

Towards a European Unfair Competition Law

A Clash Between Legal Families

Rogier W. de Vrey

TOWARDS A EUROPEAN UNFAIR
COMPETITION LAW

A Clash Between Legal Families

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Towards a European Unfair Competition Law

A Clash Between Legal Families

A comparative study of English, German
and Dutch law in light of existing European
and international legal instruments

by

Rogier W. de Vrey

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PREFACE

From the moment I got in contact with the law as a student, I have been trying to find the crosslinks between the various areas of law as well as relationships between certain areas of law and matters of public policy and economics. Unfair competition law, as a separate area of law, has proved to be a particularly attractive area of law in light of the above. Not only is it situated on the borderline of intellectual property law, competition law and consumer protection law, but it is clearly connected to areas situated outside of the legal landscape like competition policy, state interference and ethical standards of behaviour. Should we provide for unfettered competition between traders by relinquishing any call for arranging the behaviour of players on the market, or do we need to provide for a set of rules to counter unfair behaviour? And if so, what constitutes unfair behaviour? Do we want to create more monopolies by introducing new quasi-intellectual property rights? Shouldn't companies be able to develop one single marketing strategy when introducing their products on the European market instead of being hindered by differences in unfair competition laws of the Member States. And what set of rules should be provided to consumers who enter into a cross-border transaction?

These considerations have motivated me to start and finish my research on the harmonisation of unfair competition law. Because of the wide scope of my research topic, I am particularly grateful to my promoter prof. mr. F.W. Grosheide for helping me keep my track by supporting me and placing his confidence in me. In addition, I am very grateful to the Max-Planck-Institut für Geistiges Eigentum, Wettbewerbs- und Steuerrecht in Munich, in particular prof. dr. dres. h.c. J. Straus and Dr. F. Henning-Bodewig for their hospitality and the possibility to conduct research as a Stipendiat, as well as the Queen Mary Intellectual Property Research Institute in London in particular in the person of prof. dr. M Blakeney and finally, the European Commission, DG Health and Consumer protection for their hospitality. Special words of thanks should be extended to mr. P.A. Morris LL.B., who has edited the text of the manuscript and to Mrs. W.J. Vreekamp and Mrs. T. Kloos of the Wiarda Institute of the University of Utrecht for making the manuscript 'camera ready'. Last but not least, I want to offer my warm thanks to my wife, Robijn, my parents and my sister, Evelyn, for providing me with unfailing support in my work.

The research was completed in July 2005. Any case law or literature published after this date has – with some minor exceptions – not been incorporated.

Utrecht, September 2005

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List of Abbreviations

AA	Ars Aequi
AC	Law Reports: Appeal Cases
AIPJ	Australian Intellectual Property Journal
AIPPI	International Association for the Protection of Intellectual Property
All ER	All England Law Reports
ALR	Australian Law Reports
AMI	Tijdschrift voor auteurs-, media- & informatierecht
art(s).	article(s)
ASA	Advertising Standards Authority
B2B	Business-to-business
B2C	Business-to-consumer
BB	Der Betriebs-Berater
BDMA	(BTMW) Benelux Designs and Models Act
BGB	Bürgerliches Gesetzbuch (German Civil Code)
BGBI	Bundesgesetzblatt
BGH	Bundesgerichtshof
BGHZ	Sammlung der Entscheidungen des BGH in Zivilsachen
BIE	Bijblad bij de Industriële Eigendom
B.U. J. Sci. & Tech. L.	Boston University Journal of Science & Technology Law
BW	Burgerlijk Wetboek (Dutch Civil Code)
CAP	Committee of Advertising Practice
CB	Common Bench
cf.	confer (compare)
Ch.D.	Law Reports: Chancery Division
CIER	Centrum voor Intellectueel Eigendomsrecht (Centre for Intellectual Property Law)
CLJ	Cambridge Law Journal
CMAR	Control of Misleading Advertisements Regulations
CMLR	Common Market Law Reports
Col. LR	Columbia Law Review
CvB	College van Beroep (Board of Appeal)
DG Sanco	Directorate-General Health and Consumer Protection
DGFT	Director General of Fair Trading
EEC	European Economic Community
EC	European Community

List of Abbreviations

ECJ	European Court of Justice
ECR	European Court Reports
ECHR	European Court of Human Rights
e.g.	exempli gratia (for example)
EIPR	European Intellectual Property Review
E.L.Rev.	European Law Review
EMLR	Entertainment & Media Law Reports
ER	English Reports
ESB	Economisch Statistische Berichten
ETMR	European Trade Mark Reports
et al.	et alii, et alia (and others)
et seq.	et sequens, et sequentes, et sequentia (and following)
etc.	et cetera (and so on)
EU	European Union
EWCA Civ	Court of Appeal Civil Division (England & Wales)
EWHC (Admin)	England and Wales High Court (Administrative Court)
diss.	General Agreement on Tariffs and Trade
FS	Festschrift
FSR	Fleet Street Reports
GRUR	Gewerblicher Rechtsschutz und Urheberrecht
GRURInt	Gewerblicher Rechtsschutz und Urheberrecht Internationaler Teil
GRUR-RR	Gewerblicher Rechtsschutz und Urheberrecht Rechtsprechungs-Report
GWB	Gesetz gegen Wettbewerbsbeschränkungen
HcoJ	High Court of Justice
HL	House of Lords
HR	Hoge Raad (Dutch Supreme Court)
ibid.	ibidem (in the same place)
ICC	International Chamber of Commerce
i.e.	id est (that is)
IER	Intellectuele Eigendom en Reclamerecht
IIC	International Review of Intellectual Property and Competition Law
IPQ	Intellectual Property Quarterly
IPRax	Praxis des Internationalen Privat- und Verfahrensrechts
ITC	Independent Television Commission
IVIR	Instituut voor Informatierecht (Institute for Information Law)
JAVI	Juridisch Tijdschrift voor Internet en E-business
JBL	Journal of Business Law

List of Abbreviations

JILT	Journal of Information, Law and Technology
JSPTL	Journal of the Society of Public Teachers of Law
J.U.	Juridische Uitgeverij
JZ	Juristenzeitung
LIDC	International League of Competition Law
KG	Kort Geding
LG	Landgericht
LJ	Learned Judge
LJN	Landelijk Jurisprudentie Nummer
LS	Legal Studies
LT	Law Times
LQR	Law Quarterly Review
M&M	Markt & mededinging
MLR	Modern Law Review
MMR	Multimedia und Recht
Monash U.L. Rev.	Monash University Law Review
MuW	Markenschutz und Wettbewerb
NBW	Nieuw Burgerlijk Wetboek (New Dutch Civil Code)
NbBW	Nieuwsbrief Burgerlijk Wetboek (now: Maandblad voor vermogensrecht)
NJ	Nederlandse Jurisprudentie
NJB	Nederlands Juristenblad
NJV	Nederlandse Juristen Vereniging
NJW	Neue Juristische Wochenschrift
No.	number
NRC	Dutch Advertising Code
NStZ	Neue Zeitschrift für Strafrecht
NSWLR	New South Wales Law Reports
NTBR	Nederlands Tijdschrift voor Burgerlijk Recht
NTER	Nederlands tijdschrift voor Europees recht
Nw. J. Tech. & Intell. Prop.	Northwestern Journal of Technology and Intellectual Property
OFCOM	Office of Communications
OFT	Office of Fair Trading
OJ	Official Journal of the European Communities
OLG	Oberlandesgericht
op. cit.	opere citato (in the work cited)
PRAR	Praktijkboek Reclame- en aanduidingsrecht
PUF	Presses Universitaires de France
QBD	Queen's Bench Division Law Reports
QMLJ	Queen Mary Law Journal
RA	Radio Authority

List of Abbreviations

RAC	RA Advertising and Sponsorship Code.
RabelsZ	Zeitschrift für ausländisches und internationales Privatrecht
RCADI	Recueil des Cours de l'Académie de Droit International
RCC	Reclame Code Commissie (Advertising Standards Committee)
Rdn	Randnummer (marginal number)
RDPI	Revue du Droit de La Propriété Intellectuelle
RG	Reichsgericht (Imperial court)
RGBI	Reichsgesetzblatt
RGZ	Sammlung der Entscheidungen des Reichsgerichts in Zivilsachen
Rich. JL & Tech.	Richmond Journal of Law and Technology
RIDC	Revue Internationale de Droit Comparé
RJDA	Revue de Jurisprudence de Droit des Affaires
RM (Themis)	Rechtsgeleerd Magazijn (Themis)
RPC	Reports of Patent Cases
Rtkom	Zeitschrift für das gesamte Recht der Telekommunikation now: Telekommunikations- & Medienrecht (TKMR)
RvdW	Rechtspraak van de Week
SC	Scots Session Cases
SCR	Canada Supreme Court Reports
SER	Sociaal-Economische Raad
SEW	Tijdschrift voor Europees en economisch recht
SLT	Scots Law Times
SRC	Stichting Reclame Code (Advertising Standards Organization)
Stan. L. Rev.	Stanford Law Review
Stb.	Staatsblad
TLR	Times Law Reports
Trb.	Tractatenblad
TRIPs	Agreement on Trade-Related Aspects of Intellectual Property Rights
TvC	Tijdschrift voor Consumentenrecht
TVVS	Maandblad voor Ondernemingsrecht en rechtspersonen
UCP Directive	Unfair Commercial Practices Directive
U. Dayton L. Rev.	University of Dayton Law Review
UK	United Kingdom

List of Abbreviations

UNIDROIT	International Institute for the Unification of Private Law in Rome
U.S.	United States Supreme Court Reports
USA	United States of America
USPQD	United States Patent Quarterly
UWG	Gesetz gegen den unlautern Wettbewerb (Act against Unfair Competition)
Va. L. Rev.	Vanderbilt Law Review
W	Weekblad van het Recht
WIPO	World Intellectual Property Organization
WLR	Weekly Law Reports
WPNR	Weekblad voor Privaatrecht, Notariaat en Registratie
WRP	Wettbewerb in Recht und Praxis
WTO	World Trade Organization
Yale LJ	Yale Law Journal
YEL	Yearbook of European Law
Zeup	Zeitschrift für Europäisches Privatrecht
ZGR	Zeitschrift für Unternehmens- und Gesellschaftsrecht
ZHR	Zeitschrift für das gesamte Handelsrecht und Wirtschaftsrecht
ZIP	Zeitschrift für Wirtschaftsrecht
ZRP	Zeitschrift für Rechtspolitik
ZUM	Zeitschrift für Urheber- und Medienrecht
ZvglRWiss	Zeitschrift für Vergleichende Rechtswissenschaft

Introduction

1.1 THE EUROPEANIZATION OF UNFAIR COMPETITION LAW

Competition is one of modern Western societies' sacred words. It is the force that drives forward the advance of material progress and prosperity, that spurs the discoveries of science, that hastens the development of the arts. It is not a modern concept, though. Even the ancient Greeks considered competition as a traditional and essential element of their culture.¹ Ordinary Greek mores placed a high value on the concept of 'agon', or competition, and the poet Hesiod spoke for the majority in distinguishing healthy (market-oriented) from unhealthy (war-oriented) forms of rivalry:

'I see there is not only one Strife-brood on earth, there are two. One would be commended when perceived, the other is reprehensible, and their tempers are distinct. The one promotes ugly fighting and conflict (...). But the other (...) rouses even the shiftless one to work. For when someone whose work falls short looks towards another, towards a rich man who hastens to plough and plant and manage his household well, then neighbour vies with neighbour as he hastens to wealth: this Strife is good for mortals.'²

Competition has arguably played an important role in commerce ever since it originated at the very start of communication in prehistoric times. From the moment it existed, competition has stimulated innovation, encouraged efficiency, and driven down prices, and it is touted as the foundation upon which capitalism is justified. Preserving competition by adhering to the principle of freedom of competition has therefore been one of the main aims of the economic policies of the trading nations. In the 18th century, French pioneer economists formulated the principles of *laissez-faire* as a reaction against mercantilism, a system of commercial controls in which industry and trade, especially

-
- 1 See e.g. Buckhardt, who emphasized in his lectures on Greek cultural history the element in ancient Greek culture that he called 'das Agonale': 'Attica was traditionally credited with the invention of civilization to an extent positively insulting to all others. According to this tradition, it was the Athenians who first taught the human race how to sow crops and use spring water; not only were they the first to grow olives and figs, but they invented law and justice, the agon [competition] and physical exercise, and the harnessing of horses to carts'. See the selections from these lectures published as: *The Greeks and Greek Civilization*, Burckhardt, Murray (Ed.), Stern (Tr.), New York: St. Martin's Press 1998, pp. 160-213 (The Agonal Age).
 - 2 Hesiod, *Works and Days*, (ll. 13-36).

Chapter 1

foreign trade, were merely seen as means of strengthening the state.³ Under the system of mercantilism, navigation laws, trade monopolies, taxes, and paternalistic regulations of all kinds rested heavily upon the rising class of merchants in the period of European colonial expansion. After the French Revolution, the *laissez faire* policies that were characterised by the absence of government intervention in trade, entrepreneurship and investment, came to dominate the economic policies of the Western countries. This prominent attitude towards free and unrestrained competition is particularly evident in American culture where ‘Winning isn’t everything; it’s the only thing’.⁴ As formulated by Emerson:

‘If a man write a better book, preach a better sermon,
or make a better mouse-trap than his neighbor, tho’
he build his house in the woods, the world will make
a beaten path to his door.’⁵

At the beginning of the 19th century, following the *laissez-faire* movement that had led to unbridled and often unfair competition, many countries began to enact legal restrictions to competition so as to guarantee fair and equal business competition. Nowadays, competition is basically regulated by two areas of the law.⁶ On the one hand, anti-trust law contains a set of rules that provide states with the means to stop behaviour by market participants that is likely to distort competition, in the interest of the market as a whole.⁷ Under anti-trust law the government takes the initiative to enforce compliance with these anti-trust regulations. Unfair competition law, on the other hand, deals with conduct between competitors and tries to prevent dishonest or fraudulent rivalry in trade

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- 3 See for an economic analysis of mercantilism and *laissez-faire* economics: Wallerstein, *The Modern World System* (three separate volumes), Academic Press: London 1976/1980/1989; Holroyd, *Government, International Trade, and Laissez-Faire Capitalism*, McGill-Queen’s University Press 2002, 280 pp.; Berend, *An Economic History of Twentieth-Century Europe: Economic Regimes from Laissez-Faire to Globalization*, Cambridge University Press 2006, 370 pp.; Kanth, *Political Economy and Laissez Faire*, Rowman & Littlefield Publishers, 1986; Heckscher/Magnusson (Intr.)/Shapiro (Transl.), *Mercantilism*, Routledge 1994, 916 pp.
 - 4 This statement is attributed to the famous American professional football coach Vince Lombardi, and came to exemplify a form of unfettered competitiveness that has permeated American sport and has been carried over into the general culture.
 - 5 Ralph Waldo Emerson, as recorded by Mrs. Sarah S. B. Yule during a lecture he gave in Oakland (California), 18 May 1871, in *The Oxford Dictionary of Quotations*, 3rd ed., p. 208, 1979.
 - 6 Cf. Verkade, *Ongeoorloofde mededinging*, Zwolle: Tjeenk Willink 1986, No. 1-5; Harte-Bavendamm/Henning-Bodewig/Brüning (2004), Einl. F, No. 125; Baumbach/Hefermehl/Köhler (2004), No. 6.11 et seq.; Fezer (2005), Einl., No. 39 et seq.
 - 7 With anti-trust law, the emphasis is on ‘competition’ as an economic entity that needs to be safeguarded.

and commerce.⁸ It is not the government but the market parties themselves that are charged with the enforcement of unfair competition laws. Kohler once compared unfair competition to Proteus, the son of Poseidon and Tethys, who was very difficult to catch as he changed into all possible forms:

‘denn die Unredlichkeit ist ein Proteus, der sich in tausend Formen flüchtet und gerade die gesetzlich verpönten Gestalten vermeidet, um in unzähligen Verkleidungen dem loyalen Verkehr die Früchte seiner redlichen Bemühungen abzujagen; ein Proteus, welcher daher nur durch ein ebenso gestaltenreiches Rechtsprincip, nicht durch das Spezialmittel eines einzeln formalen Rechtsinstitutes wirksam bekämpft werden kann.’⁹

The law of unfair competition, the subject-matter of which is dealt with in this research, has in most Western countries led to extensive regulations and case law so as to cover the wide range of unfair trading practices that may arise in trade.¹⁰ Originally, the focus was on the protection of the honest trader against the malpractices of his competitor. This focus has over the years shifted to encompass the protection of consumers who have been damaged by the unfair trading practices of a trader. The introduction of consumer protection into the realms of unfair competition law can largely be accounted for by the emergence of consumerism in the policy of the European Communities. In particular the last decade has shown the development of various legal instruments in the area of fair trading that focus on the protection of consumers against unfair trading practices. On 11 June 2005, the EC Unfair Commercial Practices Directive came into force.¹¹ This directive takes a great step towards the harmonisation of unfair competition law within the Community. It is the first Community legal instrument that contains a

8 With unfair competition law, the emphasis is on the prevention of unfair behaviour by market participants in trade.

9 ‘for dishonesty is like a Proteus, who takes on a thousand different forms and precisely avoids the legally proscribed figures, so as to bereave in innumerable disguises, the loyal traders of the fruits of their honest labour; a Proteus which hence can only be countered effectively by a legal principle of similarly manifold disguises, not by the specific instrument of a single formal legal institution.’ See Kohler, *Das Recht des Markenschutzes*, Würzburg 1884, p. 60.

10 It is evident that the regulation of unfair competition is not just an issue for juridical or economic deliberations, but also has a social significance, if we consider that there are even movies on this subject. See the 2001 Italian film ‘*Concorrenza sleale*’ by the director Ettore Scola, that tells the story of two shopkeepers in 1930s Rome selling clothes who enter into competition. A Catholic man named Umberto feels a professional rivalry with a nearby shopkeeper, a Jew named Leone. As he is losing business because Leone offers stock much like Umberto's and at lower prices, Umberto refers to Leone's products as well as his Jewish faith in a derogatory matter. A police officer overhears this, and Leone, who had previously been quiet about his Jewish heritage, soon finds himself having to deal with the sanctions being levied against Jewish citizens. As Umberto sees his neighbour being slowly stripped of his property, his rights, and his dignity, his anger turns to sympathy and he develops a friendship with his persecuted neighbour.

11 See chapter 2 (International and European law), § 2.6.2.2.

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general prohibition of unfair practices followed by specific provisions on the two unfair practices which chiefly violate consumer interests, namely misleading and aggressive practices. In line with the Consumer Policy Strategy 2002-2006, the Commission has opted for total harmonisation, a novelty, since most directives concerning consumer protection are based on minimum harmonisation. On the downside, the directive can be criticized for omitting rules on unfair competition that occur in business-to-business relations.

1.2 THESIS

This study focuses on the harmonisation of unfair competition law in the EU. Unfair competition is a very broad concept and encompasses according to Section 10bis (2) of the 1883 Paris Convention for the Protection of Industrial Property, ‘any act of competition contrary to honest practices in industrial or commercial matters’. Modern legislation, like the EC Unfair Commercial Practices Directive and the German Act against Unfair Competition of 2004, define unfair competition as unfair commercial practices that are likely to distort the economic behaviour of consumers.¹² The problem lies in defining what is fair and what is unfair. Most countries on the Continent have solved this issue by drafting provisions containing specific unfair trading practices that were in any case considered unfair. The common law countries, on the other hand, have abstained from defining what is fair or unfair. Consequently they have refused to adopt a law of unfair competition, although English law provides various legal remedies to traders (and consumers) against practices that would be defined as unfair competition by the civil law jurisdictions.¹³

Against this background, my research focuses on the past initiatives to attain harmonisation in unfair competition law and why these initiatives have not been completely successful, the differences between the laws of the Netherlands, Germany and the United Kingdom and their influence on the harmonisation process, and, finally, it focuses on the new and forthcoming initiatives for harmonisation coming from the European Commission. Accordingly, in this research I will try to find an answer to the following question: In view of the recent developments in European unfair competition law, is the complete harmonisation of unfair competition law feasible within the foreseeable future?

To this end, I will discuss the legislation and case law in the Netherlands, Germany and the United Kingdom. As for the United Kingdom that recognises no unfair competi-

12 Cf. Section 5(1) and (2) Unfair Commercial Practices Directive and Section 3 UWG 2004. In Section 5(2)(a) of the Directive, it is stated that these practices should be contrary to the requirements of professional diligence.

13 See chapter 5 (English law), §§ 5.2 and 5.5.1.7; chapter 6 (Comparative law), § 6.2.

tion law, I will assess which legal instruments are available to plaintiffs that can lead to the same results as unfair competition law under Dutch and German law. I will thereby not only focus on substantive law, but on issues of procedural law as well. The development of unfair competition law under Dutch and German law will be discussed as this is required for a clear understanding of the matter. For English law, there will be no separate discussion of legal history since there is no English law of unfair competition. In addition to a discussion of national unfair competition laws, I will also look at the unfair trading provisions that are contained in International as well as European law. The focus will primarily be on Section 10bis of the 1883 Paris Convention for the Protection of Industrial Property that has acted as a legal basis for unfair competition law in the Member States of the European Union. Besides that, as to European law, the focus will be on the 2005 EC Unfair Commercial Practices Directive. Also, I will *inter alia* address the relation between unfair competition law and the free movement of goods and services under primary European Union law, the relation between unfair competition law and the European Convention on Human Rights and the question of whether there is actually a legitimate need for the harmonisation of unfair competition law. With these issues in mind, I will turn to the main question and will try to assess whether the time is ripe for the harmonisation of unfair competition law.

1.3 DELIMITATION OF THE RESEARCH

This research deals with the harmonisation of unfair competition law and it involves an assessment of the laws of three Member States of the European Union as well as International and European law. Unfair competition law is such a broad area of the law, that even a part of it e.g. the element of confusion in unlawful imitation under German law, or the denigration of competitors under English law could be the object of a doctoral dissertation. Such dissertations would be extensive, considering the controversial character of unfair competitive practices and the vast literature on this subject that has been written in the past decades. To be able to discuss the very topical subject of the harmonisation of unfair competition law, I have therefore chosen to delimit my research in some ways. First of all, I will confine my research to an assessment of rules in, Dutch, German, English, International and European law. Although the topic of harmonisation would ideally involve a comparison of all 25 Member States of the European Union, I have chosen the three above-mentioned jurisdictions for the following reasons. Systematically speaking, unfair competition law in the countries of the European Union is basically addressed in three ways. Most countries feature specific regulations on unfair competition law. German law serves as a perfect role model for these cases. Particularly because of its recent reform, by way of the UWG 2004, German law will provide a very interesting contribution to my research. Other countries, like The Netherlands and France, do not provide for specific regulations on unfair competition, but they do provide protection against unfair competition based on the general tort clauses that are

articulated in their Civil Codes. I have chosen one of these countries, The Netherlands, as a proponent of this structural approach towards unfair competition. The common law jurisdictions, finally, do not recognize a clear concept of unfair competition in their national law. I have chosen the United Kingdom as one of the examples of the common law jurisdictions.¹⁴ It is, in my view, important to pick a country that belongs to each of these three categories, since I will try to indicate in my research that the differences in the legal approach towards unfair competition and the way it has been accommodated within the legal jurisdictions, are the most formidable obstacles – arguably more so than the differences in substantive law – to the harmonisation of unfair competition law. In addition, the three jurisdictions all belong to a different ‘legal family’ as defined by Zweigert and Kötz, so Dutch law belongs to the Romanic family, German law belongs to the Germanic family and English law belongs to the Common Law family.¹⁵ Finally, the three jurisdictions have certain characteristics that make them especially attractive for my research. Dutch and English law are interesting subjects, since both jurisdictions have demonstrated the greatest hesitation in accepting previous proposals for harmonisation.¹⁶ German law has the great advantage of having an overwhelming amount of legal literature on unfair competition law.

In addition to confining my research to the above-mentioned jurisdictions, I have also limited it to specific, but very essential areas of unfair competition. My primary focus will be on misleading advertising, discrediting competitors, know-how protection, unlawful imitation by misrepresentation, and, finally, misappropriation of another’s achievements. These are all areas that belong to the core of unfair competition law and that have not yet been fully harmonised, but where (full) harmonisation might prove feasible.¹⁷ Some areas will not be addressed since they have already been addressed to a full extent by the Community legislator,¹⁸ such as, for example, comparative advertis

14 For an analysis of unfair competition law in Ireland, see Bodewig, *Unlauterer Wettbewerb in Irland*, GRURInt 2004/10, p. 827-832.

15 Zweigert/Kötz, *An introduction to comparative law*, transl. by Tony Weir, 2d edition, Clarendon Press: Oxford 1992, p. 63 et seq. in particular p. 75. See also, on the issue of choosing a jurisdiction for a study of comparative law: Zweigert/Kötz (1992), p. 40-42; Oderkerk (1999), p. 47-60.

16 For English law, this attitude can probably be ascribed to the rejection of general clauses by the English common law lawyers. For Dutch law, it can probably be explained by referring to the adherence to the principle of free competition during the end of the 19th century/beginning of the 20th century. See the chapters English law (5) and Dutch law (3) for a further analysis.

17 The category of misappropriation of another’s achievements will not prove to be feasible for a general harmonisation, but I have chosen to address this issue nonetheless since it presents one of the main reasons (and fears) for common law lawyers to abstain from allowing a general law of unfair competition. See chapter 6 (Comparative law), § 6.6 and chapter 7 (Conclusion).

18 This also includes the protection of geographical indications of origin. These indications are separately protected under misleading and comparative advertising law, trademark law, specific EC regulations (for example the Council Regulation 2081/92 on the protection of geographical indications and designations for agricultural products and foodstuffs and the Council Regulation

ing¹⁹ and e-commerce issues like unsolicited commercial advertising.²⁰ Other areas of unfair competition law will not be dealt with as they do not belong to the 'core' of unfair competition law. Examples of this are boycott, discrimination, dumping and price maintenance, which might also be actionable under anti-trust law.

1.4 METHODOLOGY

For this research I have opted for the methodical approach that is referred to as the 'successive' comparative law study.²¹ I will begin by looking at unfair competition as it has been addressed under International and European law. Next I will address the unfair competition laws of the three previously mentioned jurisdictions one chapter at a time. After that, I will draw a comparison between these jurisdiction against the background of the harmonisation of unfair competition law as far as it has been reached under International and European law. Finally, I will draw conclusions as to the feasibility of harmonising unfair competition law. There are basically two reasons for using this

2082/92 on certificates of specific character for agricultural products and foodstuffs), as well as various international regulation like the 1891 Madrid Agreement on the Repression of Appellations of Origin and Indications of Source, the International Convention on the Use of Appellations of Origin and Denominations of Cheeses ('Stresa Convention' 1951), the 1958 Lisbon Agreement for the Protection of Appellations of Origin and their Registration and art. 22-24 of the TRIPs Agreement. See also chapter 2 (International and European law), § 2.2.2 and 2.2.3.b. See for more on geographical indication of origin: Audier, TRIPs agreement: agreement on trade-related aspects of intellectual property rights, European Commission Directorate-General for Trade, Luxembourg: Office for Official Publications of the European Communities 2000, 43 pp.; Bullbrook, Geographical Indications within GATT, *The journal of world intellectual property*, vol. 7, no. 4, pp. 501-522; Vroom-Cramer, *Juridische aspecten van geografische aanduidingen*, Deventer: Kluwer 2002, 146 pp.; Ponet, *De bescherming van benamingen van oorsprong, geografische aanduidingen en herkomstaanduidingen: een juridische analyse naar Belgisch, Frans, Nederlands, Europees en internationaal recht* (diss. Leuven), Antwerp: Intersentia 1998, 687 pp.; Streber, *Die internationalen Abkommen der Bundesrepublik Deutschland zum Schutz geographischer Herkunftsangaben* (diss. Munich), Köln: Carl Heymanns Verlag 1994, 234 pp.; Schloßmacher, *Grundrechtliche Aspekte geographischer Herkunftsangaben* (diss. Cologne), Cologne: Hundt Druck 1992, 159 pp. This area of the law will be addressed as a side issue in conjunction with areas such as e.g. misleading advertising or unlawful imitation.

19 Cf. Directive 97/55/EC 84/450/EEC of the European Parliament and of the Council of 6 October 1997 on Comparative Advertising, OJ L 290, p. 18 of 23 October 1997.

20 Cf. Directive 2002/58/EC of the European Parliament and of the Council of 12 July 2002 concerning the processing of personal data and the protection of privacy in the electronic communications sector (Directive on privacy and electronic communications), OJ 2002 L 201/37, that offers protection to privacy and contains a provision on product offers by unsolicited telephone calls or telefax messages and on e-mail spamming (see Section 13).

21 Kokkini-Iatridou et al., *Een inleiding tot het rechtsvergelijkende onderzoek*, Kluwer: Deventer 1988, p. 5.

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methodology in my research. First of all, it fits a research where the harmonisation of law is addressed. When trying to determine whether a certain subject-matter is eligible for harmonisation, it is important to clearly distinguish the approaches taken in the different Member States. Secondly, as the law of unfair competition consists of multiple actions against unfair competition, it clarifies matters when the separate actions are jointly addressed under one jurisdiction in the same chapter. An example could elucidate this: introducing the English tort of passing off in conjunction with the Dutch legal principle of slavish imitation and the German legal principle of unlawful imitation would make it impossible for me to examine the matter according to its merits and would prevent the reader from truly judging this tort on its merits. Introducing the tort of passing off, in conjunction with other English legal instruments, like the tort of malicious falsehood, will enable me to examine it in its common law framework.

1.5 TERMINOLOGY

As unfair competition law is still mostly a matter of national law, and because the United Kingdom does not have a law of unfair competition, there are many cases where the terminology will cause difficulties. To start with the phrase ‘unfair competition law’: while it will basically have the same meaning under all civil law jurisdictions, the common law lawyers will probably use it in various different ways, for example as a synonym for misappropriation.²² In this research, when I use the phrase unfair competition law, I refer to the way it is defined under the civil law jurisdictions that have based their definition on Section 10 of the Paris Convention that states that unfair competition is ‘any act of competition contrary to honest practices in industrial or commercial matters’, supplemented by specific acts of unfair competition like the ones mentioned in section 1.3.²³ In addition, the phrase unfair competition does not include anti-trust law.²⁴ Next, the use of the terms ‘pre-emption’ or ‘reflex-effect’,²⁵ might have its difficulties under English law, since it does not have a clear concept of pre-emption, unlike its neighbouring jurisdiction of the United States. The common law of torts and the statutory regulations seem to be ‘living’ a life which is fairly in isolation of one another, although sometimes situations do present themselves that appear similar to pre-

22 See chapter 5 (English law), § 5.5.1.7d and 6 (Comparative law), § 6.2.

23 This includes, but only for a very small part, the action of misappropriation. See chapter 6 (Comparative law), § 6.6.

24 See *supra* § 1.1.

25 The terms ‘pre-emption’ or ‘reflex-effect’ refer to the case where e.g. intellectual property regulations explicitly or implicitly declare that additional protection under unfair competition law is not desirable (negative reflex effect), or vice versa, if it explicitly or implicitly allows such additional protection (positive reflex effect).

emption.²⁶ Finally, in some cases I will use different words although all have a similar meaning. For example, the words trader, competitor, entrepreneur, business and company are basically interchangeable, and I use each of them whenever it seems best to do so.

1.6 PLAN OF ACTION

The present study has 7 chapters. Chapter 2 deals with the development of unfair competition on an International and European level. International regulations as well as proposals for unification will be discussed in addition to European proposals and regulations on unfair competition law. Before addressing the recent EC directive on unfair competition law, I will address the question of whether there is actually a legitimate need for the harmonisation of unfair competition law. Also, some common principles suggested in legal doctrine as alternative approaches to harmonisation will be discussed. In addition, the law of unfair competition will be connected with the Community principles of free movement of goods and services and the principle of freedom of expression under the European Convention on Human Rights. Chapter 3 analyses the law of unfair competition under Dutch law. Before looking at the substantive law issues, I will describe the development of unfair competition within the Dutch case law over the past decades. At the end I will address the question of whether the codification of unfair competition law in Dutch law is indeed feasible. Chapter 4 contains an analysis of German unfair competition law. First of all, the new UWG 2004 and the old UWG 1909 will be placed alongside each other. Next, the development of unfair competition under the German UWG since its first enactment in 1896 will be addressed. After discussing the substantive law issues, I will try to determine whether the new German law will make a good example for the complete harmonisation of unfair competition law. In chapter 4, English law will be discussed in relation to unfair competition. I will start by pointing out the reasons why English lawyers have rejected an action for unfair competition. Next I will discuss the substantive law topics by looking at legal instruments that provide for equivalent protection under English law. Misleading advertising and the protection of know-how are dealt with under their own headings since they are also dealt with under these headings in the English legal literature. The protection of competitors against discrediting remarks is placed under the tort of malicious falsehood and the law of defamation.²⁷ Unlawful imitation by misrepresentation is placed under the heading of passing off. At the end, I will discuss the issue of whether the tort of passing off may have expanded into a tort of unfair competition.

26 Cf. Chapter 5 (English law), § 5.5.1.5.

27 And for a small part under the heading of the Control of Misleading Advertisements (Amendment) Regulations 2000, that includes comparative advertising.

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The second part of this study starts with chapter 6, which contains a comparative law study of the three jurisdictions that have been discussed in the previous chapters against the background of international and European rules on unfair competition. Finally, chapter 7 will be dedicated to a summary of the conclusions of the research that should provide an answer to the question of the thesis posed in § 1.2.

International and European Unfair Competition Law

2.1 INTRODUCTION

The law of unfair competition has a long history, both on the national and international level. The protection of honest traders against malpractices by their competitors has been on the international agenda for a long time. The increase in international competition, brought about *inter alia* by the process of industrialization, the removal of logistical barriers by the introduction of modern ways of communication and transporting goods and the general increase in prosperity, led to various practices in trade that were considered to be unfair and uncompetitive.

This development of a more internationally-oriented flow of technology and the increase in international trade generated, during the second half of the 19th century, a demand for protection against unfair competitive practices. The laissez-faire approach of solely relying on the self-regulation of market forces proved not to function in reality, despite the theoretical soundness of its basic model. To reach a level of effective, workable competition in the market, a certain degree of state ‘interference’ was needed in the form of legal regulation so as to counter the market failures that existed in trade. This state interference took the shape of competition law, which developed into two dimensions: antitrust law and unfair competition law.¹

The law of unfair competition from its very origins was aimed at protecting individual competitors by ensuring that all market participants should fight and compete in a fair and decent manner and in accordance with the rules of the ‘game’ in the field of competition.² Although antitrust law plays a crucial role in maintaining free competition, specific rules on unfair competition are needed to supplement the inadequacy of the self-regulation of market forces and to counter the resulting market failures.³ Consequently, international principles on unfair competition have been drafted. These principles will be discussed in the next section. Next, I will address the status of unfair competition law within the European context, followed by an outline of certain concepts that have been developed in doctrine as (proposed) underlying principles of unfair competition law. Finally, I will discuss several new developments regarding the harmonisation of unfair competition law.

1 See on the relationship between antitrust and unfair competition law, chapter 1, § 1.1.

2 Kirkbride, *The law of unfair competition: is there an E.C. approach*, *Company Lawyer* 2000, 21(8), p. 230.

3 *Ibid*, p. 230.

2.2 INTERNATIONAL RULES ON UNFAIR COMPETITION

The international regulation of unfair competition law basically fell into line with the regulation of intellectual property law. Unfair competition law at the time was primarily concerned with the protection of the honest competitor against unfair trading practices. Most of these unfair trading practices were equivalent to the actions prohibited by industrial property law. Protection against unfair competition was consequently recognized as forming part of industrial property protection. The first international regulation of unfair competition law was therefore included in the Paris Convention for the Protection of Industrial Property.

2.2.1 The Paris Convention for the Protection of Industrial Property

The Paris Convention for the Protection of Industrial Property was adopted in 1883. It contained no provisions expressly dealing with unfair competition, although the Preamble referred to the desire of the contracting states to guarantee fair trade.⁴ The Brussels Conferences of 1897 and 1900, which amended the Paris Convention, first applied the principle of national treatment to laws of unfair competition by adopting a new Article 10bis that prohibited discrimination in the application of national unfair competition laws.⁵ The Article did not, however, require any level or kind of protection.⁶ Some ten years later, in the Washington revision of 1911, the obligation for countries of the Union to assure to nationals of other contracting states effective protection against unfair competition, now found in Article 10bis (1), was included. It is interesting to notice,⁷ as a side note, that the United Kingdom was responsible for the original proposal for this provision.⁸ In addition, in the period 1919 to 1925 the United Kingdom was also the principal advocate of enhanced international protection against unfair competition, leading to the inclusion of a definition of unfair competition in the Hague Revision of 1925, presently contained in Article 10bis (2) of the Paris Conven-

4 In the French text: 'la loyauté des transactions commerciales'.

5 'Les ressortissants de la Convention (art. 2 et 3), jouissent, dans tous les Etats de l'Union, de la protection accordée aux nationaux contre la concurrence déloyale'.

6 See Wadlow, *The International Law of Unfair Competition: The British Origins of Article 10bis of the Paris Convention for the Protection of Industrial Property*, Oxford Intellectual Property Research Centre Working Paper Series No. 4, February 2003, <http://www.oiprc.ox.ac.uk/EJWP0403.html>, p. 8. See also for an analysis of unfair competition law in relation to TRIPs, in particular with a view on the British attitude towards unfair competition: Wadlow, *The law of passing-off: Unfair competition by misrepresentation*, London: Sweet & Maxwell 2004, No. 2-60 et seq.

7 If one takes the present reserved attitude of the United Kingdom towards awarding protection against unfair competition into account.

8 Cf. Wadlow, *Oxford* (2003), p. 4.

tion.⁹ Nevertheless, the attitude of the United Kingdom towards drafting a law of unfair competition, from that moment on until the present day, has been nothing if not conservative.¹⁰ Finally, in the London (1934) and Lisbon (1958) revisions, a paragraph 3 of Article 10bis was added containing examples of unfair competition that in particular are to be prohibited.

As a result of the last revision at the Stockholm Conference 1967, the Article 10bis now reads as follows:

Article 10bis

[Unfair Competition]

(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.

a General clause

Article 10bis (2) of the Paris Convention defines unfair competition as any act of competition contrary to honest practices in industrial or commercial matters. Under this definition, countries of the Union are free to grant protection against unfair trading practices even if the parties involved are not competing against each other.¹¹ The sole requirement for liability under this Article is that the act of unfair competition (or: unfair trade practice) violates the ‘honest practices in industrial and commercial matters’. The definition of what are considered to be ‘honest practices in industrial and commercial matters’ is left to the national courts and administrative authorities.¹² The Paris Conven-

9 ‘Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition’.

10 Wadlow, Oxford (2003), p. 5.

11 WIPO publication No. 725 (E), Protection against Unfair Competition, Geneva 1994, p. 18; Xiao Yi Chen, The Status of International Protection against Unfair Competition, EIPR 1997, 19(8), p. 422. This leaves room for, *inter alia*, protection against confusion in case of dissimilar products. While Art. 10bis (2) of the Paris Convention does not require the parties to be involved in a competitive relationship, the allegedly unfair act should be trade-related (an ‘act of competition’) and be liable to distort the free competition.

12 WIPO publication (1994), p. 18; Xiao Yi Chen (1997), p. 422.

tion does not therefore provide for a uniform standard within the countries of the Union with regard to these ‘honest practices’.¹³ The definition of ‘honest practices’ is not limited to honest practices existing in the country where protection against unfair competition is sought. Honest practices established in international trade have to be taken into account as well.¹⁴ As opposed to most national legislation that, in assessing a trade practice to be unfair, prescribe a more objective criterion like ‘unfairness’,¹⁵ ‘bonos mores’,¹⁶ ‘fair commercial practices’,¹⁷ ‘good marketing practices’,¹⁸ unlawfulness¹⁹ and fault,²⁰ the Paris Convention adheres to the more subjectively-orientated standards of decency as upheld in trade.

b Specific cases of unfair competition

In addition to the general clause, the Paris Convention mentions three cases which ‘in particular shall be prohibited’. These are (1) creating confusion, (2) discrediting competitors through false allegations and (3) misleading the public.

The first case largely overlaps with trademark law. European harmonisation of trademark law under the Trademark directive, and the resulting case law of the European Court of Justice, has expanded the scope of protection under European trademark law. As a result, the subject-matter as addressed in the Paris Convention is nowadays largely covered by European trademark law.²¹ However, there are still cases in which the Paris Convention may confer protection going beyond trademark law. This may be the case when protection is sought for designations that are not registered under trademark law and have not yet acquired any secondary meaning. Or, alternatively, if a trader wants to protect his goods from being slavishly imitated. European trademark law does not preclude supplementary protection against confusion based on unfair competition law, as is explicitly mentioned in the preamble to the Trademark Directive:

13 Schricker, in: Jacobs/Lindacher/Teplitzky, Großkommentar zum UWG, 1st edition, 1990 et seq., Einl. Rn. F 53 et seq.; Henning-Bodewig, Der internationale Schutz gegen unlauteren Wettbewerb, in: Schricker/Henning-Bodewig, Neuordnung des Wettbewerbsrecht, 1999, 21,31; Beater, Europäisches Recht gegen unlauteren Wettbewerb – Ansatzpunkte, Grundlagen, Entwicklung, Erforderlichkeit, ZEuP Volume 67 (2003), p. 26.

14 Bodenhausen, Guide to the application of the Paris Convention for the protection of Industrial Property, Birpi: Geneva 1968, p. 144.

15 As used in Germany, see UWG § 3.

16 As used in Austria, Greece and Portugal.

17 As used in Belgium, Italy, Luxembourg and Spain.

18 As used in Denmark, Finland and Sweden.

19 As used in the Netherlands.

20 As used in France.

21 See also *sub* 2.3.5.2c.

‘(...) Whereas this Directive does not exclude the application to trade marks of provisions of law of the Member States other than trade mark law, such as the provisions relating to unfair competition, civil liability or consumer protection; (...)’

Although additional protection is allowed, this protection should not be based upon trademark law, but upon a different legal concept such as, for instance, unfair competition law.

Discrediting a competitor, the second case of unfair competition specifically mentioned in Article 10bis of the Paris Convention, is defined as the issuing of any false allegation concerning a competitor that is likely to harm his commercial goodwill. By discrediting its competitor, a business may try to entice customers by providing incorrect information. This is done by casting untruthful aspersions on a competitor, his products or his services. This type of behaviour is, in most cases, directed at another’s competitive business and is therefore confined to B2B relationships. The consumer is only of secondary concern. Discrediting one’s competitor has not been a topic of European harmonisation so far.

The third case, finally, deals with the misleading of consumers, by creating a false impression of one’s own products and services. As a result, an honest competitor may lose clientele since consumers will rely on the incorrect information provided and will consequently be falsely enticed to buy the other competitor’s goods. This type of unfair competition, as dealt with in Article 10bis of the Paris Convention, is – again – mainly directed at the protection of (honest) competitors. The Paris Convention, therefore, does not emphasize the protection of the consumer in this respect. The introduction of consumer protection within the realms of unfair competition law took place at a later date.²²

c Legal redress

By way of Article 10bis, the Paris Convention establishes a common denominator of protection against unfair competition in each country of the Union.²³ In addition to this Article, Article 10ter provides for the obligation to ensure ‘appropriate legal remedies (...) to repress all the acts referred to’ in Article 10bis. In particular, measures must be taken to permit federations and associations representing interested industrialists, producers or merchants to take action, provided that this is not contrary to the laws of the country concerned and does not exceed the rights normally granted to national associations. The countries of the Union, however, are left with a wide margin of appreciation as to how to implement these treaty obligations.²⁴ The Paris Convention,

22 See *sub* § 2.4.

23 Xiao Yi Chen (1997), p. 422.

24 Xiao Yi Chen (1997), p. 421.

under the principle of national treatment, does obligate each country of the Union to accord to the nationals of all other countries of the Union treatment which is not less favourable than the treatment it accords to its own nationals.²⁵ This right must be afforded without a requirement of domicile or establishment in the country where protection is claimed. Moreover, the Paris Convention stipulates in Article 10bis minimum protection against unfair competition, which shall be guaranteed to *foreign* members of the Paris Convention.²⁶ The Paris Convention does, however, not mandate the introduction of corresponding provisions in national legislation.²⁷ The Paris Convention has therefore not substantially effected the unification of unfair competition law within the countries of the Union, although it has probably persuaded most countries of the Union to draft rules on unfair competition providing for at least a minimum level of protection to nationals so as to prevent national discrimination.²⁸ But apart from that, the Paris Convention is of limited influence to the status quo of contemporary international unfair competition law.²⁹

2.2.2 Special agreements following the Paris Convention

Following the Paris Convention, various special agreements were adopted that contain provisions relating to unfair competition law. The 1891 Madrid Agreement³⁰ contains three obligations relating to the use of false or misleading or deceptive indications of the geographic origin of goods. As the Madrid Agreement only relates to the use of geographic indications and as only a limited number of countries have become a party to the Agreement, it has so far not been of any decisive international relevance.³¹

25 Article 2 of the Paris Convention.

26 Countries of the Union are therefore not obliged to provide to their own citizens the minimum protection stipulated under Article 10bis.

27 Henning-Bodewig, International Protection against Unfair Competition – Art. 10bis Paris Convention, TRIPS and WIPO Model Provisions, IIC 02/1999, p. 168. See also Derruppe, Concurrence déloyale ou illicite, Dalloz, Répertoire de droit international, Part 1, Paris 1998, No. 28; Permanent Bureau of the Hague Conference on Private International Law, Note on conflicts of laws on the question of unfair competition: background and updated, Preliminary Document No. 5 of April 2000 for the attention of the Special Commission of May 2000 on general affairs and policy of the Conference, p. 11.

28 Henning-Bodewig (IIC 1999), p. 188.

29 Cf. Henning-Bodewig (IIC 1999), p. 188; Beater (2003), p. 26. Beater indicates that the absence of any binding case law by the International Court of Justice, that pursuant to Article 28 of the Paris Convention may hear a claim brought by one of the contracting states, may be one of the reasons for the limited influence of the Paris Convention.

30 Agreement on the Repression of Appellations of Origin and Indications of Source, as amended by the Lisbon 1979 revision. Only a limited number of countries, 33 as of January 1995, are party to this agreement. Several countries that are important in international trade are not a party to this agreement, such as the United States, Canada, Australia and most Latin America countries.

31 See Xiao Yi Chen (1997), p. 422.

The 1958 Lisbon Agreement³² establishes an international system of registration and protection for appellations of origin.³³ It seeks to provide protection to the appellations of origin of other Member States which are recognized as such in the country of origin and which are registered in an international register administered by the International Bureau of the WIPO. Just as the Madrid Agreement, the Lisbon Agreement is of limited relevance due to the small number of Member States and its narrow application to unfair competition law.

2.2.3 TRIPs³⁴

Following the 1968-94 Uruguay Round of negotiations, the Agreement on Trade Related Aspects of Intellectual Property (TRIPs) was drafted as part of the General Agreement on Tariffs and Trade (GATT).³⁵ The TRIPs Agreement forms the so-called third pillar of the World Trade Organization. It introduced a set of enforceable intellectual property rules for the international community. In so doing, it explicitly refers to the main international agreements on intellectual property law, including the Paris Convention.³⁶ Nonetheless, the unfair competition provision of the Paris Convention (Article 10bis) is incorporated into the TRIPs Agreement only in so far as it provides a framework for the protection of undisclosed information³⁷ (i.e. trade secrets) and geographical indications.³⁸ The question arises whether these provisions have direct

32 Agreement on the Protection of Appellations of Origin and their International Registration, as amended by the Lisbon 1979 Revision.

33 Article 2(1) of the Lisbon Agreement defines an appellation of origin as ‘the geographical name of a country, region, or locality, which serves to designate a product originating therein, the quality and characteristics of which are due exclusively or essentially to the geographical environment, including natural and human factors’.

34 See for an comprehensive overview of international protection against unfair competition under the TRIPs Agreement: Blackeney, *Trade Related Aspects of Intellectual Property Rights – A Concise Guide to the TRIPS Agreement*, Sweet & Maxwell: London 1996; Reger, *Der internationalen Schutz gegen unlauteren Wettbewerb und das TRIPS-Übereinkommen*, 1999.

35 The TRIPs Agreement is Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization, signed in Marrakesh, Morocco on 15 April 1994, as a result of the 1986-94 Uruguay Round negotiations.

36 See Article 2 of the TRIPs Agreement.

37 Article 39 TRIPs Agreement.

38 Articles 22-24 TRIPs Agreement. See Samuelson, *Challenges for the World Intellectual Property Organisation and the Trade Related Aspects of Intellectual Property Rights Council In Regulating Intellectual Property Rights In The Information Age*, *EIPR* 1999, 21(11), p. 531. See also Hennig-Bodewig, *IIC* vol. 30, no. 2/1999, p. 180; Schricker, *Twenty-Five Years of Protection Against Unfair Competition*, 26 *IIC* 782 (1995) and Fikentscher, *Wettbewerbsrecht im TRIPS-Agreement der Welthandelsorganisation*, 1995 *GRUR Int.* 529, 532.

effect.³⁹ This relates to the complex nature of the relationship between EU and WTO law. The EU does not unambiguously consider the TRIPs Agreement to have direct effect since the dispute settlement provisions were characterised by a great degree of flexibility.⁴⁰ The TRIPs Member States are, nonetheless, obligated to ‘give effect’ to the TRIPs Agreement in national law. A distinction must be made between provisions that have a mandatory or a discretionary character. This distinction will indicate whether a provision has direct effect.⁴¹ Article 39 of the TRIPs Agreement, which provides for the protection of trade secrets, is considered to be directly applicable.⁴² Articles 22-24 of the TRIPs Agreement, providing protection for geographical indications, are considered to be devoid of direct applicability.⁴³

Besides the provisions on the protection of trade secrets and geographical indications, no other provision exists that directly relates to unfair competition law. The TRIPs Agreement thus only provides protection against unfair competition in a few specific cases.⁴⁴

2.2.4 WIPO Model Provisions on protection against unfair competition

As we have seen, under Article 10bis of the Paris Convention, Member States are obliged to provide for protection against unfair competition. The same obligation exists under Article 2 of TRIPs, according to which Members of the World Trade Organization bound by Article 2 of that Agreement are obliged to comply with Article 10bis of the Paris Convention, as far as the protection of trade secrets and geographical indica-

39 Only in countries that have a monist approach to the implementation of International Treaties may provisions have direct effect, meaning that they are ‘self-executing’. In those countries that have a dualist approach (e.g. the United Kingdom), enabling legislation is required for the implementation of International Treaties.

40 See e.g. Council of Europe, OJ EC 1994, No. L 336, pp. 1-2. See also Case C-149/96 *Portugal v. Council* [1999] ECR I-8395, paragraph 41 ‘It follows that the WTO agreements, interpreted in the light of their subject-matter and purpose, do not determine the appropriate legal means of ensuring that they are applied in good faith in the legal order of the contracting parties’ and paragraph 47; Case C-280/93 *Germany v. Council* [1994] ECR I-4973, paragraphs 103 to 112.

41 See for a detailed review of this matter: Moncayo von Hase, *The Application and Interpretation of the Agreement on Trade Related Aspects of Intellectual Property Rights*, in: *Intellectual Property and International Trade – the TRIPs Agreement*, C.M. Correa et.al., Kluwer Law International, London: 1998, p. 93 et seq.

42 Reger (1999), p. 212 et seq.

43 Reger (1999), p. 282 et seq.

44 Schricker/Henning-Bodewig, *Rechtsvergleichende Untersuchung im Auftrag des Bundesministerium der Justiz, MPI-Institut Munich*, July 2001, p. 21. Besides, the TRIPs Agreement is primarily directed towards addressing the interests of competitors, not consumers. It can therefore only provide a basis for protection against unfair competition when a competitor’s interests are harmed.

tions are concerned.⁴⁵ However, many authors – in the second half of the 20th century – believed that Article 10bis of the Paris Convention had become outdated and they proposed its modernisation.⁴⁶ The International Bureau of the World Intellectual Property Organization (WIPO) drafted ‘as a first step in a series of activities concerning protection against unfair competition’⁴⁷ a set of Model Provisions on unfair competition law.⁴⁸ The Model Provisions implement the obligations that exist under the Paris Convention and the TRIPs Agreement ‘by defining, in Articles 2 to 6, the principal acts or practices against which protection is to be granted and by providing a basis for protection against any other acts of unfair competition in Article 1(1)’.⁴⁹ These Model Provisions were drafted following a study in the field of unfair competition law, as presented by the International Bureau of the WIPO.⁵⁰

The WIPO Model Provisions are an elaboration of Article 10bis of the Paris Convention. The general provision, Article 1, states that in addition to the acts of unfair competition set out in Articles 2 to 6, ‘any act or practice, in the course of industrial or commercial activities, that is contrary to honest practices shall constitute an act of unfair competition’. The general clause closely resembles that of Article 10bis of the Paris

45 Some authors believe that the TRIPs Agreement also generally incorporates (all) minimum standards of the Paris Convention. See e.g. Reichmann, *Universal Minimum Standards of Intellectual Property Protection under the TRIPs Component of the WTO Agreement*, in: *Intellectual Property and International Trade – the TRIPs Agreement*, Correa et.al., London: Kluwer Law International 1998, p. 69.

46 Dyer, *Unfair competition in private law – Collected course of the Hague Academy of International Law*, Dordrecht: 1990, Martinus Nijhoff, note 5 at page 383.

47 *Protection against unfair competition: Analysis of the present world situation*, WIPO Publication No. 725(E), Geneva 1994, p. 3.

48 *Model Provisions on protection against unfair competition: Articles and notes*, WIPO Publication No. 832, Geneva 1996, 68 pp.

49 See *supra* 48, p. 6. The Model Provisions explicitly refer to the Paris Convention as well as the TRIPs Agreement. The relationship between the WIPO and the WTO is, in this respect, not completely clear. In December 1995, the WIPO and the WTO concluded an Agreement that provides for *inter alia* the availability of legal-technical assistance by the two Organizations to developing countries relating to the TRIPs Agreement. WIPO received a mandate to assist countries in the TRIPs implementation. WIPO's legislative advice to these countries is provided on the basis of WIPO's basic draft laws which are reviewed and updated by WIPO to take into account developments in the field of intellectual property. Among these draft laws are the 1996 WIPO Model Provisions on Protection Against Acts of Unfair Competition. So, although these Model Provisions are formally a proposal for a possible way of implementing the unfair competition provisions of the TRIPs, it is clear that the Model Provisions more directly relate to the Paris Convention. WIPO, by way of the Model Provisions, has drafted (proposals) for legislation on matters that were not fully dealt with under the TRIPs Agreement.

50 See *supra* 47. The study is based upon research conducted by the Max Planck Institute for Foreign and International Patent, Copyright and Competition Law in Munich completed by expert opinions.

Convention. As we will see, however, the Model Provisions are – as is the case with the Paris Convention – limited to a set amount of ‘classic’ acts of unfair competition.⁵¹ They supplement the types of unfair competition as mentioned in the Paris Convention (creating confusion, discrediting one’s competitor and misleading the public) by adding provisions that provide protection for trade secrets and to prevent badges of trade from being diluted.⁵² The provision on trade secrets is consonant with Article 39 of the TRIPs Agreement. Not included, however, are provisions on other areas of unfair competition, e.g. slavish imitation or other forms of ‘free riding’ other than dilution, sales promotions (e.g. lotteries, free gifts etc.) or taking the lead over one’s competitors by benefiting from a violation of the law. More importantly, although the Model Provisions do incidentally refer to consumer protection⁵³ as opposed to the Paris Convention, the interests of consumers play only a marginal part. This is most indicative by the omission of any rules on the enforcement of these Provisions for the consumer. Consequently, the Model Provisions, by not integrating consumer protection law to a greater extent, do not seem to be on a par with the developments in modern unfair competition law.⁵⁴

Nonetheless, the Model Provisions are, to some extent, an improvement on or at least an extension to Article 10bis of the Paris Convention. First of all, the Model Provisions clearly do not stipulate the presence of a relationship between economic competitors.⁵⁵ While the Paris Convention mentions ‘*any act of competition* contrary to honest practices...’,⁵⁶ the Model Provisions use the words ‘*any act or practice (...)* that is contrary to honest practices’. Secondly, while the Paris Convention, as we have seen, provides for the obligation to ensure appropriate legal remedies to repress all the acts referred to in Article 10bis, the Model Provisions leave room for the expansion of this notion. Article 1(1)(b) of the Model Provisions states that ‘any natural person or legal entity damaged or likely to be damaged by an act of unfair competition shall be entitled to the remedies referred to in ...’. The dots at the end of this provision have not been filled in, since, according to the Notes to the Model Provisions, ‘provisions on enforcement will be added to the Model Provisions at a later stage, after a study on the enforcement of

51 Schricker/Henning-Bodewig (2001), p. 105. See for an outline of the acts of unfair competition as specified in the Model Provisions: Gielen, WIPO and unfair competition, EIPR 1997, 19(2), pp. 78-81.

52 See Henning-Bodewig, in: Schricker/Henning-Bodewig, Neuordnung des Wettbewerbsrecht, Nomos: 1999, p. 37 et seq.

53 WIPO Model Provisions, notes 1.06, 4.01 and 4.05. See also Henning-Bodewig, UWG, 39; Schibli, Multistate-Werbung im internationalen Lauterkeitsrecht mit besonderer Berücksichtigung der Internet-Werbung, diss. Zurich 2004, p. 41.

54 See *supra* § 2.4.

55 Gielen (1997), p. 79.

56 Although, as we have seen, this can also be interpreted as the Paris Convention including protection against acts of unfair competition where no competitor relationship is present, see *supra* 11.

intellectual property rights has been carried out by the International Bureau.⁵⁷ Reference is thereby made to the provisions of Part III of the TRIPS Agreement, entitled 'Enforcement of Intellectual Property Rights'.⁵⁸ Such remedies should be available to businesses and consumers as well as consumer associations. The Notes to the Model Provisions also endorse systems of self-regulation, like e.g. 'codes of conduct applying to newspaper and broadcast advertising, sales promotion, the advertising of employment and business opportunities, mail order sales, sales of cosmetics, tobacco, alcoholic drinks and so on'. Opinions provided by self-regulatory bodies cannot, according to the Notes, be enforced in national courts, but may nevertheless provide them with guidance when considering unfair competition matters.

The WIPO Model Provisions have led to discussions in the literature. Gielen, as a proponent of the Model Provisions, states that they are 'an extremely useful tool for countries wishing to adopt or improve legislation on unfair competition'.⁵⁹ Cornish, in a reaction to this outline, opposes the broad interpretation of the Paris Convention by means of the Model Provisions. In his view, the WIPO Model Provisions are simply a tool for assisting countries to implement international obligations. He indicates that these Model Provisions on unfair competition favour a 'very extensive view of activities which should constitute unfair competition'.⁶⁰ Cornish believes that they take a highly protective view of the scope of unfair competition. In this respect, he indicates the protection provided by the Model Provisions as being in some areas equivalent to (European) trademark protection, as is the case with protection against the dilution of one's badge of trade. In some cases, he argues, the Model Provisions may provide for protection when trademark law does not do so, as could be the case when there is

57 WIPO Publication No. 832, p. 12. To my knowledge, these provisions on enforcement have not been added to date.

58 According to the Notes to the Model Provisions, 'the provisions on enforcement will be added to the Model Provisions at a later stage, after a study on the enforcement of intellectual property rights has been carried out by the International Bureau. Due account will be taken in that connection of the provisions of Part III of the TRIPS Agreement, entitled 'Enforcement of Intellectual Property Rights'.' However, the provisions on enforcement of intellectual property rights as stated in part III of the TRIPs Agreement, relate to intellectual property rights as specified in Sections 1 to 7 of Part II of the TRIPs Agreement (see Article 1(2) TRIPs Agreement). These include geographical indications and trade secrets. Unfair competition as a whole, however, does not fall within the definition of intellectual property rights within the meaning of the TRIPs Agreement. The TRIPs Agreement does not therefore extend its procedural requirements to unfair competition law as such. See also Cornish, *Genevan bootstraps*, *EIPR* 1997, 19(7), p. 337. The provisions on 'Enforcement of Intellectual Property Rights' in the TRIPs Agreement may therefore serve as a guideline for devising specific provisions, but they are not directly applicable to unfair competition law.

59 Gielen (1997), p. 81.

60 Cornish (1997), p. 337.

likelihood of ‘association’ in the absence of a likelihood of confusion.⁶¹ Furthermore, he dislikes the possibility granted to competitors to take action against advertisements that mislead the public.⁶² In short, he believes the WIPO Model Provisions to be part of a race to promote extensions of intellectual property and that they threaten to destroy the balance between protection and competition.

2.2.5 The International League of Competition Law

The unification of unfair competition law has been the topic of discussion in various scientific associations as well.⁶³ One of them is the International League of Competition Law (LIDC), which has as one of its aims ‘to promote the principles of fairness and justice in competitive trade’ and to ‘campaign against all types of unfair competition’.⁶⁴ At its Congress in Berlin in September 1994, the International League of Competition Law adopted the following Resolution:

‘1. Competent national authorities provide for effective protection against unfair competition at least according to the standards of article 10 bis of the Paris Convention, and, where necessary to

61 Ibid., p. 337.

62 Although this possibility granted to competitors is indeed not implicitly present under the Paris Convention that serves as a basis for these Model Provisions, it is nonetheless a sound possibility for the Member States of the European Union. The EC Directive on Misleading and Comparative Advertising explicitly states that its rules are meant to protect the interests of consumers as well as competitors. It is therefore not completely illogical to include this possibility in the Model Provisions.

63 For example, in around 1950 the Institute for the International Unification of Private Law in Rome (UNIDROIT) prepared a comparative study on the concepts and theoretical foundation of legal actions for unfair competition in seven different European countries. The outcome was not very positive. See: Observations préliminaires pour une étude comparative en matière de concurrence déloyale, U.D.P. Rome 1957, Études: XLI Concurrence déloyale, Doc. 1 and: Rapport sur les possibilités de réaliser une certaine unification en matière de concurrence déloyale, U.D.P. Rome 1950, Études: XLI Concurrence déloyale Doc. 2. Another report was presented by the International Association for the Protection of Intellectual Property (AIPPI) in 1994, in the form of a Resolution on ‘Effective protection against unfair competition under Article 10bis Paris Convention of 1883’, Question Q115, AIPPI Yearbook 1994/II, pp. 398 – 404. This report is an elaboration of Article 10bis of the Paris Convention and the subsequent WIPO study (see *supra* 47). The AIPPI Executive Committee in Copenhagen, which drafted this report, provides a definition of unfair competition law and proposes the unification of this subject-matter, in particular in the areas covered by the Paris Convention, as well as in the areas of dilution, slavish imitation and trade secrets.

64 The LIDC was formed in 1930 and since 1984 it has been called ‘Ligue Internationale du Droit de la Concurrence’ or ‘International League of Competition Law’. It is a Swiss independent scientific association consisting of National and Regional Groups and Individual members in countries all over the world.

- achieve such protection, by adopting specific laws relating to unfair competition rather than by piecemeal legislation;
2. states and international organisations accelerate the harmonisation of laws relating to unfair competition based on the preceding recommendation.
 3. For example: the following principles should be taken into account:
 - with respect to deception, that
 - a) the mere risk of deception is in principle sufficient to constitute unfair competition and
 - b) the intention to deceive is not required to constitute unfair competition.
 - with respect to comparative advertising, that the reference to another's mark or name should be permitted only to the extent that such reference does not take unfair advantage of and is not detrimental to the distinctive character or reputation of the mark or name.⁶⁵

The LIDC has, in addition to this Resolution, published various papers that relate to unfair competition.⁶⁶ It organizes a congress for its members on a yearly basis, whereby a group of experts present national reports on various matters relating to unfair competition, which they have previously been requested to draft. These reports discuss differences between the laws of various nations on issues of unfair competition.⁶⁷

2.2.6 Conclusions

The Paris Convention and other relevant international conventions have established a minimum level of protection against unfair competition in each Member State. The WIPO Model Provisions on unfair competition are not binding, and neither were they unequivocally received in the literature. Although it is safe to say that no real unification has been attained in international law regarding unfair competition, the international conventions have nonetheless resulted in the drafting of rules on unfair competition on the national level. All countries that have established market economy systems have devised some kind of safeguard against unfair competition. The questions raised and

65 International Review of Competition Law, 1994, No. 175, p. 13.

66 See e.g. Remiche, *La relation actuelle entre le droit de la concurrence et le droit déloyale est-elle satisfaisante*, Rapport général, RIDC 1995-2, 35-61; De Caluwé/Delcorde/Didier Putzeys, *Les règles de concurrence dans le monde – Evolution récente*, RIDC 1997-23, 14-37; Loewenheim, 'Harmonisierung des Rechts des Unlauteren Wettbewerbs', RIDC 1994-2, 33-44 and RIDC 1993-3, 6-23. See also AIPPI, *Annuaire 1994/I*, 61-72.

67 Topics include, e.g., the approach towards comparative advertising, the regulation of domain names, the treatment of the media under unfair competition law, etc. See for more details, the website of the LIDC: <http://www.ligue.org>. See also Kabel, *Reclamerecht Online: Problemen in theorie en praktijk*, a composition of two separate articles previously published in IER no. 6, December 2001, pp. 257-266 and in IER no. 3, June 2002, pp. 117-124, published 16 August 2002 on http://www.ivir.nl/publicaties/kabel/reclamerecht_online.html, p. 23. Kabel indicates that it is apparent, based on these LIDC reports, that the law of unfair competition is different in the Member States. This will, in his opinion, be an obstacle for harmonisation as well as the fact that this area of the law is primarily judge-made law.

topics discussed relating to unfair competition on an international level as shown above, e.g. in relation to the scope of protection under the Paris Convention and the differences in the implementation of this Convention in the laws of the countries of the Union, fuel the need for a coherent approach towards this subject-matter.⁶⁸ Below, I will discuss whether the European Union may serve as a convenient platform for creating a uniform approach towards the law of unfair competition.

2.3 UNFAIR COMPETITION WITHIN THE EUROPEAN COMMUNITY

2.3.1 Introduction

Unfair competition has always been something of a maverick in the development of EC law. As far as law regulating competition is concerned, the EU has primarily focused on creating a framework of anti-trust law in order to speed up the task of breaking down national customs and trade barriers. As a consequence, the harmonisation of unfair competition law was not a principal point to be addressed during the first decades after the foundation of the European Community, despite the fact that most national legislation was already familiar with the doctrine of unfair competition.⁶⁹ Conversely, the harmonisation of the neighbouring area of intellectual property law did, indeed, get off the ground. Could the law of unfair competition not take part in this process? The law of unfair competition, however, could not be put on a par with intellectual property law. Unlike the Paris Convention, the European Court of Justice and the TRIPS do not regard unfair competition law as belonging to intellectual property.⁷⁰

68 As we will see below, a more coherent approach relating to unfair competition on a national as well as Community level is feasible as well. However, comprehensive empirical material that supports the assumed malfunctioning of the (internal) market because of any absence of a unified law of unfair competition does not exist, although the European Commission has based its proposal for the harmonisation of unfair competition law by way of the Unfair Commercial Practices Directive on various empirical surveys, see *sub* 234 and 235.

69 In retrospect, one can nonetheless argue that the introduction of EC Anti-trust law has had a positive influence on the development of unfair competition law in Europe. See Beier, *The law of unfair competition in the European Community – Its development and present status*, [1985] 10 EIPR, p. 287; Ulmer, *Das Recht des unlauteren Wettbewerbs in den Mitgliedstaaten der Europäischen Wirtschaftsgemeinschaft*, Volume I: *Vergleichende Darstellung mit Vorschlägen zur Rechtsangleichung*, 1965, 58 *et seq.*

70 According to EC case law, the law of unfair competition cannot be qualified as ‘protection of industrial and commercial property’ within the meaning of Article 30 EC Treaty. See Case 6/81 [1982] ECR 707; [1982] 3 CMLR 102. See also Cornish (1997), p. 337. It is interesting to note that the Convention establishing the WIPO, concluded at Stockholm on July 14, 1967, in Article 2(viii) defines intellectual property as rights relating to (...) protection against unfair competition.

In addition to the abovementioned lack of an initial interest by the European legislator to create rules on unfair competition alongside anti-trust rules, there are several added reasons for the absence of any complete harmonisation of unfair competition law. First of all, the complexity of the subject-matter.⁷¹ The law of unfair competition is a very dense and comprehensive area of the law. It serves various interests, and it encompasses a multitude of acts that are deemed to be unfair. The differences in national law that would theoretically call for harmonisation have, ironically, proved to be obstacles in devising a single set of harmonised rules for this legal jurisdiction, because these differences have prevented the Member States from reaching a compromise on this politically sensitive subject-matter. The past decades have, nonetheless, demonstrated a gradual unification of the law of unfair competition within the member states, that can partly be attributed to the harmonisation of neighbouring areas of the law.⁷² Secondly, in addition to the complexity and divergences that existed between national laws, the law of unfair competition has been accommodated in a different way within the various national legal systems. As we have seen in chapter 1, some Member States have drafted specific rules on unfair competition, others have placed this tenet under the rules concerning tortious liability, while a third group of Member States do not recognize any law of unfair competition at all.⁷³

The common law Member States,⁷⁴ and in particular the United Kingdom, have been reluctant in accepting a law of unfair competition and have therefore so far rejected a general action for unfair competition.⁷⁵ Free competition is deeply rooted in common law, or in other words 'Imitation is the lifeblood of competition'.⁷⁶ There was consequently no room left for a new tort of unfair competition. However, not only legal objections were responsible for the absence of any consensus on this topic. Considera-

See Blakeney, *Trade Related Aspects of Intellectual Property Rights: A Concise Guide to the TRIPs Agreement*, London, Sweet&Maxwell: 1996, 2.01.

- 71 See Beater, *Europäisches Recht gegen unlauteren Wettbewerb*, ZEuP 2003, Band 67, Heft 2, p. 40.
- 72 Even Ulmer, in his famous comparative study on unfair competition law dating from forty years ago, already noted that the national laws of the Member States are similar in many areas, except *inter alia* the protection of trade secrets and the ancillary protection of unfair competition in trademark law. See Ulmer and Beier, *Het recht inzake oneerlijke mededinging in de lidstaten der Europese Economische Gemeenschap*, Deel 1: *Rechtsvergelijkend overzicht*, Tjeenk Willink, Zwolle, nr. 389 et seq. See chapter 6 for a comparative overview.
- 73 In chapter 6, where I will provide a comparative overview, I will demonstrate that this factor is one of the main obstacles preventing the law of unfair competition from being harmonised.
- 74 The United Kingdom and Ireland.
- 75 Despite their initial active role during the consultations on the Paris Convention. See in more detail on the position of the UK § 2.2.1 as well as chapter 5 English Law.
- 76 Kaufmann, *Passing Off and Misappropriation – An Economic and Legal Analysis of the Law of Unfair Competition in the United States and Continental Europe*, diss., VCH Verlag, Weinheim, 1986, p. 5.

tions on an economic level, e.g. whether rules on unfair competition law would hamper competition, as well as political considerations, e.g. whether governments should devise rules that might interfere with the principle of free trade, impeded the process of harmonisation. Various pressure groups, like consumer organisations, trade unions, (big) businesses and governments used their political power to influence the harmonisation process which started as early as 1960 and created a stalemate that prevented the process of harmonisation from progressing. As Cornish put it, ‘in a way the world is divided over how far it is legitimate to extend civil obligations which inevitably inhibit the freedom of traders to compete in the course of competition’.⁷⁷ Advocate-General Verloren Van Themaat, in the *Oosthoek* case,⁷⁸ characterised this by stating that the law of unfair competition represents ‘an area in which pitfalls, obstacles, snares and traps abound’.

Kamperman Sanders, in his study on unfair competition law, is nonetheless favourably disposed towards the possibilities for reaching a certain level of unification in the field of unfair competition law. He states that ‘despite these different legal views there are clear indications that the desire for a system of minimum intervention on the field of unfair competition features high on the policy agenda’.⁷⁹ Schricker notes in this respect that ‘In the field of unfair competition law many have doubted whether legal harmonisation [is] necessary at all’⁸⁰, although he concludes that it ‘in no way appears to be a lost cause, but a real chance to consolidate the internal market’.⁸¹

These observations prove to be even more convincing if one would take into account the developments that have taken place in the European internal market over the past years. There are increasing cross-border exchanges implying not only the transfer of goods and services from one Member State to another, but also the use of promotional techniques in marketing, and other types of trade practices that may be unfair. The globalisation of the market accentuates this situation. Alpa justly indicates that equipping the various Member States with similar rules on unfair trading might help as a uniform address to this growing issue.⁸²

77 Cornish, *Genevan Bootstraps*, Opinion: [1997] 7 EIPR, p. 336.

78 ECJ Case 286/81 of 15 December 1982.

79 Kamperman Sanders, *Unfair competition law*, Oxford: Clarendon Press 1997, p. 1.

80 Schricker, *European harmonisation of unfair competition law – a futile venture?*, (1991) 22 IIC 789.

81 *Ibid.*, at 801.

82 See Alpa, *Rules on Competition and Fair Trading*, in: Hugh Collins (ed), *The Forthcoming Directive on Unfair Commercial Practices – Contract, Consumer and Competition Law Implications*, Kluwer Law International 2004, p. 105.

