. 9 *et seq.* and p. 193 *et seq.*, p. 203 *et seq.*

two sectors' common policy foundation. Since both trademark protection and unfair competition prevention, at their core, are aimed at regulating market participants' use of information infrastructure, a uniform approach to conflicts law is required.

A The Illusion of a Formal Divergence

In European doctrine, the double-tracked system of property rights and conduct regulation has become so deeply implemented that it can be aptly characterized as conventional wisdom.[203] Here, it is not necessary to fully deconstruct the dichotomy. Instead, I will highlight the most crucial aspects that shed doubt. With respect to choice of law in cross-border and multijurisdictional cases of trademark infringement and unfair competition, we must see the fields as largely homogeneous. The common policy of regulating market communication is what makes this so.

1 Recapitulation: Trademark Property vs. Consumer Protection

As we have seen, European doctrine has never managed to shed the conceptual straightjacket calling for a dichotomy between the fields of trademark and unfair competition law. German law in particular is still caught in this straightjacket. Starting with a doctrine of preemption in *Apollinarisbrunnen*, the Reichsgericht slowly reversed its approach, moving from a strict prioritization of trademark law to one of unfair competition law. Even Ulmer's formidable attempt to reconcile the two areas did not manage to establish uniformity or homogeneity. To the contrary, subsequent scholarship and practice have rather deepened the breach than help overcome the formal trademark/unfair competition divide.[204] Such a bright line has never existed in US doctrine. In the United States, the two areas have generally been treated as homogeneous fields under the common umbrella of passing off.[205] Section 1 of the current Restatement of Unfair Competition Law (Third) prominently represents this homogeneity, providing for an equation of "deceptive marketing" conduct in general with the "infringement of trademarks and other indicia of identification."[206] With respect to the correlation between competitor and consumer protection, US doctrine is also based on interwoven policies. First under traditional common law doctrine and then under the Lanham Act, US trademark law has been seen as promoting a dual policy

[203] For John Kenneth Galbraith's definition of "conventional wisdom," *see The Affluent Society* 6 *et seq.* (1958). For the "march of events" as a deconstructing factor, *see id.* at 11.
[204] *See supra* p. 50 *et seq.* [205] *See supra* p. 84 *et seq.*
[206] Restatement of the Law—Unfair Competition (Third), § 1(a)(1) and (2) (1995).

of protecting both consumers and trademark owners.[207] Consumer protection and right-owner protection are often described as opposite sides of the same coin and as mutually reinforcing benefits of the regime of trademark protection.[208] Consumer and right-owner interests thus appear to be in harmony, and consumer protection is seen as the core of trademark purposes.[209] In European trademark law, such a deep foundation of consumer protection has never been laid out.[210] Here, neither an individual right of the consumer nor a public policy of consumer protection seems to exist. Theory and practice have acknowledged only reflex protection for the consumer, and the public interest is fostered only by granting the right owner specific individual entitlements.[211]

[207] *See, e.g.*, United States Senate, Committee on Patents, Senate Report No. 1333, 79th Congr., 2nd Sess. (14 May 1946), repr. in 1946 U.S. Code Cong. Service, 1274, 1275 ("There is no essential difference between trade-mark infringement and what is loosely called unfair competition. Unfair competition is the genus of which trade-mark infringement is one of the species; 'the law of trade-marks is but a part of the broader law of unfair competition' [United Drug]. All trade-mark cases are cases of unfair competition and involve the same legal wrong."); *see also, e.g.*, Harry D. Nims, *The Law of Unfair Competition and Trade-Marks, vol. I* § 1, 10, 36 *et seq.* (4th edn., 1947); Stephen L. Carter, *The Trouble with Trademark*, 99 Yale L.J. 759, 764 (1990); Robert N. Klieger, *Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection*, 58 U. Pitt. L. Rev. 790, 795 (1997); more recently, Michael Grynberg, *Trademark Litigation as Consumer Conflict*, 83 N.Y.U. L. Rev. 60, 64–65 (2008); Deborah R. Gerhardt, *Consumer Investment in Trademark*, 88 N.C. L. Rev. 427, 430 (2010).

[208] *See, e.g.*, *James Burrough Ltd. v. Sign of Beefeater, Inc.*, 540 F.2d 266, 274 (7th Cir. 1976) (what is infringed on is "the right of the public to be free of confusion and the synonymous right of the trademark owner to control his product's reputation"); *Sundor Brands, Inc. v. Borden, Inc.*, 653 F.Supp. 86, 93 (M.D. Fla. 1986); Robert P. Merges, Peter S. Menell & Mark A. Lemley, *Intellectual Property in the New Technological Age* 534 (3rd edn., 2003) ("In general, then, the 'consumer protection' and 'producer incentive' theories of trademark law often seem to be flip sides of the same coin.").

[209] *See, e.g., Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 157 (1989) ("[The law of unfair competition's] general concern is with protecting consumers from confusion as to source. While that concern may result in the creation of 'quasi-property rights' in communicative symbols, the focus is on the protection of consumers, not the protection of producers as an incentive to product innovation."); *see also* Rudolf Rayle, *The Trend Towards Enhancing Trademark Owner's Rights—A Comparative Study of U.S. and German Trademark Law*, 7 J. Intell. Prop. L. 227, 240 and *passim* (2000); Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 Notre Dame L. Rev. 1839, 1843 (2007); Michael Grynberg, *Trademark Litigation as Consumer Conflict*, 83 N.Y.U. L. Rev. 60, 65 (2008); Mark P. McKenna, *A Consumer Decision-Making Theory of Trademark Law*, 98 Va. L. Rev. 67, 77 (2012).

[210] By contrast, a consumer protection function has often been categorically rejected. For Germany, *see, e.g.*, Winfried Tilmann, *Frage 80: Marke und Verbraucherschutz, Bericht im Namen der deutschen Landesgruppe*, 1983 GRUR 103, 104–105; for Switzerland, *see, e.g.*, Lucas David, in *Markenschutzgesetz, Muster- und Modellgesetz*, Einleitung para. 13 (Heinrich Honsell et al. eds., 2nd edn., 1999).

[211] *See, e.g.*, Frauke Henning-Bodewig & Annette Kur, *Marke und Verbraucher—Funktionen der Marke in der Marktwirtschaft, vol. I: Grundlagen* 210, 225 (1988); Josef Drexl, *Die wirtschaftliche Selbstbestimmung des Verbrauchers—Eine Studie zum Privat- und*

2 Cracks in the Foundation: A Remerger of the Fields

Upon closer scrutiny, however, this seemingly iron-clad separation between the fields in European doctrine dissolves. If we consider the question of how to define "consumer protection" and the "public interest," the two fields no longer seem that far apart. In fact, giving close regard to the consumer's position within the marketplace helps reconcile the seemingly divergent concepts of rights enforcement, conduct regulation, and consumer protection. Seen in this light, the transatlantic dichotomy also shrinks—US and European doctrines then actually no longer differ so fundamentally.

a The Statutory Framework: Unfair Commercial Practices Directive

In fact, recent developments in European trademark and unfair competition law have spurred a remerger. This has also led to alterations in national doctrine. Until the end of the twentieth century, in light of the longstanding tendency of separating the fields, German case law and commentary had agreed that trademark law was the *lex specialis* to rules of unfair competition prevention. Trademark protection was thus deemed to take strict and formal priority over unfair competition claims (*Vorrangthese*). As the Bundesgerichtshof explained, issues of unauthorized trademark use were governed by norms of trademark law alone. Remedies under unfair competition and tort law would not be admitted per se.[212] But this approach has been drawn into question by the 2005 UCP Directive.[213] Within the directive's scope of application (B2C), it explicitly provides for the prevention of confusion as a situation of "unfair competition" in cases of unauthorized and confusing trademark use.[214] It further provides that competitors and consumer

Wirtschaftsrecht unter Berücksichtigung gemeinschaftsrechtlicher Bezüge 595 (1998); Horst-Peter Götting, *Gewerblicher Rechtsschutz—Patent-, Gebrauchsmuster-, Design- und Markenrecht* § 5 para. 30 (10th edn., 2014). For a common law/civil law comparative angle, *see* Kenneth L. Port, *The Congressional Expansion of American Trademark Law: A Civil Law System in the Making*, 35 Wake Forest L. Rev. 827, 833 (2000).

[212] *See, e.g.*, BGH 1999 GRUR 161—*MAC Dog* (30 April 1998); BGH 1999 GRUR 252—*Warsteiner II* (2 July 1998); BGH 2001 GRUR 73—*Stich den Buben* (10 August 2000). For scholarly commentary, *see, e.g.*, Joachim Bornkamm, *Markenrecht und wettbewerbsrechtlicher Kennzeichenschutz—Zur Vorrangthese der Rechtsprechung*, 2005 GRUR 97, 98 *et seq.*

[213] Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market and amending Council Directive 84/450/EEC, Directives 97/7/EC, 98/27/EC and 2002/65/EC of the European Parliament and of the Council and Regulation (EC) No 2006/2004 of the European Parliament and of the Council ("Unfair Commercial Practices Directive"), O.J. EU (11 June 2005), L 149/22.

[214] *See* articles 3 and 6(2) lit. a as well as no. 13 of the Directive's so-called black list (in annex I).

associations—not just trademark owners—are generally entitled to apply for relief against confusing trademark use.[215] As a result, case law and scholarly commentary of late contend a relationship of equivalence (*Gleichrang*) between the fields.[216] Even though this *Gleichrang* also bears the mark of separation—after all, trademark protection and unfair competition prevention are still depicted as autonomous systems of regulation with different policies and different legal consequences[217]—it cannot be denied that unfair competition doctrine has reconquered a large area. Be it a single theory or two concurrent instruments of protection for information truthfulness, what matters is that, under the 2005 UCP Directive, unfair competition doctrine has been significantly extended into the reign of trademark protection. And even though the extension may be limited to B2C relations, it signals a trend of unification. This surfaces especially in single national regimes, such as Germany, where the directive's implementation has been more wide-reaching, as it also covers B2B relations.[218] Important for this analysis is that European lawmakers have increasingly come to prioritize the protection of consumer decision making, which results in a growing overlap between the once deemed separate fields. Hence, the dichotomy's *raison d'être* has visibly come under pressure.

b The Consolidation of Interests: Depropertization and Desocialization

The UCP Directive's consolidation actually represents a more slow and subtle trend. Individual rights protection has not always been the genuine purpose of trademark law. As we have seen, during the nineteenth century, trademark law was explicitly and sometimes almost exclusively

[215] *See* article 11. *See also* Jochen Glöckner, *Der Schutz vor Verwechslungsgefahr im Spannungsfeld von Kennzeichenrecht und verbraucherschützendem Lauterkeitsrecht*, 145, 165 *et seq.*, in *Geistiges Eigentum und Gemeinfreiheit* (Ansgar Ohly & Diethelm Klippel eds., 2007); Helmut Köhler, *Das Verhältnis des Wettbewerbsrechts zum Recht des geistigen Eigentums—Zur Notwendigkeit einer Neubestimmung auf Grund der Richtlinie über unlautere Geschäftspraktiken*, 2007 GRUR 548, 550–551.

[216] *See* BGH 2013 GRUR 1161, 1165—*Hard Rock Cafe* (15 August 2013); Reinhard Ingerl & Christian Rohnke, *Kommentar zum Markengesetz: Gesetz über den Schutz von Marken und sonstigen Kennzeichen*, § 2 para. 2 (3rd edn., 2010); Christian Alexander, *Der Verwechslungsschutz gem. § 5 Abs. 2 UWG*, 23, 26–27, in *Festschrift für Helmut Köhler zum 70. Geburtstag* (Christian Alexander et al. eds., 2014). For the Swiss doctrine of equivalence and concurrent application, *see* BGE vol. 129 III 353, 358—*Puls-Tip* (17 March 2003).

[217] *See, e.g.*, Helmut Köhler, *Das Verhältnis des Wettbewerbsrechts zum Recht des geistigen Eigentums—Zur Notwendigkeit einer Neubestimmung auf Grund der Richtlinie über unlautere Geschäftspraktiken*, 2007 GRUR 548, 550; Karl-Heinz Fezer, in *Lauterkeitsrecht: Kommentar zum Gesetz gegen den unlauteren Wettbewerb (UWG), vol. I*, Einleitung E para 336 *et seq.* (Karl-Heinz Fezer ed., 2nd edn., 2010).

[218] *See, e.g.*, Christian Alexander, *Der Verwechslungsschutz gem. § 5 Abs. 2 UWG*, 23, 25, in *Festschrift für Helmut Köhler zum 70. Geburtstag* (Christian Alexander et al. eds., 2014).

concerned with protection of public interests, notably through fraud prevention policies.[219] And this once "social" impetus was never expressly ousted by a clear change of policies. Rather, it was the formalistic paradigm of trademark-as-property protection that, throughout the nineteenth and twentieth centuries, barred a more visible entry and osmosis of consumer protection concerns. Indeed, even though giving regard to consumer interests is still widely described as a mere reflex of trademark protection, the consumer has never been locked out completely. The trademark owner alone is tasked with enforcing her rights—prima facie, therefore, she is not the avenger of the consumer.[220] But a part of what she does in her function as right owner mirrors concurrent interests of the public and, thus, necessarily of the consumer. The fading out of consumer protection concerns only a certain kind of consumer interests. If and to the extent that "consumer protection" is understood as protection of the consumer beyond her function as a referee in competition—that is, as a private individual and citizen with civil rights—there is no congruence of interests. With respect to the consumer's function as a referee, however, trademark protection with an aim of confusion prevention necessarily also caters to the concerns of the consuming public. As my exploration of the market mechanism has illustrated,[221] the consumer's decision making is the focal point where both her private and the public interest in free competition coincide.

The picture is similar in unfair competition doctrine, where an excessive protection of consumer interests would also exceed the regulatory scheme. It may have been the foreclosure of consumer interests in trademark law that led to a concurrent socialization of unfair competition law. Ultimately, unfair competition doctrine had to serve as a reservoir for public policies of all kinds.[222] Most notably, it became an area of consumer protection in terms of civil rights. But this has changed in recent years. In fact, unfair competition doctrine has recently witnessed its own era of desocialization. I will address the integrated model of unfair competition law in more detail soon.[223] Worth mentioning for now is the fact

[219] *See supra* p. 9 *et seq.*

[220] For the term, *see Ely-Norris Safe Co. v. Mosler Safe Co.*, 7 F.2d 603, 604 (2nd Cir. 1925) (Hand, J.) (the plaintiff is not the "vicarious avenger" of the defendant's customers). For German doctrine, *see* Frauke Henning-Bodewig & Annette Kur, *Marke und Verbraucher—Funktionen der Marke in der Marktwirtschaft, vol. I: Grundlagen* 210 (1988).

[221] *See supra* p. 275 *et seq.*, p. 287 *et seq.*

[222] For an overview, *see, e.g.*, Wolfgang B. Schünemann, *Ökonomische Analyse der europäischen und deutschen Regelung*, 41 *et seq.*, in *Lauterkeitsrecht im Umbruch—Europa, Deutschland, Österreich* (Heinz Krejci et al. eds., 2005).

[223] *See infra* p. 359 *et seq.*

that modern policies of unfair competition prevention—as trademark protection—are concerned primarily with the unhindered functioning of the market mechanism and with the autonomy of consumer decision making.[224]

In light of this modern depropertization of trademark policies and the concurrent desocialization of unfair competition doctrine, we can identify a common territory of both fields. At the vertical level of the model of marketplace competition, the core policies of both trademark-as-property protection and consumer protection through unfair competition prevention have come to largely coincide.[225] This common core of both areas is what determines the analysis: trademark protection and unfair competition prevention must give regard to the consumer and to the purpose of protecting her domain as a referee in competition against improper invasion. Accordingly, the trademark owner no longer has exclusive control over a dispute with respect to deciding whether to enjoin infringing uses of her trademark or to not police the violation at all. Since trademark and unfair competition causes of action will coexist without a hierarchical relationship, there is no more priority of absolute rights.[226]

c The Practical Picture: A Subtle Recapture Court practice further illustrates that the merger is in full swing. In fact, many issues that are today classified as questions of trademark protection started as judge-made doctrines of unfair competition prevention. Antidilution and post-sale confusion scenarios are lucid examples.[227] The homogeneity of policies is therefore not a recent invention of European lawmakers. The UCP Directive has merely institutionalized a practical symbiosis. In addition, in recent courtroom practice, the fields seem to have moved even closer. First, the Court of Justice has increasingly macerated old-age formalisms of traditional trademark doctrine throughout the last decade.

[224] *See, e.g.*, Hans-Wolfgang Micklitz, in *Münchener Kommentar zum Lauterkeitsrecht, vol. I,* EG D para. 94 (Peter W. Heermann et al. eds., 2006) ("[Die] Dominanz des Verbraucherschutzgedankens … findet jedoch ihre innere Rechtfertigung nicht in einem ‚sozialrechtlichen Kontext', sondern in der Notwendigkeit, den Verbraucher erst für den Gemeinsamen Markt und dann für den Binnenmarkt zu instrumentalisieren.").

[225] For the multiangular structure of the market mechanism in consumer decision making, *see supra* p. 285–286.

[226] *See, e.g.*, Joachim Bornkamm, *Die Schnittstellen zwischen gewerblichem Rechtsschutz und UWG—Grenzen des lauterkeitsrechtlichen Verwechslungsschutzes*, 2011 GRUR 1, 4; Karl-Nikolaus Peifer, in *Lauterkeitsrecht: Kommentar zum Gesetz gegen den unlauteren Wettbewerb (UWG), vol. II*, § 5 para. 41 (Karl-Heinz Fezer ed., 2nd edn., 2010) ("Die Abgrenzung zum individualrechtlichen Kennzeichenschutz wird stark verwischt, so dass jedenfalls im Verbraucherschutz die lautere Markenführung ein Stück weit wieder kollektiviert wird."). For the same concept, *see* Walter R. Schluep, *Das Markenrecht als subjektives Recht* 112 (1964).

[227] *See infra* p. 349 *et seq*.

While the court still pays lip service to trademark-as-property and exclusive rights protection, its actual implementation of protection structures has widely abandoned formalism. Indeed, under the court's theory of trademark functions, the paradigm of trademark-as-property protection may dissolve far more quickly than expected. The "functionalization" of trademark rights can be lucidly seen in the list provided in *L'Oréal* and *Google France*, enumerating "not only the essential function of the trade mark, which is to assure to consumers the origin of the goods or services ('the function of indicating origin'), but also its other functions, in particular that of guaranteeing the quality of the goods or services in question and those of communication, investment or advertising."[228] Of course, such literal extensions of the scope of protection seem to imply an overextension of rights.[229] Yet a function-based approach also provides possibilities for rights limitation. One example can be found in cases on "keyword advertising." The court has started to backpaddle significantly here: the advertising function has been described to no longer be affected, and the question of relevant impact on the function to indicate origin has been referred to a specifically fact-based analysis.[230] Unlike formal rights protection, functionalism is far more flexible and, as such, receptive to a significant relativization of rights. On this basis, the absoluteness or exclusivity of rights can no longer be explained as a leitmotif. In essence, a trademark's functions reflect different policies of protection. None of these policies, however, provide for an isolated domain of trademark rights. Consequently, the trademark owner no longer holds a position of "absolute" individual property—instead, her entitlement reflects a bundle of policies of conditional protection.