2.3.2 The need for harmonisation

Before I look at the harmonisation of unfair competition law, it is of importance to identify whether there *is* actually a need for harmonisation. The main function of the harmonisation of laws relates to the establishment as well as the functioning of the internal market.⁸³ The establishment of the internal market strives to eliminate any trade barriers that might impede the free movement of goods as well as hinder access to the market. Provisions that affect the functioning of the market are those that determine and possibly distort the conditions of competition in the market. This is the case for all legislative and administrative provisions which directly concern market behaviour, particularly behaviour towards competitors, as is the case with unfair competition.⁸⁴ Under Article 95 of the EC Treaty, the Council can adopt measures ‘for the approximation of the provisions laid down by law, regulation or administrative action in Member States which have as their object the establishment and functioning of the internal market’. In the context of the completion of the internal market, the Council may adopt measures under Article 153 EC Treaty that promote the interests of consumers and ensure a high level of consumer protection.⁸⁵

Do the various national laws on unfair competition justify the adoption of measures, in particular Directives, so as to support the establishment as well as the functioning of the internal market? Are there differences between the national laws on unfair competition that function as trade barriers to the free movement of goods? It is difficult to provide any solid answers to these questions. Nonetheless, it is safe to say, that there are differences between the national laws on unfair competition, as outlined below in section 2.3.4,⁸⁶ and as was indicated by Ulmer in his comprehensive study.⁸⁷ Unfair competition plays a part in international marketing, or, more generally, in cross-border trade. It is therefore likely that differences in national laws on unfair competition may hamper a competitor who seeks to adopt an international marketing strategy, as well as a consumer who seeks redress in case he encounters a problem while shopping abroad. As we will see below, there has been no all-inclusive harmonisation of unfair competition law within Europe so far. On the contrary, we are today presented with a patchwork of piecemeal rules not showing any cohesion at all. The many judgments of the Euro-

83 Kapteyn/VerLoren van Themaat, *Introduction to the Law of the European Communities*, 3d ed. 1998, p. 778.

84 *Ibid.*, at p. 778-779.

85 See in this respect Stuyck, *European consumer law after the Treaty of Amsterdam: consumer Policy in or beyond the internal market*, *Common Market Law Review*, 2000, p. 367 et seq. The Unfair Commercial Practices Directive is based on Article 95 as well as 153 of the EC Treaty.

86 See also chapter 5 that compares the Dutch, English and German legal systems.

87 See *sub* § 2.3.5.1. See also Stuyck/Terryn/Van Dyck, *La proposition de directive «pratiques commerciales déloyales»: quel marché unique pour le consommateur?*, *Revue européenne de droit de la consommation*, 4/2003, p. 242.

pean Court of Justice on Article 28 of the EC Treaty show that national measures in the field unfair competition are often likely to form obstacles to trade. Moreover, these judgements are themselves characterised by a very casuistic approach and therefore in themselves contribute to the specific, piecemeal approach towards national measures relating to unfair competition law.⁸⁸

Under the Paris Convention, the EU Member States, which are all parties to this Convention, are obliged to provide for effective protection against unfair competition. The European Commission, in its proposal to the Unfair Commercial Practices Directive, has indicated several reasons that justify the harmonisation of unfair competition law within Europe.⁸⁹ In the Green Paper on Consumer Protection, the Commission points out that, for the development of a fully functioning consumer internal market, a greater degree of harmonisation of the rules that regulate business-to-consumer commercial practices is needed.⁹⁰ The Commission validates its proposal by referring to surveys that show the economic benefit for the internal market⁹¹ as well as the benefit for the consumer,⁹² when disparities between national rules, in particular in the field of marketing practices, are removed. According to the Commission, the consumer needs to be able to make an informed decision in particular when shopping abroad. To make such a decision, the consumer should have access to all the information necessary to make this informed decision. Trading barriers caused by differences in national laws on unfair competition might obstruct the consumer in acquiring this information thereby affecting consumer confidence and depriving the consumer of the incentive to purchase across the border. The Commission stated in its Green Paper on Consumer Protection that there is a clear need 'to address the internal market barriers caused by divergent national provisions and to provide the necessary support to consumer confidence to make a mutual recognition approach workable'.⁹³ According to the Commission, the adoption of a uniform standard would improve legal certainty and provide incentives for cross-border trade and marketing for traders and cross-border purchases for the consumer.

Some authors have criticized the Commission in its move towards the harmonisation of unfair competition law,⁹⁴ in particular because of the fact that the Commission uses

88 See *sub* § 2.3.3 where I state that EC case law does not convey any unification, but on the contrary demonstrates the need for such unification.

89 This Directive will be discussed *sub* § 2.5.2.

90 Green Paper, p. 10.

91 Commission's Cardiff report on the functioning of the internal market, COM 2001 (736) of 7 December 2001 and the study 'The Benefits of a Working EU Market for Financial Services' commissioned by the European Financial Services Round Table, see www.zew.de/erfstudy/results/.

92 Eurobarometer carried out for the Commission, FLASH BE 117 'Consumer Study' January 2002.

93 Green Paper on Consumer Protection, p. 8.

94 See e.g. Wilhelmsson, Contract law enforcement of provisions on marketing: The solution of the consumer sales directive, in: Collins, The Forthcoming EC Directive on Unfair Commercial Practices: Contract, Consumer & Competition Law Implications, The Hague, Kluwer Law

consumer protection as the sole foundation for its proposals, as we will see in section 2.5.2 when discussing the Unfair Commercial Practices Directive. Howells and Wilhelmsson argue that the Commission, by stating that the disparities between national rules are hindering the internal market and preventing consumers from undertaking cross-border transactions, shut their eyes to the real reasons that prevent consumers from engaging in these transactions e.g. cultural as well as language barriers.⁹⁵ This could lead to the assumption that it is not the interest of the consumer that has been the primary concern of this Unfair Commercial Practices Directive, but rather the integration of the markets and the reduction of obstacles to cross-border trade.⁹⁶

Although there are various factual obstacles to cross-border trade like language barriers, the removal of other obstacles created by divergences in national laws will nonetheless increase the consumers' incentive to purchase cross-border as well as traders to engage in cross-border trading. As stated above, the divergences in national law may hinder a competitor who seeks to adopt an international marketing strategy, while at the same time form an obstacle to the consumer who seeks redress when he encounters a problem while shopping abroad. There is a need for European harmonisation, however only if processed in the form of a coherent approach using an integrated concept that provides for the protection of competitors, consumers as well as the public interest.

2.3.3 Community harmonisation so far

As we have seen above, and this will be addressed under section 2.3.5 as well, no complete harmonisation has been attained in the field of unfair competition law. The EC Treaty does not contain any provisions against unfair competition. The only references are in the Preamble to the EC Treaty, stating 'that the removal of existing obstacles calls for concerted action in order to guarantee (...) fair competition' and in Article 3(g) that intends to fashion 'a system which protects competition against falsifications.' With reference to the absence of harmonisation in unfair competition law, the question arises

International 2004, comprising the proceedings of the May 2002 London Conference of SECOLA, p. 223; Antonioli, Consumer protection, fair dealing in marketing contracts and European contract law – a uniform law?, in: Collins, *The Forthcoming EC Directive on Unfair Commercial Practices: Contract, Consumer & Competition Law Implications*, The Hague, Kluwer Law International 2004, p. 242-243.

95 Howells/Wilhelmsson, *EC Consumer Law: has it come of age?*, *E.L. Rev.* 2003/28, p. 377. Besides this point, one could also question the legitimate basis for the Directive in view of the 'debacle' of the Tobacco Advertising Directive 98/43/EC that has been cancelled by the ECJ (Case C-376/98 *Germany v. Council*, [2000] ECR I-8419).

96 Statement from the Consumer Ombudsmen in Sweden, Denmark, Finland and Norway on the proposal for a directive on Unfair Commercial Practices (COM (2003) 356 final, accessible via <http://www.forbrug.dk/english/dco/speeches-and-articles-etc/eu/joint-nordic-statement-on-the-proposal-for-a-directive-on-unfair-commercial-practices-356-final-2003>).

whether primary European Union law, such as for instance the law on the free movement of goods and services, has allowed Member States to retain as well as to devise their own rules on unfair competition in their national legislation. This issue will be discussed in section 2.3.4. Prior to that, I will address the question whether there actually is a need for harmonisation in section 2.3.3. Some specific areas of unfair competition law have, however, been harmonised by secondary European Union law. These areas will be discussed in section 2.3.5. Finally, in section 2.3.6 I will briefly address the influence of the European Court of Human Rights on European unfair competition law.

2.3.4 Primary European Union Law⁹⁷

In the absence of a complete harmonisation of unfair competition law, EC Law exercises a strong influence upon the application of national laws against unfair competition.⁹⁸ The case law of the Court of Justice shows that the law on the free movement of services and, in particular, the free movement of goods regularly clashes with national laws against unfair competition. Under article 28 of the EC Treaty Member States are prohibited from drafting rules that place disproportionate restrictions on trade across borders, thereby preventing the free movement of goods. Many of the national unfair competition laws have the potential to negatively effect the free movement of goods. These laws are said to have an ‘equivalent effect’ to the quantitative restrictions prohibited by Article 28.

The ECJ introduced the doctrine of ‘equivalent effect’ in the *Cassis de Dijon* case,⁹⁹ where it was held that in the absence of harmonisation of legislation, measures of equivalent effect prohibited by Article 30 (now 28) include obstacles to the free movement of goods where they are the consequence of applying rules which lay down requirements to be met by such goods that have been lawfully manufactured and marketed in the Member States, even if such rules apply equally to domestic and

97 For a detailed analysis of the application of primary EC law on unfair competition law, see Schricker, *UWG Großkommentar, Einleitung*, no. 376 et seq.; Rose, *Passing Off, Unfair Competition and Community Law*, (1990) 12 EIPR 123 et seq.; Kirkbride, *The Law of Unfair Competition: Is there an E.C. Approach*, *Company Lawyer* 2000, p. 230 et seq.; Hösch, *Der Einfluss der Freiheit des Warenverkehrs (Art. 30 EWGV) auf das Recht des unlauteren Wettbewerbs*, 1993; Reese, *Grenzüberschreitende Werbung in der Europäischen Gemeinschaft*, 1994; Sack, *Auswirkungen der Art. 30, 36, 59 (jetzt 28, 30, 49) EG-Vertrag auf das Recht gegen den unlauteren Wettbewerb* GRUR 1998, 871.

98 Schricker/Henning-Bodewig, *Elemente einer Harmonisierung des Rechts des unlauteren Wettbewerbs in der Europäischen Union – Rechtsvergleichende Untersuchung im Auftrag des Bundesministerium der Justiz, Max-Planck-Institut für ausländisches und internationales Patent-, Urheber- und Wettbewerbsrecht*, Munich, July 2001, p. 10.

99 ECJ Case 120/78 of 20 February, [1979] E.C.R. 649; [1979] 3 C.M.L.R. 494.

imported goods. In this case, the German government legally required that certain spirits had to contain a minimum alcohol percentage. The ECJ ruled that this German law served as a quantitative restriction under Article 30 (now 28) and was therefore in violation of EC law since equivalent consumer protection as well as the prevention of unfair commercial practices¹⁰⁰ could be achieved through other measures such as labelling requirements. The ECJ also noted, however, that any 'obstacles to movement within the community resulting from disparities between the national laws relating to the marketing of the products in question must be accepted in so far as these provisions may be recognised as being necessary in order to satisfy mandatory requirements relating in particular to the effectiveness of fiscal supervision, the protection of public health, the fairness of commercial transactions, and defence of the consumer'.

The Cassis de Dijon case thus introduced an exception to Article 28 of the EC Treaty. The Cassis de Dijon principle has been applied in a significant number of unfair competition cases.¹⁰¹ This actually shows that there are in fact many national measures of unfair competition law that potentially hinder cross-border trade.¹⁰² This shows the need for harmonisation in order to remove obstacles for the completion of the internal market.¹⁰³ In the famous Keck case,¹⁰⁴ the strict application of art. 28 under the Cassis de Dijon principle was somewhat softened. The ECJ drew a distinction between product requirements and selling arrangements. It held that an obstacle to the free movement of goods could be found only in provisions that lay down product requirements and not in national provisions that only restrict or prohibit certain selling arrangements, provided

100 Consumer protection, as well as the prevention of unfair commercial practices, were the interests that in this case justified the national measures taken by the German government. See also the case law mentioned by Kapteyn c.s., *Introduction to the Law of the European Communities*, 3rd edition, Kluwer International 1998, p. 676 et seq., footnotes 601 and 602.

101 The following cases were not considered to be an obstacle to the free movement of goods: The protection against slavish imitation under Dutch law, see ECJ Case 6/81 of 2 March 1982; The Dutch prohibition on free gifts with sales, see ECJ Case C-286/81 of 15 December 1982. The following cases were held to be in violation of art. 30 (28 now) of the EC Treaty: The protection of tied distribution under Danish law, see ECJ Case 58/80 of 22 January 1981; The protection against a firm name that was geographically misleading, see ECJ case 16/83 of 13 March 1984; Rules of a Member State permitting an objection to the marketing of products bearing the symbol (R) if the affixed trade mark has not been registered in that Member State, see ECJ Case C-238/89 of 13 December 1990; The prohibition on using so-called 'was-is-price labelling' under Luxembourg law, see ECJ Case C-362/88 of 7 March 1990; The previous prohibition, but under German law, see ECJ Case C-126/91 of 18 May 1993; The application of French provisions on misleading advertising concerning advertising for parallel imported vehicles, see ECJ Case C-373/90 of 16 January 1992. See also Schricker/Henning-Bodewig (2001), p. 14.

102 Despite the fact that a number of these national measures were thereby not considered to violate Article 28 of the EC Treaty because they fell under the exception of either Article 30 EC Treaty or the rule of reason.

103 Schricker/Henning-Bodewig (2001), p. 16.

104 ECJ Case 267/91 of 24 November 1993, [1993] E.C.R. 1-6097; [1995] 1 C.M.L.R. 101.

that these arrangements apply equally as between the sale of domestically produced and imported products .

Consequently, the question arose whether unfair competition laws could be classified as provisions on selling arrangements and would therefore fall outside Article 28. While many authors have raised this question, none are confident as to its outcome.¹⁰⁵ In the *Clinique* case,¹⁰⁶ a national measure prohibiting the importation and marketing of a product classified and presented as a cosmetic on the ground that the product bears the name ‘Clinique’, was precluded by the ECJ as it did not appear necessary to satisfy the requirements of consumer protection and the health of humans. In the *Mars* case,¹⁰⁷ proceedings were brought under German unfair competition law to stop Mars GmbH from presenting their ice cream in wrappers bearing the words ‘+10%’ (the Mars wording was part of a publicity campaign in which the quantity of ice cream was increased by 10%). This measure by its very nature was held to hinder intra-Community trade in that it ‘may compel the importer to adjust the presentation of his products according to the place where they are to be marketed and consequently to incur additional package and advertising costs’. The court rejected Germany’s purported consumer protection justification and ‘Mars was therefore able to employ Article 28 (...) to defeat the German hindrance to its capacity to construct an integrated cross-border marketing strategy’.¹⁰⁸ In some other cases, however, national measures on unfair competition were classified as selling arrangements and were therefore considered not to violate Article 28. In the *LeClerc* case,¹⁰⁹ an advertisement for the distribution of fuel was scrutinised as a result of a French law banning televised advertising by the distribution sector. Such a law is likely to restrict the volume of sales by depriving distributors of a particularly effective form of advertising. However, the ECJ held that this measure is a form of selling arrangement which is outside Article 30 (28 new) provided that it does not discriminate against imports or affect inter-member trade. Similarly, Dutch rules on the opening hours of petrol stations were held to be outside Article 28,¹¹⁰ as was a prohibition on the promotion of para-pharmaceutical products outside pharmacies.¹¹¹

It therefore seems that one can distinguish between a form of advertising that is intrinsically part of the product or that is external to the product. A national measure prohibiting the form of advertising as in the first case, will constitute a product require-

105 See e.g. Robertson/Horton, ‘Does the United Kingdom or the European Community Need an Unfair Competition Law?’ (1995) 17 EIPR 568-582 at 566 and 578; Kirkbride (2000), p. 233.

106 ECJ Case C-315/92 of 2 February 1994, [1994] ECR I-317.

107 ECJ Case C-470/93 of 6 July 1995, [1995] ECR I-1923.

108 Weatherill and Beaumont, *EU Law*, Penguin Books, 3rd edition 1999, at 584.

109 ECJ Case C-412/93 of 9 February 1995, [1995] ECR I-0179.

110 ECJ Cases C-401 and 402/92 of 2 June 1994, [1994] ECR I-2199.

111 ECJ Case C-292/92 of 15 December 1993, [1993] ECR I-06787.

ment within the meaning of Keck and be governed by the Cassis formula.¹¹² Whereas in the case of advertising which is external to the product, a national measure prohibiting this will be governed by the Keck formula for selling arrangements.¹¹³

It is difficult to draw conclusions from the case law as mentioned above. It is safe to say, however, that in at least some cases Member States still have a margin of appreciation in formulating national measures relating to unfair competition. This may lead to differences between measures on unfair competition law that are formulated by Member States. Moreover, the case law of the ECJ on the exceptions to Article 28 of the EC Treaty shows a casuistic approach, that is not suitable for a general synopsis.¹¹⁴ Hence, EC case law does not convey any unification, on the contrary, it shows the need for such unification.¹¹⁵

2.3.5 Secondary European Union Law

2.3.5.1 The Ulmer comparative study

Despite the absence of an overall harmonisation of unfair competition law in Europe, be it by way of directives or regulations, some specific areas of unfair competition law have nonetheless been subject to harmonisation. In the early 1960s, a first attempt was made at harmonising the law of unfair competition of the Member States of the – at that time – European Economic Community. The EEC Commission requested the University of Munich, and subsequently the renowned Max-Planck-Institute for Foreign and International Patent, Copyright and Competition Law (the Max-Planck-Institute) to undertake a comparative study of the laws of the Member States.¹¹⁶ The study was, at least for the major part, completed at the end of the 1960s.¹¹⁷

112 See the *Clinique* case *supra* 106 and the *Mars* case *supra* 107, where the ECJ considered the advertisement on the label to be incorporated into the product itself and thus to belong to the product itself and therefore to fall within the scope of Art. 28 of the EC Treaty. See also ECJ C-368/95.

113 Mendez, Recent developments in the free movement of goods: Moving towards a market access based test, QMLJ Law Journal, Issue 8, December 2002, p. 17. See also Biondi, In and Out of the Internal Market: Recent Developments on the Principle of Free Movement, (1999/2000) 19 YEL 469 at 481-483.

114 Green Paper from the Commission on Commercial Communications in the Internal Market, COM(96)192, 8 April 1996, p.11.

115 Schricker/Henning-Bodewig (2001), p. 15.

116 See for more details, in particular on the reaction of the EC to the study, Schricker, The Efforts toward Harmonisation of the Law of Unfair Competition in the European Economic Community, IIC Vol. 4, No. 2/1973, p. 201-226.

117 See Ulmer (ed.), Das Recht des unlauteren Wettbewerbs in den Mitgliedstaaten der Europäischen Wirtschaftsgemeinschaft (Munich/Cologne), in seven volumes. Vol. 1: Ulmer, Vergleichende Darstellung mit Vorschlägen zur Rechtsangleichung, Beck, Munich 1965, 343 pp; Vol. 2 (Part 1):

Ulmer, the main author of this study, showed in his comparative analysis that the law of unfair competition is a clearly structured and coherent field of law, despite the presence of some national differences. These differences were in particular apparent in the area of the law of trade symbols, including the protection of one's get-up and other insignia utilised by traders in the distribution of their goods and services. Additionally, in some Member States, the owner of a well-known trademark does not enjoy protection against third parties using his trademark for dissimilar products. Differences were also apparent in the field of slavish imitation and the protection of trade secrets and geographical indications.¹¹⁸ Ulmer proposed to base a European regulatory framework on the abovementioned Article 10bis of the Paris Convention, but with two modifications regarding its applicability to the liberal professions and its extension to third parties who are involved in competition.¹¹⁹ Ulmer suggested a slightly extended general clause on honest trade practices which is equivalent to the one in Article 10bis of the Paris Convention, supplemented by special provisions including prohibitions against causing a risk of confusion, against disparagement (including personal and comparative advertising), against deceptive advertising and against deception as to geographical origin,¹²⁰ as well as a provision providing protection for trade secrets.¹²¹ As to the procedural part of his proposal, Ulmer recommended introducing the possibility for injunctive relief, irrespective of fault or damage, combined with swift interlocutory proceedings. This action should be available to any competitor as well as to all commercial associations¹²² and consumer organisations.¹²³ Ulmer proposed to establish a uniform legal body on unfair competition law by way of a convention.¹²⁴

As far as anti-trust law is concerned, Ulmer argued that anti-trust law as it was – and still is – continuously being developed by the EEC, puts emphasis on the basic principle of freedom of competition, and therefore will basically have a positive impact on unfair

Schricker/Wunderlich, *Belgien, Luxemburg*, Beck/Carl Heymanns, Munich/Cologne 1967, 794 pp.; Vol. 2 (Part 2): Baeumer (in cooperation with van Manen), *Niederlande*, Beck, Munich 1967, 477 pp.; Vol. 3: Reimer, *Deutschland*, Beck, Munich 1968, 977 pp.; Vol. 4: Kraßer (in cooperation with Sallerin/Schatz), *Frankreich*, Beck, Munich 1967; Vol. 5: Schricker, *Italien*, Beck/Carl Heymanns, Munich/Cologne 1965, 316 pp.; Vol. 6: Ulmer/Graf v. Westerholt, *Gutachten. Vereinigtes Königreich von Grossbritannien und Nordirland*, Beck, Munich 1981; Vol. 7: Ulmer/Alexandridou, *Länderbericht Griechenland*, Beck, Munich 1994, 300 pp. Some of these volumes have been translated into other languages, like e.g. Italian, French and Dutch.

118 Ulmer (1965), at 167-174, 263 et seq. and chapter 4.

119 Ulmer (1965), at 409.

120 Beier additionally proposed the inclusion of a Multilateral Agreement on the Protection of Geographic Indications of Source and Appellations of Origin between the EEC countries, see Ulmer (1965), at 428 et seq.

121 Ulmer (1965), at 401.

122 Ulmer (1965), at 398.

123 Ulmer (1965), at 399.

124 Ulmer (1965), at 232 et seq.

competition law, a place where a ‘rougher climate in the competitive struggle should cautiously be welcomed’.¹²⁵

2.3.5.2 *Harmonisation in specific areas*¹²⁶

a Misleading Advertising Directive

However, although Ulmer had laid the foundations for a common unfair competition law, there was not enough political momentum to achieve this ambitious project. The European Commission did not adopt Ulmer’s comprehensive proposals nor did it endorse the following dwindling efforts to harmonise unfair advertising.¹²⁷ Or, as Micklitz stated, ‘any further efforts to harmonise unfair advertising ran into a deadlock’.¹²⁸ The Commission nonetheless drafted a proposal for a directive, but instead of basing its proposal on the Max Planck study, the advertising guidelines of the International Chamber of Commerce were taken as a guideline.¹²⁹ The accession of the two common law countries – the United Kingdom and the Republic of Ireland – to the European Community in 1973 did not make things any easier. Beier attributed the tactics of the Commission to the fact that for the UK the law of unfair competition was largely considered to be ‘terra incognita’,¹³⁰ and that these guidelines would be more familiar to the system of common law. A factor of greater importance was, in his view, the pressure that the idea of consumer protection had put on the harmonisation of unfair competition law. Under the influence of the strong consumer protection movement in the 1960s and 1970s, the Commission decided to concentrate¹³¹ on the protection of

125 Ulmer (1965), at 55 et seq.

126 I will address the harmonisation that has been attained so far in the field of unfair competition law in chronological order.

127 A proposed Directive on unfair advertising in 1978-79 was abolished. See Schricker/Henning-Bodewig (2001), p.18. For an overview of the harmonisation process, see also Ohly, who compares it to the German fairy tale ‘Hans im Glück’, see Ohly, *Die Bemühungen um eine Rechtsvereinheitlichung auf EU-Ebene von den Anfängen bis zur Richtlinie über irreführende Werbung von 1994*, in: Schricker/Henning-Bodewig (eds.), *Neuordnung des Wettbewerbsrecht* (1999), p. 69.

128 Micklitz et al., *Legislative framework on Fair Trading*, study produced by the ‘Institut für Europäisches Wirtschafts und Verbraucherschutz e.V.’, Berlin, 2000, p. 9.

129 See Beier (1985), p. 290; Brandmair, *Die Neufassung der internationalen Verhaltensregeln für die Werbepaxis*, GRUR Int 1974, p. 251 et seq. The ICC provides for a set of voluntary rules that are considered to be part of internationally accepted trade standards. The rules are, however, not designed to protect consumers and have not been developed with their participation, see Micklitz (2000), p. 13. According to Article 1 ‘advertising should be legal, decent, honest and truthful.’

130 Beier (1985), p. 290.

131 See also *sub* § 2.3.4.

consumers against misleading and unfair advertising. Finally, Directive 84/450 was adopted concerning – solely – misleading advertising.¹³²

While the Max Planck study did not bring about the much hoped for harmonisation of unfair competition law, the ensuing adoption of the Misleading Advertising Directive at least signified a starting point for a more complete harmonisation of the law of unfair competition at a later stage. Important provisions in this respect are Article 4 that requires the Member States to ensure that adequate and effective means exist for controlling misleading advertising. Moreover, Article 1 clearly formulates which different interests are to be protected under the directive, being consumers, traders and the public in general. Finally, in the Preamble to the Misleading Advertising Directive reference is made to the further harmonisation of unfair competition law. The preamble states, in this respect, that ‘at a second stage, unfair advertising and, as far as necessary, comparative advertising should be dealt with, on the basis of appropriate Commission proposals’. The Misleading Advertising Directive is, however, directed at minimum harmonisation, leaving the Member States to devise stricter rules in their national laws.

The greatest shortcoming of the Misleading Advertising Directive is its inability to harmonise the law of procedure. Under Article 4 of the Directive, Member States were not required to choose between an administrative authority with the power to impose criminal or administrative sanctions, or private law rights of action. Consequently, Germany as well as the Netherlands could retain their system based on private law enforcement, France could hold on to its system of criminal sanctions and the UK could set up a system of enforcement under public law which is suitable to reduce any interference with its own law by the Misleading Advertising Directive. Nonetheless, it is safe to say that the Misleading Advertising Directive has, as Micklitz argues, ‘considerably influenced European standards on marketing practices by setting incentives for the integration of appropriate standards in common law countries’.¹³³ In particular, the case law of the ECJ appears to have aligned the standards of the Member States on the issue of what is supposed to be ‘misleading’. It has introduced the figure of an ‘average consumer who is reasonably well-informed and reasonably observant and circumspect’.¹³⁴ In Germany, a country known for providing a wide range of protection against misleading advertising,¹³⁵ the courts have considerably mitigated their exaggerated

132 Council Directive (EEC) No. 84/450 of 10 September 1984 relating to the approximation of the Laws, Regulations and Administrative Procedures of the Member States Concerning Misleading Advertising, 1984 OJ No. L 250/17.

133 Micklitz (2000), p. 16.

134 ECJ Case C-210/96 of 16 July 1998, Jur. EG I-4657, at 31. This judgement has been further substantiated in ECJ case law, e.g. ECJ Case C-303/97, OJ C 86/6, 1999; ECJ Case C-220/98, Jur. EG I-00117, at 27.

135 Schricker/Henning-Bodewig (2001), p. 24.

evaluation of misleading advertising. In Italy, on the other hand, a significantly higher standard of repression of misleading advertising has been achieved.¹³⁶

b Cases of very specific EU regulation relating to unfair competition

However, despite the enormous effort by the Max-Planck-Institute in preparing the report, and despite the existence of the Misleading Advertising Directive clearly providing a basis for a more complete harmonisation of unfair competition law, the European Community has merely developed a step-by-step, one might say problem-orientated approach, to the regulation of unfair competition law.¹³⁷ Following the adoption of the Misleading Advertising Directive, rules on certain very specific areas of unfair competition law have been drafted. These rules are, however, remote from the core of unfair competition law. In most cases they do not show any interrelation with each other or with a more comprehensive concept of unfair competition law. They relate to special goods, for instance food, drugs, cosmetics and tobacco products,¹³⁸ services,¹³⁹ or to special media, in particular television advertising.¹⁴⁰

c Unfair competition law accommodated in other areas of the law

In addition to these very specific rules, certain aspects of unfair competition law were included in the harmonisation of other fields of law or were given a separate status.

136 Ibid, p. 25. See also Bastian, Länderbericht Italien, in: Schricker (Ed.), *Recht der Werbung in Europa*, (Looseleaf), Baden-Baden 1997, No. 39 et seq., 45.

137 Micklitz (2000), p. 9.

138 See e.g. Directive 2000/13/EC on the labelling, presentation and advertising of foodstuffs of 20 March 2000, OJ L 109 of 6 May 2000; Directive 2003/33 on the advertising and sponsorship of tobacco products of 26 May 2003, OJ L 152/16 of 20 June 2003; Directive 76/768/EEC on cosmetic products of 27 July 1976, OJ L 262/169 of 27 September 1976 (subsequently amended on many occasions).

139 Directive 87/102/EEC on Consumer Credit of 22 December 1986, OJ L 42 of 12 February 1987, as amended by Directive 90/88/EEC of 22 February 1990, OJ L 61 of 10 March 1990 and Directive 98/7/EC of 16 February 1998 OJ L 101 of 1 April 1998; Directive 2002/65/EC on the distance marketing of consumer financial services and amending Council Directives 90/619/EEC, 97/7/EC and 98/27/EC of 23 September 2002, OJ L 271/16 of 9 October 2002; Directive (90/314/EEC) of 13 June 1990 on package travel, package holidays and package tours, OJ No. L 158/159 of 13 June 1990; Directive 85/577/EEC of 20 December 1985 to protect the consumer in respect of contracts negotiated away from business premises (Door to door selling Directive); Directive 97/7/EC of 20 May 1997 on the protection of consumers in respect of distance contracts (Distance Selling Directive).

140 Directive 98/552 of October 3, 1989, on the coordination of certain legal and administrative provisions of the Member States on the exercise of televising activities, OJ L 298/23 of 17 October 1989 (Television without frontiers Directive).

First, the Trademark Directive¹⁴¹ as well as the Council Regulation on the Community Trademark¹⁴² provide for protection in areas that are originally seen as belonging to unfair competition law, such as e.g. the protection of the owner of a well-known trademark against third parties using his trademark for dissimilar products and protection against the dilution of one's badge of trade.¹⁴³ Moreover, the Trademark Directive as well as the Regulation on the Community Trademark expressly reserve the application of national laws against unfair competition.¹⁴⁴ Next, the Database Directive¹⁴⁵ provides for *sui generis* protection for databases, in addition to protection under copyright law. This system of *sui generis* protection has replaced a previously proposed system of protection under unfair competition law that was dismissed during the drafting of the directive.¹⁴⁶ That which is protected under the *sui generis* protection of the Database Directive, *i.e.* the creation of a database and in particular the investments involved, could also under certain circumstances have fallen within the scope of unfair competition law, especially the protection against free riding. Finally, the Regulation on Community Designs¹⁴⁷ has introduced the legal concept of an unregistered Community design. Such designs are granted protection under the Regulation for a period of three years as from the date on which the design was first made available to the public within the Community,¹⁴⁸ instead of the maximum of 25 years that is granted to registered designs. Moreover, right holders of an unregistered Community design may enjoy the same rights as those that have registered their design, but only if the contested use results from copying the protected design.¹⁴⁹ This protection, as provided by the Regulation on Community Designs, would normally fall within the boundaries of unfair competition law, e.g. slavish imitation.

141 First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks, OJ L 40, 11.2.1989, p. 1.

142 Council Regulation (EC) No. 40/94 of 20 December 1993 on the Community trade mark, OJ L 11, 14.1.1994, p. 1.

143 See Article 9(1)(c) of the Regulation on the Community Trademark and Article 5(2) of the Trademark Directive, that despite being an optional provision has been implemented in virtually every Member State.

144 Article 14(2) of the Community Regulation states 'This Regulation shall not prevent actions concerning a Community trade mark being brought under the law of Member States relating in particular to civil liability and unfair competition'. In the Preamble to the Trademark Directive it states 'Whereas this Directive does not exclude the application to trade marks of provisions of law of the Member States other than trade mark law, such as the provisions relating to unfair competition, civil liability or consumer protection'.

145 Directive 95/46 of the European Parliament and the Council of 11 March 1996 concerning the legal protection of Databases, PbEC 27 March 1996, L77/20

146 More into detail: Grosheide, Database Protection – The European Way, Washington University Journal of Law & Policy, Washington University 2002, p. 44-45.

147 Regulation 6/2002 of 12 December 2001, OJ L 003 of 5 January 2002, p. 1-24.

148 Article 11(1) of the Regulation.

149 Article 19(2) of the Regulation.

d Comparative Advertising Directive

In 1997, the Misleading Advertising Directive was amended in order to include comparative advertising.¹⁵⁰ As a result, a consolidated Directive concerning misleading and comparative advertising was conceived that consists of a set of rules applying to misleading and comparative advertising. This amended Directive was the second important step forward in the harmonisation of unfair competition law in the European Union. Under the Directive, comparative advertising is basically allowed if certain conditions are met.

Since the rules on comparative advertising are based on total harmonisation and the rules on misleading advertising are based on minimum harmonisation, one can foresee problems occurring in the relationship between these two types of advertising in one directive. What would occur if we had to assess, in a single Member State, an advertisement that is allegedly misleading on the one hand, and, on the other, an advertisement that is allegedly misleading as well as comparative? The first advertisement would have to be assessed against the rules on misleading advertising, that fall within the minimum harmonisation regime. For this type of advertisement, Member States are thus allowed to adopt provisions with a view to ensuring more extensive protection.¹⁵¹ As a consequence, this advertisement could be subject to a critical judgement in a Member State that has chosen to draft rules on misleading advertising allowing for more consumer protection. The second, comparative, advertisement on the other hand, might not be held to be unlawful in the same Member State, since those strict rules on misleading advertising do not apply. For comparative advertisements, the rules of the Directive that fall within the total harmonisation regime will apply, meaning that in these cases Member States are not allowed to deviate from the rules in the Directive. In such cases, whether or not there is a case of misleading (comparative) advertising, one needs to look at the liberal European norm which, most probably, will be the one formulated in the *Gut Springenheide* judgement.¹⁵² In short, if we would follow this line of reasoning, advertisements that are allegedly misleading will be less likely to be held to be misleading when they are also comparative in nature.¹⁵³

150 By Directive 97/55/EC 84/450/EEC of the European Parliament and of the Council of 6 October 1997, OJ L 290, p. 18 of 23 October 1997.

151 Article 7(1) of the Misleading and Comparative Advertising Directive.

152 See *supra* 134.

153 Article 7(2) seems to address this issue by providing that ‘Paragraph 1 [see *supra* 122, RWdV] shall not apply to comparative advertising as far as the comparison is concerned’. In other words: a Member State is not allowed to provide for more extensive protection in the case of comparative advertising *as far as the comparison is concerned*. If one relates this, subsequently, to article 3a of the Directive the answer is still not clear. Article 3a(1) states that ‘Comparative advertising shall, as far as the comparison is concerned, be permitted (...)’ when certain conditions are met. And one of these conditions is, according to Article 3a(1)(a), that the advertisement ‘is not

On 8 June 2000, the E-commerce Directive was adopted.¹⁵⁴ This Directive applies to forms of so-called electronic unfair competition. These are, on the one hand, common acts of unfair competition used online, *i.e.* online misleading advertising and unfair marketing like ‘webvertising’. On the other hand, it refers to ‘new’ acts of unfair competition online, like, for example, spamming, domain name grabbing, the manipulating of search engines and the misleading use of hyperlinks.¹⁵⁵ The E-commerce Directive is only applicable for cases of electronic unfair competition that fall within the definition of ‘commercial communications’. Article 2(f) of the E-commerce Directive states that commercial communications are ‘any form of communication designed to promote, directly or indirectly, the goods, services or image of a company, organisation or person pursuing a commercial, industrial or craft activity or exercising a regulated profession’.¹⁵⁶

The E-commerce Directive is of limited importance to substantive unfair competition law. The most relevant provisions are the ones that establish information requirements. Under Article 6 commercial communications are, *inter alia*, to be clearly identifiable as such and the natural or legal person on whose behalf the commercial communication is made has to be clearly identifiable. Articles 5 and 10 provide for a certain information requirement as far as the service provider is concerned. Finally, under Article 7 certain information requirements are established for sending unsolicited commercial communi-

misleading according to Articles (...) 7 (1)’. One could thus also argue that the reference to ‘misleading’ in Article 3a(1) as one of the conditions for lawful comparative advertising, is solely a reference to the rules on misleading advertisements in another part of the Directive, namely Article 3 of the Directive. If we would follow this line of reasoning, it would lead us to the conclusion that in the case of misleading comparative advertising, Member States are indeed allowed to provide for extensive protection with regard to the element of ‘misleading’, or in other words Member States may ensure that their courts have to closely scrutinize a particular comparative advertisement to see if it is misleading. See de Vrey, *Vergelijkende reclame: de vergelijking opgelost?*, *Intellectuele eigendom & reclamerecht (IER)*, 2001/17, no. 4, p. 164-175.

154 Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market, 200 OJ L178/1.

155 Vermeer, *Electronic Unfair Competition and Applicable Law: An Open Spot in the European Jungle*, vol. 7.5 *Electronic Journal of Comparative Law*, (December 2003), <<http://www.ejcl.org/ejcl/75/art75-9.html>>, p. 1.

156 Article 2(f) subsequently excludes the following from the definition of commercial communications:

- (1) information allowing direct access to the activity of the company, organisation or person, in particular a domain name or an electronic-mail address, and
- (2) communications relating to the goods, services or image of the company, organisation or person compiled in an independent manner, particularly when this is without financial consideration.

cations (spam).¹⁵⁷ It is, however, not the rules on substantive law in this Directive, but the rules on private international law that have an essential influence on (part) of unfair competition law as well as consumer law. Article 3 of the Directive contains the so-called ‘country-of-origin principle’.¹⁵⁸ According to this principle, in electronic legal transactions the law of the ‘home-country’,¹⁵⁹ *i.e.* where the offeror has its domicile, is decisive. In other words, the country-of-origin framework invokes laws where the e-commerce goods and services are shipped. If the offeror complies with the laws of the Member State where he is established, he is free to provide his services throughout the European Union. The country of the receiver of the offer is not relevant. Consequently, the country-of-origin principle ensures that access to the common information society market is equal in all Member States, thereby facilitating the use of ‘euromarketing’.¹⁶⁰ For a consumer, this may lead to an unsatisfactory situation. If an English company, by way of e-mail, makes an offer to a German customer, English law will be applicable instead of German law that is more likely to be rigid. As some authors have predicted, this could lead to a ‘race to the bottom’, since most offerors will choose to reside in the country that offers the most flexible legal regime.¹⁶¹ Moreover, this could *de facto* lead

157 Additionally, EC Directive 2002/58 on Privacy and Electronic Communications, OJ 2002 L 201/37, contains a provision (Article 13) on product offers by unsolicited telephone calls or telefax messages and on spamming.

158 It should be noted, however, that the country-of-origin rule is intended as a rule of national supervision, not as a conflict rule. See in this respect Article 1(4) that expressly mentions that the E-commerce Directive ‘does not establish additional rules on private international law relating to conflicts of law or jurisdiction’. Another reference is made in preamble (23) to the Directive: ‘This Directive neither aims to establish additional rules on private international law relating to conflicts of law nor does it deal with the jurisdiction of Courts; provisions of the applicable law designated by rules of private international law must not restrict the freedom to provide information society services as established in this Directive’. The practical use of the country-of-origin rule, as used in the Directive, is therefore still highly debatable. See for more details, Vermeer (2003), p. 3.

159 The ‘country of origin’ principle is also incorporated in the Television without Frontiers Directive and was incorporated in the earlier draft versions of the Directive on Unfair Commercial Practices, see *sub* § 2.6.2.2d.

160 Vermeer (2003), p. 3.

161 See e.g. Dethlof, *Europäisierung des Wettbewerbsrechts*, Mohr Siebeck, Tübingen 2001, pp. 54-55; Vermeer, *Unfair Competition on the Internet; The Dutch Perspective: Substantive –, and Private International Law Aspects of Unfair Competition in Electronic Commerce*, pp. 151-187; *Ibid.*; *De IPR-kluwen van elektronische ongeoorloofde mededinging: De warboel na de implementatie van de E-commerce Richtlijn*, JAVI, June 2002, no. 1, pp. 16-23; Mankowski, *Particular Kinds of Unfair Competition on the Internet and Conflict of Laws*, IIC 2001/4, Vol. 32, pp. 390-411; *Ibid.*, *Internet und Internationales Wettbewerbsrecht*, GRUR Int. 1999, pp. 909-912; *Ibid.*, *Das Herkunftslandsprinzip als Internationales Privatrecht der e-commerce-Richtlinie*, ZvgRWiss 2001/100, p. 137-181; *Ibid.*, *Electronic Commerce und Internationales Privatrecht*, in: *Molengrafica European Private Law 1999-2000, Articles on International Commercial Contracts and Intellectual Property. E-Commerce Issue*, Intersentia; Thünken, *Die EG-Richtlinie über den*

to an enfeeblement of consumer protection across Europe, to internal discrimination between national and international businesses and, finally, to a division between rules which are applicable to off-¹⁶² and on-line advertising.¹⁶³

f Conclusions

As we have seen, the process of harmonising unfair competition law within the European Union is by no means finished. Two important pieces of legislation have been placed on the European table. The first one, the Misleading Advertising Directive, by only providing for a minimum standard and by not completely harmonising the procedures and sanctions available in cases of misleading advertising, has not led to a complete harmonisation of this part of unfair competition law. Nevertheless, it has clearly influenced the unification of unfair competition law within the European Union through its interpretation by the ECJ. The second one, the Comparative Advertising Directive amending the first directive, brought about total harmonisation thereby

elektronischen Geschäftsverkehr und das internationale Privatrecht des unlauteren Wettbewerbs, IPRax, 2001/1, p. 16; Kabel, *supra* 69, pp. 5-6; Schack, Internationale Urheber-, Marken- und Wettbewerbsrechtverletzungen, MMR 2000, pp. 59-63; Spindler, Der neue Vorschlag einer E-commerce Richtlinie, ZUM 1999, p. 775-785 and MMR 1999, p. 205-206; Löffler, Werbung im Cyberspace – Eine kollisionsrechtliche Betrachtung, WRP 2001, p. 379-384; Schrickler/Henning-Bodewig (2001), p. 12; Bodewig, Elektronischer Geschäftsverkehr und unlauterer Wettbewerb, GRUR Int. 2000, 475, 483; Hoeren, Vorschlag für eine EU-Richtlinie über E-Commerce: Eine erste kritische Analyse, MMR 1999, p. 194-196; Fezer/Koos, Das gemeinschaftsrechtliche Herkunftslandprinzip und die e-commerce-Richtlinie, IPRax 2000/5, p. 349-354; Höning, The European Directive on e-Commerce, Global Jurist (2005), Volume 5, Issue 2, p. 25.

162 For off-line advertising, the general ‘Market-Place’ rule is applicable, which has also been adopted in Article 5 of the proposed Rome-II-Directive (Proposal for a Regulation of the European Parliament and the Council on the law applicable to non-contractual obligations (‘Rome II’) of 22 July 2003, COM(2003) 427 final, 2003/0168 (COD), and which provides that in cases concerning cross-border unfair competition the courts should apply the law of the marketplace.

163 Kabel, *supra* 69, p. 5-6. See also Schrickler/Henning-Bodewig (2001), p. 10 et seq.; Determann, ‘Abgrenzung gezeltzlicher Medienkategorien im Internet’, Rtkom 2000-1, p. 11-22; Dommering, Een Tioolse politiman of een Tioolse privé detective? Over het internet en het mediarecht, in: Internet en Recht, Brussels: Vrije Universiteit Brussels 2001; Gersdorf, Rundfunk und E-Commerce. Von der Konvergenz der Techniken zur Konvergenz der Medienregulierung, Rtkom 1999, p. 75-84; Mankowski, E-Commerce und Internationales Verbraucherschutzrecht, MMR – Beilage 2000-7, p. 22-37; Dumortier, Elektronische handel en consumentenbescherming in de Europese ontwerprijlijn en het Belgisch recht, Computerrecht 1999, p. 124-132; Lehmann, Electronic Commerce and Consumer Protection in Europe, Santa Clara Computer and High Technology Law Journal 2000, p. 101-114; Fritze/Holzbach, Die Electronic-Commerce-Richtlinie. Ende oder Chance für das Deutsche Wettbewerbsrecht, WRP 2000, p. 872-876; Meyer, Rabatt- und Zugabe-Regulierung auf dem Prüfstand, GRUR 2001, p. 98-111; Landfermann, Der Richtlinienvorschlag ‘Elektronischer Geschäftsverkehr’. Ziele und Probleme, ZUM 1999, p. 795-802; Drijber, De Richtlijn elektronische handel op de snijtafel, SEW 2001, p. 122-138.

supplying a uniform set of rules within the European Union. It nevertheless has some discrepancies, especially with respect to its relation to the Misleading Advertising Directive.

These two directives have over time been supplemented by regulations that deal with very specific areas of unfair competition. Unfortunately, this nowadays presents us with a patchwork of piecemeal rules not showing any cohesion at all. For further European harmonisation, therefore, a more coherent approach should be followed using an integrated concept that provides for the protection of competitors, consumers as well as the public interest.

2.3.6 The European Convention on Human Rights

In the previous two sections, I have discussed the influence of primary and secondary European Union law on unfair competition law within Europe. However, a recent case by the European Court of Human Rights (ECHR) has showed that its case law is likely to have an impact on unfair competition law as well. In this case,¹⁶⁴ an Austrian publisher and its owner, Krone Verlag, disputed an advertisement by a rival publisher that made a comparison between the subscription rate of their newspapers. The advertisement stated that the *Neue Kronenzeitung* was 'the best' local newspaper. Krone Verlag, as the owner of the 'quality newspaper' *Salzburger Nachrichten*, instituted proceedings under Article 1 of the Austrian Unfair Competition Act, that contains a general clause prohibiting unfair trade practices. The Austrian courts upheld the claims by Krone Verlag since consumers were likely to be misled by the advertisement. The defendants were ordered to refrain from comparing the subscription rates of the two newspapers 'without disclosing at the same time the differences in their respective reporting styles, in particular as regards coverage of foreign or domestic politics, the economy, culture, science, health, environmental issues and law, and without referring also to the *Neue Kronenzeitung* as an entertainment-orientated communications medium and the *Salzburger Nachrichten* as a medium mainly geared to information'.¹⁶⁵

The applicant party and its publisher, Krone Verlag, thereby lodged a complaint with the ECHR, complaining that its right to freedom of expression under Article 10 of the European Convention on Human Rights¹⁶⁶ had been infringed. The Court held that the measure at issue was disproportionate, and therefore not 'necessary in a democratic society' within the meaning of Article 10(2) of the Convention. This Article is thus

164 ECHR Case of 11 December 2003, Appl.No. 39069/97, [2003] ECHR 678.

165 *Ibid.*, at 13.

166 Convention for the Protection of Human Rights and Fundamental Freedoms as amended by Protocol No. 11, Rome, 4 November 1950.

applicable not only to idealistic advertising, but also to commercial advertising.¹⁶⁷ The Court conceded that the Austrian courts do have a margin of appreciation in these matters, but this margin is subject to European supervision as regards both the relevant rules and the decisions which apply them.¹⁶⁸ This margin of appreciation is especially of importance in the 'complex and fluctuating area of unfair competition'.¹⁶⁹ The Court will therefore only ascertain whether national measures are justifiable in principle and proportionate.¹⁷⁰

In the present case, the Court pointed out inconsistencies in the argumentation of the Austrian courts. On the one hand, they stated that the two newspapers were not of comparable quality and that a comparison of their prices would therefore be misleading. On the other hand, they stated that the two newspapers were competitors in the same market and for the same circle of readers. Secondly, the Court felt that the judgements of the Austrian Courts had far-reaching consequences, virtually impairing any future possibilities for using comparative advertising. The Court held that under these circumstances the Austrian courts had overstepped their margin of appreciation.

In a similar case,¹⁷¹ an Austrian company by the name of Troostwijk bought goods from a bankrupt's estate and offered them by promoting this very fact in his advertisements. Karner, his competitor, argued that Troostwijk's advertising was contrary to Article 30(1) of the Austrian Unfair Competition Act because it gave the public the impression that it was the insolvency administrator who was selling the insolvent company's assets. Before the European Court of Justice, Troostwijk invoked Article 10 of the Convention. The ECJ accepted this by recalling that 'according to settled case-law,¹⁷² fundamental rights form an integral part of the general principles of law the observance of which the Court ensures. For that purpose, the Court draws inspiration from the constitutional traditions common to the Member States and from the guidelines supplied by international treaties for the protection of human rights on which the Member States have collaborated or to which they are signatories. The ECHR has special significance in that respect.'¹⁷³ The ECJ felt obliged to provide guidance to the

167 See Kabel, Vijfentwintig jaar uitingsvrijheid voor handelsreclame in de Rechtspraak, in: Hins/Nieuwenhuis (red.), Van ontvanger naar zender, Opstellen aangeboden aan prof. mr. J.M. de Meij, Amsterdam, Otto Cramwinckel 2003, pp. 175-191.

168 With reference to the ECHR Case of 20 November 1989, Series A no. 165, p. 20, at 33.

169 *Supra* 164, at 30.

170 With reference to the ECHR Cases of 24 February 1994, Series A no. 285-A, p. 28, § 50 and of 26 May 1994, no. 15088/89, § 26.

171 ECJ Case C-71/02 of 25 March 2004, OJ of 30 April 2004, C 106/09.

172 The ECJ refers to Case C-260/89 ERT [1991] ECR I-2925, paragraph 41; Case C-274/99 P *Connolly v. Commission* [2001] ECR I-1611, paragraph 37; Case C-94/00 Roquette Frères [2002] ECR I-9011, paragraph 25; and Case C-112/00 Schmidberger [2003] ECR I-5659, paragraph 71.

173 *Ibid*, at 48.

national courts concerning interpretation as this was necessary to enable it to assess the compatibility of that legislation with fundamental rights.

The ECJ thus tested Article 30(1) of the Austrian Unfair Competition Act against Article 10 of the Convention. It consequently held that the freedom of expression is subject to ‘certain limitations justified by objectives in the public interest, in so far as those derogations are in accordance with the law, motivated by one or more of the legitimate aims under that provision and necessary in a democratic society, that is to say justified by a pressing social need and, in particular, proportionate to the legitimate aim pursued.’ Adopting the argumentation of the ECHR in the case mentioned above, the ECJ argued that in the case of a commercial use of freedom of expression, particularly in a field as complex and fluctuating as advertising, a judicial review under Article 10 of the Convention is limited to an examination of the reasonableness and proportionality of the interference. In the present case, according to the ECJ, the restriction on advertising as provided for in Article 30 of the Austrian Unfair Competition Act is reasonable and proportionate in the light of the legitimate goals pursued by that provision, namely consumer protection and fair trading.

These cases show that Article 10 of the Convention has an impact on national laws regarding unfair competition. This Article will almost certainly have the same influence on the Unfair Commercial Practices Directive when it harmonises (and replaces) these national laws, because the ECJ ensures compliance with Article 10 of the Convention as shown in the *Troostwijk* case. Fundamental rights will therefore play an explicit part in the future harmonisation of unfair competition law.¹⁷⁴

2.4 THE INTRODUCTION OF CONSUMER PROTECTION IN UNFAIR COMPETITION LAW¹⁷⁵

From its origin, unfair competition law was primarily directed towards protecting the interests of the (honest) trader. However, following the developments of unfair competition law after the Paris Convention, in national,¹⁷⁶ European¹⁷⁷ as well as international

174 This could include the fundamental rights as expressed in the Charter of Fundamental Rights of the European Union. Preamble (25) to the UCP Directive states: ‘This Directive respects the fundamental rights and observes the principles recognised in particular by the Charter of Fundamental Rights of the European Union’. Of relevance could be, e.g. Article 16 of the Charter: ‘The freedom to conduct a business in accordance with Community law and national practices is recognised’, Article 38: ‘Union policies shall ensure a high level of consumer protection’ and, finally, Article 11 addressing the ‘freedom of expression and information’.

175 See, on the development of consumer protection law within EC law, Reich/Micklitz, *Europäisches Verbraucherrecht* (2003); Howells/Weatherill, *Consumer protection law* (2005).

176 See e.g. the increased focus on consumer protection under Dutch unfair competition law that had its start in the 1970s, as indicated by *inter alia* Slagter’s 1963 Preliminary Report, the 1971 Ser Proposal, and the voices in the literature since then by writers like Keurentjes and Rodrigues. See for more, § 3.3 of chapter 3 that examines the legislative development of unfair competition under

law,¹⁷⁸ a more consumer-oriented application of unfair competition law has prevailed. The 1960s and 1970s saw a strong consumer protection movement in most of the Member States of the European Union.¹⁷⁹ As a consequence, unfair competition law has gradually evolved from being purely competitor-focussed, to safeguarding the interests of business, consumers as well as the market as a whole.¹⁸⁰ This development of unfair competition law, subject to the influence of consumer protection, took different directions in the Member States.

In Germany, for example, consumer protection has been integrated into the UWG (Act Against Unfair Competition), in ‘small and cautious steps’.¹⁸¹ This development has resulted in the latest amendment of the UWG that contains an Article 1 stating that the law against unfair competition protects competitors, consumers as well as the public as a whole.¹⁸² The same integration of consumer protection into the law of unfair com-

Dutch law. A similar focus on consumer protection can be noted in the development of German unfair competition law. Indicative in this respect is the fact that the interests of consumers are explicitly mentioned in the German Act on Unfair competition, see chapter 4, § 4.2.5.

177 The influence of consumer protection law in the realms of European unfair competition law is very noticeable considering the fact that the recent directive on Unfair Commercial Practices (see § 2.5.2 et seq.) originates from the department of Consumer Protection of the European Commission and mostly focuses on consumer protection issues.

178 See e.g. WIPO publication No. 725 (E), p. 73 et seq. See also Henning-Bodewig, IIC 02/1999, p. 178 who argues that the general clause of Art. 10bis(2) Paris Convention may be ‘assessed as a ‘gate of entry’ for consumer protection in the Paris Convention’.

179 Beier (1985), p. 151 et seq. See also the analysis of Schricker in: Schricker, Unfair competition and consumer protection in Western Europe, 1 IIC (1970), p. 415-449; Idem, Unfair Competition and Consumer protection – New Developments, 3 IIC (1977), p. 185-227; Idem, Unlauterer Wettbewerb und Verbraucherschutz, GRUR Int. 1970, p. 23 et seq.; Idem, Wettbewerbsrecht und Verbraucherschutz, 36 RabelsZ (1972), at 315 et seq.; Idem, Möglichkeiten zur Verbesserung des Schutzes der Verbraucher und des funktionfähigen Wettbewerbs im Recht des unlauteren Wettbewerbs, 139 ZHR (1979), at 208 et seq.; Idem, Verbraucherschutz – Ein neues Rechtsgebiet?, GRUR Int. 1976, at 315 et seq.; Idem, Wettbewerbsrechtliche Aspekte des Verbraucherschutzes, 40 RabelsZ (1976), at 535 et seq.

180 Cf. Article 3 of the German law on unfair competition, UWG 2004 (see chapter 4 German law, § 4.2.5) and Article 1 of the Directive concerning Misleading and Comparative Advertising, that both explicitly mention the protection of consumers, business and the public in general. See also Cseres, Competition law and consumer protection: a love-hate relationship, diss. Utrecht 2004, p. 167; Danthe, Le droit international privé suisse de la concurrence déloyale, Geneva 1998, p. 21; Dyer, Unfair Competition in Private International Law, RCADI 1988, Part 211, Dordrecht 1990, pp. 381-389, especially pp. 387-388.

181 Beier (1985), p. 152.

182 See the analysis of the New UWG 2004 in chapter 4, in particular § 4.2.5.

petition exists under *inter alia* Greek law,¹⁸³ Austrian law,¹⁸⁴ Luxembourg law,¹⁸⁵ Polish law,¹⁸⁶ Swiss law,¹⁸⁷ Spanish law¹⁸⁸ and Dutch law.¹⁸⁹ The countries that have the most ‘modern’ laws of unfair competition provide for a more progressive model of combined competitor and consumer protection law. Examples of countries with these ‘modern’ laws are Denmark, Sweden, Norway and Belgium. Unlike the German model, that has only at a later stage included consumer protection in the originally competitor-focussed unfair competition law, these ‘modern’ laws were created with a strong view of consumer protection. Consumer protection has from the beginning had a very strong presence in these laws. It is therefore better to characterise these laws as ‘market practice laws’ instead of unfair competition laws, since they seek to uphold honest conduct in the marketplace rather than the ‘bonos mores in competition’.¹⁹⁰ In France, on the other hand, the rise of consumer protection led to a separate Consumer Protection Act.¹⁹¹ Consumer protection under French law is therefore not integrated into the rules on unfair competition, but is separately addressed.¹⁹²

183 Although a separate Consumer Protection Act exists next to the Unfair Competition Act, see Harte-Bavendamm/Henning-Bodewig/Henning-Bodewig (2005), Einl. E, 178 et seq.; Baumbach/Hefermehl (2004), p. 69.

184 Harte-Bavendamm/Henning-Bodewig/Henning-Bodewig (2005), Einl. E, 445 et seq.; Baumbach/Hefermehl (2004), p. 73.

185 Harte-Bavendamm/Henning-Bodewig/Henning-Bodewig (2005), Einl. E, 370 et seq.; Baumbach/Hefermehl (2004), p. 72.

186 Harte-Bavendamm/Henning-Bodewig/Engelbrekt (2005), Einl. E, 482 et seq.; Baumbach/Hefermehl (2004), p. 74.

187 Baumbach/Hefermehl (2004), p. 75. Article 1 of the Swiss UWG states that the Act provides protection for all ‘participants’ in competition. Under Articles 8 and 9, consumers have a ground for action.

188 Harte-Bavendamm/Henning-Bodewig/Henning-Bodewig (2005), Einl. E, 637 et seq.; Baumbach/Hefermehl (2004), p. 76.

189 Unfair competition law in the Netherlands is primarily based on case law. Nevertheless it is clear, when looking into this case law as well as the legal doctrine, that not only the competitor but also the consumer may seek protection under unfair competition law. See for more, chapter 3 on Dutch law.

190 Beier (1985), p. 157. The new German UWG of July 2004, links up with these ‘modern’ unfair competition laws, and could therefore be called a market practice law as well. See chapter 4 on German Law for more.

191 Chapter II of the ‘Code de la Consommation’ of 26 July 1993.

192 Petit, *Le parasitisme économique. Passé, présent et avenir*, diss. Université du Droit et de la Santé, Lille, 2002, p. 64. Harte-Bavendamm/Henning-Bodewig/Henning-Bodewig (2005), Einl. E, 127; Baumbach/Hefermehl (2004), p. 69. In Finland there is a separate Act on Consumer Protection as well, see Compilations of national laws, accessible via http://europa.eu.int/comm/consumers/cons_int/safe_shop/fair_bus_pract/national_laws_en.pdf, p. 2-3; Harte-Bavendamm/Henning-Bodewig/Henning-Bodewig (2005), Einl. E, 130; Baumbach/Hefermehl (2004), p. 68.

The unfair competition laws of the Member States have thus become increasingly influenced by consumer protection law. The same development is mirrored in Community law. The European Commission in proposing a regulation for harmonising unfair competition law, initially focussed on both the traditional field of unfair competition, *i.e.* protecting the trader against the unfair trading practices of other traders as well as consumer protection. The prime examples of this approach are the Directives on Misleading and Comparative Advertising that were supposed to protect the interests of competitors and consumers alike. However, inspired by the ‘modern’ consumer-oriented marketing practice laws of the Nordic countries, and because of tactical considerations, the European Commission decided to adapt its strategy of harmonisation accordingly.¹⁹³ The Commission changed its focus by concentrating solely on the protection of consumers. In line with the new Consumer Policy Strategy 2002-2006 adopted in May 2002, the Commission proposed a directive on unfair commercial practices that was limited business-to-consumer relations. Consumer protection (law) has therefore become inextricably bound up with unfair competition law, both on the national as well as on Community level.

2.5 COMMON PRINCIPLES SUGGESTED IN LEGAL DOCTRINE AS ALTERNATIVE APPROACHES TO HARMONISATION

Before I discuss, in section 2.5, the new proposals that have recently been made by the Commission in view of harmonising unfair competition law, I will address some of the proposals that have been made by authors that suggest a new approach to European unfair competition law.

2.5.1 Unjust enrichment

First of all, Kamperman Sanders explored an (alternative) foundation for a protective regime based on unfair competition law, with the advantage of it being more appropriate for European harmonisation. In his dissertation,¹⁹⁴ he constructs an action of ‘malign competition’ that is based on the doctrine of unjust enrichment augmented by principles of constructive knowledge. By using this construction he avoids the situation that traders will be too readily held liable for unfair commercial behaviour, as can be the case under tort law, because under unjust enrichment law, the plaintiff does not only need to prove damage, but he must also prove that because of the damage sustained, the defendant has been unjustly enriched. The solution put forward by Kamperman Sanders

193 See for a discussion of the EU policy on harmonisation of unfair competition law, §§ 2.3.5.2. and 2.6.

194 See *supra* 79.

seeks to prevent traders from simply claiming exclusive rights in intangible trade values, thereby promoting the freedom to compete.¹⁹⁵

Under the doctrine of unjust enrichment it is required that an actual shift in benefit has taken place from the plaintiff to the defendant, whereas the inclusion of the principles of constructive knowledge require that the defendant has been able to make a choice with regard to the risks he was taking in the appropriation of the other's badge of trade.¹⁹⁶ In addition, the action of malign competition results in a restitutionary remedy. According to Kamperman Sanders, 'the fact that a plaintiff can never gain more than his own loss measured against the defendant's gain should secure action is only taken when substantial interests are at stake.'¹⁹⁷ A further advantage of his approach is the fact that the Member States have all drafted unjust enrichment laws, and that his doctrine would therefore be consistent with these legal developments.¹⁹⁸

Kamperman's proposed action for malign competition has many constructive aspects that would streamline the action of unfair competition in a way which is acceptable to civil law as well as to common law countries, thereby restricting the application of unfair competition law and not allowing this area to become a haven for those seeking overly protective measures in addition to intellectual property law. Nonetheless, in view of possible harmonisation, his proposal might be a bridge too far from a practical point of view, despite its theoretical soundness. Firstly, because nearly all Member States base their action of unfair competition on tort law or a *sui generis* system of written law.¹⁹⁹

195 See e.g. Kamperman Sanders at p. 7: 'Where exploitation of another's achievements becomes inequitable, unfair competition law acts provides a remedy. This means that the mere fact that another's achievement is being exploited does not call for any impediment on the basis of unfair competition provisions. On the contrary, appropriating and building on others' achievements is the cornerstone of cultural and economic development. The axiom of freedom to copy epitomizes the principles of the free market system'.

196 Ibid, p. 211-212.

197 Ibid.

198 Ibid, chapter 4.

199 One can always argue, of course, that the principle of unjust enrichment basically underlies the law of property and obligations and, therefore, also unfair competition law. See Schoordijk, *Ongegronde vermogensvermeerdering*. College ter herdenking van de promotie van Marcel Henri Bregstein (1977), p. 4-5; Idem, *Het algemeen gedeelte van het verbintenissenrecht naar het Nieuw Burgerlijk Wetboek* (1979), p. 452; Idem, *Onverschuldigde betaling en ongerechtvaardigde verrijking bij zogenaamde driehoeksverhoudingen* (1999), p. 15; Nieskens-Isphording, *Het fait-compli in het vermogensrecht* (1991), p. 70; van Engelen, *Prestatiebescherming*, Tjeenk Willink: Zwolle 1994, § 5.5; Gielen, *Bescherming van bedrijfsgeheimen*, Preadvies van de Vereniging Handelsrecht, Tjeenk Willink: Zwolle 1999, p. 45. See however Linssen who criticizes Schoordijk's and Nieskens-Isphording's vision, Linssen, *Voordeelsafgifte en ongerechtvaardigde verrijking*, diss. 2001, Boom J.U. 2001, at 325. Even if we would follow the argument that the principle of unjust enrichment basically underlies unfair competition law, this would still not be convincing as an argument to opt for unjust enrichment as a basis for the European harmonisation of unfair competition law. One could, in particular, argue that the law of unjust enrichment is not

Introducing an action based on unjust enrichment in a directive harmonising unfair competition law, e.g. by integrating it into a general clause, would therefore not link up with the practices in most Member States. Besides, all Member States may indeed have drafted unjust enrichment laws, but this does not mean that these national laws are all alike. Differences in the content as well as the systematic approach towards unjust enrichment within the national system, could hamper an effective harmonisation of unfair competition law based on the principle of unjust enrichment. This problem is in particular prominent in England & Wales where English lawyers grapple with *inter alia* the scope of the law of unjust enrichment, as indicated by Van Kooten in his thesis on the restitutionary consequences of illegal contracts.²⁰⁰ Finally, the introduction of such a general principle could arguably be problematic when put into effect in the case of unfair commercial practices in the business-to-consumer sphere.

2.5.2 The doctrine of misappropriation

For some time, it has been argued that Parliament or the courts in the United Kingdom should consider adopting the so-called misappropriation doctrine, in the absence of any law on unfair competition. Some authors even suggest using this doctrine as a model for a harmonised unfair competition law in Europe.²⁰¹ The common law doctrine of misappropriation originates in the 1918 opinion of the United States Supreme Court in the case *International News Service versus Associated Press*.²⁰² International News Service (INS) and Associated Press (AP) were two competing news services that employed correspondents to gather and report news worldwide. AP gathered 'hot news' relating to events in the First World War, by using its transmission facilities from the front line and it sold the news to newspaper subscribers in the United States. INS began copying AP's stories from AP's bulletin boards, and from early editions of AP-affiliated newspapers on the East Coast. An INS reporter would take the reported information, write an article in his own words, and the new article would be wired to INS-affiliated papers for publication. In some cases newspapers on the West Coast, which subscribed to INS, were published before newspapers which subscribed to AP and thus took away AP's commercial advantage.

The US Supreme Court held that although there was no copyright infringement, since the stories were 'rewritten', a wrong had nonetheless occurred and this required a remedy. In Justice Pitney's majority opinion, the Supreme Court found that AP had

similar in the Member States and that the term 'unjust' could potentially lead to the same vagueness as the term 'unfair' does.

200 Van Kooten, *Restitutierechtelijke gevolgen van ongeoorloofde overeenkomsten*, Deventer: Kluwer 2002, p. 219 et seq., in particular 228-229.

201 Robertson/Horton, *Does the United Kingdom or the European Community need an Unfair Competition Law*, *European Intellectual Property Review* 1995 (EIPR 1995, 17(12), p. 582.

202 248 U.S. 215

a quasi-property right in the news that it had gathered and that INS had misappropriated this by 'endeavouring to reap where it has not sown'. Some authors have tried to find the rationale behind the misappropriation doctrine, suggesting: unjust enrichment; the theft of property, alias misappropriation of commercial intangibles; accountable (unfair) behaviour, irrespective of any property right; and passing off without the confusion/deception requirement.²⁰³ Since the AP/INS case, two incompatible lines of cases have developed in US law, one restricting the doctrine, and one expanding it. The result is a highly amorphous and unpredictable body of law, in particular because of uncertainty as to whether the misappropriation doctrine, as a state-based doctrine, was pre-empted for matters that were not, but could have been, protected under federal laws.²⁰⁴ However, the Supreme Court seems to have accepted in the *Bonito Boats Inc. v. Thunder Craft Boats Inc.* case²⁰⁵ that state laws against unfair trade practices are not pre-empted by federal statutes as long as they are not in direct conflict.²⁰⁶

The misappropriation doctrine, however, does not seem to be an ideal model for harmonising unfair competition law in Europe. Its application seems to be too limited for such use, mostly because it does not seem to be suitable to accommodate the various unfair trading practices that are recognised within most national laws of the Member States, in particular those that relate to B2C relations. It would be better suited to acting as a basis for 'sweat of the brow' protection, *i.e.* which is the case when a trader benefits from the achievements of his competitor.²⁰⁷ In addition to this, it is questionable whether the misappropriation doctrine is compatible with English law, e.g. the law of passing off.

203 Harms, Hark! There goes a tort, EIPR 1995, 17(9), 454. See also Adams, Unfair Competition: Why a need is unmet, EIPR 1992, 14(8), p. 260.

204 Spaulding, The Doctrine of Misappropriation (1998) at <http://cyber.harvard.edu/metaschool/fisher/linking/doctrine/index.html>

205 489 US 141 (1989).

206 Robertson/Horton (1995), p. 573. In the case of *NBA v. STATS, Inc. and Motorola*, 105 F.3d 841 (2d Cir. 1997), the appellate Court reasoned that because the federal copyright statute forbids the ownership of purely factual data, then such protection could not be obtained from resorting to the common law of the states, in this case commercial misappropriation under New York common law. Motorola, in conjunction with STATS, Inc., had developed a pager device which received real-time statistical updates of live NBA (basketball) games. Motorola had developed the delivery system, while STATS furnished the game data. Intending to market its own such device, the NBA sought an injunction against the duo for using the score data without authorization from the league. See on this case also, Tibbetts, 3 B.U. J. SCI. & TECH. L. 16; Djavaherian, Comment, Hot News and No Cold Facts: *NBA v. Motorola* and the Protection of Database Contents, 5 RICH. J.L. & TECH. 8; Charles Shifley and Patrick Shifley, 1 Nw. J. Tech. & Intell. Prop. 6.

207 This kind of protection against unfair competition is often referred to under German law as 'Leistungsschutz' and under Dutch law it is referred to as 'prestatiebescherming'. In these cases the focus is not primarily on the unlawful behaviour, but instead, on a certain object (or 'valuable intangible') that is worthy of the kind of protection equivalent to the protection provided for under intellectual property law. See chapter 3, § 3.5.5.4; and chapter 4, § 4.8.

Chapter 2

Besides the action for malign competition and the doctrine of misappropriation, several other theories have been posed that try to find underlying principles for a harmonisation of unfair competition law within Europe. They are, for the largest part, not as comprehensive as the two described above.²⁰⁸

2.6 NEW EUROPEAN LEGISLATIVE INITIATIVES

Above, I have examined the position of unfair competition law and its development in International law, within the European context, under primary and secondary European Union law, as well as under the European Convention on Human Rights. Additionally, I have addressed some of the alternatives that have been suggested in the literature for harmonising unfair competition law, which, despite their theoretical soundness, are not suitable to act as basis for the harmonisation of unfair competition law.

It is now time to address two important recent legal initiatives that have been drafted by the European Commission. Firstly, a draft Regulation on Sales Promotions, the amended version of which was presented on 25 October 2002,²⁰⁹ and, secondly and more importantly, a proposed Directive on Unfair Business-to-Consumer Commercial

208 For example: Ulmer, in his comparative study, argued that there is a coherent body of unfair competition law across Europe, which despite national differences, could be said to have a unifying objective. This objective is described by Beier as being the interest of the honest trader in having the right to restrain his competitors from causing him injury by unfair conduct. The test was whether a competitor's conduct complied with a general clause, like 'honest practices' (Article 10bis Paris Convention). See Beier (1985), at 284. Molengraaff believes that the 'bonos mores' are the fundamental principle underlying unfair competition law, See Molengraaff, RM 1887, p. 386 et seq. Aalberse argues that there is an underlying principle within unfair competition law that everyone is bound by a social duty of veracity, see Aalberse, *Oneerlijke concurrentie en hare bestrijding volgens het Nederlandsche recht*, diss. Leiden 1897, p. 17. Pfeffer, in his treatise on Dutch trade law, also endorses the principle of veracity, but does not believe that there is an underlying 'social duty'. In his opinion, the principle of veracity is fundamental to unfair competition law since the violation of it may injure the general public interests and may have an anti-competitive effect. See Pfeffer, *Grondbegrippen van het Nederlands Mededingingsrecht*, 1938, p. 13 et seq. Gotzen, in his comprehensive treatise on the freedom of trade and unlawful competition, describes a general notion of 'unlawful acts of competition' which comprises all acts that violate statutory regulations or legal contracts. See Gotzen, *Vrijheid van beroep en bedrijf & Onrechtmatige Mededinging*, Brussels 1963. Frison-Roche suggest instead of basing the action of unfair competition on Article 1382 of the French Civile Code, to base it on a new theory of 'abnormal disorders of competition' ('troubles anormaux de concurrence'). See Frison-Roche, *Les principes originels du droit de la concurrence déloyale et du parasitisme*, RJDA 6/94, at 27 et. seq.

209 Amended proposal for a Regulation concerning sales promotions in the Internal Market of 25 October 2002, COM(2002) 585 final.

Practices,²¹⁰ that became law on 11 June 2005.²¹¹ These initiatives from the Commission show a new momentum in the process for harmonising unfair competition law within the European Union. It is unclear, however, how they relate to each other.²¹² What is certain is that the proposals originate from different Directorates-General at the Commission. Whereas the draft Regulation on Sales Promotions has been drafted by the ‘Internal Market’ Directorate-General, the Unfair Commercial Practices Directive has been drafted by the ‘Health and Consumer Protection’ Directorate-General. As we will see, below, these different backgrounds will have as a consequence that both regulations are of a totally different nature.

2.6.1 Draft Regulation on Sales Promotions

In May 1996 the Commission published a Green Paper on Commercial Communications.²¹³ For the term ‘commercial communications’ the Commission used a slightly different definition to the one used in the E-Commerce Directive as shown above. The Green Paper defined commercial communications as: ‘All forms of communication seeking to promote either products, services or the image of a company or organisation to final consumers and/or distributors.’ This very broad definition covers all forms of advertising, direct marketing, sponsorship, sales promotions and public relations. The Commission in the Green Paper proposed to draft regulations for four key areas within the field of commercial communications, that diverge significantly at the national level and therefore potentially give rise to both Internal Market barriers and to a lack of effective protection across borders within the Community. These four areas are (i) the protection of minors, (ii) unfair competition, (iii) sponsorship, and (iv) misleading claims. In the Follow-up to the Green Paper on Commercial Communications,²¹⁴ the Commission enumerated the various reactions to the Green Paper and presented their own updated view. The Commission argued that a balance needed to be found between the objective of promoting the growth of cross-border commercial communication

210 Proposal for a Directive concerning unfair business-to-consumer commercial practices in the Internal Market and amending directives 84/450/EEC, 97/7/EC and 98/27/EC of 18 June 2003, COM(2003) 356 final (the Unfair Commercial Practices Directive). This proposal has since been amended. See amended proposal after opinion of the European Economic and Social Committee of 20 February 2004, 2003/0134 (COD), 6453/04; opinion of the European Parliament in first reading 19 May 2004, 2003/0134 COD, 8492/04 COR 2; Common position of 15 November 2004, 2003/0134 (COD), 11630/2/04 REV 2 ADD 1; European Parliament opinion in second reading, 2003/0134 COD24, 6618/05, 2 March 2005.

211 OJ L 149/22 of 11 June 2005.

212 Stuyck/Terryn/Van Dyck (2003), p. 293.

213 Commission Green Paper on Commercial Communications in the Internal Market of 8 May 1996, COM(96) 192 final.

214 The follow-up to the Green paper on Commercial Communications in the Internal Market of 4 March 1998, COM (98) 121.

services and that of ensuring consumer protection. In order to smooth the process towards drafting a regulation on commercial communications, the Commission decided to set up a Commercial Communications Expert Group with the duty to 'establish transparent and efficient administrative co-operation between itself and the Member States and a dialogue with interested third parties'. The Expert Group will *inter alia* examine how existing redress and dispute settlement systems (including those operated by self-regulatory bodies) can be improved in a cross-border environment.

In October 2001 the Commission adopted its proposal for a Regulation on Sales Promotion, and an amended version was presented a year later.²¹⁵ According to the Preamble, the main purpose of the Regulation is the removal of barriers that arise from divergences in legislation and from the legal uncertainty as to which national rules apply to the use and communication of sales promotions, in order to facilitate the free movement of goods associated with the sales promotion.²¹⁶ In conformity with the principle of subsidiarity as set out in Article 5 of the EC Treaty, the draft Regulation deals only with those specific identified matters which give rise to problems for the Internal Market. These matters comprise, as far as sales promotions are concerned, ensuring 'a high level of protection of objectives of general interest, in particular the protection of minors, consumer protection and in that context fair trading and the protection of public health'.²¹⁷ This is put into effect by setting down a detailed number of information requirements, ensuring that sales promotions are 'transparent and that an individual interested in a communicated sales promotion will be able to easily obtain all the relevant information announced in that communication'.²¹⁸ In addition, the use and commercial communication of sales promotions will be subject to a number of harmonised targeted bans and precise restrictions.²¹⁹ For example, national bans on premiums, national value limits on discounts, bans on making participation to promotional games subject to purchase are removed and replaced by stronger transparency requirements.²²⁰ Any remaining cross-border barriers to the use and commercial communication of sales promotions will be submitted to the application of the principle of mutual recognition of national legislation.

The draft Regulation uses, as opposed to the Green Paper on Commercial Communications, the same definition for 'commercial communications' as is being used in the E-Commerce Directive.²²¹ 'Sales promotions' are defined as²²² 'the offer of a discount, a free gift, a premium or an opportunity to participate in a promotional contest or game'.

215 See *supra* 208.

216 Preamble (4).

217 Preamble (11).

218 Preamble (14).

219 *Ibid.*

220 Article 10(1) in conjunction with Article 2(a) and (b).

221 Article 2(a).

222 Article 2(b).

One would expect the draft Regulation to have a very broad scope of application, since it deals with all forms of commercial communications. In practice, it is nonetheless of limited significance to the law of unfair competition. It contains bans for some sales promotions, as mentioned above, and additionally it contains a set of information requirements as to commercial communications. Under the draft Regulations, for instance, all discounts will be subject to the condition that the promoter will, on request, indicate to the client the preceding price of the promoted good or service and the length of time (including dates) that this preceding price was applied. Besides these information requirements, no other requirements need be met for promoters using commercial communications, like e.g. that they should not be misleading, aggressive, etc. What is more, the preamble to the draft Regulation explicitly states that it does not affect ‘the Community acquis, which is applicable to the use and communication of sales promotions, which covers, in particular, Council Directive 84/450/EEC concerning misleading advertising and comparative advertising’.²²³ Next, the preamble states ‘non-compliance with the information requirements of this Regulation shall be considered as breaches of the ban on misleading advertising established by Council Directive 84/450/EEC’. So, in this respect, the draft Regulation is basically a *lex specialis* to the Directive on Misleading Advertising. In short, the draft Regulation will most likely not have a strong harmonising effect on the law of unfair competition within the European Union.²²⁴ Besides, the draft Regulation seems to have very limited prospects of being adopted in the near future.²²⁵

2.6.2 The Unfair Commercial Practices Directive²²⁶

2.6.2.1 The Green Paper and its Follow-up

At the same time as the Commission adopted the draft Regulation on Sales Promotions, it presented the Green Paper on Consumer Protection, containing a proposal for a Framework Directive on Fair Commercial Practices.²²⁷ The Green Paper is based on three studies, produced for the Commission, that provide a comprehensive survey of consumer protection regulations at national and EU level.²²⁸ In this Green Paper, the

223 Preamble (12).

224 Kabel, Reclamerecht online (2002), p. 27.

225 See e.g. the online notices of the Advertising Information Group, of 17 June 2005, Issue 257, at <http://www.aig.org/notices/257.html>.

226 See also on the UCP Directive: Radeideh (2004).

227 Green Paper on European Union Consumer Protection of 2 October 2001, COM(2001) 531 final.

228 Micklitz, V.I.E.W. Study on the Feasibility of a General Legislative Framework on Fair Trading by the Institut für Europäisches Wirtschafts- und Verbraucherrecht e.V., November 2000; de Vries/Prins/Hondius/Kabel/de Cock Buning, Price Waterhouse Coopers study on ‘Consumer Law and the Information Society’, 17 August 2000; Lex Fori study to identify best practice in the use

Commission points out that, for the development of a fully functioning consumer internal market, a greater degree of harmonisation of the rules that regulate business-consumer commercial practices is needed.²²⁹ To achieve this, the Commission proposes two options: harmonisation by way of a specific approach based on the adoption of a series of further directives, or by way of a mixed approach of a comprehensive framework directive, supplemented by targeted directives, where necessary. As an example of the specific approach, the Green Paper mentions the draft Regulation on Sales Promotions. In the Green Paper, the Commission tends to favour the mixed approach, and subsequently provides a comprehensive analysis of the possibility of a general Framework Directive on fair commercial practices.²³⁰

The Commission fully realises that such a directive would need enforcement that is more or less equally effective in all Member States for it to be effective. To ensure that this is the case, the Commission proposed various options of co-operation that could tackle these enforcement issues. These options could lead to the institution of a legal framework for formal co-operation between public authorities. The options provided for in the Green Paper include the nomination of competent authorities by each Member State to co-ordinate enforcement co-operation among national, regional and local bodies.²³¹ In addition, the Commission proposes to establish a system of mutual assistance between the Member States, the establishment of common databases and communication networks, the establishment of obligations for Member States to supply information to the Commission for dissemination to other Member States to enhance the co-ordination of market surveillance, the possibility for Member States to carry out co-ordinated enforcement actions albeit under national enforcement powers and, finally, the possibility for the EU to enter into co-operation with third countries on enforcement and to join global enforcement networks.²³²

The Green Paper received a wide response from businesses, consumer organisations and national governments and agencies.²³³ In reaction to these responses and in line with the new Consumer Policy Strategy 2002-2006 adopted in May 2002,²³⁴ the Commission

of soft law and to analyse how this best practice can be made to work for consumers in the EU, Groupement européen d'intérêt économique, Luxembourg. See for these three studies http://europa.eu.int/comm/consumers/cons_int/safe_shop/fair_bus_pract/green_pap_comm/studies/index_en.htm.

229 Green Paper, p. 10.

230 Green Paper, p. 13 et seq.

231 Green Paper, p. 19.

232 Ibid.

233 See http://europa.eu.int/comm/consumers/cons_int/safe_shop/fair_bus_pract/green_pap_comm/responses/index_en.htm

234 Consumer Policy Strategy 2002-2006, COM (2002) 208 final. See http://europa.eu.int/comm/consumers/publications/pub09_en.pdf. The three objectives of the new European Consumer Policy are (1) a high common level of consumer protection, (2) an effective enforcement of consumer protection rules and (3) proper involvement of consumer organisations in EU

published a Follow-up Communication to the Green Paper on EU Consumer Protection.²³⁵ Based on the responses, the Commission discards the specific approach mentioned above. Consequently, in the Follow-up Communication, the Commission substantiated the proposals made in the Green Paper by adding to the contents of a proposed Framework Directive on fair commercial practices. The Commission justifies its proposal to draft a Framework Directive by referring to surveys that show the economic benefit for the internal market²³⁶ as well as the benefit for the consumer,²³⁷ when disparities between national rules, in particular in the field of marketing practices, are removed.²³⁸

2.6.2.2 *An analysis of the Unfair Commercial Practices Directive*

a Introduction

The Unfair Commercial Practices Directive²³⁹ (hereinafter: ‘the UCP Directive’) that came into force on 11 June 2005, calls for a total harmonisation of laws on unfair trade practices within the European Union. As we can see in the title, the word ‘fair’ as used in the Green Paper on Consumer Protection has been replaced with the word ‘unfair’. The Commission has chosen the word ‘unfair’ to meet the requests formulated in the many responses to the Green Paper and its Follow-up to refrain from imposing any positive obligations which a trader has to comply with in order to show that he is trading fairly, and thereby improving legal certainty.²⁴⁰ In line with the Consumer Policy Strategy 2002-2006, the Commission has opted for total harmonisation, a novelty, since most directives concerning consumer protection are based on minimum harmonisation.²⁴¹

policies.

235 Follow-up Communication to the Green Paper on EU Consumer Protection of 11 June 2002, COM(2002) 289 final.

236 The Commission’s Cardiff report on the functioning of the internal market, COM 2001 (736) of 7 December 2001 and the study ‘The Benefits of a Working EU Market for Financial Services’ commissioned by the European Financial Services Round Table, see www.zew.de/erfstudy/results/.

237 Eurobarometer carried out for the Commission, FLASH BE 117 ‘Consumer Study’ January 2002.

238 Some authors have criticised the justifications that the Commission uses to demonstrate the need for drafting legislation in this field. See e.g. Howells/Wilhelmsson (2003), p. 377. See also *supra* 2.3.2.

239 *Supra* 210.

240 *Supra* 209, p. 7. It is clear, though, that this reversal is brought about by industry’s lobbying.

241 The Directive 2002/65/EC on the distance marketing of consumer financial services is also based on total harmonisation. The Commission has proposed, in its Consumer Policy Strategy 2002-2006, to change the basis of the Directives on Timeshare (94/47/EC, OJ 1994 L 280/83) and on package travel (90/314/EEC, OJ L 158, 23 June 1990), from minimum to total harmonisation. In

b Total harmonisation

As we have seen, the Commission is pressing to move towards maximum harmonisation for all consumer protection directives, which would allow Member States only to enact the level of protection that is laid down in the relevant directive. Member States with high levels of consumer protection are obviously wary of this, fearing the loss of existing protection. Some authors stress the need for total harmonisation.²⁴² The Commission, in its Green Paper on Consumer Protection, justifies the choice for total harmonisation by referring to the need ‘to address the internal market barriers caused by divergent national provisions and to provide the necessary support to consumer confidence to make a mutual recognition approach workable’.²⁴³ Evidently, maximum harmonisation restricts Member States from imposing their own rules thereby ensuring the same standard throughout the EU. This would remove the presence of trade barriers generated by differences between national laws. Such a uniform standard would improve legal certainty and provide incentives for cross-border trade and marketing for traders and cross-border purchases for the consumer.

Other authors, however, criticize the move towards total harmonisation.²⁴⁴ A system of minimum harmonisation would leave it to the Member States to decide if they want to enact legislation that provides for more consumer protection. It would provide for a platform which leaves room for the Member States to retain and build their own ‘legal houses’. Total harmonisation, on the other hand, could lead to a significant weakening of the existing levels of consumer protection in some Member States. The adoption of total harmonisation could bring European Union consumer policy to a halt, thereby

a more general note the Commission proposes to ‘review and reform existing EU consumer protection directives, to bring them up to date and progressively adapt them from minimum harmonisation to ‘full harmonisation’ measures’, see page 16 of the Consumer Policy Strategy. This seems to indicate a policy change in the field of consumer protection from minimum to total harmonisation. See Commissie voor Consumentenaangelegenheden of the SER (Sociaal-Economische Raad), *Onerlijke handelspraktijken op consumententerrein in de EU*, Pbnr., 13 April 2004, p. 25.

242 See e.g. Henning-Bodewig, *Stellungnahme des Max-Planck-Instituts zum Vorschlag einer Richtlinie über unlautere Geschäftspraktiken vom 18.6.2003 und eine Verordnung über die Zusammenarbeit im Verbraucherschutz vom 18.7.2003*, GRURInt 2003, 926; Deutsche Vereinigung für gewerblichen Rechtsschutz und Urheberrecht e.V., *Stellungnahme zum Vorschlag der Europäischen Kommission für eine Richtlinie über unlautere Geschäftspraktiken im binnenmarktinternen Geschäftsverkehr zwischen Unternehmen und Verbrauchern – KOM (2003) 356 endg.*, GRUR 2004, 215; Kur, *Europäische Union – Kommission legt Richtlinienvorschlag über unlautere Geschäftspraktiken gegenüber Verbrauchern vor*, GRURInt 2003, 795; Sosnitzer, *Das Koordinatensystem des Rechts des unlauteren Wettbewerbs im Spannungsfeld zwischen Europa und Deutschland – Zum Regierungsentwurf zur Reform des UWG vom 9.5.2003*, GRUR 2003, 739.

243 Green Paper on Consumer Protection, p. 8.

244 See e.g. Howells/Wilhelmsson (2003), p. 370; Wilhelmsson (2004), p. 223.

freezing it at a low level and preventing it from further developing.²⁴⁵ Howells believes that the shift towards maximum harmonisation requires a thorough assessment of substantive consumer policy, which has not yet taken place.²⁴⁶ He argues that the dominance of the internal market arguments and the paucity of consumer policy in the Communication on Sales Promotion Regulation make it obvious that European Community consumer policy is not sufficiently developed to entrust it with exclusive responsibility in consumer protection matters, as a maximum harmonisation directive would do.

Besides the danger of degrading the level of consumer protection, a total harmonisation would also conflict with some specific directives that fall under a minimum protection regime, since under Article 3(4) of the UCP Directive in the case of conflict between the UCP Directive and a specific directive 'the latter shall prevail and apply to those specific aspects'. This problem has been tackled, however, and the European Commission has reached a compromise in the form of Article 3 (5) of the UCP Directive. Under this article, 'For a period of six years from 12 June 2007, Member States shall be able to continue to apply national provisions within the field approximated by this Directive which are more restrictive or prescriptive than this Directive and which implement directives containing minimum harmonisation clauses. These measures must be essential to ensure that consumers are adequately protected against unfair commercial practices and must be proportionate to the attainment of this objective.' Member States may propose to prolong this derogation for a further limited period.

The Commission has, by reaching this compromise, moved the UCP Directive into a new position, which in practice is situated somewhere between minimum and total harmonisation. Article 3(5) that has been introduced as a compromise, may function as a safeguard procedure that is indispensable due to the loss of national competence through total harmonisation.

c Confined to B2C relations

Another striking feature of this proposal is its scope. Unlike earlier directives, it concerns all types of unfair trading practices. It is not restricted to a particular type of unfair behaviour, nor is it either media- or product- or service-specific. This is a very welcome feature, since as we have seen up to now, the European legal landscape concerning unfair competition can be portrayed as a patchwork of piecemeal rules. We should not become overexcited, however, since the proposal still has an important restriction. It is limited to business-to-consumers relations (B2C), meaning that competitors' economic interests are not protected under the proposal. As announced *supra* § 2.5,

245 See UK Government Response to the consultation paper on the draft EU Directive on Unfair Commercial Practices issued in July 2003, <http://www.dti.gov.uk/ccp/consultpdf/unfaireponse.pdf>, p. 9.

246 Howells/Wilhelmsson (2003), p. 370.

this limitation clearly reflects the structure of the Commission and its functioning. As we can see, the Commission has issued, concerning the very same subject-matter, a set of documents and regulations that clearly do not relate to each other, although they all originate from the very same institution. Whereas the directives concerning Misleading and Comparative Advertising as well as the draft Regulation on Sales Promotion have been drafted by the 'Internal Market' Directorate-General, the proposal for an Unfair Commercial Practices Directive has been drawn up by the 'Health and Consumer Protection' Directorate-General (hereinafter: 'DG Sanco').

This is probably the main reason why the proposal is confined to consumer protection and thus to B2C relations. This is expressed in Article 1 of the proposal which outlines the objective of the UCP Directive, which is to achieve 'a high level of consumer protection'. The Explanatory Memorandum explicitly states that only acts that harm the economic interests of consumers fall under the proposal.²⁴⁷ Consequently, the UCP Directive proposes to split up the national laws of unfair competition into a part providing rules for the consumer and a part providing rules for the (honest) trader. This outcome is, for multiple reasons, unfavourable.²⁴⁸

First of all, the laws of unfair competition within most national laws of the Member States serve the interests of the consumer as well as the trader. As we have seen,²⁴⁹ unfair competition law has gradually evolved from being purely competitor-focussed, to safeguarding the interests of consumers as well. This aspect has been codified in most national unfair competition laws,²⁵⁰ with France as the notable exception.²⁵¹ As a con

247 See the draft Directive, p. 10. However, in the final version of the Directive, the interests of competitors are indirectly protected as well, see *sub* 252.

248 See also Glöckner, Richtlinienvorschlag über unlautere Geschäftspraktiken, deutsches UWG oder die schwierige Umsetzung von europarechtlichen Generalklauseln, WRP 2004, 936 at 938; Henning-Bodewig, Das Europäische Lauterkeitsrecht B2C, B2B oder doch besser beides?, in: Keller/Plassmann/von Falck, Festschrift für Winfried Tilmann (2003), p. 149 et seq.; Köhler/Letl, WRP 2003, 1019 at 1033; the comments of the German Society for Industrial Property and Copyright (GRUR), GRUR 2004, 215; the comments of the Max Planck Institute for Intellectual Property, Competition and Tax Law, see Henning-Bodewig (GRUR Int. 2003), 926; Ohly (2005), Towards a Harmonised European Unfair Competition Law? Comments on the Proposal for a Directive on Unfair Commercial Practices, lecture given to the Hungarian Competition Law Association at Budapest, 4 March 2005, www.versenyjog.hu/hun/doc/ohly.doc. Ohly is of the opinion, however, that some of the criticism voiced particularly in the German literature seems to be exaggerated, see p. 6. See also in this respect Keßler/Micklitz, BB-Europareport: Der Richtlinienvorschlag über unlautere Praktiken im binnenmarktinternen Geschäftsverkehr BB 2003, 2073 at 2074; Veelken, Kundenfang gegenüber dem Verbraucher, WRP 2004, 1 at 10.

249 See *supra* § 2.4.

250 For e.g. in Sweden, Norway, Denmark, Germany, Austria, Greece and Belgium.

251 In France, protection against unfair competition for the consumer or the competitor has been accommodated in separate laws. Ohly also mentions Hungarian law as a similar example. See Ohly (2005), Towards a Harmonised European Unfair Competition Law? Comments on the Pro-

sequence, most national laws on unfair competition have, over time, changed into laws on 'market practices'. The UCP Directive breaks with this tradition as vested in the national systems of most Member States. Moreover, it breaks with traditions in European law, since the Misleading and Comparative Advertising Directive explicitly states that 'the purpose of this Directive is to protect consumers, persons carrying on a trade or business or practising a craft or profession and the interests of the public in general'.²⁵² But the UCP Directive does not merely attack a set of legal traditions, more importantly it tries to split a coherent field of law. The law of unfair competition is aimed at protecting consumers and traders alike. As Ohly has indicated in his 2005 lecture to the Hungarian Competition Law Association, these are 'inseparable aspects, two sides of the same coin'.²⁵³ However, in many cases the interests of consumers and traders are interwoven. A misleading claim concerning a competitor's product will amount to damaging the competitor's goodwill, as well as impeding the consumer in making a rational choice.

The competitor who, of course in his own interest, will take action under unfair competition law to stop the misleading claim and prevent it from reappearing, will thereby also help the consumer by 'removing' these misleading claims from the advertising market. So, providing the consumer and the honest trader with the same set of rules, may lead them to help each other, although this may not be their intention. The Commission, in one of its latest versions of the draft UCP Directive,²⁵⁴ has admitted this fact. Preamble (8) now states that the UCP Directive '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.' Nonetheless, the interests of competitors are only protected under the UCP Directive if the interests of the consumers are at stake as well.²⁵⁵

What is more, honest competitors can even take legal action under the UCP Directive against unfair commercial practices.²⁵⁶ This possibility has been added in one of the latest amendments²⁵⁷ to the UCP Directive. Although the addition of an action for (honest) traders under the UCP Directive is favourable, the ensuing construction adds to the complexity of the legal framework on unfair competition as created by the European legislator. Does this mean, for example, that a competitor may institute an action

posal for a Directive on Unfair Commercial Practices, lecture given to the Hungarian Competition Law Association at Budapest, 4 March 2005, www.versenyjog.hu/hun/doc/ohly.doc, p. 5.

252 Article 1.

253 Ohly (2005), p. 5.

254 Common Position adopted by the Council of 15 November 2004, 2003/0134 (COD), 11630/2/04 REV 2.

255 This follows from preamble (6), see below.

256 Article 11 UCP Directive.

257 Document from the Presidency to the Delegations, Brussels 20 February 2004, 2003/0134 (COD), 6453/04, p. 18.

under the UCP Directive in the case of comparative advertising that creates confusion with one of his products,²⁵⁸ next to his claim under the Misleading and Comparative Advertising Directive? If this is the case, how do these two sets of rules relate to each other? These amendments have led to the situation that the final version of the UCP Directive not only relates to consumer protection, but also contains provisions that provide protection for the (honest) trader. This is, e.g. the case with comparative advertising. In a Directive primarily focused on consumer protection, one would not expect to see provisions that provide protection against ‘any marketing of a product, including comparative advertising, which creates confusion with any products, trade marks, trade names or other distinguishing marks of a competitor’.²⁵⁹ Why, then, has this provision been inserted?

So, the UCP Directive contains provisions that, albeit in most cases indirectly, relate to commercial practices in B2B relationships. Nevertheless, the UCP Directive clearly leaves it to the Member States to prohibit unfair commercial practices in B2B relations. As it states in preamble (6):

‘[The Directive] neither covers nor affects the national laws on unfair commercial practices which harm only competitors’ economic interests or which relate to a transaction between traders; taking full account of the principle of subsidiarity, Member States will continue to be able to regulate such practices, in conformity with Community law, if they choose to do so’.

This preamble does theoretically enable the Member States to retain their own system of unfair competition law. However, in most cases, the Member States’ system of unfair competition law will lose its integrity. First of all, the integrated concept of consumer protection and classic unfair competition law will be abolished. The consumer protection part of the national unfair competition law will be governed by the UCP Directive and its interpretation by the ECJ, while the part that provides protection for (honest) traders will remain attuned to the national commitments that exist in relation to unfair competition law. As a result, national unfair competition law will lose its balance. In addition to this, national unfair competition law that provides protection for (honest) traders will indeed be influenced by European law since the UCP Directive provides rules that play a part in these cases, notwithstanding its formal limitation to consumer protection. As shown above, some provisions in the UCP Directive are directly applicable to traders, instead of consumers. As a result of this, European unfair competition law will become more complex because of the B2C and B2B regime that will exist side by side,²⁶⁰ and the fact that the UCP Directive is not clearly defined. This will lead to many problems, in particularly in cases of misleading and comparative advertising. The UCP Directive incorporates the B2C provisions of the Misleading Advertising Directive and

258 Under Article 6(2a) in conjunction with Article 11 of the UCP Directive.

259 Article 6(2a) of the UCP Directive.

260 Ohly (2005), p. 6.

limits its scope to B2B advertising and comparative advertising which may harm a competitor, but where there is no consumer detriment.²⁶¹ Consequently, advertising law in Europe will be divided into two sets of rules running parallel with each other.

What will happen if we would read a newspaper and encounter an advertisement that seems to be misleading? First, we would have to decide if it harms the consumer in his rational choice, or whether it harms a competitor. If it is liable to harm the consumer's economic interests, the UCP Directive is applicable. Whether or not the advertisement is misleading will be assessed against the norms laid down in the UCP Directive that directly relate to ECJ case law concerning the average consumer. But what if the advertisement turns out to be comparative as well? If it is still to the detriment of the consumer, then the UCP Directive will be applicable as well. Under the UCP Directive, however, no special provisions exist with respect to comparative advertising other than Article 6(2)(a) under the heading of 'Misleading actions'. Or does the Misleading and Comparative Advertising Directive nonetheless apply? Under Article 14 of the UCP Directive, the answer would be no.

Suppose the advertisement is not directly harmful to the consumer but instead, to the honest competitor. If he decides to take action, it is not the UCP Directive, but rather the Misleading and Comparative Advertising Directive that will apply. Whether the advertisement is misleading, in this case, will be assessed against nationally devised norms on misleading advertising, that can in certain cases be stricter than the European norm relating to the average consumer, since the Misleading and Comparative Advertising Directive provides for minimum harmonisation. Moreover, if the advertisement would be comparative as well, the strict conditions that are laid down in this Directive for comparative advertising need be met. But, to make things even more complicated, for the misleading element in the comparative advertisement, not only the rules on misleading advertisements under the Misleading and Comparative Advertising Directive apply, but the rules on misleading commercial practices under the UCP Directive are applicable as well!²⁶² And what would happen if, like in most cases, the advertisement is potentially harmful to traders and consumers alike? Would both sets of rules be applicable?

These questions show that the UCP Directive will most probably lead to more complexity and various questions of interpretation. Ohly compares this situation to a

261 Article 14 of the UCP Directive.

262 According to Article 14 of the UCP Directive, article 3(a) of the Directive on Misleading and Comparative Advertising will be replaced by the following provision:

Article 3a

1. Comparative advertising shall, as far as the comparison is concerned, be permitted when the following conditions are met:

(a) it is not misleading according to Articles 2(2), 3 and 7(1) of this Directive or Articles 6 and 7 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; (...).

football match. ‘Now, none of us would wish two sets of football rules, some only protecting rival players, others protecting the spectators watching the game. Football is a single and undividable process. So is competition.’ Certainly, the approach towards harmonising unfair competition law for B2C relations is not solely the consequence of it originating from DG Sanco. This DG is only committed to the protection of the consumer, not the competitors and will thus keep any legislation it drafts within the realm of consumer protection. But there are, I assume, other factors which are likewise responsible for this outcome. The most important one may be the probable absence of political consensus on unfair competition law. If the past fifty years have demonstrated anything, then it is that unfair competition law gives rise to different reactions from policy makers across the European Union. The past decades have consequently seen a policy shift towards consumer protection within the European Union.²⁶³ So by ‘surfing these waves’ the Commission may have found a safe way of reaching the harbour of harmonisation in one piece. Although an all-inclusive directive prohibiting all types of unfair competition directed towards consumers as well as traders may be preferred, the present draft has to date the most realistic prospects of being adopted. The Commission’s ‘Realpolitik’ may therefore be tactically quite feasible and even preferable, since its alternative could be no harmonisation at all. However, despite its greater possibility of being adopted, I am still not in favour of the Commission’s proposal. The B2C UCP Directive will lead to (further) fragmentation of the law of unfair competition within the European Union, thereby consequently contradicting its purpose of contributing ‘to the proper functioning of the internal market’.²⁶⁴ Besides, as mentioned above, it does not correspond to the laws of most Member States, in particular those that have adopted laws on ‘market practices’. To my mind, the UCP Directive may have a tactical advantage,²⁶⁵ but it is conceptually inferior to one single market law approach.²⁶⁶

d The country-of-origin rule

Like the E-commerce directive, in the UCP Directive the Commission has opted for the country-of-origin rule. As we have seen, this shows a movement away from the traditional position in unfair competition law which favours the law of the marketplace. In this case, where a dispute arises concerning the good or service, the applicable law would be that of the consumer’s country. This rule is common to most Member States and has also been adopted in Article 5 of the proposed Rome-II Directive.²⁶⁷ The draft UCP Directive, however, has changed the applicable law to the law operating in the trader’s country, following a similar move in the E-commerce Directive to open up trade

263 This policy shift was equally endorsed by the literature, see e.g. Schricker 1 IIC 415-449 (1970).

264 Henning-Bodewig (GRURInt 2003), 926 et seq.

265 In the way that consumer protection is a ‘hot topic’ for harmonisation.

266 See Ohly (2005), p. 6 who is of the same opinion.

267 See *supra* 162.

in the single market. As Article 4(1) states, ‘traders shall only comply with the national provisions, falling within the field approximated by this Directive, of the Member State in which they are established. The Member State in which the trader is established shall ensure such compliance.’ This provision has been widely criticized.²⁶⁸ Many feared that it might undermine consumer protection within the Member States. The clear winners would obviously be traders, who only have to comply with the requirements of their country of origin when selling to consumers around the European Union.

So, the country-of-origin rule formulated in the draft UCP Directive has the same drawbacks as its equivalent in the E-commerce Directive as discussed above. Thus, the country-of-origin principle will probably lead to a ‘race to the bottom’, an enfeeblement of consumer protection across Europe, internal discrimination between national and international businesses and, finally, to a division between rules which are applicable to unfair trade practices in B2C and B2B relations. After many protests, this provision has consequently been removed by the Commission pursuant to the Council’s common position.²⁶⁹ As a consequence, and in line with normal practice, the applicable law in cross-border disputes will now be determined by the courts.

e General Clause

Article 5 of the UCP Directive introduces, in line with Article 10bis of the Paris Convention, a general clause on unfair competition into Community law for the first time. Under Article 5, ‘unfair commercial practices shall be prohibited’. General clauses, such as these, are common in all Member States of the European Union except the United Kingdom and Ireland.²⁷⁰ The general clause introduced in the UCP Directive will therefore replace the existing divergent general clauses and principles in the Member States and ‘define a common EU wide framework’, which will considerably

268 See Henning-Bodewig (GRURInt 2003), II-6; Schricker/Henning-Bodewig (2001), p. 12; Ohly (2005), p. 14 et seq.; Micklitz, A General Framework Directive on Fair trading, in Hugh Collins (ed), *The Forthcoming Directive on Unfair Commercial Practices – Contract, Consumer and Competition Law Implications*, Kluwer Law International 2004, p. 59 et seq.; Micklitz (2000), p. 11; Stuyck/Terryn/Van Dyck (2003), p. 266 et seq.; Permanent Bureau of the Hague Conference on Private International Law (2000), *supra* 27, footnote 62; van Eechoud, *Choice of Law in Copyright and Related Rights, Alternatives to the Lex Protectionis*, Kluwer Law International 2003, § 3.3.3.1.

269 Communication from the Commission to the European Parliament concerning the common position of the Council of 23 November 2004, 2003/0134 (COD), 15155/04, p. 4.

270 Of the other Member States, most have a general clause, or alternatively use a general tort clause (e.g. France, the Netherlands). See, also for the position in common law systems, Ohly, *Richterrecht und Generalklausel im Recht des unlauteren Wettbewerbs*, 1997, p. 73 et seq.; Cornish, *Intellectual Property: Patents, Copyright, Trademarks and Allied Rights*, 4th edition 1999, No. 1-13 et seq.

simplify the legislative environment in which traders and consumers operate'.²⁷¹ Not surprisingly, these clauses are highly criticized in the common law jurisdictions. Common objections are their alleged contribution to legal uncertainty and their interference with the principle of freedom of trade and the system of checks of balance under the *trias politica*.²⁷² One should keep in mind, nevertheless, that general clauses are a familiar tool in European law. In European cartel law, for example, Article 82 of the EC Treaty strikes a balance between the legitimate use of the freedom of competition and the misuse of this freedom by stating that it is prohibited to abuse a dominant position in the market. Also, in secondary EC law, general clauses are already present, e.g. in the unfair contract terms Directive.²⁷³ General clause are, therefore, a flexible tool for controlling the ever changing market practices, for preventing the circumvention of existing statutory provisions and, finally, for drawing a line between acceptable and unacceptable commercial innovations.²⁷⁴ Ideally, the general clause is the happy compromise in drafting a rule, thereby providing legal certainty, that can be interpreted in case law, and thereby providing the flexibility needed to adapt to new unfair trading practices.

Since it is impossible to formulate under what conditions a commercial practice is considered to be 'unfair', case law will play an important role in the practical application of the UCP Directive.²⁷⁵ Since the draft Regulation is based on a system of total harmonisation, the ECJ will have to interpret the general clause on a case by case basis, thus shaping the notion of 'unfair commercial practice'. This would saddle the ECJ with the task of assessing an abundance of references from Member States. Moreover, the ECJ would have to decide on what is fair and unfair while at the same time knowing that this is closely related to existing customs and habits in the Member States. The ECJ must therefore strike a delicate balance between shaping unified European rules and applying flexibility in view of national peculiarities. In practice, however, it is not

271 Draft Directive of 18 June 2003, COM (2003) 356 final, p. 12-13.

272 See for a comparison of the common law view on general clauses, chapter 6 Comparative law. See for a comprehensive analysis of general clauses in unfair competition law: Ohly, *Richterrecht und Generalklausel im Recht des unlauteren Wettbewerbs: Ein Methodenvergleich des englischen und des deutschen Rechts*, Max-Planck-Institut für ausländisches und internationales Patent-, Urheber- und Wettbewerbsrecht Schriftenreihe zum gewerblichen Rechtsschutz, GWR Band 100, Carl Heymanns Verlag, Cologne 1997, 344 pp.

273 Article 3(1) of the Unfair Contract Terms Directive 93/13/EEC of 5 April 1993. See also e.g. Article 1 and 2(2) of the Directive on Misleading and Comparative Advertising; Article 8(5), 9(1)(e) and 12(c) of the Community Trademark Regulation 40/94; Article 4(3), 5(5) and 6(1)(c) of the First Trademark Directive 89/104/EEC. See also Schricke/Henning-Bodewig (2001), p. 36.

274 Schricke/Henning-Bodewig (2001), p. 35.

275 See Ohly (1997), p. 227 et seq.; Schricke/Henning-Bodewig, *New Initiatives for the Harmonisation of Unfair Competition Law in Europe*, [2002] 24(5) EIPR, at 274; Glöckner, *Richtlinienvorschlag über unlautere Geschäftspraktiken, deutsches UWG oder die schwierige Umsetzung von europarechtlichen Generalklauseln*, WRP 2004/8, p. 942 et seq.

certain whether the general clause will likely be used frequently, since it is followed by examples of unfair practices that will capture the vast majority of cases.

A problem for the ECJ, in interpreting the general prohibition of Article 5, will be the interpretation of one of the sub-requirements. Under Article 5 of the UCP Directive, a commercial practice shall be unfair if 'it is contrary to the requirements of professional diligence'. This standard stems from the realms of tort law, where it may be used to weigh individual behaviour against the usual standards of care in cases of negligence liability, but is not suitable within the context of unfair competition law.²⁷⁶ In the 'common position' to the draft UCP Directive, the concept of good faith is incorporated into the definition of 'professional diligence', thereby introducing a contract law concept into the field of unfair competition law. The notion of 'professional diligence' has been introduced to ensure that normal business practices which are in conformity with custom and usage, such as advertising based on brand recognition or product placement, will not be caught by the Directive even if they are capable of influencing consumers' economic behaviour.²⁷⁷ While professional standards pertaining to the duty of care may help a court in determining what is fair, they should nevertheless not be decisive. In deciding whether certain behaviour should be considered unfair, the court should refer to the standards that are contained in the UCP Directive, in national legislation and in case law. Practices that are common in business may just as well be malpractices and traders adopting these practices could be held liable under the UCP Directive. Moreover, the application of the 'professional diligence' notion may be troublesome in the case of a new form of unfair competitive practice. For such practices, no standards of 'professional diligence' have yet been determined, so these new practices cannot be measured by this standard. This notion is therefore not at all flexible. The condition of 'professional diligence' is supplied by a second condition concerning the distorting of the average consumer's behaviour. If a commercial practice is 'likely to materially distort the economic behaviour' of the average consumer or the average member of a group that is addressed by the commercial practice, it is deemed to be unfair. This 'consumer detriment' clause functions *de facto* as a *de minimis* rule, preventing the courts from interfering in practices that do not harm anyone.

In one of the latest proposals of the draft UCP Directive, the definition of 'average consumers' in the unfairness test has been extended to include 'vulnerable consumers'. So, whether a commercial practice is unfair depends on it distorting the economic behaviour of an average consumer, who 'is reasonably well-informed and reasonably observant and circumspect, and taking into account social, cultural and linguistic factors'.²⁷⁸ However, if the commercial practice is likely to distort the economic

276 See Ohly (2005), p. 8; the comment of the German Society for Industrial Property and Copyright, GRUR 2004, 215 at 216; Glöckner, WRP 2004, 936 at 939; Köhler/Lettl, WRP 2003, 1019 at 1036; Schünemann, WRP 2004, 925 at 930.

277 Draft Directive of 18 June 2003, COM (2003) 356 final, p. 12.

278 This corresponds with EJC case law, see *supra* 134.

behaviour of only ‘a clearly identifiable group of consumers who are particularly vulnerable to the practice or the underlying product because of their mental or physical infirmity, age or credulity in a way which the trader could reasonably be expected to foresee’,²⁷⁹ the practice must be assessed from the perspective of the average member of that group of vulnerable consumers. Such vulnerable consumers can be e.g. children and senior citizens. This introduces a new group of ‘vulnerable’ consumers, that may lead to wide differences in interpretation, with possible divergences between the Member States.

The Commission has two solutions to this problem of interpretation. First of all, Article 5(3) moderates the extra protection provided to vulnerable consumers in addition to average consumers, by stating that exaggerated claims by traders are not meant to be taken literally, as they are part of the usual hyperbole and the ‘huff and puff’ often used in advertising. Secondly, according to the preamble (18) to the UCP Directive, national courts and authorities may use their own judgement, having regard to the case law of the Court of Justice, to determine the typical reaction of the average consumer in a given case. The UCP Directive thus grants the courts a margin of appreciation in assessing these cases.

f Specific clauses; Misleading commercial practices

In Articles 6-9 of the UCP Directive, two key types of unfair commercial practice are elaborated. They act independently from the general clause, so a practice which is either misleading or aggressive under the corresponding provisions is automatically deemed to be unfair.

The provisions on misleading commercial practices are largely an elaboration of the 1984 Directive on Misleading Advertising. They likewise contain a definition of what is misleading, based on the ECJ formula of the average consumer.²⁸⁰ The definition of misleading has, however, been slightly elaborated upon and has been completed by a number of examples.²⁸¹ Next, a provision has been added concerning misleading omissions.²⁸² Finally, as we have seen above, the UCP Directive differs from the Directive on Misleading Advertising in its proposed total harmonisation.²⁸³ What is ‘left’ of the Misleading Advertising Directive, after the removal of the B2C provisions, are a set of B2B provisions that still fall under a regime of minimum harmonisation.

Under Article 6 of the UCP Directive, a commercial practice is regarded as misleading if it either contains false information, or if it is likely to deceive the average con-

279 Article 5(3) of the draft Directive of 18 June 2003, COM (2003) 356 final.

280 See the ECJ case law on misleading advertising, *supra* 134.

281 Article 6 and Annex I.

282 Article 7.

283 See above, for the complications this brings when relating the UCP Directive to the Directive on Misleading Advertising that allows for minimum harmonisation.

sumer in relation to certain factors.²⁸⁴ The misrepresentation must be likely to influence the consumer's transactional decision. If this is not the case, the misleading claim will not be prohibited under the UCP Directive. In addition to certain conditions that have to be met by the trader with regard to information which he provides to the consumer, Article 7 obliges the trader to give certain specific information to the consumer. The consumer needs this information to make a transactional decision. The omission of any of these information requirements will be regarded as misleading. The following is, *inter alia*, required to be provided: information on the main characteristics of a product, the address and the identity of the trader, the price inclusive of taxes, unusual arrangements for payment, delivery and performance and, finally, information about revocation rights.²⁸⁵ These information requirements, combined with those adopted in the Distance Selling Directive and the E-commerce Directive, may well become a burden for advertising practice.²⁸⁶ The ECJ will, in applying Article 7, have to strike a balance between a strict application in accordance with consumer protection and a restrained application that is more consistent with the needs of business.

The provisions on misleading commercial practices are not meant as a comprehensive list of information to be positively disclosed in all circumstances. While the emphasis on 'unfair' commercial practices, instead of 'fair' commercial practices, entails that a trader does not have to comply with any positive obligations to show that he is trading fairly, Article 7 nonetheless imposes a duty on a trader not to omit any 'essential' information. The preamble (21) to the UCP Directive states that it is for national law to determine the burden of proof. As a general rule, the burden of proving the unfairness of a disputed commercial practice will therefore lie with the plaintiff. The preamble, however, commends the courts and administrative authorities to require traders to produce evidence if they make a factual claim about a product.²⁸⁷

g Specific clauses; Aggressive commercial practices

Articles 8 and 9 of the UCP Directive introduce a set of provisions on aggressive commercial practices, an area that has not yet been touched upon by the European legislator. According to Article 8, a commercial practice is believed to be aggressive if harassment, coercion or undue influence is used. As is the case with misleading practices, the aggressive commercial practice must impair the consumer's ability to make an informed transactional decision. This requirement narrows down the application to

284 The factors of relevance are *inter alia* the existence or nature of the product, the main characteristics of the product, the extent of the trader's commitments, the price, the need for a service, part, replacement or repair, the nature, attributes and rights of the trader or his agent and, finally, the consumer's rights or the risks he may face. See Article 6 (a)-(g).

285 Article 7(4).

286 See also Ohly (2005), p. 11.

287 See preamble (21). See also Article 12(1).

cases where consumers under the influence of a trader who exploits his position of power, are influenced in making an informed transactional decision. If the consumer is not influenced, the aggressive behaviour will not be held to be unlawful. A consumer who receives e-mail Spam, but is not coerced to take the offer, cannot stop the sender from sending the unsolicited e-mail under the UCP Directive. However, according to preamble (7), Member States are free to prohibit such commercial practices in their territory 'for reasons of taste and decency'.²⁸⁸ The blacklist of Annex I to the UCP Directive contains some specific aggressive commercial practices that are deemed to be unfair. This blacklist will be addressed below.

h Blacklist of unfair commercial practices

Annex I to the UCP Directive contains a blacklist of commercial practices. These practices will in all circumstances be deemed to be unfair. This list applies in all Member States and can be changed or added to only in the same way as the rest of the Directive. The selection of commercial practices as listed in Annex I (thirty-one in total), seems to be quite arbitrary. Of course, one has to admit that drafting such a list will always have this effect. Besides, the list can be amended later on, albeit not very easily. Nonetheless, some remarks are necessary as far as the selection of practices is concerned. First of all, some of them relate to behaviour or specific situations that will not frequently occur in practice. These situations could have been better dealt with under the general clause in Article 5, than separately. An example is number (8) that prohibits the offer of an after-sales service in another language when a foreign language was used when the consumer entered into the contract. Next, some of the trading practices listed are also clearly actionable under the provisions of the UCP Directive.

288 Besides, the sending of unsolicited e-mail falls within the scope of other European directives, e.g. Directive 2002/58/EC of 12 July 2002 concerning the processing of personal data and the protection of privacy in the electronic communications sector (the e-Privacy Directive); Directive 95/46/EC of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data (OJ L 281, 23.11.1995, p. 31) as amended by Regulation (EC) No. 1882/2003 (OJ L 284, 31.10.2003, p. 1); Directive 97/7/EC of 20 May 1997 on the protection of consumers in respect of distance contracts (OJ L 144, 04/06/1997, p. 19-27). For more on this topic, see Carey, E-privacy and online data protection, London: Butterworths Lexis 2002, 268 pp.; Donovan, Implementation of the e-Privacy Directive in the UK – understanding the new rules, in: The computer law and security report: the bi-monthly report on computer security and the law governing information technology and computer use, vol. 20 (2004/2), pp. 127-132; Pedzich, The E-Privacy Imperative, in: Library Journal 2002, vol. 127 (2002/3), p. 156 et seq.; Funk, Unsolicited Commercial Emails in the Jurisdictions of Germany and the USA: some Thoughts on the New Anti-Spam Laws in the Interests of the Parties Involved in Email Traffic, Computer Law Review International (2004), vol. 5, p. 138-144; Thole, e-Privacyrichtlijn maakt geen eind aan spam, NJB 2004/168; Asscher, Regulating Spam – Directive 2002/58 and beyond, IVIR 2004, available at <http://www.ivir.nl>, 75 pp.

Number (9) prohibits the trader from creating the impression that a product can legally be sold when it cannot. Under number (17) it is considered unfair to falsely claim that a product is able to cure illnesses, dysfunction or malformations, and under number (20) it is unfair to describe a product as ‘gratis’, ‘free’, ‘without charge’ or similar if the consumer has to pay anything other than the unavoidable cost of responding to the commercial practice and collecting or paying for the delivery of the item. Although these practices are also likely to be considered unlawful under Article 6 of the UCP Directive (Misleading actions), they have nevertheless been placed on the list, probably as a way of clarification so as to ensure that these practices are indeed actionable under the UCP Directive. Besides, the advantage of putting them on the blacklist is that they are deemed to be misleading *per se*.

Finally, some of the trade practices listed on the blacklist seem to apply to interests that exceed the UCP Directive’s scope of protection. As noted *supra* in section 2.5.2.2c, the UCP Directive only indirectly protects the interests of (honest) traders. Or, as put by the preamble (8) to the UCP Directive: ‘[The UCP Directive] 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’. However, number (13) in the blacklist provides a striking example of just the opposite. It states that it is an unfair commercial practice to promote ‘a product similar to a product made by a particular manufacturer in such a manner as deliberately to mislead the consumer into believing that the product is made by that same manufacturer when it is not’. This provision clearly corresponds to the Civil law concept of ‘slavish imitation’ as well as the Common law tort of ‘passing off’. These actions are, however, primarily directed at protecting the interest of competitors, not consumers. This is therefore another example of the way in which protection for (honest) traders is covertly included in the UCP Directive.²⁸⁹

In addition to misleading practices, the blacklist in Annex I to the UCP Directive also contains some specific aggressive commercial practices that are deemed to be unfair.²⁹⁰ In this respect, one might wonder what will occur if a national law calls for stricter protection than the protection provided under the UCP Directive and its blacklist. For example, under German law, the delivery of goods that have not been ordered by the consumer is regarded as unfair *per se*, even if the seller does not demand payment.²⁹¹ The UCP Directive prohibits this type of inertia selling under number (26) of the blacklist, if payment is demanded. It is not clear whether, in such a case, German law can be upheld.²⁹²

289 See also *supra* § 2.5.2.2c.

290 Number (22), for example, prohibits creating the impression that a consumer cannot leave the shop until a contract is formed. Number (23) bans the same kind of practices using pressure, when a trader does not want to leave the consumer’s house.

291 BGH GRUR 1959, 277 at 278 (Künstlerpostkarten). See Ohly (2005), p. 12.

292 See Ohly (2005), p. 12.

Like the Misleading Advertising Directive, the UCP Directive fails to provide for a comprehensive set of rules harmonising procedural law. The provisions on enforcement in the UCP Directive reproduce those established in Articles 4 to 6 of the Misleading Advertising Directive. The UCP Directive therefore imposes no new obligations on Member States as to the nature or form of enforcement required. As we have seen above, this shortcoming has prevented the Misleading Advertising Directive from reaching its full potential. Article 11, a provision clouded with prose, compels the Member States to 'ensure that adequate and effective means exist to combat unfair commercial practices', equivalent to what is required by the Misleading Advertising Directive. The UCP Directive allows the Member States to see to it that codes of conduct are drafted, preferably in cooperation with consumer organisations, thereby enabling traders to apply the principles of this Directive effectively in specific economic fields. The Commission is of the opinion that the use of such codes could diminish the need for recourse to administrative or judicial action. Abuse of codes of conduct can be misleading under Article 6 of the UCP Directive. In accordance with the blacklist formulated in Annex I, it is misleading if a trader claims to be a signatory to a code of conduct when he is not or that a code of conduct has an endorsement from a public or other body which it does not have.²⁹³

It is unfortunate that the Commission has not seized this opportunity to improve the means of legal redress in the field of European unfair commercial practices. This failure to provide for satisfactory means of redress will be of great influence to the UCP Directive's anticipated effectiveness, if we realize that the enforcement of consumer protection rules is almost of greater importance than the rules themselves. Because of this omission the UCP Directive largely becomes a 'dead letter' as far as the consumer is concerned. There is one reference in the Explanatory Memorandum to the UCP Directive, however, that could provide slight satisfaction. The Commission explicitly refers to a complementary proposal for a regulation on consumer protection co-operation that will enable more effective administrative co-operation between Member States supporting the UCP Directive.²⁹⁴ The Regulation on Consumer Protection Cooperation was adopted by the Council on 27 October 2004,²⁹⁵ and will introduce a new EU-wide network of national enforcement authorities capable of taking co-ordinated action against rogue traders, starting in 2006. It will also empower enforcement authorities to seek and obtain action from their counterparts in other Member States. Each Member

293 See Annex I, numbers (1) and (3).

294 See draft Directive 2003/0134 (COD), COM (2003) 356 final, p. 17.

295 Regulation (EC) No. 2006/2004 of the European Parliament and of the Council of 27 October 2004 on cooperation between national authorities responsible for the enforcement of consumer protection laws,

State is required to designate a public enforcement authority to be part of the EU-wide mutual assistance network.

A public enforcement authority that becomes aware of an intra-Community infringement of consumer protection law, can take enforcement action directly under its own authority or by application to the courts, depending on the choices in procedural law as decided by the national legislator. If the unfair commercial practice originates from abroad, the competent authorities may request mutual assistance, via a so-called 'single liaison office', from other members of the network. The Regulation seems to indicate that the public enforcement authorities have prosecutorial discretion. They may well wait to take action, until multiple consumer complaints have been lodged. This Regulation does not, therefore, provide the consumer with an independent action of its own.

What is the ideal mechanism for enforcing the UCP Directive has been the topic of discussion for quite some time. This discussion was, in part, fuelled by a speech delivered by former EC Commissioner Byrne of DG Sanco²⁹⁶ who proposed a new regulatory technique consisting of the creation of 'safe harbours', if necessary linked with systems of self-regulation. If a trader complies with the rules that describe permitted behaviour or conduct in the market, he will be virtually immune from any legal challenge, even under the general clause. This safe harbour will provide the trader with the incentive to comply with the law. The Commission is even considering linking the safe harbour concept to codes of conduct that are drafted in cooperation with businesses and trade associations, thereby involving them in the process. A trader who agrees to comply with these codes, however, will not enter a complete safe harbour, but will create a 'presumption of conformity'.²⁹⁷ The Commission has not integrated this concept in its UCP Directive; on the contrary, it has provided a disincentive for voluntarily subscribing to a code since a breach thereof will be automatically regarded as having committed an unfair commercial practice.²⁹⁸

Various authors have expressed their views on possible systems of soft law, be it by self-regulation, non-binding guidelines, co-operation, co-ordination, best practices, marketing standards or mandatory requirements. Micklitz believes that the harmonisation of unfair commercial practices alone does not suffice to overcome the different marketing practice regulations of the Member States. He proposes a joint approach, supplying mandatory legislation with new forms of self-regulation. His approach is based upon the so-called 'New Approach on harmonisation of technical standards and

296 Speech/01/620 of Mr David Byrne, The EU Consumer Protection Green Paper Public Hearing on the Commission's Green paper on Consumer Protection, Brussels, 7 December 2001, <http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/01/620&format=HTML&aged=0&language=EN&guiLanguage=en>.

297 Collins, EC Regulation on Unfair Commercial Practices, in: Collins, *The Forthcoming EC Directive on Unfair Commercial Practices: Contract, Consumer and Competition Law Implications*, Kluwer Law International 2004, p. 30.

298 Article 6(2)(b) of the UCP Directive.

regulation' developed by the Commission.²⁹⁹ It calls for the development of marketing standards by trade, industry and consumer organisations. These marketing standards are notified to national enforcement authorities, which may grant the 'fair communication' logo to businesses that comply with these standards. According to Micklitz, the objective of achieving these standards can only be kept alive if there is a common framework that governs the elaboration of marketing standards on a national and European level. These marketing standards must therefore comply with so-called mandatory requirements, which are a specification of the general clause on fair communication.³⁰⁰ These mandatory requirements must be developed by national and/or European standardisation bodies in joint co-operation with national authorities, and with the input of consumer organisations. Micklitz is a strong supporter of such a system of co-operation.

Alpa proposes a system of soft law, based on codes of conduct, that should be supplemented with rules of a general nature that allow the interpreter to adjust them to various (unforeseeable) circumstances. These general rules will need to support and reinforce the flexible self-regulating codes.³⁰¹ Howells clearly distinguishes co-regulation from self-regulation. In his opinion, co-regulation works in two ways. Firstly it integrates voluntary standards into the legal framework, and, secondly, it involves the stakeholders in the development of these standards.³⁰² As to the 'New Approach' favoured by Micklitz, he is reserved as to its direct usefulness. Howells believes that this New Approach cannot simply be transposed for this case of Fair Trading harmonisation. More state and court involvement is needed in this area of the law. He rightly criticises the proposed framework directive since it fails to integrate soft law and still views standardisation as a private function. This will perpetuate the imbalance caused by the impact of Community law in this area. Member States should, to his mind, be more proactive in promoting good trade practices, as is done e.g. by the Office of Fair Trading in the UK. For the establishment of a system of soft law, he suggests a hierarchical approach.³⁰³ On a lower level, there must be non-binding guidance providing for the establishment of a safety net for consumers against unfair trade practices. This non-binding guidance seeks to establish what amounts to unfair trading practices. At a higher level, a set of Codes would seek to go further and promote fair trading practices.

299 Micklitz, A General Framework Directive on Fair Trading, in: Collins, *The Forthcoming EC Directive on Unfair Commercial Practices: Contract, Consumer and Competition Law Implications*, Kluwer Law International 2004, p. 59.

300 *Ibid*, p. 83

301 Alpa (2004), p. 110.

302 Howells, Co-regulation's role in the Development of European Fair Trading Laws, in: Collins, *The Forthcoming EC Directive on Unfair Commercial Practices: Contract, Consumer and Competition Law Implications*, Kluwer Law International 2004, p. 120.

303 *Ibid*, p. 128.

Wilhelmsson, in a well thought-out article,³⁰⁴ asserts that certain consumer contract claims can be used as a complementary method of enforcing rules on marketing. In his opinion, private law can play a role in the enforcement of the rules on unfair commercial practices, although the Green Paper on Consumer Protection does not mention this.³⁰⁵ The Consumer Sales Directive³⁰⁶ could offer a European basis for this approach. Goods that are, for example, bought under the influence of misleading advertising, might also lead to a claim of non-conformity, thus falling under the rules of marketing liability in the Consumer Sales Directive. Wilhelmsson even relates to a possible inclusion in a future European contract law of a rule on contractual liability for marketing. Finally, Collins proposes an approach which is analogous to the Open Method of Co-ordination, as proposed by the Commission in its White Paper on European Governance.³⁰⁷ This method requires the Member States to prepare annual reports on the problems occurring in trading practices and how their national law, including soft law, is combating these practices. These reports would give a synopsis of any new methods of unfair trading that are being devised, the variety of techniques being employed across the Member States in dealing therewith and the effectiveness of these techniques. Members of the Council and the Commission would be able to react to these findings by recommending certain Member States to take action against a particular unfair trade practice, by pointing out to Member States if some of their legal instruments are ineffective, and by advocating best practices.³⁰⁸ Collins is in favour of this approach because of its flexibility to adept to new forms of unfair commercial behaviour.

2.7 CONCLUSION

The 1965 Ulmer comparative study depicted the law of unfair competition present in the legal systems of the European Member States as a clearly structured and coherent field of law. Ulmer nonetheless indicated that various differences existed between the national laws. Most of these differences still exist, despite a variety of Community legislation (most importantly the Misleading and Comparative Advertising Directive) that has had a limited effect on the harmonisation of unfair competition law. Besides that, the harmonisation of intellectual property laws has to a certain extent led to a harmonisation of (part of) unfair competition law as well. This effect has been most evident in the Trademark Directive that contained rules that, although they were previously part of unfair competition law, are now accommodated under Community

304 Wilhelmsson (2004), p. 223 et seq.

305 Ibid, p. 237.

306 Consumer Sales Directive 1999/44/EC.

307 Com (2001) 428.

308 Collins (2004), p. 41.

Trademark law, such as e.g. the protection of the owner of a well-known trademark against third parties using his trademark for dissimilar products.

The Paris Convention combined with more than fifty years of efforts by the Commission has not led to an overall harmonisation of unfair competition law. On the contrary, the harmonisation by the use of specific directives has presented us with a distorted image of piecemeal regulations showing little coherence. The fact remains, however, that nearly all Member States have a coherent system of unfair competition law, as indicated by the 1965 Ulmer comparative study. The only two exceptions to this rule are the two countries of Common Law origin, the United Kingdom and Ireland. Besides these two countries, the Member States of the European Union all clearly have national laws on unfair competition that can serve as a dogmatic basis for a more complete and coherent harmonisation of unfair competition law. As shown in section 2.3.4, there is a need for harmonisation both in order to efficiently protect the interests of the trader as well as the consumer while conducting cross-border trade and purchases.

The past decades have shown a development in consumer protection law leading to a shift of unfair competition from a purely competitor-based approach towards a mixed approach directed towards protecting the interests of traders, consumers and the public as a whole. Most Member States consequently amended their national fair trading legislation in the heyday of the consumer movement. In the past decades, the protection of the consumer has even more prominently come to the fore. It is therefore now time to seize the opportunity for harmonising unfair competition law by hitching on to the impetus towards improving consumer protection within the European Union. The European Commission, and in particular its 'Health and Consumer Protection' Directorate-General, has skilfully availed itself of this opportunity and has proposed the harmonisation of unfair competition law purely based on consumer protection. By surfing the waves of consumer protection, the Commission has found a safe way of reaching the inaccessible harbour of harmonisation in one piece.

The UCP Directive marks an important step towards the harmonisation of the complete area of unfair competition law. It does, however, omit a very important part of unfair competition, *i.e.* the traditional unfair competition directed at protecting the honest trader against his competitor. Should we nevertheless be happy that it has finally come to a harmonisation of a more general nature in the field of unfair competition law? Or should we be dissatisfied with the fact that the UPC Directive *de facto* splits up the law of unfair competition into a Business-to-Consumer and a Business-to-Business part?³⁰⁹ One view is to be content with what has been reached by way of the UPC Directive. A truly complete harmonisation of unfair competition law, in one run, seems

309 See van Gerven, *The ECJ Case-law as a means of unification of private law?*, in: Hartkamp c.s., *Towards a European Civil code*, Third Edition, *Ars Aequi Libri*, Nijmegen: 2004, p. 101-102. Van Gerven discusses the disruption of national law as a consequence of harmonisation, and points out that the only way to avoid such a disruption would be to enact comprehensive codification.

to be very difficult to attain, especially considering the political and juridical issues involved in harmonising a field like unfair competition law. So we should be happy with what we have and hope to include the harmonisation of the B2B part at a later stage. However, this view might bring the risk of being stuck with this purely consumer-oriented harmonisation since after the UPC Directive the incentive to harmonise unfair competition law in the B2B field may be lacking as policy makers will argue that 'enough has already been done'. Moreover, in my mind, the UPC Directive has brought along maybe more problems than it seeks to resolve. The UPC Directive will lead to a division of unfair competition law that should be prevented at all costs. To split up the law of unfair competition into a part that provides protection to traders and a part that provides protection to consumers would mean disturbing its equilibrium and, in addition, setting aside more than a century of legal development.

Dutch Law

3.1 INTRODUCTION

Dutch law does not contain any specific statutory rules on unfair competition law, although the legal concept itself is clearly recognised in case law and legal doctrine. The general principles of unfair competition law are derived from the basic provision of tort embodied in Article 162 of Book 6 of the Dutch Civil Code (BW).¹ This general tort clause has, over the years, given rise to an extensive body of case law on unfair competition. In Dutch legal practice, unfair competition law often plays a part as a supplement to protection under intellectual property laws. In most intellectual property cases, e.g. in the case of an alleged copyright, trademark or design infringement, unfair competition law is used as an alternative charge. In these cases, protection against unfair competition may be especially welcome if, e.g., a patent's term has lapsed, or a trademark is not registered. Unfair competition law, in this respect, plays the part of a residual category as well as a last resort. In addition to this, unfair competition or, more in particular, advertising law plays an important role in preventing the public from being misled and businesses from being defamed.

In the following sections I will present an overview of Dutch unfair competition law. First of all, after addressing the principle of free trade underlying unfair competition law, I will discuss how this field of law has developed over the years. Secondly, I will point out whose interests are protected under Dutch unfair competition law. After that, I will look at a group of unfair trading practices that are dealt with under Dutch law in the field of misleading advertising, discrediting of competitors and protection of achievements including know-how. Finally, I will summarise my findings.

3.2 FREEDOM OF TRADE

The predominant starting point in case law is the freedom of trade. This principle was introduced into Dutch law following the French Revolution.^{2,3} On the market, there

1 The Dutch approach is comparable to the French one which is based on the general tort clauses of Articles 1382 and 1383 of the French 'Code Civile', cf. *supra* 9.

2 See on the principle of free trade: Pfeffer, *Grondbegrippen van Nederlands mededingingsrecht*, Haarlem: Bohn 1938, § 2; Peters, *Vrijheid van bedrijf*, SEW 1959, p. 129 et seq.; Maeyer, in: Cerutti et al. (ed.), *Opstellen over recht en geschiedenis aangeboden aan prof. mr. B.H.D. Her-*

should be a situation of free and unrestrained competition. Competing with one's competitor and consequently benefiting from his achievements must principally be allowed. However, for some situations, specific monopolies have been designed that are an exception to this rule. Intellectual property rights, as absolute and exclusive rights, are monopolies meticulously created by the legislator. Each of these intellectual property rights serves its own functions that justify its exception to the general rule of freedom of trade.

The protection granted under unfair competition law, e.g. protection against benefiting from one's achievement, may result in the elimination of competition to a certain degree. Pfeffer has indicated this antinomy between the principle of free trade and the law of unfair competition in general.⁴ The Supreme Court dealt with this issue in its decision of 27 June 1986.⁵ According to the Supreme Court, the principle of free trade dictates that benefiting from the achievements of another person is allowed even if this behaviour harms the interests of that person. Only under special circumstances may this behaviour be held to be unlawful.⁶

3.3 LEGISLATIVE DEVELOPMENT OF UNFAIR COMPETITION⁷

3.3.1 The 19th century

The legislation of the Netherlands in the 19th century, after coming under French rule, was significantly influenced by French law. The French Revolution and the consequential principle of free trade resulted in the ending of the system of guilds. From that

mesdorf, Kluwer: Deventer 1965, p. 213-230; Gotzen, *Vrijheid van 136beroe en bedrijf en onrechtmatige mededinging*, Brussels 1963, 2 Volumes; Schellekens, *Praesidium Libertatis* (1975), p. 295-306; Kaufmann, *Passing Off and Misappropriation* (IIC-studies, vol. 9, 1986); Verkade, *Ongeoorloofde mededinging*, Zwolle: Tjeenk Willink 1986, no. 17; Duk/Limperg, *Ongeoorloofde mededinging en Europees Recht*, BIE 1985, p. 176 et seq.; Van Nieuwenhoven Helbach/Huydecoper/Van Nispen, *Industriële eigendom en mededingingsrecht*, Volume II in the series of Dorhout Mees, *Nederlands handels- en faillissementsrecht*, Gouda Quint: Arnhem 1989, no. 1257; Koopmans, *Intellectuele eigendom, economie en politiek*, AMI 1994, p. 107-111.

3 See the next section.

4 Pfeffer (1938), p. 5.

5 NJ 1987, 191. See *infra* 341. This case will be discussed in § 3.5.5.4b et seq. See also HR 1 November 1991, NJ 1992, 423 and HR 1 November 1991, NJ 1992, 424.

6 NJ 1987, 191, at 4.2. These circumstances will be addressed in § 3.5.5.4b.

7 See, in more detail, on the system of guilds before the French Revolution: Overvoorde/Joosting, *De gilden van Utrecht tot 1528*, *Verzameling van rechtsbronnen*, Volume I, The Hague: Martinus Nijhoff 1897, 152 pp.; van Dillen, *Bronnen tot de geschiedenis van het bedrijfsleven en het gildewezen van Amsterdam*, Three volumes, The Hague (1929, 1933, 1974); Posthumus, *De geschiedenis van de Leidse lakenindustrie*, Two Volumes (1908, 1939). See, for a general overview

moment on, every citizen was allowed to establish a business for himself. Government regulations and guilds' codes of conduct were abolished. The absence of boundaries for competitive behaviour amongst traders resulted in excesses in trade.⁸ In contrast to most European countries, like France and Germany, the Dutch legislator and judiciary chose to refrain from taking any measures to oppose these unfair trading practices. French case law based the action of unfair competition on the general rule of tort under Article 1382 Code Civile.⁹ This article states that

'Any act of man, which causes damage to another person, obliges the one, by whose fault this damage has been caused, to compensate the other'.¹⁰

This article is based upon the sole concept of 'faute', that is, culpable behaviour on the part of the defendant.¹¹ This legal term is difficult to translate as well as to define. The Code Civile itself offers no definition of 'faute', but most writers describe it as a failure to observe a precept of behaviour which the defendant should have respected.¹² Article 1382 of the Code Civile introduces a civil responsibility to act honestly, without 'faute', when competing with others in trade.¹³ French law distinguishes between 'concurrency déloyale' and 'concurrency illicite', pertaining to intentional and negligent harm respectively.¹⁴ The starting point under French unfair competition law is the freedom of

of the development of unfair competition in the Netherlands: Drucker, *Opmerkingen over Oud-Vaderlandsch Merkenrecht*, RM 1921, 482; Aalberse, *Oneerlijke concurrentie en hare bestrijding volgens het Nederlandsche Recht*, diss. Leiden 1897; van Schaik, *De oneerlijke concurrentie uit strafrechtelijk oogpunt beschouwd*, Nijmegen-Utrecht 1946; Pfeffer (1938); Valkhoff, *Inleiding tot het sociaal-economisch recht in Nederland*, Groningen-Leiden 1964; Ulmer/Baeumer/Van Manen, *Oneerlijke mededinging*, Volume II/2, Nederland, Tjeenk Willink: Zwolle 1974, p. 1 et seq. See for the development of the principle of freedom of trade, in particular in the area of tax law: Peters (1959), 129-156, 169-199 (187-199).

8 Van Schaik (1946), p. 2; Ulmer/Baeumer/Van Manen (1974), § 2.

9 Petit, *Le parasitisme économique. Passé, présent et avenir*, diss. Université du Droit et de la Santé, Lille 2002, p. 11; Tunc, *Unfair competition – French and European approaches*, 1 Monash U.L. Rev. 34 (1974/1975).

10 'Tout fait quelconque de l'homme, qui cause à autrui un dommage, oblige celui par la faute duquel il est arrivé, à le réparer'.

11 Buydens, *La protection de la quasi-crédation*, diss., Brussels: Bruylant 1993, p. 655. See also Roubier, *Droit de la propriété industrielle*, volume I, Sirey, Paris 1954, p. 508; Burst, *Concurrence déloyale et parasitisme*, collection Dalloz Affaires, first edition, 1993, 210 pp.; Chavanne/Burst, *Droit de la propriété industrielle*, Précis Dalloz, fifth edition, 1998, 904 pp; Passa, *Contrefaçon et concurrence déloyale*, Litec, 1997, 355 pp; Izorche, *Concurrence déloyale et parasitisme économique*, in: Serra (ed.), *La concurrence déloyale: Permanence et devenir*, Paris: Dalloz 2001, p. 27 et seq.

12 Zweigert/Kötz, *op.cit.*, p. 659.

13 Mathély, *Le droit français des signes distinctifs*, Paris, p. 511.

14 Actionable under Article 1382 respectively 1383 of the Code Civile.

Chapter 3

trade.¹⁵ Abuse of this freedom can lead to liability under Article 1382.¹⁶ Article 1382 has effectuated a vast body of case law.¹⁷

The Dutch equivalent Article 1401 BW¹⁸, however, makes a distinction between ‘schuld’ (as a translation of ‘faute’) and ‘onrechtmatigheid’ (unlawfulness). This article states that

‘Any unlawful act, which causes damage to another person, obliges the one, by whose fault this damage has been caused, to compensate the other’.¹⁹

As we can see, the only difference between the Dutch and French wording is the addition of the word ‘unlawful’ in the Dutch version. Why was this term inserted? According to prevailing opinion, the Dutch legislator, when drafting the Dutch Civil Code in 1838, tried to ensure that not every act or culpable behaviour that inflicts damage would lead to compensation, but only acts that were not legally authorized. The legislator thus wanted to prevent every act which caused damage from leading to a claim for damages. Claims under Article 1401 BW should be confined to unlawful acts.²⁰ While the French provision does not mention the word unlawful, this condition is embodied in one of the two elements of ‘faute’, the objective element (‘*circonstances externes*’), as opposed to the subjective element (‘*circonstances internes*’).²¹

In the years following the introduction of the Dutch Civil Code in 1838, case law interpreted the term ‘unlawful’ as meaning acting against the law or acting in a manner which is legally unauthorized.²² However, at the end of the 19th century the situation changed. The Hoge Raad (Supreme Court of the Netherlands) construed ‘unlawful’, in

15 This principle was established by the law of 2 and 17 March 1971 (loi des 2 et 17 mars 1971 sur la Liberté du Commerce et de l’Industrie.). See Azéma, *Le droit français de la concurrence*, PUF, 1981, p. 92.

16 Cour de cassation 22 October 1985, RDPI 1985, 137.

17 Consumer protection against unfair trading practices is mainly dealt with under the ‘Code de la Consommation’ of 26 July 1993.

18 This article has been replaced, as of January 1, 1992, by Article 6:162 of the new Dutch Civil Code.

19 ‘Elke onrechtmatige daad, waardoor aan een ander schade wordt toegebracht, stelt dengenen door wiens schuld die schade veroorzaakt is in de verplichting om dezelve te vergoeden’. Section 2 of Article 6:162 (2) of the new Dutch Civil Code defines an unlawful act as ‘the violation of a right and an act or omission breaching a duty imposed by law or a rule of unwritten law pertaining to proper social conduct.’

20 Van Maanen, *Onrechtmatige Daad*, diss. 1986, p. 33 et seq.; Van Dam, *Aansprakelijkheidsrecht*, The Hague: Boom J.U. 2000, p. 163.

21 Rabut, *De la notion de faute en droit privé*, Paris 1948, p. 199-200.

22 See Van Maanen (1986), p. 33 et seq. for case law in this respect.

most cases,²³ as being contrary to *statutory* law, and consequently it only accepted two types of tortious acts: the violation of a right and the violation of a statutory duty. Legal literature, on the other hand, displayed a reverse trend. While the first half of the 19th century demonstrated a tendency towards limiting the liability based on Article 1401 of the Dutch Civil Code, this tendency changed at the end of the century. This about-turn in the literature was instigated by the famous article on unfair competition by (the Dutch lawyer) Molengraaff in 1887.²⁴ He advocated an extension of the liability under Article 1401 (and 1402) of the Dutch Civil Code, so as to accommodate an effective control of unfair competitive practices.²⁵ In his view, an act of unfair competition should also be prohibited, in the absence of an intention to act unfairly, e.g. in case of an unintended misleading statement. In addition, Molengraaff was in favour of the possibility of imposing a prohibition next to a claim for damages as a legal remedy.²⁶

However, despite Molengraaff's request to extend the liability under Article 1401, case law did not follow his lead. In fact, several cases showed the reluctance of the Dutch judiciary to expand the liability under Article 1401 of the Dutch Civil Code so as to accommodate an action against unfair competition. Especially in the period between 1905-1919, most claims for protection against unfair competition under Article

23 In some cases, case law showed a broader interpretation of Articles 1401 and 1402 BW, see Asser/Hartkamp, Mr. C. Asser's handleiding tot de beoefening van het Nederlands Burgerlijk Recht: Verbintenissenrecht, part III, Deventer: Tjeenk Willink 2002, no. 30 and Van Maanen (1986), p. 121 et seq.

24 Molengraaff, De 'oneerlijke concurrentie' voor het forum van den Nederlandschen rechter, Rechtsgeleerd Magazijn, 1887, p. 373-435.

25 In contradiction to the *communis opinio* at that time. See e.g. van der Does de Bijde, De verplichting tot schadevergoeding wegens onrechtmatige daad volgens het Nederlandsch Recht, Themis 1866, p. 389 et seq.; van Ittersum, Eene nadere beschouwing van de vereischten voor de acties van Article 1401 BW, Nw. Bijdr. 1866, p. 101 et seq.; Thorbecke, Iets over de verbintenis tot schadevergoeding wegens onrechtmatige daad, diss. Leiden 1867; Kist, Academisch proefschrift over de verbintenissen die uit onrechtmatige daad ontstaan, volgens artt. 1401 en 1402 BW, diss. Leiden 1861; Opzoomer, Het burgerlijk wetboek verklaard door C.W. Opzoomer, part 6, Amsterdam: Gebhard, p. 313 et seq.; Diephuis, Het Nederlandsch Burgerlijk regt, part 11, Groningen 1888, p. 81; Land, Beschouwingen over de verbintenis uit onrechtmatige daad, Haarlem 1896, p. 33; Sybenga, Eenige opmerkingen over onrechtmatige daden als bron van verbintenis, Assen 1885. In favor of Molengraaff's view were Belinfante, Wat is onrechtmatige daad en wat is schuld volgens Article 1401 B.W., Themis 1865, p. 341 et seq., and 1869, p. 285 et seq.; Hamaker, Het recht en de maatschappij, 1888, p. 79; Roelfsema, De beteekenis der woorden 'onrechtmatig' en 'schuld' in Article 1401 B.W., Diss. Groningen 1893; Aalberse, Oneerlijke concurrentie en hare bestrijding volgens het Nederlandsche Recht, Diss. Leiden 1897, p. 64; Simons, Ons burgerlijk delictsrecht, Themis 1902, p. 6 et seq.