The last aspect of a fact-based infringement analysis further illustrates that the tests for finding consumer confusion in trademark law and in unfair competition law have become increasingly similar. For a long time, doctrine treated the concepts of consumer confusion in trademark law and of consumer confusion in unfair competition law as distinct. Whereas confusion testing in trademark law was seen as focusing on the abstract comparison between conflicting symbols, confusion testing in unfair

[228] *Google France and Google*, C-236/08, 237/08, and 238/08, para. 77 (23 March 2010), [2010] E.C.R. I-2417; *L'Oréal and Others*, C 487/07, para. 58 (18 June 2009), [2009] E.C.R. I-5185.

[229] For a critique, *see, e.g.*, Martin Senftleben, *Trade Mark Protection—A Black Hole in the Intellectual Property Galaxy*, 42 IIC 383, 384 *et seq.* (2011).

[230] *See, e.g., Google France and Google*, C-236/08, 237/08, and 238/08, para. 82 *et seq.* (23 March 2010), [2010] E.C.R. I-2417; *BergSpechte*, C-278/08, para. 33 *et seq.* (25 March 2010), [2010] E.C.R. I-2517; *Portakabin*, C-558/08, para. 32 *et seq.* (8 July 2010), [2010] E.C.R. I-6963; *see also* Lionel Bently & Brad Sherman, *Intellectual Property Law* 1051 *et seq.* (4th edn., 2014).

competition law was seen as requiring concrete consideration of the factual circumstances of each individual case. The latter was a narrower test and less protective.[231] Under the Court of Justice's recent application of trademark law, however, the consumer-confusion standard has begun to resemble its unfair competition counterpart. In its 2008 decision in *O2 Holdings and O2 (UK)*, the court expressly established that consumer-confusion standards should be the same for both trademark and unfair competition doctrines.[232] This approach was reinforced three years later in the court's *Interflora* decision, which set a heretofore almost unknown requirement of market information transparency for trademark-infringement testing. As the court explained, a finding of adverse effects on the trademark's function of indicating origin will depend "in particular on the manner in which that advertisement is presented."[233] Hence, for issues of trademark infringement as well, the trier of facts will actually have to inquire whether an advertisement's use of a foreign trademark "is sufficient to enable a reasonably well-informed and reasonably observant internet user" to distinguish the sources of the competing parties' products.[234] Ultimately, both standards for confusion prevention have come to coincide.[235]

d The Relicts of Antiquity: Pockets of Resistance Notwithstanding these wide-reaching tectonic shifts, some specific areas of trademark protection still seem to be distinctly isolated and therefore resistant to a merger of the fields. Yet here, too, the perceived obstacles are not as decisive as one might think. Several of the scenarios that have been identified as allegedly uniquely trademark related are founded on

[231] *See, e.g.*, BGH 2004 GRUR 860, 863—*Internet-Versteigerung I* (11 March 2004); Annette Kur, *Markenrecht, Verbraucherschutz und Wettbewerbsrecht*, 190, 196, in *Die Neuordnung des Markenrechts in Europa—10. Ringberg-Symposium des Max-Planck-Instituts für ausländisches und internationales Patent-, Urheber- und Wettbewerbsrecht* (Gerhard Schricker & Friedrich-Karl Beier eds., 1996).

[232] *O2 Holdings and O2 (UK)*, C-533/06, para. 49 (12 June 2008), [2008] E.C.R. I-4231 ("In the light of recitals 13 to 15 of Directive 97/55, the same interpretation must be given to the term 'confusion' used in both Article 5(1)(b) of Directive 89/104 and Article 3a(1)(d) of Directive 84/450."). For Swiss law, *see* BGE vol. 116 II 365, 370—*Nivea* (12 July 1990) (identical standard of confusion testing).

[233] *Interflora and Interflora British Unit*, C-323/09, para. 44 *et seq.* (22 September 2011), [2012] E.T.M.R. 1.

[234] *Id.* at para. 53.

[235] *See also* Reinhard Ingerl & Christian Rohnke, *Kommentar zum Markengesetz: Gesetz über den Schutz von Marken und sonstigen Kennzeichen*, § 2 para. 3 (3rd edn., 2010); Christian Alexander, *Der Verwechslungsschutz gem. § 5 Abs. 2 UWG*, 23, 28, in *Festschrift für Helmut Köhler zum 70. Geburtstag* (Christian Alexander et al. eds., 2014); more critically, however, *e.g.*, Franz Hacker, in *Kommentar zum Markengesetz*, § 2 para. 28 *et seq.* (Paul Ströbele & Franz Hacker eds., 11th edn., 2015).

a policy that is distinctly separate from the traditional concepts of passing off, confusion prevention, and information economization. They thus fall outside the common domain of consumer decision-making regulation, meaning that their separate treatment under a doctrine of "trademarks only" does not present a challenge to the hypothesis of a trademark/unfair competition merger. In addition, upon closer scrutiny, the remainder of allegedly resistant scenarios can actually be explained as specific instances of a policy merger.

To start with the former category, one oft-enunciated example of the separation of policies is the protection of newly registered and still unknown trademarks. These trademarks tend to be protected only under trademark law.[236] Protection under unfair competition and like doctrines will begin only upon the accumulation of goodwill—and only with respect to those markets where information capital has actually been accumulated. With respect to the first stage of a registered trademark's protection, however, the policy at play is of a different kind. It does not directly aim at information economization. On the contrary, protection of newly registered trademarks, as authoritatively outlined by Ulmer, only temporarily overextends core trademark policy in the interest of promoting the development of rights. Over time, however, upon the acquisition of goodwill, the aim of developing nascent trademarks would yield to the principles of preventing confusion.[237]

What seems to be more challenging for the consolidation hypothesis are scenarios where pragmatic cost balancing—not doctrinal reasons—lead to a prioritization of trademark protection rules in practice. One example is a case where competitors with the same name, trade name, or trademark have established separate goodwill in different marketplaces, and where their indications' geographical reaches suddenly collide (usually due to a growth of markets). These are *Tea Rose*/*Rectanus* scenarios.[238] As contended by case law and scholarly commentary in Germany, a certain degree of consumer confusion may have to be tolerated in order to allow for both parties' continued use. The only requirement is that confusion must be reduced as far as is possible and reasonable.[239] Since consumer confusion will never be fully eliminated, one could argue that it is individual rights protection—and hence trademark policy—that

[236] *See, e.g.*, Joachim Bornkamm, in Helmut Köhler & Joachim Bornkamm, *Gesetz gegen den unlauteren Wettbewerb*, § 5 UWG para. 4.238 (33rd edn., 2015); Franz Hacker, in *Kommentar zum Markengesetz*, § 2 para. 33 (Paul Ströbele & Franz Hacker eds., 11th edn., 2015).

[237] *See supra* p. 42–46.

[238] For the *Tea Rose*/*Rectanus* doctrine, *see supra* p. 102 *et seq.* and p. 129 *et seq.*

[239] *See, e.g.*, BGH 2010 GRUR 738—*Peek & Cloppenburg* (31 March 2010); BGH 2013 GRUR 397, 398 *et seq.*—*Peek & Cloppenburg III* (24 January 2013).

prevails.[240] This, however, is not the full picture. The gist of this doctrine is unveiled only when looking at alternative solutions: coexistence, even though causing a certain degree of consumer confusion, is the result of optimum cost balancing for all constituencies involved in the dispute. Easily overlooked is the fact that completely enjoining one party from using the name or trademark at issue—as the strict enforcement of unfair competition rules might suggest—would not avoid consumer confusion, either. Granting one side the right to use the trademark for the whole market, thereby fully excluding the other party, would invalidate the latter's goodwill. Not only would this destroy the individual right owner's investment, but it would also force her customers to renew and rearrange their information capital with respect to the products and brands at issue. Actual consumer "confusion" under such a black-and-white solution would thus be more severe than under coexistence.[241] What matters here is that an optimal economization of marketplace information can be achieved only by cost balancing. The situation therefore verifies the growing homogeneity of the two fields on the basis of a common core policy.

Similarly, licensing and coexistence agreements, as well as a court's granting to a trademark-infringing defendant a conversion period during which sale for counterfeits is still admissible, can be explained under a theory of cost balancing.[242] As in cases where the alleged trademark infringer has raised the defense of unclean hands, laches or acquiescence, or limitation or prescription, it is possible that the degree of consumer confusion is so strong that unfair competition prevention must ultimately kick in.[243] In all these cases, there is another way to look at it: especially in the latter case, it is difficult to contend that if the trademark owner has lingered so long that her claim for injunctive relief is barred under a trademark-related provision on limitation or prescription, third parties

[240] BGH 2013 GRUR 397, 398 *et seq.*—*Peek & Cloppenburg III* (24 January 2013); critically, however, Franz Hacker, in *Kommentar zum Markengesetz*, § 2 para. 38 (Paul Ströbele & Franz Hacker eds., 11th edn., 2015).

[241] For increased costs for "junior consumers" in cases where a senior trademark trumps, *see* Michael Grynberg, *Trademark Litigation as Consumer Conflict*, 83 N.Y.U. L. Rev. 60, 93 (2008). For similar reasoning in early German case law concerning the admissibility of a certain level of confusion, *see, e.g.*, BGH 1958 GRUR 444, 447—*Emaillelack* (28 February 1958); BGH 1963 GRUR 36, 39—*Fichtennadelextrakt* (13 July 1962).

[242] For owner consent, in particular with regard to licensing and coexistence agreements, *see* Restatement of the Law—Unfair Competition (Third), § 29, comment b and c (1995) ("[I]f the use permitted under a consent agreement is likely to cause substantial confusion that threatens significant harm to consumers, the agreement may be unenforceable as a matter of public policy."); for licensing and the requirement of "reasonable control" by the owner, *see id.* at § 33, comment c.

[243] For current German (and European) doctrine on the fields' correlation in these cases, *see, e.g.*, Joachim Bornkamm, *Die Schnittstellen zwischen gewerblichem Rechtsschutz und UWG—Grenzen des lauterkeitsrechtlichen Verwechslungsschutzes*, 2011 GRUR 1, 4–5.

should not have access to claims under the rules on unfair competition prevention.[244] After all, the public is still interested in preventing confusion and deception. Accordingly, competitors (aside from the lingering trademark owner) and consumer associations should be allowed to litigate unfair competition claims.[245] Necessarily, interparty relations between a right owner and an alleged infringer are irrelevant with regard to the public.[246]

In sum, none of the "exceptional" cases of alleged trademark priority prevent us from concluding that the fields are doctrinally interrelated—more concretely, that they overlap with respect to the regulation of information infrastructure. In addition, the merger of the fields remains unaffected by the different types of remedial options. While trademark law may grant more far-reaching remedies, particularly concerning the scope and computation of damages,[247] this does not allow an inference with respect to the unifying capacity of market information policies. The different character of remedies is mostly a result of practical necessities, not of policy differences. Furthermore, injunctive relief dominates both fields in practice and therefore ultimately accounts for the actual effectuation of policies. In this regard, the fields have been in wide conformity for a long time.[248]

[244] For US doctrine, *see* Restatement of the Law—Unfair Competition (Third), § 31, comment a, and § 32, comment a (1995) ("Because of the public interest in protecting consumers from confusion as to the source or sponsorship of goods and services, unreasonable delay by the trademark owner does not necessarily constitute a complete defense to liability."). For the debate in German and European law, *see, e.g.*, Annette Kur, *Verwechslungsgefahr und Irreführung—zum Verhältnis von Markenrecht und § 3 UWG*, 1989 GRUR 240, 242; *but see* BGH 2013 GRUR 1161, 1166—*Hard Rock Cafe* (15 August 2013); critically with convincing arguments, however, Christian Alexander, *Der Verwechslungsschutz gem. § 5 Abs. 2 UWG*, 23, 27–28, in *Festschrift für Helmut Köhler zum 70. Geburtstag* (Christian Alexander et al. eds., 2014).

[245] Jochen Glöckner, *Der Schutz vor Verwechslungsgefahr im Spannungsfeld von Kennzeichenrecht und verbraucherschützendem Lauterkeitsrecht*, 145, 173, in *Geistiges Eigentum und Gemeinfreiheit* (Ansgar Ohly & Diethelm Klippel eds., 2007); Joachim Bornkamm, *Die Schnittstellen zwischen gewerblichem Rechtsschutz und UWG—Grenzen des lauterkeitsrechtlichen Verwechslungsschutzes*, 2011 GRUR 1, 6–7.

[246] *See* Annette Kur, *Verwechslungsgefahr und Irreführung—zum Verhältnis von Markenrecht und § 3 UWG*, 1989 GRUR 240, 249; Christian Alexander, *Der Verwechslungsschutz gem. § 5 Abs. 2 UWG*, 23, 27–28, in *Festschrift für Helmut Köhler zum 70. Geburtstag* (Christian Alexander et al. eds., 2014).

[247] *See, e.g.*, Joachim Bornkamm, in Helmut Köhler & Joachim Bornkamm, *Gesetz gegen den unlauteren Wettbewerb*, § 5 UWG para. 4.253 (33rd edn., 2015); Christian Alexander, *Der Verwechslungsschutz gem. § 5 Abs. 2 UWG*, 23, 25–26, in *Festschrift für Helmut Köhler zum 70. Geburtstag* (Christian Alexander et al. eds., 2014); for English doctrine, *see, e.g.*, Lionel Bently & Brad Sherman, *Intellectual Property Law* 1238 *et seq.* (4th edn., 2014).

[248] For the practical prevalence of injunctive relief, *see supra* p. 296 *et seq*. For the historical development in trademark and unfair competition doctrine, *see* the discussion of law and equity in US doctrine *supra* p. 78 *et seq*.

e The Myth of the Public Samaritan Finally, another oft-enunciated argument can be shown to be irrelevant for the fields' underlying structural homogeneity: despite what is often contended, plaintiffs in both trademark *and* unfair competition cases act as private attorneys general—no matter whether they sue on the basis of a private right or claim the violation of a rule of fair conduct. Of course, a rational right owner will seldom care about consumer protection when enforcing her right in a trademark. This, however, does not invalidate her function as the proverbial private attorney general of the public interest. She may neither formally nor intentionally play the role of a vicarious avenger of the consumer,[249] but she does serve the public function of establishing and upholding an environment of truthful market communication.[250] The enforcement of private rights thereby establishes and maintains the overall order of information economization as part of the information infrastructure within the marketplace. This specific order—not a general, extended, and unspecific concern for public policy—is the institution to be protected under trademark law. In this regard, and under an accordingly delimited scope of consumer protection concerns, the trademark owner's formal right is the mirror image of public policy. Or, as Ralph S. Brown, Jr. explained in 1948:

> [W]hat appear to be private disputes among hucksters almost invariably touch the public welfare. We shall therefore be concerned to ask, when courts protect trade symbols, whether their decisions further public as well as private goals.[251]

Furthermore, a closer look at the incentives at play when private rights are enforced suggests the validity of skepticism toward the idea that consumer concerns would be protected only under a system of unfair competition law. As is commonly argued, unfair competition law—unlike trademark protection—specifically protects the public interest by extending personal standing and enforcement options for competitors in general and for consumer associations in particular. In these cases, competitors are supposed to act as deputies tasked with protecting the public interest.[252] Upon a second look, however, this idea proves

[249] *See again Ely-Norris Safe Co. v. Mosler Safe Co.*, 7 F.2d 603, 604 (2nd Cir. 1925) (Hand, J.).

[250] For the trademark owner's role, *see* Michael Grynberg, *Trademark Litigation as Consumer Conflict*, 83 N.Y.U. L. Rev. 60, 90 (2008); William P. Kratzke, *Normative Economic Analysis of Trademark Law*, 21 Mem. St. U. L. Rev. 199, 268 (1991); Carl Baudenbacher, *Zur funktionalen Anwendung von § 1 des deutschen und Art. 1 des schweizerischen UWG*, 144 ZHR 145, 152 (1980).

[251] Ralph S. Brown, Jr., *Advertising and the Public Interest: Legal Protection of Trade Symbols*, 57 Yale L.J. 1165, 1167 (1948).

[252] *See, e.g.*, Alfons Kraft, *Verbraucherschutz und Markenrecht*, 1980 GRUR 416, 419; Wolfgang Fikentscher, *Wirtschaftsrecht, vol. II: Deutsches Wirtschaftsrecht* § 22 XI 10

illusory. The incentive to police violations of both unfair competition and trademark norms will be strong whenever investment in goodwill or private interests in general is concerned. Whenever a market participant suffers an individual detriment that is substantial, she will have an incentive to instigate judicial or administrative enforcement. Litigation, however, is not dependent on whether a competitor considers herself as acting on behalf of the public.[253] Nor does it depend on the existence or nonexistence of formal subjective rights. If no individual investment is at stake, there will be no incentive to privately police a violation. This is not a rare case. Quite often, violations of unfair competition norms will not affect a specific competitor directly, nor will they be detrimental at all. Another example of the disinterested plaintiff can be seen in situations where certain unfair practices are common or have become tolerated within the trade.[254] In these cases, it is unlikely that competition or intercompetitor litigation will bring about the best result for the public—as there is honor among thieves, there also is honor among unfair competitors.

In any case, finally, one should not overestimate the litigiousness of consumer associations. In light of their usually scarce financial resources, a more practical doubt exists: quite often, associations that have standing to sue are acting undercover on behalf of a single competitor. If litigation is initiated and financed by an individual competitor, however, it no longer fulfills an allegedly exclusively "public" function.[255]

3 Summary

The fields of trademark and unfair competition law have witnessed a tectonic shift away from traditional tort law paradigms toward a modern regime of market information regulation. Whether the paradigm of "property" or "subjective rights" in trademarks should be maintained is not the main concern here. More important is the classification of trademark and unfair competition scenarios according to the underlying

(1983); Frauke Henning-Bodewig & Annette Kur, *Marke und Verbraucher—Funktionen der Marke in der Marktwirtschaft, vol. I: Grundlagen* 210–211 (1988).

[253] *See* Wolfgang Hefermehl, *Der Anwendungsbereich des Wettbewerbsrechts*, 283, 288, in *Festschrift für Hans Carl Nipperdey zum 60. Geburtstag* (Rolf Dietz et al. eds., 1955) ("Der aus UWG klagende selbstverletzte oder bedrohte Wettbewerber will seine Interessen, sein Unternehmen, schützen, nicht aber im öffentlichen Interesse Grundsätze lauteren Wettbewerbs durchsetzen.").