26 See Pfeffer (1938), p. 22.

1401 were rejected by the Hoge Raad.²⁷ One such example is the Dutch imitation of the famous American ‘Singer’ sewing-machine. The sewing-machines of the Dutch manufacturer were labelled ‘Improved Singer Sewing-Machines’ (transl.), whereby the term ‘Singer’ had been displayed on one side of the apparatus. The plaintiff was unable to prove a violation of any right (e.g. trademark) or a violation of a statutory duty. The plaintiff therefore argued that the marketing of the Dutch sewing-machines was misleading and, as such, unlawful. The Hoge Raad denied this claim and showed its reluctance to expand the liability under Article 1401 of the Dutch Civil Code, by stating that unlawfulness only stems from an act or omission that violates a legal duty or the violation of a right.

The reserved policy of the Hoge Raad at the end of the 19th, beginning of the 20th century, can – at least to a certain extent – be attributed to the Dutch trading situation during that same period of time. At the end of the 18th century, beginning of the 19th century, Great Britain, and later on Belgium, Northern France and the German ‘Ruhr district’ were influenced by the process of industrialization. The Dutch economy at that time mainly revolved around foreign trade and investments.²⁸ The Dutch industrial revolution, however, signifying a shift of emphasis on increasing domestic production, did not start until the second half of the 19th century. This resulted in a period of rapid economic growth at the turn of the twentieth century. The swift economic developments, accelerated by experience gained from foreign manufacturers, demanded a system of free, unrestrained competition on the marketplace. This demand was mirrored in the policy of the judiciary, especially the Hoge Raad, at the turn of the century. Counterfeiting of products’ design was permitted in most cases, even if the original designation of the product was copied.²⁹

3.3.2 Bills before Parliament

This liberal approach of the Hoge Raad, however, soon met with difficulties. The case law at the turn of the twentieth century proved to have a negative effect on trade. Many traders, who over the past years had managed to establish a firm position in domestic trade thanks to the liberal trade policy of the Dutch government and the case law of the Hoge Raad, found that they were being harmed by the unfair trading practices that were

27 See e.g. HR 10 June 1910, W 9038. See also Van Maanen (1986), p. 144 et seq., referring to the president of the civil section of the Hoge Raad, A.P.Th. Eyssel, who strongly disagreed with Molengraaff’s proposals.

28 De Jonge, *De industrialisatie in Nederland tussen 1850 en 1914*, Nijmegen 1976, p. 18.

29 See the case law mentioned in Molengraaff’s annotation to the Lindenbaum/Cohen case, NJ 1919, 161. See also Van Maanen (1986), p. 140.

a consequence of the same liberal policy.³⁰ The Dutch legislator strove to remedy this situation and on January 11, 1911 a bill was tabled by Regout.³¹ This bill proposed to extend the liability under 1401 of the Dutch Civil Code by adding the elements ‘contrary to morality’ and ‘contrary to the duty of care of the bonus pater familias’. This bill was favourably received concerning its objectives, but criticized³² for its formulation of the constituent elements of ‘unlawful’.³³ In an attempt to dampen the criticism, in 1913 the government proposed an amended bill drafted by Heemskerk.³⁴ The definition of ‘unlawful act’ was linked to the terminology used in the case law and literature, in particular the article by Molengraaff in 1887.³⁵

The Regout bill was positively received by most authors, but fiercely criticized by Eyssel,³⁶ one of the judges that presided over the Hoge Raad at the time of its ‘restrained’ case law at the turn of the century.³⁷ Eyssel feared that it would impair legal certainty and, moreover, that it would give too large a margin of appreciation to the ‘subdistrict court of the countryside’, something that, in his opinion, would likely harm Dutch society.³⁸ Despite the general support in the literature, the Regout bill never entered into force due to a lack of momentum.³⁹ Nevertheless, case law would, some years later, fill the vacuum by providing for an extension of the liability under Article 1401 of the Civil Code.⁴⁰

3.3.3 Criminal Law regulation of 1915

In 1897, Aalberse completed his doctoral dissertation on ‘unfair competition and its control under Dutch law’.⁴¹ Like Molengraaff, he supported a broad definition of Article

30 The ‘summit’ of this line of case law was reached by the case before the Supreme Court on 10 June 1910, W 9038, see Verkade, 100 jaar ‘Oneerlijke concurrentie’ in Nederland – Molengraaff en de onbetamelijke mededinging, BIE 1987, no. 7, p. 156. See also Pfeffer (1938), p. 21.

31 Published in W 9099.

32 See e.g. Ribbius, Eenige opmerkingen over het wetsontwerp tot regeling van de onrechtmatige daad, RM 1911, p. 561.

33 ‘Contrary to morality’, ‘contrary to the duty of care of the bonus pater familias’ or ‘contrary to public order’.

34 Published in W 9459.

35 See the link to Molengraaff in W 9312, p. 4.

36 Eyssel, Het wetsvoorstel omtrent de onrechtmatige daad en de rechtszekerheid, Themis 1911, p 568-617.

37 In the case law at the turn of the century, in particular the cases of 6 January 1905 and of 10 June 1910, the Hoge Raad adhered to a restricted interpretation of Article 1401 BW by defining ‘unlawful’ as meaning acting against the law or acting in an unauthorized manner, in contrast to the prevailing opinion in the literature. See Van Maanen (1986), p. 141; Verkade (1987), p. 156.

38 Eyssel (1911), p. 594 et seq.

39 See Pfeffer (1938), p. 27.

40 See *sub* § 3.2.4.

41 See *supra* 7.

1401 of the Civil Code. In his opinion, the basic concept underlying unfair competition was the obligation of truthfulness. A violation of this concept may lead to unfair competition. Aalberse was a strong supporter of introducing a provision in the Criminal Code pertaining to unfair competition. In 1900 a bill was proposed before Parliament. In 1903, Aalberse presented a preliminary report on this topic to the Netherlands Lawyers' Association. The assembly was in favour of defining the term 'unlawful act' in Article 1401 Civil Code in such a way as to accommodate protection against unfair competition. A separate provision in the Criminal Code, however, was not deemed to be necessary. Nevertheless, in 1915 a bill was adopted that had been proposed by Aalberse. This bill introduced a new Section 328*bis* in the Criminal Code.

This section, however, is confined to misleading advertising. The wrongdoer must act deceitfully and his action must be damaging to another person or the general public. The strict requirements and the limited scope of this provision have prevented it from being of any value in the battle against unfair competition.⁴²

3.3.4 The Lindenbaum/Cohen case of the Hoge Raad

Despite the new Section 328*bis* of the Criminal Code, there was still a need for a provision in civil law that could deal with unfair competition. On January 31, 1919, the Hoge Raad delivered an epoch-making judgement.⁴³ This case is considered by many to be one of the most important judgements of the Hoge Raad.⁴⁴ The case involved the use of trade secrets.

Cohen, a commercial printer, had persuaded a servant of his competitor Lindenbaum by means of gifts and promises to provide him with the offers made by Lindenbaum as well as the addresses of the persons who had placed the orders or applied for a quota-

42 See Van Schaik (1946), p. 61 et seq.; Ulmer/Baeumer/Van Manen (1974), no. 16; Pfeffer (1938), § 20; Wichers Hoeth/Gielen/Hermans, Kort begrip van het intellectuele eigendomsrecht, Zwolle: Tjeenk Willink 2000, no. 676.

43 HR 31 January 1919, W 10365, ann. Molengraaff; NJ 1919, p. 161 et seq., nt. EMM; WPNR 2564, ann. EMM (Lindenbaum/Cohen). See for an analysis Van Maanen (1986), p. 155 et seq.; Van Maanen, De Zutphense juffrouw en de ontrouwe bediende Lindenbaum, *Ars Aequi Cahiers Rechtsvergelijking en rechtsgeschiedenis*, Volume 3, Nijmegen, *Ars Aequi Libri* 1996, 62 pp.; Wiarda, Terecht Gesteld (monthly magazine of the Groningen Faculty of Law), November 1968, vol. 1, no. 1, p. 19-24 and March 1969, vol. 1, no. 6, p. 10-22 with reference to Sect. 328*bis* Criminal Code; Ketelaar, De schepping van het arrest Lindenbaum-Cohen, in: Bentinck (red) et al., *Kabaal in Holland. Bundel aangeboden bij het afscheid van mr.B.J.Asscher als president van de Arrondissementsrechtbank te Amsterdam op 28 april 1993*, Arnhem, Gouda Quint: 1993, p. 15-23.

44 See e.g. Asser/Hartkamp (2002), III, no. 29. See for an analysis of this judgement: Ketelaar, De schepping van het arrest Lindenbaum-Cohen, in: Bentinck (red) et al., *Kabaal in Holland. Bundel aangeboden bij het afscheid van mr.B.J.Asscher als president van de Arrondissementsrechtbank te Amsterdam op 28 april 1993*, Arnhem: Gouda Quint 1993, p. 15 et seq.

tion. The district court allowed the claim for damages, but the court of appeal reversed the ruling stating that Cohen, as opposed to the servant, had not violated any statutory duty. The Hoge Raad set aside the decision of the court of appeal, and held that:

‘An unlawful act shall be taken to mean an act or omission, violating a right or a statutory duty or violating either the good morals or the standard of due care, which must be observed in society with respect to a person or the person’s property (...)’

This phrasing was almost literally copied from the phrasing used by Molengraaff in his famous article in 1887 which led to the Heemskerk bill. From this moment on, unfair trading practices not covered by Dutch statutory law could be combated as well. New avenues were opened up for extending the scope of protection against unfair competition. The above-mentioned phrasing was subsequently used by judges to decide whether a certain form of behaviour constitutes an unlawful act. The Lindenbaum/Cohen judgement was favourably received in the literature,⁴⁵ and most authors predicted a beneficial influence on case law.⁴⁶

3.3.5 The 1941 and 1963 Preliminary Reports and the draft NBW legislation⁴⁷

a The 1941 Preliminary Reports

In the years following the new Section 328*bis* Criminal Code and the Lindenbaum/Cohen case of the Hoge Raad, the ‘new’ Dutch law on unfair competition was applied by the judiciary. In many cases, especially in the highly competitive times of the economic crisis of the 1930s, unfair trading practices were combated with success.⁴⁸ Nevertheless, there was a call for the further development of unfair competition law.⁴⁹ At the 1941 meeting of the Netherlands Lawyers’ Association, the question was raised whether the relation between the specific legislation on intellectual property rights and the protection granted under Art. 1401 of the Civil Code required a separate piece of legislation.⁵⁰ Both of the preliminary reporters to this meeting, van Wageningen and

45 See for the comments of the various authors, Van Maanen (1986), p. 155 et seq.

46 See e.g. Molengraaff in his annotation, W 10365 and Scholten, Nog eens het arrest over de onrechtmatige daad, WPNR 15 maart 1919, no. 2568.

47 See for an overview of the development of unfair competition law in this period, *inter alia* Bodenhausen, WPNR 4280; Van der Zanten, BIE 1952, p. 130; *Ibid*, BIE 1953, p. 71; *Ibid*, Verdrag gaat voor de wet, ook in de nationale rechtsbetrekkingen, Zwolle 1952, p. 177-190; Martens, BIE 1972, p. 220; Polak (1963), p. 73; Beekhuis, Dient de wet t.a.v. de ongeoorloofde mededinging nadere bijzondere regelingen te bevatten, en zo ja, welke?, Handelingen NJV 1963, p. 4; Leijendekkers, de NV 1964, p. 161 et seq.

48 Ulmer/Baeumer/Van Manen (1974), no. 13.

49 *Ibid*. no. 14.

50 See van Oven, Article 1401 BW en de industrieele eigendom, NJB 1941, p. 473-480.

Beerman, held the view that in addition to the intellectual property legislation, Article 1401 of the Civil Code should be able to provide for the required ancillary protection.⁵¹ Although some of those present at the 1941 meeting voted for the drafting of specific regulations, the majority agreed with the position adopted by the preliminary reporters.⁵² In 1946, after the Second World War, the item was put on the agenda once more. Van Schaik concluded in his doctoral dissertation in 1946 that Section 328*bis* of the Criminal Code did not adequately provide protection against unfair competition.⁵³ He suggested an alternative use of disciplinary measures by professional and collective industrial organisations. Drucker-Bodenhausen criticized the prevailing law on unfair competition as well.⁵⁴ In their opinion, in addition to the general clause of Article 1401 Civil Code, certain specific cases needed to be laid down in additional regulations. This would improve legal certainty and curtail the judges' discretionary power.⁵⁵

At about the same time,⁵⁶ Meijers was appointed to draft the recodification of the Civil Code (hereinafter referred to as 'NBW'). During the debates in Parliament in 1952, Meijers and the then Minister of Justice stated that no specific provision relating to unfair competition law were to be included in the NBW. Van der Zanden⁵⁷ and Bodenhausen⁵⁸ objected to this statement by arguing that the case law was not up to standard and by pointing to the obligations pertaining to international law as imposed by section 10*bis* of the Paris Convention. These arguments convinced the drafters of the NBW bill to issue a statement that proposed the introduction of a general prohibition on unfair competition accompanied by specific rules for certain kinds of unfair competition.⁵⁹ However, the bill as proposed in 1961 by Meijers' three successors (at that time: Drion, Eggens and de Jong), since Meijers had unexpectedly died in 1954, did not

51 Beerman, *Handelingen NJV* 1941, I, p. 107 et seq. and 127; Van Wageningen, *Handelingen NJV* 1941, p. 23 and 76. See Ulmer/Baeumer/Van Manen (1974), no. 41; Pfeffer (1938), p. 17; Molengraaff (1887), p. 149; Drucker-Bodenhausen, *Kort begrip van het recht betreffende de intellectuele eigendom*, p. 168 et seq.; Slagter, *Dient de wet t.a.v. de ongeoorloofde mededinging nadere bijzondere regelingen te bevatten, en zo ja, welke?*, *Handelingen NJV* 1963, p. 44 et seq.

52 Ulmer/Baeumer/Van Manen (1974), no. 15; Beekhuis (1963), p. 3; J.M. Polak, *op.cit.*, p. 72; *NJB* 12 July 1941, no. 27, p. 510-511.

53 Van Schaik (1946), p. 61 et seq.

54 Drucker-Bodenhausen, p. 186. See also Drucker, *BIE* 1933, p. 1; Bodenhausen, *RM* 1935, p. 1; Pfeffer, *RM* 1936, p. 132.

55 See Ulmer/Baeumer/Van Manen (1974), no. 16; Berkhouwer/Voetelink, *Toelaatbare en ontoelaatbare reclame*, Zwolle: Tjeenk Willink 1954, p. 115 et seq. See for the opposite opinion, Voetelink, *op.cit.*, p. 189 et seq. who was in favour of the predominant position of the general standard.

56 On 25 April 1947, to be precise.

57 Van der Zanden, *BIE* 1952, p. 130 et seq.

58 Bodenhausen, *WPNR* 4280.

59 See *Handelingen II* 1953, p. 2920.

contain any specific regulations at all.⁶⁰ The triumvirate accounted for the absence of any specific regulations on unfair competition by arguing that, firstly, prohibiting specific kinds of unfair competition would lead to the supposition that all acts that are not covered by an explicit prohibition are allowed. Secondly, they argued that drafting detailed regulations would intervene in the concurrent efforts of the European Community to elaborate the provisions of the EEC treaty relating to competition (Article 85 et seq. of the old EEC Treaty) in more detail.⁶¹

b The 1963 Preliminary Reports

The promulgation of the NBW bill inspired the Netherlands Lawyers' Association to organize a meeting on the 28th and 29th of July 1963 (again) relating to unfair competition.⁶² Two persons issued a preliminary report on the need for a specific regulation on unfair competition. Slagter proved to be a moderate supporter of a statutory regulation with a general clause complemented with an enumeration of specific types of unfair competition.⁶³ In his view, statutory regulation would offer more legal security and a greater preventive effect as opposed to a system purely based on case law. His proposal would also make it possible to draft specific rules on legal procedure. In Slagter's view, the law of unfair competition seeks to provide protection to the competitor as well as to the consumer.⁶⁴ Beekhuis, however, adopted a similar position to the above-mentioned triumvirate who proposed the NBW bill.⁶⁵ He believed that there was no special need for a statutory regulation, but that proper and accurate case law was of far greater importance.⁶⁶ In his opinion, the only areas that needed regulation by the government were the protection of designs, the protection of marketing organizations and the situation of someone taking the lead over his competitors by benefiting from a violation of the law. The majority of those present at the meeting were in favour of Beekhuis's view, except with respect to his last point.⁶⁷

60 The Lower House objected to this codification as well, according to the interim report of the Lower House. See *Parlementaire Geschiedenis* Boek 6, p. 608-609.

61 See the Explanatory Memorandum to the NBW Bill, part 3 (book 6), p. 642. See, for a critical reflection of these arguments, *sub* § 3.3.12.

62 See *Handelingen NJV* 1963, part II; *NJB* 1963, p. 566 et seq.

63 Slagter (1963), p. 78 et seq.

64 Several authors opposed his view, see Drion, *Handelingen NJV* 1963, p. 9 et seq.; Zeylemaker, *Handelingen NJV* 1963, p. 19; Polenaar, *Handelingen NJV* 1963, p. 26; Polak, *Handelingen NJV* 1963, p. 32 et seq.; Löwensteyn, *Handelingen NJV* 1963, p. 38 et seq.; Stoffels, *Handelingen NJV* 1963, p. 40 et seq. See also Martens, *Onrechtmatige Daad (oud)*, Groene serie privaatrecht, Kluwer (looseleaf), VI-30j.

65 Beekhuis (1963), p. 117 et seq.

66 Beekhuis (1963), p. 172.

67 See Ulmer/Baeumer/Van Manen (1974), no. 18.

In the 1960s most authors argued that the Netherlands did not meet its obligations under the 1883 Paris Convention.⁶⁸ In their opinion, statutory regulations had to be drafted to fulfil these obligations,⁶⁹ albeit that most authors believed that a full codification of unfair competition law was not feasible.⁷⁰ Bodenhausen proposed a statutory regulation that prohibited the most important trade practices supplemented by a general clause, analogous to Article 10^{bis} of the Paris Convention. In his opinion, such a general clause would be flexible, but at the same time it would be more specific than the general tort clause.⁷¹ Some authors, on the other hand, believed that Dutch unfair competition law did comply with international treaties and they were opposed to the drafting of a statutory regulation.⁷² Nonetheless, the fact that the Netherlands had acceded to the 1883 Paris Convention,⁷³ and the prevailing view in the literature proved to be insufficient grounds for the codification of Dutch unfair competition law.⁷⁴

3.3.6 The 1967 Report by the Committee for Orderly Commerce

The Committee for Orderly Commerce, established in 1964 by the State Secretary of Economic Affairs, published a report in 1967 on the desirability of a general statutory regulation on orderly commerce.⁷⁵ The Committee, however, was not allowed to propose any supplements to the Civil Code or Criminal Code. The Committee was therefore left with limited room for any action. As a result, the report provided for an administrative solution to the problems raised. The Committee's proposals were consequently not supported by many.⁷⁶

68 Ulmer/Baeumer/Van Manen (1974), § 31; Berkhouwer/Voetelink (1954), p. 55 et seq.; Van der Zanden (1952), p. 132; Bodenhausen, WPNR 4280, p. 52-53; Beekhuis (1963), p. 121; Slagter (1963), p. 74.

69 Ulmer/Baeumer/Van Manen (1974), § 31; Van der Zanden (1952), p. 132; Bodenhausen, WPNR 4280, p. 52-53.

70 Bodenhausen, WPNR 4280, p. 52.

71 Ibid.

72 Ulmer/Baeumer/Van Manen (1974), § 31; Beerman (1941), p. 182-189; Beekhuis (1963), p. 121; Slagter (1963), p. 74 (not without reservations).

73 The London revision came into effect on 5 August 1948, the Stockholm revision came into effect on 10 January 1975.

74 See also Dorhout Mees (1964), at 423.

75 Rapport Commissie Ordelijk Economisch Verkeer, Staatsuitgeverij 1967. See for an analysis of this report, Leijendekkers, ESB 1967, p. 815 et seq.; Van Breda, ESB 1967, p. 1069 et seq.; Snijders, ESB 1968, p. 796 et seq.; Mok, Het publiekrecht van het bedrijfsleven en ordelijk economisch verkeer, SEW 1967, p. 444 et seq.; Polak, Mededinging en Ordelijk Economisch Verkeer, WPNR 1968, no. 5001; Verkade (1986), no. 91-95.

76 Rodrigues, Onbehoorlijke handelspraktijken, Utrecht: May 1987, p. 51; Martens, BIE 1972, p. 220; Verkade (1986), no. 91; Polak (1968), no. 5001, p. 295 et seq.; Mok (1967), p. 444-460.

3.3.7 The 1971 SER Proposal

Since the report by the Committee for Orderly Commerce did not produce the desired effect, the State Secretary of Economic Affairs requested the opinion of the Social and Economic Council (SER) on this matter.⁷⁷ The State Secretary, in his very extensive request to the SER, dismissed the option of a statutory provision under private law arguing that the subject-matter was already dealt with under Section 1401 of the Civil Code. This seems to be a somewhat peculiar argument, since all the time the (reverse) question had been whether the case law under Section 1401 of the Civil Code should be codified.⁷⁸

The SER deemed it necessary to exceed its boundaries as set in the request for an opinion by the State Secretary.⁷⁹ This resulted in the proposal for a general regulation under private law with respect to unfair competition.⁸⁰ This proposal distinguished between a general clause (Section 1), very similar to Section 10*bis* of the Paris Convention, enumerated by a provision (Section 2) dealing with specific types of unfair competition, starting with misleading advertising.⁸¹ Section 3 qualified an act of unfair competition as a tortious act under Article 1401 of the Civil Code. Section 4 stated that an injunction and a judicial order are available as remedies. Finally, Section 5 clearly stated that similar to competitors, consumers' associations are entitled to bring legal proceedings as well. In summary, one can conclude that the SER proposal brought the state of discussion back on the track that had been lost in 1963 following the introduction of the NWB bill.

The SER proposal was, in general, favourably received in the literature. Martens welcomed the SER proposal and indicated that Dutch unfair competition law should be improved following – at least part of – the SER guidelines.⁸² He agreed with the introduction of a possibility for consumers' organisations to bring legal proceedings, although he did not want to give them the right to claim damages. He rejected a self-regulated code for fair competition, by stating that a proper weighing of the interests of entrepreneurs against those of consumers must be carried out by an impartial public body, such as a judge or the legislator.⁸³ Martens' opinions on the need for a separate

77 SER Proposal 'inzake wettelijke maatregelen ter bevordering van het ordelijk economisch verkeer' (concerning legal measures for orderly commerce [transl.]), SER publication 1971, no. 21. For an analysis of the SER opinion, see Martens, BIE 1972, p. 220 et seq.

78 Verkade (1986), no. 91.

79 Verkade (1986), no. 92; Martens, BIE 1972, p. 222.

80 This did not mean that the SER dismissed regulations under public law, like e.g. the Prices Act 1961, the Economic Competition Act, the Act on Clearance Sales, Restriction of Free Gift Schemes Act 1977. See Verkade (1986), no 92 and Martens, BIE 1972, p. 222.

81 See annexes III and IV to the SER Opinion.

82 Martens, BIE 1972, p. 223.

83 Martens, BIE 1972, p. 224.

general clause differed from the SER point of view. He believed that in addition to specific provisions on certain unfair trading practices, there was no need to add a general clause. Especially not the general clause as proposed by the SER as expressed in the words ‘contrary to honest practices in industrial or commercial matters’. He rightfully argued that this phrasing leads one to believe that the honest practices within a certain demarcated group in society are decisive as to what is unfair instead of common opinion. But even if these words were to be rephrased, Martens opposed the introduction of a general clause because (1) it would be uncertain how the judge is supposed to discern what ‘honest practices’ actually are, (2) he doubted whether it should be allowed to test common opinion against that of the judge and (3) he wondered what should be done in the absence of any common opinion. In addition, (4) he doubted whether such a general clause would consider the interests of consumers. As an alternative, he proposed to drop the proposal for a general clause and to use Section 1401 Civil Code as a ‘backup’ instead.⁸⁴

Verkade publicly gave his support to the codification of the SER proposals,⁸⁵ although he, in later publications, adhered to a more differentiated approach.⁸⁶ He embraced the explicit relationship with the text of Section 10*bis* of the Paris Convention, although he, as well as Martens, rejected the use of the words ‘contrary to honest practices in industrial or commercial matters’.⁸⁷ In his opinion, the generally accepted practices in trade should not be included in the assessment, and the aim of consumer protection should be reflected more clearly.⁸⁸ He particularly emphasized the need for consumers’ organizations to be able to take joint action against unfair trading practices.⁸⁹ Under the SER proposals, consumers’ organizations were allowed to take

84 See also § 3.3.12 for a critical reflection on these arguments.

85 Verkade, *Intellectuele eigendom, mededinging en consument*, Deventer: 1976, inaugural address.

86 In some of his later publications, Verkade calls into question the feasibility of codification by pointing to problems that could arise like unwanted *a contrario* reasoning leading to difficulties in the interpretation of statutory regulation of unfair competition. In my opinion, comparable issues play a part in a case law approach, since the case law of the Hoge Raad can lead to *a contrario* reasoning as well and is therefore likewise liable to different interpretations. Besides the *a contrario* argument, Verkade limited his preference for codification because one of the main flaws of Dutch unfair competition law, in his view the absence of a right of joint action for consumer groups, had been corrected in the case law. Verkade nonetheless favoured codification in view of the harmonisation of European unfair competition law. See Verkade, *Ongeoorloofde mededinging 101 jaar na Molengraaff*, in: CIER publicaties Molengraaff Instituut voor Privaatrecht, p. B2-B4.

87 Verkade (1986), no. 94.

88 *Ibid.* See also Keurentjes, *Agressieve handelspraktijken*, diss. Nijmegen 1986, p. 258-259.

89 He will surely be pleased by the recent proposal from the European Commission for a Regulation on Consumer Protection Cooperation, Brussels, 18 July 2003, COM (2003) 443 final, which builds on the Commission’s 2001 Green Paper on EU Consumer Protection and the Follow-up to the Green Paper, published in 2002.

joint action against unfair trading practices even without sustaining damage. In addition to Verkade, several other authors embraced this idea as well.⁹⁰ Keurentjes, in his doctoral dissertation, explored how consumers could be protected against aggressive marketing practices. Keurentjes drew the conclusion that the introduction of a general clause in conjunction with a code of conduct and a collective ground for action is the best solution for the protection of consumers.⁹¹

Verkade proposed to change the terms ‘unfair competition’ law into ‘market practices’ law so as to indicate the fusion of consumer interests in this area. Finally, he indicated a number of current difficulties in a law of unfair competition, based on the law of tort (Art. 1401 Civil Code or the new 6:162 equivalent). These concern the following issues: (a) the principle of relativity,⁹² (b) which persons are authorised to take action under the regulations, (c) sanctions, (d) the prerequisite of ‘fault’ and proving this, (e) proving an unlawful act and (f) the risk inherent in execution or proceedings. It is safe to say that if it would come to codification, at least some of these problems as indicated by Verkade would be solved to a certain degree.⁹³ An indication of this is the regulation of misleading advertising in Section 1416b-1416c Civil Code,⁹⁴ that prescribes rules on the areas under (d), (e) and (f) as mentioned above.⁹⁵

3.3.8 Developments following the 1971 SER proposal

The SER proposal was favourably received, as shown above. However, the mere fact that the proposal was beyond the competence of the Minister and State Secretary of Justice because it had exceeded its objectives, explains the absence of any consequential

90 See Verburg, *Privaatrecht en collectief belang: verdediging van kollektieve belangen via de Nederlandse burgerlijke rechter*, Tjeenk Willink, Zwolle 1975, p. 6, who argued that such a joint action by consumer organisations was already possible even without a specific statutory regulation; Groenendijk, *Behandeling van belangen bij de burgerlijke rechter*, diss, Tjeenk Willink, Zwolle 1981, p. 259 et seq.; Verkade, *Monografieën Nieuw BW B-49*, Kluwer 1992, p. 26-27.

91 See Keurentjes (1986), p. 279-280. The same conclusion is drawn by De Roos, *Strafbaarstelling van economische delicten*, Arnhem: 1987, p. 95. See on the possibility for consumer organisations to institute private actions, *supra* 108.

92 Not to be confused with Einstein’s theory, this principle embodied in Article 6:163 of the Dutch Civil Code, declares that liability is denied if the rule invoked by the plaintiff does not cover the interests of the plaintiff that are damaged by the defendant’s actions. This principle resembles the German theory of the ‘Schutznorm’, as well as the English concept of ‘duty of care’, in so far as it determines the scope of the interests protected. See Barendrecht, *Pure economic loss in the Netherlands*, Netherlands reports to the fifteenth international Congress of Comparative Law, II.A.2, Intersentia, Antwerp/Groningen 1998, p. 117.

93 The insertion of a clearly formulated ‘Schutzzwecktrias’ (see German chapter, § 4.2.5), for instance, would diminish the likelihood of violating the principle of relativity.

94 In 1992 this was changed to Article 6:194-196 of the New Civil Code.

95 See also section 3.2.9.

legislative action undertaken by the government. The SER proposal nonetheless accelerated the introduction of the rules on misleading advertising in Section 1416a-1416c of the Civil Code in 1980, equivalent to the current Section 6:194-196 of the NBW. Although the debates in Parliament show that the codification of the complete area of unfair competition has been a topic of discussion,⁹⁶ the Minister preferred to start by gaining experience in a single sub-area.⁹⁷ Verkade criticized this restricted approach and pointed out that many other undesirable market practices needed to be regulated, such as aggressive methods of selling and touting for custom.⁹⁸

In a different setting, however, the Minister explicitly left scope for a future codification of unfair competition law. During the work on the recodification of the Civil Code, i.e. the drafting of the NBW bill, the Minister of Justice referred to a future Section 4 of Title 3 NBW dealing exclusively with unfair competition law.⁹⁹ This provision by the Minister for the possibility of codifying unfair competition law was not acted upon.¹⁰⁰

3.3.9 Voices in the literature 1971-1992

In the years following the SER proposal several books and articles were published in the field of unfair competition law, often proposing codification in Dutch law.¹⁰¹ The reference work by Martens on unlawful acts in the form of a loose-leaf volume,¹⁰² updated on a year to year basis, provided for a first comprehensive contemplation of

96 Bijlagen Handelingen Tweede Kamer 1973-1974, 11005, no. 11, p. 7.

97 See Groenendijk (1981), p. 259.

98 See *supra* 85. de Roos agrees with these critical notes, see de Roos (1987), p. 116-130. Haardt welcomed the new regulations on misleading advertising, but urged follow-up action as well, see Haardt, BIE 1976, p. 147.

99 Memorandum of Reply to the NBW bill, 30 January 1976, p. 156.

100 Cf. Hondius (ed.), *Het nieuw BW in 400 trefwoorden*, Deventer: Kluwer 1983, p. 254.

101 In addition to the literature enumerated in the main text, one could mention *inter alia*: Jansen, *De bestrijding van de oneerlijke mededinging in de eerste decennia van de 20ste eeuw: het Duitse recht als voorbeeld voor de Nederlandse rechtsbeoefening*, Groninger opmerkingen en mededelingen: magazijn voor leerstellige rechtsvergelijking op historische grondslag, vol. XIV, 1997, pag. 8-29; Quaedvlieg, *75 jaren aarzeling of namaak goed of kwaad is: Tendensen en constanten in de ontwikkeling van het recht van de intellectuele eigendom en de ongeoorloofde mededinging, 1923-1998, Recht door de eeuw: opstellen ter gelegenheid van het 75-jarig bestaan van de Faculteit der Rechtsgeleerdheid van de Katholieke Universiteit Nijmegen*, p. 317-336; Verkade; *100 jaar 'Oneerlijke concurrentie' in Nederland – Molengraaff en de onbetamelijke mededinging*, BIE 55 (1987), p. 155-160; Bremer, *Tien jaren recht van de ongeoorloofde mededinging*, *Rechtsgeleerd magazijn Themis: tijdschrift voor publiek- en privaatrecht*, (1994) vol. 3, p. 113-120 (8); Klomp, *De klassieken van het Nederlandse privaatrecht: Molengraaff en de oneerlijke concurrentie*, NTBR vol. 16 (1999/3), p. 70-73.

102 Martens, *Onrechtmatige Daad (oud)*, Groene serie privaatrecht, Kluwer (looseleaf). Martens updated the chapter on unfair competition up until 1991. His successor is Van Nispen.

Dutch unfair competition law. However, he did not address the codification issue.¹⁰³ In 1974, the Dutch edition of the comprehensive Ulmer-Baeumer-van Manen volume on Dutch unfair competition law was published.¹⁰⁴ It describes in great detail the developments in Dutch unfair competition law until 1966. Baeumer and van Manen did not expressly state their view on the desirability of codifying (part of) Dutch unfair competition law. They stated, however, that, in their opinion, the codification of this area of the law was not probable in the near future.¹⁰⁵

In 1978 Verkade published the first edition,¹⁰⁶ in 1986 followed by the second, of his book on Dutch unfair competition law, to date the only separate book on this subject besides the dated Ulmer-Baeumer-van Manen volume. In his nineteenth chapter he addressed the codification of Dutch unfair competition law. In the light of several previous attempts at codification, in particular the 1967 Report by the Committee for Orderly Commerce and the 1971 SER proposal,¹⁰⁷ he advocated the codification of unfair competition in civil law, in line with the SER proposal. Important issues were, in his opinion, the protection of the consumer next to the protection of the honest trader, an effective system of enforcement in particular for consumer organisations, and the effective interweaving of the unfair competition rules within the general rules on tort. As stated above, his most important prerequisite, *i.e.* the integration of consumer protection and the consequential effective enforcement by consumer organisations, has for some time already been addressed – to a certain extent – by legislation. The 1994 Act on Joint Actions authorises certain associations to bring proceedings on behalf of other (groups of) persons.¹⁰⁸ In the field of misleading advertising specific rules exist in this respect.¹⁰⁹

Rodrigues, in his research on unfair trading practices in 1987, promoted the introduction of a civil general clause against unfair trading practices.¹¹⁰ Protection should be granted to consumers as well as businesses. Consumer protection should be enforced

103 In later editions of the loose-leaf volume, Martens pointed out that the government rejected the codification of unfair competition law and preferred to wait for regulations from the side of the European Union. See Martens, *Onrechtmatige Daad* (oud), VI-62r, no. 62a referring to the Parliamentary Reports, *Handelingen II*, 1979/1980, p. 64 and Verkade, *NJB* 1979, p. 463 et seq.; Slagter, *TVVS* 1980, p. 40.

104 Ulmer/Baeumer/Van Manen, *op.cit.*

105 Ulmer/Baeumer/Van Manen (1974), § 19.

106 The second print was published in 1986, see *supra* 2.

107 See for his view on the SER proposals, the appropriate § 3.1.6.

108 The Act of 6 April 1994, *Stb.* 1994, 269 introduced two provisions in the Civil Code, Article 3:305a en 3:305b BW. These provisions allow private law organisations or foundations as well as public law entities to bring actions, under certain conditions, to enforce collective interests. These actions cannot however relate to monetary damages. See Van Gerven et al. (gen. ed.), *Tort Law, Cases, Materials and Text on National, Supranational and International*, 2000, § 2.5.4.

109 Article 6:196 (2), *New Civil Code*.

110 Rodrigues (1987), p. 81.

by the introduction of a collective ground for action for consumers' organisations. In addition to this, self-regulation should play an important role in combating unfair practices in trade. In this context, Rodrigues drafted a bill on unfair trading practices. This bill contains an extensive and non-exhaustive list of types of action that can lead to unfair competition, including the abuse of a dominant position and the intrusion of one's privacy.

3.3.10 New Civil Code 1992

During the implementation of the New Civil Code, the question was (again) raised in the Upper House in 1988 whether codification of the law on unfair competition was deemed to be necessary.¹¹¹ Although a special place had been reserved in the Bill for a New Civil Code to regulate unfair competition law, the government decided to refrain from codifying the complete area of unfair competition law and instead to use the free space to solely regulate misleading advertising. In taking this decision, the government explicitly considered the earlier proposals presented by Keurentjes¹¹² and Rodrigues.¹¹³ Their books were, however, considered not to contain any proposals for specific rules on unfair competition other than the proposed introduction of a general clause that already for that reason would be 'of a vague nature'.¹¹⁴ Since their main suggestion – the introduction of the right for consumer groups to take joint action – had already been acknowledged by the legislator, the government considered their books to be outdated and as a consequence they did not provide any grounds for any form of codification.¹¹⁵

In short, the idea of codifying (part of the) law of unfair competition was renounced during the drafting and implementation of the New Dutch Civil Code. Consequently,

111 See Reehuis/Slob, *Invoering Boeken 3,5 en 6, Boek 6 Algemeen gedeelte van het verbintenissenrecht*, Deventer: Kluwer 1990, p. 1400-1401. See also Verkade, *Monografieën Nieuw BW*, B-49, Deventer: Kluwer 1992, p. 11.

112 Made in his dissertation on aggressive marketing practices, see *supra* 89.

113 Made in his report on indecent marketing practices, see *supra* 110.

114 See Reehuis/Slob (1990), p. 1401.

115 This does not seem to be sound reasoning. Although Rodrigues proposed the introduction of a general clause, he favoured, in addition, the introduction of additional specific provisions on certain types of unfair competition. These specific provisions were necessary, in his view, in order to elaborate the general clause in greater detail, and thus to prevent it from becoming a 'vague norm'. Additionally, he proposed a detailed Bill on unfair competition which was not limited to only one general clause with the possibility for consumer groups to take joint action, but which covered a large part of unfair competition law. It seems that the government did not take these efforts sufficiently into account. Besides this, the Minister of Justice, in his Memorandum of Reply to the Upper House, strangely enough stated that he preferred the codification of the entire body of unfair competition law currently spread over various acts and regulations partly or completely governed by public law. This was and is, however, not the issue. The greater part of unfair competition law, besides misleading and comparative advertising, is still unwritten law.

Dutch unfair competition law was not amended by the introduction of the New Dutch Civil Code.¹¹⁶ It is still based upon the basic provision of tort, now embodied in Article 6:162 et seq. (i.e. Article 162 of Book 6) of the New Civil Code instead of Article 1401 et seq. of the Old Civil Code.

3.3.11 Voices in the literature 1992-the present

Van Nieuwenhoven Helbach-Huydecoper-Van Nispen mention the codification tendencies, but do not provide a view as to their feasibility.¹¹⁷ Van Nispen, who succeeded Martens as the editor of the loose-leaf volume on unfair competition law,¹¹⁸ mentions the unsuccessful attempts to codify Dutch unfair competition law as well. He briefly points to the drafting of the WIPO Model Provisions on unfair competition law, but does not indicate whether these WIPO proposals are in any way viable.¹¹⁹ Finally, in the Wichers Hoeth-Gielen-Hagemans volume on Dutch intellectual property law, Hagemans refers to the various voices in the literature and government offices that favour codification.¹²⁰ She predominantly points out the difficulty of creating a general rule on unfair competitive behaviour. Should it be narrowly or broadly defined? She favours the approach as used in most modern pieces of legislation, by introducing a general clause extended with a non-exhaustive list of specific cases of unfair trading that will have a preventive effect on unfair behaviour.

3.3.12 Conclusions

From the above, one can conclude that several attempts have been made to codify Dutch unfair competition law in the past. Apart from the areas addressed by European harmonisation, no part of Dutch unfair competition law has been codified so far. It is still chiefly based on case law. Voices in the literature during the past decades have indicated, however, a preference for the codification of at least part of this subject-matter. However, as noted above, many authors nonetheless have reservations as to the details and the extent of such a codification.

Some of these arguments *contra* codification are, in my view, not very sound. First of all, this concerns the arguments put forward by Drion, Eggens and De Jong, who succeeded Meijers during the drafting of the new Dutch Civil Code. Their objection against implementing rules on unfair competition in a new Dutch Civil Code was, as

116 Van Nispen, *Ongeoorloofde mededinging*, in: *Onrechtmatige Daad* (looseleaf), Deventer: Kluwer, IV.1, no. 20.

117 Van Nieuwenhoven Helbach/Huydecoper/Van Nispen, *Intellectuele eigendom en mededingingsrecht*, in: *Dorhout Mees, Nederlands handels- en faillissementsrecht*, part II, no. 1260.

118 See *supra* 102.

119 Van Nispen, *Ongeoorloofde mededinging* (looseleaf), IV.1, no. 2.

120 Wichers Hoeth/Gielen/Hermans (2000), no. 675.

noted above,¹²¹ firstly that prohibiting specific kinds of unfair competition would lead to the supposition that all acts that are not covered by an explicit prohibition are allowed. I would argue that the introduction of a number of specific types of unfair competition that are deemed to be unlawful, next to a general clause, does not necessarily prevent the prohibition of other types of unfair competition. The use of a non-exhaustive list of specific types of unfair competition that unmistakably serves as an addendum to the general clause still leaves room for (future) expansion of the scope of protection granted against unfair competition. The German Unfair Competition Act clearly demonstrates this option.¹²² In short, the fear of any future arguments *a contrario* seems to be out of place.

Their second objection to the implementation of unfair competition law within a new Dutch Civil Code was that it would intervene in the concurrent efforts of the European Community to elaborate provisions of the EEC Treaty relating to competition, especially Article 85 of the Old EEC Treaty. This reference to the old Article 85 of the EEC Treaty (equivalent to Article 91 of the (New) EC Treaty) seems somewhat out of place. This provision relates to public Competition law, often referred to as anti-trust law. It is indeed true that developments in unfair competition law will often be influenced by these provisions in the EEC Treaty. But the same is true for e.g. copyright law, trademark law and patent law. The European Court of Justice has introduced the doctrine of ‘specific subject-matter’ to tackle the problem of certain statutory rights clashing with these EEC Treaty provisions.¹²³ On the contrary, the effective enforcement of the Section 85 EEC Treaty rules will increase competition and will point to the need for an effective statutory regulation on unfair competition. And seen from a substantive law viewpoint, the EEC Treaty provisions differ from the private law provisions on unfair competition law in many respects. While European competition law tries to regulate competition on the marketplace from the perspective of the government, the private law of unfair competition tries to provide rules (‘of the game’) to – mostly equal – parties that come into conflict with each other. This misconception of unfair competition law derives from a lack of clarity in defining the area of unfair competition at this period of time. Some people, amongst whom were the preliminary reporters to the 1963 meeting

121 See *supra* § 3.3.5.

122 Although under the new UWG 2004, the possibilities for providing additional protection under the new general clause ex Section 3 UWG has been limited, see Chapter 4, in particular § 4.2.5. and 4.5.

123 This doctrine draws a distinction between the existence and exercise of an (intellectual) property right. See ECJ Cases 15/74 of 18 October 1974 and Case 102/77 of 23 May 1978. For more on this issue see Keeling, *Intellectual Property Rights in EU Law, Volume I: Free Movement and Competition Law*, Oxford European Community Law Library 2004, 455 pp.; Govaere, *The use and abuse of intellectual property rights in E.C. law: including a case study of the E.C. spare parts debate*, London: Sweet & Maxwell 1996, 337 pp; Anderman, *EC competition law and intellectual property rights: the regulation of innovation*, Oxford: Clarendon Press 1998, 320 pp.

of the Netherlands Lawyers' Association, Slagter and Beekhuis, applied a very broad definition of unfair competition, including anti-trust law (e.g. abuse of a dominant position and cartels). Van Oven rightfully criticized this broad definition and he promoted the use of a clearly delineated definition of unfair competition, i.e. confined to non-contractual liability under civil law.¹²⁴ In short: the fact that the European legislator is addressing the public competition law provisions in the EEC Treaty should not restrain a national legislator from adopting rules on private unfair competition law. As a side note, the (slow) progress in the harmonisation of unfair competition within the European Community does not justify the suspension of the codification of Dutch unfair competition law.

While no rules on unfair competition law were to be inserted in the new Dutch Civil Code, the 1971 SER proposal promised to bring the issue of codification back on track. The proposal's strongest asset was, in my opinion, the integration of consumer protection as well as rules on the enforcement of these consumer protection rules. While it was generally favourably received, some authors nevertheless criticized (parts of) the proposal. Martens disapproved of the use of a general clause.¹²⁵ Most of Martens' arguments that prove the general clause as proposed by the SER to be insufficient to meet its purpose are indeed sound.¹²⁶ One could nevertheless question whether the total rejection of *any* form of a general clause in favour of the use of Section 1401 Civil Code as a substitute general clause, is to be preferred. A general clause that would prohibit unfair behaviour, without referring to 'honest practices', and that clearly states, or is supplemented by a provision that clearly states, that the interests of the competitor and the consumer are to be taken into account, would remedy many of the problems which Martens indicated. Again, a reference to the German equivalent in Section 1 UWG seems to prove this point. Of course, defining what is fair or unfair, or what is right or wrong, is not an easy task for the courts to undertake, but the same problem presents itself when determining 'unlawful' under Section 1401 Civil Code. The advantage of incorporating a separate general clause into the specific unfair competition regulations over the use of the 'standard' general code under Section 1401 Civil Code, would be its contribution to systematic unity. Since the area of unfair competition law can be seen as an exception to the rule of free trade and commerce, and should therefore be strictly interpreted, the same strict interpretation would have to be applied to such a general clause on unfair competition.¹²⁷

124 See Van Oven, *Ongeoorloofde mededinging*, NJB 1963, no. 27, p. 516-522.

125 See *supra* 3.3.7.

126 Martens rightly argued, for example, that a general clause should not be a mirror of the best practices as they are believed to be according to a certain demarcated group in society. It is important, in assessing if there is a case of unfair competition, whether the unfair trading practice by the defendant is a regular practice in his line of business, but these standards should not be decisive, but, instead, be seen as guidelines.

127 See *supra* 3.4.4.1.

It is therefore, in my view, unfortunate that despite the above mentioned efforts, unfair competition law has not been codified in Dutch law. Such a codification would lead to more legal certainty as well as foreseeability. Moreover, it would require the legislator to come to a decision on what kind of unfair practices should be protected under unfair competition law and what kind of practices should be allowed, in view of the principle of free trade. Of course, this does not mean that the present case law on unfair competition is incomprehensible. On the contrary, the rules as laid down in the case law provide a perfect basis for codification. In the next sections, I will look at the various acts that can be brought under the aegis of unfair competition law in the Netherlands.

3.4 SCOPE OF PROTECTION

Before moving on to a review of the law of unfair competition in the Netherlands, it may be helpful to address its scope of protection since that will give an indication as to what kind of unfair behaviour it provides protection against. Dutch unfair competition law¹²⁸ aims to protect the interests of the competitor as well as the consumer. Although this principle is not explicitly stated in Dutch unfair competition law, the neutral formulation of the basic provision on tort under Article 6:162 BW leaves scope for the protection of these combined interests. According to the principle of relativity under art 6:163 BW an individual can claim damages if the standard that he claims has been infringed, purports to protect his particular interests.

In the early stages of its development, unfair competition law was only supposed to protect the interest of the competitor. This was particularly the case with the provision in the penal code, Article 328 bis Criminal Code.¹²⁹ However, at a later date, this view changed. Slagter, in his preliminary report to the Netherlands Lawyers' Association in 1963, advocated extending its scope so as to include the interests of consumers by stating that honesty in competition implies honesty towards the consumer as well.¹³⁰ Following his lead, most authors have shared this view.¹³¹ The introduction of a system

128 The term 'Dutch unfair competition law' refers to the largely uncodified body of – primarily – case law of the Dutch courts in the field of unfair competition, supplemented by some statutory regulations e.g. in the area of misleading and comparative advertising. 'Unfair competition' or 'ongeerloofde mededinging' has, despite the absence of general codification, been recognised in Dutch legal doctrine as a separate area of law that has its basis in the 1919 Hoge Raad case of Lindebaum/Cohen as well as Article 10^{bis} of the Paris Convention; See Verkade (1986), p. 54.

129 Ulmer/Baeumer/Van Manen (1974), § 84.

130 Slagter (1963), p. 4 et seq.

131 See e.g. Polak, SEW 1967, p. 430 et seq.; *ibid.*, WPNR 5001, p. 296; *ibid.*, NJB 1969, p. 759; Martens, BIE 1972, p. 221; Verkade (1986), nos 4 and 21; Van Delft-Baas, NJB 1980, p. 125 et seq. Boekman criticised this view, see Boekman, *De handelsnaam*, Kluwer: (1977), p. 62.

of self-regulation in advertising by representatives of business and of consumers in 1963, clearly indicates the impetus towards including the protection of the consumer as well.¹³² As a consequence of this inclusion of consumer protection in unfair competition law, facilitated by the flexible nature of the tort clause of Article 6:162 BW, no proof of a competitive relationship is required for a successful action against unfair competition. This means that any unfair behaviour on the marketplace can be scrutinized, be it between a trader and a consumer or between two traders, as long as the behaviour takes place in a commercial setting, meaning not in the private sphere.

The broad scope of protection provided under unfair competition law to consumers and traders alike, leads to the conclusion that the term ‘unfair competition law’ is no longer accurate. Terms like ‘trade practices law’ or ‘fair trading law’ are more effective in indicating this broad area of the law.¹³³

3.5 ACTS PROHIBITED UNDER UNFAIR COMPETITION LAW

3.5.1 Introduction

As stated above, the main principles of unfair competition law are derived from the basic provision of tort embodied in Article 6:162 BW. Dutch unfair competition law has only partially been codified, and for the most part under the influence of European harmonization. Starting from about the middle of the 20th century, several regulations under public law were enacted that can be partly categorized as belonging to unfair competition law.¹³⁴ They primarily serve to regulate the flow of commerce from the government’s perspective. Some of these regulations have been abolished at a later stage or are no longer frequently applied.¹³⁵

132 See *supra* 3.4.2.3.

133 By broadening its scope of protection, brought about by the inclusion of the protection of the interests of the consumer, Dutch unfair competition law has linked up, since the 1960s/1970s, with the modern laws of unfair competition (or trading practices regulations) in Belgium and the Nordic countries. See the country reports rendered in Harte-Bavendamm/Henning-Bodewig (2004), Einleitung E.

134 *Inter alia*: the Prices Act 1961, the Commodities Act 1936, the Trading Hours Act 1976, the Discounts Act 1956, the Restriction of Free Gift Schemes Act 1977, the Betting and Gaming Act 1964, the Door-to-Door Sales Act 1975, the Consumer Credit Act 1972, the Instalment Credit Sales Act 1961, the Establishment of Businesses Act 1954, the Retail Business (Establishment) Act, and regulations of [lower] governments.

135 The following Acts have *inter alia* been abolished: the Restriction of Free Gift Schemes Act (in 1997); the Discounts Act in 1984. The Retail Business (Establishment) Act was incorporated in the Establishment of Businesses Act 1995. The Establishment of Businesses Act will itself be abolished in the near future, no later than January 1, 2006. The Prices Act 1961 is still in force but has not been applied by the Dutch government in the past few years. The Trading Hours Act

The first written rules under private unfair competition law, concerning misleading advertising, were introduced in the Civil Code in 1980.¹³⁶ These regulations were not a product of harmonisation, although European intentions to create a directive on misleading advertising did play a part in stimulating the Dutch legislator to draft this piece of legislation.¹³⁷ When the EU directive on misleading advertising came into force in 1984,¹³⁸ the government decided that no change in the national law was necessary.¹³⁹ After the introduction of the NBW, the rules on misleading advertising were transferred to Section 6:194-196 NBW. Finally, in 2002 rules on comparative advertising were implemented in the NBW following Directive 97/55/EC on comparative advertising.¹⁴⁰

In the next sections, I will examine various actions that can be brought within the ambit of Dutch unfair competition law. But prior to that, I will show how these actions for unfair competition law have been classified in the legal doctrine.

3.5.2 Classification of acts prohibited under unfair competition law

Various authors in the literature have proposed systems for categorizing the doctrine of unfair competition. Most authors have grouped this legal area under the law of industrial property law, following the classification in Article 10bis of the Paris Convention.¹⁴¹ The main characteristic of unfair competition law is the struggle between individuals in attaining the same (economic) target.¹⁴² The first comprehensive classification of acts of unfair competition was made by Aalberse in his doctoral thesis of 1897.¹⁴³ He distinguished between (1) obtaining economic benefit from perpetrating unfair competitive activities and (2) misleading one's competitor. The first category was subdivided into obtaining benefit at the expense of one person¹⁴⁴ and obtaining benefit at the ex-

1976 has been replaced by a new Trading Hours Act 1996, providing for a more liberal regime. The Consumer Credit Act 1990 replaced the Consumer Credit Act 1972 and the Instalment Credit Sales Act 1961.

136 Section 1416a-c of the Old Civil Code, Stb. 1980, 304. These provisions were based on Section 1416a-d of the Old Civil Code, introduced in 1928, providing rules for the liability of a corporation when distributing a prospectus that misleads the public.

137 Verkade (1986), no. 40(c), footnote 13. See on the Bill on misleading advertising, Verkade, *NJB* 1976, p. 357 et seq.; Verkade, *NJB* 1979, p. 458. See also Kabel, *Tijdschrift voor Consumentenrecht*, 1985, p. 4 et seq.

138 Pb. L250/17, 19 September 1984.

139 See Verkade (1986), no. 40(c), footnote 13; Asser/Hartkamp (2002), III, no. 244.

140 Act of 28 March 2002, Stb. 2002, no. 187.

141 Pfeffer (1938), p. 15 et seq.; Drucker-Bodenhausen, *op.cit.*, p. 7 et seq.; Beerman (1941), p. 81 et seq.; Berkhouwer/Voetelink (1954), p. 14 et seq.

142 Aalberse (1897), p. 13; Pfeffer (1938), p. 4; Slagter (1963), p. 7; Beekhuis (1963), p. 8; Ulmer/Baeumer/Van Manen (1974), no. 37.

143 Aalberse (1897), p. 20 et seq.

144 E.g. creating confusion, making untrue statements about a competitor or his trade.

pense of a group of persons.¹⁴⁵ The second category pertains to the misleading of one competitor¹⁴⁶ or a group of competitors.¹⁴⁷

Aalberse's approach uses misleading as a sole starting point. Pfeffer¹⁴⁸ used a classification based upon the one used by the German lawyer Reimer.¹⁴⁹ He distinguished between (1) the protection of distinctive signs,¹⁵⁰ (2) hitching on to and leaning against [one's other achievements],¹⁵¹ (3) direct attacks on competitors¹⁵² and (4) indirect attacks on competitors.¹⁵³ Molengraaff more or less used the same classification.¹⁵⁴ Drucker-Bodenhausen differentiated eight groups of unfair competitive acts.¹⁵⁵ His classification was more or less used by Dorhout Mees, Slagter and Veldkamp.¹⁵⁶ Beekhuis made a distinction between nine acts of unfair competition.¹⁵⁷ Martens differentiated between unfair behaviour towards one competitor or several specific competitors and unfair behaviour directed at competitors in general.¹⁵⁸ The first group is subdivided into five different types of unfair competitive acts. These are (1) aggressive acts, (2) hitching on to one's other achievements (imitating another's products), (3) imitating another's badges of trade, (4) leaning against a competitor and his achievements (e.g. referring to his products in comparative advertising), and (5) misleading the consumer. The second group entails behaviour like benefiting from someone else's breach of contract.

Baeumer/Van Manen introduced, in their comprehensive analysis of the law of unfair competition in the Netherlands, their own classification of unfair competitive acts

145 I.e. misleading the public.

146 E.g. industrial espionage.

147 E.g. making false statements that can influence the course of trade.

148 Pfeffer (1938), p. XIII-XIX, and § 37.

149 See Pfeffer (1938), p. 86, referring to Reimer, Wettbewerbs- und Warenzeichenrecht, 1933.

150 E.g. trade names and trademarks.

151 E.g. slavish imitation, comparative advertising, protection of trade secrets.

152 E.g. making false statements about a competitor, boycotting.

153 E.g. misleading advertising, touting customers by the use of discounts.

154 Molengraaff, *op.cit.*, p. 149 et seq.; Ulmer/Baeumer/Van Manen (1974), § 81.

155 These are: the creation of confusion; parasitizing on another's achievement; misleading advertising; obstructing a competitor; denigrating a competitor; cheating a competitor out of his trade secrets; benefiting from a breach of contract and benefiting from a breach of the law.

156 Van Nieuwenhoven Helbach/Huydecoper/Van Nispen (1989), p. 16 and no. 466; Slagter (1963), p. II et seq. and p. 87 et seq.; Veldkamp, *De toepassing van artikel 1401 B.W. op de onbehoorlijke mededinging*, diss. VU Amsterdam, 1940, p. 10 et seq.

157 Parasitizing; unfair competition in advertising and offers; direct or clandestine attacks on competitors; spoiling the market; abuse of a dominant position; benefiting from a breach of contract or another's unlawful act; breach of confidence; benefiting from a breach of the law; acting unfairly with regard to a non-competition clause. See Beekhuis (1963), p. 14.

158 Martens, *Onrechtmatige Daad* (oud), VI-II until VI-V.

thereby referring to the classification used by their predecessors.¹⁵⁹ They differentiated between eight groups of unfair competitive acts.¹⁶⁰ Verkade, in his volume on unfair competition law, based his classification on previous ones which were common in Dutch literature, with some modifications of his own. For instance, he divided the category of ‘hitching on to another’s achievements’ into imitating another’s products and imitating another’s badges of trade.

To conclude, most authors use a concurring system of classification that is based on the acts described under Article 10bis of the Paris Convention and extended by other types of unfair competition.

3.5.3 Misleading the public: Misleading advertising

3.5.3.1 Provisions in the Civil Code

Dutch rules on misleading advertising were introduced in 1980 in the Dutch Civil Code. Prior to that, the general clause under Article 6:162 BW was applicable. The introduction of the directive on misleading advertising in 1984 did not bring about any changes to these rules. In 1992 they were transferred to the New Dutch Civil Code, with only minor changes.¹⁶¹ The rules concerning misleading advertising, Article 6:194-196 BW, are a *species* of the general tort clause under Article 6:162 BW. They are only applicable to commercial advertising.¹⁶² According to Article 7 (4) of the Constitution, the right to freedom of expression is not applicable to commercial advertising. Recent case law, however, has indicated that Article 10 ECHR may be applicable to commercial advertising and thus it limits the restrictions on inadmissible commercial advertising.¹⁶³

159 Ulmer/Baeumer/Van Manen (1974), § 83 and p. X-XX.

160 Benefiting from another’s reputation (protection of tradenames and trademarks, hitching on to someone’s reputation); benefiting from another’s achievement (slavish imitation, protection of trade secrets, cheating someone out of his custom); denigrating and comparative advertising; misleading advertising; protection of indicators of origin; offensive methods in selling (intrusive advertising, lotteries, sweepstakes, etc.); boycott and discrimination, underbidding, infringement of exclusive distribution agreements; gifts and discounts.

161 Art 6:195 BW (Article 1416b, 2 BW (old)) was adapted to the new criterion for accountability under Article 6:162 (3) BW. Article 6:196 BW (Article 1416c BW (old)) was abridged and a reference to Article 6:167 (3) was added.

162 Kabel (ed.), *Praktijkboek Reclame- en aanduidingsrecht (PRAR)*, Deventer: Kluwer (looseleaf), p. IIA-9.

163 See Van Nispen, *Ongeoorloofde mededinging* (looseleaf), Article 194, no. 25; Verkade, *Mono-grafieën Nieuw BW B-49* (1992), no. 85 and the annotation by Kabel to CvB 18 January 1993, IER 1993, p. 49 et seq. See also chapter 2, § 2.3.4.3.

3.5.3.2 Article 6:194-196 BW

The first provision sets the standards for misleading advertising. It states that anyone who in the line of business makes a misleading statement in public can be held liable. To bring an action for misleading advertising under Article 6:194 BW the following requirements need to be fulfilled: There must be a statement (1) in public (2) in the course of business (3) concerning certain goods or services (4) that is misleading (5).

A statement can be any possible method of expressing information on goods or services. It is irrelevant which medium is used for transmitting the message, so dissemination via the press, radio, television and the cinema are included.¹⁶⁴ The message must be disclosed to the public and the public must be able to receive the message.¹⁶⁵ This includes oral statements by employees to individual customers and a standardized offer to an addressee with a private message attached to it.¹⁶⁶ However, conversations of a strictly personal nature and written offers are not included in Article 6:194 BW.¹⁶⁷ In addition, the message should be made in the course of business. Incidental advertisements by private persons are therefore not covered by this provision.¹⁶⁸ Moreover, the fourth prerequisite requires the message to concern the offer of certain goods or services. This requirement narrows the scope to commercial advertising, and rules out statements of a philosophical, idealistic or political nature.¹⁶⁹

a *Misleading*

Finally, the statement must be misleading. The public does not actually have to be deluded by the misleading statement, it is sufficient to prove the danger of this occurring in the future. According to legal history, the statement must be misleading to the average person, who is aware of the fact that advertising involves a certain degree of exaggeration and who is not easily affected by this fact.¹⁷⁰ Case law has adopted the

164 Van Nieuwenhoven Helbach/Huydecoper/Van Nispen (1989), § 1274.

165 The public is not required to actually take notice of the message, see Van Nispen, *Ongeoorloofde mededinging* (looseleaf), OD I, chapter 4, Artikel 194, no. 5 and Kabel, *PRAR* (looseleaf), p. IIA-22-24.

166 Wichers Hoeth/Gielen/Hermans (2000), no. 691.

167 Van Nispen, *Ongeoorloofde mededinging* (looseleaf), OD I, chapter 4, Artikel 194, no. 5.

168 Van Nispen, *Ongeoorloofde mededinging* (looseleaf), OD I, chapter 4, Artikel 194, no. 4.

169 Wichers Hoeth/Gielen/Hermans (2000), no. 691.

170 See the Explanatory Memorandum, *Bijl. Hand. II 1975-76*, no. 13 611, p. 10 and 21. See for the problems associated with the use of market analysis for determining whether 'the consumer' has been misled, Verkade, *Monografieën Nieuw BW B-49* (1992), p. 70; Van Nieuwenhoven Helbach, *Het opinie-onderzoek als bewijsmiddel in het mededingingsrecht*, in: Heemskerk et al. (red.), *Een goede procesorde: opstellen aangeboden aan Mr. W.L. Haardt*, Deventer: Kluwer 1983, p. 287; Van Westendorp/Kaufmann, *De rol van marktonderzoek bij mededingingsrechtelijke procedures*, Amsterdam: Vereniging voor Mededingingsrecht 1988.

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same criterion.¹⁷¹ This criterion is quite liberal and leaves a great deal of space for various types of advertisements. It resembles the criterion adapted in case law by the European Court of Justice.¹⁷² This liberal approach may become stricter in the case of advertising aimed at a special group of individuals, e.g. minors.¹⁷³

In determining whether an advertisement is misleading, one has to take into account the content of the message as well as its format.¹⁷⁴ The last aspect can play a part in increasing the possibility of creating a false impression to the consumer. The presentation and format of the advertisement, the font used and its directness can be a catalyst in this course of events. As to the content, the following applies. An advertisement that contains falsehoods or half-truths, is deemed to be misleading if a person relies on its correctness and consequently buys the goods offered.¹⁷⁵ The advertiser is conversely not required to ensure completeness. He is, consequently, not obliged to communicate aspects of his product that are not essential to the buyer's decision. However, the omission by the advertiser of facts that are relevant to the consumer for making his decision, can be misleading.¹⁷⁶ Moreover, if the advertiser chooses to enter into detail with respect to a certain feature of his product, this piece of information should be complete and correct.¹⁷⁷ In most cases, the advertiser is not obliged to point to the negative features of his product or the fact that other products are of better quality.¹⁷⁸

Advertisements containing untrue statements are principally misleading.¹⁷⁹ This is even the case when the advertiser's products are, despite his untrue statement, better

171 See e.g. HR 29 March 1985, NJ 1985, 592 (LWH), BIE 1985, no. 38, p. 296 (DWFV); Court of Appeal 's-Hertogenbosch 19 June 1991, BIE 1993, no. 52, p. 190, IER 1991, no. 48, p. 119; President District Court Breda 1 June 1993, BIE 1995, no. 105; Court of Appeal 's-Hertogenbosch 21 September 1994 (see for the text: HR 15 December 1995, NJ 1996, 509); President District Court Arnhem 22 February 1989, BIE 1991, p. 55 (CvN); President District Court Haarlem 28 September 1990, BIE 1991, no. 98, p. 353, IER 1991, no. 4, p. 15 (SdW); President District Court Breda 28 December 1990, IER 1991, no. 18, p. 43; President District Court Amsterdam 21 September 1989, BIE 1992, no. 68, p. 223; President District Court Rotterdam 16 March 1995, KG 1995, 171.

172 See Chapter 3, § 2.3.4.2a.

173 See the EM, 13 611, p. 10. See also HR 29 March 1985, NJ 1985, 591; HR 29 March 1985, NJ 1985, 592; Rb. Leeuwarden 24 December 1993, KG 1994, 150.

174 This is mentioned in Article 6:195 BW.

175 EM, 13 611, p. 10.

176 Kabel, PRAR (looseleaf), p. IIA-235. Based on the standard of due care under Article 6:162 BW the advertiser has a duty to inform the consumer about essential information concerning his products that are relevant to the consumer's decision to buy a product. This doctrine is of particular importance in the field of product liability. See Kabel, PRAR (looseleaf), p. IIA-255.

177 Kabel, PRAR (looseleaf), p. IIA-256, and the case law mentioned in IIA-420 et seq. See e.g. RCC 3 July 1979, no. 1729; RCC 26 November 1979, no. 1973; RCC 5 November 1982, no. 3195.

178 Kabel, PRAR (looseleaf), p. IIA-257.

179 Van Nieuwenhoven Helbach/Huydecoper/Van Nispen (1989), § 1272.

than his competitor's. Suppose an advertiser claims that his product is better than that of his competitor thanks to feature x. It transpires, however, that instead of feature x, feature y is the actual factor which improves the quality of his product. According to the case law, his advertisement is as a result misleading to the public, although his product is still of better quality than that of his competitor.¹⁸⁰ In some cases, however, the making of untrue statements can be admissible. This can be the case if the untruth is easily recognisable to the public, as is the case in advertising in superlatives or advertisements intended as a clear jest. Truthful statements, on the other hand, can be misleading as well. This is especially the case with so-called half-truths. An advertiser who omits an important aspect in an advertisement that may be of influence to the consumer's decision, does not make an untruthful statement. He misleads the consumer nonetheless.

Factors that can also be of influence are the comprehensiveness of the statements in the advertisement and the medium that has been used to relay the advertisement. As a general rule, the more precise the statements, the more can be expected in terms of truthfulness and correctness. Likewise, a comprehensive advertisement in a newspaper is subject to a stricter assessment than a short TV spot.¹⁸¹ In considering all these aspects, the court will have to look at the overall picture.¹⁸²

Article 6:194 BW contains a list of factors that will, if at least one of them is fulfilled, lead to the qualification of the advertisement as unlawful. According to Article 6:194 BW an advertisement is misleading if it misleads as to the¹⁸³

180 HR 29 March 1985, NJ 1989, 591, at 3.6 (Pokon/Substral). Verkade rightly criticises this judgement, stating that the issue is whether the consumer is influenced in his choice to buy the advertised product. In his opinion such a statement should only be held to be misleading in case the presence of the specific feature x was of influence in the consumer's decision. This opinion is endorsed by Kabel/Van Delft-Baas, PRAR (looseleaf), p. IIA-240-241, who point out that the Pokon/Substral case concerned comparative advertising, and was therefore subject to a stricter regime. See also Van Delft-Baas, IER 1985, p. 81 et seq. and Kabel, IER 1993, p. 179 stating that the fact that the consumer, despite the falsehood, will be better off with the defendant's product since it is better than its competitor's, leads to the conclusion that no action for rectification based on an unjust head start should be allowed. See also President District Court Haarlem 12 January 1988, BIE 1988, no. 74, p. 261. See for a contrasting opinion: Kaufmann, TVVS 1987, p. 175-176.

181 See the Memorandum of Reply, 1978-79, 13 611, p. 24.

182 Rb. Amsterdam 3 July 1985 and Court of Appeal Amsterdam 5 February 1987, IER 1987, no. 15, p. 39; Rb. Amsterdam 10 March 1993, BIE 1994, no. 92, p. 333. See also Verkade (1986) B-49, no. 40.

183 This list of factors has led to an extensive body of case law, see e.g. Kabel, PRAR (looseleaf), p. IIA-461 till IIA-678; Verkade, *Monografieën Nieuw BW B-49* (1992), p. 50-61; Van Nispen, *Ongeoorloofde mededinging* (looseleaf), Article 194, no. 15-24; Wichers Hoeth/Gielen/Hermans (2000), 692-700.

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- nature, composition, quality or features of a product or service or its uses;
- quantity;
- source;
- geographical origin;
- method of production;
- date of production;
- size of stock;
- price or its calculation;
- awards or certificates received;
- use of technical or scientific terminology;
- conditions for delivery or payment;
- extent, specifications and duration of a warranty;
- characteristics of the seller or manufacturer.

This list of relevant factors in the assessment of advertisements is non-exhaustive.¹⁸⁴

b Burden of proof

The plaintiff must prove that the advertisement is misleading. However, in two cases the burden of proof is shifted to the defendant. First of all, the defendant, in most cases the advertiser, must prove under Article 6:195 (1) BW that his allegations in his advertisements are correct. This is only the case if the defendant was directly or indirectly responsible for the content of the advertisement and as far as dividing the burden of proof is not unreasonable. Secondly, if the advertisement is found to be misleading, the defendant must prove under Article 6:195 (2) BW that (the publishing of) this was not his fault. These special rules are not applicable in interlocutory proceedings, although the defendant may nonetheless be expected to prove the correctness of his statements.¹⁸⁵

c Sanctions

The plaintiff can under Article 6:196 BW claim for the rectification – possibly accompanied by an order to disclose the names of the addressees – of the misleading advertisement and an injunction, if need be in conjunction with a daily default fine, in order to prohibit the defendant from making any such misleading advertisements in future.¹⁸⁶ In addition to this, he may claim damages, transfer of profit, compulsory publication of the

184 Explanatory Memorandum, 1975-76; 13 611, p. 10.

185 Van Nispen, *Ongeoorloofde mededinging* (looseleaf), Article 195, no. 10; Verkade, *Monografieën Nieuw BW B-49* (1992), no. 71-73.

186 See on the issue of whether the judge has a discretionary power in imposing this prohibition or granting the action for rectification: Grosheide, *WPNR* 1996, 6223, p. 351-352.

judgement, the declaration of a new legal status and a product recall.¹⁸⁷ The plaintiff who claims rectification or requests an injunction does not have to prove culpable behaviour by the defendant, as opposed to a claim for damages. The plaintiff must, however, in any case prove that he has sustained damage or is in danger of sustaining damage.¹⁸⁸

Three groups of persons can take an action to counter misleading advertising. These are a competitor of the advertiser, a consumer, and, finally, a consumers' organization.¹⁸⁹ Verkade argues that the individual consumer does not have a legitimate interest in bringing an action.¹⁹⁰ While he is correct that this may apply to many cases of misleading advertising, it is not applicable to all cases. A consumer whose complaint about a misleading advertisement has been granted by a self-regulatory body but the ensuing judgement is not observed by the advertiser, must be able to bring an action in a court of law, so as to counter such a refusal to cooperate or to prevent repeated unlawful behaviour.¹⁹¹ Next to the individual consumer and competitor, certain consumers' organizations can bring an action against misleading advertising in the form of a type of class-action under Article 3:305a and b BW. The consumers' organization must, in conformity with its charter, look after the interests of those consumers it seeks to protect in court. In addition, the organization must be a legal person with full legal competence.¹⁹² It is not allowed to claim damages.¹⁹³

187 See for the action on product recall in connection with misleading advertising, Grosheide, WPNR 1995, 6182, p. 333-335. See also President District Court Breda 28 December 1990, IER 1991, no. 18, p. 43; President District Court Rotterdam 16 March 1995, KG 1995, 171. In the case of President District Court Arnhem 10 April 1996, IER 1996, no. 18, p. 104 the Court upheld the claim for the destruction of the misleading advertising material.

188 It is not yet totally clear whether this is solely confined to material damage. In favour of this point of view is Slagter, TVVS 1981, p. 168. See, however, in contrast: President District Court Amsterdam 18 September 1980, NJ 1981, 198, BIE 1981, no. 34, p. 159 with annotation of DWFV, TVVS 1981, p. 167 with annotation by Slagter, GRUR Int. 1981, p. 701 with annotation by Henning-Bodewig.

189 See Holzhauser, *Ontoelaatbare reclame*, Zwolle: Tjeenk Willink 1994, p. 65; Kabel, PRAR (looseleaf), p. IIA-984-987; Van Nispen, *Ongeoorloofde mededinging* (looseleaf), Article 196, no. 5; Wichers Hoeth/Gielen/Hermans (2000), no. 702. Verkade also looks into the possibility for other organisations, such as employers' organizations, to bring an action, see Verkade, *Monografieën Nieuw BW B-49* (1992), p. 65-68.

190 Verkade, *Monografieën Nieuw BW B-49* (1992), p. 64.

191 See also in the same belief: Holzhauser (1994), p. 65-66.

192 Van Nispen, *Ongeoorloofde mededinging* (looseleaf), Article 196, no. 6.

193 Van Nispen, *Ongeoorloofde mededinging* (looseleaf), Article 196, no. 5; Kabel, PRAR (looseleaf), p. IIA-987. See also Verkade, *Monografieën Nieuw BW B-49* (1992), with respect to actions other than rectification and an injunction by organisations.