[254] For these scenarios, *see* Elias Wolf, *Kritische Betrachtungen zum Entwurf für ein Bundesgesetz über den „unerlaubten" Wettbewerb*, 31 SJZ 145, 146 (1934); *see also* Gerhard Schricker, *Möglichkeiten zur Verbesserung des Schutzes der Verbraucher und des funktionsfähigen Wettbewerbs im Recht des unlauteren Wettbewerbs*, 139 ZHR 208, 233 (1975).

[255] For this situation, *see* Gerhard Schricker, *Hundert Jahre Gesetz gegen den unlauteren Wettbewerb—Licht und Schatten*, 1996 GRUR Int. 473, 478.

policies. The oft-enunciated argument that trademark law provides protection to the consumer only as a reflex of private rights enforcement is unconvincing, both with respect to the private rights/public policy dichotomy and with regard to enforcement efficiency. Protection of the consumer's role as referee in competition is central to both trademark and unfair competition law. It is the connecting link between both areas. Subsequently, regulating market communication—more concretely, protecting the information infrastructure within the marketplace—is the common core policy. As I will argue in the following, a corresponding separation of policies is necessary to promulgate a guideline for choice-of-law determination.

B The Structural Congruency of Trademark and Unfair Competition Law

Trademark and unfair competition law have increasingly evolved toward the regulation of market communication. In addition to this common denominator, additional policies can be found in close vicinity. These policies include, namely, trademark-as-property protection (e.g., antidilution theory) and consumer protection beyond the referee function (e.g., privacy protection). Before I address each of these policies, I will take a concluding look at the common core: the overarching aim of providing an order for the information infrastructure of the marketplace.

1 The Common Core: Information Economization

I have already analyzed the economic concept of market language.[256] With respect to trademark and unfair competition law—notably with regard to the common core of policies—the communication function is particularly important. Information truthfulness and correctness are paramount for the functioning of the market mechanism based on consumer decision making. In terms of trademark doctrine, the correlation between market information and efficiency has been described on the basis of the functions of goodwill. A trademark's goodwill is shorthand for search-cost reduction. It performs the economizing function of facilitating information transmission.[257] Trademark protection encourages investment in product quality. Once reputations within the market have been established, repeat purchases and referrals will generate higher

[256] *See supra* p. 288–289.

[257] *See* William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & Econ. 265, 269 (1987); *see also*, more recently, Stacey L. Dogan & Mark A. Lemley, *Trademark and Consumer Search Costs on the Internet*, 41 Hous. L. Rev. 777, 778, 786 *et seq.* (2004) (with numerous references).

transaction numbers.[258] At the same time, the branded product can command a premium price, reflecting the search-cost savings by consumers.[259] This is a self-reinforcing cycle of reputation creation, maintenance, and sometimes decay and destruction. In addition, trademarks can be used more generally to transfer information, not only by the right owner herself, but also by other market participants. Examples of such transmission are comparative advertising and the descriptive use of trademarks. In essence, the trademark is the most efficient and universal purveyor of market information.[260]

Trademarks are but one segment of the market's vocabulary, for the marketplace trades on nonbranded information as well. As search terms and information shortcuts, trademarks constitute part of the stock of nouns in the lexicon, leaving ample space for other elements of market language. This is the area of general advertising. It covers all types of communication concerning products and market participants, whether related to trademarks and goodwill or whether consisting of the transmission of non-goodwill-related information. In this respect, as well, information economization is essential. It is evident that if information is unreliable, consumer decision making will remain in the dark. For trademark-based and nonbranded market information alike, it is true that without an "informal unwritten guarantee"[261] of information truthfulness, the market will not function. Information economization therefore constitutes the common core of policies in both trademark and unfair

[258] William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & Econ. 265, 270 (1987); Robert N. Klieger, *Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection*, 58 U. Pitt. L. Rev. 790, 855 (1997); Stacey L. Dogan & Mark A. Lemley, *Trademark and Consumer Search Costs on the Internet*, 41 Hous. L. Rev. 777, 813 (2004); Robert G. Bone, *Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law*, 86 B. U. L. Rev. 547, 556 (2006). For prominent case law, *see, e.g.*, *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 198 (1985) ("[T]rademarks foster competition and the maintenance of quality by securing to the producer the benefits of a good reputation.").

[259] *See* George J. Stigler, *The Economics of Information*, 69 J. Pol. Econ. 213, 224 (1961) ("'Reputation' is a word which denotes the persistence of quality, and reputation commands a price (or exacts a penalty) because it economizes on search."). *See also* Stephen L. Carter, *The Trouble with Trademark*, 99 Yale L.J. 759, 763 (1990); Roger Van den Bergh & Michael Lehmann, *Informationsökonomie und Verbraucherschutz im Wettbewerbs- und Warenzeichenrecht*, 1992 GRUR Int. 588, 592.

[260] William P. Kratzke, *Normative Economic Analysis of Trademark Law*, 21 Mem. St. U. L. Rev. 199, 216 (1991); *see also* Karl-Heinz Fezer, *Markenrecht*, Einl D para. 1 *et seq.* (4th edn., 2009); Sypros Maniatis & Dimitris Botis, *Trade Marks in Europe: A Practical Jurisprudence* para. 6–157 (2nd edn., 2010).

[261] *See again* George A. Akerlof, *The Market for "Lemons": Quality Uncertainty and the Market Mechanism*, 84 Quarterly J. Econ. 488, 500 (1970). More extensively also *supra* p. 287 *et seq.*

competition law. Most abstractly, we can say that both sectors, together, establish and uphold the market's information infrastructure.

2 Beyond Confusion: Alternative Theories of Trademark Protection

But additional policies exist in both trademark and unfair competition law. These policies, especially with respect to trademark protection, are also relevant for the construction of the marketplace's information infrastructure. As we have seen,[262] trademark doctrine in particular has recently undergone a process of propertization. Among the most heavily criticized aspects of this development is the emergence of non-confusion-based infringement theories. Antidilution theory, as well as initial-interest and postsale confusion theories, may cover instances where consumers are deceived or confused. Under all theories, however, an infringement can also be found *without* actual consumer confusion at the point of sale. By this means, theory and practice in the United States and Europe have come to integrate ever more aspects of protection that are disconnected from the fields' common core policy.

Of course, it is possible to see antidilution doctrine as also preventing a specific aspect of consumer confusion.[263] One can argue that by preventing distinctive trademarks from being watered down, enjoining dilutive uses also protects the public's and the consumer's interest in efficient transacting.[264] Yet even if one acknowledges this explanation, it is not the direct impact on consumer decision making that will qualify dilution as a violation of market information norms. After all, there is no transmission of genuinely *incorrect* information, and the consumer's immediate transaction generally remains presumptively rational. Detriments will materialize only in the long run, if at all. In principle, this is also the case in situations of initial-interest and postsale confusion.[265] As it appears, the consumer makes a transactional decision without having been misled by incorrect information.

[262] *See supra* chapter 1 *passim* and chapter 2 *passim*.

[263] Landes and Posner have explained the potential for confusion in situations of dilutive trademark use. The consumer, when seeing the dilutive mark, will think both of the owner and the diluter. This will "water down" the connotations of the famous original. Mere blurring, however, is not the kind of confusion that confusion prevention policy aims at. *See* William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J. L. & Econ. 265, 307 (1987). *See also Ty Inc. v. Perryman*, 306 F.3d 509, 510 and 511 (7th Cir. 2002) (Posner, J.).

[264] *See, e.g.*, Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 Yale L.J. 1687, 1704 and n. 90 (1999); Stacey L. Dogan & Mark A. Lemley, *What the Right of Publicity Can Learn from Trademark Law*, 58 Stan. L. Rev. 1161, 1197–1198 (2006).

[265] For more details, *see infra* p. 350 *et seq*.

Indeed, it is this detachment from traditional unfair competition doctrine that brings alternative theories of trademark protection closer to other scenarios of intellectual property protection. As is often explained, the protection of intellectual property rights is designed to create scarcity in a certain public good in which it is ordinarily absent. In patent and copyright doctrine, this theory is commonplace.[266] For trademarks, the idea of scarcity is more complex. In general, the creation of scarcity is intended to release innovative and creative power on the side of prospective right owners and to spur production. However, there is no public interest per se in creating more trademark symbols. Rather, restrictions on trademark use under a theory of preventing consumer confusion create scarcity for a single reason: to establish and maintain transparency in the marketplace.[267] Yet alternative theories of trademark-as-property protection have changed this picture to gray. For non-confusion-related instances of trademark protection, scarcity is, in fact, also artificially created. But this is intended to promote the creation of value beyond informational transparency. The goodwill protected does not serve as a navigation instrument to aid the consumer's marketplace search. It is an additional value—a "surplus," so to speak, that the trademark provides. Protecting famous and well-known trademarks against appropriation by a competitor (absent consumer confusion) provides an incentive for the owner to create or add to the symbol's prestige by constantly shaping its image and exclusivity.[268] Let us recall Brown's famous illustration:

> The buyer of an advertised good buys more than a parcel of food or fabric; he buys the pause that refreshes, the hand that has never lost its skill, the priceless ingredient that is the reputation of its maker. All these may be illusions, but they cost money to create, and if the creators can recoup their outlay, who is the poorer?[269]

[266] *See, e.g.*, Boudewijn Bouckaert, *"What is Property?,"* 13 Harv. J.L. & Pub. Pol'y 775, 797 *et seq.* (1990) (with further references).

[267] *See, e.g.*, William P. Kratzke, *Normative Economic Analysis of Trademark Law*, 21 Mem. St. U. L. Rev. 199, 204 (1991).

[268] William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J. L. & Econ. 265, 307–308 (1987); Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 Tex. L. Rev. 1031, 1057 (2005); Jeremy N. Sheff, *Veblen Brands*, 96 Minn. L. Rev. 769, 822 (2012). For the terminology of "surplus value," *see* Rochelle Cooper Dreyfuss, *Expressive Genericity: Trademarks as Language in the Pepsi Generation*, 65 Notre Dame L. Rev. 397, 402–403 (1990).

[269] Ralph S. Brown, Jr., *Advertising and the Public Interest: Legal Protection of Trade Symbols*, 57 Yale L.J. 1165, 1181 (1948); *see also* Eugen Ulmer, *Warenzeichen und unlauterer Wettbewerb in ihrer Fortbildung durch die Rechtsprechung* 29 (1929); Walter R. Schluep, *Das Markenrecht als subjektives Recht* 345 *et seq.* (1964). Finally also, in the hearty language of a US federal judge, Alex Kozinski, *Trademarks Unplugged*, 68 N.Y.U. L. Rev. 960, 970 (1993).

The creation of such surplus goodwill and the corresponding premium that the consumer must pay is not directly compensated by a concurrent savings in search costs. Rather, it is a true excess payment—in economic terms, it is the creation of deadweight losses. More concretely, the consumer pays for exclusivity, scarcity, prestige, or other aspects that are not directly related to the product's qualities. This is actually a paradigmatic characteristic of other kinds of intellectual property, particularly copyrights and patents.[270] Hence, what we can term the surplus goodwill of a trademark is a subject matter different from the information capital required to navigate the marketplace. Accordingly, it is protected under an alternative policy more akin to those underlying copyright and patent laws.

To avoid misunderstanding, of course, we must keep in mind that the parallels to copyright and patent protection are not absolute. Antidilution doctrine provides a good example of the aim to prevent, as Barton Beebe explains, the exhaustion of trademark utility by copying: if branded products are copied dilutively, the trademark will ultimately lose its distinctive character and value.[271] In this respect, alternative trademark policy differs crucially from the general ideology underlying other sectors of intellectual property law. While it is commonly acknowledged that use of patented inventions and copyrighted works is inexhaustible and nonrivalrous, the quality and quantity of rivalrous trademark uses do affect rights in and use of the original symbol.[272]

Against this backdrop, it is also evident that despite a certain detachment from information economization, the ensuing "property rights" in trademarks and goodwill remain competition related. The umbilical cord between the trademark right and its creating mechanism—marketplace competition—cannot be cut. The value protected under theories other than information economization is still connected to market information.

[270] Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 Tex. L. Rev. 1031, 1059 (2005); Mark A. Lemley & Mark P. McKenna, *Owning Mark(et)s*, 109 Mich. L. Rev. 137, 179 (2010).

[271] Barton Beebe, *Intellectual Property Law and the Sumptuary Code*, 123 Harv. L. Rev. 809, 847 (2010).

[272] Thomas Jefferson famously expressed the idea that intellectual creations are inexhaustible and nonrivalrous in a letter to Isaac McPherson. *See* Thomas Jefferson, *Letter to Isaac McPherson (Monticello, 13 August 1813)*, 326, 334, in 13 *The Writings of Thomas Jefferson* (Albert Ellery Bergh ed., 1905) ("He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening me."). For the difference regarding the traditional trademark doctrine of confusion prevention, *see* William M. Landes & Richard A. Posner, *The Economic Structure of Intellectual Property Law* 172–173 (2003); Florent Thouvenin, *Funktionale Systematisierung von Wettbewerbsrecht (UWG) und Immaterialgüterrechten* 267–268, 355 *et seq.*, 525 *et seq.* (2007).

In other words, generating goodwill under the theories of dilution prevention and of initial-interest and postsale confusion requires establishing and upholding a brand image in the marketplace that is strong enough to warrant protection. Here, too, the consumer's mind determines the extent of trademark protection. The trademark's "psychological hold upon the public" is what qualifies as protectable subject matter.[273]

3 Two Sides of the Coin: Law and Equity in Market Communication

Seeing trademark protection as based on the overarching concept of market communication implies an inseparability of private rights and public policy. This was demonstrated by Ulmer's reconciliation model. He may not have done away with the dominant individual rights perspective in trademark law.[274] However, his concept did contain an important qualification of the value that was to be protected under trademark and unfair competition law. He actually replicated the common law dichotomy between law and equity, whereby the trademark owner is assigned a legal title from the time of registration—but, in the end, equity is what determines her scope of rights. A closer look at the policies at stake helps formulate a more exact metric.

Confusion prevention theory provides for a simple equation. The trademark owner is protected as far as the relevant consumer group is at risk of being confused by a third party's use of the trademark. The scope of protection is not a static measure; rather, it depends on different parameters. The domain of the right owner may vary according to the target group and to the owner's investment, especially her past activities in the marketplace. The goodwill may have a different value depending on the psychological connection that exists between a trademark's or a market participant's reputation and the relevant group of consumers.[275] Such a two-sides-of-the-coin perspective is common in US doctrine,[276] where the right owner's equitable position has traditionally been protected under a system of use-based—and thus, ultimately, also market-related—rights.[277] And civil law doctrine is no longer much different.

[273] Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 Harv. L. Rev. 813, 818 (1927). Similarly, in Brown's words, the owner of the "persuasive symbol . . . has stored up in a number of persons' brain cells some degree of desire to buy goods bearing the symbol." Ralph S. Brown, Jr., *Advertising and the Public Interest: Legal Protection of Trade Symbols*, 57 Yale L.J. 1165, 1191 (1948); Walter R. Schluep, *Das Markenrecht als subjektives Recht* 345 *et seq.* (1964); more recently, Mark A. Lemley & Mark P. McKenna, *Owning Mark(et)s*, 109 Mich. L. Rev. 137, 153–154 (2010).

[274] *See supra* p. 42–46.

[275] This aspect is also reflected in its most extreme variation: if a trademark evolves into a generic term, its goodwill vanishes. It is then, once again, the perception of the relevant consumer group that determines the (non)existence of rights.

[276] *See supra* p. 326–327. [277] *See supra* p. 94 *et seq.*

A similar interrelation between scope of rights and substantive law policy was lucidly explained in the Court of Justice's 1993 decision in *Deutsche Renault v. AUDI*:

> A trade-mark right as an exclusive right and protection against marks giving rise to risk of confusion are in reality . . . two sides of the same coin: reducing or extending the scope of protection against the risk of confusion simply reduces or extends the scope of the right itself.[278]

The nonexistence of a goodwill paradigm and a different policy foundation of the registered-rights model have led to an initial neglect of the equitable nature of rights in European civil law doctrine. A slightly modified perspective, however, allows us to also understand the trademark owner's right as a legal title: the applicant or registrant may be the formal proprietor from the time of application or registration. Nonetheless, it is market information capital that ultimately determines the scope of her right.

Prima facie, this issue appears more complicated with regard to theories of non-confusion-based infringement. These theories implement different policies of rights acquisition and protection. Yet even though information economization may not be their primary focus, these alternative theories also contribute to the protection of market information capital. The trademark owner's right in the brand symbol and its use will ultimately also depend on goodwill—albeit goodwill of a different quality. Any impact on this capital, be it through dilutive use, a bait-and-switch scheme, or invasion of trademark scarcity and exclusivity, will be effectuated by direct communication with the consumer.

This correlation, however, is not yet fully clarified. Initially, European trademark law focused on a trademark's guarantee of the identity of origin as its essential function.[279] Yet an analysis in light of non-confusion-based theories also considers other trademark functions.[280] As explained earlier,

[278] *Deutsche Renault AG v AUDI AG*, C-317/91, para. 31 (30 November 1993), [1993] E.C.R. I-6227.

[279] For the essential function of indicating origin, *see, e.g., O2 Holdings and O2 (UK)*, C-533/06, para. 57 (12 June 2008), [2008] E.C.R. I-4231; *Philips*, C-299/99, para. 30 (18 June 2002), [2002] E.C.R. I-5475; *CNL-SUCAL v. HAG* ("HAG II"), C-10/89, para. 13–14 (17 October 1990), [1990] E.C.R. I-3711.

[280] *See, e.g.*, Rupert Schreiner, *Die Dienstleistungsmarke—Typus, Rechtsschutz und Funktion* 451 *et seq.* (1983); Michael Lehmann, *Die wettbewerbswidrige Ausnutzung und Beeinträchtigung des guten Rufs bekannter Marken, Namen und Herkunftsangaben—Die Rechtslage in der Bundesrepublik Deutschland*, 1986 GRUR Int. 6, 17; Frauke Henning-Bodewig & Annette Kur, *Marke und Verbraucher—Funktionen der Marke in der Marktwirtschaft, vol. I: Grundlagen* 8–9, 278 and *passim* (1988); Thomas Schönfeld, *Die Gemeinschaftsmarke als selbständiger Vermögensgegenstand eines Unternehmens—Eine rechtsdogmatische und ökonomische Analyse zur Property-Rights-Theory* 170 *et seq.* (1994).

the Court of Justice further specified and amended the list in *L'Oréal* and *Google France*:

> [Trademark] functions include not only the essential function of the trade mark, which is to guarantee to consumers the origin of the goods or services ("the function of indicating origin"), but also its other functions, in particular that of guaranteeing the quality of the goods or services in question and those of communication, investment or advertising.[281]

It is particularly the advertising and investment function that requires qualification. In this regard, as the Court of Justice elaborated in *Interflora*, the "advertising" function of a trademark is the owner's "opportunity of using [her] mark effectively to inform and win over consumers."[282] In addition, the investment function—though possibly overlapping with the advertising function—empowers "its proprietor to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty."[283] Reading this literally, one might expect the trademark owner to be allowed to skim all profits ensuing from investment in the trademark.[284] But this would neglect the trademark's roots in market communication. *Interflora* highlights this point: as the court explained, the investment function of a trademark will be invaded only if its reputation is affected and maintenance of the reputation is jeopardized.[285] No detrimental effect can be found if use of the trademark occurs "in conditions of fair competition that respect the trade mark's function as an indication of origin" and if "the only consequence of that use is to oblige the proprietor of that trade mark to adapt its efforts to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty."[286] This understanding of the investment function implies that the right embodies its owners' goodwill as the active and

[281] *Google France and Google*, C-236/08, 237/08, and 238/08, para. 77 (23 March 2010), [2010] E.C.R. I-2417; *L'Oréal and Others*, C 487/07, para. 58 (18 June 2009), [2009] E.C.R. I-5185.