3.5.3.3 *Self-regulation*

In addition to statutory legislation a comprehensive system of self-regulation is in place. In 1964 the Dutch Advertising Code (NRC) was drafted by trade associations of the media, advertisers and advertising agencies in conjunction with consumers' organizations, organized in the Advertising Standards Organization (SRC). It contains rules on advertising in general, including misleading advertising. It applies to advertising in the press as well as radio and television advertising. The NRC is divided into a part containing rules on advertising in general, and a part containing rules on specific types of advertising such as advertisements for alcoholic beverages and tobacco products or sweepstakes.¹⁹⁴ Consumers as well as competitors can rely on the NRC, although it is mostly applied by individual consumers. An applicant can lodge a complaint without having an interest therein.¹⁹⁵

The complaint is handled by the Advertising Standards Committee (RCC). If the advertisement is found to be in conflict with the NRC, the RCC can recommend that the advertiser should stop using the advertisement in question. This recommendation can be made privately as well as in public. The organizations affiliated to the SRC, such as the Dutch Advertisers Association, have contractually committed themselves to follow these recommendations. In the event of a repeat offence or a serious violation of the Code, the media affiliated to the SRC pursuant to the Netherlands Media Act will be asked to stop publishing the advertisement concerned. After 14 days, or 7 days in the case of an urgent complaint, the RCC's recommendation becomes final. Before that period, it is possible to lodge an appeal with the Board of Appeal (CvB). If the appeal is dismissed by this body, the only thing that the applicant can do is to instigate a separate court action for misleading advertising under 6:194-196 BW.

According to the first Section of the NRC, advertising is defined as any form of public commendation of goods, services or ideas. An advertisement must be recognizable as such by virtue of, amongst other things, its layout and presentation, taking account of the public for which it is intended. The basic rule is that advertising must conform to the law, the truth and the requirements of good taste and decency.¹⁹⁶ In addition, advertising shall not be gratuitously offensive, arouse feelings of fear or superstition or undermine confidence in the advertising. Section 7 of the NRC states that an advertisement shall not be misleading, in particular as to the price, contents, origin, composition, properties or effectiveness of the products concerned. Advertising shall be as clear and complete as possible in terms of such factors as its nature and form and the public at which it is aimed. The party selling the products shall also be clearly

194 Advertising aimed at the general public concerning drugs is reviewed prior to its broadcasting by the specialized Inspection Board for the Public Commendation of Registered Drugs (KOAG).

195 RCC 11 May 1992, BIE 1994, 205.

196 See for a detailed analysis of RCC and CvB cases, Kabel, PRAR (looseleaf), chapter II (Algemene normen terbescherming van de consument).

indicated. In short, the NRC applies to a much wider range of advertising than the statutory regulation under Article 6:194-196 BW.

3.5.4 Discrediting competitors

Someone who discredits his competitor(s) can be held liable under the general tort clause of Article 6:162 BW or he can, in special cases, be held liable under criminal law under the Penal Code.¹⁹⁷ As to the cases that are covered by the standard of due care under Article 6:162 BW, the following distinction needs to be made. First of all, one needs to distinguish between discrediting statements aimed at harming another person or his products, and discrediting statements without that intention. Secondly, one needs to distinguish between statements relating to a person and those relating to his products.

If the discrediting statement is *not* aimed at harming another person or his products, and the statement is truthful, it will nearly always be allowed.¹⁹⁸ Case law has only sporadically prohibited such statements, when the issuer knew it would be harmful to make the statement and he has violated a duty under the standard of due care given the specific circumstances. These circumstances can, for instance, be the fact that he has unsolicitedly issued the statement, or, on the other hand, was explicitly asked to issue it.¹⁹⁹ A seller who critically voices his opinion concerning a product which he himself sells, will be assumed not to have a harmful intent.²⁰⁰ In the case of an untrue discrediting statement, the issuing thereof will nearly always be prohibited.²⁰¹

When a person or a business issues a discrediting statement which is aimed at harming another person or his products, and the statement is truthful, the issuing thereof can nonetheless be unlawful depending on the circumstances.²⁰² Relevant circumstances can be the degree of aggressiveness and the detail of the statement, whether it is needlessly offending, its relevance, its public nature, the issuer's relation to the addressee, or if it is a statement in defence.²⁰³ A trader who issues a discrediting statement about a competitor or his trade is presumed to have done this with the aim of harming

197 E.g. on account of a simple insult to a person, Article 266 Penal Code, or libel, Article 261 Penal Code.

198 Van Nispen, *Ongeoorloofde mededinging* (looseleaf), IV.7, no. 373.

199 HR 28 November 1941 NJ 1942, 190. See also HR 16 May 1946, NJ 1946, 564 and HR 10 June 1966, NJ 1966, 390.

200 Van Nispen, *Ongeoorloofde mededinging* (looseleaf), IV.7, no. 373; Ulmer/Baeumer/Van Manen (1974), § 341; Verkade (1986), no. 35.

201 HR 13 March 1941, NJ 1941, 660 (although this is a case with harmful intent); HR 19 April 1968. See Van Nispen, *Ongeoorloofde mededinging* (looseleaf), IV.7, no. 373 who puts the topic into perspective.

202 HR 13 March 1941, NJ 1941, 660.

203 See Verkade (1986), no. 35-38. See also, into detail, Van Nispen, *Ongeoorloofde mededinging* (looseleaf), IV.7, no. 375.

his competitor or his trade.²⁰⁴ It is irrelevant whether the issuer of the statement explicitly mentions his competitor's name, an indication which is identifiable is sufficient.²⁰⁵ An advertiser who is accused of misleading advertising, can in some cases invoke the principle of freedom of expression.²⁰⁶ An intentionally harming statement that is untrue, is almost never admissible.

If the issuer of the discrediting statement is not a commercial party, but an institution, e.g. a consumers' organisation which wants to provide its members with objective information, less strict rules apply. This is especially the case if such an organization wants to warn its members of the dangers attached to certain products or methods of selling.²⁰⁷ Another special category is the warning communicated to a competitor or his potential buyers, in the case of an infringement or a danger of an infringement of intellectual property rights.²⁰⁸ In such cases, less strict rules will apply as well, because at the moment of issuing such a warning it is not yet certain whether there is an infringement. The requirement of the truthfulness of the discrediting statement will have to be flexibly interpreted. This does not give the issuer the freedom to rashly send warnings containing unfounded discreditory statements.

The burden of proof for cases of discrediting behaviour between competitors will generally be the same as is the case for statements falling under 6:195 BW. With respect to discrediting statements made outside a competition context other rules on the burden of proof will apply.²⁰⁹

3.5.5 Imitation and misappropriation

This category refers to the imitation or misappropriation of goods, services or intangibles. It is subdivided into three subcategories, being (1) the imitation of products (slavish imitation), (2) the imitation of badges of trade and, finally, (3) the exploitation of someone else's achievements, or in other words the exploitation of another's 'sweat of the brow'. This field of law is judge-made law, based upon the general tort clause under Article 6:162 BW. As to the remedies available to the plaintiff in these cases, these basically consist of the 'standard' remedies available for tortious liability under

204 Van Nispen, *Ongeoorloofde mededinging* (looseleaf), IV.7, no. 373; Verkade (1986), no. 35; Houwing, annotation to HR 25 May 1951, NJ 1951, 541.

205 HR 25 May 1951, NJ 1951, 541.

206 Holzhauser, *Ontoelaatbare reclame*, Tjeenk Willink: Zwolle 1994, § 4.1 et seq.; Dommering, *De zaak 'Markt Intern Verlag'*, IER 1990/3, p. 49-52; Kabel, *commerciële uitingen*, in: Grosheide (ed.), *Hoofdstukken Communicatie en Mediarecht*, *Ars Aequi Libri* 2000, VII, § 3.3 et seq.

207 HR 19 April 1968, NJ 1968, 263.

208 See on this topic, Verkade (1986), no. 39; Van Nispen, *Ongeoorloofde mededinging* (looseleaf), IV.7, no. 380; Wichers Hoeth/Gielen/Hermans (2000), no. 706;

209 HR 10 June 1966, NJ 1966, 390.

6:162 BW.²¹⁰ The plaintiff can therefore file for an injunction, he can claim damages,²¹¹ or he can ask for a declaratory judgement. In certain cases, specific remedies will be available like a claim for submission of exhibits, or a claim for a product recall.

3.5.5.1 Slavish imitation

The protection against slavish imitation is, aside from misleading and comparative advertising, arguably one of the most important areas of unfair competition law in Dutch legal practice. Nearly every intellectual property case contains an action for slavish imitation as an alternative charge to the action for an infringement of the intellectual property right. If the action for an infringement of an intellectual property right is dismissed, e.g. because the allegedly unlawful behaviour falls outside the scope of the intellectual property right as invoked, or the behaviour is not protected under intellectual property law because there is no registration, the question will remain whether the claimed slavish imitation will be upheld.²¹² Until recently Article 14(8) of the Benelux Designs and Models Act (BDMA) impeded a possible action for slavish imitation. This provision stated that no action for unfair competition may be brought in relation to facts that solely constitute an infringement of a design right. As a consequence, ancillary protection to design under the action for slavish imitation was only allowed in the case of special 'extra' circumstances.²¹³ This obstacle has, however, been removed by the

210 Cf. Wichers Hoeth/Gielen/Hermans (2000), chapter XII.

211 The plaintiff can claim special damages or he can claim for the surrender of profits, cf. Section 6:104 BW that states: 'If a person liable to another on the grounds of an unlawful act or a failure in the performance of an obligation has derived profit from that act or failure, the court may assess the damage, upon the demand of such other person, at the amount of such profit or a part thereof.'

212 See the District Court of the Hague, 11 June 2003, IER 2003, p. 374. See also Meijer, in Grosheide et seq., *Intellectuele Eigendom, artikelsgewijs commentaar, Elsevier (looseleaf)*, Mo II-Art. 14, 22-30.

213 Benelux Court of Justice, 21 December 1990, NJ 1991, 429. See in this respect: The advisory opinion of the advocate general Ten Kate to the case mentioned above, *sub* 47; Gielen, *Design Protection and Unfair Competition*, in: Kabel/Mom, *Intellectual Property and Information Law: Essays in Honour of Herman Cohen Jehoram*, Kluwer Law International: The Hague 1998, where Gielen rightfully proposes to abolish Article 14(8) BDMA. See also Vollebregt, *Slaafse nabootsing na implementatie van de modellenrichtlijn*, IER 2003, no. 1, p. 9-15; Verkade, *Bescherming van het uiterlijk van producten*, Deventer: Kluwer 1985, no. 143; Verkade (1986), no. 26(a), WPNR (1975) 5289, p. 6-7 and BIE 1979, p. 195-196; Van Nieuwenhoven Helbach/Huydecoper/Van Nispen (1989), no. 545; Wichers Hoeth, TVVS 1987, p. 207 and RM Themis 1986, no. 3, p. 275 criticizing Article 14(8) BTMW; Wichers Hoeth/Gielen/Hermans (2000), no. 206 arguing for the abolition of Article 14(8) BTMW; Cohen Jehoram, NJB 1974, p. 1182; Haardt, NJB 1974, p. 1174 *sub* 2; A. van Oven, *Handelsrecht* (1981), p. 393; Van den Bergh, *Rechtskundig Weekblad* 1979, column 1747-1749, at 3 and 4; De Gryse, *Liber Amicorum Dumon II* (1983), p. 1101, 1102 *sub* 11 and 12; Braun-Evrard, *Droit des dessins et modeles au Benelux* (1975), no. 333; Greffe, *Traite des dessins et des modeles* (1988), p. 799-800 and 812;

recent amendment of the Benelux Designs and Models Act (BDMA),²¹⁴ thereby putting the action for slavish imitation back on track.

The action for slavish imitation has steadily developed since its introduction in the *Hyster Krane* case in 1953.²¹⁵ Before this case authors had failed to provide an unambiguous answer to the question of whether the slavish imitation of a product should be unlawful *per se*.²¹⁶ In this 1953 case, the plaintiff produced a mobile hoisting-crane under the name of ‘Hyster Karry Krane’. The defendant had imitated this product, partly by disassembling the Hyster Karry Krane, and created an identical crane called ‘The Elephant’. It was an incontestable fact that the Hyster Karry Krane was not patented or protected by any other intellectual property right. The Supreme Court held that

‘Everybody may endow his product with as much reliability and usefulness as possible, using another’s efforts, even if this leads the public to be confused. Only in case one could have adopted another course in trade, without impairing the reliability and usefulness of one’s product, and this omission leads to the confusion of the public, will the imitation of a competitor’s product be unauthorized. (Author’s translation)’

Based on the Hyster Karry Krane case, and the cases that followed, for a successful action for slavish imitation the fulfilment of the following four requirements is required:

Stuyck-Van Gerven, *Handels en economisch recht XIII* (1985), p. 34; Van Dijk, *Modellenrecht in de Beneluxlanden* (1975), p. 65. Of a different opinion: Keyser, *NJB* 1974, p. 1321-1322. See also Visser who criticises the fact that the action for slavish imitation has been put back on track, Visser, *Het ABC van iedere IE-inbreuk, Het belang van de rest van de markt*, The Hague: Boom J.U. 2004, p. 38.

214 By the Protocol of 20 June 2002, *Trb.* 2002, 129 transposing Directive 98/71/EC of the European Parliament and of the Council of 13 October 1998 on the legal protection of designs.

215 HR 26 June 1953, *NJ* 1954, 90. See for the development of protection against acts of slavish imitation in the case law before this case, Ulmer/Baeumer/Van Manen (1974), § 237-244.

216 Some authors believed that the mere imitation of another’s product should be unlawful. See e.g. Hijman and Pfeffer (1938), p. 290 et seq., *Themis* 1936, p. 127 et seq. and *NJB* 1939, p. 172 et seq. Others opposed this view, e.g. Telders, by saying that in the absence of any protection by intellectual property rights the imitation of a product should be allowed, since it would stimulate progress in society and would prevent the creation of uncontrolled monopolies. See Telders, annotation to *Pr. Rb. Rotterdam*, 30 January 1935, *BIE* 1937, p. 105. See also in support of this view: Polenaar, *NJB* 1938, p. 1015 and 1039 et seq.; Van Haersolte, in: *bundel Meyers*, p. 581 et seq. This liberal view is supported by the current case law, see e.g. HR 7 March 1941, *NJ* 1941, 919 and HR 5 March 1943, *NJ* 1943, 264. A middle course was adopted by Bodenhausen, who required the presence of ground(s) for justification, see Bodenhausen, *BIE* 1937, p. 25 et seq. Additionally, Bodenhausen believed that the Hyster Karry case was confined to the technical imitation of a product, see Bodenhausen, *NJB* 1954, p. 367. This point of view has proved to be incorrect, see the judgement of the Supreme Court (HR) of 21 December 1956, *NJ* 1960, 414.

- a) the plaintiff's product must be distinctive;²¹⁷
- b) the defendant's product must be likely to confuse the public;
- c) the defendant's product must be similar to the plaintiff's product regarding features that are not important for the reliability and usefulness of the product;
- d) the defendant must have failed in doing what is reasonably possible to prevent confusion ('needless confusion').

This judgement was favourably received by some,²¹⁸ and criticized by others.²¹⁹ Houwing, in his annotation to the *Hyster Karry* case,²²⁰ mildly criticized the judgement of the Supreme Court by stating that, in his view, the sole fact that a competitor had made the imitation, should be sufficient to find unlawfulness. Bodenhausen, in a very detailed article, criticized the judgement making use of insights gained by comparative law. In his opinion, the factor of confusion should not be the only factor leading to unlawfulness. He believed that other special circumstances could lead to unlawfulness and consequentially to unfair competition as well. Since intellectual property rights did not provide adequate protection in all cases, Bodenhausen argued for the possibility of ancillary protection based on unfair competition law, so as to prevent the situation of the Netherlands becoming a 'country of pirates'. He referred in this respect to the omission of any regulation on design protection in the Netherlands.²²¹ Van der Grinten criticized the fact that the Supreme Court had chosen to follow a middle course between the *per se* unlawfulness of product imitation and the *per se* lawfulness thereof.²²² In his view, this would lead to legal uncertainty. Additionally, he criticized the protection under the general tort clause based on a moral right of the trader. He argued that the issue of providing additional protection to a trader against imitation of his product, is a politico-economic issue, and should consequentially be addressed by the legislator. Slagter rightfully distinguished between two elements of protection in slavish imitation: the protection of the public and the protection of the honest trader.²²³

217 Explicitly laid down as a requirement in the Supreme Court (HR) case of 21 December 1956, NJ 1960, 414.

218 See e.g. Hijmans van den Berg in his annotations to this case, *Ars Aequi* 1953, p. 13 et seq. and *Ars Aequi* 1954, p. 21 et seq.

219 See for a detailed analysis of the views in the literature at this time, Ulmer/Baeumer/Van Manen (1974), § 254-259.

220 NJ 1954, no. 90, p. 184-186.

221 Bodenhausen, *NJB* 1954, p. 365 et seq. and p. 383 et seq. The *Hyster Karry* case, however, dealt with 'naked' imitation, i.e. imitation without special detrimental circumstances. The Supreme Court had, in fact, left room for assessing these special circumstances in such a case. Bodenhausen's criticism was not entirely correct on this point, see also Houwing, *NJB* 1954, p. 23.

222 Van der Grinten, *Ars Aequi* 1960, p. 21.

223 Slagter (1963), p. 112.

The Hyster Karry case was upheld, clarified²²⁴ and amplified in the case law that followed. The *Drukasbak* case²²⁵ made it clear that not only technical products but also non-technical products, where protection for the aesthetic creation is of importance, were subject to the *Hyster Krane* case law. It is also clear that the plaintiff does not necessarily have to be the designer or the creator of the product which he is trying to protect. In addition to this, the Supreme Court held in the *Scrabble* case²²⁶ that for the assessment of unlawfulness in slavish imitation cases, the honest practices in industrial or commercial matters are not *per se* of influence and are therefore not decisive.²²⁷ In the *Monte/Kwikform* case,²²⁸ the Supreme Court reiterated the underlying principle of freedom of trade. As to the four constituting elements of the action for slavish imitation as described above, a vast body of case law has developed.

a Distinctiveness

The plaintiff's product must be distinctive, meaning that his product must significantly stand out from the other products on the market.²²⁹ The term 'market' is thereby narrowly interpreted, so a certain dish will be set off against e.g. the market for plastic dishes instead of the market for domestic appliances as a whole.²³⁰ Irrelevant is the product's distinctiveness *per se*,²³¹ its novelty or originality.²³² Principally, the market conditions in the Netherlands are deemed to be decisive.²³³ A product's distinctiveness will diminish over time when more similar imitations are introduced on the market,²³⁴ although the extensive use of the product in this period may just as well lead to increas-

224 See e.g. HR 12 November 1965, NJ 1966, 59; HR 15 March 1968, NJ 1968, 268; HR 28 February 1969, NJ 1969, 366.

225 HR 21 December 1956, NJ 1960, 414.

226 HR 8 January 1960, NJ 1960, 415.

227 Gerbrandy rightfully indicates that, following the Hyster Krane case law, the argument for an extended action for slavish imitation based on unjustified cost savings because of product imitation was renounced. See GRUR Ausl. 1964, p. 563.

228 HR 1 December 1989, NJ 1989, 473.

229 HR 21 December 1956, NJ 1960, 414.

230 HR 15 March 1968, NJ 1968, 268.

231 Van Nispen, *Ongeoorloofde mededinging* (looseleaf), IV.6, 279.

232 HR 7 June 1991, NJ 1992, 392; HR 22 November 1974, NJ 1975, 176.

233 HR 7 June 1991, NJ 1992, 392. See Van Nispen, *Ongeoorloofde mededinging* (looseleaf), IV.6, no. 280.

234 Martens, *Onrechtmatige Daad* (oud), p. VI-109. If a number of imitations are introduced on the market at about the same time, the original product may still retain its distinctive character, as the alternative would lead to the situation where multiple imitations could 'hide behind each other'. See Martens, *Onrechtmatige Daad* (oud), p. VI-110.

ing the distinctiveness.²³⁵ The defendant has to prove the presence of other products on the market that are similar to the plaintiff's product.²³⁶

b Confusion

Confusion is probably the most controversial requirement for the action of slavish imitation,²³⁷ since there is uncertainty as to the scope of confusion and the frame of reference. Van Nispen introduced a useful classification of different levels of confusion, which can be utilized in a discussion of this requirement. In his view, four different gradations of confusion exist:²³⁸

1. direct confusion, or product confusion: the public may directly confuse two products or badges of trade;
2. confusion as to the origin: the public can make a distinction between the two products or badges of trade, but are confused as to their origin;
3. confusion concerning a relationship: the consumer does not mix up the two products or badges of trade, nor is he confused as to its origin, but he may think that an economic or organizing link exists between the products or badges of trade;
4. confusion²³⁹ as a result of association, possibly leading to dilution: the consumer is liable to associate the imitated product with the original. The consumer is however not confused.

It is not absolutely certain which gradation of confusion is protected under the action for slavish imitation. Some argue that only direct confusion (1) qualifies.²⁴⁰ Others believe that categories (2) and (3) may qualify as well.²⁴¹ Case law does not provide for a clear answer as to what gradation of confusion is protected under the action for slavish

235 *Ibid.*, p. VI-109.

236 Such a presence would demonstrate that the plaintiff's product is not distinctive. See Van Nispen, *Ongeoorloofde mededinging* (looseleaf), IV.6, 281; Haardt, annotation to HR 22 November 1974, NJ 1975, 176; Martens, *Onrechtmatige Daad* (oud), VI-108. In the opposite direction: Hijmans van den Bergh, annotation to HR 8 January 1960, NJ 1960, 415.

237 See for the different opinions as to the function of confusion as a requirement, § 3.6.2.6. *sub A*.

238 Van Nispen, *Ongeoorloofde mededinging* (looseleaf), IV.6, no. 282.

239 In most cases, this category is solely referred to as association and is not graded as confusion. See the discussion mentioned *sub* 324.

240 See *inter alia* Quaadvlieg, *Verwarring en onderscheiden, de slaafse nabootsing in een veranderend intellectueel eigendomspectief*, BIE 1992, p. 367 et seq.; Van Dijk, *Modellenrecht in de Beneluxlanden*, p. 64; Limperg, *Bescherming van Vormgeving tegen plagiaat: Een handleiding voor de praktijk*, Agon Elsevier: Amsterdam 1971, p. 137.

241 See e.g. Martens, *Onrechtmatige Daad* (oud), VI-114 et seq. and Verkade (1986), 25b (see also Van Nispen, *Ongeoorloofde mededinging* (looseleaf), IV.6, no. 282).

imitation,²⁴² although its persistent focus on assessing the similar features of the products themselves (instead of its effect on the consumer's decision to buy), leads one to believe that primarily direct confusion and confusion as to the origin will qualify.²⁴³ The (similar) get-up of a product, e.g. its packaging, will only lead to confusion in specific circumstances.²⁴⁴

In assessing the probability of confusion, leaving aside which gradation of confusion, the courts start from the hurried, non-vigilant consumer, most of the time not an expert, and most of the time not able to directly compare the two products in juxtaposition.²⁴⁵ If the buyers are experts, confusion will not readily be assumed.²⁴⁶ Evidently, this does not hold true if the end-user is or will probably be an inexperienced consumer. The general impression of the products' appearance is decisive.²⁴⁷ The likelihood of confusion may increase when the general impression of two products are similar, although both of the products may differ slightly in various respects.²⁴⁸ Case law does not provide clarity as to whether the use of a trademark or other badge of trade, to distinguish the imitated product from the original, may reduce the likelihood of confu-

242 It is not clear whether other types of confusion than direct confusion and confusion as to the origin are supported under the slavish imitation doctrine of the Supreme Court. In specific circumstances, the (lower) courts will provide protection against imitation of the get-up of the product as well, see e.g. Court of Appeal Amsterdam 9 September 2004, IER 2005/2, No. 26. In the recent cases concerning the imitation of the exclusive delftware china houses made by the Dutch company KLM (Royal Dutch Airlines) for their Business Class travelers, the courts did not provide protection against dilution. See Court of Appeal The Hague 21 April 2005, IER 2005/46; Court of Appeal The Hague 21 April 2005, IER 2005/47 and the annotation of J.J. C. Kabel. In the area of trademark law, the Dutch courts have been quite willing to provide for the protection of various types of confusion including the sole association. See e.g. Kamperman Sanders, The Wagamama Decision: Back to the Dark Ages of Trade Mark Law, [1996] 1 EIPR 3 and 10 EIPR 521; Prescott, Think Before you Waga Finger [1996] 6 EIPR 317 and [1997] 3 EIPR 99; Gielen, A Benelux perspective: *Sabel v. Puma*, [1998] EIPR 109. Dutch law does presumably not allow protection against 'post-sale confusion', see e.g. (although it is a trademark case) District Court The Hague, 21 July 1999, BIE 1999, p. 409 et seq. However, in the recent Lego case, the District Court of Breda (6 July 2005, LJN AT8962) awarded the Lego Corporation protection against post-sale confusion regarding its toy bricks. See chapter 6 (Comparative law), § 6.5.

243 See also, Van Nispen, *Ongeoorloofde mededinging* (looseleaf), IV.6, no. 288; Holzhauser, *Inleidend intellectuele rechten*, Boom J.U.: Den Haag 2002, 12.04; Van der Kooij/Mulder, *Hoofdzaken mededingingsrecht*, Kluwer: Deventer 1996, p. 185.

244 HR 26 June 1953, NJ 1954, 90; HR 7 June 1991, NJ 1992, 392.

245 HR 7 June 1991, NJ 1992, 392; Court of Appeal Den Haag 29 March 1990, see HR 14 February 1992, BIE 1993, no. 6, p. 25.

246 Court of Appeal Amsterdam 9 January, BIE 1976, no. 92, p. 281.

247 HR 7 June 1991, NJ 1992, 392.

248 See for a representation of the case law in this respect: Martens, *Onrechtmatige Daad* (oud), VI-112 sub 4.

sion.²⁴⁹ The burden of proving confusion falls upon the plaintiff.²⁵⁰ In many cases, the court will independently decide whether the likelihood of confusion has arisen.²⁵¹

c Similarity regarding features that are not important for the reliability and usefulness of the product

In its judgement of 12 June 1970,²⁵² the Supreme Court decided that the elements of ‘reliability’ and ‘usefulness’, as stated in the *Hyster Krane* case, do not relate solely to technical aspects of a product but to other aspects as well. In short, the requirements for standardization in industry may allow a company to imitate its competitor’s product including the features of the product that have been subject to standardization. This means that a product, whose appearance is primarily dominated by standardization requirements, may be strictly imitated.²⁵³ Non-technical trends, that relate to people’s preferences for a certain popular style, and for that reason in most cases of a temporary nature like e.g. trends in fashion, probably do not allow for such a strict imitation.²⁵⁴

A consequence of this rule is that most slavish imitation cases will concern the imitated design of a product instead of the imitation of its functional aspects since these are predominantly related to the elements of reliability and usefulness.

249 Van Nispen, *Ongeoorloofde mededinging* (looseleaf), IV.6, no. 284. Verkade believes that the use of a badge of trade so as to distinguish one’s imitated product does not justify the imitation. See Verkade (1986), no. 25(b) where he points to the fact that many manufacturers market the same products under different brand names; Verkade, *Verwarrende verwarring?*, in: *Gratia Commercii*, Zwolle: Tjeenk Willink 1981, p. 406; Verkade, *Bescherming van het uiterlijk van producten* (1985), p. 180. See in agreement, Hoyng, *Bescherming(somvang)* anno 1989, inaugural address K.U. Brabant 1989, Deventer: Kluwer 1990, p. 29 et seq.

250 See HR 28 February 1969, NJ 1969, 366.

251 See for more detail on the appropriate rules of evidence, Van Nispen, *Ongeoorloofde mededinging* (looseleaf), IV.6, no. 285.

252 NJ 1970, 434 (Hazenveld/Tomado). See also Maris, *Slaafse navolging en normalisatie*, in: *Met eerbiedigende werking – Opstellen aangeboden aan Prof. mr. L.J. Hijmans van den Bergh*, Deventer: Kluwer 1971, p. 187-202.

253 The Hoge Raad is nevertheless cautious in allowing this defence by the imitator. See e.g. the Monte/Kwikform case of the Hoge Raad of 1 December 1989, BIE 1991, 68. Kwikform had developed a system for linking scaffolding parts. Monte imitated this system and Kwikform instigated proceedings under unfair competition law. Monte was held to have acted unlawfully in imitating Kwikform’s system, since Monte did *not* succeed in proving circumstances that showed the need for using a similar system to Kwikform’s. In particular, Monte did not succeed in proving that the designing of an alternative system would mean impairing the reliability and usefulness of as well as deviating from a standard that was set by Kwikform’s system.

254 See Verkade (1986), no. 25(c). See also HR 22 November 1974, NJ 1975, 176.

d Needless confusion

In the *Scrabble* case²⁵⁵ the Supreme Court held that the defendant's product was not required to be different from the plaintiff's product in all possible ways without impairing its reliability and usefulness. It is sufficient to differentiate concerning some points to such an extent that one has reasonably done all that is needed to prevent confusion. If it is possible to deviate from the original product without impairing the reliability and usefulness of the imitation, one is obliged to do so.²⁵⁶ In the *Lima v. Lego* (Lego bricks) case the Amsterdam Court of Appeal follows the trail set out by the Supreme Court by stating that the defendant is not required to design another set of bricks different from the original ones, but when imitating it should try to differentiate from the original without impairing the reliability and usefulness of its product.²⁵⁷ Features like the original products sturdiness, its attractiveness, its compatibility and exchangeability, may permit a competitor to more precisely imitate the original in order to transfer these features to his product.

3.5.5.2 Slavish imitation; controversies in the literature

Before the introduction of the BDMA in 1975, the action for slavish imitation served basically as a 'substitute' to protection against product imitation based on statutory regulation. In the absence of any statutory regulation in the field of protecting the design of a product, the action for slavish imitation was therefore frequently brought against an imitator. The introduction of the BDMA, as noted, seriously reduced the interest in an action for slavish imitation.²⁵⁸ The abolition of Article 14(8) BDMA subsequently revived the action for slavish imitation. It is questionable, however, whether the actual protection granted under the law of tort against slavish imitation is equivalent to the protection granted before 1975. The pre-1975 action for slavish imitation was not restricted by the presence of an exclusive right of intellectual property. One could say that, in many ways, it acted as a replacement for such a right. The actual action for slavish imitation, on the other hand, runs parallel to the statutory design right as codified in the BDMA. Consequently, it no longer serves as a 'substitute' for protection for product imitation based on statutory regulation. Consequently, the actual action for slavish imitation is (more) limited in scope. It is essential, therefore, to critically review

255 See *supra* 226.

256 Van Nispen, *Ongeoorloofde mededinging* (looseleaf), IV.6, no. 288. See also HR 15 March 1968, NJ 1968, 268; HR 1 December 1989, NJ 1990, 473, BIE 1991, p. 244, IER 1990, no. 22, p. 46.

257 Court of Appeal Amsterdam, 23 December 1999, IER 2000/2, at 4.3.10 et seq. See also the annotation of Grosheide to this case who acknowledges the fact that Lima should be allowed to make his products compatible with the original Lego bricks, but that Lima also has an obligation to differentiate from the original as much as possible.

258 *Supra* 213.

some of the essential elements of the actual action for slavish imitation. In this light, I will address the requirement of confusion, the ‘reflex effect’ and the duration of the action for slavish imitation.

a The requirement of confusion

As to the element of confusion, two questions come to mind. Firstly, should the element of confusion be a necessary requirement for the action for slavish imitation? Secondly, if this is affirmative, what type of confusion should be present for a successful action for slavish imitation?

Confusion as a necessary element?

As to whether confusion must be regarded as an essential element for the action for slavish imitation, opinions vary between different authors. Most authors believe that the Supreme Court in its *Hyster Krane* judgement deliberately left room for the adoption of alternative grounds for unlawfulness next to confusion, or at least it left this issue open for further discussion.²⁵⁹ Case law has not provided an unequivocal approach to this issue. In its *Hyster Krane* judgement, the Supreme Court stated that imitation is only unlawful in the case of needless confusion. The judgement did not make clear, however, if special circumstances without the presence of confusion can lead to unlawfulness as well. In a later judgement, the Supreme Court was asked to address this issue, but decided to leave the matter open.²⁶⁰

In his advisory opinion, the Advocate General at the Supreme Court²⁶¹ made a distinction between two types of cases. On the one hand, those circumstances flanking the imitation that are unlawful *per se*, such as benefiting from a breach of contract by a competitor’s employee or stealing another’s trade secrets. On the other hand, those circumstances of a more neutral nature, like the extent of the imitation or whether it has been done by a direct competitor. The first type of case can,²⁶² in the view of the Advocate General, make an imitation appear to be unlawful although no likelihood of

259 Bodenhausen, BIE 1937, p. 25 et seq. and NJB 1954, p. 365 et seq. and 394; Croon, BIE 1954, p. 156 et seq.; Houwing, NJ 1954, p. 184 et seq.; Beekhuis (1963), p. 26 et seq.; Gerbrandy, GRUR 1964, p. 561; Hijmans van den Bergh, AA IV, p. 23 and annotation to NJ 1970, 434; Van der Grinten, AA 1960, p. 24; Van Staay, NV XXXVIII, p. 97 et seq.; Verkade (1986), no. 26 and in *Gratia Commercii* (1981), p. 406; Van Nieuwenhoven Helbach/Huydecoper/Van Nispen (1989), no. 1264. See in more detail, Ulmer/Baeumer/Van Manen (1974), § 248 et seq. and 258. Of a different view: Slagter (1963), p. 113 et seq., although more leniently at p. 115; Maeijer (1965), p. 228; Van Nieuwenhoven Helbach, annotation to the *Hyster Krane* case, in: 2000 weken rechtspraak, 1978, p. 27-29.

260 HR 12 November 1965, NJ 1966, 59.

261 Mrs. Minkenhof.

262 Cf. Verkade, *Bescherming van het uiterlijk van producten* (1985), no. 143.

confusion is present. In my opinion, these cases do not lead to slavish imitation, but to a separate action for unfair competition based on, respectively, the violation of trade secrets or acts of aggression, and consequently they should be considered unlawful *per se*.²⁶³ This type of case was particularly of influence within the framework of Dutch Design law, in the period between 1975 and 2004.²⁶⁴ As mentioned before,²⁶⁵ the introduction of the BDMA in 1975 excluded the possibility of ancillary protection under the action for slavish imitation. Before its introduction, the protection of the design of a product was provided by the doctrine of slavish imitation as based on Article 1401 BW (Old). The introduction of the BDMA created a situation where only certain forms of ‘aggravated imitation’ or ‘imitation plus’²⁶⁶ could be combated under the action for slavish imitation.²⁶⁷ Only the above-mentioned category of cases would qualify for protection under the action for slavish imitation.

In the – in my opinion correct – view of the Advocate General the second type of cases will not in themselves,²⁶⁸ in the absence of any likelihood of confusion, lead to unlawfulness. They will, nonetheless, be of influence in deciding whether an imitation is considered to be unlawful.²⁶⁹ As a consequence, they will presumably increase the possibility for a successful action for slavish imitation, in tandem with the element of confusion. Amongst these cases are the spoiling of the market,²⁷⁰ the undermining of a person’s reputation,²⁷¹ the methods used in imitating the original,²⁷² misleading the

263 See also e.g. Van Nieuwenhoven Helbach (1978), p. 28.

264 In 1975 the BDMA was introduced, and on 1 December 2003, Article 14(8) BDMA was abolished (see *supra* 362).

265 Cf. *supra* 213.

266 Cf. Vollebregt (2003), p. 9.

267 See Benelux Court of Justice, 21 December 1990, RvdW 1991, 32.

268 Cf. Verkade, Bescherming van het uiterlijk van producten (1985), nos. 144-151.

269 See into detail, Van Nispen, Ongeoorloofde mededinging (looseleaf), IV.6, no. 292; Verkade (1986), nos. 25c and 26.

270 For instance by selling far below the price of the original product. See e.g. Court of Appeal Amsterdam 23 August 1979, BIE 1981, p. 236; Court of Appeal Amsterdam 17 September 1981, BIE 1982, no. 81, p. 241; Court of Appeal Leeuwarden 11 December 1985, NJ 1987, 452; Court of Appeal Amsterdam 29 May 1986, BIE 1987, no. 12, p. 43. See also Beekhuis (1963), p. 26; Martens, Onrechtmatige Daad (oud), VI-123(1). Spoiling the market will in most cases not be considered unlawful, see Verkade (1986), no. 26(gB) and HR 21 December 1956, NJ 1960, 414.

271 For instance by selling similar products of inferior quality. See e.g. Court of Appeal Den Haag, 9 February 1942, NJ 1942, 371; Court of Appeal Amsterdam 23 August 1979, BIE 1981, p. 236; Court of Appeal Amsterdam 29 May 1986, BIE 1987, p. 43; Court of Appeal Den Bosch, 30 November 1965, NJ 1969, 228, although the court did not presuppose unlawfulness because the defendant did not intentionally choose a confusing trade name and because and it was not clear how the defendant could have benefited from the confusion. See also Bodenhausen, NJB 1954, p. 365 et seq.; Beekhuis (1963), p. 27; Verkade (1986), no. 26(h); Martens, Onrechtmatige Daad (oud), VI-123(2). See on the issue of whether the intentions of the imitator are decisive, Martens,

public as to the imitator's capacity,²⁷³ systematic imitation,²⁷⁴ 'absolute unreasonable' imitation,²⁷⁵ imitation leading to (almost) complete likeness,²⁷⁶ and finally, improperly penetrating another's market.²⁷⁷

In my view, and based on the opinion of the Advocate General in the case mentioned above,²⁷⁸ no concept of slavish imitation exists without the presence of confusion. It is consequently safe to conclude that the element of confusion is an absolute requirement for the action for unfair competition.

Onrechtmatige Daad (oud), VI-113 (5), Slagter (1963), p. 111; Van Nispen, Ongeoorloofde mededinging (looseleaf), IV.6, no. 284.

272 For instance, by a breach of confidence or misuse of good faith. See Court of Appeal Amsterdam 29 May 1986, BIE 1987, no. 12, p. 43; President District Court Arnhem 9 November 1990, KG 1990, 380; Court of Appeal den Bosch 30 Oktober 1990, BIE 1992, no. 17, p. 75; Court of Appeal Den Bosch 24 May 1983, BIE 1984, no. 70, p. 218. See for more case law on this issue, Martens, Onrechtmatige Daad (oud), VI-123 (c). See also Beekhuis (1963), p. 27; Bodenhausen, BIE 1937, p. 27; Ulmer/Baeumer/Van Manen (1974), § 251.

273 For instance by leading one's former customers to believe that one is still employed by company x, when this is not the case. See e.g. Court of Appeal Den Haag 9 February 1942, NJ 1942, 371; Pres Rb. Den Haag, 18 September 1970, NJ 1971, 87; President District Court Groningen, 10 October 1978, BIE 1981, no. 19, p. 46; President District Court Zutphen, 19 February 1981, BIE 1984, no. 29, p. 88. See Bodenhausen, NJB 1954, *op.cit.*, p. 394, BIE 1954, *op.cit.*, p. 65 and BIE 1937, p. 27. Slagter, however, believes this category to be a separate ground for unlawfulness, and therefore to be distinguished from the act of imitation itself, see Slagter (1963), p. 117.

274 This category comprises the systematic copying of another's (range of) products. See e.g. Court of Appeal Den Haag, 9 February 1942, NJ 1942, 371; Court of Appeal Arnhem 18 January 1972, President District Court Zutphen, 19 februari 1981, BIE 1984, no. 29, p. 88; Pres Rb. Arnhem, 6 September 1985, KG 1985, 295; President District Court Utrecht, 25 June 1987, BIE 1990, no. 30, p. 106.

275 This category was submitted by Bodenhausen, see NJB 1954, *op.cit.*, p. 385. It refers to the forms of imitation that are absolutely unreasonable and lead to unacceptable results. For instance, systematic imitation on a wide scale, leading to the unjust enrichment of the imitator. It is a very broad category compromising e.g. the category of systematic imitation. This category has been criticized by Slagter (1963), p. 116 et seq.

276 See e.g. District Court The Hague, 28 June 1961, BIE 1968, no. 67, p. 261.

277 See e.g. Court of Appeals Arnhem, 18 January 1972, NJ 1972, 297 concerning the technical multiplication of gramophone records on cassette tapes. See Martens, Onrechtmatige Daad (oud), VI-123(8) and the annotation of Wichers Hoeth to the case mentioned above.

278 See *supra* 260. This opinion was endorsed by Martens, see Martens, Onrechtmatige Daad (oud), VI-121, 3. However, Martens argued that the imitation of a product without causing confusion can nonetheless be actionable under slavish imitation if the criteria as posed in the Holland Nautic/Decca case are met. The judgement by the Supreme Court (HR) of 31 May 1991, NJ 1992, 391 (Borsumij/Stenman), made clear, however, that the special basis for protection introduced in the *Holland Nautic/Decca* case does not apply to the imitation of products. See also Van Nispen, Ongeoorloofde mededinging (looseleaf), IV.6B, no. 294.

Personal reflections on the necessity of the confusion element

In my view the absolute requirement of the element of confusion is a reflection of the limited scope of protection granted by the action for slavish imitation. As stated in § 3.3, unfair competition law serves to protect the honest competitor as well as the consumer. Consequently, imitating another's products is perfectly acceptable as long as its does not needlessly confuse the consumer and thereby influences his transactional decision.²⁷⁹ If the consumer is not unduly influenced, the principle of freedom of trade applies and the trader who imitates his competitor's product, cannot be held liable under unfair competition law. The (honest) trader may therefore claim damages under unfair competition law, but only if the consumer is needlessly confused. Of course, his chances of success will improve if the imitator uses means that are unlawful *per se*²⁸⁰ or means that will increase the likeliness of unlawful behaviour.²⁸¹ As a result, the existence of consumer confusion is a justification for allowing the action for slavish imitation although it provides for an – albeit necessary in view of the prevention of consumer confusion – obstacle to the principle of free trade and business.

A second argument for the requirement of the element of confusion can be derived by looking at the basis for protection under unfair competition law, and slavish imitation in particular. The action for slavish imitation protects the identity of a product and its function of communication to the public. In this respect, the action for slavish imitation clearly corresponds with trademark law. This leads to the conclusion that, in my view, the noticeable use of a trade mark or other badge of trade on an imitated product may diminish the possibility of consumer confusion, and will consequently diminish the possibility of a successful action for slavish imitation.²⁸² A consumer who sees an imitated product, and who is directly confused as to its origin, for example, may decide

279 Cf. Article 6 of the Proposed Directive on Commercial Practices, see chapter 2, § 2.5.2.2f.

280 See *supra* 263.

281 See *supra* 268.

282 Of a different opinion: Verkade (1986), no. 25(b), arguing that the use of badges of trade on imitated products does not (entirely) diminish the danger of confusion, particularly because in some cases the same product from a factory may be marketed under different trade marks. See also the following different opinion: Quaedvlieg (1992), p. 368. Quaedvlieg rightly criticises the Hoge Raad when it justifies the slavish imitation case law by referring to the protection of the identity of the products imitated, but, on the other hand, it utilises in its assessment the criterion of confusion as to the design of the product. He still believes, however, that a 'disclaimer of origin' will not prevent the public from being confused. In my opinion, however, the identification function is the trade mark's strongest asset, and the argument mentioned would lead us to believe that this function is of no real value in practice. I believe that the clear and obvious use of a trade mark or other badge of trade on an imitated product will diminish the danger of the public thinking that the imitated product is produced by the original manufacturer or that another connection between the two is present.

to buy it on the basis of this (false) identity. Confusion is a decisive factor in trademark law, and therefore it must be a decisive factor in slavish imitation cases as well.²⁸³

*What type of confusion should be protected?*²⁸⁴

The term ‘confusion’ relates to many aspects, and can therefore be addressed in different ways. Verkade rightfully distinguishes between confusion on the one hand and misleading on the other.²⁸⁵ Misleading is ‘more’ than just confusion. In the case of misleading, a person is confused as to certain aspects of a product or service that are essential to his decision to purchase this product or acquire this service. As a result, the consumer who has been misled and finds out that he has based his decision to purchase solely on this confusion will feel that he has been duped.

This distinction between products that confuse the public, and products that confuse and mislead the public as well, reinforces my support for a clear-cut action for slavish imitation. Only those types of imitation that confuse the public, but also, *because* of this confusion, will lead the public to purchase the imitation, should be held unlawful.²⁸⁶ If one looks at the action for slavish imitation in this way, it clearly aims to protect the market against unnecessary obstacles and leaves the public with a free choice in obtaining the products they really want to purchase. Along these lines, the action would purely fulfil the function of protecting the identity of a product, and safeguarding the correct communication of its origin to the public, leaving the public to make a deliberate choice. Additionally, it would prevent the consumer from being unduly influenced in making his choice. Slavish imitation, in this form, does not *per se* protect the labour invested by the original manufacturer in designing the product, but nonetheless provides protection to the manufacturer for its products’ function of identity. In short, a causal link between the confusing imitation and the consumer’s decision to buy the imitation should be present to qualify for slavish imitation.²⁸⁷

Now that we know that the relation of confusion to the buyer’s decision is of importance, I will look into the scope of the confusion that is required. In § 3.4.4.2a I distinguished between four gradations of confusion. Of these four gradations, the first

283 Most authors are clearly in favour of protecting a product’s function of identity. See e.g. Quaadvlieg (1992), p. 367; Ruijsenaars, GRUR Int 1992, 507; Van Oven, NJB 1963, 516.

284 See also Quaadvlieg, who makes a distinction between confusion as to the origin and confusion as to the product design: Quaadvlieg (1992), p. 367.

285 Verkade 1986, no. 26(f); Verkade, Bescherming van het uiterlijk van producten (1985), no. 146; Verkade, Gratia Commercii (1981), p. 400 et seq.

286 Cf. Verkade, Gratia Commercii (1981), p. 402 who states that using misleading confusion as an criterion may be preferable to the sole confusion without the consumer being misled. However, in this article he argues that confusion should only be used as a technical juridical criterion for assessing, in case of imitation, whether two products are similar to each other.

287 In other words, this means that I prefer to use the requirement of confusion leading the consumers to be misled – and consequently influenced in their buying decision – as well.

three can, in my view, lead to slavish imitation. A consumer who directly confuses an imitation with the original product because of their similarity may, as a result, be influenced in his decision to buy the imitation because he might actually think he is buying the original. Alternatively, if the consumer can distinguish between the imitation and the original, he might still be influenced in his decision to buy the imitation because he thinks that they originate from the same (reliable) source. Finally, the consumer might not mix up the two products or be confused as to their origin, but he may think that an economic or organizing link exists between both the products or their manufacturers, which might as a consequence influence his decision to buy the imitation.

The fourth gradation of confusion, association, possibly leading to dilution, will in my opinion hardly ever qualify as slavish imitation. The consumer, in these cases, is well aware that he is buying an imitation. He will therefore not be influenced in his transactional decision. Protection against association therefore only protects those interests of the competitor that are not worthy of protection, and as a consequence falls outside the scope of protection against slavish imitation.

b The 'Reflex Effect'

Certain statutory regulations, and in particular intellectual property laws, contain provisions that implicitly or explicitly refer to the possibility of providing ancillary protection by case law. In the literature, this phenomenon has given rise to the doctrine of the 'reflex effect'.²⁸⁸

On the one hand, statutory regulation can leave room for ancillary protection. Section 13(A) of the Benelux Trade Mark Act, for example, explicitly leaves a degree of scope for ancillary protection based on tort law (Section 6:162 BW).²⁸⁹ In this case there is a positive 'reflex effect', meaning that the legislator has intentionally created room for additional protection. Some intellectual property regulations do not contain any specific rules on the 'reflex effect', but are assumed to allow for ancillary protection based on tort law, for example the Trade Names Act, the Databases Act, the Copyright Act and, finally, the recently revised BDMA as discussed above.²⁹⁰ Statutory legislation can, on the other hand, exclude ancillary protection under tort law as well. This is the case, although not explicitly expressed, in the Patent Act, the Seeds and Planting

288 The term 'reflex effect' was originally derived from the dissertation by Boukema, *Civielrechtelijke samenloop*, diss. Leiden, Zwolle 1966. It is interesting to note that Molengraaff, one of the 'fathers' of Dutch unfair competition law, clearly rejected the adoption of any form of negative 'reflex effect'. See Molengraaff (1878), p. 419 et seq. See also Drucker, RM 1931, p. 310.

289 See also Section 2 and 12(A) Benelux Trademark Act. The last provision leaves scope for ancillary protection based on tort law for signs that do not fall within the scope of the Benelux Trademark Act. See also Article 2.19 of the new Benelux Treaty on Intellectual Property of 25 February 2005 (The Hague).

290 See Van Nispen, *Ongeoorloofde mededinging* (looseleaf), IV.4, No. 101 et seq.

Materials Act and the Original Topographies of Semiconductor Products Legal Protection Act.²⁹¹ These Acts pre-empt tort law as a basis for ancillary protection.

The above shows that in particular intellectual property rights that protect the technical features of a product, such as e.g. patent law, provide for an exhaustive regime of protection whereby the awarding of ancillary protection under tort law is not deemed to be appropriate.²⁹² The reasons for this restriction may be that these types of exclusive intellectual property rights protect the (financial) efforts of the person entitled to these rights and stimulate the progress of science, in return for the creation of a monopoly. If, e.g., the patent owner has benefited from his period of exclusive protection, he should not be allowed artificially to extend the term of protection by invoking protection under tort law. On the other hand, intellectual property rights that protect the design of a product or its means of identification allow for more room in the granting of additional protection based on tort law. The reason for the flexible nature of these intellectual property rights may be that, as far as copyright or design law are concerned, the protection based on these rights still serves a function in the market even when its term has lapsed. The design of a product and its badges of trade will still function as a means of identification to the public. Consequently, protection must be granted against confusion as to the outer appearance of a product since it will influence the consumer's decision to purchase the product. Especially with regard to trademark law, it is therefore important to protect the identification function of a certain badge of trade, even though it does not fall within the scope of the Benelux Trademark Act.

c Term of protection

The question whether the action for slavish imitation should be limited in time, has given rise to a broad discussion. It is important, when discussing this issue, to take account of the function and objective of the action for slavish imitation. In the literature,

291 Ibid.

292 In deciding whether, in a specific case, statutory intellectual property rights pre-empt ancillary protection under tort law, certain circumstances may be of influence. A factor that may prevent the possibility of ancillary protection under tort law is, *inter alia*: the lapse of a term of an intellectual property right, since the fact that there *is* a term could lead one to believe that after the term has elapsed, the freedom of trade should take precedence. Other factors that may be of influence are whether the absence of protection under intellectual property rights is a consequence of not meeting the formal requirements set out in the statutory intellectual property rights legislation or falling outside its scope of protection. These two factors may lead to the pre-emption of tort law (e.g. if the case is in the sphere of patent law) or, alternatively, to the possibility of allowing ancillary protection under tort law, e.g. in case one uses a badge of trade that does not fall under the Benelux Trademark Act.

some authors believe that the duration of this action should be limited in time.²⁹³ Verkade believes that,²⁹⁴ although there is no natural right that protects against the imitation of one's products outside the scope of protection of intellectual property rights, in some cases a temporary monopoly should be created providing protection for a limited time analogous to, for example, patents and design rights.²⁹⁵ The Advocate-General, in his advice in the *Raamuitzetter* case,²⁹⁶ argued in favour of limiting the term of protection as well. The Supreme Court in this case, however, stated that the protection granted against slavish imitation differs from the protection granted under design law,²⁹⁷ and that it should not be limited in time. Quaedvlieg correctly differentiates between slavish imitation using confusion as to origin as a criterion, and slavish imitation using direct confusion, or product confusion. He argues that, in the first case, the protection should not be limited in time, while in the second case, the protection should be limited in time since it would lead to an undesirable monopoly which is unrestricted in time.²⁹⁸ Brinkhof clearly opposes limiting the action for slavish imitation in time, and indicates the similarities between slavish imitation and trademark protection.²⁹⁹

293 See for e.g. Verkade (1986), no. 26(d), p. 83; Verkade, in: Luijten, Goed en trouw: opstellen aangeboden aan prof. mr. W.C.L. van der Grinten ter gelegenheid van zijn afscheid als hoogleraar aan de Katholieke Universiteit Nijmegen, Zwolle: Tjeenk Willink 1984, p. 567-569; Van Engelen, IER 1995, p. 201-202. Quaedvlieg believes that when using confusion as to origin as a criterion, the protection should not be limited in time, Quaedvlieg (1992), no. 12. When using direct confusion, or product confusion, as a criterion, Quaedvlieg believes that the protection should be limited in time since it would lead to an undesirable monopoly which is unrestricted in time. Against the assumption that the action for slavish imitation should be limited in time, see Brinkhof, Bescherming van 'oude' modellen, annotation to Court of Appeal Amsterdam 28 juni 1990 and HR 1 december 1989, BIE 1991, p. 258, no. 17, comparing the protection against slavish imitation to trade mark protection; Ruijsenaars, GRUR Int, 1992, 508; Kaufmann/Gemser, Lof der nabootsing revisited, BIE 62 (1994), No. 4, p. 107. I believe that most authors argue for a limitation of the term of protection against slavish imitation, because they believe it to be a form of protection of achievement ('sweat of the brow'), instead of protection from customer confusion. Of course, the danger of creating an unwanted *de facto* monopoly is a reason for the courts to be very reserved in granting an action for slavish imitation. See also Kaufmann/Gemser, cited above, who criticize the line of reasoning based on the protection of achievement.

294 See Verkade (1986), no. 26(d), p. 83; Verkade (1984), p. 567-569.

295 In my opinion, Verkade's approach seeks to protect the labour invested in the product design or the invention in the case of a patent (a pure 'protection of achievements'), while the action for slavish imitation only protects the identification function of a product, analogous to trademark law.

296 HR 31 May 1991, NJ 1992, 391 (Borsumij/Stenman). See also Meijers, in Grosheide et al., Elsevier (loose-leaf), Mo II-Art. 14-27 et seq.

297 See also Kaufmann/Gemser (1994), p. 109; Vollebregt (2003), p. 10 et seq.

298 Quaedvlieg (1992), no. 12.

299 Brinkhof, BIE 1991, p. 258, no. 17. See also, in this respect, Ruijsenaars, GRUR Int, 1992, 508; Kaufmann/Gemser (1994), p. 107.

In my view, most authors argue in favour of limiting the term of protection against slavish imitation, because they believe it to be a form of protection for achievement ('sweat of the brow'), instead of a form of protection for the identification function of the imitated product.³⁰⁰ If we would reserve the protection of slavish imitation only for those cases where the identification function of a product is impaired, then the action of slavish imitation could be more restrictively interpreted by the courts.³⁰¹ This could lead to the courts being very reticent in granting an action for slavish imitation.³⁰² Consequently, there would be less danger of creating an unwanted monopoly next to the monopolies created by intellectual property rights.

The distinction mentioned above between protection against slavish imitation before the introduction of the BDMA in 1975, and the protection against slavish imitation since the amendment of the BDMA in 2004 should be taken into account here. As noted, the pre-BDMA protection against slavish imitation served *de facto* as a substitute for design law protection, since any statutory regulation in this field was lacking. The actual protection against slavish imitation, on the other hand, merely serves as an additional form of protection, serving purposes other than the Design Act.³⁰³ The actual protection against slavish imitation based on tort law, should not – analogous to trade-mark protection – be limited in time, since it will keep serving its function as a communicator of origin, thereby protecting the honest trader as well as the consumer from being confused.

3.5.5.3 *The imitation of badges of trade*

Benefiting from another's trade by imitating the badges of trade, which the other uses to distinguish his products, will generally be held to be unlawful in the case of confusion. This behaviour is primarily actionable under the Benelux Trademark Act or the Trade Names Act. These acts provide for an extensive regime of protection. In principle, any sign used to distinguish the goods or services of a company can serve as a trade-mark.³⁰⁴ The trademark owner can invoke section 13 of the Benelux Trademark Act if one of his trademarks is used by another without his permission, if it leads to confusion as to the origin of his goods or services, or if this use is detrimental to the distinctive-

300 See also Kaufmann/Gemser (1994), *supra* 297, who criticize the line of reasoning based on the protection of achievement.

301 Also, partly, because of the above mentioned 'reflex' effect of (pre-emption by) some of the intellectual property regulations.

302 Which, in fact, is the case nowadays.

303 The action for slavish imitation does therefore not provide for an exclusive right (of intellectual property), as opposed to the Design Act.

304 This includes, according to Article 1 Benelux Trademark Act: names, designs, imprints, stamps, letters, numerals, the shape of goods or of their packaging as well as other signs provided that such signs are capable of distinguishing the goods of an undertaking.

ness of his trademark or its reputation, to the benefit of the infringer. The Trade Names Act alternatively prevents the use of a trade name by a company, if this trade name is already used by another company. A trade name is defined as the name used to conduct a business. It can be used in various ways, for example on company stationary, buildings, vehicles, or in advertising.³⁰⁵ Consequently, the broad scope of protection under the above mentioned Acts reduces the need for additional protection under unfair competition law against the imitation of badges of trade. Section 12 of the Benelux Trademark Act nonetheless leaves the possibility for the plaintiff to bring an action under tort law, if he has not deposited his trademark.³⁰⁶

There are, however, some cases in which protection under unfair competition law can be provided for a person's badges of trade, as an alternative to protection under trademark law or trade name law. In the area of trade names, three categories can be distinguished. First of all, a person may want to protect a name that falls outside the scope of protection under the Trade Names Act. This is the case if a certain name does not fall within the definition of a trade name under the Trade Names Act, such as the name of a natural person or of a legal person that is not a business within the meaning of section 1 of the Trade Names Act. Imitating such a name may be actionable under unfair competition law in the presence of the likelihood of confusion.³⁰⁷ Secondly, unfair competition law may provide protection in case the imitated trade name is not used as a trade name, e.g. if a former employee refers to his former employer in his advertisements.³⁰⁸ Finally, a person may want to protect a trade name within the meaning of section 1 of the Trade Names Act against the dilution or misappropriation of the goodwill invested therein, in the absence of any likelihood of confusion. The Trade Names Act only provides protection against product confusion and confusion as to origin.³⁰⁹ Various authors³¹⁰ have argued for protection against the dilution of one's

305 Wichers Hoeth/Gielen/Hermans (2000), no. 452.

306 Gielen/Wichers Hoeth, *Merkenrecht*, Zwolle: Tjeenk Willink 1992, no. 865-868. See also HR 11 February 1977, NJ 1977, 633.

307 HR 29 November 1957, NJ 1958, no. 31; HR 11 February 1977, NJ 1977, no. 363.

308 See e.g. HR 11 February 1977, NJ 1977, 363 and the case law mentioned in Drion/Martens, *Onrechtmatige Daad* (oud), VI-126.3.

309 Cf. *supra* 3.6.2.1.

310 Boekman (1997), p. 84; Wichers Hoeth, annotation, sub 7 to HR 29 October 1971, NJ 1972, 75; Beekhuis (1963), p. 33 sub a; Verkade (1986), no. 32; Verkade, *GRUR Int.* 1986, p. 17; Arkenbout, *Handelsnamen en merken*, Zwolle: Tjeenk Willink 1991, p. 38; Martens, *Onrechtmatige Daad* (oud), VI-126.2 and 139.

trade name under unfair competition law. This protection has been granted in many cases in the lower courts,³¹¹ albeit reticently.³¹²

In the area of trademark law, two possibilities for additional protection under unfair competition law exist. However, these possibilities will not regularly arise, primarily because of the wide scope of protection of the Benelux Trademark Act. Firstly, the protection of signs that do not fall within the meaning of section 1 of the Benelux Trademark Act. Examples of such signs are (certain) words,³¹³ slogans,³¹⁴ advertisements,³¹⁵ a title of a book or periodical,³¹⁶ (certain) logos,³¹⁷ and shop fixtures and fittings.³¹⁸ The imitation of these signs can be held to be unlawful under unfair competi-

311 See e.g. President District Court The Hague 16 December 1969, NJ 1971, 68; President District Court Amsterdam 29 October 1970, BIE 1974, no. 43, p. 175; President District Court Amsterdam 19 June 1975, BIE 1976, no. 4, p. 144; President District Court The Hague 28 December 1988, BIE 1989, no. 51, p. 160.

312 See e.g. HR 8 May 1987, NJ 1988, 36, where the Supreme Court denied protection against dilution when the word as used in the trade name of the competitor had become part of common parlance.

313 See e.g. HR 28 June 1929, NJ 1929, 1750 (EMM); President District Court The Hague 10 September 1971, BIE 1972, no. 33, p. 79 where the sign REDDY for *inter alia* vegetable oils and fats was diluted, but protection against confusion was still possible under unfair competition law; President District Court Zwolle 4 June 1982, BIE 1982, no. 33, p. 82.

314 See e.g. President District Court Haarlem 29 May 1990, IER 1990, no. 52, p. 106 upheld by Court of Appeal Amsterdam 18 October 1990, BIE 1992, no. 34, p. 122. Slogans can, alternatively, in some cases be protected under copyright law, see Spoor/Verkade, Auteursrecht en naburige rechten, Deventer: Kluwer 1993, no. 77 (recently a new 3d edition has been published in 2005).

315 See e.g. HR 26 June 1953, NJ 1954, no. 90 (Ph.A.N.H.); President District Court Haarlem 17 May 1971, BIE 1972, no. 30, p. 69; President District Court Breda 4 January 1974, BIE 1976, no. 8, p. 41; President District Court Amsterdam 20 December 1979, BIE 1982, no. 4, p. 19; President District Court The Hague 28 June 1996, BIE 1997, no. 34, p. 215. Advertisements, other than slogans, can be protected under copyright law as well, see Spoor/Verkade (1993), no. 77.

316 See e.g. President District Court The Hague 26 February 1982, BIE 1982, no. 71, p. 218; President District Court Utrecht 6 January 1983, BIE 1983, no. 63, p. 176; President District Court Haarlem 13 October 1989, BIE 1991, no. 6, p. 20; President District Court Zutphen 26 July 1990, see Court of Appeal Arnhem 18 June 1991, BIE 1992, no. 83, p. 328. A title of a book or periodical will, however, in many cases fall within the scope of protection of the Benelux Trademark Act or Trade Names Act.

317 See e.g. Court of Appeal Arnhem 1 April 1970, NJ 1970, no. 392; Court of Appeal Den Bosch 7 February 1979, NJ 1980, no. 178. Logos will, however, in many cases fall within the scope of protection of the Benelux Trademark Act or Trade Names Act.

318 See e.g. Court of Appeal Leeuwarden 15 February 1995, BIE 1996, no. 98, p. 360 and President District Court Groningen 3 July 1987, BIE 1988, no. 67, p. 230. See for more case law Van Nispen, Ongeoorloofde mededinging (looseleaf), IV.6, no. 314. The protection of shop fixtures and fittings or the 'trade dress' of a business is of particular importance to businesses that use franchising as a business model. See Slagter (1963), p. 97-98; Molenaar, Handel in goede naam (Openbare les), Tilburg, 1970; Kneppers-Heynert, Een economische en juridische analyse van franchising tegen de achtergrond van een property rights- en transactiekostenbenadering, diss.

tion law. Secondly, the protection of owners of trademarks within the meaning of the Benelux Trademark Act against behaviour that is not actionable under the Benelux Trademark Act.³¹⁹

As noted above, the Benelux Trademark Act protects against a wide range of actions, including the dilution³²⁰ of a well-known trademark that has a reputation in the Benelux, i.e. the use without due cause of an identical or similar mark for goods or services which are similar³²¹ or not similar to those for which the earlier trademark is registered, that takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the earlier trademark.³²² In addition, a trademark owner is protected under the Benelux Trademark Act against dilution by someone who uses his trademark other than for the purposes of distinguishing goods or services.³²³

Suppose that a company X uses a sign that is similar to the trademark of its competitor Y, but the use of the sign does not lead to confusion by the public. The public does, however, associate the sign with the original trademark. This association may be detrimental to the reputation of the original trademark – to the benefit of company X – and may negatively affect its distinctiveness. Is it possible for the trademark owner Y to rely on the Benelux Trademark Act to counter the use of its trademark by way of association with the sign of company X? If the trademark of competitor Y does not have a reputation in the Benelux, section 13A(1)b of the Benelux Trademark Act applies. This section provides for protection against confusion,³²⁴ but not for protection against

University Groningen 1988, p. 98-99; Van der Heiden, *Franchising: enkele samenhangende aspecten met betrekking tot de grondslagen voor de juridische vormgeving van franchising, overeenkomstig Nederlandse en algemeen internationale wetgeving en rechtspraak*, in *theorie en praktijk, een en ander vooral bezien vanuit het effect ervan voor een franchisenemer*, Deventer: Kluwer 1992, p. 188-190; Pors, *Bescherming van winkelinterieurs*, IER 1991, p. 73-74. In some cases, the Copyright Act will apply as well.

319 This category of exceptions includes the case of a defendant who uses a (similar) trademark, but *not* in the course of trade. See e.g. District court of The Hague (interlocutory proceedings) 5 October 2004 (Lijst Pim Fortuin). In this case some members of the Dutch political party LPF (Lijst Pim Fortuin) had broken away from the party but were still using the name LPF. This use of the trademark LPF was considered to be unlawful under 6:162 BW.

320 The rules on comparative advertising, as codified in Article 194a-196 BW, may be applicable in these cases as well.

321 ECJ 9 January 2003 (Davidoff/Gofkid).

322 Section 13A,1,C Benelux Trademark Act, cf. Section 5(2) of the Trade Marks Directive.

323 Section 13A,1,D Benelux Trademark Act, cf. Section 5(5) of the Trade Marks Directive.

324 ECJ Case C-251/95 of 11 November 1997 (Sabel/Puma), [1998]. See for the discussion in the literature as to whether the use of a trademark involving no confusion could infringe Article 5(1)(b) of the Trademark Directive: Kamperman Sanders, *The Wagamama Decision: Back to the Dark Ages of Trade Mark Law*, [1996] 1 EIPR 3 and 10 EIPR 521; Prescott, *Think Before you Waga Finger* [1996] 6 EIPR 317 and [1997] 3 EIPR 99; Gielen, [1998] EIPR 109. See for a comprehensive overview Raas, *Het Benelux merkenrecht en de Eerste Merkenrichtlijn: overeenstemming over verwarring?*, dissertation RUL, The Hague: Boon Jur. Uitgeverij, 2000.

association with the trademark. The trademark owner will thus not be protected under trademark law.

If the trademark of competitor Y does have a reputation in the Benelux, section 13A(1)c of the Benelux Trademark Act applies. This section provides for additional protection to owners of well-known trademarks against the dilution of their trademarks, which includes injury to their reputation and their distinctiveness as well as the unfair advantage given to the (alleged) infringer. This issue has been addressed by the European Court of Justice in the *Adidas/Fitnessworld Trading* case.³²⁵ The plaintiff was the proprietor of a figurative trademark, used amongst other things for sportswear, formed by a motif consisting of three vertical stripes. The trademark of the plaintiff had a reputation in the Benelux. The defendant produced sportswear bearing the motif of two vertical stripes. Although the public did not confuse the two motifs, the public were likely to associate the sign of the defendant with the trademark of the plaintiff and thereby dilute the plaintiff's trademark. The Court held that for the protection of the plaintiff's trademark with a reputation against the use of a sign in relation to identical or similar goods or services, it 'is sufficient for the degree of similarity between the mark with a reputation and the sign to have the effect that the relevant section of the public establishes a link between the sign and the mark'.³²⁶ It is not yet clear how the requirement of establishing a 'link' between the sign and the trademark relates to the term 'association', as used in section 5 (1)b of the Trade Mark Directive and section 13A(1)b of the Benelux Trademark Act. Will the public associate a sign with a famous trademark if the public establish a link between them? It will probably be easier to prove the presence of a 'link' than to prove the presence of the likelihood of association.³²⁷ The requirement of establishing a link is dependant on the degree of reputation inherent in the trademark. The public will therefore be more likely to establish a link between a very famous trademark and a similar sign.³²⁸

Finally, a different case should be mentioned. Let us look at the same case as mentioned above (of a company X that uses a sign that is similar to the trademark of its competitor Y without causing confusion), but, this time, company X does not use the sign 'for the purposes of distinguishing goods or services'. In that case, section 13A(1)d Benelux Trademark Act³²⁹ applies. This section provides protection against other types of 'use of a trademark' that may lead to dilution. Examples are the use by a company of a trademark of another company in order to describe the quality or characteristic of its own goods, e.g. a specialist in the Benelux Trademark Act, or a toner for an HP

325 ECJ 23 October 2003, Case C-408/01.

326 The Court also noted that 'where, according to a finding of fact by the national court, the relevant section of the public views the sign purely as an embellishment, it does not necessarily establish any link with a registered mark'.

327 See ECJ 14 September 1999, Case c-375/97, no. 23.

328 See Kabel in his annotation to the *Adidas/Fitnessworld Trading* case, IER 2004, no. 13, p.57.

329 Cf. Section 5(5) Trademark Directive.

Laserjet printer. A trademark owner can in principle prevent such 'other use' of his trademark if it, without due cause,³³⁰ takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trademark. The European Court of Justice has, however, restricted the application of section 13A(1)d Benelux Trademark Act to a certain extent.³³¹

In short, the Benelux Trademark Act provides for a very broad protection against the imitation of trademarks. Even protection against the dilution of trademarks is covered under the Benelux Trademark Act. The owner of a trademark that does not have a reputation in the Benelux may however find it difficult to rely on the Benelux Trademark Act if his trademark is liable to lose its distinctiveness in the event that a competitor uses a sign that is similar to his trademark, and there is no likelihood of confusion but the public nonetheless associate the sign with his trademark. Sound reasoning would lead one to believe that, in such a case, unfair competition law may be pre-empted by the Benelux Trademark Act. The absence of any likelihood of confusion by the public indicates that the sign is not similar to the trademark. The Benelux Trademark Act clearly requires the presence of similarity, except for well-known trademarks or 'other use', but both of these exceptions are not applicable here. Protection against dilution under unfair competition law, in the absence of similarity, is in these cases not preferable.³³²

In case someone's badge of trade is imitated, it is sufficient for the plaintiff to prove the likelihood of confusion. In the presence of the likelihood of confusion, the defendant will be held liable for his unlawful behaviour, since he benefits from the reputation of the plaintiff.³³³ The plaintiff is protected from the misappropriation of his reputation and goodwill by the defendant. However, the (confusing) imitation of another's badge of trade, that consists of a generic name or a designation of quality or capacity, is in principle allowed.³³⁴ The same is true of a sign that part of the public perceives as an indication of origin and part of the public as a generic name. The imitation of such a sign is allowed, even when there is a likelihood of confusion, unless special circum-

330 This use of another firm's trademark will often mean that there is a case of comparative advertising, where the European Court of Justice has ruled that the use of a trademark is, when the comparison is fair and not misleading, with due cause and is therefore in principle allowed. See e.g. ECJ Case C-112/99 of 25 November 2001 (Toshiba/Katun).

331 See e.g. the ECJ Case C-63/97 of 23 February 1999 (BMW/Deenik) and the following case law. See for more on this topic, Span c.s., *Refererend merkgebruik: is het Tanderil-arrest achterhaald na Hölterhoff/Freiesleben?*, *Ars Aequi* 2003, 814; Speyart, *Is verwijzend gebruik maken van een merk inbreukmakend?*, *NTER* 2002, no. 10, p. 261 et seq.

332 Cf. Martens, *Onrechtmatige Daad* (oud), VI-154b.

333 HR 5 March 1943, NJ 1943, no. 264.

334 HR 7 March 1941, NJ 1941, no. 919. In this case, the plaintiff was unable to prevent the use of her trademark Tjoklat by her competitor, because the trademark was considered to be a generic name for chocolate products. The Supreme Court argued that such a generic name should remain free of use and is therefore not protectable under the law of unfair competition.

stances apply, such as the irresponsible use of the sign by an imitator leading to an increased likelihood of confusion.³³⁵ Modern uses of protection under unfair competition law against the imitation of badges of trade are in cases of so-called ‘domain name grabbing’.³³⁶

3.5.5.4 Misappropriation of (valuable) intangibles³³⁷

a Introduction

In determining whether protection may be granted under tort law, in addition to or in the absence of protection under intellectual property law, the Supreme Court has determined that the predominant starting point in case law is the freedom of trade.³³⁸ As a result, benefiting from another’s labour is allowed even if it disadvantages that person in doing so. In the case of the imitation of products, protection under tort law against slavish imitation may be granted in specific circumstances, *inter alia* if the action under tort law is not pre-empted by any specific intellectual property regulation.³³⁹ For protection against the misappropriation of (valuable) intangibles a different regime of protection under tort law applies.³⁴⁰

b Equivalent performance

This regime was first introduced by the Supreme Court in the famous case between *Holland Nautic* and *Decca*.³⁴¹ Decca had since 1946 developed an extensive radio navigation system. It consisted of several radio-towers transmitting radio signals. These signals could be received by special radio receivers, produced by Decca. With the use of such a receiver, a ship would be able to determine its position. Holland Nautic introduced its own (cheaper) radio receivers that were capable of receiving the signals transmitted by the Decca navigator system (DNS) as well. The Supreme Court argued that no intellectual property rights had been infringed, nor was the Decca receiver

335 HR 15 mei 1964, NJ 1964, no. 467.

336 See e.g. President District Court Amsterdam 15 May 1997, KG 1997, no. 193. See also Verkade, *Computerrecht* 1997, p. 3-6 and Meyboom, *IER* 1997, p. 1-7.

337 Under the Dutch doctrine of misappropriation, or the protection of one’s achievements, is referred to as ‘prestatiebescherming’. See for an analysis of ‘prestatiebescherming’ under Dutch law, Van Engelen, *Prestatiebescherming en ongeschreven intellectuele eigendomsrechten* (diss. Leiden), Zwolle: Tjeenk-Willink 1994, 507 pp.

338 See § 3.4.5.1.

339 See § 3.4.5.3b.

340 This type of protection is sometimes referred to as ‘sweat of the brow’ protection.

341 HR 27 June 1986, NJ 1987, 191.

(slavishly) imitated by Holland Nautic. The problem, however, was how to deal with Holland Nautic benefiting from the labour invested by Decca in its DNS system.