[282] *Interflora and Interflora British Unit*, C-323/09, para. 59 (22 September 2011), [2012] E.T.M.R. 1.

[283] *Id.* at para. 60.

[284] This has been brought forward, for example, in situations of keyword advertising where trademark owners have no choice but to "buy" their own trademarks as keywords from search-engine providers. The ensuing reduction of trademark earnings might be seen as contravening the owner's interest in trademark investment and the corresponding trademark function. *See, e.g.*, Ansgar Ohly, *Keyword Advertising auf dem Weg zurück von Luxemburg nach Paris, Wien, Karlsruhe und Den Haag*, 2010 GRUR 776, 781; for the dangerous openness of the concept, however, *see* Jonathan Cornthwaite, *Say It with Flowers: The Judgment of the Court of Justice of the European Union in Interflora v. Marks & Spencer*, 34(2) EIPR 127, 132 (2012).

[285] *Interflora and Interflora British Unit*, C-323/09, para. 63 (22 September 2011), [2012] E.T.M.R. 1.

[286] *Id.* at para. 64.

effective information capital in the marketplace only. Accordingly, investment in a trademark is protectable only within the confines of the trademark's capacity as a search term and instrument of market communication.[287] What determines the scope of rights is the trademark's being part and parcel of marketplace information infrastructure—ultimately, only directly communication-related investment matters.[288]

Seen in this light, the European understanding of trademark rights resembles Brown's allegory of the trademark as a bridge for advertising.[289] A trademark establishes communicative relationships between market participants and serves as an information-transmission instrument. The value protected is the information capital as a keystone of the information infrastructure within the marketplace. Formal rights, as ironclad as they may have been described to be under statutory or judge-made rules, will never be absolute. It is the relativity of market conditions and the equities of goodwill that determine their boundaries.

C Summary

The illustration in Figure 2 (on the next page) summarizes the policies at stake in the fields of trademark and unfair competition law.

The common core of protective purposes in trademark and unfair competition law is information economization. This is competitor-consumer relations at the vertical level of the competitive process. In this respect, trademark rights are legal entitlements and are just a formal shell. The equitable substance is provided for by trademark and unfair competition law's core policy of confusion prevention. I have characterized the information capital at stake in these cases as navigation goodwill.[290] Beyond this core area, the two fields harbor additional policies. Theories of non-confusion-based trademark infringement have been developed in order to protect surplus goodwill. Here, information economization has fallen out of the picture. Nevertheless, non-confusion-based theories are still founded on market information and its transmission to the consumer. As we will see, therefore, all communication-based theories of trademark

[287] For the search-term characterization, *see id.* at para. 44.

[288] *See also Smith v. Chanel, Inc.*, 402 F.2d 562, 568 (9th Cir. 1968) ("A large expenditure of money does not in itself create legally protectable rights.").

[289] Ralph S. Brown, Jr., *Advertising and the Public Interest: Legal Protection of Trade Symbols*, 57 Yale L.J. 1165, 1187 (1948) ("The symbol itself then becomes a vital link. It is a narrow bridge over which all the traffic powered by the advertising must pass. If an imitator can seize the bridge, he can collect the rich toll."). *See also* Wolfgang Fikentscher, *Wettbewerb und gewerblicher Rechtsschutz—Die Stellung des Rechts der Wettbewerbsbeschränkungen in der Rechtsordnung* 140 (1958) ("Brücke zum Kunden").

[290] The trademark register reflects a slightly divergent doctrine. *See supra* p. 42–46.

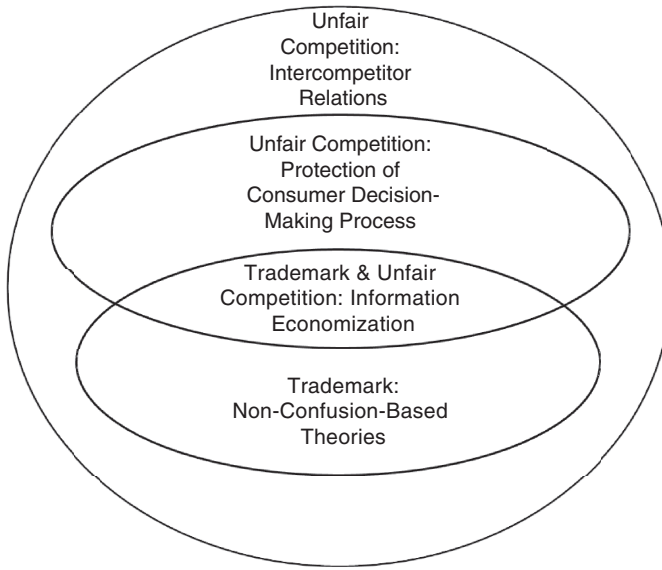

Figure 2 The Interrelation of Trademark and Unfair Competition Policies

and unfair competition law are subject to a similar structure of choice-of-law and conflicts rules. The outer rim of policies in unfair competition law, finally, is the protection of fairness in intercompetitor relations. This is the domain of non-information-based regulation of competitive activities—the horizontal level of the competition process. Since scenarios of this kind are situated beyond the market mechanism of consumer decision making, they are usually governed under genuine tort conflicts rules.

Section 3 Application—Functional Structures in Trademark and Unfair Competition Doctrine

The following dissection of trademark and unfair competition policies will lay the groundwork for the resolution of choice-of-law questions in the last chapter. It will take a closer look at different scenarios of trademark infringement and unfair competition violations, pointing out the respective functional structures of the policies involved. Independent of national law peculiarities and differences in substantive law doctrine, a functional perspective of international trademark and unfair competition disputes provides a consistent and comprehensive guideline for choice-of-law and conflicts analysis.

I Trademark Protection

By looking at information infrastructure and its function in the marketplace, we can identify two different kinds of information capital or goodwill. The traditional passing off and confusion prevention policy protects "navigation goodwill," which is utilized by the consumer to navigate the market. The subject matter of protection under alternative theories of trademark law, by contrast, concerns "surplus goodwill," which comprises all other instances of protection under modern theory that are not founded primarily on the idea of preventing consumer confusion.

A Navigation Goodwill: Confusion-Based Infringement Theory

At their core, the fields of trademark and unfair competition law serve the same purpose: protecting free and unhindered consumer decision making, which is the quintessence of competition. This protection determines trademark right extensions and competition fairness standards. US doctrine in both areas remains founded on a practical concept of trade diversion by confusion. While search-cost analysis has taken over in legal theory, the notion of goodwill has come to capture the common functions of trademark protection and unfair competition prevention in practice. The proprietary goodwill of the owner and the psychological goodwill in the public's mind is the object of protection. Even though the debate over propertization and the misgivings of extending trademark rights is far from resolved, the concept of goodwill has remained the ultimate connection between individual rights, markets, and competition.[291] In Europe, by contrast, trademark and unfair competition doctrines have never been comparably linked by a common denominator. Although there have been attempts to overcome the separation, the dichotomy has, to date, remained almost insurmountable. One major reason may be the lack of a technical concept functionally similar to goodwill. Indeed, a comparison of the systems suggests that the interrelatedness of confusion prevention and rights protection could far more easily be constructed and explained under the concept of trademark goodwill than under the civil law doctrine of state-granted privileges and conduct regulation.[292] Notwithstanding these differences in doctrinal instruments, US and European regimes have both moved toward a common core policy of protecting consumer decision making. Indeed, looking at the systems in total, the idea of protecting the market mechanism by establishing conditions for optimal consumer transacting can be explained as a transnationally uniform paradigm. With respect to

[291] *See supra* p. 121 *et seq.* [292] *See supra* p. 27 *et seq.*, p. 64 *et seq.*, and *passim*.

trademarks, information capital provides for consumer navigation within the marketplace. Since the consumer is the one who determines the individual market transaction, impact on information capital will occur at the place of consumer decision making—or, more precisely, at the place where the consumer turns her decision into a market transaction. This, as we will see in chapter 6, is determinative for attachment in choice of law.

B Surplus Goodwill: Non-Confusion-Based and Time-Shifted Infringement Theories

The consumer's decision-making process is similarly central for conflicts resolution on issues arising under alternative theories of trademark protection. Yet the doctrinal and structural foundations are different. For a clear determination of the point of attachment in choice of law, we must dissect the relevant subject matter of protection. As discussed earlier, trademark rights have been extended beyond the concept of confusion prevention. Examples include the practical recognition of actionable confusion prior to and after the point of sale, as well as antidilution theory. Regardless of whether these theories adequately fit into a balanced system of trademark protection, none of the alternative concepts will diverge from the confusion prevention doctrine insofar as the consumer always stands at the center of infringement analysis. Alternative theories of trademark protection, therefore, are accordingly founded on policies designed to protect the market information infrastructure. This is what ultimately also matters for choice of law and conflicts resolution.

1 Antidilution Doctrine

As discussed earlier, US and European trademark and unfair competition laws have extended infringement theories beyond the idea of confusion at the point of sale. The development of antidilution doctrine in particular has pushed the protection of trademark goodwill beyond the strict limitations of consumer confusion. Different types of dilution have been acknowledged ever since Frank I. Schechter laid the doctrinal foundation in 1927 with his explanation of trademark uniqueness and singularity as a protectable value.[293] The determinative issue for all types is whether the dilutive use of a famous trademark results in a deterioration of distinctiveness. Under US doctrine, a trademark's distinctiveness (i.e., its ability to clearly distinguish the source of a product) can be reduced through blurring or

[293] *See* Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 Harv. L. Rev. 813, 831 (1927). *See also supra* p. 117–121.

tarnishment.[294] Both variants require probable harm or injury to the mark.[295] Dilution by blurring further requires that the mark's ability to denote only one source of the product be diminished by third parties' use in a nonconfusing way.[296] Here, the harm involved is not due to what traditional doctrine describes as consumer confusion.[297] Rather, it is due to the actual or potential erosion of trademark strength—the weakening of consumers' mental association between mark and product.[298] Dilution by tarnishment occurs where the unauthorized use of a trademark has the potential to degrade positive consumer associations of the mark, thereby harming its reputation.[299] Sometimes, in addition to blurring and tarnishment, a third variant of dilution has been suggested: free riding on a famous trademark's reputation may also be found to improperly appropriate the owner's goodwill.[300] As in the United States, blurring and tarnishment are two recognized forms of dilution in European law. In addition, the Court of Justice has expressly acknowledged a doctrine of free riding and misappropriation prevention wherever a defendant takes "unfair advantage of the distinctive character of the repute of [a] trade mark."[301] Under European

[294] *See, e.g.*, Restatement of the Law—Unfair Competition (Third), § 25 and comment c (1995); *further also, e.g.*, 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 24:67 (4th edn., 2016); Stacey L. Dogan & Mark A. Lemley, *Trademark and Consumer Search Costs on the Internet*, 41 Hous. L. Rev. 777, 790 *et seq.* (2004).

[295] 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 24:67 (4th edn., 2016).

[296] Restatement of the Law—Unfair Competition (Third), § 25, comment c (1995); 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 24:69 (4th edn., 2016).

[297] This issue is not uncontested, however. Some courts have identified dilution and confusion as different aspects of the same phenomenon. *See, e.g., Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 219 (2nd Cir. 1999). For Europe, a similar doctrine has been described. *See, e.g., Davidoff*, C-292/00, para. 30 (9 January 2003), [2003] E.C.R. I-389; Reinhard Ingerl & Christian Rohnke, *Kommentar zum Markengesetz: Gesetz über den Schutz von Marken und sonstigen Kennzeichen*, § 14 para. 1282 (3rd edn., 2010).

[298] *See, e.g., Mead Data Cent., Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026, 1031 (2nd Cir. 1989). For the argument that dilution increases consumer search costs, *see* Richard A. Posner, *When Is Parody Fair Use?*, 21 J. Legal Stud. 67, 75 (1992); Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 Yale L.J. 1687, 1704 (1999).

[299] *See, e.g., Hormel Foods Corp. v. Jim Henson Productions, Inc.*, 73 F.3d 497, 507 *et seq.* (2nd Cir. 1996); *see also* 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 24:89 (4th edn., 2016).

[300] *See, e.g., Ty Inc. v. Perryman*, 306 F.3d 509, 512 (7th Cir. 2002) (Posner, J.); *see also* William M. Landes & Richard A. Posner, *The Economic Structure of Intellectual Property Law* 206 *et seq.* (2003).

[301] *See, e.g., Intel Corporation*, C-252/07, para. 27–28 (27 November 2008), [2008] E.C.R. I-8823; *L'Oréal and Others*, C 487/07, para. 38 *et seq.* (18 June 2009), [2009] E.C.R. I-5185; *Interflora and Interflora British Unit*, C-323/09, para. 74 (22 September 2011), [2012] E.T.M.R. 1. For German law, *see, e.g.*, BGH 2010 GRUR 726—*Opel-Blitz II* (14 January 2010).

law, therefore, "exploitation on the coat-tails of a mark with a reputation" may suffice for an infringement; actual injury to the famous mark is not required.[302]

This typology reflects a principal distinction between two markets that can be affected by dilutive trademark use.[303] In the first market, where the famous mark functions as a product signifier, dilutive use will only indirectly affect consumer decision making. The idea is not to prevent consumer confusion in the direct sense—it is to prevent the long-term loss in efficiency of market information. When the consumer sees, for instance, a "Tiffany" fast-food restaurant or a "Chanel" used-car dealer, she will think both about the original trademark owner and the restaurant or car dealer. Even though she will not be confused, connotations of the name might blur and the trademark's communicative value for its owner could diminish. Detrimental effects to the consumer's perception will develop only after illegitimate use of a trademark has been made. Over time, the trademark may lose its function as an extraordinary signifier of quality and source.[304] With respect to antidilution doctrine in the second market—that is, the market for the diluter's product—a different rationale governs. Here, under both European doctrine and parts of US theory, a policy of preventing misappropriation, free riding, and parasitism plays the most significant role. The primary legal purpose is not to reduce search costs but to prevent unjust enrichment and misappropriation of another's investment.[305]

Conflicts law does not need to clarify whether the protection of surplus goodwill is sound. What must be done instead is the spelling out of the exact structural foundation of protecting information capital.

[302] *L'Oréal and Others*, C 487/07, para. 43 (18 June 2009), [2009] E.C.R. I-5185; *Interflora and Interflora British Unit*, C-323/09, para. 74 (22 September 2011), [2012] E.T.M.R. 1. For an extensive critique, *see, e.g.*, Seán Mc Guinness, *Observations on free riding after L'Oréal v. Bellure*, 7 J. Intell. Prop. L. & Pract. 890, 892 *et seq.* (2012).

[303] It is important to note, however, that cases of trademark dilution can also occur within a single market. *See supra* fn. 297.

[304] *See* Robert N. Klieger, *Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection*, 58 U. Pitt. L. Rev. 789, 823–828 (1997); Stacey L. Dogan & Mark A. Lemley, *The Merchandising Right: Fragile Theory or Fait Accompli?*, 54 Emory L.J. 461, 493–494 (2005); *but cf.* Chris Brown, *A Dilution Delusion: The Unjustifiable Protection of Similar Marks*, 72 U. Cin. L. Rev. 1023, 1038–1039 (2004) (citing psychology evidence that a mental processing of related uses may strengthen rather than blur the brand-association power); *see also* Graeme W. Austin, *Trademarks and the Burdened Imagination*, 69 Brook. L. Rev. 827, 904–905 (2004) (questioning traditional perceptions of limited consumer thoughtfulness).

[305] *See, e.g.*, David S. Welkowitz, *Reexamining Trademark Dilution*, 44 Vand. L. Rev. 531, 545–546, 560 *et seq.* (1991); Anselm Kamperman Sanders, Unfair Competition Law—The Protection of Intellectual and Industrial Creativity 94 (1997); David J. Franklyn, *Debunking Dilution Doctrine: Toward a Coherent Theory of the Anti-Free-Rider Principle in American Trademark Law*, 56 Hastings L.J. 117, 118 (2004).

If surplus goodwill is captured through the dilutive (ab)use of a trademark, depending on the perspective, the infringement may be found in two different ways. It could be based on either the potential diminution of information capital (in other words, the trademark's distinctiveness) in the original brand's market or the misappropriation of information capital for the purpose of transacting in a different market (the marketplace where the second-comer's product is marketed). As my conflicts typology for dilution scenarios in chapter 6 will reveal, it is the *situs* of the respective goodwill substance that matters for determining the applicable law.

2 *Temporal Extensions of Goodwill Protection*

In addition to antidilution doctrine, trademark-as-property protection has been extended under at least two more theories: initial-interest confusion and postsale confusion. Typical cases of confusion affect the consumer's mind and decision making at the point of sale. With initial-interest and postsale confusion, however, confusion occurs before and after the point of sale, respectively. To accommodate these scenarios, US case law has extended trademark infringement theory accordingly. For its part, European trademark practice has been more cautious in considering such incidents for the issue of trademark infringement.[306] The bulk of initial-interest and postsale confusion cases, particularly in German doctrine, tends to be covered by norms of unfair competition prevention.[307]

a Postsale Confusion Succinctly defined, postsale confusion is confusion experienced by the consumer upon viewing the trademarked product after purchase. In principle, postsale confusion theory—similar to point-of-sale confusion—is founded on the idea of information truthfulness. One variation is bystander confusion, which comprises sales to nonconfused consumers who use the product in the company of potential

[306] A modest beginning of postsale confusion analysis seems to be found in the Court of Justice's *Arsenal* judgment, in which the judges explained that the alleged infringer's notice to his customers that his goods "are not official Arsenal FC products" would not suffice to avoid confusion since "there [was] a clear possibility . . . that some consumers, in particular if they come across the goods after they have been sold . . ., may interpret the sign [on the goods] as designating Arsenal FC as the undertaking of origin of the goods" (*Arsenal Football Club plc v. Matthew Reed*, C-206/01, para. 56–57 (12 November 2002), [2002] E.C.R. I-10273). But this judgment remained virtually the only attempt to give regard to postsale confusion aspects. For an overview on the Court of Justice's judgments and European national laws, *see* Olaf Sosnitza, *Nach dem Spiel ist vor dem Spiel—Das Konzept der „Post-Sale Confusion" im Common Law, im europäischen und im deutschen Markenrecht*, 1 ZGE 457 (2009).

[307] I will address these scenarios in the typology *infra* p. 556–560. Thus far, a structural analysis will suffice.

purchasers who are or might be confused regarding the source of the product. If these potential purchasers, by viewing the product, do or could acquire a negative impression of its qualities and thus refrain from a transaction, the injury to the trademark owner is clear.[308] A similar problem exists with downstream confusion, in which the nonconfused purchaser resells the product in a secondary market, where the sale results in consumer confusion.[309] Even though the impairment occurs during and through the postsale spreading of incorrect information,[310] the scenario of potential damage to the trademark's goodwill is still founded on a genuine concept of consumer misinformation.

Practice, however, has extended the doctrine to situations where the risk of confusion is doubtable or even nonexistent.[311] In this regard, as with antidilution doctrine, a different category of goodwill is affected. The decision of the US Court of Appeals for the Sixth Circuit in *Ferrari S.P.A. v. Roberts*[312] provides a telling example. The defendant had been selling construction kits for full-scale Ferrari replicas. Once assembled, the kits were to be attached to the chassis of other cars. In this case, however, none of the purchasers were confused about the product's originality at the point of sale. Further, it seemed obvious that the kits, even once combined with the car chassis, could be reasonably distinguished from an original Ferrari. But the court majority nevertheless ruled that the likelihood-of-confusion test for trademark infringement was not limited to a finding of purchaser confusion. As the court explained, confusion of "members of the public" would suffice for finding an infringement.[313] It particularly emphasized the detrimental effects that a cheap imitation's poor appearance could have on the original's reputation for prestige and quality:

[308] A similar argument was made in the Supreme Court majority's *Steele* opinion. *See supra* p. 159 *et seq*.

[309] For bystander and downstream confusion, *see* Jeremy N. Sheff, *Veblen Brands*, 96 Minn. L. Rev. 769, 779 *et seq.*, 785 *et seq.* (2012).

[310] Robert G. Bone, *Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law*, 86 B. U. L. Rev. 547, 608 (2006). For the German doctrine of improper product imitation (section 4 no. 3 Unfair Competition Act (UWG)) and actual or potential damages, *see* BGH 1993 GRUR 55, 57 *et seq.—Tchibo/Rolex II* (17 June 1992).

[311] Prominent examples of cases where genuine consumer confusion is debatable include, *e.g.*, *Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-Le Coultre Watches, Inc.*, 221 F.2d 464 (2nd Cir. 1955), *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867 (2nd Cir. 1986), and *Ferrari S.P.A. v. Roberts*, 944 F.2d 1235 (6th Cir. 1991). *See also Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 218 (2nd Cir. 1999). For further analysis and critique, *see* Barton Beebe, *Intellectual Property Law and the Sumptuary Code*, 123 Harv. L. Rev. 809, 851 *et seq.* (2010); Jeremy N. Sheff, *Veblen Brands*, 96 Minn. L. Rev. 769 *passim* (2012).

[312] *Ferrari S.P.A. v. Roberts*, 944 F.2d 1235 (6th Cir. 1991). [313] *Id.* at 1245.

Since Congress intended to protect the reputation of the manufacturer as well as to protect purchasers, the [Lanham] Act's protection is not limited to confusion at the point of sale. Because Ferrari's reputation in the field could be damaged by the marketing of [the] replicas, the district court did not err in permitting recovery despite the absence of point of sale confusion.[314]

The court continued, sharing the district court's conception of scarcity and exclusivity protection:

If the country is populated with hundreds, if not thousands, of replicas of rare, distinct, and unique vintage cars, obviously they are no longer unique. Even if a person seeing one of these replicas driving down the road is not confused, Ferrari's exclusive association with this design has been diluted and eroded. If the replica Daytona looks cheap or in disrepair, Ferrari's reputation for rarity and quality could be damaged.[315]

In his dissenting opinion, Judge Kennedy pointed out the central issue of postsale confusion doctrine. He acknowledged that cases of actual post-sale confusion could ultimately transmit detrimental misinformation to the presale and point-of-sale levels. He had no doubt that if potential purchasers saw a cheap imitation or replica of the original, the original manufacturer's reputation might be damaged.[316] Yet, as he continued, the transfer of confusion among and over different stages of the consumer's decision-making process must find a limit in the fact that, under traditional doctrine, it is confusion with regard to a *purchase* that is required for finding an infringement. At the time of the court's decision, statutory causes of action under the Lanham Act were still limited to confusion prevention; there was no cause of action for dilution. The majority, as Kennedy concluded, had thus transformed traditional confusion theory into an *extra legem* version of antidilution protection and protection of product exclusivity and scarcity.[317]

Looking at the different scenarios of postsale confusion infringement, it is clear that the theory bears a distinct element of information-economization policy: bystanders may acquire incorrect impressions of the original's qualities when observing an imitation after the point of sale. Sales in downstream markets may ultimately also reflect negatively on consumers' perception of the original product. In both cases, incorrect

[314] *Id.* For the 1967 Lanham Act amendment removing language that limited liability to conduct confusing "purchasers," *see* Jeremy N. Sheff, *Veblen Brands*, 96 Minn. L. Rev. 769, 777 (2012).
[315] *Ferrari S.P.A. v. Roberts*, 944 F.2d 1235, 1245 (6th Cir. 1991).
[316] *Id.* at 1249–1250.
[317] *Id.* at 1250; *see also* Robert G. Bone, *Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law*, 86 B. U. L. Rev. 547, 611 (2006); Barton Beebe, *Intellectual Property Law and the Sumptuary Code*, 123 Harv. L. Rev. 809, 845 *et seq.* (2010).

information is transmitted and the consumer's decision making could, at least in the long run, be distorted by the deterioration of trademark information value. Quite often, however, consumers do not bear the slightest risk of either point-of-sale or postsale confusion—the market will then not be subject to misinformation. In these cases, the competing products are qualitatively equivalent or clearly distinguishable at the point of sale and in their postsale environments.[318] Nonetheless, courts have increasingly come to grant protection to prestigious and reputed trademarks in such cases. In these cases of so-called status confusion, it is not the information value of trademark communication but the social signaling function of the trademark that is protected. Here, the rationale differs, for it is based on the preservation of distinctiveness and reputation.[319] Ultimately, the brand is substituted for the product.[320] The trademark owner is selling the luxury and prestige of the product, not the product as such.[321] Trademark scarcity, exclusivity, and prestige ultimately constitute the surplus goodwill that is protected under an extended theory of postsale confusion.

In Germany and other European jurisdictions, similar cases of product imitation have been found actionable, albeit under a doctrine of unfair competition prevention.[322] I will address both postsale confusion and unfair imitation cases in more detail in an instant.[323]

[318] *See, e.g., Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-Le Coultre Watches, Inc.*, 221 F.2d 464 (2nd Cir. 1955); *Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-Le Coultre Watches, Inc.*, 119 F.Supp. 209, 213 *et seq.* (S.D.N.Y. 1954) (finding that no confusion existed at the point of purchase). For a concise overview, *see* Robert G. Bone, *Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law*, 86 B. U. L. Rev. 547, 607 *et seq.* (2006); for German law and a comparative analysis, *see* Olaf Sosnitza, *Nach dem Spiel ist vor dem Spiel—Das Konzept der „Post-Sale Confusion" im Common Law, im europäischen und im deutschen Markenrecht*, 1 ZGE 457–480 (2009).

[319] *See, e.g., Rolex Watch U.S.A., Inc. v. Canner*, 645 F.Supp. 484, 495 (S.D. Fla. 1986).

[320] Jeremy N. Sheff, *Veblen Brands*, 96 Minn. L. Rev. 769, 802 (2012). This is what Beebe has termed "fiat property": trademarks here have "no significant characteristic other than that they are property, that they are forms of exclusivity, of rarity, of difference." Barton Beebe, *Intellectual Property Law and the Sumptuary Code*, 123 Harv. L. Rev. 809, 888 (2010).

[321] *See also* most fittingly for French doctrine Paul Roubier, *Le Droit de la Propriété Industrielle, vol. II: Partie Spéciale* 515 (1954) ("Alors la marque n'apparaît plus seulement comme l'accessoire d'une marchandise, elle apparaît comme un bien principal, ayant une valeur propre par elle-même.").

[322] For the German *Rolex* case, *see infra* p. 370–373. As in *Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-Le Coultre Watches, Inc.*, 221 F.2d 464 (2nd Cir. 1955), and *Rolex Watch U.S.A., Inc. v. Canner*, 645 F.Supp. 484 (S.D. Fla. 1986), the case concerned an imitation of famous watches. *See* BGH 1985 GRUR 876—*Tchibo/Rolex* (8 November 1984); BGH 1993 GRUR 55—*Tchibo/Rolex II* (17 June 1992); *see also* BGH 2001 GRUR 443, 445—*Viennetta* (19 October 2000); BGH 2005 GRUR 349, 352—*Klemmbausteine III* (2 December 2004); BGH 2007 GRUR 795, 799—*Handtaschen* (11 January 2007). For Austria, *see, e.g.*, OGH 2001 GRUR Int. 793, 795–796—*Lego-Klemmbausteine* (24 October 2000).

[323] *See infra* p. 370–373.

b Initial-Interest Confusion Similar to the prohibition of initial-interest confusion under US trademark law, civil law unfair competition doctrine has established a prohibition on bait-and-switch schemes.[324] Both initial-interest confusion and bait-and-switch schemes are characterized by a common element of consumer diversion by improper information. The element of "misinformation," however, will usually dissolve before the consumer reaches the ultimate stage of decision making.[325] The inherent unfairness stops short of actual point-of-purchase confusion insofar as the consumer usually realizes her initial error, corrects a potential misperception, and ultimately transacts on the basis of correct and complete information. It appears as if no harm is done. Yet the trademark owner may still be injured: First, she may lose on sales if the consumer is actually diverted to a competitor. Second, she may suffer the loss of a sale if the consumer fails to complete a transaction with both the competitor and—as initially intended—the owner based on the assumption that the competitor's product (with inferior characteristics) was the original.[326]

Here as well, different scenarios must be distinguished. In the first, the consumer's confusion dissipates quickly and there is no cost attached to the reshifting of her attention to the original product, so she reorients herself. In the second, she stays with the violator, despite being aware of the difference in products. In both cases, initial-interest confusion may add an economically rational element to the process of decision making.[327] If the confusion dissipates early enough and at low enough costs, the initial disorientation will present just another alternative for transacting. Market information has not deteriorated. A typical example is internet advertising: even if the consumer has been improperly directed away from the original brand, she usually easily reorients herself and

[324] Bait-and-switch schemes are usually categorized as instances of unfair competitor hindrance; they are seldom debated under a rubric of trademark protection. *See, e.g.*, Olaf Sosnitza, *Nach dem Spiel ist vor dem Spiel—Das Konzept der „Post-Sale Confusion" im Common Law, im europäischen und im deutschen Markenrecht*, 1 ZGE 457, 483 (2009). For an equation of initial-interest confusion with bait-and-switch competition, *see, e.g.*, *Dorr-Oliver, Inc. v. Fluid-Quip., Inc.*, 94 F.3d 376, 382 (7th Cir. 1996). For so-called switch selling in English doctrine, *see, e.g.*, Christopher Wadlow, *The Law of Passing-Off—Unfair Competition by Misrepresentation* para. 7–058 *et seq.* (4th edn., 2011).

[325] *See, e.g., Eli Lilly & Co. v. Natural Answers, Inc.*, 233 F.3d 456, 464 (7th Cir. 2000); *Grotrian, Helfferich, Schulz, Th. Steinweg Nachf. v. Steinway & Sons*, 365 F.Supp. 707, 717 (S.D.N.Y. 1973).

[326] *See, e.g., Ferrari S.P.A. v. Roberts*, 944 F.2d 1235, 1249–1250 (6th Cir. 1991) (Kennedy, J., dissenting).

[327] Michael Grynberg, *Trademark Litigation as Consumer Conflict*, 83 N.Y.U. L. Rev. 60, 103 *et seq.* (2008).

completes the initially intended transaction.[328] The situation is different, however, in cases where the "switching costs" are so high that they keep the customer with the alleged violator. Whenever the inconvenience of initiating a new search for the genuine product is so substantial that the consumer will literally not "go out again" to search for the original, instead consummating her transaction with the violator, consumer decision making in the relevant market has been negatively affected.[329] An example of this situation is a billboard advertising a brand-name fast-food chain on the highway but actually directing the consumer to a far-away no-name establishment. Once there, the misguided consumer may stay with the fake.[330]

3 The Common Denominator

All theories of antidilution, postsale, and initial-interest confusion share a structural element: consumer perception determines whether an infringement has occurred. This reflects the fact that trademark rights remain grounded to the marketplace. In terms of information infrastructure, the trademark as a communication channel will begin its transmission as soon as—often even before—the branded product enters the market, and it will not stop transmission at the point of sale.

Two different scenarios can thus be distinguished. The first consists of cases where the consumer is actually or potentially confused. In these situations, the consumer's referee function is impeded; damage will occur as a result of distorted decision making and transacting. What is affected in these cases is navigation goodwill. The second scenario, by contrast, comprises cases where the consumer's market transaction remains unmanipulated in terms of information correctness and the freedom of decision making. These cases may be characterized as protecting a different category of trademark goodwill—concretely, surplus goodwill. Protection then especially focuses on a trademark's prestige, association-creating capacity, or scarcity-signaling properties.

What is important to note, however, is that despite the two categories' doctrinal differences, the relevant (mis)appropriation always takes a

[328] Stacey L. Dogan & Mark A. Lemley, *Trademark and Consumer Search Costs on the Internet*, 41 Hous. L. Rev. 777, 815 (2004); Robert G. Bone, *Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law*, 86 B. U. L. Rev. 547, 613 (2006). For such a constellation of internet advertising—yet, with the court holding in favor of claimants on the basis of passing off—*see Phones 4u Ltd. v. Phone4u.co.uk. Internet Ltd.* [2006] EWCA Civ 244, [2007] R.P.C. 5.

[329] *See* Stacey L. Dogan & Mark A. Lemley, *Trademark and Consumer Search Costs on the Internet*, 41 Hous. L. Rev. 777, 814 (2004).

[330] For choice of law in these scenarios, *see infra* p. 558–560.

detour through the consumer's mind. No matter which kind of goodwill is affected, dilutive uses and initial-interest and postsale confusion cases always constitute an appropriation of market information capital. There may be no direct loss to the right owner. Instead, the usurpation of her trademark's reputation suffices as an infringement. Hence, regardless of whether one wants to subscribe to the numerous rationales of alternative protection theories, they share a common characteristic: market information infrastructure is usurped.

In terms of choice of law as well, two categories must be distinguished. Some of the alternative categories still directly relate to the consumer's decision making. This is the case for initial-interest confusion if it prevents or impedes an unmanipulated decision. If the "confused" consumer is affected in her transacting by excessively high reorientation costs, the infringement at issue has ultimately diverted a transaction away from the market where it would have been consummated without manipulation. Hence, like in genuine confusion-based infringement theory, the market is affected at the place of alternative transactions. This is the place of attachment for conflicts determination. In the second category of alternative theories, substantive law policy is not necessarily focused on regulating a competitive relationship. This is the case for antidilution theory under a paradigm of preventing the watering-down of a famous trademark or for postsale status confusion. These categories are usually founded on the deterioration of information capital in a different market or at a later point. Regarding choice of law, it must accordingly connect to the place of damage to trademark distinctiveness, reputation, or scarcity. In principle, this place must be distinguished from the place where the concrete transaction occurs or where alternative transactions were supposed to occur. Even though, in practice, these places may often coincide, choice-of-law analysis must take note of the difference.[331]

II Unfair Competition Prevention

With regard to the information infrastructure of the marketplace, both trademark protection and unfair competition policies widely overlap. Beyond the common area of protecting the consumer's decision making on the basis of unmanipulated market information, however, a number of additional policies can be found in traditional unfair competition doctrine. I have already identified cases that concern intercompetitor relations at the horizontal level—this is related to the issue of what can be characterized a bilateral tort.[332] The following analysis of information

[331] *See infra* p. 556 *et seq*. [332] *See supra* p. 285–287.

infrastructure policies will allow us to further differentiate cases within the categories situated at the vertical level of the competition model.

A Recapitulation: Stages of Decision Making and Policy Differences

In practice, the bulk of scenarios covered by unfair competition doctrine concerns information transmission and collection. This is a part of the common domain of trademark and unfair competition law. The most common cases of misinformation beyond trademark infringement are those regarding otherwise confusing or deceptive advertising. In all these cases, information economization is at stake—in other words, protection of the first stage of the decision-making process.[333] Moreover, unfair competition law includes unfair practices that do not directly influence information transmission but that may still affect consumer decision making in subsequent stages. Examples include unsolicited home visits or phone calls, undue psychological pressure, and aggressive advertising.[334] In principle, none of these examples concern the transmission of incorrect information. What policy makers argue when cases of this kind are classified as unfair competition is that certain marketing methods may cut short the consumer's second thoughts or search for alternatives, causing her ensuing transaction to then be irrational. The distinction between what is acceptable and what exceeds the boundaries of due influence is part of an age-old debate on the benefits and detriments of advertising. In a sense, in many cases the issue is still, as Justice Holmes said almost a century ago, "a question of how strong an infusion of fraud is necessary to turn a flavor into a poison."[335] In addition, legal thought in some of these scenarios is influenced by concurrent concerns that relate only marginally to consumer decision making. The most often-referenced question may relate to the right to privacy: the prohibition of unsolicited phone calls is one example where a court

[333] For the stages of consumer decision making, *see supra* p. 287 *et seq*.

[334] For an illustration, *see, e.g.*, WIPO, *Protection Against Unfair Competition—Analysis of the Present World Situation*, WIPO Publ. no. 725(E), 65 *et seq.* (1994). *See also* recital 16 and annex 1 ("black list") of Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market and amending Council Directive 84/450/EEC, Directives 97/7/EC, 98/27/EC and 2002/65/EC of the European Parliament and of the Council and Regulation (EC) No 2006/2004 of the European Parliament and of the Council ("Unfair Commercial Practices Directive"), O.J. EU (11 June 2005), L 149/22 ("[P]ractices which significantly impair the consumer's freedom of choice . . . are practices using harassment, coercion, including the use of physical force, and undue influence.").