The Supreme Court started by stating that the benefit to Holland Nautic from Decca's business was not unlawful *per se*, even if it would inflict a loss on Decca. The predominant starting point in these cases is the freedom of trade. Only under specific circumstances, after weighing the relevant interests involved,³⁴² is the injured party awarded damages under tort law. For this to happen, a party has to benefit from the products of another's labour that are 'of such a nature that they could be put on a par with other products of labour that justify the granting of such a[n] [intellectual property] right'. In other words, only those products of labour that are equivalent to products of labour that do qualify for intellectual property protection may be awarded protection under tort law. However, in the light of the freedom of trade, the Dutch Supreme Court held that such protection should be applied restrictively.³⁴³ In this case, the claims were dismissed and no 'sweat of the brow' protection was awarded.

342 In this case, the Supreme Court carefully weighed the interests of Decca and Holland Nautic. The argument in favour of Decca was the necessity for Decca to be compensated for maintaining the DNS system, a system which was vital to the safety of sea travel. The Supreme Court did not consider this interest to have sufficient weight to make an exception to the rule of freedom of trade. The Court argued in favour of Holland Nautic that the lost revenues by Decca were attributable to the way in which Decca had set up its business. In as far as the DNS system was in the general interest and should not, for this reason, be circumvented, the Court ruled that such interests had to be protected by the Government. The claim for compensation for investments made by Decca in its DNS system was rejected because Decca had already been remunerated as a result of its 35-year patent monopoly.

343 The restricted application of sweat of the brow protection is also reflected in the case law of the lower courts. See e.g. President District Court The Hague, 7 March 1991, BIE 1992/26, which held that the mere imitation of the marketing strategy of claimants was not in breach of unfair competition law as (1) the claimant did not possess an exclusive right relating to that strategy, and (2) the strategy could not be regarded as an 'equivalent performance'. In addition, the Court stated that the principle of freedom of trade implied that a competitor does not act unlawfully by imitating the methods of others. This could only be different if this would lead to confusion. The District Court Breda, 18 December 1990, BIE 1992, 13 dismissed the claim for sweat of the brow protection for the 'manufacture of a unique liquorice done with great care on the basis of personal liking, stating that it was not enough for the assumption of an 'equivalent performance'. The President District Court The Hague did not believe that the layout of a sweet shop (including the investments required to develop it) amounted to 'equivalent performance' to justify sweat of the brow protection. Two other decisions concerning sweet shops of the District Court Groningen of 3 July 1987, BIE 1988, 67 and the District Court Roermond of 17 September 1987, BIE 1988, 68, decided the opposite by stating that the plaintiff could prevent others from using its layout under tort law. These two decisions, however, have been criticized, see e.g. the annotation of van Nispen to the case of the District Court Breda, BIE 1988, 69. One could wonder, in addition, whether protection against slavish imitation would be a better heading for these actions.

This doctrine of ‘equivalent performance’³⁴⁴ has been elaborated in various cases that followed. In the *KNVB v. NOS* case,³⁴⁵ the Royal Netherlands Football Association (KNVB) held the belief that the matches it organised could be regarded as ‘products of labour’ and could therefore be exploited. The NOS, a Dutch broadcasting agency, was consequently charged a fee for broadcasting highlights of football matches. The Supreme Court held that the NOS broadcasts were not unlawful, even though the NOS benefited from the matches as organised by the KNVB to the possible disadvantage of the KNVB. The KNVB ‘products of labour’ were not considered to be an ‘equivalent performance’ and the claim under tort law was accordingly dismissed. The KNVB was, nonetheless, granted protection under a different heading. Under its property right or its right of use, the KNVB was allowed to impose terms on access to the stadium. Under this heading, the NOS could be held liable for broadcasting without providing an equitable remuneration.³⁴⁶ Just as the KNVB, the Dutch government’s claim for sweat of the brow protection was rejected in a case before the Supreme Court in the same year.³⁴⁷ The defendant had copied, by means of a photographic reproduction technique, the text of the Inland Waterways Police Regulations, as published by the government in its Bulletin of Acts and Decrees, for use in its own publication. Like the KNVB/NOS case, the Supreme Court held that there were no special circumstances³⁴⁸ that could justify sweat of the brow protection.

As shown in the three previously mentioned cases, the Supreme Court is very reluctant to grant sweat of the brow protection to ‘products of labour’ that fall outside the scope of protection of intellectual property rights. The 1989 *Elvis Presley* case³⁴⁹ is

344 Although the Dutch designation of this doctrine is difficult to translate, I will use ‘equivalent performance’ as its English designation.

345 HR 23 October 1987, NJ 1988, 310.

346 Grosheide, in his annotation to the follow up to this case, rightly criticises this approach taken by the Hoge Raad. By basing the protection in this case on the violation of the property right of the KNVB, the Hoge Raad denied the possibility of protection for a similar performance as e.g. the organising of a big flower parade or a long-distance skating race like e.g. the Dutch Elfstedentocht. See IER 2003, no. 52, p. 268-269. The disadvantage of this artificial approach by the Hoge Raad can also be shown in another way: What would happen if someone taped the football matches from a high apartment building next to the stadium? There would be no violation of the KNVB’s property right, so under the approach taken by the Hoge Raad in the KNVB/NOS case, no protection would be granted. Only if the cameraman takes his camera inside the stadium, would he violate KNVB’s property right.

347 HR 20 November 1987, NJ 1988, 311 (Staat/Den Ouden).

348 The perfect likeness of the publication by the defendant and by the government, the defendant benefiting from the efforts invested by the government in its publication resulting in low prices, nor the fact that the publications were needlessly similar were a sufficient ground for the Supreme Court to justify sweat of the brow protection. Besides, the Copyright Act provided for a negative ‘reflex effect’, since article 11 states that statutory legislation is not copyrightable.

349 HR 24 January 1989, NJ 1989, 701.

the only case to date³⁵⁰ where sweat of the brow protection for an ‘equivalent performance’ has been granted by the Supreme Court.³⁵¹ The plaintiff, who was the party entitled to exploit Elvis Presley sound recordings, demanded that the defendant must stop producing infringing recordings. The Supreme Court held that Elvis Presley – or his legal successors – should be awarded protection for his ‘products of labour’, in this case his recordings. These products of labour were considered equivalent to products of labour that justify the granting of copyright. The decision by the Supreme Court to award sweat of the brow protection in this particular case can, to a great extent, be attributed to the social developments at the time. Performing artists (and their record companies) had a hard time in protecting their investments. A bill ratifying the 1961 Rome Convention for the protection of performers, producers of phonograms and broadcasting organisations was pending in the Lower House at that time. These developments induced the Supreme Court to award sweat of the brow protection to performers as a means of anticipatory application.³⁵²

c Statutory regulation

Besides sound recordings by performers, other products of labour arguably qualify for sweat of the brow protection as well. Even though, besides the *Elvis Presley* case, no sweat of the brow protection has been granted to any other products of labour, some have nonetheless been incorporated in statutory legislation.³⁵³ The most important

350 Besides some cases before the lower courts. The Court of Appeal The Hague decided in its judgement of 2 May 1991, BIE 1992, 49, that special circumstances justified the awarding of sweat of the brow protection. The plaintiff was the operator of a system of Pay TV using decoders. The defendant produced devices that could circumvent the decoders. The Court decided that special circumstances applied, since the plaintiff had to pay fees for his copyright licences, the Pay TV system met a public need, the defendants unfairly entered the plaintiffs business and the plaintiff could not be required to make the necessary technical provisions for preventing the circumvention. Unfortunately, this case did not come before the Supreme Court.

351 The Supreme Court did not, however, explicitly mention ‘equivalent performance’. See Wichers Hoeth in his annotation to this case, NJ 1989/701.

352 No sweat of the brow protection was awarded, at that time, to the producers of phonograms by the Supreme Court, although the case law of the lower courts did provide for protection, see Court of Appeal Arnhem, 18 January 1972, NJ 1972, 297; District Court (KG) Haarlem, 9 July 1987, IER 1987, 99; District Court (KG) Roermond, 5 July 1990, IER 1990, 105.

353 The protection of service marks was governed under tort law before the Protocol of 10 November 1983 was implemented into the Benelux Trademark Act. The same holds true for designs and models before Protocol 20 June 2002 was implemented into the BDMA. This protection under tort law, before the introduction of statutory legislation, to service marks, designs and models cannot, however, be put on a level par with sweat of the brow protection. Sweat of the brow protection does not protect the imitation of tangible products, but instead the (unfair) benefiting of one’s intangible products of labour. Therefore confusion is not a requirement for sweat of the brow protection, in contrast to protection against the imitation of products.

example is the incorporation of impersonal writings in the Copyright Act 1912, following a set of cases before the Supreme Court.³⁵⁴ The Supreme Court held that, under the influence of section 2 BC, the legislator had implied the protection of impersonal writings when drafting the 1912 Copyright Act. These writings, however, do not fulfil the criteria for protection under the Copyright Act, especially in view of the absence of any personal signature.³⁵⁵ In fact, the protection of impersonal writings is more closely related to competition law than it is to copyright law. It has consequently been designated as a *sui generis* regime within the Copyright Act.³⁵⁶ In line of this development the issue was raised whether the protection of impersonal writings in the Copyright Act could be assumed to include the protection of databases. Following the implementation of the EC database directive 96/9/EC, the Dutch legislator introduced a *sui generis* regime for databases in addition to an amendment of the Copyright Act.³⁵⁷ The Database Act³⁵⁸ provided for a new intellectual property right for the producer of a database, providing protection against unauthorized obtaining and re-utilization of the whole or of a substantial part of the contents of a database. As to the programmes for radio and television broadcasting, the Supreme Court had already decided in 1965³⁵⁹ that they

354 HR 1 November 1937, NJ 1937, 1092; HR 17 April 1953, NJ 1954, 211; HR 27 January 1961, NJ 1962, 355; HR 25 June 1965, NJ 1966, 116. Examples of products that were protected as an impersonal writing under the Copyright Act are telephone directories, mailing lists, lists of (stock)prices, charts and radio and television broadcasting programmes. See Wichers Hoeth/Gielen/Hermans (2000), no. 474. See for a thorough analysis of the protection of impersonal writings, Van Engelen, *Prestatiebescherming en ongeschreven intellectuele eigendomsrechten*, diss. University of Leiden, Zwolle: Tjeenk Willink 1994, § 2.5.

355 The insertion of protection for impersonal writings in the Copyright Act was consequently criticized by many, see Wijnstroom/Peremans, *Het auteursrecht*, Zwolle: Tjeenk-Willink 1930, p. 33-34; De Beaufort, *Het auteursrecht in het Nederlandsche en internationale recht*, Utrecht: den Boer 1909, p. 170-173, De Gids 1912, p. 149-150; Scholten, *Verzamelde Geschriften III*, Zwolle: Tjeenk Willink 1980, p. 532 et seq.; Van Praag, *De auteurswet 1912 en haar verband tot de herziene Berner Conventie*, Rotterdam: Nijgh en Van Ditmar, 1912, p. 28; Snijder van Wissenkerke, *Het auteursrecht in Nederland: auteurswet 1912 en herziene Berner Conventie*, Gouda: Van Goor Zonen 1913, p. 161-162; Wijnstroom/Peremans (1930), p. 29-36; De Beaufort (1909), 193. See also Van Engelen, BIE 1987, p. 243; Spoor/Verkade (1993), no. 53; Van Engelen (1994), § 2.5.1.

356 Spoor/Verkade (1993), no. 54. The exploitation of commercial portrait rights can to the same extent be seen as a *sui generis* regime within the copyright act. See Quaadvlieg, BIE 1996, 1, p. 9 and Van Engelen (1994), p. 109-111.

357 Upon implementing the Database Directive into Dutch Law, the legislator considered placing the database right under unfair competition law but decided to implement the database right as an exclusive right, as was done in many other European jurisdictions. See the Explanatory Memorandum to the implementation of the Database directive in Dutch law, 26 108, no. 3.

358 The Database Act entered into force on 21 July 1999.

359 HR 25 June 1965, NJ 1966, 116. The broadcasting organizations scored a Pyrrhic victory because the protection of programmes was granted under copyright law, but the organizations carry the burden of proof that the infringers have derived the data from their impersonal writings. See Spoor/Verkade (1993), no. 56.

should fall under the scope of the impersonal writing regime within the Copyright Act. At a later stage, the question was raised whether the exercise of these rights by the broadcasting organizations could violate antitrust law, namely section 24 of the Competition Act (abuse of a dominant position). The Trade and Industry Appeals Tribunal recently decided in favour of the broadcasting organizations.³⁶⁰ There have been initiatives in the Lower House, however, to amend the Media Act so as to oblige the public and commercial broadcasting organizations to disclose the programmes for radio and television to outsiders for an equitable remuneration.³⁶¹

d Survey of topics under discussion concerning sweat of the brow protection

The introduction of sweat of the brow protection by the Supreme Court in 1986 has raised many topics to be discussed. First of all, does this protection under unfair competition law not contradict the principle of free trade? After all, if the legislator had not deemed it necessary to provide for specific legislation, why should the courts take it upon themselves to create unwritten rules of intellectual property law? Does this not conflict with the doctrine of separation of powers?

The Supreme Court has, however, clearly stated that granting sweat of the brow protection should be applied very restrictively.³⁶² Grosheide has argued in this context that although the courts are authorized to find law when setting ethical standards, they have to be reticent on this point, firstly because the courts are not as well equipped as the legislator to deal with the finding of law – since they might miss the ‘bigger picture’, and secondly because of the pre-emptive effect of the statutory intellectual property regulations.³⁶³ In addition, Grosheide is of the opinion that it is important to assess the nature and content of the achievement which the plaintiff tries to protect under sweat of the brow protection.³⁶⁴

Not everybody agrees with the reticent approach of the Supreme Court. Soetenhorst, in his dissertation on the protection of the publisher’s products of labour, advocates a flexible application of the ‘special circumstances’ test and does not believe it necessary that sweat of the brow protection under tort law should be equivalent to the protection

360 CBB 15 July 2004, IER 2004, no. 88, p. 389 et seq.

361 See e.g. Zie Acts of Parliament, 2003-2004, 29680, nos. 2 and 3. See also Houdijk, annotation to NOS/de Telegraaf, M&M 2003, 6; Loozen, annotation to IMS Health, M&M 2004, no. 6;

362 See also De Cock Buning, Auteursrecht en informatietechnologie (diss. Amsterdam), Amsterdam: Otto Cramwinckel 1998, p. 228-229, who argues that unfair competition law can, in very specific cases, be used to stop the gaps in legislation that may appear in case of new technologies.

363 Grosheide, met een knipoog en een glimlach, Noten bij noten, ter herinnering aan Mr L. Wichers Hoeth, Tjeenk Willink Zwolle 1990, p. 54.

364 Grosheide, *ibid.*, p. 60; Grosheide, annotation to HR 23 May 2003, IER 2003, 52, p. 268-269. He proposes to ensue this matter by making an analogy with similar intellectual property rights and by looking at the approach used in European legislation and case law.

under intellectual property law.³⁶⁵ He is a strong supporter of the protection of publishers' rights under unfair competition law. Van Engelen, in his dissertation on sweat of the brow protection and unwritten rules of intellectual property, believes that no serious objections exist against the introduction of protection equivalent to those of an intellectual property right.³⁶⁶ He qualifies the protection of immaterial objects as a personal right, comparable to an unwritten right of intellectual property.³⁶⁷ Such an unwritten right under tort law should be available for transfer, pledging, inheritance and licensing.³⁶⁸ Van Engelen distinguishes between intellectual,³⁶⁹ distinctive³⁷⁰ and manual³⁷¹ fruits of labour. For these last two categories, he believes that possibilities exist for sweat of the brow protection.³⁷²

Quaedvlieg believes that the Supreme Court should integrate its approach towards providing for sweat of the brow protection. He dismisses the incorporation of this type of protection in the Copyright Act, e.g. in the case of the protection of impersonal writings and commercial personality rights. Additionally, he argues for a revision of the formula of 'equivalent performance' to prove the need for sweat of the brow protection. Quaedvlieg believes that the Supreme Court wrongly refrained from giving any weight to the argument that the defendant slavishly, and effortlessly, benefited from the plaintiff's products of labour without improving it in any way. In his opinion, these economic factors should be relevant in deciding whether additional protection under tort law has to be granted.³⁷³

365 Soetenhorst, *De bescherming van de uitgeefprestatie: een onderzoek naar het functioneren van het uitgeefovereenkomstenrecht en het mededingingsrecht in Nederland en Duitsland met aandacht voor de situatie in Groot-Brittannië* (diss. Utrecht), Zwolle: Tjeenk Willink 1993, p. 244.

366 Van Engelen (1994), § 1.4.2.

367 *Ibid.*, § 8.4.5.

368 *Ibid.*, § 8.5.5. et seq. This view has been criticized by Steinhauser, who believes that the Supreme Court in the Decca case provided for protection which is equivalent to a right of intellectual property *by way of the law of unfair competition*. In his opinion, the sweat of the brow protection introduced by the Supreme Court does not have the elements of an exclusive, personal right. See Steinhauser, *RM Themis* 1995/6, p. 283.

369 E.g. know-how.

370 E.g. badges of trade not protectable under Trade Name law or Trade Mark law (such as slogans or the layout of a store), commercial portrait rights and the protection of goodwill.

371 E.g. products of labour equivalent to those that justify protection under the Seeds and Planting Materials Act, the impersonal writings regime and the Neighbouring Rights Act, such as the protection of news facts as such.

372 Van Engelen (1994), p.

373 Quaedvlieg, *BIE* 1996, no. 2, p. 59.

e Conclusion

Despite various voices in the literature, case law has proven to be very reserved in awarding sweat of the brow protection. The Supreme Court persisted in its view of the strong ‘reflex effect’ of intellectual property regulations and the principle of freedom of trade. Only very exceptional circumstances justify the awarding of sweat of the brow protection. The sweat of the brow doctrine is therefore bound to be mostly an academic concept of law without any serious consequences in practice.

3.5.5.5 Protecting Know-how

The protection of the know-how³⁷⁴ embodied in trade secrets in the Netherlands is provided under civil law as well as criminal law. Dutch law does not provide for exclusive and absolute rights of know-how protection as opposed to intellectual property rights.³⁷⁵ Know-how is consequently non-transferable and cannot be licensed.³⁷⁶

374 There is no unambiguous definition of know-how or trade secret in Dutch unfair competition law, see Ulmer/Baeumer/Van Manen, *op.cit.* 1968, § 176. Idenburg distinguishes between know-how and trade secrets. He defines trade secrets as all secret information that relate to the economic purposes of a business. This type of information is of no value outside of the context of that specific business (e.g. lists of agents, data on sales figures etc.). Know-how, on the other hand, covers secret information that is applicable in any business and leads to a concrete result. This type of information may gain a business a lead over its competitors. See Idenburgh, *Kennis van zaken: aspecten van know-how-recht in de Europese Gemeenschap en de Verenigde Staten*, Kluwer: Deventer 1979, Chapter 5. I will, however, use the terms know-how and trade secrets for the same type of secret information that is applicable in practice (and of general value) and not known to third parties. Cf. Gielen, *Bescherming van bedrijfsgeheimen*, Preliminary report to the ‘Vereeniging Handelsrecht’, Deventer: Tjeenk Willink 1999, § 1.2; Van Nieuwenhoven Helbach/Huydecoper/Van Nispen, *Industriële eigendom*, Vol. 1: *Bescherming van technische innovatie*, Deventer: Kluwer 2002, p. 332; Idenburg (1979), p. 34 and 40; see Grosheide, *Know how binnen de EG, Eenvormig en vergelijkend privaatrecht*, Vermande: Lelystad 1990, p. 173, who points to the fact that the common law usage of the term ‘trade secrets’ is equivalent to the civil law usage of the term ‘know-how’.

375 Gielen (1999), p. 6. Idenburg argues that know-how protection should be grounded upon the principle of free trade and the utilitarian ends of promotion of innovation and transfer of knowledge, see Idenburg (1979), p. 197. Know-how protection for the owner of a trade secret should not be based upon a subjective right, but upon liability for unfair trading practices by the infringer. Gielen, however, does not believe that the principle of free trade should be the guideline in these cases, as he believes that – because of the similarity between trade secrets and intellectual property – the use of secret information should in principle be prohibited under certain conditions, see Gielen (1999), p. 39. Grosheide proposes protection for know-how under a *sui-generis* regime. The *de facto* monopoly of know-how (since it is secret) should be supplied by a legal monopoly. In his view, there is a need for the protection of technical know-how in the form of a property right, see Grosheide, *Know how binnen de EG* (1990), p. 171 et seq. Van Engelen, on the other hand, opposes the creation of a(n) (unwritten) property right for know-how in view of the freedom

As a rule, benefiting from another's trade secrets is allowed. Someone who by lawful means comes up with the composition of a product, may use it for his own benefit, even though the composition matches another person's trade secret.³⁷⁷ This is not the case if a person obtains information he knows or should know to be secret.³⁷⁸ A person who uses improper methods in discovering another's trade secret may be held liable. This includes *inter alia* the use of industrial espionage, theft, the bribery of employees or the use of information disclosed by employees in violation of their obligation of secrecy as well as the abuse of confidential information acquired during the precontractual stage.³⁷⁹ Such behaviour may be actionable under tort law.³⁸⁰ But also the exploitation and reproduction of samples acquired during the cooperation between businesses may be

of technology and of information and because it is pre-empted by patent and copyright law, see Van Engelen (1994), § 6.7.2.2.

- 376 Van Nieuwenhoven Helbach/Huydecoper/Van Nispen (2002), p. 334. Some authors, however, believe that know-how should be eligible for transfer under the Civil Code, despite the 'closed system' of transfer of property under the Dutch Civil Code, see e.g. Snijders, *De openheid van het vermogensrecht*, Deventer: Kluwer 2002, p. 27-58; Van Engelen, *Vermogensrechten op onstoffelijke goederen*, NJB 1991, 431; Gilhuis/Wolter Wefers Bettink, *Commissie Auteursrecht adviseert ten onrechte pas op de plaats*, JAVI 2002, p. 43. See also on this issue Brinkhof, *De codificatie van de rechten van de intellectuele eigendom in Boek 9 Burgerlijk Wetboek, Een tussenbalans*, Bijlage II, *Overdracht van rechten van intellectuele eigendom*, The Hague March 1997, p. 40; Wessels, *Know-how en software in de mangel van het vermogensrecht*, NbBW 1995, 99; Gielen (1999), p. 7. The Copyright Committee, in its rapport on the negotiability of property rights, is nonetheless reserved in assigning to know-how protection an absolute and exclusive character equivalent to a property right, see their rapport in AMI 2002, no. 2, p. 42 et seq.
- 377 President District Court Utrecht, 17 May 1963, BIE 1966, 152; Court of Appeal Amsterdam 20 February 1964, BIE 1966, 151; Court of Appeal Amsterdam 4 November 1971, BIE 1973, 81.
- 378 Wichers Hoeth/Gielen/Hermans (2000), No. 708.
- 379 See HR 31 January 1919, NJ 1919, p. 161 et seq.; HR 1 December 1972, NJ 1973, 111; Court of Appeal Leeuwarden 21 February 1996, BIE 1997, 191; Court of Appeal Amsterdam 17 October 1995, BIE 1997, 137; Court of Appeal Amsterdam 2 June 1983, BIE 1984, 221; Court of Appeal Den Bosch 13 February 1940, NJ 1940, 669; District Court (KG) Breda 11 April 1986, KG 1986, 214; President District Court Amsterdam 6 November 1953, BIE 1954, 33; District Court The Hague 31 October 1986, KG 1986, 514. See also Court of Appeal Den Bosch 9 November 1994, BIE 1995, 312 where the Court held that products and technical data, although not strictly secret, received during cooperation between two businesses should not be used at once by one business when the cooperation has ended since that would lead to an unjust advantage, see also Verkade (1986), no. 57 and Wichers Hoeth/Gielen/Hermans (2000), p. 353.
- 380 See Gielen (1999), § 2.2. and the case law mentioned in that paragraph. Gielen argues that the requirements set in Article 39 TRIPs should function as a guideline in this case. These requirements are (1) the information is secret, (2) because of that the information is of value and (3) the person seeking protection should take reasonable precautions in keeping the information secret, see Gielen (1999), p. 26.

held unlawful.³⁸¹ The plaintiff can claim that the defendant is prohibited from using his trade secret. This right of action is not limited in time.³⁸²

For his know-how to be protected under civil law the plaintiff is required to keep the information secret.³⁸³ The plaintiff must therefore impose secrecy upon anyone he discloses the information to. This will in most cases be accomplished by drafting a confidentiality agreement. The contracting party who breaches confidentiality by disclosing the information to a third party, may be held liable for breach of contract. The third party who has wrongly benefited from the breach of contract, may be held liable under tort law. A specific duty of confidentiality applies to an employee within the context of his employment contract. A breach of confidentiality by an employee may result in an urgent ground for dismissal.³⁸⁴ In many of these cases, it is difficult to make a clear distinction between what is a trade secret of the employer and what is part of the professional knowledge of the employee himself. Knowledge that falls outside the working area of the company as well as knowledge that is mainly attributable to the personal qualifications of the employee – and which will be absent as soon as the employee leaves the company – will in general not be viewed as a trade secret.³⁸⁵ In addition to the requirement that the information must be kept secret, the plaintiff must show that he has an economic interest in keeping the information confidential.³⁸⁶ Finally, the plaintiff must prove that he has taken reasonable steps to secure the confidentiality of the information.³⁸⁷

Aside from protection under civil law, the intentional abuse of trade secrets is punishable under Sections 272 and 273 of the Criminal Code. Section 273 Criminal Code criminalises the intentional disclosure by an (ex) employee of confidential details, to which he has sworn secrecy, that are not generally known and that may harm the company he works or worked for.³⁸⁸ This provision does not, however, criminalise the use of the secret information by third parties.

381 As a violation of the principle of good faith, see Court of Appeal Den Bosch 9 November 1994, BIE 1995, 312.

382 Van Nieuwenhoven Helbach/Huydecoper/Van Nispen (2002), p. 339.

383 From this requirement it follows that trade secrets provide, first and foremost, for a *de facto* protection, since nobody is aware of the trade secrets. This need for secrecy does obviously impede a plaintiff in taking action in court since it is difficult to prevent the disclosure of the secret information during litigation. See Van Nieuwenhoven Helbach/Huydecoper/Van Nispen (2002), p. 344 et seq.

384 Article 7:678 (2) sub i BW. See also Van Manen, *Televisieformats en -ideeën naar Nederlands recht*, Amsterdam: Otto Cramwinckel 1994, p. 75.

385 See Van Nieuwenhoven Helbach/Huydecoper/Van Nispen (2002), p. 336 et seq. for more details.

386 Wichers Hoeth/Gielen/Hermans (2000), No. 708.

387 *Ibid.*

388 See more into detail, Gielen (1999), § 2.6.

3.6 CONCLUSION

Unfair competition law plays an important role in the regulation of behaviour between private parties on the market. Following the ratification of the Paris Convention, Dutch unfair competition law has developed along the lines set out in Article 10^{bis}, by preventing unfair trading practices that may be confusing, misleading or that may denigrate a competitor. In addition to this, case law has developed a system of protection for those areas of unfair competition law that fall outside the scope of Article 10^{bis} (3) of the Paris Convention, e.g. protection against slavish imitation, the protection of valuable intangibles and the protection of trade secrets. This comprehensive approach in the case law has, however, not led to any substantial codification in Dutch law, despite the many initiatives to do so. Although codification may lead to undesirable methods of interpreting statutory regulation, be it *a contrario* or *analogous*, the same ‘misuse’ can be made when interpreting a case of the Hoge Raad. With a view to the possible harmonisation of European unfair competition law, and, in particular, in view of the new Unfair Commercial Practices Directive, a future codification of Dutch unfair competition law is needed as well as inevitable.

But how should this codification be embodied? The subject-matter as dealt with in the previous paragraphs shows that under Dutch law a comprehensive body of case law has been developed in the field of unfair competition. Dutch unfair competition law, but probably unfair competition law in any legal system,³⁸⁹ can be divided into two. First of all, unfair competition law that relates to the breach of a certain code of conduct. Most acts of unfair competition are judged by this standard. Misleading advertising requires the public to be misled. In the case of denigration a trader disparages his competitor or his products. In cases of slavish imitation, a trader (needlessly) confuses the public. By withholding the public information that is essential to them, the trader is likely to distort their economic behaviour. The protection against slavish imitation, it is therefore focused on the identification function of the imitated function.³⁹⁰ The plaintiff is granted protection against the unfair behaviour (e.g. the harming of a product’s identification function) instead of being granted protection to the goodwill invested in his product. So, for these cases, unfair competition law does not provide for protection that is equivalent to the protection provided under intellectual property law. It is therefore not pre-empted by intellectual property law. As a consequence, issues relating to the term of protection are out of place since the same unfair behaviour should be prohibited at any time. In these cases, unfair competition law does not seek to protect a certain object, but instead, it seeks to sanction the detrimental (and therefore unfair)

389 See chapter 6 (Comparative law), § 6.6.

390 As we will see, in the next paragraphs, this kind of behaviour also violates the German Unfair Competition Act (UWG) and the EC Unfair Commercial Practices Directive that define unfair competition as unfair commercial practices that are likely to distort the economic behaviour of consumers.

behaviour. In contrast to this group of unfair trading practices, we have come across a different group of unfair trading practices above. In these cases of unfair competition, there are certain goods, services or intangibles that are deemed worthy of protection, because the plaintiff has invested labour and capital in their production and promotion. A plaintiff may want to invoke unfair competition law in order to protect (the goodwill invested into) these objects. By doing so he may be able to prevent competitors from benefiting from the fruits of his labour and investments. In such a case the plaintiff is awarded protection against misappropriation. Under Dutch law, the Supreme Court has only awarded protection against the misappropriation of (valuable) intangibles. For these instances, unfair competition law does play the role of a source of protection equivalent to intellectual property law. It is therefore of importance that such an action under unfair competition law is not too readily upheld. As we have seen in the *Holland Nautic/Decca* case,³⁹¹ the simple benefiting by Holland Nautic from Decca's extensive radio navigation system, was not held to be unlawful even if it would inflict a loss on Decca. Such cases of unfair competition are therefore pre-empted by intellectual property law. Since the term for a patent had lapsed in this case, no alternative protection under unfair competition law was possible.

So, with regard to a possible codification in Dutch law as well as European harmonisation, I give preference to differentiate unfair competition as far as it seeks to protect the goodwill invest in an object or seeks to protect against unfair behaviour, like the harming of a product's identification function by slavishly imitating it. The last category of unfair competition could be regulated in separate articles equivalent to the German approach, while the first category could be accommodated – as far as necessary – in a general clause that would necessarily have a very restrictive application.

391 See *supra* 341.

German Unfair Competition Law¹

4.1 INTRODUCTION

Unfair competition law has had, for over more than a hundred years now, a strong presence in the German legal landscape. From its codification onwards, first in the UWG 1896,² followed by the UWG 1909, unfair competition law has developed extensively and has become an indispensable asset to traders who want to be protected against the unfair trading practices of their (dishonest) competitors. Plaintiffs will usually not only invoke protection under unfair competition law as an alternative contention to the infringement of an intellectual property right, but they will also in many cases base their actions purely and solely on unfair competition law. Unfair

1 See, for a general overview of German unfair competition law (*not* including the many books that focus on specific areas of German unfair competition law) the following ‘Kommentare’ (commentaries): Harte-Bavendamm/Henning-Bodewig/Bodewig, *Gesetz gegen den unlauteren Wettbewerb: UWG*, Beck 2004, 2424 pp.; Baumbach/Hefermehl, *Wettbewerbsrecht*, Beck: München 2004, 1684 pp.; Fezer, *Kommentar zum Gesetz gegen den unlauteren Wettbewerb (UWG)*, Beck 2004, 2 Volumes, 3335 pp.; Micklitz/Keßler, *UWG-Kommentar*, Heidelberg 2005, 950 pp.; Gloy/Loschelder, *Handbuch des Wettbewerbsrechts*, Beck 2004, 2102 pp.; Jacobs/Lindacher/Teplitzky, *UWG-Großkommentar zum Gesetz gegen den unlauteren Wettbewerb mit Nebengesetzen*, looseleaf, De Gruyter, ca. 3600 pp.; Köhler/Piper, *Gesetz gegen den unlauteren Wettbewerb: Kommentar*, Beck 2002, 1978 pp.; Ekey/Klippel/Kotthoff, *Heidelberger Kommentar zum Wettbewerbsrecht*, C.F. Müller: 2005, 1366 pp.; Matutis, *UWG: Praktikerkommentar zum Gesetz gegen den unlauteren Wettbewerb*, Erich Schmidt 2005, 304 pp. See also the following books: Berlitz, *Wettbewerbsrecht – Ein Grundriss*, Beck 2005, 270 pp.; Eckardt/Klett, *Wettbewerbsrecht, Urheberrecht und Gewerblicher Rechtsschutz*, C.F. Müller, Heidelberg 2005, 500 pp.; Emmerich, *Unlauterer Wettbewerb*, Beck 2004, 550 pp.; Von Gamm, *Gesetz gegen den unlauteren Wettbewerb (UWG)*, Kommentar, Carl Heymanns Verlag: 1993, 748 pp.; Götting, *Wettbewerbsrecht*, Beck 2005, 400 pp.; Heinemann (ed.), *Gewerblicher Rechtsschutz, Wettbewerbsrecht, Urheberrecht*, (looseleaf), Beck 2004, ca. 3116 pp.; Kehl, *Wettbewerbsrecht*, Carl Heymanns Verlag: 1990, 348 pp.; Kling/Thomas, *Grundkurs Wettbewerbs- und Kartellrecht*, Beck:2004, pp. 1-269; Krimphove, *Die UWG-Reform*, Haupe 2004, 194 pp.; Lehr, *Wettbewerbsrecht, Tipps und Taktik*, Müller Verlag, Heidelberg, 186 pp.; Lettl, *Das neue UWG*, Beck 2004, 300 pp.; Loschelder, *UWG*, Beck 2004, 353 pp.; Rittner, *Wettbewerbs- und Kartellrecht*, C.F. Müller: 1999, 436 pp.; Rödding, *Wettbewerbsrecht*, Carl Heymanns Verlag: 1988, 244 pp.; Schünemann, *Wettbewerbsrecht*, Vahlen: 2002, 300 pp.; Schwintowski, *Wettbewerbsrecht (GWB/UWG)*, Beck 1999, 407 pp.; von Speckmann, *Wettbewerbsrecht*, Carl Heymanns Verlag: 2000, 899 pp.

2 UWG stands for ‘Act against Unfair Competition’, see *sub* § 4.2.1.

competition law therefore adopts an independent position in German law. In recent years, unfair competition law has undergone a process of modernisation that has clearly manifested itself in a more liberal policy towards competition and the inclusion, to a higher degree, of consumer protection in the new UWG 2004. The (German) law of unfair competition is often depicted as featuring a highly complex and non-transparent subject-matter. This is for a great part due to the fact that it covers a substantive field of different cases and has generated a great deal of case law as well as writing in the literature. What makes German unfair competition law particularly interesting is the fact that unlike other fields of German law, it is for a large part judge-made law. This attribute demonstrates that, despite the criticism coming in particular from common-law systems that German unfair competition law is inflexible because it is based on written law, it is capable of showing remarkable elasticity to adapt to new circumstances.³

In the following sections I will present an overview of German unfair competition law. I will start by drawing an outline of the development of the law of unfair competition over the years. Next, I will address the scope of protection provided under the law of unfair competition in Germany, followed by an outline of the classifications used in the literature for this subject-matter, and a discussion of the famous general clause. After that, I will look at a group of unfair trading practices that are dealt with under German law in the field of misleading advertising, the discrediting of competitors and protection of achievements including know-how. At the end, I will summarise my findings.

4.2 LEGISLATIVE DEVELOPMENT OF UNFAIR COMPETITION

4.2.1 The outset

The legislation against unfair competition in Germany dates from the end of the 19th century.⁴ The liberalistic movement in France after the French Revolution, that resulted in the ending of the guild system, brought about the concept of freedom of trade: '*Laissez faire, laissez aller, le monde va de lui-même*'.⁵ It was not until 1869 that in Germany the freedom of trade was officially proclaimed by a specific Act on Business Licences.⁶ The implementation of this Act started a relentless rat race not restricted by any case law, since in view of the liberal way of thinking of that time, the judges were not prepared to provide for protection against unfair competition on the basis of ordi-

3 See for example the turn in the case law from protecting the 'hasty, inattentive and uncritical consumer' against misleading advertising, to protecting the 'average' consumer. See *sub* 4.6 and in particular footnote 145.

4 Köhler/Piper, Gesetz gegen den Unlauteren Wettbewerb, Munich 1995, Verlag C.H. Beck, p. 36.

5 See Baumbach/Hefermehl (2001), p. 77.

6 The 'Gewerbeordnung' of 21 June 1869. See Harte-Bavendamm/Henning-Bodewig/Keller, Gesetz gegen den unlauteren Wettbewerb (UWG), Kommentar, Beck: Munich 2004, Einl. A, No. 1.

nary civil law. On the contrary, because of the presence of the Trade Mark Act of 1874 – providing only partial protection for trademarks – everything was allowed that was not prohibited by the Trade Mark Act.⁷ As a consequence, the increase in competition brought along an increasing number of anti-competitive cartels and unfair trading practices. This led to a public debate on the protection against unfair competition in legal doctrine as well as in commercial practice.⁸ In 1891, the ‘Association for the Protection of Intellectual Property’⁹ was established to counter unfair competition and force amendments to the legislation.¹⁰ In spite of the objections raised, the legislator approached the regulation of this area with hesitation and slowness.

The first piece of legislation in the area of unfair competition was the Act of May 12, 1894 on the protection of Trade Names. Subsection 15 of this Act protected the get-up of a product or its packaging from being imitated and protection against false indications of origin was provided by subsection 16. This regulation did not suffice, however. Two years later the first version of the Act against Unfair Competition (*Gesetz gegen den unlauteren Wettbewerb* [UWG]) entered into force by the Act of May 27, 1896.¹¹

7 RG 30 Nov. 1880 3 *RGZ* 67; RG 14 Feb. 1882 6 *RGZ* 75; RG 29 Apr. 1892 29 *RGZ* 56. See also D. Reimer, *Deutschland*, Part III in Ulmer (ed.), *Das Recht des unlauteren Wettbewerbs in den Mitgliedstaaten der Europäischen Wirtschaftsgemeinschaft*, Cologne 1977, Carl Heymanns Verlag, p. 2 et seq.

8 Fezer (2005), Einl. E, 4. See for critical notes, e.g. Baumbach, *Kommentar zum Wettbewerbsrecht*, Berlin 1929, p. 123, who states that ‘Es entwickelten sich in Deutschland betrübliche Zustände. Aber jeder Fortschritt wurde vom RG mit rauher Hand genickt’, translated: ‘Deplorable situations arise in Germany. The Imperial Court breaks down every advancement the hard way’. See also Lass, *Rechtsgrundsätze des Reichsgerichts und anderer hoher Gerichtshöfe Deutschlands auf dem Gebiete des Urheber-, Muster-, Marken- und Patentrechts*, Berlin 1892, p. 2 (who indicates that traders who issue untruthful and immoral statements basically act in accordance with the law); Lobe, *Die Entwicklung des Schutzes gegen unlauteren Wettbewerb nach der Rechtsprechung des Reichsgerichts*, GRUR 1931, 1215.

9 ‘Verein für den Schutz gewerblichen Eigentums’.

10 Fezer (2005), Einl. E, 4.

11 Reichsgesetz of 27 May 1869, RGBl. p. 145. The term ‘Unlauterer Wettbewerb’ came in for some criticism upon its introduction, e.g. by Bismarck: ‘Damit wird man nicht weit kommen. Schon die Überschrift – unlauteren Wettbewerb –, was das für ein Wort ist; das hört sich an wie Wachtel-schlag auf dem Felde’, which is translated: ‘They will get no further with this. Just the title – Unfair Competition-, what kind of a word is that; it sounds like a quail birdcage on farmland’: Bismarck *Gespräche, Von der Entlassung bis zum Tode*, 1963, p. 401, quoted by: *Wettbewerbsrecht und Kartellrecht*, München 2000, 22^d edition, with introduction by H.C. Wolfgang Hefermehl and Harte-Bavendamm/Henning-Bodewig/Keller (2004), Einl. A, No. 1. The actual title of the UWG 1869 was: *Gesetz zur Bekämpfung unlauteren Wettbewerbs*. Ever since the introduction of the UWG 1909, the new terminology has been used.

4.2.2 UWG 1896¹²

The UWG 1896 only consisted – in contrast to the present UWG 1909 – of a number of specific cases of unfair competition. A general clause was not implemented so as to prevent competition on the market from being over-regulated. However, a *small* general clause was provided for in Section 1, similar to the Section 3 of the UWG 1909. This concerned protection against misleading statements. In addition to this, the denigration of competitors, defamation relating to business, the imitation of identification marks and the disclosure of professional secrets were regulated. This regulation did not provide for a comprehensive arrangement of unfair competition law nor did it intend to do so.¹³

4.2.3 UWG 1909

In contrast to the reserved attitude of the judges towards awarding ancillary protection against unfair competition at the time of the Trade Mark legislation of 1874, the German Imperial Court (the ‘Reichsgericht’) decided to provide ancillary protection to the protection given by the UWG 1896. In its landmark decision of 1901,¹⁴ the Imperial Court awarded ancillary protection under § 826¹⁵ of the German Civil Code [BGB] – which had just entered into force on January 1, 1900 – in order to fill the ‘gaps’ in the UWG 1896 Act. As a consequence of this judgement, § 826 BGB was granted the status of a general clause for this matter. Protection against discrimination, embargo and boycott was now provided for by this paragraph. Be that as it may, the situation was still far from perfect in the eyes of many German lawyers.¹⁶ In order to comply with the requirements of § 826 BGB one had to prove intention by the wrongdoer causing the damage. In addition to this form of protection, the German literature promoted the idea of utilizing § 823 BGB for protection against unfair competition. This provision could only be applied, however, to protect an absolute right, which, in this case, was not granted under any statutory provision, be it either § 823 BGB or any intellectual pro-

12 For a detailed analysis of the development of the UWG 1869, see *H. v. Stechow, Das UWG vom 27. Mai 1886 – Entstehung und Wirkung*, Diss. Bayreuth 2001.

13 Köhler/Piper (1995), p. 37 and Emmerich (2002), p. 11.

14 RG 11 Apr. 1901 48 RGZ 114.

15 § 826 BGB is a general provision describing tort and states:

‘A person who, by offending good morals, intentionally inflicts damage on someone, is obliged to provide reimbursement for this damage’.

This provision supplements § 823 I and II BGB – see *sub 9* –, and is often classified as the third small ‘general clause’ of German tort law. See Medicus, *Schuldrecht II*, C.H. Beck 1997, 8. ed., No. 744 et seq.

16 Cf. von Bethmann-Hollweg in the first discussion of the UWG 1909 Bill, GRUR 1909, 106. See also Harte-Bavendamm/Henning-Bodewig/Keller (2004), Einl. A, No. 2.

perty statute.¹⁷ If the aim of acknowledging an absolute right for competitors in the sense of § 823 BGB had been accomplished, Germany would probably have had a system of protection based upon a general clause in the Civil Code similar to France.¹⁸

In consequence of these troubles in addressing unfair competition law, the call for a reform of the UWG 1869 gained momentum, and more specifically the call for the introduction of a specific general clause. As a response to these developments, the legislator proposed to improve the situation by introducing the UWG 1909. The main feature of this new piece of legislation was section 1 which contained the famous ('big') general clause.¹⁹ This provision expressed the principle that an injunction and a claim for damages are awarded in those cases in which someone in the course of business acts in conflict with *bonos mores*, good morals.²⁰ In addition to this, the UWG 1909 contained a 'small' general clause (section 3) prohibiting the use of misleading statements,²¹

17 Köhler/Piper (1995), p. 37. § 823 I and II BGB are the main provisions in German tort law. This provision describes the liability for damages and states:

(1) 'A person who, wilfully or negligently, unlawfully injures the life, body, health, freedom, property or other right of another is bound to compensate him for any damage arising therefrom.

(2) The same obligation is placed upon a person who infringes a statute intended for the protection of others. If, according to the provisions of the statute, an infringement of this is possible even without fault, the duty to make compensation arises only in the event of fault'.

Translation: S.L. Goren, *The German Civil Code* (rev. edn 1994), p. 153. One could argue that an absolute right could be constructed by placed it under the heading of 'other right' (§ 823 (1) BGB), but the German Federal Supreme Court has refused to accept such an absolute right.

18 Emmerich (2002), p. 11. The German Federal Supreme Court refused to extend the general tortious action to cover acts of unfair competition, like the French did, despite the opinion of various prominent scholars like, e.g. Kohler (Kohler, *Das Recht des Markenschutzes*, 1884, at 98 et seq.; Kohler, *Treu und Glauben im Verkehr: ein Beitrag zur Lehre vom strafbaren Betrug*, Berlin 1893). See Beier, *The law of unfair competition in the European Community – Its development and present status*, [1985] 10 EIPR, p. 285.

19 Section 1 UWG 1909 stated: 'Wer im geschäftlichen Verkehr zu Zwecken des Wettbewerbs Handlungen vornimmt, die gegen die guten Sitten verstoßen, kann auf Unterlassung und Schadensersatz in Anspruch genommen werden'. Translated: 'Any person who, in the course of business activity and for purposes of competition, commits acts contrary to honest practices may be enjoined from these acts and held liable for damages'.

20 Kamperman Sanders (1997), p. 56.

21 Section 3 UWG 1909 stated: 'Wer im geschäftlichen Verkehr zu Zwecken des Wettbewerbs über geschäftliche Verhältnisse, insbesondere über die Beschaffenheit, den Ursprung, die Herstellungsart oder die Preisbemessung einzelner Waren oder gewerblicher Leistungen oder des gesamten Angebots, über Preislisten, über die Art des Bezugs oder die Bezugsquelle von Waren, über den Besitz von Auszeichnungen, über den Anlaß oder den Zweck des Verkaufs oder über die Menge der Vorräte irreführende Angaben macht, kann auf Unterlassung der Angaben in Anspruch genommen werden.' Translated: 'Injunction proceedings may be brought against anyone who, in the course of trade and for the purposes of competition, provides misleading information about, in particular, the characteristics, origin, method of manufacture or price calculation of specific goods or of the whole offer, or about price lists, the nature or source of the supply of goods, or

and several specific provisions. These two general provisions (section 1 and 3 UWG 1909) did not, during the enactment of the UWG 1909, undergo any essential changes.

4.2.4 Subsequent changes to the UWG 1909²²

The main part of the UWG 1909 remained unchanged until the law reform of 2004, and the UWG 1909 has merely undergone minor modifications. Until the Second World War the only developments worth mentioning were the introduction of the 1932 Ordinance on Bonuses and the 1933 Law Governing Discounts.²³ These regulations were meant to protect small and medium-sized enterprises against aggressive unfair trade practices of big companies during the economic crisis at that time.²⁴ They were quite recently repealed, in July 2001.²⁵ A right of action for consumers' associations was introduced in 1965.²⁶ Some years later, in 1969, a development started towards providing protection to certain (medium-sized) companies *against* specific forms of *unfair competition* instead of providing general protection *for fair competition*. This resulted in the 1969 regulations concerning producer and wholesaler advertising and qualification certificates²⁷ and the 1986 regulations concerning progressive canvassing (e.g. snowball-systems),²⁸ advertising with quantitative restrictions (e.g. only 2 products per person are sold) and price comparisons between one's own products by comparing an old price with the new price.²⁹ Parts of these strict regulations – the ones concerning advertising with quantitative restrictions and internal price comparisons – were repealed in 1994.³⁰ Finally, the implementation of the Directive on Comparative Advertising in the UWG 1909 on 1 September 2000 is worth mentioning.³¹

about the reason or purpose of the sale, or about the quantity of stocks held, with a view to securing an end to the dissemination of the information in question'.

22 For a complete overview see e.g. Gloy, *Die Entwicklung des Wettbewerbsrecht und seiner Nebengebiete*, FS Gewerblicher Rechtsschutz und Urheberrecht in Deutschland, 1991, p. 855 et seq. and Schricker, *Hundert Jahre Gesetz gegen den unlauteren Wettbewerb – Licht und Schatten*, GR Int. 1996, 467 et seq.

23 Zugabeverordnung 9 Mar. 1932, RGBI I 121 and Rabattgesetz 25 Nov. 1933, RGBI I 1011.

24 Emmerich (2002), p. 13.

25 By Act of 23 Jul. 2001, BGBl 2001 I 1661 and 1663.

26 UWGÄndG 21 Jul. 1965, BGBl I 625.

27 UWGÄndG 6 Jun. 1969, BGBl I 633.

28 2. WiKG 15 May 1986, BGBl I 721.

29 Gesetz zur Änderung wirtschafts-, verbraucher-, arbeits-, und sozialrechtlicher Vorschriften 25 Jul. 1986, BGBl I 1169, amended 1987 I 565.

30 UWGÄndG 25 Jul. 1994, BGBl I 1738 (die 'kleine' UWG Novelle).

31 BGBl I 1374.

4.2.5 UWG 2004³²

On July 8, 2004, the amended Act against Unfair Competition (UWG 2004) entered into force.^{33, 34} Prior to that, the German Federal Ministry of Justice had called for two expert

32 The New UWG has been very extensively discussed in the literature. See e.g. Alexander, Die strafbare Werbung in der UWG-Reform, WRP 2004, p. 407; Benz, Werbung von Kindern unter Lauterkeitsgesichtspunkten. Zum Entwurf eines Gesetzes gegen den unlauteren Wettbewerb, § 4 No. 2, WRP 2003, p. 1160; Berlit, Das neue Gesetz gegen den unlauteren Wettbewerb: Von den guten Sitten zum unlauteren Verfälschen, WRP 2003, p. 563; Engels/Salomon, Vom Lauterkeitsrecht zum Verbraucherschutz: UWG Reform 2003, WRP 2004, 32; Fezer, Das wettbewerbsrechtliche Vertragsauflösungsrecht in der UWG-Reform, WRP 2003, p. 127; *Ibid.*, Modernisierung des deutschen Rechts gegen den unlauteren Wettbewerb auf der Grundlage einer Europäisierung des Wettbewerbsrecht, WRP 2001, 989; Finger/Schmieder, The New Law Against Unfair Competition: An Assessment, German Law Journal, Volume 6, No. 1 (1 January 2005), p. 201-216; Geis, Das Lauterkeitsrecht in der rechtspolitischen Diskussion, FS Tilmann, 2003, 121; Henning-Bodwig, Richtlinienvorschlag über unlautere Geschäftspraktiken und UWG-Reform, GRUR Int 2004, p. 183; *Ibid.*, Ein neues Gesetz gegen den unlauteren Wettbewerb in Deutschland, BIE 18 October 2004, p. 447-452; *Ibid.*, Das neue Gesetz gegen den unlauteren Wettbewerb, GRUR 2004/9, p. 713-720; Heermann, Die Erheblichkeitsschwelle i.S. des § 3 UWG-E, GRUR 2004, p. 94; Keßler/Micklitz, Die Harmonisierung des Lauterkeitsrechts in den Mitgliedstaaten der Europäischen Gemeinschaft und die Reform des UWG. NOMOS Verlag, 2003; Köhler, UWG-Reform und Verbraucherschutz, GRUR 2003, p. 265; Köhler, Kopplungsangebote (einschl. Zugaben) im geltenden und künftigen Wettbewerbsrecht, GRUR 2003, p. 729; Köhler, Der Rechtsbruchtatbestand im neuen UWG, GRUR 2004, p. 381; Köhler/Lettl, Das geltende europäische Lauterkeitsrecht, der Vorschlag für eine EG-Richtlinie über unlautere Geschäftspraktiken und die UWG-Reform, WRP 2003, 1019; Köhler/Bornkamm/Henning-Bodwig, Vorschlag für eine Richtlinie zum Lauterkeitsrecht und eine UWG-Reform, WRP 2002, p. 1317; Krüger/v. Gamm, Europäisches Recht und deutsche UWG-Reform, The European Legal Forum, 2004/2, p. 98-101; Leistner/Pothmann, E-Mail-Direktmarketing im neuen europäischen Recht und in der UWG-Reform, WRP 2003, p. 815; Micklitz/Stadler, Der Reformvorschlag der UWG-Novelle für eine Verbandsklage auf Gewinnabschöpfung, WRP 2003, p. 559; Micklitz/Stadler, Unrechtsgewinnabschöpfung, Möglichkeiten und Perspektiven eines kollektiven Schadenersatzanspruches im UWG (Gutachten im Auftrag des BMVEL), NOMOS Verlag, 2003; Nippe, Die Neuordnung des Rechts der Sonder- und Räumungsverkäufe im Vorschlag für eine UWG-Reform und im Referentenentwurf, WRP 2003, p. 568; Ohly, Das neue UWG – Mehr Freiheit für den Wettbewerb?, GRUR 2004/11, p. 889-900. Omsels, Zur Unlauterkeit der gezielten Behinderung von Mitbewerbern (§ 4 No. 10 UWG), WRP 2004, p. 136; Pierson, Synopse zum aktuellen Regierungsentwurf für ein neues UWG, JurPC Web-Dok. 270/2003; Pierson, Tatbestandsmerkmale der neuen Generalklausel § 3 UWG-E, JurPC Web-Dok. 271/2003; Pierson, Schnellübersicht UWG-Entwurf, JurPC Web-Dok. 272/2003; Quiring, Werbung von Kindern unter Lauterkeitsgesichtspunkten. Zum Entwurf eines Gesetzes gegen den unlauteren Wettbewerb, § 4 No. 2, WRP 2003, p. 1181; Sack, Der Gewinnabschöpfungsanspruch von Verbänden in der geplanten UWG-Novelle, WRP 2003, p. 546; Schnorr/Wissing, Reform des Gesetzes gegen den unlauteren Wettbewerb, ZRP 2002, 143; Sosnitzka, Das Koordinatensystem des Rechts des unlauteren Wettbewerbs im Spannungsfeld zwischen Europa und Deutschland. Zum Regierungsentwurf zur

opinions, by Fezer³⁵ and by Schricker/Henning-Bodewig.³⁶ These expert opinions stressed the need for a reform of German unfair competition law. The reform was primarily motivated by the need to reorganize and modernize the law, thereby bringing it into line with developments in EC law.³⁷ The reform offered a perfect opportunity for the German government to change its policies towards the regulation of (unfair) competition. By way of this the law reform, the government could liberalize its competition policy and consolidate the much desired consumer protection.³⁸ Finally, the law reform which has resulted in a modernised German law and a more firmly included consumer protection, has as its purpose to accelerate the harmonisation of unfair competition law within the European Union, by serving as a role model.³⁹ The UWG 2004 is meant to be more in conformity with the existing unfair competition laws of the various Member States of the European Union than its predecessor, the UWG 1909.

The new UWG 2004 shows various modifications in comparison to the 1909 UWG. First of all, a new Section 1 codifies the so-called ‘*Schutzzwecktrias*’,⁴⁰ which had previously been acknowledged by case law and the literature. This paragraph explicitly states that the UWG 2004 seeks to protect the interests of competitors, the female and male consumers as well as all the other market participants against unfair competition. By way of this section, the interests of consumers are explicitly taken care of in the

Reform des UWG v. 09.05.2003, GRUR 2003, p. 739; Trube, Das (neue) ‘Gesetz gegen den unlauteren Wettbewerb (UWG)’, JurPC Web-Dok. 228/2004; Ullmann, Das Koordinatensystem des Rechts des unlauteren Wettbewerbs im Spannungsfeld von Europa und Deutschland, GRUR 2003, 817; Weiler, Ein lauterkeitsrechtliches Vertragslösungsrecht des Verbrauchers?, WRP 2003, p. 423; Wimmer-Leonhardt, UWG-Reform und Gewinnabschöpfungsanspruch oder ‘Die Wiederkehr der Drachen’, GRUR 2004, p. 12.

- 33 In this section I explicitly use the term ‘new UWG 2004’, so as to clarify that I am addressing the UWG after the latest law reform. In the following sections, I will refrain from using this extensive terminology, and will - in most cases, except when clarification is necessary - resort to using the singular term ‘UWG’ to denote the UWG as modified by the 2004 law reform.
- 34 Gesetz gegen den unlauteren Wettbewerb (UWG), BGBl. I 2004, 1414 of July 3, 2004.
- 35 Fezer, Modernisierung des deutschen Rechts gegen den unlauteren Wettbewerb auf der Grundlage einer Europäisierung des Wettbewerbsrecht, WRP 2001, 989.
- 36 Schricker/Henning-Bodewig, Elemente einer Harmonisierung des Rechts des unlauteren Wettbewerbs in der Europäischen Union, WRP 2001, 1367-1407.
- 37 In particular the proposals for a Directive on unfair commercial practices and a regulation on sales promotion. See chapter 2, § 2.6. See Fezer (2001), p. 7.
- 38 Schricker/Henning-Bodewig (2001), p. 104.
- 39 Cf Schricker/Henning-Bodewig (2001), p. 104; Harte-Bavendamm/Henning-Bodewig/Keller (2004), Einl. A, No. 11.
- 40 This term is difficult to translate; it amounts to something like ‘tripartite protection’ or ‘protective purpose triad’. See Harte-Bavendamm/Henning-Bodewig/Schünemann (2004), § 1, No. 3 who refers to the ‘multiple dimensionality’ of protection; Baumbach/Hefermehl (2004), § 1, 3; Fezer (2005), Einl., 25; § 1, 1, 14, 18 et seq.; Beater (ZEuP 2003), 11, 34 et seq.

UWG 2004.⁴¹ Section 2 (1) contains the definition of some of the terms that are used in the UWG 2004.⁴² Under this paragraph, an ‘act of competition’ is defined as ‘any act of a person that is aimed at increasing the sale or supply of goods or services, including immovables, rights and obligations, for his own benefit or for the benefit of a third party’. Section 2 (2) conveys that the UWG 2004 aims to protect businesses even when they are not directly related to another business. To receive protection under the UWG 2004, it is therefore not required that the parties involved should have a competitive relationship, which is e.g. the case with two companies that operate in different branches of business.⁴³

Section 3 contains the general clause, which under the UWG 1909 was accommodated in Section 1. It states, in Section 3, that:

‘Acts of unfair competition are impermissible, in so far as they are capable of substantially affecting competition to the detriment of competitors, consumers or other market participants’.⁴⁴

The general clause has been altered concerning its content as well as its application. Following the new system of law under the UWG 2004, the general clause can only be applied if none of the specific cases of unfair competition under Sections 4 to 7 are applicable. The reason for this restriction of Section 3 is that Sections 4 to 7 contain an (almost) exhaustive list of specific cases of unfair competition. And even if a certain form of behaviour is not actionable under Sections 4 to 7, that behaviour is only actionable under the general clause in case these Sections leave room for additional protection under the general clause. The general clause, as embodied in Section 3, is therefore not meant to be a broad residual category, but has a very narrow scope and applies only to specific cases that do not fall under the ‘rest’ of the UWG 2004, but are still worthy of protection.⁴⁵ The second limitation of the general clause in Section 3 of the UWG 2004 is the insertion of a ‘*de minimis*’ threshold. Even if a certain form of behaviour is considered to be ‘unfair’, there may still be no action for unfair competition if the behaviour

41 Paragraph 1 of the UWG primarily codifies the case law and the literature under the UWG 1909. See Baumbach/Hefermehl (2004), at § 1-1/1-3; Harte-Bavendamm/Henning-Bodewig/Keller (2004), Einl. A, No. 21; Henning-Bodewig, Das neue Gesetz gegen unlauteren Wettbewerb, GRUR 2004, p. 715.

42 In line with the proposals put forward by Köhler/Bornkamm/Henning-Bodewig, Vorschlag für eine Richtlinie zum Lauterkeitsrecht und eine UWG-Reform, WRP 2002, p. 1317.

43 Cf. Explanatory statement to the UWG 2004, Deutscher Bundestag, Drs. 15/1487, 16. See also Fezer (2005), § 2, 11 and 29 et seq.

44 Section 3 UWG 2004 (Verbot unlauteren Wettbewerbs) states: ‘Unlautere Wettbewerbshandlungen, die geeignet sind, den Wettbewerb zum Nachteil der Mitbewerber, der Verbraucher oder der sonstigen Marktteilnehmer nicht nur unerheblich zu beeinträchtigen, sind unzulässig.’

45 Cf. Henning-Bodewig, GRUR 2004, p. 716; Harte-Bavedamm/Henning-Bodewig/Schünemann (2004), § 3, 34 et seq.

did not substantially affect competition.⁴⁶ Minor offences, that do not distort competition, are therefore not actionable under the UWG 2004. Finally, while under the old UWG 1909 behaviour was tested against the principles of ‘*guten Sitten*’, that is ‘*contra bonos mores*’, under the UWG 2004 it is taken into consideration whether the behaviour is fair or unfair. The inclusion of fairness as a test in the general clause is a result of the desire to bring the UWG more into line with EC law.⁴⁷ The term ‘unfair’ is deliberately not described more precisely, because any expatiations would not lead to clarity, but to more vagueness instead.⁴⁸ However, the term ‘unfair’ is elaborated in the following Sections. Sections 4 to 7 of the UWG 2004 contain lists of specific examples of acts typically regarded as being unfair. The list of examples mentioned in Sections 4 to 7 UWG 2004, despite being very comprehensive, is non-exhaustive. The structure of the UWG 2004, with its general clause, followed by definitions and a list of specific acts of unfair competition, clearly corresponds to the Unfair Commercial Practices Directive.⁴⁹

Besides limiting the scope of the general clause, several provisions of the UWG 1909 have been omitted from the UWG 2004 so as to achieve to aim of providing for more freedom of competition. The government has chosen to achieve this liberalisation of the UWG by repealing the provisions governing special sales events and special offers, as well as the provision governing the consumer’s right of withdrawal. There are no longer provisions on the sale of goods in the case of insolvency, on the issuing of buyer’s passes that enable consumers to purchase at a discount at wholesalers, on the advertising and sale by producers or wholesalers to consumers, on special sales events or on clearance sales. These activities can nonetheless lead to ‘unfair’ behaviour under the general clause or if they are misleading, under Section 5 of the UWG 2004.⁵⁰ The consumer’s right of withdrawal has been repealed because it was considered to be of no great use in practice.⁵¹ A consumer who claims the cancellation of a contract must therefore invoke the provisions under contract law, in particular those embodied in the German Civil Code (BGB).

46 This liability threshold is also applicable to Sections 4-7 UWG, cf. Henning-Bodewig, GRUR 2004, p. 716. Cf. Fezer (2005), § 3, 23 et seq.

47 Baumbach/Hefermehl (2004), § 3, 3. In EC law, fairness is often used as a criterion, e.g. in the Unfair Commercial Practices Directive and in the Unfair Contract Terms Directive.

48 Henning-Bodewig, GRUR 2004, p. 716. Cf. Fezer (2005), § 3, 42 et seq.

49 For more on this directive, see chapter 2, § 2.6.

50 Harte-Bavendamm/Henning-Bodewig/Keller (2004), Einl. A, No. 19; Baumbach/Hefermehl (2004), UWG Einl, 2.12.

51 Explanatory statement to the UWG 2004, Deutscher Bundestag, Drs. 15/1487, 15.

Finally, Section 10 of the UWG 2004 contains a new remedy. This highly controversial section⁵² enables the plaintiff to order a skim-off of extra profits⁵³ gained by the defendant at the expense of a multitude of customers in the case of unfair competition. The defendant must remit this skim-off to the public treasury. This remedy may prove particularly effective in cases where the damage has been spread out over a multitude of consumers.⁵⁴ A single consumer, especially if he has suffered only minor damage, less than the ‘*de minimis* threshold’, will in those cases not institute proceedings since the litigation costs will outweigh his claim. Under Section 10, certain consumers’ and traders’ organizations are allowed to bring an action against the offender(s).⁵⁵

4.3 SCOPE OF PROTECTION

4.3.1 Scope of the UWG 1909

Although the UWG 1909 at the end of its ‘lifetime’ included the protection of consumers in addition to the protection of competitors, it did not contain a provision that explicitly acknowledged this extended scope of protection. Section 1 of the UWG 1909 stated that:

‘Injunction proceedings and claims for damages may be brought against anyone who, in the course of trade and for the purposes of competition, resorts to improper practices’⁵⁶

According to this Section, most of the rules of the UWG 1909 only applied to acts that were performed in the course of trade.⁵⁷ Something was performed in the course of trade if it served the promotion of business interests, not necessarily one’s own.⁵⁸ This term had to be broadly interpreted. Although it did not extend to purely private or official acts, it covered artists, academics, and independent professionals such as lawyers,

52 See for the discussion *inter alia* Sack, WRP 2003, 549; Stadler/Micklitz, WRP 2003, 559; Wimmer-Leonhardt, GRUR 2004, 12. One of the points raised was whether acknowledging such an action would impede the freedom of competition, because it would be possible not only to deal with wrongdoers, but also with honest traders that use innovative and aggressive marketing.

53 The German term ‘Gewinnabschöpfung’ is somewhat difficult to translate. I have chosen the terminology ‘skimming-off extra profits’, but one could also use the following terms: ‘surrender of profits’ or ‘siphoning-off profits’.

54 Henning-Bodewig, GRUR 2004, p. 719.

55 See *sub* § 4.3.3.

56 For the original German text version, see *supra* 19.

57 That was §§ 1, 3, 5, 6a, 6b, 6c, 12 and 18 UWG 1909.

58 Baumbach/Hefermehl, 22d edition (2003), UWG Einl, No. 208.

architects, or doctors.⁵⁹ The state could perform an act in the course of trade as well, providing that it established a competitive relationship within the scope of private law, even if there was no profit motive.⁶⁰

Secondly, to fall within the scope of the UWG 1909, the acts concerned had to be performed for purposes of competition.⁶¹ German doctrine makes a distinction between an objective and a subjective point of view.⁶² From an objective point of view, the market behaviour should lend itself to increasing a person's sales or revenue at the expense of another. Subjectively, one must *intend* to reach this goal by means of the market behaviour concerned. A competitive relationship between the two market parties involved was required.⁶³

As a consequence of this narrow field of application, the UWG 1909 was mainly applicable to the behaviour of *competitors*, in other words: enterprises. This could be deduced from the original function of the UWG 1909: the protection of the individual competitor.⁶⁴ The requirement of a competitive relationship, especially in the case of the application of Sections 1 and 3 UWG 1909, has over the course of time been increasingly criticised.⁶⁵ As a result, the scope of protection has been expanded ever since, and during the last few decades it has included the protection of other market parties,⁶⁶ consumers and the general public as well. Although this expansion has been adopted in doctrine as well as in case law,⁶⁷ there was no sign of this in the wording of Sections 1 and 3 UWG 1909.

4.3.2 Scope of the UWG 2004

Under the UWG 2004, as mentioned above, the *Schutzzwecktrias*⁶⁸ has been explicitly stipulated. Section 1 of the UWG 2004 now reads:

59 Lehmler, *Das Recht des unlauteren Wettbewerbs/Eine systematische Darstellung*, 1st ed., Neuwied, Kriftel: Luchterhand 2002, p. 10.

60 BGH (GSZ) GRUR 1977, 51, 52 f. (Auto-Analyzer); BGH GRUR 1982, 425, 427 (Brillen-Selbstabgabestellen); BHG GRUR 1993, 917, 919 (Abrechnungs-software für Zahnärzte); BGH GRUR 1995, 601, 602 (Bahnhofs-Verkaufstellen).

61 This criterion is stated in §§ 1, 3, 6b, 12, 14, 17, 18 and 20 UWG.

62 See e.g. Baumbach/Hefermehl (2001), UWG Einl, No. 215 et seq.; Lehmler (2002), p. 12 ff.; Köhler/Piper (1995), Einf Rdn 167.

63 V. Gamm, p. 227, Rdn. 30.

64 Baumbach/Hefermehl (2001), Einl UWG Rdn 41.

65 See e.g. Baumbach/Hefermehl, 22d edition, UWG Einl. 247; Emmerich (2002), p. 28 ff.

66 This development is often expressed as the advancement of individual protection for social protection. See e.g. G. Schricker, Hundert Jahre Gesetz gegen den unlauteren Wettbewerb-Licht und Schatten, GRUR Int 1996/04, p. 476.

67 See e.g. BGH GRUR 1972, 553 (Statt Blumen Onk-Kaffee); BGH GRUR 1985, 550 (Dimple).

68 See *supra* 40.

‘This Act is meant to protect the competitors, the female and male consumers as well as all the other market participants against unfair competition. It equally protects the interests of the public to enjoy unalloyed competition’⁶⁹

Section 1 thus stipulates that both the traditional acts of unfair competition, that regulate behaviour between competitors, fall within the UWG 2004, as well as the more ‘modern’ acts of unfair competition that serve to protect the interests of the consumer as well. By way of this Section, the UWG 2004 clearly corresponds with the EC Directive on Misleading Advertising that contains a similar provision. When referring to consumers, the UWG 2004 uses the definition of consumers as used in EC law, namely of the ‘average consumer’. In section 5.2 below, I will address what the German courts have determined to be an ‘average consumer’.⁷⁰

Not every act of unfair competition is actionable under the UWG 2004. First of all, the allegedly unfair act must be an ‘act of competition’. Section 2(1) UWG 2004 defines, as I have mentioned earlier,⁷¹ what is an act of competition. The prerequisite of an ‘act of competition’ basically resembles the criterion used in the UWG 1909 that required an act committed ‘in the course of business activity and for purposes of competition’.⁷² Secondly, the general clause embodied in Section 3 UWG 2004 requires the party who seeks redress to prove that the defendant, by acting unfairly, was acting to his disadvantage. So not the unfair behaviour itself is tackled, but the unfair behaviour that is detrimental to the interests of one of the parties protected by the UWG 2004.⁷³ Does this mean that the interests of a single consumer who has suffered damage fall within the scope of protection of the UWG 2004? Since the law explicitly mentions consumers (in the plural) and not ‘a consumer’ one could begin to doubt whether it also

69 Section 1 UWG (‘Zweck des Gesetzes’) states: ‘Dieses Gesetz dient dem Schutz der Mitbewerber, der Verbraucherinnen und der Verbraucher sowie der sonstigen Marktteilnehmer vor unlauterem Wettbewerb. Es schützt zugleich das Interesse der Allgemeinheit an einem unverfälschten Wettbewerb.’

70 See also Lettl, Der Schutz der Verbraucher nach der UWG-Reform, GRUR 2004, p. 449 et seq. who describes what is an ‘average consumer’ with regard to German law, European law as well as compared to other Member States of the EU. He proposes to attune this criterion, according to the types of goods or services that are advertised. See Lettl (2004), p. 454. Cf. Lettl, Die wettbewerbswidrige Ad-hoc-Mitteilung, ZGR 2003, p. 862.

71 See *supra* 4.2.5.

72 The new criterion of ‘act of competition’ is better attuned to the EC Directive on Misleading Advertising. Cf. Köhler/Bornkamm/Henning-Bodewig, WRP 2002, 1317; Harte-Bavedamm/Henning-Bodewig/Keller (2004), § 2, 4 et seq.; Baumbach/Hefermehl (2004), § 2, 3. See however, as to the requirement of the ‘Wettbewerbsverhältnis’ (‘competitive relationship’) critical: Keller in: Harte-Bavedamm/Henning-Bodewig/Keller (2004), § 2, 16 et seq. who states that under European law no actual competitive relationship is required and it thus seems like German law by setting this requirements, presupposes the presence of a ‘particularly intense competitive situation’.

73 Lettl, GRUR 2004, p. 450.

seeks to protect the single consumer. Despite the – in this respect – indistinct wording used in Section 3 UWG, it is nonetheless beyond all doubt that the UWG 2004 is applicable when a single consumer has been harmed, as long as the act of unfair competition touches upon the interests of consumers as a whole.⁷⁴ This can be derived from the fact that various provisions of the UWG 2004 relate to the single consumer.⁷⁵

The inclusion of consumer protection in the UWG 2004 does not mean that the consumer *de facto* receives full protection against acts of unfair competition under the UWG 2004. For this not only requires the presence of substantive law on unfair competition for the protection of the consumer, but also a possibility for the consumer to actually ‘exercise’ his or her rights. In the next section, I will address the remedies that are possible under the UWG 2004, and whether the consumer is entitled to any of them.

4.3.3 Remedies under the UWG 2004⁷⁶

There are various legal remedies available to a party who has suffered damage because of an act of unfair competition.⁷⁷ First of all, under Section 8 UWG 2004 the injured party may file for injunctive relief, by requiring the offender to abate the nuisance (‘Beseitigungsanspruch’) or, if there is danger of repetition, to refrain from acting (‘Unterlassungsanspruch’). Actual damage is not a prerequisite, it is sufficient to prove the likeliness of damage.⁷⁸ Injunctive relief is expeditiously enforceable by a preliminary injunction.⁷⁹ According to Section 8(3) UWG 2004 injunctive relief may be filed

74 Ibid.

75 E.g. Section 4 and 7 UWG 2004.

76 See for an analysis, Harte-Bavedamm/Henning-Bodewig/Beckedorf (2004), § 8 UWG.

77 In addition to the remedies mentioned in this paragraph, a plaintiff may have in certain cases special remedies that are available to him. E.g. in case of unlawful imitation, the plaintiff can institute a claim on the account of unjust enrichment (in general, however, unfair competition does not allow such a claim), see Fezer/Götting (2005), § 4-10, 76. Next, he can claim for damages by use of the so-called ‘triple damage calculation’. This means he can claim (1) special damage, (2) a fair licence fee, (3) or damages based on account of profits, see Baumbach/Hefermehl/Köhler, § 9, 1.36 et seq. Additionally he can claim for third party discovery, based on § 242 BGB, see Fezer/Götting (2005), § 4-10, 77. In case of unlawful imitation, the plaintiff will probably not be able to bring a claim for destruction of the imitated goods, since not the production of the imitation as such but the putting of it on the market violates unfair competition law, see Fezer/Götting (2005), § 4-10, 78. See also Retzer, *Einige Überlegungen zum Vernichtungsanspruch bei der Nachahmung von Waren oder Leistungen*, in: *Festschrift für Dr. Henning Piper*, Beck: Munich 1996.

78 In this case the party who feels that he will be harmed, can file for ‘preventive’ injunctive relief. See Harte-Bavedamm/Henning-Bodewig/Beckedorf (2004), § 8, 23 et seq.; Baumbach/Hefermehl (2004), § 8, 1.15 et seq.; Fezer (2005), § 8, 76 et seq.