[335] *See International News Service v. Associated Press*, 248 U.S. 215, 247 (1918) (Holmes, J., dissenting).

decision may appear to be based on unfair competition, but where the substance is actually trespass to privacy. An exact demarcation of the different policies is difficult. Of course, an overly censorious perspective is arguably no longer adequate. After all, the modern consumer is seldom manipulated by officiousness, extra benefits, or giveaways to such an extent that her capacity to make rational decisions is obstructed. Yet the determination where admissible influence turns into undue manipulation may still vary depending on the national culture or other peculiarities.[336]

For choice of law, one thing is paramount: although we need not resolve all contested issues in substantive law, we must separate the policies actually or allegedly involved in the different categories of "unfairness." This is the necessary foundation for consistent conflicts attachment. The model of the competition process (with its triangular structure), as well as the market-mechanistic structure of relations at the vertical level, will guide the way. Accordingly, the remainder of the discussion will highlight substantive law policies and their impact on conflict law for the most common unfair competition scenarios.

B An Integrated Model of Unfair Competition Law (Including Passing Off)

As a consequence of the strong socialization tendencies during the twentieth century, European unfair competition law used to aim at protecting the "public interest" in many different respects. In order to explain conduct as "unfair," courts regularly referred to concerns such as public health, morality, and general decency. Quite often, the purpose of unfair competition prevention was seen as preventing undue deviations in competition in general (*Auswüchse des Wettbewerbs*).[337] Over time, however, a more focused perspective has come to dominate. Public interest, though still accepted as a concern of unfair competition law in principle, is limited

[336] *See, e.g.*, recital no. 7 Directive 2005/29/EC where the European lawmakers have explained that the Directive does not address "legal requirements related to taste and decency which vary widely among the Member States." Hence, "[c]ommercial practices such as, for example, commercial solicitation in the streets, may be undesirable in Member States for cultural reasons. Member States should accordingly be able to continue to ban commercial practices in their territory, in conformity with Community law, for reasons of taste and decency even where such practices do not limit consumers' freedom of choice."

[337] *See, e.g.*, BGH 1955 GRUR 541, 542—*Bestattungswerbung* (8 July 1955); BGH 1959 GRUR 285, 287—*Bienenhonig* (23 January 1959); BGH 1965 GRUR 315, 316—*Werbewagen* (4 December 1964); BGH 1970 GRUR 523—*Telefonwerbung I* (19 June 1970); *see also* Eugen Ulmer, *Das Recht des unlauteren Wettbewerbs in den Mitgliedsstaaten der Europäischen Gemeinschaft, vol. I: Vergleichende Darstellung mit Vorschlägen zur Rechtsangleichung (unter Mitwirkung von Friedrich-Karl Beier)* 49–50 (1965).

to the free and unhindered functioning of the market mechanism.[338] But even on the basis of this more economized doctrine, a problem persists. Particularly in European law, the fields of consumer protection and unfair competition have become increasingly intermingled.[339] Until today, the relation between freedom of competition and consumer protection appears almost inseparable. One example of this intermingling can be found in the 2005 UCP Directive's recitals:

> This Directive directly protects consumer economic interests from unfair business-to-consumer commercial practices. Thereby, it also indirectly protects legitimate businesses from their competitors who do not play by the rules in this Directive and thus guarantees fair competition in fields coordinated by it.[340]

Prima facie, the text prioritizes consumer concerns. It thereby appears to allow for—even require—an extension of consumer protection policies beyond the domain of mere decision-making autonomy.[341] Correspondingly, scholarly commentary has found a priority of consumer protection in both primary community law and secondary law unfair competition doctrine.[342] Proponents of this theory reject the

[338] *See, e.g.*, Wolfgang B. Schünemann, *Ökonomische Analyse der europäischen und deutschen Regelung*, 41 *et seq.*, in *Lauterkeitsrecht im Umbruch—Europa, Deutschland, Österreich* (Heinz Krejci et al. eds., 2005); Reto M. Hilty, Hans Caspar von der Crone & Rolf H. Weber, *Stellungnahme zur Anpassung des UWG: Ambush Marketing*, 2006 sic! 702, 704; Wolfgang B. Schünemann, in *Gesetz gegen den unlauteren Wettbewerb (UWG)*, UWG § 1 para. 61 *et seq.* (Henning Harte-Bavendamm & Frauke Henning-Bodewig eds., 3rd edn., 2013).

[339] For an overview, *see, e.g.*, Marlene Schmidt, *Zur Annäherung von Lauterkeitsrecht und Verbraucherprivatrecht*, 2007 JZ 78; *see also* Tobias Lettl, *Der lauterkeitsrechtliche Schutz vor irreführender Werbung in Europa* 63 (2004).

[340] Recital 8 of Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market and amending Council Directive 84/450/EEC, Directives 97/7/EC, 98/27/EC and 2002/65/EC of the European Parliament and of the Council and Regulation (EC) No 2006/2004 of the European Parliament and of the Council ("Unfair Commercial Practices Directive"), O.J. EU (11 June 2005), L 149/22. *See also* Josef Drexl, in *Münchener Kommentar zum Bürgerlichen Gesetzbuch, vol. XI*, IntLautR para. 7 (Franz Jürgen Säcker et al. eds., 6th edn., 2015) ("Der Richtlinie geht es insgesamt um den ‚unmittelbaren' Schutz der Verbraucher und nur um einen ‚mittelbaren' Schutz der lauter handelnden Wettbewerber.").

[341] Christoph Brömmelmeyer, *Der Binnenmarkt als Leitstern der Richtlinie über unlautere Geschäftspraktiken*, 2007 GRUR 295, 296; Frauke Henning-Bodewig, *Der Schutzzweck des UWG und die Richtlinie über unlautere Geschäftspraktiken*, 2013 GRUR 238, 240.

[342] *See, e.g.*, Karl-Heinz Fezer, *Modernisierung des deutschen Rechts gegen den unlauteren Wettbewerb auf der Grundlage einer Europäisierung de Wettbewerbsrechts*, 2001 WRP 989, 993; Karl-Heinz Fezer, *Plädoyer für eine offensive Umsetzung der Richtlinie über unlautere Geschäftspraktiken in das deutsche UWG—Originärer Verbraucherschutz durch Lauterkeitsrecht als Paradigma der europäischen Rechtsharmonisierung*, 2006 WRP 781, 785–786; Rogier W. de Vrey, *Towards a European Unfair Competition Law, A Clash*

idea that the UCP Directive is founded mainly on the freedom of competition. Instead, they posit, consumer protection is supposed to be an independent and equivalent aim among unfair competition policies. In this regard, they point out that the directive's "black list" of unfair commercial practices emphasizes an overarching concern for consumer protection.[343] In addition, they refer to other European regulations—particularly in the fields of tobacco, alcohol, and health-related advertising—as examples of universal consumer protection policies.[344]

But the directive does not go this far. The instrument's prioritization of consumer interests is expressly qualified: it focuses on the consumer's *economic* interests,[345] not her civil rights or any other concern. At its core, therefore, the directive does not demand across-the-board protection. Rather, it is founded on a two-sides-of-the-coin conception of consumer and competitor protection as constituent elements of an institutional guarantee of undistorted competition. Hence, protection of the consumer's position as a referee—not as a citizen—is what stands at the center. In essence, therefore, the instrument is aimed at a functional regulation of competition.[346] Of course, exceptions to this implementation exist, for

Between Legal Families—A comparative study of English, German and Dutch law in light of existing European and international legal instruments 45 *et seq.*, 48, 59 *et seq.* (2006); Alexander Peukert, *Der Wandel der europäischen Wirtschaftsverfassung im Spiegel des Sekundärrechts—Erläutert am Beispiel des Rechts gegen unlauteren Wettbewerb*, 173 ZHR 536 *passim* (2009).

[343] Alexander Peukert, *Die Ziele des Primärrechts und ihre Bedeutung für das Europäische Lauterkeitsrecht: Auflösungserscheinungen eines Rechtsgebiets?*, 27, 46, in *Lauterkeitsrecht und Acquis Communautaire* (Reto M. Hilty & Frauke Henning-Bodewig eds., 2009); *see also* Matthias Leistner, *Bestand und Entwicklungsperspektiven des Europäischen Lauterkeitsrechts*, 2009 ZEuP 56, 72.

[344] *See, e.g.*, Hans W. Micklitz & Jürgen Keßler, *Europäisches Lauterkeitsrecht—Dogmatische und ökonomische Aspekte einer Harmonisierung des Wettbewerbsverhaltensrechts im europäischen Binnenmarkt*, 2002 GRUR Int. 885, 890; with reference to Directive 2003/33/EC (tobacco advertising) and Regulation 1924/2006/EC (nutrition and health claims made on foods): Alexander Peukert, *Die Ziele des Primärrechts und ihre Bedeutung für das Europäische Lauterkeitsrecht: Auflösungserscheinungen eines Rechtsgebiets?*, 27, 47–49, in *Lauterkeitsrecht und Acquis Communautaire* (Reto M. Hilty & Frauke Henning-Bodewig eds., 2009).

[345] *See* again recital 6 and recital 8.

[346] *See, e.g.*, Jochen Glöckner & Frauke Henning-Bodewig, *EG-Richtlinie über unlautere Geschäftspraktiken: Was wird aus dem „neuen" UWG?*, 2005 WRP 1311, 1314; Jochen Glöckner, Europäisches Lauterkeitsrecht 509, 512 *et seq.* (2006); Christopher Wadlow, *The Case for Reclaiming European Unfair Competition Law from Europe's Consumer Lawyers*, 175, 177 *et seq.*, in *The Regulation of Unfair Commercial Practices under EC Directive 2005/29—New Rules and Techniques* (Stephen Weatherill & Ulf Bernitz eds., 2007); Christoph Brömmelmeyer, *Der Binnenmarkt als Leitstern der Richtlinie über unlautere Geschäftspraktiken*, 2007 GRUR 295, 296 *et seq.*; Matthias Leistner, *Bestand und Entwicklungsperspektiven des Europäischen Lauterkeitsrechts*, 2009 ZEuP 56, 59. For the general prevalence of market integration concerns—inter alia, unhindered competition—over other policies (particularly consumer protection) in

European unfair competition law has yet to be comprehensively harmonized. Since the UCP Directive concerns B2C relations only, the field of B2B relations remains widely an issue of member states' laws. In addition, the directive has implemented escape provisions for national lawmakers in several fields, notably with regard to health-related regulation and "legal requirements related to taste and decency."[347] Yet these examples do not require a fundamental reconceptualization. On the contrary, unfair competition doctrine in Europe—more than ever—seeks primarily to rationalize consumer decision making; other policies will prevail in exceptional situations only.

The situation appears different with regard to the English doctrine of passing off. A law of unfair competition, as is often explained, is unknown in the UK. Courts are said to shy away from drawing clear lines between what is "fair" and "unfair" competition.[348] Only in cases of consumer deception is court-moderated regulation considered acceptable and legitimate.[349] Such scenarios are traditionally treated under the doctrine of passing off.[350] However, a closer look at the "classical trinity" of passing off—goodwill, damage, and misrepresentation—unveils that the doctrine is also founded on a conception of consumer decision making.[351] While the subject matter of protection, at least formally, seems to be goodwill (as private property), the basis of the action has always been misrepresentation, most commonly with regard to the source or the qualities of a product.[352] And even though, over

European law, *see, e.g.*, Jürgen Basedow, *Zielkonflikte und Zielhierarchien im Vertrag über die Europäische Gemeinschaft*, 49, 68, in *Festschrift für Ulrich Everling, vol. I* (Ole Due et al. eds., 1995).

[347] *See* art. 3(3) and recital 7.

[348] *See, e.g., The Mogul Steamship Company, Ltd. v. McGregor, Gow, & Co., and Others* [1889] 23 Q.B.D. 598, 625–626 (per Fry, L.J.) ("To draw a line between fair and unfair competition, between what is reasonable and unreasonable, passes the power of the Courts.").

[349] *See, e.g., Hodgkinson Corby Ltd. and Another v. Wards Mobility Services Ltd.* [1995] F.S.R. 169, 175 (per Jacob, J.) ("At the heart of passing off lies deception or its likelihood, deception of the ultimate consumer in particular. ... Never has the tort shown even a slight tendency to stray beyond cases of deception. Were it to do so it would enter the field of honest competition, declared unlawful for some reason other than deceptiveness. Why there should be any such reason I cannot imagine. It would serve only to stifle competition.").

[350] A doctrine which is then, quite paradoxically, sometimes explained as synonymous with "unfair competition." *See, e.g., Arsenal Football Club Plc. v. Reed* [2003] EWCA Civ 696, 715 (per Aldous, L.J.).

[351] For an illustration of the trinity (and its variations), *see* Christopher Wadlow, *The Law of Passing-Off—Unfair Competition by Misrepresentation* para. 1–014 *et seq.* (4th edn., 2011).

[352] *See, e.g.*, Christopher Wadlow, *The Law of Passing-Off—Unfair Competition by Misrepresentation* para. 5–001 *et seq.* (4th edn., 2011); Lionel Bently & Brad Sherman, *Intellectual Property Law* 826 *et seq.*, 848 *et seq.* (4th edn., 2014).

time, the field has become increasingly complex, the gravamen of a claim is still misinformation in the marketplace: in order to succeed, the plaintiff must show that the conduct at issue is deceptive.[353]

Indeed, seen in light of these foundations, the divergence between passing off and the UCP Directive or the bases of unfair competition prevention in civil law doctrine no longer seems very large. Of course, liability for passing off exists only between competitors; consumers and consumer associations have no claim and no standing to sue. One might thus conclude that passing off should simply coexist with the directive for lack of overlap between B2B and B2C relations.[354] But such a formal perspective is too narrow. Looking at the policies involved actually highlights the congruency. Preventing deception under a doctrine of passing off requires, among other things, that the misrepresentation at issue be "material"—hence, apt to actually influence the prospective consumer.[355] In this regard, passing off corresponds with the modern approach of protecting consumer decision making from "material distortion" under articles 5 et seq. of the UCP Directive.[356] Consequently, most scenarios decided under the traditional doctrine of passing off will also qualify as unfair under the directive's focus on the market mechanism.[357]

For choice of law, this implies a simple rule: in cases that directly concern consumer decision making, it is the place of transacting—more concretely, of transaction alternatives—that determines the applicable regime. However, in cases where the concrete policy at stake is not primarily aimed at the protection of consumer decision making, a different rule may govern. This distinction can be explained by taking a closer look at the heterogeneous nature of harassment prevention policies in unfair competition doctrine.

[353] *See, e.g., Phones 4u Ltd. v. Phone4u.co.uk. Internet Ltd.* [2006] EWCA Civ 244, [2007] R.P.C. 5; *Hodgkinson Corby Ltd. and Another v. Wards Mobility Services Ltd.* [1995] F.S.R. 169, 175 (per Jacob, J.); *Barnsley Brewery Company Ltd. v. RBNB* [1997] F.S.R. 462, 467 (per Robert Walker, J.); further also Lionel Bently & Brad Sherman, *Intellectual Property Law* 859 (4th edn., 2014).

[354] Christopher Wadlow, *The Law of Passing-Off—Unfair Competition by Misrepresentation* para. 2–075 to 2–076 (4th edn., 2011).

[355] *See id.* at para. 5–019, para. 5–124 *et seq*.

[356] *Id.* at para. 2–077 *et seq*. For the defendant's purpose to "change the market behaviour of potential customers" in passing-off cases, *see also* Richard Plender & Michael Wilderspin, *The European Private International Law of Obligations* para. 20–034 (4th edn., 2015); and also James J. Fawcett & Paul Torremans, *Intellectual Property and Private International Law* para. 16.21 to 16.22 (2nd edn., 2011).

[357] These arguments can also be brought forward with regard to the doctrine of injurious falsehood. There as well, misrepresentation is the gravamen of the action. *See* Christopher Wadlow, *The Law of Passing-Off—Unfair Competition by Misrepresentation* para. 6–001 *et seq.* (4th edn., 2011).

C An Amalgam of Policies: Harassment, Privacy, and Decision Making

Undue harassment and coercion have traditionally been deemed improper under many national unfair competition regimes.[358] Modern examples of undue consumer harassment through unsolicited contact include cold calling and e-mail spamming. Under the UCP Directive, harassment is generally analyzed in light of the prohibition on aggressive practices. For a commercial practice to be regarded as aggressive, it must have the potential to significantly impair the average consumer's freedom of choice or conduct in a manner that will lead to a transactional decision that she would not have otherwise made.[359] Seen in this light, the prevention of undue harassment may be an issue of protecting consumer decision making.[360] But harassment may also be characterized as infringement of the consumer's right to privacy. A prohibition will then have to be founded on a quite different policy.[361] Indeed, the UCP Directive implies that there may be even more relevant policies beyond the scope of protecting consumer decision making. Notably, undue harassment can also be found "for reasons of taste and decency,"[362] even if no actual or potential impact on the decision-making process is to be feared.[363]

[358] For Germany, *see, e.g.*, Axel Beater, *Allgemeininteressen und UWG*, 2012 WRP 1, 9 *et seq.* For a particularly gross case of molestation, *see, e.g.*, RGZ vol. 145, 396, 402—*Bestattungsunternehmen I* (9 November 1934); *see also* BGH 1955 GRUR 541, 542—*Bestattungswerbung* (8 July 1955).

[359] *See* articles 8 and 9 Unfair Commercial Practices Directive.

[360] *See, e.g.*, Helmut Köhler, *Zur Umsetzung der Richtlinie über unlautere Geschäftspraktiken*, 2005 GRUR 793, 800; Jochen Glöckner & Frauke Henning-Bodewig, *EG-Richtlinie über unlautere Geschäftspraktiken: Was wird aus dem „neuen" UWG?*, 2005 WRP 1311, 1334; Peter Mankowski, in *Lauterkeitsrecht: Kommentar zum Gesetz gegen den unlauteren Wettbewerb (UWG), vol. II*, § 7 para. 26 (Karl-Heinz Fezer ed., 2nd edn., 2010).

[361] *See, e.g.*, Julian Burmeister, *Belästigung als Wettbewerbsverstoß* 57 *et seq.* (2006); Axel Beater, *Unlauterer Wettbewerb* § 28 para. 2376 *et seq.*, 2380 (2011). Indeed, courts and the lawmakers in Germany have always focused on the issue of privacy invasion. *See, e.g.*, BGH 2005 GRUR 443, 444–445—*Ansprechen in der Öffentlichkeit II* (9 September 2004); BGH 2004 GRUR 699, 700—*Ansprechen in der Öffentlichkeit* (1 April 2004); Deutscher Bundestag, *Drucksache: Gesetzentwurf der Bundesregierung, Entwurf eines Gesetzes gegen den unlauteren Wettbewerb (UWG)*, 15. Wahlperiode, 15/1487 (22 August 2003), at 21.

[362] *See* recital 7: "This Directive . . . does not address legal requirements related to taste and decency which vary widely among the Member States. Commercial practices such as, for example, commercial solicitation in the streets, may be undesirable in Member States for cultural reasons. Member States should accordingly be able to continue to ban commercial practices in their territory, in conformity with Community law, for reasons of taste and decency even where such practices do not limit consumers' freedom of choice. Full account should be taken of the context of the individual case concerned in applying this Directive, in particular the general clauses thereof."

[363] *See also* Jochen Glöckner & Frauke Henning-Bodewig, *EG-Richtlinie über unlautere Geschäftspraktiken: Was wird aus dem „neuen" UWG?*, 2005 WRP 1311, 1334;

At this point, again, the heterogeneity of policies—and its importance for choice of law—surfaces. The consumer may be protected either as a person or in her function as a referee in competition; sometimes, both policies may work together. This complexity illustrates the segmentation that will govern the following analysis on choice of law. The prohibition on harassment is not homogeneous in terms of the protectable subject matter at stake, which could be consumer decision making, individual privacy, or a more general concern for decency in competition. Accordingly, the point of conflicts law attachment may vary.

D Beware of the Consumer's "Economic Personality Right"

The heterogeneity of policies in harassment prevention illustrates the manner in which the consumer's position has been transformed in recent decades. Her status has evolved from being a mere parameter in inter-competitor dispute resolution to being the center of unfair competition doctrine. However, as we have seen, this development has been partially reversed in recent years. Today, all-encompassing consumer protection has become outdated. Desocialization entails at least a certain degree of depersonalization.[364]

As we have seen, under historical German doctrine, a competitor's rights in the field of trademark and unfair competition protection were genuinely founded on her personality. This theory was perpetuated under the guise of unfair competition individualism: the analysis of economic rights and interests was focused on the competitor side alone. As a result, the understanding of personality rights doctrine was lopsided. While the competitor could claim violations of fairness standards and an intrusion of personality rights, the consumer's personality was—if at all—regarded with a view to its noneconomic dimension. Individual rights protection within the marketplace was not available for consumers, at least not on the basis of personality rights.[365] This changed with the advent of consumer protection policies in the second half of the twentieth century. Examples of the early acknowledgment of a sacrosanct sphere include the protection of privacy and the rights to be left alone and to be free from undue harassment.[366] This protection was initially limited to

Helmut Köhler, *Zur Umsetzung der Richtlinie über unlautere Geschäftspraktiken*, 2005 GRUR 793, 794.

[364] *See supra* p. 328 *et seq*.

[365] Wolfgang Fikentscher, *Wirtschaftsrecht, vol. II: Deutsches Wirtschaftsrecht* § 21 III 3e (1983).

[366] The most common examples are the prohibition of cold calling, of the unsolicited delivery of goods, and of undue psychological or subliminal pressure. *See, e.g.*, BGH 1970 GRUR 523—*Telefonwerbung I* (19 June 1970); BGH 1959 GRUR 277—*Künstlerpostkarten* (11 November 1958); BGH 1973 GRUR 81—*Gewinnübermittlung* (22 September 1972); BGH 1959 GRUR 143—*Blindenseife* (14 November 1958).

noneconomic aspects; the consumer had no domain of an "economic personality right." But the final decades of the century brought change.[367] Against the backdrop of the former myopia concerning consumer rights, this extension was revolutionary. The economic personality right comprised not only the consumer's right to be left alone but also a right to engage in autonomous transactional decision making. Hence, consumer personality and freedom were to be protected both generally with respect to noneconomic activities and more specifically within the marketplace.[368]

Over time, many cases came to be described as invasions of personality rights. These invasions were most commonly attributed to subliminal advertising and psychological pressure.[369] Overall, however, the scope of protection was unclear. One example was deceptive advertising. As some proponents of economic personality rights theory contended, deception alone—unlike, for example, physical or psychological manipulation—would not directly infringe on the freedom of decision making as such and hence would not invade the consumer's personality right.[370] Yet such a differentiation was duly criticized as inconsistent: after all, both physical/

[367] *See* Wolfgang Fikentscher, *Wirtschaftsrecht, vol. II: Deutsches Wirtschaftsrecht* § 21 III 3e, § 22 I 1 and 2 (1983); for an earlier suggestion, *see* Wolfgang Fikentscher, *Wettbewerb und gewerblicher Rechtsschutz—Die Stellung des Rechts der Wettbewerbsbeschränkungen in der Rechtsordnung* 227 and 238 (1958); *see also* Michael Lehmann, *Vertragsanbahnung durch Werbung—Eine juristische und ökonomische Analyse der bürgerlich-rechtlichen Haftung für Werbeangaben gegenüber dem Letztverbraucher* (1981); Stefan Freund, *Das Persönlichkeitsrecht des Umworbenen—Ein bürgerlich-rechtlicher Beitrag zum Verbraucherschutz unter Berücksichtigung des Wettbewerbsrechts* (1983); Wolfram Ehlers, *Der persönlichkeitsrechtliche Schutz des Verbrauchers vor Werbung*, 1983 WRP 187 *et seq*.

[368] Wolfgang Fikentscher, *Wirtschaftsrecht, vol. II: Deutsches Wirtschaftsrecht* § 22 I 2b (1983); *see also* Michael Lehmann, *Vertragsanbahnung durch Werbung—Eine juristische und ökonomische Analyse der bürgerlich-rechtlichen Haftung für Werbeangaben gegenüber dem Letztverbraucher* (1981); Wolfram Ehlers, *Der persönlichkeitsrechtliche Schutz des Verbrauchers vor Werbung*, 1983 WRP 187, 194; Michael Lehmann, *Das wirtschaftliche Persönlichkeitsrecht von Anbieter und Nachfrager*, 255, 266, in *Beiträge zum Schutz der Persönlichkeit und ihrer schöpferischen Leistungen—Festschrift für Heinrich Hubmann zum 70. Geburtstag* (Hans Forkel & Alfons Kraft eds., 1985).

[369] *See, e.g.*, Michael Lehmann, Vertragsanbahnung durch Werbung—Eine juristische und ökonomische Analyse der bürgerlich-rechtlichen Haftung für Werbeangaben gegenüber dem Letztverbraucher 265 *et seq.*, 270, 273 (1981); Stefan Freund, *Das Persönlichkeitsrecht des Umworbenen—Ein bürgerlich-rechtlicher Beitrag zum Verbraucherschutz unter Berücksichtigung des Wettbewerbsrechts* 141 *et seq.*, 215 (1983); Wolfram Ehlers, *Der persönlichkeitsrechtliche Schutz des Verbrauchers vor Werbung*, 1983 WRP 187, 193–194; Michael Lehmann, *Das wirtschaftliche Persönlichkeitsrecht von Anbieter und Nachfrager*, 255, 267, in *Beiträge zum Schutz der Persönlichkeit und ihrer schöpferischen Leistungen—Festschrift für Heinrich Hubmann zum 70. Geburtstag* (Hans Forkel & Alfons Kraft eds., 1985).

[370] *See, e.g.*, Michael Lehmann, *Vertragsanbahnung durch Werbung—Eine juristische und ökonomische Analyse der bürgerlich-rechtlichen Haftung für Werbeangaben gegenüber dem Letztverbraucher* 275 (1981).

psychological pressure and deception appeared similarly apt to degrade the consumer to an "object" of market competition.[371] Some scholars went even further, describing emotionally loaded advertising as a violation of personality rights.[372] In essence, the problem with economic personality rights doctrine was its tendency to dilute the demarcation between the consumer's civil rights and her freedom of transaction. Ultimately, almost any impact on the consumer, regardless of its effect on the decision-making mechanism, would qualify as a violation as long as the practice could be found harassing, compelling, or otherwise manipulative.

Quite differently, under the integrated model's functional approach to competition regulation, the referee function—not the consumer's status as an individual and as a citizen—is to be protected. Two examples illustrate this difference. Proponents of consumer personality rights protection have contended that consumer rights will be violated by hidden data collection concerning consumption habits.[373] This is correct in terms of privacy protection. Conduct deemed improper under such a civil rights perspective, however, need not necessarily result in a manipulation of the market mechanism or a distortion of competition. On the contrary, offering the consumer exactly what she desires can be rather efficient from a perspective of information economization. After all, there is no undue impact on the decision-making process as such. Another example of "unfair" competition within this category is "shock advertising" (or shockvertising). The use of shocking communication vis-à-vis the consumer is a problem primarily with regard to her personality rights. After all, drastic communication may be offensive and unwanted. It may sometimes affect the decision-making process, but this need not necessarily be the case. The fact that the content of commercial communication is outrageous will not necessarily lead to an irrational transaction. Both examples illustrate that at least two spheres of normative concern exist. One is the market mechanism, which has become the genuine domain of modern unfair competition policy. The other comprises policies beyond this core domain. This sphere, which involves protecting the consumer as an individual and as a citizen, is determined by many different policies (e.g., privacy, property, and so on). Not all of these

[371] *See, e.g.*, Stefan Freund, *Das Persönlichkeitsrecht des Umworbenen—Ein bürgerlich-rechtlicher Beitrag zum Verbraucherschutz unter Berücksichtigung des Wettbewerbsrechts* 144 (1983).

[372] *See id.* at 221 *et seq*.

[373] *See, e.g.*, Michael Lehmann, *Das wirtschaftliche Persönlichkeitsrecht von Anbieter und Nachfrager*, 255, 266 n. 76, in *Beiträge zum Schutz der Persönlichkeit und ihrer schöpferischen Leistungen—Festschrift für Heinrich Hubmann zum 70. Geburtstag* (Hans Forkel & Alfons Kraft eds., 1985).

individual civil or constitutional positions will coincide with the interest in free competition.[374]

What is important for this inquiry is that in a triangular model of the market mechanism, the field of individual and civil rights protection must be located beyond the categories of horizontal and vertical market relations. To the extent that consumer protection does not cover referee decision making, its specific policy will be neither an issue of intercompetitor relations nor one of the integrated model of unfair competition doctrine. Therefore, choice-of-law doctrine needs to inquire about a different aspect—this implies choice of a different point of attachment.

E Quasi IP Rights: The Gray Zone of Product Imitation

Like US trademark doctrine, German unfair competition law has implemented a specific aspect of quasi IP protection under the concept of preventing misappropriation and free riding on a competitor's achievements. The problem is usually debated in the context of allegedly improper product imitation. This category overlaps significantly with the theory of postsale confusion.[375] The analytical challenge here is to clearly distinguish relevant policies with respect to the consumer's referee function and concerns beyond the protection of the market mechanism.

The category of product imitation relates to activities that attempt to appropriate a competitor's market share by imitating her product. By reproducing, for example, a specific shape or other property of the product, the competitor may (without infringing on copyrights, trademark, design, or patent rights) acquire value that may be deemed to belong to the market participant who established the market position of the original product. The mere exploitation of another's achievement is not, in itself, inconsistent with a system of free-market competition. As is regularly explained, imitation is a genuine form of competition.[376] Nevertheless, excessive imitation must be prevented in order to assure that the incentives to innovate remain sufficient.[377] The question, however, is how to

[374] *See, e.g.*, Christian Alexander, *Die Sanktions- und Verfahrensvorschriften der Richtlinie 2005/29/EG über unlautere Geschäftspraktiken im Binnenmarkt—Umsetzungsbedarf in Deutschland*, 2005 GRUR Int. 809, 813; Susanne Augenhofer, *Individualrechtliche Ansprüche des Verbrauchers bei unlauterem Wettbewerbsverhalten des Unternehmers*, 2006 WRP 169, 172–173; Olaf Sosnitza, in *Münchener Kommentar zum Lauterkeitsrecht, vol. I*, § 1 UWG para. 28 (Peter W. Heermann et al. eds., 2nd edn., 2014).

[375] *See supra* p. 353–356.

[376] *See, e.g., Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989); for early German doctrine, *see, e.g.*, RGZ vol. 135, 385, 394—*Künstliche Blumen* (19 March 1932); *see also* WIPO, *Protection Against Unfair Competition—Analysis of the Present World Situation*, WIPO Publ. no. 725(E), 55 (1994).

[377] *See, e.g.*, Axel Beater, *Unlauterer Wettbewerb* § 22 para. 1912 *et seq.* (2011); Volker Emmerich, *Unlauterer Wettbewerb* § 11 para. 6 (9th edn., 2012).

demarcate admissible from excessive imitation. A basic tenet seems uncontested: imitation of a product alone will usually not suffice to characterize it as a case of unfair misappropriation.[378] A finding of improper imitation always requires additional elements of "unfairness." Several categories of misappropriation cases can be distinguished; the relevant aspect of unfairness varies across these categories.

One category of product imitation involves consumer deception. For example, the statutory provision in section 4 no. 3(a) of the German Unfair Competition Act (UWG) provides for a case of unfairness if a competitor "offers goods or services that are replicas of goods or services of a competitor [and] if he ... causes avoidable deception of the purchaser regarding their commercial origin." Here, the necessary prerequisite qualifying an imitation as improper is purchaser deception. This standard resembles the test for confusion in trademark infringement analysis.[379] Yet the debate over the underlying policies has never been resolved. And the issue has become even more complicated under the UCP Directive.[380] Again, choice-of-law analysis does not require a comprehensive solution of the problems at the level of substantive law. Regardless of whether avoiding consumer confusion is a relevant policy, any case of product imitation entails instrumentalization of the consumer's mind. It is the consumer's transaction that ultimately leads to an invasion of the competitor's right. Accordingly, conflicts attachment will have to give regard to the localization of this last stage of the consumer's decision-making process.

A second category of product imitation centers on the exploitation or impairment of the original product's reputation or goodwill (*Rufausbeutung* and *Rufbeeinträchtigung*).[381] While such cases may include an element of

[378] This has become commonplace in unfair competition doctrine. *See* (under a comparative perspective) Walter J. Derenberg, *The Influence of the French Code Civil on the Modern Law of Unfair Competition*, 4 Am. J. Comp. L. 1, 22 *et seq.* (1955).

[379] *See, e.g.*, Volker Emmerich, *Unlauterer Wettbewerb* § 11 para. 20 (9th edn., 2012).

[380] As established by case law and legal commentary, the primary aim of preventing deceptive imitations is to protect the individual competitor's performance—not to protect the consumer from confusion. *See, e.g.*, Deutscher Bundestag, *Drucksache: Gesetzentwurf der Bundesregierung, Entwurf eines Ersten Gesetzes zur Änderung des Gesetzes gegen den unlauteren Wettbewerb*, 16. Wahlperiode, 16/10145 (20 August 2008), 17 *et seq.*; BGH 2010 GRUR 80, 81—*LIKEaBIKE* (28 May 2009); BGH 2007 GRUR 984 para. 23—*Gartenliege* (24 May 2007); *but see* Helmut Köhler, *Das Verhältnis des Wettbewerbsrechts zum Recht des geistigen Eigentums—Zur Notwendigkeit einer Neubestimmung auf Grund der Richtlinie über unlautere Geschäftspraktiken*, 2007 GRUR 548, 552; Axel Beater, *Unlauterer Wettbewerb* § 22 para. 2051 (2011).

[381] Section 4 no. 3(b) German Unfair Competition Act (UWG) provides for unfairness if a competitor "offers goods or services that are replicas of goods or services of a competitor if he ... unreasonably exploits or impairs the assessment of the replicated goods or services."

consumer confusion, this is not a prerequisite. What is required and sufficient is the exploitation or deterioration of the genuine product's reputation. Parallels to the US postsale confusion theory, notably the *Ferrari* doctrine,[382] are manifest. An oft-cited case in German doctrine, the *Tchibo/Rolex* decision, illustrates the structure. In this case, a producer of cheap wristwatches had imitated the specific design of the Rolex originals and was selling the copies for approximately 1% of the original price. The Bundesgerichtshof deemed the original's appearance sufficient to constitute a distinctive indication of commercial origin and, accordingly, found in favor of the plaintiff who claimed that the defendant's product was an improper imitation. Remarkably, however, the court did not require confusion about product origin to exist among *consumers*. Instead, it was enough that the *bystanding public*—that is, the social environment of the imitation's buyers—may have been confused. On this basis, the imitation was deemed a misappropriation of the original product's reputation for quality and prestige.[383] Here as well, a structural analysis points to the consumer's mind as most relevant for choice of law. As the court acknowledged, the Rolex imitations may not have created a risk of consumer confusion at the point of sale, and consumer decision making may not have been unduly manipulated with respect to its economic rationality. Further, the court left undecided the issue of whether the plaintiff's (and her product's) reputation or goodwill was actually injured by the defendant's free riding.[384] Hence, at least prima facie, no problem of information (mis)economization existed.[385] Nevertheless, consumer perception was what made invasion of the first-comer's position improper. The information-related capital accumulated by the producer of the original Rolex was utilized for a different product market. It is the *situs* of this surplus goodwill that determines the point of attachment in choice of law.

A third category of product imitation is the direct or immediate appropriation of a product's design or properties (*unmittelbare Leistungsübernahme*). Under German law, this category appears to have been jettisoned in large part.[386] In some jurisdictions, however, direct

[382] *See supra* p. 353–356.

[383] BGH 1985 GRUR 876, 878—*Tchibo/Rolex* (8 November 1984); *see also* BGH 1993 GRUR 55—*Tchibo/Rolex II* (17 June 1992). The decision has been harshly criticized. *See, e.g.*, Axel Beater, *Unlauterer Wettbewerb* § 22 para. 1908 (2011).

[384] BGH 1985 GRUR 876, 878—*Tchibo/Rolex* (8 November 1984).

[385] For potential postsale consumer confusion in similar scenarios, however, notably concerning US postsale confusion theory, *see supra* p. 353–356.

[386] *See, e.g.*, BGH 1968 GRUR 591, 592—*Pulverbehälter* (3 May 1968); BGHZ vol. 141, 329, 341–342—*Tele-Info-CD* (6 May 1999); Axel Beater, *Unlauterer Wettbewerb* § 22 para. 1944 (2011).

appropriation may still be deemed unfair per se. The lack of an alleged infringer's own efforts in creativity or investment then qualifies the scenario as unfair. Sometimes even the *modus operandi*—for example, the ordering of samples from a victim-competitor in order to imitate the product—may suffice.[387] Accordingly, these cases will often imply neither consumer confusion nor goodwill misappropriation.[388]

Against this backdrop, it is clear that widely differing policies may apply in cases of product imitation. The relevant policy might be information economization, goodwill protection, or genuine misappropriation prevention. Moreover, the different policies may be at work concurrently. In many cases, of course, the consumer's mind is the link that connects conduct and effects. This might lead one to conclude that the customer side of the market is affected in all cases of product imitation.[389] This perspective is duly rooted in the market connectivity of the conduct at issue. However, it risks disregarding the relevance of consumer decision making as a more specific element of the market mechanism. If consumer decision making per se is not being influenced, there is no element of unfairness with respect to the vertical relationship. Notably, the policy involved in the prohibition of direct appropriation or improper use of know-how will seldom affect the consumer's referee function. This also makes a difference with regard to conflicts resolution. As we will see in more detail in the last chapter, the points of attachment depend on whether the substantive law policy at issue is aimed at protecting consumer decision making or at something else.[390]

[387] *See* WIPO, *Protection against Unfair Competition—Analysis of the Present World Situation*, WIPO Publ. no. 725(E), 58 *et seq.* (1994); for a general analysis in economic terms, *see* Frank H. Easterbrook, *Intellectual Property Is Still Property*, 13 Harv. J. L. & Pub. Pol'y 108, 114–115 (1990); *see also* Matthias Leistner, *Unfair Competition Law Protection Against Imitations: A Hybrid under the Future Art. 5 Rome II Regulation?*, 129, 131, in *Intellectual Property in the Conflict of Laws* (Jürgen Basedow et al. eds., 2005).