79 Cf. Section 12 UWG 2004 and Sections 935 and 940 ZPO (German Code of Civil Procedure).

by direct competitors,⁸⁰ trade associations,⁸¹ consumers' associations,⁸² Chambers of Industry and Trade and Chambers of Crafts.⁸³ The threshold for trade associations and consumers' associations for bringing an action for unfair competition has been lowered. Under the UWG 1909, these associations had to prove that the allegedly unlawful acts were liable to significantly impair competition on the market.⁸⁴ Under the new law, the associations only have to prove that these acts are liable to have more than an unsubstantial impact on competition.⁸⁵ In contrast to the UWG 1909, that allowed competitors to bring proceedings even when they were merely 'conceptually affected',⁸⁶ only competitors that have a direct competitive relationship with the wrongdoer are authorised to bring proceedings under the UWG 2004.⁸⁷ In addition to this, a competitor can claim damages under Section 9 UWG 2004, provided the wrongdoer has acted intentionally or negligently.⁸⁸ The competitor can claim compensation for actual damage, for lost profits, or he can demand an adequate licence fee.⁸⁹ The consumer associations⁹⁰ cannot, however, lodge a claim for damages, because they have not suffered damage⁹¹ them-

80 Section 8(3)(1) UWG 2004.

81 Section 8(3)(2) UWG 2004. The objective of trade associations is to protect the *individual competitor* and the *general public* against unfair trade practices. These associations may bring an action for unfair competition under the UWG, provided the interests of their members are affected. See BGH, GRUR 1956, 279 (Olivin); BGH GRUR 1960, 379 (Zentrale); BGH GRUR 1964, 397-398 (Damenmäntel).

82 Section 8(3)(3) UWG 2004. These are the so-called qualified entities, that have been listed pursuant to Article 4 of the EC Injunction Directive 98/27/EC of 19 May 1998 and Article 4 of the Injunctive Relief Act (Unterlassungsklagengesetz, UKlaG).

83 Section 8(3)(4) UWG 2004.

84 Section 13(2) UWG 1909.

85 Section 3 UWG 2004. See Heidenreich, The New German Act Against Unfair Competition, German Law Archive, 2005, accessible at: <http://www.iuscomp.org/gla/literature/heidenreich.htm>, footnote 64.

86 Section 13 (2)(1) UWG 1909. The option of appealing to industry or competition associations was deemed to provide adequate protection to competitors not directly affected by the allegedly unfair practices. See the Explanatory statement to the UWG 2004, Deutscher Bundestag, Drs. 15/1487, 22.

87 Henning-Bodewig, GRUR 2004, p. 719.

88 The liability of a newspaper publisher is however limited to cases of wilfulness (intent). See Section 9 UWG 2004.

89 Nordemann, Wettbewerbsrecht und Markenrecht, 10th ed., Nomos-Verlag: Baden-Baden 2004, 1886-1893.

90 Also not the trade associations and Chambers of Industry and Commerce or Craft Chambers.

91 Besides, for practical reasons the claim for damages is said to be of minor importance to German competition law. Proof of fault is required as well as the occurrence of the incidence of loss and the calculation of the damages. See Henning-Bodewig, Die Regelung der Zivilrechtlichen Sanktionen im UWG, in: Straus, Aktuelle Herausforderungen des geistigen Eigentums, Festgabe für Friedrich-Karl Beier zum 70. Geburtstag, Carl Heymanns Verlag KG: Cologne 1996, p. 528.

selves. It has been argued, that an opportunity to claim for the damage sustained to their members as third party damage would be preferable.⁹²

Prior to filing for injunctive relief, the injured party has to issue a warning notice ('Abmahnung') to the wrongdoer.⁹³ The legal concept of the warning notice is of extreme importance to German legal practice, since an estimated 90-95 % of all acts of unfair competition are settled out of court in this way.⁹⁴ By way of this notice, the wrongdoer is offered the possibility to settle the legal proceedings by signing an affidavit containing a declaration of discontinuance, with an appropriate penalty clause.⁹⁵ The issuer of the warning notice may claim the reimbursement of the necessary expenses incurred in this issuing,⁹⁶ if the warning notice is legitimate.⁹⁷ This possibility has led to various critical voices in the literature.⁹⁸ Various authors feared an abuse of the warning notice by traders and trade associations in order to profit from the reimbursement of the 'necessary' expenses. The legislator has given in to these objections by drafting Section 8(4) of the UWG 2004. According to this provision, it is illegal to issue a warning notice, when this notice is issued abusively under the circumstances and mainly serves as a claim for expenses.⁹⁹

Under Section 12 (3) UWG 2004 the courts can authorise the prevailing party, when the legitimate interest of this party is demonstrated, to publicly publish the judgement at the expense of the loser. The courts, when deciding whether to authorise such a publication, will strike a balance between the interests of the prevailing party and the interests of the loser.¹⁰⁰ Finally, Section 10 UWG 2004 has introduced the action for

92 Cf. Rittner, Wettbewerbs- und Kartellrecht, Müller: Heidelberg 1999, p. 104.

93 Section 12 UWG. The procedure is roughly as follows: a party, e.g. a consumer organisation, issues a warning notice [Unterlassungsklage] to the assumed wrongdoer. Attached to this letter is a contract which contains a declaration of discontinuance with a penalty clause, and also a notice to pay for the cost of the warning notice. The assumed wrongdoer can choose to comply with the demand and pay the cost of the warning notice, or to refuse and to allow the complainant to bring the matter to court.

94 Fezer (2005), volume 2, § 12, 2.

95 See for more on this topic, Kaiser, Die Vertragsstrafe im Wettbewerbsrecht, Schriftenreihe zum gewerblichen Rechtsschutz, GWR Band 106, XXVIII, Carl Heymanns Verlag AG: Cologne 1999, 264 pp.

96 Section 12(1) UWG.

97 As it is stated in Section 12(1) UWG: 'Soweit die Abmahnung berechtigt ist, kann der Ersatz der erforderlichen Aufwendungen verlangt werden'. The warning notice must be issued by a person who is entitled to injunctive relief (Unterlassungsanspruch) and whose interests are at stake. Additionally, there must be the likeliness of a repetition of the offence. Whether the warning notice is issued legitimate will probably be for the courts to decide. See Fezer (2005), § 12, 46.

98 See e.g. Albrecht, WRP 1983, 540 et seq.

99 One could also argue that abusively issuing a warning notice constitutes an act of unfair competition under § 4(1) UWG 2004, that prohibits any acts of competition that are likely to influence the consumer in his/her free choice by exerting pressure on him or her.

100 Explanatory statement to the UWG 2004, Deutscher Bundestag, Drs. 15/1487, 25.

skimming-off extra profits, as set out above in section 4.2.5. Such an action may be brought by trade associations, consumers' associations, Chambers of Industry and Trade, and Craft Chambers, though not by individual competitors or consumers.

It is important to realize that the individual consumer cannot take any action under the UWG 2004 himself. Under the UWG 1909, the consumer had the possibility to withdraw from a contract in the case of unlawful misleading advertising.¹⁰¹ In practice, this right was hardly exercised. The German government therefore decided not to include such a provision in the UWG 2004. Instead, it was held that *inter alia* an action based on nonconformity under § 434 (1)(3) BGB (German Civil Code) would be more appropriate.¹⁰² So, in this respect, it is better to refer to the UWG 2004 as offering *indirect* consumer protection. This does not necessarily mean, though, that there is a low level of consumer protection. What is more, some aspects of this system of placing legal power with consumers' associations can be said to even increase the level of consumer protection. The well-informed and strictly organised consumer associations have more leverage and resources for instituting legal proceedings against a company, than a single consumer. Besides, they do not have to prove the infringement of a particular consumer's interest. That their own interests and competence have been affected is a sufficient ground for legal action.¹⁰³ So they have many opportunities to take legal action. Nevertheless, as expressed above, they do not have the possibility to lodge a claim for damages.

If consumer associations cannot claim for damages, can the consumer do so himself? As expressed above, the consumer cannot take action against an infringer under the UWG 2004.¹⁰⁴ Whether he can claim for damages under the general tort provisions of the BGB is not clear. While the UWG 1909 was still in force, the point was, in particular, whether the consumer could take action under § 823 II BGB (the main tort provision) in the case of a misleading statement as defined in Section 3 UWG 1909.¹⁰⁵ Most

101 According to § 13a UWG 1909, the consumer did have the right to *withdraw from a contract*, when he had been misled, as defined in § 4 UWG 1909, by the advertisement of the seller. This right ended by the lapse of 6 months after entering into the sales contract. The burden of proof mainly fell upon the consumer. See Henning-Bodewig, *Die Regelung der Zivilrechtlichen Sanktionen im UWG*, in: Strauss (ed.), *Aktuelle Herausforderungen des Geistigen Eigentums – Festgabe für F-K Beier zum 70. Geburtstag*, Carl Heymanns Verlag 1996, p. 533 and Ritterer, *Wettbewerbs- und Kartellrecht*, p.104-105.

102 Explanatory statement to the UWG 2004, Deutscher Bundestag, Drs. 15/1487, 14/15.

103 Fezer (2005), Volume 2, § 8, 221 et seq.; Harte-Bavendamm/Henning-Bodewig/Bergmann (2004), § 8, 299 et seq.; Baumbach/Hefermehl (2001), § 8, 3.56 et seq.

104 See also Fezer, WRP 2003, 127-128.

105 See for a comprehensive analysis: Schaffernak, *Das wettbewerbsrechtliche Vertragslösungsrecht nach § 13 a UWG*, Rechtswissenschaftliche Forschung und Entwicklung, Munich: 1992, 244 pp.

authors believed this issue to be open to doubt.¹⁰⁶ § 823 II BGB was most likely not applicable because the UWG 1909 contained special regulations that provided for liability for damages. Since the individual consumer was not included in the area of protection under the UWG rules, it therefore remained to be seen whether Section 3 UWG 2004 was a ‘protective law’ (the violation of which entitles a victim to receive damages) in accordance with § 823 II BGB. The fact that in the amendment to the UWG 1909 of 1986, the legislator explicitly¹⁰⁷ chose to restrict the claims of individual consumers to a single right to withdrawal, indicated nonetheless that there was no claim for damages under the general tort provisions of the BGB.¹⁰⁸ Under the UWG 2004, this issue has been clarified. It is now clear that Section 3 UWG is not a ‘protective law’ within the meaning of § 823 II BGB.¹⁰⁹ It is, therefore, not possible to ‘use’ § 823 II BGB as a detour to justify a claim for damages for an individual consumer. Besides, it should be stated that the question of the possibility of a claim for damages for the individual consumer is of limited relevance. In most cases, the consumer has not suffered any damage, so contractual claims¹¹⁰ or a claim under the Product Liability Act are more likely to bring relief. The German government has similarly abstained from introducing a right for the individual consumer to file for injunctive relief. Giving a consumer such an individual means of action would lead to ‘tax payer’s suits’, and, consequently, to a great deal of pressure on businesses as well as on the courts.¹¹¹ In short, the UWG 2004 primarily protects the collective interests of the consumer by way of recognising the right of certain consumers’ organisation to bring legal proceedings.

106 See Baumbach/Hefermehl (2001), *Einl.*, Rdn 43 and § 3 Rdn 440; Canaris, *Festschrift Larenz*, 1983, p. 69; Fricke, *GRUR* 76, p. 680; Tilmann, *ZHR* 141 (77), 32-37; Großkommentar UWG, Köhler § 13a RDN 67 [90] et seq.; Henning-Bodeweg, *Die Regelung der Zivilrechtlichen Sanktionen im UWG* (1996), p. 533; Rittner, *Wettbewerbs- und Kartellrecht*, p. 104. Of an opposite view see Sack, *Deliktsrechtlicher Verbraucherschutz gegen unlauteren Wettbewerb*, *NJW* 1975, 1303 et seq.; Schrickler, *GRUR* 1975, p. 111-120; Traub, *GRUR* 1980, p. 673 et seq.

107 After much debate in legal literature, see e.g. Schrickler, *Zur Reform des Gesetzes gegen den unlauteren Wettbewerb. Schadensersatzansprüche der Abnehmer und Rücktritt vom Vertrag bei irreführender und unlauterer Werbung*, *GRUR* 1979, 1 et seq.; Michaeli, *Zur Regelung der Abnehmerrechte in der UWG-Novelle*, *GRUR* 1979, 8 et seq.; Krieger, *Zur Kritik an der UWG-Novelle*, *GRUR* 1979, 14 et seq.

108 See also *BGH* 14 May 1974, *GRUR* 1975, 150 (Prüfzeichen) and *BGH NJW* 1983, 2493-2494.

109 Explanatory statement to the UWG 2004, *Deutscher Bundestag*, Drs. 15/1487, p. 22.

110 E.g. if there is a case of misleading advertising: under §§ 119 (voidability on the ground of mistake) and 123 (voidability on the ground of deceit and duress) BGB, or a claim based on nonconformity under § 434 (1)(3) BGB. See for an analysis of the possibilities under civil law, Baumbach/Hefermehl (2004), § 8, 3.4 and § 1, 34; Köhler, *GRUR* 2003, 267; Weiler, *WRP* 2003, 425; Engels/Salomon, *WRP* 2004, 33.

111 See Harte-Bavendamm/Henning-Bodewig/Bergmann (2004), § 8, 258 et seq.; Köhler in Baumbach/Hefermehl (2004), § 8, 3.4 who argues that the introduction of such a right to take action would be illogical. He claims that if there is a ‘protection deficit’ it should be addressed within civil law, not (unfair) competition law. See also Fezer (2005), § 8, 182 et seq.

So the UWG 2004 does not provide the individual consumer with a means of action, nor does it contain a specific duty to furnish information, a ‘class action’ or specific provisions on a right to withdrawal.¹¹² For reasons of individual consumer protection, an action for damages, for example by way of reference to § 823 II BGB in the UWG, would nonetheless be preferable.

4.4 CLASSIFICATION OF ACTS OF UNFAIR COMPETITION

As has become clear from the preceding paragraphs, Germany forms part of the group of countries that have adopted *Lex Specialis* approach and have thus drafted special provisions for unfair competition law. The German UWG Act contains one general provision and several additional specific provisions. An attempt to classify German unfair competition law has often been made in the literature, since the structure of the different sections of the UWG itself is not suited for use as a classification.

Kohler introduced the first notable systematic classification in 1914.¹¹³ He distinguished between *misleading actions* and *hostilities*. The first category is subdivided into objective deceptive statements with respect to the vendor or its choice of products, and the subjective use of means of identification. By *hostilities* he meant disparagement, betrayal of secrets, bribing and hostile obstruction in the course of business. This approach focuses on the *aim* of the unfair trade practices. Different authors have refined the *Kohler* system.¹¹⁴ Most of them divide the subject-matter into three or four parts.

The classification proposed by *Hefermehl*¹¹⁵ has become customary in this field.¹¹⁶ It is based on the type and course of the unfair trading practice as well as the specific interests that are at stake. He classified five different groups of anti-competitive acts as

112 Cf. Henning-Bodewig, GRUR 2004, 719; Sack, WRP 2003, 549; Stadler/Micklitz, WRP 2003, 559; Wimmer-Leonhardt, GRUR 2004, 12.

113 Kohler, Der Unlautere Wettbewerb, Berlin 1914, Verlag Rothschild, p. 24 et seq., p. 104 et seq. and p. 235 et seq.

114 See e.g. Callmann, Der unlautere Wettbewerb, Kommentar zum Gesetz gegen den unlauteren Wettbewerb, 2d edn. 1932, p. 20; Emmerich (2002), p. 57-58; Fezer in RWW -Rechtsfragen in Wettbewerb und Werbung-, 3.0 No. 120-129; Fikentscher, Wirtschaftsrecht II, § 22 XI 6; Kraft, Interessenabwägung und gute Sitten im Wettbewerb, München: Beck 1963, p. 272 et seq.; Nerterer, Allgemeine Grundlagen eines deutschen Wettbewerbsrecht, WbRechts, 1936, p. 102 et seq.; Nordemann, Wettbewerbs- und Markenrecht, 8th edn. 1996, p. 35 et seq.; Schünemann (arr.), Jacobs, Lindacher and Teplitzky (ed.), UWG Großkommentar, Walter de Gruyter & Co, Berlin 1991, Introd. No. D 137 et seq.; Ulmer, GRUR 1937, 769 (771).

115 Baumbach/Hefermehl (2001), p. 257 et seq.

116 See e.g. Lehmler (2002), p. 20; Emmerich (2002), p. 57; Ackermann, Wettbewerbsrecht: Unter Berücksichtigung europarechtlicher Bezüge, Berlin: Springer 1997, p. 48; Köhler/Piper (1995), p. 96; Klippel e.a., Heidelberger Kommentar zum Wettbewerbsrecht, p. 34; Rittner, Wettbewerbs- und Kartellrecht, p.32.

acts of unfair competition. These are touting for custom, the obstruction of a competitor, the exploitation of another's achievements, obtaining a head start by a misapplication of the law and market disruption. This group of anti-competitive acts may be assessed against the first section of the UWG 1909, the general clause, or under the UWG 2004, against the general clause of Section 3 in conjunction with the specific Sections 4-7.

4.5 THE GENERAL CLAUSE

4.5.1 Introduction

Both the UWG 1909 and the UWG 2004 feature a general clause that contains a general description of behaviour that is assumed to be unlawful. These Acts however differ in the terminology used for describing the unlawful behaviour. In the next two sections, I will look at the constructions that have been applied to these two terms.

4.5.2 UWG 1909 – ‘*guten Sitten*’

The general clause of Section 1 UWG 1909 prohibited acts that were found to be contrary to honest practice, or as it is formulated, the ‘*guten Sitten*’ (bonos mores, good morals). This Section worked *inter alia* as an umbrella section under which supplementary protection could be given to industrial property rights once a breach of the *guten Sitten* had been established.¹¹⁷ What the legal notion of *guten Sitten* should be taken to mean was not clear in view of the wording of the UWG 1909.¹¹⁸ Case law was given the task of interpreting this legal concept. As a matter of fact, since the entry into force of the UWG 1909, case law had developed a very comprehensive, detailed and, even for the specialist, barely surveyable system of standards of conduct. This led to a vast body of judge-made law. It was and still is therefore not correct to classify the German legal system as one that is solely influenced and built up by the legislator. While the legislation on unfair competition in Germany serves as a legal basis, the case law provides for conversion and adaptation to actual cases in practice. This makes the German system almost as flexible as the English one.

It is important to distinguish between the legal term *guten Sitten* as it was used in Section 1 UWG 1909 and as it is used in §§ 826 and 138 BGB.¹¹⁹ It does not have the

117 Kamperman Sanders (1997), p. 57.

118 As for the Roman law origin of this term *guten Sitten* (bonos mores), see v. Ihering, *Der Zweck im Recht* Bd. II, 2d Ed. 1886, p. 1 et seq.; Lobe, *Gruchot* 72 (1932), p. 145 et seq.

119 §138 lit. 1 BGB states: ‘*Ein Rechtsgeschäft, das gegen die guten Sitten verstößt, ist nichtig*’, translated: ‘*A legal transaction which offends good morals is void*’. § 826 BGB states: ‘*Wer in einer gegen die guten Sitten verstößenden Weise einem anderen vorsätzlich Schaden zufügt, ist dem anderen zum Ersatze des Schadens verpflichtet*’. Translation see sub 15.

same meaning, because, first of all, the objective differs. § 138 BGB deals with a legal act, § 826 intentional damage or injury and Section 1 UWG 1909 a competitive act in the course of trade. This difference affects the assessment criterion. Secondly, the legal effect of these sections is not the same. The legal effect of an infringement of § 138 BGB is the nullity of a juristic act, in the case of an infringement of § 826 BGB the obligation of indemnification and in the case of an infringement of Section 1 UWG 1909 the obligation of omission and – by fault – of indemnification. However, an infringement of the *competitive guten Sitten*, albeit while entering into an agreement, does not by right imply the nullity of the agreement. Finally, these sections differ in their function. § 138 BGB sets limits on the freedom of citizens to enter into a juristic act and give substance to it.¹²⁰ § 826 BGB protects the individual against damage which is intentionally inflicted and against the *guten Sitten*. Section 1 UWG 1909, by comparison, protected the fairness of competition in the interest of the competitor, the consumer and the general public. From this it could be concluded that no uniform concept of *guten Sitten* existed.¹²¹ The concept was determined by its function.¹²² An infringement of Section 1 UWG 1909 did not necessarily entail an infringement of § 138 BGB.¹²³

However, the basic principle underlying these different interpretations of *guten Sitten* was the same. Because of the fact that § 826 BGB preceded Section 1 UWG 1909, the construction of the general clause in Section 1 UWG 1909 was based upon the interpretation of § 826 BGB. The German Imperial Court had developed a common standard of decency. As a criterion for *guten Sitten* when there is a case of disloyal impairment in competition, the judges of the Imperial Court extracted from the prevailing societal views the ‘*Anstandsgefühl aller billig und gerecht Denkenden*’.¹²⁴ Case law adjusted this general criterion to those cases under Section 1 UWG 1909. According to the case law of the German Federal Supreme Court (BGH) there was a violation of the *guten Sitten* when:

120 See for the function of § 138 BGB int. al. Medicus (1994), Rnn. 679-680 (pp. 250-251); Mayer-Maly, in: Münchener Kommentar zum Bürgerlichen Gesetzbuch, 3th ed., Munich: Beck 1993, § 138, Rnn. 1-3; Van Kooten, Restitutierechtelijke gevolgen van ongeoorloofde overeenkomsten, p. 133.

121 See also Baumbach/Hefermehl (2001), UWG Einl. No. 69, p. 222; Schrickler, Gesetzesverletzung und Sittenverstoss: Rechtsvergleichende Untersuchung zur wettbewerbsrechtlichen Haftung bei Verletzung außerwettbewerbsrechtlicher Normen (diss. Munich), Munich: Beck 1970, pp. 248-275; Teubner, Standards und Direktiven in Generalklauseln: Möglichkeiten und Grenzen der empirischen Sozialforschung bei der Präzisierung der Gute-Sitten-Klauseln im Privatrecht, Frankfurt am Main: Athenäum 1971, p. 62; Vogt, NJW 76, pp. 729-730; Sack, GRUR 70, pp. 493-502; Fikentscher, Wb, p. 108.

122 Baumbach/Hefermehl (2001), UWG Einl, No. 69, p. 222.

123 BGH 110, p. 156-174 (HBV-Familien- und Wohnungsrechtsschutz).

124 ‘The sense of decency of all fair and righteous minded people’.

‘(...) ein Wettbewerbsverhalten dem Anstandsgefühl der redlichen und verständlichen Mitbewerber widerspricht oder von der Allgemeinheit, insbesondere von den angesprochenen Verkehrskreisen, mißbilligt und für untragbar angesehen wird.’¹²⁵

So, the criterion as used under the UWG 1909 was whether the competitive conduct conflicted with standards of decency as experienced by the honest and comprehensible competitor or was viewed by the general public, in particular by the addressed target groups, as disapproved of or intolerable. Crucial was what is *supposed to be* fair or unfair according to the *guten Sitten*, so not based upon the prevailing opinion in society.¹²⁶ A deplorable custom, which has become integrated, could consequently not turn the balance.¹²⁷

It followed from Section 1 UWG 1909 that each competitive act contrary to the *guten Sitten* was unfair. This did not mean, however, that each unfair competitive act – under the UWG – was in violation of the *guten Sitten*. In addition to the general clause, a specific group of unfair competitive acts were regulated in other sections of the UWG (Sections 2 UWG et seq.). For an infringement of one of these provisions the condition of a violation of the *guten Sitten* was not considered to be a requirement.¹²⁸ These additional provisions – e.g. comparative advertising (Section 2 UWG 1909) and illicit advertising, including misleading (Sections 3-8 UWG 1909) – did not exclude ancillary protection by Section 1 UWG 1909. The general clause nevertheless did not apply in cases where the special provision was of an exclusive nature.¹²⁹

In order to specify Section 1 UWG 1909 more particularly, a final distinction was made between *Leistungs-* and *Nichtleistungs-wettbewerb*.¹³⁰ Both of these types of competitive behaviour pursue the same goal: the active pursuit of customers. The first is a type of positive competition, where a company augments its sales potential by employing its own resources and achievements. The different competitors can offer their goods on the market without any restrictions, and the consumer can freely make his choice. On the other hand, in the case of *Nichtleistungs-wettbewerb*, one tries to expand one’s business by obstructing one’s competitors (*‘Behinderung’*). In this case a company uses means that make it impossible for the consumer to compare and distinguish between the achievements of the different competitors. This distinction in the type of

125 ‘[There is a violation of the *guten Sitten* in case] a trade practice violates the sense of decency of the honest and intelligible competitor or is frowned upon or regarded as intolerable by the general public, in particular by the target group that is addressed by it’. See BGH GRUR 1988, 614, 615 (BTX – Werbung); BGH NJW 1995, 2486, 2487 (Busengrapscher/Schlüpfertürmer).

126 BGH NJW 1995, 2492, 2493 (H.I.V. Positive).

127 Baumbach/Hefermehl (2001), Einl. UWG Rn 66, p. 220.

128 Baumbach/Hefermehl (2001), Einl. UWG Rn 65, p. 220.

129 BGH WRP 1998, 1181, 1182 (MAC Dog).

130 See the expert opinion of Nipperdey in the *Benrather Tankstellen* case (RG 134, 342) in: Nipperdey, Wettbewerb und Existenzvernichtung, 1930. Cf. BGHZ 15, 356 (365), NJW 1955, 377; BGHZ 51, 236 (242), NJW 1969, 744 (*Stuttgarter Wochenblatt*).

competition could serve as an *indication* as to what is fair or unfair.¹³¹ It could, however, only be used as a basis for the valuation of *guten Sitten*. In most cases of competitive behaviour involving the use of one's own performances, even at the disadvantages of a competitor, the behaviour will be considered to be fair. Vice versa, entering into competition without the use of one's own performances but solely by obstructing a competitor's business, will usually lead to unfairness. However, special circumstances could lead to different results. This use of a distinction between performance and non-performance competition for determining whether there has been a violation of the *guten Sitten*, has nevertheless been criticized.¹³² There was a real possibility that the vague legal concept of *guten Sitten* was just being replaced by another. For example, it was difficult to specify what a performance of a company actually is, certainly from a legal point of view.

4.5.3 UWG 2004 – ‘Unlauterkeit’

As we have seen above, *supra* § 4.2.5, the criterion of *guten Sitten*, as used under the UWG 1909, has been replaced in the UWG 2004 by the criterion of ‘Unlauterkeit’ (unfairness). This substitution was made in order to bring the UWG more into harmony with EC law. Besides, the term *guten Sitten* had become a little antiquated in legal parlance, since it focused too much on immorality.¹³³ This brings us to the question whether the *guten Sitten test* is equivalent to the new test of ‘unfairness’. As was the case with the criterion of *guten Sitten*, the German legislator has decided to refrain from giving a precise definition of what is deemed to be unfair. The legislator has, nevertheless, substantiated the term ‘unfairness’ by drafting in Sections 4 to 7 UWG 2004 various specific types of behaviour that are deemed to be unfair. Behaviour that is not actionable under Sections 4 to 7, as I have shown above, is only actionable under the general clause when these Sections leave room for additional protection under the general clause. The general clause of Section 3 UWG 2004, as an independent ‘source of law’, has a very narrow scope since most of the cases are dealt with under Sections 4 to 7. So the criterion of unfairness, similar to the *guten Sitten*, is on the one hand wide in scope since it includes behaviour that is unfair under Sections 4 to 7 of the UWG 2004, but within the confines of Section 3 it has a very limited scope. While the

131 Baumbach/Hefermehl (2001), Einl. UWG Rdn. 96 ff; Köhler/Piper (1995), UWG Einl. Rdn. 270; Nordemann, Wettbewerbsrecht, Tz. 46; Emmerich (2002), p. 49, noot 48.

132 See e.g. Emmerich (2002), p. 49-50; Ohm/Röper, in: Seraphim and Pütz, Grundlegung wirtschaftspolitischer Konzeptionen, Berlin: Duncker und Humblot 1960, 254, 279; Willeke, in: Festschrift für Rieger, 1963, p. 158; Kirchberger, MuW 1933, 275; Köhler, Wettbewerbs- und kartellrechtliche Kontrolle der Nachfragemacht, 1979, p. 24 et seq.; Merkel, BB 1977, 706; Merz, Vorfelddthese, p. 268 et seq.; Meyer-Cording, JZ 1964, 273, 311 et seq.; Nerreter, Grundlagen (1936), p. 82 et seq.; Steindorff, in: Summum ius, p. 77; Teubner, Standards (1971), p. 39 et seq.

133 Explanatory statement to the UWG 2004, Deutscher Bundestag, Drs. 15/1487, p. 16.

criterion of *guten Sitten* had been elaborated in the case law and literature, the criterion of unfairness has been largely elaborated by the codification of the previous case law in Sections 4 to 7.

Whether certain behaviour is fair or unfair under Section 3 UWG 2004 is for the courts to decide.¹³⁴ Under the UWG 2004, the courts are partly relieved of their duty to determine whether the behaviour is unfair, when Sections 4 to 7 apply, since the violation of one of these provisions will automatically lead to unfairness. The courts are very limited in their possibilities to award protection against behaviour that, although not falling within the scope of protection of Sections 4 to 7 UWG 2004, is possibly unfair under the general clause of Section 3 UWG 2004. However, the narrower the application of Sections 4 to 7, the more room there will be for applying Section 3 UWG directly.¹³⁵

It is therefore safe to say that under the UWG 2004, the general clause is not of a vague nature, but instead has been precisely elaborated in the Sections that follow it. The general clause therefore primarily functions as an important asset to the structure of the UWG 2004, instead of it being of significant independent substantial importance. In addition, it fits in nicely with recent EC legislation, in particular the EC Directive on Unfair Commercial Practices.

4.6 MISLEADING THE PUBLIC

4.6.1 Introduction

Now that we have discussed some general concepts of the German UWG, it is time to focus on some specific acts of unfair competition that are contained within the UWG. The fifth section of the UWG, known as the ‘small’ general clause,¹³⁶ applies to misleading advertising. Section 5 UWG is largely based on its predecessor, Section 3 of the UWG 1909, but also uses terminology that is very similar to the terminology used in the EC Directive on Misleading Advertising. Section 5(1) states that:

‘It is unfair in terms of Section 3 to engage in advertising that is misleading’¹³⁷

134 Federal Constitutional Court, GRUR 2001, 173; Explanatory statement to the UWG 2004, Deutscher Bundestag, Drs. 15/1487, p. 16.

135 Cf. Omsels, WRP 2004, p. 136.

136 Cf. Schünemann, WRP 2004, 925. However, under the UWG 2004, § 5 is not an independent general clause, but merely an elaboration of the general clause of § 3 UWG 2004.

137 Section 5(1) (Irreführende Werbung) states in German: ‘Unlauter im Sinne von § 3 handelt, wer irreführend wirbt’.

Section 5 prohibits any statements made in the course of trade and for the purpose of competition, which are likely to mislead a substantial part of the target group. This section does not exclude the application of Section 3 UWG. Making a misleading statement can be classified as unfair competition as defined in Section 3 UWG. This means, as a consequence, that the ‘*de minimis* threshold’, as stated under Section 3 UWG, is also applicable to Section 5 UWG.¹³⁸

4.6.2 Prerequisites

For a breach of § 3 UWG the wrongful conduct of the advertiser has to meet certain conditions. First of all, the misleading statement has to be made in the course of trade. This implies wrongful conduct in the field of business, not being of a private or governmental kind. Secondly, the statement should be made for purposes of competition. This implies a wrongful act which may lead to an increase in a person’s sales revenue at the expense of another person. In addition to this, the person who performs the wrongful act should have the intention of improving his competitive position at the expense of another person.¹³⁹ Furthermore, the statement has to refer to any kind of circumstance that is somehow able to promote commercial activity in competition.¹⁴⁰

Section 5(2) UWG lists three groups of criteria for determining whether a statement is misleading. These criteria refer to the product offered, the circumstances and conditions of the offer, and the undertaking advertising the products.¹⁴¹ In determining whether an advertising statement is misleading under Section 5(2) UWG, account shall be taken of all its features, and in particular of any information it contains concerning:

- the characteristics of goods or services, such as their availability, nature, execution, composition, the method and date of manufacture or provision, fitness for purpose, uses, quantity, specification, geographical or commercial origin or the results to be expected from their use, or the results and material features of tests or checks carried out on those goods or services;
- the occasion of the sale, the price or the manner in which the price is calculated, and the conditions subject to which the goods are supplied or the services provided;
- the nature, attributes and rights of the advertiser, such as his identity and assets, his ownership of industrial, commercial or intellectual property rights, his qualifications or his awards and distinctions.

138 Harte-Bavendamm/Henning-Bodewig/Dreyer (2004), § 5, 234; Fezer (2005), Volume 2, § 5, at 450.

139 BGHZ 3, 270, 277 (Constanze I); BGH WRP 1981, 457-458 (Preisvergleich); BGH GRUR 1986, 812-813 (Gastrokritiker). See also Fezer (2005), § 5, 23.

140 BGH 30 Oktober 1963, GRUR 1964, 33-36 (Bodenbeläge).

141 Baumbach/Hefermehl/Bornkamm (2004), § 5, 1.79.

The third section of the UWG applies to any statement, in the broadest sense of the term. Unverifiable sales talk or pure value judgements fall outside the scope of this section as long as there is no verifiable factual information.¹⁴² In all instances the statement must be liable to influence a customer's decision to contract. Finally, the statement must be likely to mislead a substantial part of the target group. This requirement will be discussed in the next section.

4.6.3 Misleading

German case law has often proved to be rather protective towards the consumer, especially in the case of misleading advertising. Until recently, a very high standard was applied to consumer protection. The law reform that resulted in the UWG 2004, as well as the case law of the ECJ, have seen a more liberal approach towards the regulation of competition in general, and misleading advertising in particular. Over the years, advertisements have quite frequently been considered misleading by the German courts. To see whether a statement is misleading one has to determine the target group of the statement in question. The search for a general model of a consumer, in the case of a statement aimed at the general public, has become one of the main issues in this field of law. For many years, the decisions of the Federal Supreme Court demonstrated the application of a strict guiding principle. Decisive was whether the statement is likely to mislead the 'hasty, inattentive and uncritical consumer'.¹⁴³ This criterion has been criticized by several authors,¹⁴⁴ who believe that the average consumer is underestimated by the criterion. In its recent case law,¹⁴⁵ the Federal Supreme Court has relented in this tight criterion and has looked to ECJ case law that starts from the 'average consumer

142 Lehmler (2002), p. 159.

143 BGH GRUR 1959, 365 (English-Lavendel); BGH GRUR, 1968, 433 (Westfalenblatt II); GRUR 1969, 415 (Kaffeerösterei); BGH GRUR 1970, 425 (Melitta-Kaffee); BGH GRUR 1971, 365 (Wörterbuch).

144 See e.g. Schricker, GRUR Int. 1990, 112; Sosnitzer, Wettbewerbsbeschränkungen durch Rechtsprechung 1995, p. 181; Fezer, Das wettbewerbsrechtliche Irreführungsverbot als ein normatives Modell des verständigen Verbrauchers im Europäischen Unionsrecht, WRP 1995, 671; Doepner, Verbraucherleitbilder zur Auslegung des wettbewerbsrechtlichen Irreführungsverbots, WRP 1997, 999; Beater, Zum Verhältnis von europäischem und nationalem Wettbewerbsrecht - Überlegungen am Beispiel des Schutzes vor irreführender Werbung und des Verbraucherbegriffs, GRUR Int. 2000, 963; Bornkamm, Die Feststellung der Verkehrsauffassung im Wettbewerbsprozess, WRP 2000, 830; Schweizer, Die 'normative Verkehrsauffassung' - ein doppeltes Missverständnis - Konsequenzen für das Leitbild des 'durchschnittlich informierten, verständigen und aufmerksamen Durchschnittsverbrauchers', GRUR 2000, 923; Sack, WRP 1999, 399, Fn. 1-12; Emmerich (2002), p. 181; Lehmler (2002), p. 167.

145 BGH WRP 2000, 517; NJW 2001, 3262. See also BT-Drucksache 15/1487, p. 19.

who is reasonably well-informed and reasonably observant and circumspect'.¹⁴⁶ The scope of protection against misleading advertising is dependant on the persons who are addressed by it. Minorities will enjoy greater protection against misleading advertising than professional parties that are well-informed.¹⁴⁷

As stated before, a certain statement or advertisement is misleading when the facts are misrepresented to a substantial part of the advertisement's target group. The German courts have had a difficult time in deciding what should be considered a 'substantial part'.

The determinative factor was not whether the statement is incorrect from an objective point of view, but how it was perceived by its target group.¹⁴⁸ Previous decisions have shown that a statement is misleading, in the event of an objectively untruthful statement, if merely 10-15 % of the target group are being misled.¹⁴⁹ If, on the other hand, the statement is deemed to be correct from an objective point of view, the Federal Supreme Court requires a higher quota of people to be misled.¹⁵⁰ It is important in this regard to balance the interests and to take the impact of a possible prohibition of the truthful statement into consideration.¹⁵¹ In recent cases these strict 'quotas' have been loosened, influenced by the above mentioned tendency by the courts to look at the 'average consumer' when assessing an advertisement that is allegedly misleading.¹⁵² In the *Mindestverzinsung* case,¹⁵³ that concerned advertising for capital investments, the Federal Supreme Court held that a quota of 15 to 20 percent of the public being misled by the advertisement did not justify an action against misleading advertising under the UWG. Recent case law has adopted the formula that starts from the assumptions made by the 'average consumer' instead of 'the possible deviating view of the minority of consumers'.¹⁵⁴ The fact that a minority of consumers are not longer a decisive factor,

146 ECJ Case C-210/96 of 16 July 1998, Jur. EG I-4657, at 31. This judgement has been further substantiated in ECJ case law, e.g. ECJ Case C-303/97, 1999, *Sektellerei Kessler*; ECJ Case C-220/98, Jur. EG I-00117, at 27. See also Schricker/Henning-Bodewig (2001), p. 24; Baumbach/Hefermehl (2004), § 5, at 2.85.

147 Explanatory statement to the UWG 2004, Deutscher Bundestag, Drs. 15/1487, p. 19.

148 See BGH GRUR 1973, 481 (*Weingeist*); BGH GRUR 1984, 455 (*Französischer Brandy*).

149 BGH GRUR 1992, 66 (*Köningl.-Bayerische Weiße*). This stringent interpretation of the 'target group' that needs to be misled by an advertisement for it to be misleading has – in my opinion, rightly – been criticized. See e.g. Baumbach/Hefermehl, § 3, No. 27, 28 and 32, pointing to the fact that about 5% of the population have the level of a special school for disabled children, which means that the required 10-15% is quickly attained; Köhler/Piper (1995), § 3, Rdn. 149; Emmereich, p. 186.

150 BGH GRUR 1996, 985 (*PVC-frei*); BGH WRP 1993, 239 (*Sofortige Beziehbarkeit*).

151 BGH GRUR 1996, 985 (*PVC-frei*); BGH GRUR 1991, 852 (*Aquavit*); BGH NJW 1996, 2161 (*Der meistgekaufte Europas*).

152 Harte-Bavendamm/Henning-Bodewig/Bodewig (2004), § 4, 6-19.

153 BGH, I ZR 252/01, GRUR 2004, 162, 163.

154 BGH, GRUR 2002, 550-552; BGH, GRUR 2003, 247-248.

does not mean that the quota has been set at 50%.¹⁵⁵ It is safer to assume that under this new, liberal case law, the public will likely be held to have been misled when at least a quarter or a fifth of this population have been *de facto* misled.¹⁵⁶

In certain cases, however, advertisements can be held to be misleading under Section 5 UWG despite the fact that they do not mislead a substantial part of the target group. An advertisement may therefore be considered misleading if it consists of statements that are objectively untrue or for other reasons unfair *per se*. The justification, in these cases, is probably derived from the principle of truthfulness, that is one of the basic principles underlying advertising law, and unfair competition law in general.¹⁵⁷ Under this principle the advertiser is bound to abide by the precept of truthfulness and transparency while advertising.¹⁵⁸ He must supply the consumer with adequate and correct information even in case the consumer is perfectly able to make an informed decision by himself.¹⁵⁹ A company that in its advertising mentions a recommended retail price that is too high and therefore not correct, can be held liable under Section 5 of the UWG even if the recommended retail price is depicted in a very small font and is not likely to mislead many consumers.¹⁶⁰ In addition, an advertisement can be held to be misleading although there is no misleading information, but the issuer has withheld information that is vital to a consumer's decision to purchase a product or service. The issuer of a misleading statement may be held liable for omitting certain information if he violates his duty of disclosure. The duty of disclosure that had been framed under pre-UWG 2004 case law,¹⁶¹ does not entail a general duty to inform.¹⁶² The trader, in many cases the advertiser, is only obliged to disclose the information that is essential for the protection of the consumer, thereby taking into account the interest of the advertiser. An important factor is to what extent the information that has been omitted is of influence to the consumer in making his purchasing decision.¹⁶³

Advertisements that contain allegedly misleading value judgements are less likely to be considered misleading than advertisements that contain factual statements that are

155 Cf. Sack, WRP 2004, 525 et seq.

156 Baumbach/Hefermehl (2004), § 5, 2.104.

157 Fezer/Peifer (2005), § 5, 43.

158 This can also be the case when a company alleges that it supports a good cause, so as to generate goodwill, while in fact it does not really support the good cause at all. See e.g. the *Oil Polluted Duck* case, 28 IIC 276 [1997], in which the courts held that 'any person who in business activity exploits feelings of sympathy or solidarity with social commitment for no substantive reason is open to the allegation of an act contrary to honest practices in competition'.

159 Ibid.

160 BGH, GRUR 2001, 79.

161 BGH, GRUR 1999, 757.

162 Harte-Bavendamm/Henning-Bodewig/Dreyer (2004), § 5, 783; Baumbach/Hefermehl (2004), § 5, 2.44.

163 Harte-Bavendamm/Henning-Bodewig/Dreyer (2004), § 5, 783; Baumbach/Hefermehl (2004), § 5, 2.45; Fezer/Peifer (2005), § 5, 185.

in fact misleading.¹⁶⁴ One reason for this is that value judgments are likely to fall within the scope of the protection of free speech as opposed to factual statements.¹⁶⁵ Another reason for the tolerance of value judgements is the fact that in many cases they are obviously subject to exaggeration. General recommendations (the ‘usual puff’) are usually not considered to be misleading since most people know that they are not to be taken seriously.¹⁶⁶

4.6.4 Specific cases of misleading advertising

Section 5(4) and 5(5) contain rules on two specific cases of advertising. Under Section 5(4) UWG, there is presumed evidence¹⁶⁷ of misleading advertising when an advertiser promotes his product by way of a price reduction, while the original (higher) price has only been demanded for an unreasonably short period of time. The consumer will incorrectly assume this offer to be very attractive, because of the price reduction. In order to protect the consumer, the burden of proof has been placed on the advertiser, who will have to prove that there was no ‘short period of time’ before the price reduction.¹⁶⁸ Section 5(5) UWG relates to advertising that uses bait and switch practices. This Section declares advertising to be misleading if the quantities held in stock are not adequate to satisfy the anticipated demand. This will lead the consumer to opt for another, probably more expensive, alternative since his first choice is ‘out of stock’.¹⁶⁹ An inventory level is deemed to be adequate if it is sufficient for two days of (anticipated) sales. If the product sought by the consumer is not in store before this period, the trader might be exempted in case of specific circumstances like a sudden rise in demand or problems in the supply chain.

164 Fezer/Peifer (2005), § 5, 165.

165 Fezer/Peifer (2005), § 5, 39. See e.g. the *Benetton* case, 32 IIC 858 [2001], in which the Federal Supreme Court held that ‘the principle of freedom of the press protected by Article 5(1) of the Constitution also protects advertising that draws attention to topics of social and political relevance, even, and particularly, if this is done in a denunciatory and socio-critical manner’.

166 See Harte-Bavendamm/Henning-Bodewig/Weidert (2004), § 5, 690; Peifer in Fezer/Peifer (2005), § 5, 167, who lists older case law that showed that the courts (before the ‘liberalisation’ of unfair competition law) were sooner inclined to consider a general recommendation to mislead the public.

167 Fezer (2005), Volume 2, § 5, 426.

168 Explanatory statement to the UWG 2004, Deutscher Bundestag, Drs. 15/1487, p. 20. See also Finger/Schmieder (2005), p. 208.

169 Explanatory statement to the UWG 2004, Deutscher Bundestag, Drs. 15/1487, p. 20.

4.7 DISCREDITING COMPETITORS

4.7.1 Introduction

The UWG contains two provisions that regulate the discrediting of one's competitor. These provisions have been inserted in Section 4, that contains a group of examples of acts of unfair competition. Both Section 4(7) and Section 4(8) prohibit certain kinds of trade libel, whereby the former covers statements of opinion, and the latter covers statements of fact.¹⁷⁰ These cases of trade libel have partly lost their significance over the past few years, primarily as a result of the implementation of the EC Directive on comparative advertising in Section 2 of the old UWG 1909 that corresponds to Section 6 of the (new) UWG.¹⁷¹ Subsequently, in case a competitor is discredited in comparative advertising, the rules on comparative advertising concerning discrediting will be applicable as well. Section 6(5) UWG states that an advertiser is not allowed to 'discredit or denigrate the goods, services, activities, or personal or professional circumstances of a competitor'. This Section refers to Section 4(7) and (8) UWG that explicitly deal with the discrediting of a competitor. In the next sections, I will discuss the two cases of trade libel that are covered by Section 4 (7) and (8) UWG.

4.7.2 Trade libel by statements of opinion¹⁷²

Under Section 4(7) it is considered unfair to disparage or to denigrate the (trade)marks, goods, services, activities, or personal or professional circumstances of a competitor. This includes cases of trade libel by way of a disparaging or denigrating expression of opinion, in particular if the criticism is expressed by the use of a taunt or dispraise. Since these cases concern a trader expressing his opinion of a competitor (in a disparaging way), the assessment of such a statement is likely to involve the basic principle of freedom of speech.¹⁷³ The courts will have to strike a balance between the trader's freedom of speech and the right of the competitor to remain free of disparagement.¹⁷⁴ The starting point is the freedom of the trader to criticize his competitors, thereby providing consumers as well as other market participants with appropriate information.¹⁷⁵ This criticism may not turn into sheer disparagement or denigration. In particu-

170 Harte-Bavendamm/Henning-Bodewig/Omsels (2004), § 4-7, 6; Baumbach/Hefermehl (2004), § 4, 7.5.

171 Cf. Henning-Bodewig, Ein neues Gesetz gegen den unlauteren Wettbewerb in Deutschland, BIE 18 Oktober 2004, p. 450. Cf. Köhler/Bornkamm/Henning-Bodewig, WRP 2002, 1319.

172 The German term is 'Herabsetzung'.

173 Explanatory statement to the UWG 2004, Deutscher Bundestag, Drs. 15/1487, p. 18.

174 Cf. BGH GRUR 1966, 635; BGH GRUR 1964, 394.

175 Harte-Bavendamm/Henning-Bodewig/Omsels (2004), § 4-7, 9 et seq.; Baumbach/Hefermehl (2004), § 4, 7.2

lar, when a business is disparaged without any identifiable factual basis, the courts will assume that the business is able to substantiate a claim for unfair competition.¹⁷⁶ Even trade libel by statements of opinion that are verifiably true can be prohibited, for example if they violate human dignity or are solely aimed at insulting another business.¹⁷⁷ If the statements are on the other hand untrue, there will nearly always be a case of unfair competition under Section 4 (7) UWG.¹⁷⁸ In such cases, the trader who issued the untrue statements will not be able to invoke the right of freedom of expression.¹⁷⁹

4.7.3 Trade libel by statements of fact¹⁸⁰

There is an act of unfair competition according to Section 4(8) if someone claims or disseminates facts concerning the goods, services or the business of a competitor, or the person of the proprietor or a member of the board, that are likely to damage the operation of the business or the proprietors' credit, unless those facts can be proved to be true, the burden of proof resting on the person alleging or disseminating the facts. This Section refers to cases of trade libel in relation to factual claims. Statements that are not facts, but basically value judgements do not fall under 4(8) UWG, but fall under 4(7) UWG instead.¹⁸¹ If the facts are held to be true, it is not possible to frame an action under 4(8) UWG, although it may still be possible to invoke 4(7) UWG.¹⁸²

Section 4(8), second phrase, contains a special regulation with regard to traders who claim or disseminate confidential information that has not been disclosed to the public.¹⁸³ If the confidential information is of a legitimate interest to the disseminator or the recipient of the allegedly disparaging statement, there will only be a case of trade libel when the statement is factually untrue, the burden of proof in this case resting on the claimant.¹⁸⁴ So, in this case, the burden of proof shifts from the defendant to the claimant.

176 Ibid.

177 Cf. Federal Constitutional Court, GRUR 2001, 172; Federal Constitutional Court, GRUR 2001, 1059; Federal Constitutional Court, GRUR 2003, 455; BGH GRUR 1984, 215.

178 Baumbach/Hefermehl (2004), § 4, 7.15; Harte-Bavedamm/Henning-Bodewig/Omsels (2004), § 4-7, 13 et seq.

179 Federal Constitutional Court 54, 208 et seq. (Böll); 61, 1 et seq. (Wahlkampf/CSU: NPD Europas'); 85, 1, 15 (Bayer-Aktionäre); 90, 1, 15 (Jugendgefährdende Schriften III).

180 The German term is 'Anschwärzung'.

181 Cf. BGH GRUR 1982, 236. See also Baumbach/Hefermehl (2004), § 4, 8.2; Harte-Bavedamm/Henning-Bodewig/Bruhn (2004), § 4-8, 4.

182 See the previous section. See also BGH GRUR 1967, 597.

183 See for more information on the protection of confidential information, *sub* § 4.8.4. et seq.

184 Baumbach/Hefermehl (2004), § 4, 8.21.

4.8 IMITATION AND MISAPPROPRIATION

4.8.1 Introduction

The new UWG contains three provisions that relate to the unlawful imitation¹⁸⁵ of another's goods, services or intangibles. Under the UWG 1909, these acts of unfair competition were placed under the general clause of Section 1 UWG 1909. Under the new UWG, they have been codified in Section 4(9). This Section renders it unfair to offer goods or services that are an imitation of the goods or services of a competitor, if the imitator:

- a. needlessly confuses the buyer as to their commercial origin;
- b. unduly exploits or affects the goodwill invested in the imitated goods or services;
- c. has dishonestly obtained the knowledge and data that are necessary for the production of the imitation.¹⁸⁶

This list of acts of unfair competition by exploiting another's accomplishment is not exhaustive.¹⁸⁷ The legislator has only seen fit to regulate the three acts which are most important in practice. Amongst the acts of unfair competition that have not been regulated are the parasitic exploitation of the investment and ideas of another, the imitation combined with the obstruction of the seller of the original and 'insertion into

185 I will use the term unlawful imitation instead of slavish imitation, since the German doctrine recognizes cases of unlawful imitation that are not considered to be slavish imitation. Basically, the German literature does not include cases of 'direct imitation' in the category of slavish imitation. See e.g. Emmerich (2002), p. 129; Harte-Bavendamm/Henning-Bodewig/Sambuc (2004), § 4-9, 4.

186 The German text of § 4(9) states: '[Unlauter im Sinne von § 3 handelt insbesondere, wer Waren oder Dienstleistungen anbietet, die eine Nachahmung der Waren oder Dienstleistungen eines Mitbewerbers sind, wenn er
a) eine vermeidbare Täuschung der Abnehmer über die betriebliche Herkunft herbeiführt,
b) die Wertschätzung der nachgeahmten Ware oder Dienstleistung unangemessen ausnutzt oder beeinträchtigt
oder
c) die für die Nachahmung erforderlichen Kenntnisse oder Unterlagen unredlich erlangt hat']

187 Explanatory statement to the UWG 2004, Deutscher Bundestag, Drs. 15/1487, p. 18. In the German legal doctrine the protection of one's achievements is referred to as 'Leistungsschutz'. See for an analysis of 'Leistungsschutz' under German law: Weihrauch, Der unmittelbare Leistungsschutz im UWG, Berliner Hochschulschriften zum gewerblichen Rechtsschutz und Urheberrecht, 2001, 314 pp; Meister, Leistungsschutz und Produktpiraterie: Fragmente zu einem Phänomen, Frankfurt/Main: Deutscher Fachverlag 1990, 359 pp.; Fiechter, Der Leistungsschutz nach Art. 5 lit.c UWG, Bern/Stuttgart/Wien: Haupt 1992, 201 pp.; Walch, Ergänzender Leistungsschutz nach § 1 UWG: 'Ersatz-Ausschließlichkeitsrechte' bei Computerprogrammen und ästhetischen Schöpfungen, Cologne: Heymann 1992, 178 pp.

a non-proprietary series'.¹⁸⁸ Protection against the exploitation of another's accomplishments is only awarded under German law when a competitor imitates such an accomplishment, in the absence of protection under intellectual property laws, and under very specific circumstances. As I will show in the next section, the courts have premised that such protection will not be given lightly in view of the principle of freedom of competition. In the subsequent sections, I will discuss the cases in which the courts have awarded protection under the heading of unlawful imitation.

4.8.2 Freedom of competition

The principle of freedom of competition, or, more in particular, the principle of freedom to imitate, has long been the backbone of German unfair competition policy. To award unlimited protection to a person against the exploitation of his accomplishments would impede this freedom of imitation and is therefore considered to be undesirable. Awarding such protection would affect persecutive, imitating competition that principally has as its function the advancement of technology.¹⁸⁹ To allow, on the other hand, unbridled imitations of other person's products could also imperil innovation by businesses. Totally denying businesses any form of protection at all could seriously diminish the incentive to create and market new products in the light of expenses that need to be incurred, and the prospect of competitors copying them for free.¹⁹⁰ German case law has thus attempted to find a happy medium between overly regulated competition and unbridled competition, while at the same time balancing the interests of the parties involved as well as the public in general. Whereas the German courts have followed a casuistic approach which included weighing all the interests involved in the particular case, they have stuck to the basic rule that in absence of any protection under intellectual property law,¹⁹¹ imitation is basically allowed and is only unfair in very specific

188 See for this last action under unfair competition law, *sub* 4.8.3.4d.

189 Baumbach/Hefermehl (2004), § 4, 9.3. Cf. BGH GRUR 2000, 523.

190 Baumbach/Hefermehl (2004), § 4, 9.3. Cf. BGH GRUR 2000, 526; BGH GRUR 1966, 620; BGH GRUR 1996, 213.

191 See as to the pre-emptive effect of intellectual property laws: Fezer, WRP 1993, 63; Mees, WRP 1999, 65; Explanatory statement to the UWG 2004, Deutscher Bundestag, Drs. 15/1487, p. 18. Basically, patent law in particular, but copyright law as well, do not allow for additional protection under the heading of unfair competition law. See e.g. the *Engraving Plates for Printed Music* case, 19 IIC 392 [1988], in which it was decided that unfair competition law may not be used to stop the photomechanical reproduction of printed versions of musical works that were once protected by copyright law but are now in the public domain, unless there are special circumstances indicating unfair conduct. Trademark law, trade names law, design law are more appropriate to allow for additional protection under unfair competition law. Of course, unfair competition law is applicable if the behaviour is, independently from any intellectual property rights, unfair *per se*, e.g. in cases of undue pressure. See Baumbach/Hefermehl (2004), § 4, 9.6-9.12.

circumstances.¹⁹² It follows, therefore, that there is no exclusive, personal right to be free from imitations of one's products, or, more in general, one's performances, as is the case with intellectual property rights.¹⁹³ It is not the fact that an imitated product is fair, but the way in which it is imitated that can lead to unfairness. It is not the products or, more generally, the performance itself that is protected, but instead the consumer or honest trader is protected from behaviour that is unfair.¹⁹⁴

4.8.3 Unlawful imitation by misrepresentation or misappropriation

4.8.3.1 Introduction

The German courts have established a comprehensive system of case law, originally based on the general clause of Section 1 UWG 1909, relating to protection against unlawful imitation. To institute an action against unlawful imitation, the plaintiff has to prove several requirements. First of all, the allegedly unfair imitation must be 'an act of competition', as defined in Section 2 UWG.¹⁹⁵ Secondly, the imitator must actually put the imitation on the market. The sole reproduction of the original is not enough for establishing unlawful imitation.¹⁹⁶ A person who or a business which places a hyperlink on its website linking to information on another's website, cannot be held liable for unlawful imitation either.¹⁹⁷ Thirdly, the object that is being imitated must have certain 'competitive characteristics' that justify its owner receiving protection under the UWG. Finally, whether the imitation is considered to be unfair, depends on the grade of imitation as well as on the special circumstances that accompany it. The 'competitive characteristics', the grades of imitation and the special circumstances will be assessed in the following sections.

4.8.3.2 Competitive characteristics

Only goods and services that meet the requirement of having sufficient 'competitive characteristics' are eligible for protection against unlawful imitation under unfair

192 Cf. BGH GRUR 1999, 752; BGH GRUR 1999, 1108; BGH GRUR 2000, 523. Explanatory statement to the UWG 2004, Deutscher Bundestag, Drs. 15/1487, p. 18. See also Schricker/Henning-Bodewig, Gutachten (2001), p. 43-44; Harte-Bavendamm/Henning-Bodewig/Sambuc (2004), § 4-9, 9.

193 Cf. Harte-Bavendamm/Henning-Bodewig/Sambuc (2004), § 4-9, 5.

194 Köhler/Piper (1995), § 1, 592.

195 See *supra* Sections 4.2.5 and 4.3.2.

196 Baumbach/Hefermehl (2004), § 4, 9.39.

197 BGH, GRUR 2003, 963.

competition law.¹⁹⁸ This requirement has been introduced in the case law so as to prevent businesses from invoking protection against unlawful imitation for (simple) products or services not worthy of protection.¹⁹⁹ It basically means, and this is somewhat simplified, that the plaintiff's products or services, in order to merit protection against unlawful imitation, must be of sufficient distinctiveness. If the product is of sufficient distinctiveness the owner may receive protection from imitation that may cause confusion to the public as to its origin. It is necessary, in this respect, to add that the plaintiff's product is supposed to have at least a certain degree of high profile in the eyes of the public.²⁰⁰ The owner of a product that is, on the other hand, not very distinctive, will not be able to invoke protection under unfair competition law since the public will, because of its absence of distinctive features, not pay any attention to its origin. The fact that the product will not fulfil its function as an indicator of origin means, in this case, that the owner cannot invoke protection against an imitation that may cause confusion as to the product's origin. This can be the case, e.g., if an original has been copied several times resulting in it becoming 'common property' and losing its function as an indicator of origin.

A product or service may derive its distinctiveness from its aesthetic features. Not decisive, in this respect, is the product's 'originality' or 'newness'. The distinctiveness of a product or service is rather dependant on its functionality as an indicator of commercial origin.²⁰¹ In addition, a product or service may also derive its distinctiveness from certain technical features. The courts have, however, been reticent in assuming that technical features can be indicated as a 'competitive characteristic'.²⁰² The reason for this is that businesses (which imitate other businesses) should be free to assign those technical features to their products that enhance the quality of their product, in the interest of consumers. So the technical features of a product that belong to the publicly accessible 'state of the art' cannot be protected by an action against unlawful imitation. The same holds true for technical features that are essential to attain a certain technical effect.²⁰³

198 See e.g. BGH, WRP 1976, 372; BGH, GRUR 1981, 519; BGH, GRUR 2000, 523; BGH, GRUR 2002, 89; BGH, GRUR 2002, 276; BGH, GRUR 2002, 631; BGH, GRUR 2003, 360; BGH, GRUR 2003, 974. See Baumbach/Hefermehl (2004), § 4, 9.24 et seq.; Harte-Bavedamm/Henning-Bodewig/Sambuc (2004), § 4-9, 37 and 47; Bopp, GRUR 1997, 34; Sambuc, GRUR 1986, 130; Sack, ZHR 160 (1996), 499 et seq. See also critical as to this criterion, Beater, Unlauterer Wettbewerb, Munich: Beck, 2002, § 22, No. 17.

199 Cf. Baumbach/Hefermehl (2004), § 4, 9.24.

200 Cf. Baumbach/Hefermehl (2004), § 4, 9.41 and 9.52.

201 Harte-Bavendamm/Henning-Bodewig/Sambuc (2004), § 4-9, 48; Baumbach/Hefermehl (2004), § 4, 9.27.

202 Cf. e.g. Higher Regional Court (OLG) Stuttgart, NJW-RR 1987, 424.

203 Lehmler (2002), p. 106-107.

Finally, the distinctiveness can not only be attributed to a single product because of its distinct features, but also to a certain ‘programme’ of a producer, for example the combined set of principles behind a construction kit for desk furniture or a system for fastenings with recurring modules.²⁰⁴

4.8.3.3 *Grade of imitation*

A trader may, when confronted with an imitation of his product or service, bring an action for unfair competition under German law. The more the imitation resembles his original product, the greater possibility the trader will have in bringing a successful action. The courts have distinguished three categories of imitation, being direct imitation, virtually identical imitation and, finally, imitation with sufficient similarities. These will be discussed below.

a direct imitation

In cases of direct imitation, the original is copied literally, without changes.²⁰⁵ In most cases it will be done by means of a technical duplicating process.²⁰⁶ Such a direct imitation will nearly always lead to a successful action against unfair competition. Because of the obviously unfair character of the defendant’s actions, the plaintiff will have a lighter burden in proving the other prerequisites of ‘competitive characteristics’ and ‘special circumstances’.²⁰⁷ It is decisive in the case of direct imitation whether ‘the appropriation is detrimental to the party that in all fairness should reap the fruits’.²⁰⁸

b virtually identical imitation

If the imitator does not imitate the original by direct means, but still fabricates an imitation that is virtually identical to the original, he will likely be held liable for unfair competition if the other prerequisites of ‘competitive characteristics’ and ‘special circumstances’ are fulfilled. These other prerequisites will be more easily fulfilled than when there is an ‘imitation with sufficient similarities’, although the plaintiff will find the fulfilment of these requirements more difficult to prove than in the case of direct imitation.²⁰⁹

204 Cf. Lehmler (2002), p. 108.

205 Cf. BGHZ, GRUR 1959, 240; BGHZ, GRUR 1969, 186; BGH, WRP 1975, 371; BGH, GRUR 1999, 927.

206 Baumbach/Hefermehl (2004), § 4, 9.35.

207 See e.g. BGH, GRUR 1982, 307; BGH, GRUR 1986, 673; BGH, GRUR 1975, 385 et seq. Cf. Lehmler (2002), p. 108.

208 BGH, NJW 1992, 1316, 1317; BGH, GRUR 1969, 186, 188.

209 Cf. BGH, GRUR 1960, 246; BGH, GRUR 1986, 675; BGH, GRUR 1996, 211.

c imitation with sufficient similarities

This last category comprises cases of the imitator following the original as an example while creating his imitation, although he does not directly or semi-directly copy it. The imitation can nonetheless be held unfair if it features clearly recognisable and essential elements of the original.²¹⁰ Minor modifications to the imitation will not lead to a successful defence when it is still obvious that the original has served as a role model.²¹¹ But, for example, the person who copies data (song names and sales figures) from the charts of another person, to be used in his own charts, called '*Hit Bilanzen*', does not act unfairly if he sorts the data according to different criteria, and prepares it for use over a longer period.²¹²

4.8.3.4 Special circumstances

The imitation of a product or service that has sufficient 'competitive characteristics' is not necessarily unfair within the meaning of Section 4(9) in conjunction with Section 3 UWG. This is only the case if there are special circumstances that justify protection against unlawful imitation. These special circumstances will be elaborated in the next sections.

a confusion as to origin

As mentioned above, *supra* 4.8.1, it is not allowed to put goods or services on the market that needlessly confuse the buyer as to their commercial origin. Confusion includes not only direct confusion as to the commercial origin of the product or service, but also the confusion of a consumer who thinks that the imitated product is part of the second product line ('*Zweitmarke*') of the original manufacturer or of a consumer who assumes that there is a business or organisational connection between the original business and the business of the imitator.²¹³ If the confusion is caused by the labelling used for the imitated product, for example by way of an imitated trademark of the original manufacturer, the test used to determine confusion is the one contained in Sections 14 and 15 of the German Trade Mark Act, which in such a case will act as the *lex specialis*.²¹⁴ The courts will, in particular in cases of direct imitation, look at the

210 BGH, GRUR 1963, 155; Higher Regional Court (OLG) Munich, GRUR-RR 2003, 330.

211 Higher Regional Court (OLG) Cologne, GRUR-RR 2003, 85.

212 Higher Regional Court (OLG) Munich, GRUR-RR 2003, 330.

213 BGH WRP 2001, 534, 536; BGH, WRP 2001, 153, 157; BGH, GRUR 1998, 477, 480; BGH, GRUR 1977, 614, 616. Cf. Harte-Bavendamm/Henning-Bodewig/Sambuc (2004), § 4-9, 72-75.

214 BGH, WRP 2001, 153, 157. Also: Wiedemeyer, Das neue UWG: Neugestaltung der Unlauterkeitstatbestände, Seminar zum Gewerblichen Rechtsschutz, 7 January 2004, p. 30.

overall picture when assessing the imitation.²¹⁵ In the case of packaged groceries, the courts will look at the product labelling and the manufacturer's information instead of focusing on the outer appearance of the goods or their packaging.²¹⁶ When deciding whether an imitation leads to unlawful imitation, the court will try to determine whether the circle of customers that are addressed by the imitation are likely to be confused by it. If it is mostly specialists that purchase the imitation, these circumstances can lead the courts to decide that confusion is not likely to occur. The trader who sells special (imitated) vacuum pumps for professional use will not likely confuse the specialists who buy these products as to their commercial origin.²¹⁷ If the imitation is not addressed to a certain group of people, but e.g. to all consumers, the courts will estimate whether the 'average consumer', as defined by the case law of the European Court of Justice, will be confused.²¹⁸

However, even when confusion is likely to occur, the imitator can only be held liable if he could have avoided the confusion by taking reasonable measures. The imitator can, by clearly and conspicuously putting a mark or sign on his products signifying that he is the original producer, remove the danger of confusion.²¹⁹ An imitator who has done all that is necessary and reasonable to prevent confusion, will most likely not be held liable if there is confusion.²²⁰ In particular, the technical features of an original product may be imitated by the imitator, if they are needed to bring about a certain technical effect that is not realizable by other means,²²¹ or if the technical features are necessary to retain compatibility with that original product or product line of a competitor.²²² In the *Modulgerüst* case, the defendants had manufactured a system of scaffolding that consisted of scaffolding modules that were compatible and interchangeable with the modules used by the plaintiff. The Federal Supreme Court held that the unique feature of interchangeability was not a sufficient ground for an action against unfair competition. Allowing such an action would, according to the Federal Supreme Court, contradict the principle of the free use of the current 'state of the art' and would make it consequently impossible to imitate accessory parts and replacement parts.²²³ The owner of the original product may however be successful in instituting legal proceedings if he can prove that the imitated, compatible products are of inferior quality or do not guarantee the same standard of security.²²⁴

215 BGH GRUR 1981, 273, 275; BGH GRUR 2002, 629, 632.

216 BGH, WRP 2001, 534, 537.

217 BGH GRUR 1996, 210, 212.

218 BGH, I ZR 30/02 (Klemmbausteine III), p. 13; BGH, GRUR 2001, 443, 445 et seq.

219 Lehmler (2002), p. 111.

220 BGHZ 50, 125, 130; BGH WRP 2002, 207, 210.

221 BGH, GRUR 1981, 517, 519; BGHZ 50, 125, 129.

222 BGH, WRP 2000, 493, 498.

223 BGH, WRP 2000, 493, 498.

224 BGH, WRP 2000, 493, 500.

b exploitation of a competitor's reputation

Special circumstances that justify an action against unlawful imitation may also lie when a trader imitates his competitor's goods or services, and thereby exploits or damages the goodwill that has been invested by the competitor in the original goods or services. While the previous case of unlawful imitation by creating confusion is primarily directed at protecting the identification function of the imitated products or services, unlawful imitation by exploiting or damaging another's reputation is chiefly concerned with protecting the marketing function of the products or services. This action requires the plaintiff to prove that the imitated product has acquired goodwill, for example based on the quality or exclusive character of the product.²²⁵ The plaintiff may find it easier to prove this goodwill if he has considerably invested in the marketing of the product, and, in particular, if he can show that the marketing has paid off based on subsequent high sales figures.²²⁶

While unlawful imitation by the exploitation of a competitor's reputation will in most cases go hand in hand with the public being confused as to the origin of the imitated goods, confusion is not a necessary requirement. In *Tchibo v. Rolex*,²²⁷ the defendant had virtually identically imitated the plaintiff's Rolex watches. The plaintiff could not bring an action under the Design Act, since the term for the design right had lapsed. As an alternative, the plaintiff instituted proceedings under the UWG on the basis of unlawful imitation by claiming that the defendant had unduly exploited the goodwill and special reputation of the Rolex watches. The court held that the exploitation of another's reputation by selling an almost identical, low priced, imitation was anticompetitive, and therefore unlawful, whether or not the public was confused by it. It was therefore sufficient in this case that the defendant had tried to 'transfer' the goodwill from the plaintiff's goods to his own goods.²²⁸ In such a case the defendant is thus prevented from benefiting from the plaintiff's reputation by accosting the style and status of the plaintiff's renowned products. The owner of the original products may 'use' the protection provided for under unfair competition law to counter cases of dilution.²²⁹ In such cases, the imitator not only exploits his competitor's reputation, but damages it as well.²³⁰

225 Harte-Bavendamm/Henning-Bodewig/Sambuc (2004), § 4-9, 107 et seq.; Baumbach/Hefermehl (2004), § 4, 9.52.

226 Ronke, GRUR 1991, 284, 287.

227 BGH, GRUR 1985, 876, 878.

228 See for a critical note, Sambuc, Der UWG-Nachahmungsschutz, Beck: München 1996, No. 362.

229 Emmerich (2002), p. 145. See e.g. BGH, I ZR 290/99 of 17 January 2002.

230 Cf. Baumbach/Hefermehl (2004), § 4, 9.59. Cf. BGH, GRUR 1987, 903, 905.

c obtaining knowledge and data by dishonest means

The final case of (slavish) imitation that has been included in Section 4(9) UWG is the dishonest acquisition of a competitor's secret knowledge and data which is needed in order to be able to imitate his products more accurately.²³¹ Such behaviour may be unlawful under the UWG if the offender has tried to obtain the trade secrets of his competitor by dishonest means. Dishonesty entails the obtaining of trade secrets that leads to criminal liability,²³² as well as obtaining and using trade secrets by way of breach of confidence.²³³ In that case, the imitator will likely be held liable for unfair competition under Section 3 UWG as well. Section 4(9) UWG has strong ties with Section 17 UWG that is entirely devoted to the protection of trade secrets.²³⁴ If the unlawful imitation has been facilitated by using the trade secrets of the original manufacturer, then Sections 4(9) and 17 are likely to be simultaneously applicable.

d insertion into a non-proprietary series

This category of cases is in fact a *species* of the cases where an imitator exploits his competitor's reputation.²³⁵ It concerns cases where the defendant distributes goods (e.g. toy components) that are compatible with the plaintiff's in a manner that is allegedly unfair because he exploits the reputation of the plaintiff. The defendant incorporates his products into the product series of the plaintiff, and sells imitations of individual parts of the series but not the whole series, resulting in a reduced demand for the series as a whole. Confusion of the public as to commercial origin is not a requirement in these cases.²³⁶ This action was introduced in the famous *Klemmbausteine I and II* cases that concerned the imitation of the famous Lego bricks.²³⁷ In these cases, the Lego company succeeded in preventing its competitor from inserting its imitation into the Lego brick series that was specially designed for future supplementation, expansion and com-

231 Cf. RGZ 135, 385 (395); 144, 41 (52); BGH, GRUR 1958, 351. See on this topic, in detail, Beater, *Nachahmen im Wettbewerb*, diss. Göttingen 1995, p. 162, 344 et seq.

232 BGH, GRUR 2003, 356, 357.

233 Harte-Bavendamm/Henning-Bodewig/Sambuc (2004), § 4-9, 157-159; Baumbach/Hefermehl (2004), § 4, 9.61-9.62. See also Erdmann, *Die zeitliche Begrenzung des ergänzenden wettbewerbsrechtlichen Leistungsschutzes*, in: Baur (ed.) c.s., *Festschrift für Ralf Vieregge zum 70. Geburtstag am 6. November 1995*, de Gruyter 1995, 197, 214.

234 See consequently for more details on trade secrets and breach of confidence, *sub* 4.8.4 et seq.

235 See *supra* § 4.8.3.4b.

236 Lehmler (2002), p. 113.

237 BGHZ, GRUR 1964, 621; BGH, GRUR 1992, 619, 620; BGH, GRUR 1977, 666; BGH, NJW-RR 1990, 1128. See also Sack, *Das Einschleichen in eine fremde Serie: Sonderfall oder Normalfall des ergänzenden wettbewerbsrechtlichen Leistungsschutzes?*, in: Ahrens (ed.) c.s., *Festschrift für Willi Erdmann – Zum 65. Geburtstag*, Carl Heymanns Verlag: Cologne 2002, 697.

plementation.²³⁸ The competitor tried to benefit from the demand for supplementation, expansion and complementation of these Lego bricks, by distributing imitated, compatible, bricks of its own making. The courts held that this was unlawful because the competitor had exploited Lego's reputation.