[388] For an extensive discussion of French, Swiss, German, and British law, *see* Florent Thouvenin, *Funktionale Systematisierung von Wettbewerbsrecht (UWG) und Immaterialgüterrechten* 208 *et seq.* (2007). This last category of improper imitation also encompasses downstream protection against the theft of trade secrets; for instance, section 4 no. 3(c) of the German Unfair Competition Act (UWG) provides for a finding of "unfairness" if the defendant "offers goods or services that are replicas of goods or services of a competitor if he ... (c) dishonestly obtained the knowledge or documents needed for the replicas."

[389] *See, e.g.*, Matthias Leistner, *Unfair Competition Law Protection against Imitations: A Hybrid under the Future Art. 5 Rome II Regulation?*, 129, 145 *et seq.*, in *Intellectual Property in the Conflict of Laws* (Jürgen Basedow et al. eds., 2005); Matthias Leistner, *Comments: The Rome II Regulation Proposal and its Relation to the European Country-of-Origin Principle*, 177, 184, in *Intellectual Property and Private International Law—Heading for the Future* (Josef Drexl & Annette Kur eds., 2005).

[390] *See infra* p. 560–563.

F The Continental Dark Horse: Breach of Statutory Duties as Unfair Competition

Finally, it is necessary to explore a concept of "unfairness" that exists primarily in civil law systems. Under this model, unfairness may be found if a competitor breaches a statutory duty and (as result of the violation) attains an advantage or head start in competition. As its proponents argue, the breach of a statutory duty or provision may distort the overall equality of competitors under the *par conditio concurrentium*.[391] Yet the issue of "unfair statutory breach" has received little attention in common law doctrine. In English law, for instance, the breach of a statutory duty is acknowledged as giving a right of action in tort if the claimant has suffered a loss as a result of the breach of an administrative or criminal norm.[392] A court may also grant injunctive relief.[393] Such relief, however, will be granted under general tort law, not as a device to prevent unfair competition.[394] Besides, the category has not been included in the UCP Directive. Accordingly, it may no longer be comprehensively evoked in member states' national doctrine.[395] In Germany, for instance, only the breach of a norm that is intended to regulate market conduct can qualify for the category.[396] Hence, violation of a statutory provision as such—for example, speeding or tax evasion—is not sufficient to establish a case of unfairness.[397] This was not always the case, though. During the twentieth century, the scope of norms found eligible to establish an anticompetitive

[391] *See, e.g.*, for Germany: Helmut Köhler, in Helmut Köhler & Joachim Bornkamm, *Gesetz gegen den unlauteren Wettbewerb*, § 4 UWG para. 11.6 (33rd edn., 2015); for Switzerland, Carl Baudenbacher, in *Lauterkeitsrecht: Kommentar zum Gesetz gegen den unlauteren Wettbewerb (UWG)*, *Art.* 2 para. 315, Art. 7 para. 10 (Carl Baudenbacher ed., 2001).

[392] *See, e.g.*, *Lonrho Ltd v Shell Petroleum Co Ltd* (No.2) [1982] A.C. 173, 183; *Cutler v Wandsworth Stadium Ltd* [1949] A.C. 398, 407; with further examples Hazel Carty, *An Analysis of the Economic Torts* 88 *et seq.* (2nd edn., 2010).

[393] *See, e.g.*, *McCall v. Abelesz and Another* [1976] Q.B. 585; with further references also Simon Deakin, Angus Johnston & Basil Markesinis, *Tort Law* 377 *et seq.* (6th edn., 2008).

[394] *See, e.g.*, Ansgar Ohly, *Richterrecht und Generalklausel im Recht des unlauteren Wettbewerbs—Ein Methodenvergleich des englischen und des deutschen Rechts* 46 (1997); Florent Thouvenin, *Funktionale Systematisierung von Wettbewerbsrecht (UWG) und Immaterialgüterrechten* 246–247 (2007).

[395] *See, e.g.*, Volker Emmerich, *Unlauterer Wettbewerb* § 20 para. 13 (9th edn., 2012).

[396] Section 3a Unfair Competition Act (UWG) provides for unfairness if a competitor "infringes a statutory provision that is also intended to regulate market behaviour in the interest of market participants, and if the breach is suitable to tangible impairment of the interests of consumers, other market participants, or competitors."

[397] In other European jurisdictions—for instance, France, Belgium, the Netherlands, and Switzerland—a mere violation may already suffice. *See, e.g.*, Gerhard Schricker, *Gesetzesverletzung und Sittenverstoss—Rechtsvergleichende Untersuchung zur wettbewerbsrechtlichen Haftung bei Verletzung außerwettbewerbsrechtlicher Normen* (1970); Volker Emmerich, *Unlauterer Wettbewerb* § 20 para. 2 (9th edn., 2012).

breach was still quite extensive.[398] Courts and legal scholars, however, increasingly adopted a policy-oriented selection of norms that could qualify.[399] In particular, the prerequisite that the norm at issue must be in the "interest of market participants" has proven complex. After all, almost any norm that regulates market conduct will also affect the public interest in one way or another. More recently, the debate centers on the question whether only norms protecting the consumer's referee function should qualify or whether norms more generally protecting "the public" could also be eligible.[400]

Here again, a closer look at substantive law policies is relevant for choice of law. One aspect is paramount: the finding of unfairness depends on the breach of a norm as such. Such a breach will, however, not necessarily affect consumer decision making. One example is professional regulations (e.g., rules on admission to the bar for lawyers). If admission to the profession is achieved without the fulfillment of formal requirements (and thus in breach of the regulation), an instance of unfair competition will be found even without actual activity in the "professional market."[401] In essence, therefore, the category of statutory breach is to be distinguished from other scenarios of unfair competition where the consumer's decision making or competitor-related concerns are the direct beneficiaries of protection. Choice-of-law determination will be accordingly detached.[402]

III A Hybrid Category: Geographical Indications

Finally, it is important to address the law on designations of origin and geographical indications as a field at the crossroads of trademark protection and unfair competition prevention. A number of international agreements exist, and the European Union has introduced regulations dealing with designations of origin and geographical indications for food and

[398] For an overview of the wide array of so-called non-competition-related norms ("außerwettbewerbliche Gesetze"), *see* Otto-Friedrich Freiherr von Gamm, *Wettbewerbsrecht, vol. I*, ch. 4 para. 4 and ch. 31 (5th edn., 1987).

[399] *See, e.g.*, BGH 1999 GRUR 1128—*Hormonpräparate* (3 December 1998); BGH 2000 GRUR 237—*Giftnotruf-Box* (6 October 1999); BGH 2000 GRUR 1076—*Abgasemissionen* (11 May 2000).

[400] Case law and commentary still include public-interest protection policies in general, for example, product safety and the protection of public health and the young. *See, e.g.*, BGH 2010 GRUR 754, 755–756—*Golly Telly* (10 December 2009); Gregor Elskamp, *Gesetzesverstoß und Wettbewerbsrecht—zur wettbewerbsrechtlichen Unzulässigkeit von Verstößen gegen außerwettbewerbsrechtliche Gesetze* 149–150 (2008).

[401] *See, e.g.*, BGH 2005 GRUR 353, 354 (2005)—*Testamentsvollstreckung durch Banken* (11 November 2004).

[402] *See infra* p. 565–566.

agricultural products.[403] Although national laws are still not uniform, the underlying policies are well reflected in a cursory categorization of geographical designations: the most general subject matter of protection is found in designations indicating a certain product's geographical origin.[404] Such a designation will be protected against use that is misinforming with respect to the product's geographical origin.[405] In addition, an incorrect designation may further infringe on a geographical designation if it also signals certain properties or qualities and if the product offered does not, in fact, fulfill these standards.[406] Finally, national laws may provide for the protection of famous geographical designations against nonconfusing uses if their special reputation could be injured or misappropriated.[407]

Beyond this categorization, a more formalistic debate is going on with respect to the legal nature of geographical designations. Some describe geographical designations as subjective rights, comparable to intellectual property.[408] Others view them as distinct from trademarks and trade names and hence from the category of intellectual property. Under this perspective, the subject matter of protection is the collective goodwill of a designation's beneficiaries; yet no absolute and exclusive rights exist.[409]

[403] For an overview, *see, e.g.*, Lionel Bently & Brad Sherman, *Intellectual Property Law* 1110 *et seq.* (4th edn., 2014); Stefan Jonas Schröter, *Der Schutz geographischer Herkunftsangaben nach Marken-, Wettbewerbs- und Registerrecht in Deutschland und der Schweiz* (2011).

[404] The legal terminology regarding geographical designations and indications of source is complex. For an overview, *see, e.g.*, Lionel Bently & Brad Sherman, *Intellectual Property Law* 1112 *et seq.* (4th edn., 2014).

[405] *See, e.g.*, section 127(1) of the Trademark Act in Germany. For French and Swiss law, *see, e.g.*, Florent Thouvenin, *Funktionale Systematisierung von Wettbewerbsrecht (UWG) und Immaterialgüterrechten* 411 *et seq.* (2007). For English law and the action under a doctrine of so-called extended passing off (protecting inter alia against misrepresentation with respect to geographical origin), *see* Lionel Bently & Brad Sherman, *Intellectual Property Law* 878 *et seq.* (4th edn., 2014).

[406] This notably concerns so-called appellations of origin (*appellations d'origine*) that designate product qualities or characteristics that are due exclusively or essentially to the geographical environment, including natural and human factors. *See, e.g.*, Art. 5 Regulation (EU) No 1151/2012 of the European Parliament and of the Council of 21 November 2012 on quality schemes for agricultural products and foodstuffs, O.J. EU (14 December 2012), L 343/1.

[407] This is the case in Germany, for instance, under section 127(3) of the Trademark Act (MarkenG).

[408] *See, e.g.*, Roland Knaak, *Der Schutz geographischer Herkunftsangaben im neuen Markengesetz*, 1995 GRUR 103, 105; Karl-Heinz Fezer, *Markenrecht*, § 126 para. 4 (4th edn., 2009); Lionel Bently & Brad Sherman, Intellectual Property Law 1111 (4th edn., 2014).

[409] *See, e.g.*, BGH 1999 GRUR 252, 253–254—*Warsteiner II* (2 July 1998); BGH 2001 GRUR 73, 76–77—*Stich den Buben* (10 August 2000); BGH 2007 GRUR 884—*Cambridge Institute*, para. 38 (28 June 2007); *see also* Karl Matthiolius, *Der Rechtsschutz geographischer Herkunftsangaben* 2, 5, and 6 (1928).

Admittedly, with regard to terminology, the Court of Justice and the European Commission appear to classify geographical designation as "intellectual property."[410] Terminology, however, hardly determines doctrinal characterization. By contrast, a closer look at the underlying policies indicates that geographical designations are largely part of the sector of unfair competition prevention. Several aspects are determinative: by definition, geographical designations cannot grant exclusive rights since they do not establish a single "owner" or a definite group of "owners." The number of beneficiaries is potentially infinite, for the nearly unlimited group of producers situated within the given geographical area may make use of the indication.[411] The number of "owners" may grow or shrink at any time, depending only on the amount of producers moving in or out of the geographical area. In addition, depending on the respective national law, an "infringer" may be enjoined by both the beneficiaries of the designation and, for instance, a consumer association.[412] This latter fact points toward a characterization as unfair competition prevention.[413] An exception may be found in the protection of geographical designations with a special reputation—for instance, Champagne.[414] Protection of such reputed indications establishes a non-confusion-based theory of infringement that protects additional value. Here, too, therefore, two different kinds of goodwill—navigation and surplus—can be distinguished.[415]

[410] *See, e.g., Exportur v. LOR and Confiserie du Tech*, C-3/91, para. 23 *et seq.* (10 November 1992), [1992] E.C.R. I-5529; *Ravil* ("Grana Padano"), C-469/00, para. 49 (20 May 2003), [2003] E.C.R. I-5053; *Consorzio del Prosciutto di Parma and Salumificio S. Rita,* C-108/01, para. 62 *et seq.* (20 May 2003), [2003] E.C.R. I-5121; *see also* Statement by the Commission concerning Article 2 of Directive 2004/48/EC of the European Parliament and of the Council on the enforcement of intellectual property rights (2005/295/EC), O.J. EU (13 April 2005), L 94/37.

[411] Stephen Stern, *Are GIs IP?*, 29(2) EIPR 39, 41–42 (2007); Florent Thouvenin, *Funktionale Systematisierung von Wettbewerbsrecht (UWG) und Immaterialgüterrechten* 415 (2007).

[412] *See, e.g.*, section 128(1) of the German Trademark Act (MarkenG) and section 8(3) of the Unfair Competition Act (UWG).

[413] *See also* Karl Matthiolius, *Der Rechtsschutz geographischer Herkunftsangaben* 5 (1928) ("Der Mißbrauch geographischer Herkunftsangaben ist demnach wirtschaftlich gekennzeichnet als sowohl in der Form wie in der Wirkung besonders schwerer unlauterer Wettbewerb."), and *id.* at 32 ("Die Benutzung einer geographischen Herkunftsangabe entfließt also nicht einem dem Warenzeichenrecht ähnlichen subjektiven Recht, sondern geschieht in Ausübung natürlicher freier Betätigung. Dieser Betätigung sind Grenzen dort gezogen, wo in einer gegen die guten Sitten verstoßenden Weise die Freiheit der gewerblichen Betätigung des Mitbewerbers verletzt wird.").

[414] For these scenarios, *see, e.g.*, BGH 1988 GRUR 453, 455—*Ein Champagner unter den Mineralwässern* (4 June 1987); BGH 2002 GRUR 426, 427—*Champagner bekommen, Sekt bezahlen* (17 January 2002).

[415] *See supra* p. 349 *et seq.*

Thus, with respect to choice of law, the specific character of geographical designations—notably the difference in underlying policies—requires a treatment either in accordance with the marketplace-effects rule or with close regard to the locus of the collective goodwill. While the former is an expression of a policy protecting consumer navigation, the latter concerns the surplus goodwill provided by a geographical designation.[416]

Conclusions

Two dimensions of competitive activities exist—horizontal and vertical. While the horizontal level concerns cases of intercompetitor wrongs, the vertical level is where the cynosure of competition can be found; this is where market transactions occur. This vertical/horizontal demarcation highlights many contested issues concerning the interrelations between tort, unfair competition, trademark, and antitrust law.

Looking at consumer decision making and transacting as the most determinative element of the market mechanism will resolve these issues in both substantive law and choice of law. Let us start with the seemingly inseparable nexus between tort and unfair competition law: it is only through a close look at the consumer's decision making and transacting that a disentanglement can be undertaken. A large part of civil law unfair competition doctrine still covers tortious conduct that does not have an immediate impact on consumer decision making. These areas must be distinguished from the core area of unfair competition policy. They can be found at the horizontal level of the market mechanism. Policies on the vertical track, by contrast, regulate conduct that immediately affects consumer decision making and transacting. This is the actual domain of "competition" with a direct connection to the market.

These micromechanics of market transacting also explain the segmentation of the field of intellectual property rights. In light of their common core policy, we can say that trademark and unfair competition law protect the information infrastructure of the marketplace. Looking at the fields under this lens reveals that both areas are complementary sectors of a regulatory regime governing the currents of communication between market participants.

Several important points arise. First, with regard to the separation between trademarks and other intellectual property, it is important to acknowledge that there is no uniform category of "intellectual property." The granting of trademark rights is driven by a concern that is fundamentally different from general intellectual property theory. Rights creation

[416] *See infra* p. 549 *et seq.* and p. 556 *et seq.*

and protection under trademark doctrine is intended to provide an incentive to invest in marketplace competition. Unlike patents and copyrights, the system of trademark protection is not a time-limited *perpetuum mobile* of individual entitlements in creative or innovative intangibles. Rather, trademark protection is founded on a *continuum* of goodwill creation and maintenance.

Such a market-mechanistic perspective also helps clarify inconsistencies in unfair competition doctrine. While consumers' interests generally coincide with the public's interest in unhindered competition and free markets, the policy of "consumer protection" is not homogeneous. It is founded on different conceptions of the "consumer." One aspect concerns the protection of the private citizen—notably, the protection of personality and privacy. Another facet involves the protection of the consumer as a referee in competition. Protective policies beyond this narrow focus are detached from the market mechanism and from the integrated concept of modern unfair competition law. In addition to distinguishing between citizen and referee, we can identify further policies that are not concerned primarily with protecting consumer decision making. Both trademark and unfair competition doctrines host such additional policies of goodwill protection. This is the field of surplus goodwill, often characterized as brand reputation, prestige, scarcity, or exclusivity. Examples include antidilution, postsale confusion, and product-imitation doctrines. Policies concerned with protecting such surplus goodwill are not immediately aimed at protecting consumer decision making. Yet they are nevertheless bound to information.

Choice of law must closely follow these demarcations in substantive law policy. Competitive conduct can consist of competitor-related activity that bypasses the market mechanism of consumer decision making. This is the category of bilateral torts that makes up competition at the horizontal level of the market-mechanism model. Under choice-of-law doctrine, tort conflicts rules will accordingly take precedence (see article 6(2) of the Rome II Regulation). At the vertical level, impact on the decision-making process, including the final stage of transacting, can affect the market mechanism at its core. This is the cynosure of competition and, as we will see, the epicenter of choice-of-law analysis for all policies that are designed to establish and protect the information infrastructure of the marketplace (see article 6(1) of the Rome II Regulation). In addition, however, beyond this common core of trademark protection and unfair competition prevention, a wide array of additional policies exists. Among them are regulatory restrictions on matters related to the public interest in general—for example, the prevention of consumer harassment in order to protect civil rights concerns of privacy. Another example is the

prohibition of competitive conduct deemed offensive, immoral, or otherwise indecent. Further categories comprise elements of postsale confusion and antidilution doctrine, as well as quasi IP rights protection against product imitation. Undue manipulation of consumer decision making will be unlikely in many of these cases. For choice-of-law analysis, the underlying policies must be kept separate and will, accordingly, lead to an attachment that is—at least in principle—different from the choice of law in market-oriented unfair competition.