This case law has been criticized by many authors.²³⁹ According to Schricker/Henning Bodewig, this case law endorses 'a parasitic facet as well as the notion of amortisation' in unfair competition law.²⁴⁰ Köhler rejects this case law as well. In his view, the concept of manufacturing a product that has as its feature a possibility for infinite expansions is not worthy of protection.²⁴¹ Köhler even doubts whether these are cases of imitation at all, since the products clearly differed, apart from their compatibility. Emmerich strictly opposes this case law as it 'monopolizes, without a basis of support in the law, a new market for the manufacturer who incidentally was the first to have entered that market'.²⁴² He adds that this introduces *de facto* a pure protection of ideas, a concept that is alien to German law.²⁴³ Lehmler is also against the introduction of such a monopoly, and instead advocates the use of the 'normal' test of confusion as to origin.²⁴⁴ Sack is not directly opposed to the protection awarded in these cases, but nonetheless believes that the protection should be limited in time. The plaintiff should, in his view, be given protection for the time it takes to earn back his investments as well as to be reimbursed for his creative labour.²⁴⁵

In the recent *Klemmbausteine III* case, the Federal Supreme Court lifted the protection under unfair competition that had been enjoyed by Lego since the bricks were

238 Cf. BGH, GRUR 2000, 521, 526.

239 See e.g. in addition to the authors mentioned below, Harte-Bavendamm/Henning-Bodewig/Sambuc (2004), § 4-9, 40; v. Harder, GRUR 1969, 659; Müller-Laub, Wettbewerbsrechtlicher Schutz gegen Nachahmung und Nachbildung gewerblicher Erzeugnisse, ZHR 156 [1992] 497 et seq.; Kur, Wettbewerbsrechtlicher Nachahmungsschutz gegen compatible Produkte?, GRUR Int 1995, 469; Sambuc (1996), No. 526; Altmeyen, Zur Unlauterkeit des 'Einschiebens in eine fremde Serie', ZIP 1997, 2073 et seq.; Rauda, Abschied des BGH vom 'Einschieben in eine fremde Serie?', GRUR 2002, 38; Knies, Der wettbewerbsrechtliche Leistungsschutz – eine unzulässige Rechtsfortbildung?, 1996, p. 63; Brandel, Spielzeug Abbild der Erwachsenenwelt – Nachahmungsfreiheit und Leistungsschutz, in: Erdmann (ed.) c.s., Festschrift für Dr. Henning Piper, Beck: München 1996; Nordemann, Wettbewerbs- und Markenrecht, 10th edition, No. 1642.

240 Schricker/Henning-Bodewig, Gutachtung (2001), p. 46. See also Harte-Bavendamm/Henning-Bodewig (2004), § 4, No. 9-40.

241 Baumbach/Hefermehl (2004), § 4, 9.58.

242 Emmerich (2002), p. 140. See also with the same criticism, Altmeyen (1997), 2069; Nordemann, Wettbewerbsrecht (1996), No. 391, p. 205 et seq.; Waibel, Warenzeichenrechtliche und wettbewerbsrechtliche Fragen des Ersatzteile-, Zubehör- und Reparaturgewerbes, 1977, p. 228 et seq.; Walch, Ergänzender Leistungsschutz nach § 1 UWG, Carl Heymanns Verlag: Cologne 1991, p. 55 et seq. and p. 127, no. 73.

243 Emmerich (2002), p. 140.

244 Lemhler (2002), p. 113-114.

245 Sack, Festschrift Erdmann (2002), p. 714 et seq.

invented almost 50 years ago.²⁴⁶ The Federal Supreme Court held that post-sale confusion did not lead to protection under Section 4(9) UWG. Since there was no confusion at the time of the sale of the imitated bricks based on their packaging, there was no violation of unfair competition law. Neither was there a case of exploitation of reputation under Section 4(9)(b) since the imitator had, when distributing its imitations on the market that was initially entered by the plaintiff, adequately informed the public of the fact that its products were not the same as the originals. The Federal Supreme Court, however, did not deliver a final judgement on whether the case group of ‘insertion into a non-proprietary series’ is still justified under the new UWG 2004. It did, however, convey that this kind of protection under unfair competition law, ‘as far as it concerns protection of an achievement as such’, is by any means not supposed to be everlasting.²⁴⁷

e Obstructing the competitor

It is established case law that a trader can be held liable for obstructing its competitor by systematically imitating its multiple products, thereby depriving his competitor from the possibility of successfully marketing its products.²⁴⁸ The more products that are imitated, and the longer the period of the imitation, the more likely it is that the action for unfair competition will succeed.²⁴⁹ The systematic imitation will also be more likely to lead to unfairness if there are various other design options that could have been pursued by the imitator when designing the imitations, and in case the imitator benefited from the fact that he did not have to invest in the design of his products enabling him to cut prices.²⁵⁰ Finally, the courts will also be more readily persuaded to establish unfair competition in the case of the imitation of transient (seasonal) fashionable articles, like clothes.²⁵¹ The imitator is held liable for depriving his competitor of the possibility to realize his sales targets, which the competitor will only meet if he is able to sell all his products within the period of one season, after which his products will no longer be

246 BGH, I ZR 30/02, 2 December 2004.

247 BGH, I ZR 30/02, 2 December 2004, p. 15. The Supreme Court added that other types of protection, like protection against confusion as to commercial origin, against exploitation of reputation, against obstruction by competitors, as well as against the breach of confidence by a competitor, are not limited in time.

248 BGH, GRUR 1959, 240, 243; BGH, GRUR 1960, 244, 246; BGH, GRUR 1961, 244, 246; BGH, GRUR 1968, 581, 585; BGH, GRUR 1969, 618, 619 et seq.; BGH, GRUR 1986, 673, 675; BGH, GRUR 1988, 690, 693; BGH, GRUR 1996, 210, 212 et seq.; BGH, GRUR 1999, 751, 753; BGH, GRUR 2002, 820, 823. See also Harte-Bavendamm/Henning-Bodewig/Sambuc (2004), § 4-9, 162 et seq.

249 Baumbach/Hefermehl (2004), § 4, 9.66.

250 Ibid. Cf. BGH, GRUR 1996, 210, 213.

251 This protection is called ‘Saisonschutz’, see Harte-Bavendamm/Henning-Bodewig/Sambuc (2004), § 4-9, 30-34.

fashionable. It is difficult for the manufacturer of the original products to defend himself, as most intellectual property rights will not be applicable since his temporary product has not (yet) gained the required distinctiveness, originality, or newness. The courts are therefore more readily inclined to award protection under unfair competition law in these cases. In order to fall within this special category, the fashion articles must have certain ‘competitive characteristics’, for example offering a new fashion image. They must not merely follow the already existing fashion.²⁵² Because of its specific character, based on the temporality of the fashion articles, the protection is only awarded for a limited period of time.²⁵³

4.8.3.5 Unlawful imitation of advertisements

Under Section 4(9) of the UWG a trader can be protected against the unlawful imitation of his products and services. These terms have a broad scope. Products and services that may be awarded protection under Section 4(9) include *inter alia* (public) performances as well as broadcasts,²⁵⁴ TV programme formats,²⁵⁵ trademarks,²⁵⁶ fictive characters,²⁵⁷ and advertising. In particular this last category, advertising, has proven to be important in practice. An imitation of an advertisement must meet the same requirements as an imitation of a product in order to be held unlawful. The imitation of another’s advertising is therefore basically allowed. Only if an advertisement has ‘competitive characteristics’, for example it has acquired distinctiveness, may its direct imitation or virtually identical imitation be held to be unlawful if special circumstances apply.²⁵⁸ Special circumstances are present in the case of confusion as to origin, exploitation of another’s reputation or in case of obstruction of the competitor.

In assessing whether an advertisement unlawfully imitates another advertisement by causing the public to be confused, not only the similarity of the advertisements is of importance, but also the exchangeability of the products that are advertised as well as the affinity of the settings of both the advertisements.²⁵⁹ In the *Wärme fürs leben* case,²⁶⁰ the plaintiff, a power company, advertised natural gas by depicting the image of a happy family thereby using the slogan ‘Wärme fürs Leben’ (warmth for life). The defendant, a representative of the petroleum industry, created an advertisement in which it pro-

252 Lehmler (2002), p. 117.

253 Cf. BGH, NJW 1973, 800, 801.

254 BGH, GRUR 1960, 614.

255 BGH, GRUR 2003, 876, 878. See also von Have/Eickmeier, Statutory Protection of Television Show Formats, ZUM 1994, 269, 274 et seq.

256 Cf. BGH, GRUR 2003, 973, 974.

257 Baumbach/Hefermehl (2004), § 4, 9.22; Kur, GRUR 1990, 10 et seq.

258 Lehmler (2002), p. 120.

259 Ibid, p. 121.

260 BGH, WRP 1997, 306, 309.

moted the use of fuel oil as a combustible and used the same 'format' as the plaintiff by depicting a happy family and using the same slogan. The Federal Supreme Court held that the defendant, by using the same theme and slogan, had taken advantage of the 'souvenir picture' which the public had of the plaintiff's advertisement. This led the Federal Supreme Court to the conclusion that the public had, in fact, been confused as to origin.

Not only in the case of confusion, but also if a trader exploits the reputation of a competitor may the imitation of an advertisement be held unlawful. In the *Rolls Royce* case,²⁶¹ the defendant in its advertisement for the whiskey 'Jim Beam', depicted the front view of a Rolls Royce, clearly showing the rectangular ROLLS-RR-ROYCE insignia, the winged hood ornament as well as the characteristic radiator grill. On the wing of the car two male persons in Texan-style attire were seated playing cards. The Federal Supreme Court held that it is unlawful to exploit the goodwill invested in another's products and to use it as a prefix for its own advertising by relating the quality of one's goods to the appraised goods of another. This may even be the case if the goods as advertised by the defendant are not similar to the goods of the plaintiff. Nevertheless, there will be no unlawful imitation if the other person's products are only casually depicted without any focus thereon.²⁶² An action for unlawful imitation does not require the defendant to have used pictures of another's product in his advertisement. The use of the advertising slogan 'Ein Champagner unter den Mineralwässern'²⁶³ in an advertisement for mineral water was deemed to unfairly exploit the reputation of the famous sparkling wine from the Champagne region.²⁶⁴ In its more recent case law, the Federal Supreme Court has increased the threshold for bringing an action for unlawful imitation of advertisements by exploiting the reputation of a competitor. In the *Salomon* case,²⁶⁵ the Federal Supreme Court did not believe the defendant to be unlawfully exploiting the reputation of its competitor when it introduced a new brand of cigarettes under the name Salomon, thereby using the same name as the plaintiff uses for its winter sport goods, since the products were not similar. In a subsequent case, the defendant was allowed to

261 BGH, GRUR 1983, 247.

262 Lehmler, (2002), p. 124.

263 Translated: 'A champagne amongst the mineral waters'.

264 BGH, GRUR 1988, 453, 454. In such a case that concerns an indication of origin, special provisions on the protection of indications of origin may apply, that can be found in the German Trademark Act. Part 6 of the Trademark Act has substituted section 1 of the UWG 1909 as the legal basis for the protection of geographical indications of origin. See e.g. [2002] ETMR 89 (1091): where the defendant who had used the slogan 'Champagner bekommenm Sekt bezahlen' was held liable under Section 127 (3) of the Trademark Act because the indication of origin 'Champagne' was likely to be diluted or the reputation of its owner was likely to be damaged.

265 BGH, GRUR 1991, 456, 457.

fabricate a replica of the famous formula 1 racing-car of ‘Mc-Laren’, as it was fabricated for a morally just, ‘colourless’ purpose: to be used in a facsimile toy racetrack.²⁶⁶

4.8.3.6 Limitations in time

Unlike intellectual property rights, the protection offered against unlawful imitations is in principle not limited in time.²⁶⁷ The main reason for this is their different nexus. Intellectual property rights lose their exclusive application if the achievement they protect, or more specifically the object they protect, is no longer deemed to be worthy of protection, for example if the right holder has had ample time to recoup his investments. The protection against unlawful imitation, based on unfair competition on the other hand, is not related to a certain object but to a certain behaviour that is unfair or to special circumstances that authorize protection. These circumstances differ to a certain extent depending on the type of unlawful imitation. There is, nevertheless, one general rule that may cause the protection under unfair competition law to be limited in time. As we have seen above, *supra* 4.8.3.2, the plaintiff has to prove that his original product has certain ‘competitive characteristics’ in order to receive protection against unlawful imitation. This means that if his products lose their ‘competitive characteristics’, for example by losing their distinctiveness, he can no longer invoke the protection granted under unfair competition law.

Previous decisions by the German courts have shown that the term of protection depends on the type of unlawful imitation. Unlawful imitation by way of avoidable confusion, for example, is not limited in time since it will always be possible for the public to be confused in the future.²⁶⁸ This type of protection preserves its function of indicating the origin of a good, even after a long period of time. Unlawful imitation by way of exploitation of another’s reputation, on the other hand, will no longer be actionable if the original manufacturer has lost his reputation. Also when the unlawful imitation is coupled with the obtaining of knowledge and data by dishonest means, the protection will not last forever, but only for so long as the information retains its confidentiality.²⁶⁹ Finally, if the imitator obstructs the original manufacturer by way of his imitations, for example by using a method of systematic imitation, the manufacturer will basically receive protection only as far as it is reasonably necessary to recoup his

266 BGH, WRP 1994, 599, 603.

267 BGH, GRUR 1999, 751, 754. See also Harte-Bavendamm/Henning-Bodewig/Sambuc (2004), § 4-9, 192.

268 Baumbach/Hefermehl (2004), § 4, 9.72; Kur, GRUR 1990, 12 et seq.; Erdmann (1995), 212. Cf. BGH, GRUR 1998, 477, 478; Higher Regional Court (OLG) Düsseldorf, GRUR 1983, 748, 750.

269 Baumbach/Hefermehl (2004), § 4, 9.74.

costs for the investments in and the marketing of the original product.²⁷⁰ The reason for this limited period is that the function of this kind of protection, whereby the original manufacturer receives protection against obstruction by a competitor, is to prevent the competitor from benefiting from the fact that he did not have to make the same investments as the original manufacturer. During this limited period, the original manufacturer is able to exploit the products or services which he himself manufactured or designed. The protection against unlawful imitation by way of obstruction is therefore more or less similar to the intellectual property rights that likewise offer protection in order to recoup the investments made.

The exact term of protection granted in the case of obstruction is dependent on the circumstances involved. If it involves the imitation of video games that fall outside the scope of protection offered under copyright law, the protection under unfair competition law is considered to be exhausted after six months to one year.²⁷¹ If the product that is imitated (with the original manufacturer being obstructed by the imitation) consists chiefly of aesthetic features, the original manufacturer will in most cases receive protection for the maximum protection that would have been granted under the Design Act for an equivalent product, which is three years.²⁷² If fashion products are concerned, the protection will in most cases not last for longer than the product cycle of one season.²⁷³ With regard to the imitation of a product with technical features, the original manufacturer cannot receive protection for a longer period of time than he would have enjoyed under patent law. If the original manufacturer has already enjoyed protection under patent law, additional protection against unlawful imitation combined with obstruction is no longer possible.²⁷⁴

4.8.3.7 *Exclusive rights?*

In section 4.8.2 I have already indicated that German law does not recognize an exclusive, personal right to be free from imitations of one's products, or more in general, one's performances, as is the case with intellectual property rights. Instead, the German law of unfair competition is directed towards the regulation of market behaviour. So the behaviour, the way in which a product is imitated, is decisive, not the fact that the product is imitated as such, even when the fabrication of the product has involved a great deal of labour and expenses. Unfair competition law therefore seeks to protect

270 Cf. BGHZ, GRUR 1968, 59; BGH, GRUR 1969, 620; BGH, GRUR 1986, 896; Higher Regional Court (OLG) Düsseldorf, GRUR 1999, 73 et seq. See also Köhler, WRP 1999, 1079; Sack, Festschrift Erdmann (2002), 714 et seq.

271 Higher Regional Court (OLG) Frankfurt, GRUR 1983, 758; Higher Regional Court (OLG) Frankfurt, WRP 1984, 86.

272 Baumbach/Hefermehl (2004), § 4, 9.76.

273 BGH, GRUR 1984, 454. See Harte-Bavendamm/Henning-Bodewig/Sambuc (2004), § 4-9, 198.

274 BGH, GRUR 1990, 530; BGH, GRUR 2000, 526.

consumers as well as the honest trader against unfair market behaviour instead of focusing on the protection of the product itself.²⁷⁵ So while a patent holder knows that he has a right which he can use, whenever he wants to, the trader who is allegedly harmed by unfair competition first has to prove that he is eligible for protection under unfair competition law. And while a patent holder can prevent any imitation as long as it infringes, the trader who will try to bring an action under unfair competition law will only receive protection if the imitation is accompanied by special circumstances.²⁷⁶ Various authors in the literature, however, have indicated that the distinction between regulating market behaviour and providing for an exclusive right is not that clear-cut.²⁷⁷ This is evident when we look at some of the types of unlawful imitation that have been addressed in the previous sections. In particular, unlawful imitation by the use of obstruction has many features that are similar to intellectual property rights. It is aimed at providing a trader with the opportunity to recoup his investments and labour. Moreover, this action is limited in time, as indicated in the previous section, which means that it does not really protect market behaviour, since then it would not be limited in time, but that it protects and rewards labour, investments or maybe even creativity.²⁷⁸

4.8.3.8 Conclusion

The protection of someone's achievements under German law has been primarily regulated under the heading of unlawful imitation. This presupposes a focus on the market behaviour of the dishonest competitor instead of focusing on the question of whether the achievements of the original manufacturer are worthy of protection in light of the labour and investments needed to create them. Neither the German legislator nor the courts have allowed the introduction of a separate action of unfair competition providing for protection of 'quasi-intellectual property rights'. This does not mean that German law does not offer any protection to the trader that is equivalent to the protec-

275 Cf. Köhler/Piper (1995), § 1, 592.

276 Emmerich (2002), p. 141-142.

277 Sambuc (1996), No. 35 et seq.; Baumbach/Hefermehl (2004), § 4, 9.4; Harte-Bavendamm/Henning-Bodewig/Sambuc (2004), § 4-9, 6-8.

278 Many authors, however, have opposed the idea of introducing 'quasi-intellectual property rights' via the UWG, see e.g.: Beater, *Nachahmen im Wettbewerb* (1995), p. 344 et seq.; Emmerich, in: *Festschrift für Gernhuber* (1993), p. 863 et seq.; Emmerich, *Unlauterer Wettbewerb*, in: *50 Jahre BGH, Festgabe aus der Wissenschaft, Volume II*, Munich 2000, p. 633; Nordemann, *Wettbewerbsrecht*, 8th edition (1996), No. 357 et seq.; Rößler, *GRUR* 1995, 549. Others, on the other hand, are in favour of introducing protection under the UWG for 'commercial achievements', see e.g. Fezer, *Der wettbewerbsrechtliche Schutz der unternehmerischen Leistung*, in: *Gewerblicher Rechtsschutz und Urheberrecht in Deutschland, Volume II*, 1991, p. 961 et seq.; Sambuc, *Der UWG Nachahmungsschutz*, 1996; Sack, *Nachahmen im Wettbewerb*, *ZHR* 160 (1996), 493. See for a detailed analysis of this controversy Walch, *Ergänzender Leistungsschutz nach § 1 UWG*, Carl Heymanns Verlag 1992, 178 pp.

tion offered under intellectual property law. In particular in the case of an imitation that is accompanied by the exploitation of another's reputation or by the obstruction of a competitor, the distinction between intellectual property law and unfair competition law seems to fade away. In these cases the plaintiff may not merely receive protection against misrepresentation, as is the case with confusion as to origin, but may even receive protection against the misappropriation of, for example, his goodwill even without the presence of a likelihood of confusion. If we consider this, it is evident that unfair competition law offers extended protection to a trader, although the principle of free competition, combined with the pre-emptive effect of intellectual property rights, may ensure that the courts will not be very eager to grant such general actions under unfair competition law. Despite the various ways in which the UWG 2004 has liberalised German unfair competition law,²⁷⁹ businesses are nonetheless still offered various opportunities to protect their goods and services from being misappropriated even in the absence of any customer confusion. This is evidently shown by the broad protection that is still awarded— even under the UWG 2004 – to traders who feel that their reputation or goodwill is being abused or who feel that they are obstructed in exploiting all by themselves the products or services which they have manufactured or made available. As a result, there is a risk of unwanted monopolies that are created under unfair competition law. Although protection which is additional to the protection offered under intellectual property law is feasible as well as necessary to ensure workable competition, it may cause the law of unfair competition to cross the 'boundaries' of intellectual property law.

4.8.4 Protecting Know-how

4.8.4.1 Introduction

Sections 17 to 19 UWG contain a rather comprehensive regulation with regard to the protection of know-how. The regulation of know-how protection under the new UWG largely corresponds with the regulation under the UWG 1909.²⁸⁰ Section 17 displays the basic rules with regard to the protection of know-how. Section 18 deals with the specific case when someone who has been entrusted with a submittal or technical instruction that is confidential, exploits this confidential information or communicates it to another without permission. Section 19 prohibits a person from inducing someone or from offering someone the possibility to violate Sections 18 and 19 UWG. Violation of Sections 17-19 can lead to various claims. First of all, they can lead to criminal sanctions.²⁸¹

279 See *supra* 4.2.5.

280 Explanatory statement to the UWG 2004, Deutscher Bundestag, Drs. 15/1487, p. 26. See also Harte-Bavendamm/Henning-Bodewig/Harte-Bavendamm (2004), §§ 17-19, 8.

281 See *sub* 4.8.4.3 et seq.

These criminal sanctions can be a ground for an action under tort law, in particular under the main tort provision embodied in § 823 II BGB.²⁸² The plaintiff may also have the possibility to bring a contractual action against the defendant, if the defendant has acted in breach of confidence. This requires the presence of a confidentiality agreement or special circumstances that generate a fiduciary duty on the part of the defendant.²⁸³ Finally,²⁸⁴ a violation of Sections 17-19 UWG will likely constitute unfair competition under Sections 4(11) UWG (breach of law), Section 4(9c) UWG (obtaining knowledge and data by dishonest means) or Section 4(10) UWG (obstructing a competitor). In the following sections, I will give an overview of the protection of know-how, or in other words trade secrets, under German law, in particular under the UWG.

4.8.4.2 The definition of a trade secret

The UWG does not contain a definition of a ‘trade secret’. However, case law has provided for a definition of this term. According to the Federal Supreme Court, a trade secret is ‘any facts related to a business, which have not been made public but are only known to a limited amount of persons, and which are supposed to be kept a secret according to the manifested intention of the owner of the business, the intention being based on justified economic interests’.²⁸⁵ A first prerequisite is thus that the information is confidential. The information should therefore not be known to the public, nor be publicly available.²⁸⁶ If the information is freely accessible, or easily accessible with honest means, the information is deemed to be publicly available.²⁸⁷ The same is true when the trade secret is accessible to the average professional by way of an ordinary analysis.²⁸⁸ If it is possible to acquire the confidential information by way of reverse-engineering, without it costing too much effort and expenses, this may be done at the

282 Harte-Bavendamm/Henning-Bodewig/Harte-Bavendamm (2004), § 17, 50; Baumbach/Hefermehl (2004), § 17, 53.

283 Harte-Bavendamm/Henning-Bodewig/Harte-Bavendamm (2004), § 17, 51-57; Baumbach/Hefermehl (2004), § 17, 53.

284 See Baumbach/Hefermehl (2004), § 55-57 for some very specific actions, which I do not mention.

285 ‘Denn Geschäfts- oder Betriebsgeheimnis ist jede im Zusammenhang mit einem Betrieb stehende Tatsache, die nicht offenkundig, sondern nur einem eng begrenzten Personenkreis bekannt ist und nach dem bekundeten Willen des Betriebsinhabers, der auf einem ausreichenden wirtschaftlichen Interesse beruht, geheimgehalten werden soll’. See BGH, GRUR 1955, 425; BGH, GRUR 1961, 43; BGH, GRUR 2003, at 358.

286 Harte-Bavendamm/Henning-Bodewig/Harte-Bavendamm (2004), § 17, 3-4; Baumbach/Hefermehl (2004), § 17, 6; Fezer (2005), § 17, 12 et seq.

287 Higher Regional Court Bavaria (BayObLG), GRUR 1991, 695.

288 RGZ 149, 334; Regional Court (LG) Munich, I CR 1986, 38; Higher Regional Court Hamburg, GRUR-RR 2001, 137. See also Reimann, Einige Überlegungen zur Offenkundigkeit im Rahmen von §§ 17 ff. UWG und von § 3 PatG, in: Festschrift für Ulrich Krieger, Weinheim 1998, 298 (GRUR 1998, 298).

expense of the keeper of the trade secret.²⁸⁹ The fact that the information is known to multiple persons does not mean that it is not confidential. The group of people who are aware of the confidential information must be clearly limited though,²⁹⁰ and checkable by the keeper of the confidential information.²⁹¹ An issue of importance is whether the circumstances imply that a person has a duty of confidentiality. This is the case, for example, if a person has a duty of confidentiality based on a confidentiality agreement or based on the legal implications of his profession as is the case *inter alia* with accountants, physicians or lawyers.²⁹²

Next to the information being confidential, the entrepreneur must have an economic interest in keeping the information confidential.²⁹³ The undesired dissemination of the confidential information should therefore be likely to damage his own business or be beneficial to a competitor's business.²⁹⁴ In addition, the entrepreneur must demonstrate his intention to keep the information confidential and he must clearly express this intention to the recipient of the confidential information, although it is sufficient if the intention follows from the nature of the information that is being communicated.²⁹⁵ There are no requirements as to the form of the trade secret; it may also exist purely in the mind.²⁹⁶

4.8.4.3 *Betrayal of trade secrets*

Section 17(1) considers it a criminal act for an employee to disclose for commercial purposes, without permission, during the period of his employment, confidential information with which he has been entrusted with or which has become accessible to him, for his self-interest or the interest of a third party or in order to harm his employer's business. The employee is not criminally liable if he knew about the confidential information beforehand or if he acquired this knowledge independently of his employment.²⁹⁷ It does not matter whether or not the employer has created the trade secret by

289 Cf. Higher Regional Court Düsseldorf, OLG Report 1999, 55

290 Fezer (2005), § 17, 14.

291 Gloy/Harte-Bavendamm, Handbuch des Wettbewerbsrechts, § 44, N0. 10; Többens, Wirtschaftsspionage und Konkurrenzausspähung in Deutschland, Neue Zeitschrift für Strafrecht (NSfZ), 2000/10, 506.

292 Baumbach/Hefermehl (2004), § 17, 7.

293 Harte-Bavendamm/Henning-Bodewig/Harte-Bavendamm (2004), § 17, 6; Fezer (2005), § 17, 20.

294 Baumbach/Hefermehl (2004), § 17, 9.

295 BGH, GRUR 1969, 343; BGH, NJW 1995, 2301. Cf. Fezer (2005), § 17, 18; Harte-Bavendamm/Henning-Bodewig/Harte-Bavendamm (2004), § 17, 5.

296 Baumbach/Hefermehl (2004), § 17, 11.

297 Baumbach/Hefermehl (2004), § 17, 15; Harte-Bavendamm/Henning-Bodewig/Harte-Bavendamm (2004), § 17, 9.

himself while being employed.²⁹⁸ If the employee discloses the information after the period of his employment, he cannot be held criminally liable,²⁹⁹ but he may still be held liable under civil law.³⁰⁰

The betrayal of trade secrets constitutes an offence which is punishable by law.³⁰¹ The offender can be punished by up to three years imprisonment or a fine. In very serious cases the offender can be punished by up to five years imprisonment or a fine.³⁰² A very serious case is when the offender acts professionally, if he knew at the time of the disclosure that the trade secret would be exploited abroad, or if he himself plans to exploit the trade secret abroad. An attempt to commit this offence is punishable by law as well.³⁰³

4.8.4.4 Industrial espionage

Section 17(2)(1) concerns cases of industrial espionage. Under this section, a person who, without permission, procures or secures a trade secret for commercial purposes, out of self-interest or for the benefit of a third party or with the intention to harm the entrepreneur, by applying technical means, by fabricating a reproduction embodying the trade secret or by seizing an object that embodies the trade secret can be held criminally liable. The technical means include the use of *inter alia* photocopiers, cameras, monitoring equipment as well as computers.³⁰⁴ The act of industrial espionage is punishable by law.³⁰⁵ The attempt to commit this offence is punishable by law as well.³⁰⁶

298 BGH, GRUR 1977, 540. Cf. Harte-Bavendamm/Henning-Bodewig/Harte-Bavendamm (2004), § 17, 9;

299 Cf. BGH, GRUR 1955, 405. See also Sieber, in Hoeren/Sieber, Handbuch Multimediarecht, loose-leaf, Beck: Munich, part 19, No. 443; Diemer, in: Erbs/Kohlhaas, Strafrechtliche Nebengesetze, UWG § 17, 22; Schlötter, Der Schutz von Betriebs- und Geschäftsgeheimnissen und die Abwerbung von Arbeitnehmern: Eine rechtsvergleichende Untersuchung des englischen, französischen und deutschen Rechts, GWR Volume 99, Carl Heymanns Verlag: Cologne 1997, p. 151 et seq.

300 Harte-Bavendamm/Henning-Bodewig/Harte-Bavendamm (2004), § 17, 12; Baumbach/Hefermehl (2004), § 17, 22.

301 Section 17(1) UWG.

302 Section 17(4) UWG.

303 Section 17(3) UWG.

304 Harte-Bavendamm/Henning-Bodewig/Harte-Bavendamm (2004), § 17, 22; Fezer (2005), § 17, 56-57.

305 Section 17(2) in conjunction with 17(1) UWG. See *supra* 4.8.4.3.

306 Section 17(3) UWG in conjunction with § 23 of the Criminal Code.

4.8.4.5 *Exploitation of trade secrets*

Section 17 (2)(2) concerns the unauthorised exploitation of trade secrets. A person may be held criminally liable if he exploits or discloses a trade secret without permission, in case he has obtained the trade secret by the unauthorised disclosure of another party,³⁰⁷ or in case he has obtained, procured or secured this trade secret without permission.³⁰⁸ This section *de facto* penalises the person who tries to benefit from an unlawful acquisition of confidential information. Even when the offender does not directly use or incorporate the trade secret, but modifies it or enhances it, he can still be held liable as long as it is clear that he could not have arrived at the same result without expending extra time or investments.³⁰⁹ The unauthorised exploitation of trade secrets is punishable by law.³¹⁰ The attempt to commit this offence is punishable by law as well.³¹¹

4.8.4.6 *Exploitation of entrusted submittals or technical instructions*

The German legislator has drafted a separate provision for cases involving the unauthorised exploitation of entrusted confidential information. Section 18 UWG states that an offender can be punished by up to two years imprisonment or a fine when he, without authorisation, exploits or discloses, for commercial purposes or for his self-interest, submittals or technical instructions like graphs, samplers, templates, sections or recipes, that were entrusted to him in the course of trade. This section is an elaboration of Section 17 UWG. Section 18 is in particular drafted for the case in which two businesses have entered into negotiations and one of the contracting partners entrusts the other with confidential information. If the contracting partner that has received the confidential information starts to exploit it or to disclose it without the proper authorisation, he may be held criminally liable. To bring an action under Section 18 UWG, the plaintiff has to prove that the defendant was entrusted with the confidential information. The plaintiff can prove this by referring to a confidentiality clause in the contract or by referring to the duty that was placed upon the defendant while entering into negotiations, be it explicitly or implied, to use the confidential information solely in the interest of the party that had entrusted the information.³¹² Submittals are instruments that are used as an example for demonstrating the new products that can be developed or manufactured. The wording of Section 18 cites a couple of instances which are considered to be submittals, like graphs and samplers. This includes, for example, architec-

307 See Section 17(1) UWG.

308 See Section 17(2)(1) UWG.

309 BGH, WRP 2001, 1177.

310 Section 17(3) in conjunction with 17(1) UWG. See *supra* 4.8.4.3.

311 Section 17(3) UWG in conjunction with § 23 of the Criminal Code.

312 Appellate Court (KG), GRUR 1988, 703; Higher Regional Court (OLG) Hamm, WRP 1993, 38. Cf. Fezer (2005), § 18, 16 et seq.

tonic blueprints,³¹³ furniture drawings,³¹⁴ computer programs³¹⁵ and advertising slogans.³¹⁶ The submittal does not necessarily have to be a trade secret within the meaning of Section 17, although it should not be common knowledge since this would impair the confidential nature of the submittal.³¹⁷ The duty that rests on the recipients of the confidential information to keep it secret does not expire after the termination of the contractual relationship or because of the failure of the contractual negotiations.³¹⁸

4.8.4.7 Solicitation or offer to betray trade secrets

Under Section 19(1) UWG a person can be held criminally liable if he induces another person, for commercial purposes or for his self-interest, to commit or instigate a criminal act in accordance with Sections 18 and 19 UWG. Subsection (2) states that it constitutes an offence to express one's willingness, or to accept another's offer or to arrange with another, for commercial purposes or for one's self-interest, to commit or instigate a criminal act in accordance with Sections 18 and 19 UWG. Subsection 2 reproduces § 30 II Criminal Code.³¹⁹ The first subsection covers the inducement of another to commit a criminal act, while the second subsection covers the case when the criminal act is personally committed. Section 19 has as its purpose to deprive a competitor of the possibility to approach an employee of a rival business in order to gain knowledge of trade secrets.³²⁰ An inducement can emanate *inter alia* from the sending of a letter, or the asking of a question that requires an answer leading to the betrayal of a trade secret.³²¹ Section 19 UWG has been criticized in the German literature due to its limited practical use³²² as well as the fact that it places the culpability unusually far

313 Higher Regional Court (OLG) Karlsruhe, WRP 1986, 623.

314 Imperial Court (RGSt) 48, 76 et seq.

315 Gloy/Harte-Bavendamm, Handbuch des Wettbewerbsrechts, § 43, No. 204 et seq.; Rupp, Strafrechtlicher Schutz von Computersoft- und Orgware nach §§ 17 ff. UWG unter Berücksichtigung der Reformwürfe zum UWG, WRP 85, 678; Fezer (2005), § 18, 12.

316 Appellate Court (KG), GRUR 1988, 703. See also Fezer (2005), § 18, 13.

317 BGHZ 82, 373.

318 Because of the after-effect of the fiduciary duty. See Baumbach/Hefermehl (2004), § 18, 13.

319 Cf. Harte-Bavendamm/Henning-Bodewig/Harte-Bavendamm (2004), § 19, 1.

320 Arians, Der strafrechtliche Schutz des Geschäfts- und Betriebsgeheimnisses in der Bundesrepublik Deutschland, in: Oehler (ed.), Der strafrechtliche Schutz des Geschäfts- und Betriebsgeheimnisses in den Ländern der Europäischen Gemeinschaft sowie in Österreich und der Schweiz I, Volume 2, 1978, p. 375; Diemer, in: Erbs/Kohlhaas, Strafrechtliche Nebengesetze, UWG § 20, No. 1; Otto, in: Jacobs/Lindacher/Teplitzky, UWG, Großkommentar zum Gesetz gegen den unlauteren Wettbewerb mit Nebengesetzen, Gruyter, UWG § 20, 1.

321 Imperial Court (RGSt) 32, 310.

322 Cf. Otto, in UWG Großkommentar, UWG § 20, 1.

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ahead compared to § 30 Criminal Code that is limited to indictable offences.³²³ Fezer also points to the stressed relationship between, on the one side, Section 19 UWG and, on the other, Sections 17 and 18 UWG. While Section 19 requires the offender to act solely for commercial purposes or for one's self-interest, Section 17 for instance includes cases in which the offender acts in the interest of a third party or in order to harm his employer's business. Fezer therefore wonders whether it would not be better to repeal Section 19.³²⁴

4.9 CONCLUSION

Triggered as well as inspired by the recent initiatives of the European Commission to harmonise the law of unfair competition within the European Union, the German legislator has executed an ambitious legislative project in order to bring about the modernisation and liberalisation of German unfair competition law. This liberalisation, which started with the repeal of the provisions governing special sales events and special offers, has resulted in a modernized and more liberal new UWG 2004 that explicitly includes protection for the consumer. The UWG 2004 has been restructured so as to fall in line with current³²⁵ as well as pending³²⁶ Community unfair competition law. The ultimate goal of the new UWG 2004 is to be launched as a guideline for the (future) harmonisation of unfair competition law.

The question of course is whether the German legislator has succeeded in drafting new legislation that can serve as a pioneer in the process of the harmonisation of unfair competition law. It is evident that, by way of the modernisation and liberalisation of its law, the German legislator has taken an important step towards the adoption of a common European standard for unfair competition. The inclusion of consumer protection in the wording of the UWG, the adoption of a liberal European standard for the 'average consumer' in misleading advertising, the toning down of the doctrine of 'insertion into a non-proprietary series', the introduction of an action for skimming-off extra profits, the introduction of a threshold for '*de minimis*' cases, and, finally, the

323 Fezer (2005), § 19, 13. See also Lampe, Der strafrechtliche Schutz des Know-how gegen Veruntreuung durch den Vertragspartner, BB 1977, 1481; Krüger, Der strafrechtliche Schutz des Geschäfts- und Betriebsgeheimnisses im Wettbewerbsrecht: eine Untersuchung zum derzeitigen und künftigen Rechtszustand, diss. Bielefeld, Europäische Hochschulschriften, 2d series, Rechtswissenschaft, Volume 405: 1984, p. 175 et seq.

324 Fezer (2005), § 19, 13. Alternatively, he considers setting aside any special notions in Section 19. See also Mitsch, Strenge Akzessorietät der Teilnahme und andere Merkwürdigkeiten im neuen § 19 UWG, Wistra 2004, p. 161 et seq.

325 In particular the Directive on Misleading and Comparative Advertising.

326 The Unfair Commercial Practices Directive that in the meantime has become law, as well as the draft Regulation on Sales Promotions.

replacement of 'outdated' legal terminology by terminology used in European legislation as well as the adoption of the structure used in European legislation are good examples of the effort that has been made to come to a modern European-like model of legislation. Whether this complete 'makeover' of German unfair competition law is, in the end, suitable to be followed as an example by the Community legislator is a matter that is not easy to decide, besides the fact that the Community legislator has obviously already taken a road of its own by enacting the Unfair Commercial Practices Directive.

It is a fact that the traditional 'coloured' picture of German law offering a very high level of protection to traders against unfair competition, and thereby neglecting the basic principle of freedom of imitation, is no longer accurate. This does not mean, however, that under the UWG 2004 traders are no longer able to claim for extended protection against unfair competition. On the contrary, in some cases traders still enjoy very broad protection. This might lead to undesirable results if protection is awarded against cases of unlawful imitation that do not confuse the public as to origin, but where other circumstances lead to the liability of the imitator. This extended protection is offered in particular in cases where a trader believes that his reputation or goodwill is being abused or when he feels that he is being obstructed in himself exploiting the products or services he has manufactured or made available. By offering protection to traders under these circumstances, German unfair competition law still employs a type of protection that is equivalent to the protection offered under intellectual property law. But, in contrast to intellectual property rights, there are no special justifiable economic or social considerations, such as in the case of patent law the right to recoup one's investments, that justify the creation of such a monopoly. While for intellectual property rights a deliberate choice has been made to create a monopoly, after meticulously balancing all the interests involved, for these extended actions under unfair competition law, a *de facto* comparable monopoly is created as well, in the form of an action against misappropriation that has nothing to do with an action solely based on misrepresentation. By allowing direct protection to the trader against the misappropriation of his trade values, without assessing whether there is unfair behaviour involved, it is very likely that the principle of freedom of imitation that creates a system of fair, workable competition may be in danger. It is therefore better to accommodate this kind of protection within the system of intellectual property laws, instead of accommodating it under unfair competition law thereby unnecessarily stretching the concept of unfair competition.³²⁷

327 Cf. Kur (1992) 23 IIC 218 at 228, who argues that these issues of misappropriation and dilution should be seen as trademark issues, rather than to be sidelined as an unfair competition debate.

English Law

5.1 INTRODUCTION

Unlike the legislation in most European countries, no statutory provisions exist in the UK dealing specifically with unfair competition. The courts in the UK have been reluctant to develop a general principle of unfair competition,¹ despite the accession of the UK to the Paris Convention bringing along the obligation to assure to nationals of other countries effective protection against unfair competition.² Part of this subject-matter, however, is dealt with in more than 100 Acts and Statutory Regulations, precedents and self-regulatory Codes of Conduct. Nevertheless, a general action for unfair competition does not exist in English Law.³ A number of torts, however, fill this gap to some extent, the most important of these being passing off, defamation and malicious falsehood. In addition to this, a diverse set of statutory legislation, mainly in the field of consumer protection, and various self-regulatory codes of conduct exist that regulate unfair trade practices. In the next sections, these torts, regulations and codes of conduct will be

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- 1 See e.g. the comments of the Privy Council in *Cadbury-Schweppes Ltd v. Pub Squash Co Pty Ltd* [1981] RPC 429 and the statement by Jacob J in the case *Hodgkinson & Corby Ltd and Roho Inc. v. Wards Mobility Services Ltd*, see *sub* 17. See also the next paragraph. Nonetheless, the British Code of Advertising, Sales Promotion and Direct Marketing requires, in section 2.3, all forms of non-broadcast advertising to respect the principles of fair competition generally accepted in business. See *sub* 23.
 - 2 See with respect to the effect of Article 10^{bis} of the Paris Convention in the United Kingdom, § 2.1.1. It is interesting to notice that in the neighbouring common law system of the United States, a general (limited) notion of unfair competition does nevertheless exist. In 1918 the US Supreme Court adopted in the well-known INS case (248 US 215 (1918)) a doctrine of misappropriation, although its full effect has been tempered over the years. See also *supra* § 2.5. In addition, claims can be brought under Section 43 of the Lanham Act as well as under various state unfair competition statutes and under state common law. Furthermore, the Federal Trade Commission administers the FTC Acts, including the Unfair Deceptive Trade Practices and Consumer Protection Act, thereby warranting the fairness and freedom of competition. See for more details on US unfair competition law: Callmann, *Unfair Competition, Trademarks and Monopolies*, Thomson/West (looseleaf); McCarthy, *McCarthy on Trademarks and Unfair Competition*, Thomson/West, 4th ed. (looseleaf).
 - 3 See also the next section. See for an analysis of unfair competition law in the United Kingdom from the viewpoint of a German lawyer: Bodewig, *Das Recht des unlauteren Wettbewerbs in Grossbritannien: Ein Dreiklang von Fallrecht, Gesetzesrecht und Selbstkontrolle*, GRURInt 2004 (7/8), p. 543-558.

discussed, as well as the question of whether the tort of passing off relates to a wider concept of unfair trading. In the absence of a general action for unfair competition, there will be no separate section on the development of English unfair competition law unlike the previous two chapters. Instead, the development of each separate tort will be discussed, as far as it is necessary, in the sections dedicated to these torts.

5.2 REJECTION OF A GENERAL ACTION FOR UNFAIR COMPETITION

Before examining how unfair trading practices are addressed under English law, it is important to outline the system of torts under English law,⁴ and to examine why no tort of unfair competition exists under English law. For this reason, we have to distinguish between the meaning of tort in civil and common law jurisdictions. Whilst in the civil law tradition, distinctions between delicts have been ironed out over the course of time to the point where a general principle of delictual liability has been created, Anglo-American common lawyers have adhered to a clearly defined number of separate torts and have refrained from creating a single denominator in the form of a general tort clause. English law has not adopted a *prima facie* tort theory whereby any harm which one person inflicts on another person is actionable in the absence of lawful justification. Instead English law recognises discrete nominate torts.⁵ The common law torts are, therefore, separate and independent torts, each having its own preconditions and its appropriate defences, and each protecting a particular interest of the citizen against a specified form of invasion.⁶

So, English law demonstrates a closed system of torts. This fact, combined with the fact that no tort of unfair competition exists, justifies the conclusion that no specific rule on unfair competition exists under English law, as indicated in the previous section. That does not mean, however, that the English system of torts is not flexible enough to address new types of unfair trading practices. As we will see, below, the tort of passing off has had its parameters relaxed, so as to address new types of unfair behaviour.⁷ One

4 See for a complete analysis of English tort law: Rogers, Winfield and Jolowicz on Tort, Sweet & Maxwell 2002, 1008 pp.; Weir, Tort Law, Oxford University Press 2002, 240 pp.; Jones, Textbook on Torts, Oxford University Press 2002, 784 pp.; Clerk/Dugdale/Lindsell, Clerk and Lindsell on Torts, Sweet & Maxwell, 19th ed., 2005; Mitchell/Grubb (Ed.), The Law of Tort, Butterworths Law 2000, 1030 pp.; Deakin/Johnston/Markesinis, Markesinis and Deakin's Tort Law, Clarendon Press 2003, 962 pp.; Cane, Tort Law and Economic Interests, Clarendon Press 1991, 559 pp.; Ibid, The Anatomy of Tort Law, Hart Publishing 1997, 264.

5 Coleman, The legal protection of trade secrets, London: Sweet & Maxwell 1992, p. 47.

6 Zweigert/Kötz, An Introduction to Comparative Law, Oxford: Clarendon Press 1992, p. 605. See for a general (as well as comparative) overview of the characteristics of the common law of tort, and English law in general, chapter III and VIII-E of this book.

7 See *sub* § 5.5.1.6.

could wonder, nonetheless, why a general action for unfair competition has so far been rejected by British Common Lawyers. Some underlying motives for this rejection can be marked.⁸

First of all, the common law courts were not favourable towards large generalisations about rights. Adopting a broad principle such as ‘unfair competition’ would have been foreign to their traditional caution. In addition to this, the fear of a flood of litigation prevented the courts from allowing a wide range of claims based on unfair competition.⁹ The specific structure of the British court system, with a small number of superior judges, prevented the adoption of a general action for unfair competition from a practical point of view. The courts were opposed to becoming a forum for justifying the advertising claim of one business competitor against those of another.¹⁰ Thirdly, freedom to trade and, consequently, the freedom of competition were motives that marked the agenda of Britain before the First World War, facing the growing competition of protectionist Germany and the USA. The UK formally subscribes to strict free-market principles in accordance with which product simulation is a right rather than a wrong.¹¹ Legal interference in the economic market, with the danger of creating a monopoly, was seen as unfavourable at that time. The judges decided to avoid regulating unfair trading practices and were unwilling to participate in the formulation of economic policy.¹² The emergence of ‘consumerism’ in the developed economies, which influenced the doctrine in parts of Europe and called for more protection against unfair trading practices, did not fundamentally change this view.

The notion of ‘unfair’ proved to be one of the prime obstacles to adopting a general principle of unfair competition. Whether a certain act could be classified as constituting unfair competition depends on one’s individual notion of what constitutes ‘unfair’. This criterion can lead to uncertainty. Indicative in this respect is the statement by Fry LJ in *Mogul Steamship Co. v. McGregor Gow & Co.*:¹³

‘to draw a line between fair and unfair competition, between what is reasonable and unreasonable, passes the power of the courts.’

8 Cornish, *Intellectual Property*, Fourth Edition, London: Sweet&Maxwell 1999, par. 1-18.

9 See e.g. *White v. Mellin* [1985] A.C. 154 at 164, HL.

10 Cornish (1999), 1-19.

11 Reichman, *Legal Hybrids between the Patent and Copyright Paradigms*, 94 Col. LR 2432 (1994), at 2465; Lahore, *Products Simulation and Copying the Get-up of Goods*, EIPR [1979], p. 146.

12 As put by Lord Davey in [1902] AC 484, p. 500: ‘public policy is always an unsafe and treacherous ground for legal decisions’. See for more details on this issue Carty, *An Analysis of the Economic Torts*, Oxford University Press 2001, p. 9.

13 (1889) 23 Ch.D. 598 at 625-626.

British Common lawyers have traditionally refused to embrace concepts such as fairness or good faith in business,¹⁴ leaving the moral issue in the hands of the players on the market and refraining from applying any legal sanctions.

This leads to the conclusion that advocates of a concept of unfair competition in the common law countries¹⁵ were not met with a wide response.¹⁶ Or, as Jacob J. recently commented in the English High Court:

‘I turn to consider the law and begin by identifying what is not the law. There is no tort of copying. There is no tort of taking a man’s market or customers. Neither the market nor the customers are

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- 14 See Robertson/Horton, Does the United Kingdom or the European Community need an Unfair Competition Law?, EIPR 1995, 17(12), 568-582, who cite *Lord Ackner in Walford v. Miles* [1992] 2 AC 128, at 138: ‘A duty to negotiate in good faith is as unworkable in practice as it is inherently inconsistent with the position of a negotiating party.’ Robertson and Horton point out that this statement has been questioned by Steyn J in his Royal Bank of Scotland Law Lecture 1991, delivered at Oxford University (see Steyn, The role of good faith and fair dealing in contract law: a hair-shirt philosophy?, in: Democracy through law, selected speeches and judgements, Hampshire: Dartmouth 2004, p. 213-223) and has been diluted by the Unfair Terms in Consumer Contracts Regulations, Article 4, SI 1994/3159, which requires the application of a test of good faith as a test of enforceability of certain contractual terms. Dworkin argues that: ‘(...) law and business morality overlap and the courts may apply their own standards to determine which unethical and unfair activities constitute unlawful competition and which activities, though unethical (and in that non-legal sense unfair), must remain legally permissible. There are those who would argue that such tasks should not be undertaken lightly by the courts.’, see Dworkin, Unfair Competition: Is the Common Law Developing a New Tort?, EIPR [1979] 241.
- 15 Elliot, The Common Law: Unfair Competition and sui generis Legislation, A Time for Reappraisal, (1992) 20 TMW Jan/Feb 25-30.; Lahore, Design and Petty Patents: A Broader Reform Issue, (1996) 7 AIPJ 7; Dworkin, [1979] EIPR 241.
- 16 See in addition to the above mentioned statement of Fry LJ: *Swedac v. Magnet & Southernns*, [1989] 1 F.S.R. 243, per Harman J.: ‘The man who makes a better mousetrap, leading to people beating a path to his door to buy it, will inevitably damage the business of the makers of the earlier, worse mousetraps; they will, perhaps sadly, go out of business unless they are backed; but that is what competition is about; and that is what has been the driving force for the success of the capitalist world. It is an absolutely fundamental proposition, in my view, which Mr. Hobbs was right to emphasise, that this alleged tort really amounts to saying that there has been competition, and adding the old nursery cry ‘It’s unfair!’ To that I would only cite my nanny’s great nursery proposition: ‘The world is a very unfair place and the sooner you get to know it the better.’ In my view, unfair competition is not a description of a wrong known to the law. Competition that causes some loss may also be unfair because it breaks existing legal rights, but competition which is effective is not thereby unfair.’ In *Cadbury Schweppes Prop. Ltd v. Pub Squash Prop. Ltd* [1981] 1 All ER 213, the Privy Council put forward that their Lordships expressed no opinion on the development of a tort of unfair competition by the US Supreme Court in the landmark case *International News Service v. Associated Press* (1981) 248 US 215.

the plaintiff's to own. There is no tort of making use of another's goodwill as such. There is no tort of competition.¹⁷

So, as we can see, no general action for unfair competition law exists under English law. In the following sections we will see that, nevertheless, a variety of torts, regulations and codes of conduct do create a framework of protection that, at least to some extent, is equivalent to the protection provided for under unfair competition law in most of the continental European countries.

5.3 MISLEADING ADVERTISING

5.3.1 Introduction

Advertising in the UK is controlled by an intricate framework of patchy legal controls alongside, and sometimes overlapping with, various regulations and codes emanating from a wide range of statutory, quasi-statutory and self-regulatory bodies. The primary and main source for controlling advertising are the various self-regulatory Codes of Conduct. Most of the cases of misleading advertising are handled under this self-regulatory regime. In addition to this, a diverse set of statutory legislation can lead to civil remedies or criminal convictions in the case of a misleading advertisement, such as the Trade Descriptions Act, the Consumer Protection Act and the Control of Misleading Advertisements Regulation 1988. Finally, in the event of an advertisement that infringes a private right of an individual, the person involved may have a civil remedy under common law. Whereas the United Kingdom has deliberately abstained from granting private law remedies under the Control of Misleading Advertisements Regulation, most of these civil claims in an advertising context will likely be framed in tort, for example defamation, malicious falsehood or passing off.¹⁸

5.3.2 British Code of Advertising, Sales Promotion and Direct Marketing

In addition to specific legislation, a wide-ranging system of self-regulation exists, based upon several Codes of Practice.¹⁹ This self-regulatory system has been established so

17 Case *Hodgkinson & Corby Ltd and Roho Inc. v. Wards Mobility Services Ltd* [1995] FSR 169.

18 These torts will be discussed *sub* § 5.4 et seq.

19 The system of self-regulation in the UK has been criticized since the mid-1990s, despite the fact that this system has been a source of inspiration to other countries and has been copied by many of them. The government, however, continues to be a strong supporter of the self-regulatory controls on advertising in the UK as run by the Advertising Standards Authority. See e.g. Members in Commons Hansard Written Answers (reports of the proceedings of the main Chamber of

as to give effect to section 5 of the Directive on Misleading Advertising. The Advertising Standards Authority (ASA) is responsible for investigating complaints of breaches – from any source – of the British Code of Advertising, Sales Promotion and Direct Marketing (the CAP Code), a comprehensive industry self-regulatory set of rules that apply to all advertisements in non-broadcast media.²⁰ The self-regulatory bodies themselves have to comply with a wide range of statutory rules, the most important being the Control of Misleading Advertisements Regulation 1988.²¹

The Code requires an advertisement to be legal, decent, honest and truthful and to be prepared with a sense of responsibility to both consumers and society.²² In addition, the advertisement should respect the principles of fair competition generally accepted in business.²³ If claims in an advertisement are disputed, the burden of proof lies with the advertisers, who must provide documentary evidence to substantiate their claims.²⁴ The ASA²⁵ can issue a ruling or ‘adjudication’ against the advertiser, demanding the amendment or withdrawal of the advertisement and assurances that the misleading aspects will not be repeated. In exceptional circumstances, the ASA Council can be asked to reconsider its ruling.²⁶ If the advertiser does not comply, sanctions are applied. This can be the publishing of the ruling on the internet,²⁷ alerting the publishers and other media to withhold their services and to refrain from accepting the advertisements, revoking, withdrawing or temporarily withholding recognition and certain trading privileges to a member that does not comply with the Code,²⁸ and the vetting of some or all future advertisements. An obligatory publication of rulings through the previously offending media seems to be missing from this list of sanctions, though.

The ASA is a body whose decisions are subject to judicial review. The Courts have, however, been very reluctant to correct the ASA’s judgements²⁹ and have confined

the House of Commons) text of 20 June 2000, No. 126329-126330; of 6 June 2000, No. 124084; of 22 July 1996, No. 37754, 37783.

20 The Committee of Advertising Practice (CAP) devises and amends the Code and offers advice on advertising to advertisers prior to publication.

21 These regulations will be discussed later on.

22 Section 2.1 and 2.2 of the Code.

23 Section 2.3 of the Code. For a comprehensive explanation of the Code, See Howells/Voigt, United Kingdom, in: Micklitz et al. (ed.), *Marketing Practices Regulation and Consumer Protection in the EC Member States and the US*, Baden-Baden 2002: Nomos Verlagsgesellschaft, p. 383-385.

24 See section 3.1 of the Code.

25 Usually in conjunction with the CAP.

26 ‘The Independent Review’ procedure, see section 60.38 of the Code.

27 See at www.asa.org.uk.

28 E.g. withholding substantial direct mail discounts offered by the Royal Mail, see section 61.7 of the Code.

29 See e.g. [1989] 1 W.L.R. 517, at 6, where J. Hoffmann advocates strong support by the Court to the self-regulatory bodies: ‘I think that advertisers would be more inclined to accept the rulings of their self-regulatory bodies if it were generally known that in cases in which their procedures

themselves to making supervisory decisions, mainly due to a lack of expertise. In the words of J. Popplewell in *Regina v. ASA ex parte DSG Retail Limited*.³⁰

‘The Authority [the ASA, *RWDV*] have the expertise to make the decisions which are judgemental. The Court does not possess that expertise. It is not the function of the Court to substitute its own judgement for that of the Authority. The Court will only interfere on the usual ground of irrationality, illegality, or procedural impropriety. Where there is a band of reasonable interpretation in relation to any particular advertisement, the Court will not interfere simply because another reasonable view can be taken, unless it is shown that the Court’s decision is plainly wrong. This approach is particularly important where an authority is given the task of dealing with very many complaints and has therefore acquired a considerable experience in practice in this particular field.’

This did not, however, keep J. Popplewell from considering the complaint at hand and arriving at the conclusion that the ASA judgement was reasonable, followed by the dismissal of leave to appeal.

One can conclude that the British Codes of Conduct provide general and flexible provisions that resemble, as to the subject-matter in general, those provisions laid down in the law of other Member States.³¹ They supplement the law, fill those gaps where the law does not reach and often provide an easier way of resolving disputes than by civil litigation or criminal prosecution.³² They provide the recipient of an advertisement with a broad set of rules that can be invoked, and complaints are investigated free of charge. However, these rules place a heavy burden on the shoulders of the advertiser, because of the abundance of details with which the advertisers have to comply. It is therefore safe to say that these self-regulation rules are more specific and detailed than the majority of the rules that can be found in the Member States with specific legislation.³³

5.3.3 ITC and RA Broadcasting Advertising Codes

Until July 2003, the Radio Authority (RA) regulated advertisements on the radio and the Independent Television Commission (ITC) regulated advertisements on commercial

had been exhausted and the advertiser was still publishing an advertisement which appeared to the court to be prima facie misleading an injunction would ordinarily be granted.’ In addition, J. Hoffmann granted an injunction, which was not limited to the disputed advertisement, but also applied to advertisements which are in similar terms or likely to convey a similar impression with respect to the six specific misleading claims of the case. See also *Stephen Buxton (Trading as the Jewelry Vault) v. ASA* [2002] EWHC 2433, at par. 13.

30 [1996] EWHC Admin 315.

31 Ohly, *Richterrecht und Generalklausel im Recht des unlauteren Wettbewerbs: Ein Methodenvergleich des englischen und des deutschen Rechts*, Carl Heymanns Verlag, Cologne: 1997, p. 56.

32 See the beginning of the Code, p. 3.

33 Howells/Voigt (2002), p. 383.

TV, and cable and satellite services.³⁴ The Broadcasting Act 1990 requires the ITC to publish a code governing standards and practice in television advertising, the ITCC.³⁵ For radio advertising, it requires the RA to publish a code of practice, the RAC.³⁶ In addition to drawing up codes of practice, the two broadcasting regulators are responsible for adjudicating complaints and applying sanctions. All independent television and radio companies are required to comply with the Codes, as published by the ITC and RA, as a condition of their licence. If they do not comply they risk losing their licence. Apart from this, the ITC and RA can order the withdrawal or amendment of an advertisement or the issuing of an apology, or impose a fine.³⁷ The ITC and RA have to comply with a broad range of statutory rules, the most important being the CMAR. The basic principles underlying the ITCC and the RAC reflect those of the CAP Code. Section 1 (1) RAC and the preface to the ITCC directly relate to section 2.1 of the CAP Code in stating that advertising should be legal, decent, honest and truthful.

The Communications Act 2003³⁸ that received Royal Assent on 17 July 2003 will, however, replace the ITC and the RA by a new body called ‘the Office of Communications’ (OFCOM). This new communications super-regulator will *inter alia* be responsible for the drafting, reviewing and amendment of codes based on the framework of advertising standards set out in the Communications Act 2003. Section 319 (2)(h) of the Communications Act 2003 provides that ‘the inclusion of advertising which may be misleading, harmful or offensive in television and radio services’ is to be prevented. Earlier versions of the preceding Communications Bill stated that the inclusion of ‘*unsuitable* advertising’ in television and radio services was to be prevented. The House of Lords voted to remove the new definition of ‘unsuitable advertising’ and to replace it with the established definition of ‘misleading, harmful and offensive advertising’. Although setting standards for the content of advertising on television and radio is the sole responsibility of the OFCOM, in the first instance they will likely adopt the prevailing advertising standards codes as drawn up by the ITC and RA.

34 In addition to this, the Financial Services Authority regulates advertisements concerning financial matters in the first instance, and the Independent Committee for the Supervision of Standards of Telephone Information Service regulates misleading advertisements for services provided over the telephone. For more information on the ITC and RA Codes of Conduct, see Howells/Voigt (2002), p. 389-391.

35 The ITC Code of Advertising Standards and Practice.

36 The RA Advertising and Sponsorship Code.

37 Broadcasting Act 1990, ss. 9(6), 9(7), 40, 41, 42, 93(6), 93(7), 109, 110 and 111; RAC s. 5.1; ITCC Appendix 1(g).

38 This Act gives effect to the proposals made by the UK government for the reform of the regulatory framework for the communications sector, as set out in the Communications White Paper, *A new future for communications*, Cm 5010, published on 12th December 2000.

5.3.4 Enforcement by Trading Standards Departments

Next to addressing a complaint to the ASA, a consumer can make a complaint to the local Trading Standards Departments.³⁹ Like the Director General of Fair Trading,⁴⁰ these Departments can seek court orders to stop misleading advertising which is harming the consumer. They enforce several consumer protection laws.⁴¹ The most important are the following.⁴²

First of all, the Trade Descriptions Act 1968 makes it an offence for a trader to apply, by any means, false or misleading descriptions, or to knowingly or recklessly make such statements about goods or services. The term ‘trade description’ is very broadly defined.⁴³ The Act carries criminal penalties and is enforced by local authorities’ Trading Standards Officers. Secondly, the Consumer Protection Act 1987⁴⁴ makes it a criminal offence to give consumers a misleading price indication – regardless of the media used – concerning goods, services, accommodation (including the sale of new homes) or facilities.⁴⁵ No actual consumer needs to have been misled. Section 21 gives a comprehensive definition of ‘misleading’. This involves indications which mislead either as to the price at which goods, services, accommodation or facilities are available

39 They have responsibility for overseeing the operation of about 70 Acts of Parliament, 800 regulations, 47 codes of practice and thousands of standards, many of which impact upon advertising practice. See Ohly/Spence, *The Law of Comparative Advertising: Directive 97/55/EC in the United Kingdom and Germany*, Hart Publishing: 2000, p. 16.

40 See *sub 48*.

41 The Stop Now Regulations 2001, which came into force on 1st of June 2001 and are an implementation of the Injunctions Directive 98/27/EC (OJ No. L 166, 11 June 1998, p. 51), improve the enforcement of breaches known as ‘community infringements’. These infringements include the breach of the law of a Member State transposing the EC directives mentioned in the Injunctions Directive. The Stop Now regulations provide a stronger mechanism for enforcing consumer protection legislation by providing the OFT and certain specified bodies with a speedier means of acting against businesses in the UK and the EU which harm the collective interests of consumers. Failure to comply with a Stop Now Order is treated as contempt of court punishable by fines or even imprisonment.

42 Other pieces of legislation, in most cases enforceable by local authorities’ Trading Standards Officers, include *inter alia*: the Property Misdescriptions Act 1991, the Footwear (Indication of Composition) Labelling Regulations 1995, the Hallmarking Act 1973, the Consumer Credit Act 1974, the Consumer Credit (Advertisements) Regulations 1989, the Medicines Advertising Regulations 1994, the Food Safety Act 1990, the Financial Services Act 1986 and the Weights and Measures Act 1985.

43 Harrison (ed.), *International Comparative Advertising*, INTA: New York 1997, p. 64.

44 An additional Code of Practice for Traders on Price Indications has been issued, as approved under section 25 of the Consumer Protection Act. It is addressed to traders and sets out what is good practice in giving price indications in a wide range of different circumstances, so as to avoid misleading price indications.

45 Section 20 Consumer Protection Act (Part III).

or as to the method of determining the price. In case of a breach of this act a person shall be guilty of an offence and be liable to a fine.⁴⁶

5.3.5 Control of Misleading Advertisements Regulation 1988

If appropriate means of dealing with the complaint have been tried⁴⁷ and those means have not provided the right answer to the problem, a consumer, competitor or the ASA itself can complain to the Director General of Fair Trading (DGFT)⁴⁸ for investigation under the Control of Misleading Advertisements Regulations 1988 (CMAR).⁴⁹ The CMAR implement the Council Directive on Misleading Advertising.⁵⁰

The DGFT enforces non-broadcast advertisements under the regulations. He is empowered to act only when a complaint has been received.⁵¹ Although the DGFT can take action in response to direct complaints from the public, he will normally act only after the complaint has been investigated by the ASA. He may, in order to obtain evidence, require any person to furnish him with information which is relevant to the case and disclose to any person any information obtained during this process.⁵²

The DGFT – so not the consumer or competitor himself – may, if he considers the advertisement to be misleading, bring proceedings under the CMAR for an injunction to prevent the publication or continued publication of the advertisement.⁵³ No proof of loss or damage to anyone or of intent on the part of the person responsible for publish-

46 Consumer Protection Act 1987 section 20.

47 That is, issuing a complaint to the ASA or to a local authority trading standards department, CMAR, s. 4(3).

48 Following the entry into force of the Enterprise Act 2002, the office of the Director General of Fair Trading has been replaced with a new statutory authority, known as the Office of Fair Trading (OFT). Among the new powers of the OFT is the power to approve consumer codes of conduct. The OFT consists of a Board, headed by a Chairman. This new authority came into being on 1 April 2003, with John Vickers as its first Chairman. The Enterprise Act 2002 consists of competition measures (i.e. concerning cartels and mergers as defined in the Competition Act 1998 which largely replaces the Fair Trading Act 1973), consumer protection measures and insolvency reforms. Part 8 of the Enterprise Act 2002 deals with the enforcement of consumer protection legislation, including the CMAR.

49 SI 1988/915, as amended by the Control of Misleading Advertisements (Amendment) Regulations 2000 (SI 2000/914).

50 Council Directive 84/450/EEC of 19 September 1984, OJ L 250, p. 17.

51 The Director does not need to consider an advertisement that appears to be frivolous or vexatious, section 4 CMAR.

52 Section 7 CMAR.

53 Section 5 CMAR. The IBA is placed under a similar duty to consider complaints about commercial radio and television advertisements (section 8 CMAR). The same is true for the Cable Authority with regard to misleading cable advertisements (section 10 CMAR). Before bringing proceedings to the courts, the DGFT will first negotiate with the advertisers and invite them to offer him certain undertakings.

ing an advertisement is needed.⁵⁴ The DGFT is only concerned with preventing the publication of misleading material and cannot seek compensation or other redress for any complainant. He is required to give reasons for his decision to apply or not to apply for an injunction.⁵⁵ The High Court⁵⁶ may grant an injunction on such an application by the DGFT. In most cases, the DGFT will probably ask for a temporary injunction to prevent the publication of the offending advertisement until the case can be fully argued in court. It is important to note that a breach of the CMAR does not make the publication of the misleading advertisements unlawful. The only sanction is that, once an injunction has been issued, the publication of an advertisement in breach of its terms will amount to a contempt of court and will be punishable as such.⁵⁷

An advertisement under the CMAR is:

‘any form of representation which is made in connection with a trade, business, craft or profession in order to promote the supply or transfer of goods and services, immovable property or obligations’.⁵⁸

This definition has a wide scope and encompasses the editorial mentioning of products, competitions or sponsored events.⁵⁹

The CMAR are not very frequently applied, and the DGFT has only sought a court injunction in a handful cases each year.⁶⁰ This is, first of all, a result of the legal qualification of the duty of the DGFT to consider any complaints that advertisements are misleading. He need not consider complaints which appear to be frivolous or vexatious.⁶¹ Next, he does not have to consider any complaint until the complainant has invoked the ‘appropriate means of dealing with such complaints’.⁶² Aside from these

54 Section 6 CMAR.

55 Section 5 (2) CMAR.

56 Or an equivalent court in Scotland or Northern Ireland. Since the CMAR procedure is an administrative procedure, a case will most likely be assigned, if the High Court of Justice is found to be competent, to the Queens Bench Division, Administrative Court, of the High Court of Justice.

57 Chd, Tobyward, [1989] 1 WLR 517, at. 4.

58 Section 2-1 CMAR.

59 Henry, *Publishing and Multimedia Law*, London: Butterworths 1994, p. 140.

60 In 2000, out of the 87 cases being considered by the DGFT, five businesses gave undertakings to alter or cease the publication of an advertisement. In 2001, out of the 159 cases being considered, one business sought an undertaking and in ‘several more’ cases it is likely that undertakings or court injunctions will be sought. See the OFT annual report of 2001, accessible at <http://www.of.gov.uk/News/Annual+report/default.htm>. Compare this with the figures from the ASA annual report, accessible at http://www.asa.org.uk/annual_report/index.asp: During 2001 the ASA received 12,600 complaints about 9,945 advertisements. Of these advertisements, 1,336 were formally investigated, resulting in a published ruling and 470 were dealt with informally.

61 See note 39.

62 See note 35.

obstacles which have been built into the legal system,⁶³ the limited use of injunction proceedings by the DGFT may be due to the fact that the CMAR has not yet been in force for a long time. Additionally, the resources and possibilities for the DGFT to take action against misleading advertising may be limited in comparison to e.g. the ASAs. But, most probably, the ASA system of self-regulation is very efficient in solving complaints, so only a few of them are 'handed over' to the DGFT.

All the same, it strongly indicates that the self-regulation system is likely to be effective in preventing misleading advertisements from being (re)published. However, a company that wants a misleading advertisement of its competitor removed at short notice will find it difficult to obtain an injunction in time. The procedure under the CMAR, starting from a complaint to the ASA, to the DGFT, to proceedings before the Court is a lengthy one. And to make matters worse, no remedy is available in civil proceedings for a breach of the CMAR.

5.3.6 Civil remedies under common law

As noted above, it is important to be aware of the fact that there is no remedy available in civil proceedings for a breach of the CMAR. The person aggrieved can only complain to the Director of Fair Trading who can, if necessary, apply to the Court to prevent breaches of the code. In fact, there is no general right of civil action at all against any misleading advertisement.⁶⁴

Certain misleading advertisements, that infringe a private right of an individual, may lead to civil claims under common law. In most of these cases, the advertisement will refer to another person or business. If an advertisement contains an untrue allegation that is damaging to an individual's or business' reputation, he can instigate libel proceedings if the publication is in a permanent form, or sue for slander if the publication is in a transient form i.e. speech. If the reputation of a business is falsely impugned, it can sue for malicious falsehood.⁶⁵ Finally, an advertisement that builds upon or profits from another's advertising campaign can be actionable under the tort of passing off.⁶⁶ Most of these cases, however, can be brought under the heading of comparative advertising as well. The torts mentioned above will be discussed at a later stage.⁶⁷

63 See Chd, *DGFT v. Tobyward Ltd*, [1989] 1 W.L.R. 517, *per* J. Hoffmann, who refers to the function of the DGFT as a legal back-up: 'So the proper working of the self-regulatory system is essential to the overall scheme of control, which contemplates that the director will deal only with exceptional cases in which for one reason or another self-regulation has proved inadequate'.

64 Cornish (1999), p. 609.

65 See e.g. HCoJ, *BA/Ryanair*; QBD, *Jupiter Unit Trust Managers/Johnson Fry Asset Managers* [2000] EWHC QB 110; HCoJ *DSG Retail/Comet Group* [2002] F.S.R. 58.

66 See e.g. PC (Aus), *Cadbury Schweppes/Pub Squash* [1981] R.P.C. 429. This case will be discussed in the section on passing off.

67 See *sub* § 5.4.

5.3.7 Criteria for misleading

A certain misleading advertisement or advertising campaign can be considered to be unlawful under various regulations, common law torts and codes of conduct. Due to the wide range of possible remedies for misleading advertising, it is difficult to give a single denominator for the concept of ‘misleading’. As we will see, the Courts will often use cross-references in their judgements to other legal actions. In a case under the CMAR, the Court can, in determining whether the consumer is misled, refer to the ‘test’ used in e.g. a passing-off or a malicious falsehood case.⁶⁸ The best approach is to start from the rules that are related to the Directive on Misleading Advertising, and that are directly applicable to the misleading features of an advertisement. These are the CMAR and the British codes of advertising. The ASA, ITC and RA Advertising Codes must all comply with the requirements of the CMAR.⁶⁹

An advertisement is said to be misleading, in accordance with Section 2 (2) CMAR, if

‘in any way, including its presentation, it deceives or is likely to deceive the persons to whom it is addressed or whom it reaches and if, by reason of its deceptive nature, it is likely to affect their economic behaviour or, for those reasons, injures or is likely to injure a competitor of the person whose interests the advertisement seeks to promote’.⁷⁰

An advertisement can be deceptive if it contains a false statement of fact, conceals or leaves out important facts, promises to do something but there is no intention of carrying it out, or creates a false impression, even if everything stated therein may be

68 Such a cross-reference was e.g. made in the Ryanair case *per* J. Jacob, see *sub* 79.

69 Section 93 CMAR.

70 All advertisements should be ‘legal, decent, honest and truthful’ according to the CAP Code p. 3 and 8. This requirement is reflected in the ITCC (at p. 1) and RAC (at p. 2) as well. Section 2(3) of the RAC states that:

(...) In particular:

a) Advertisements must not contain any descriptions, claims or other material which might, directly or by implication, mislead about the product or service advertised or about its suitability for the purpose recommended.

b) Advertisements must clarify any important limitations or qualifications, without which a misleading impression of a product or service might be given.

(...)

c) Before accepting advertisements, Licensees must be satisfied that all descriptions and claims have been adequately substantiated by the advertiser. A half-truth, or a statement which inflates the truth, or which is literally true but deceptive when taken out of context, may be misleading for these purposes. Ambiguity in the precise wording of advertisements and in the use of sound effects must be avoided. (...)

literally true.⁷¹ If the advertisement is false, it is likely to deceive.⁷² Certain forms of advertising are given extra protection against misleading advertising and are therefore more likely to be considered as deceiving.⁷³ The DGFT does not need to adduce evidence from persons actually deceived.⁷⁴ An advertisement will be likely to affect the economic behaviour of readers if it induces or is likely to induce them to part with money for what is being advertised.⁷⁵

The most important criterion in determining a tendency to mislead is, not surprisingly, whether the advertisement is correct.⁷⁶ However, an advertisement that is correct is not necessarily legitimate. NTL Group Ltd, a company providing internet cable services, was responsible for a national press advertisement headlined 'High Speed Broadband Internet only £ 14.99 a month' that stated 'From the UK's No. 1 Broadband Internet provider – Always connected – no waiting to get online. Leaves your phone line free...'. The complainants, who understood that broadband services were those with a speed rating of above 500 kbps, whereas the advertised service was only 128 kbps, challenged the claim 'broadband'. Although this actually falls within the definition of broadband as held by the official government bodies, OFTEL and the DTI, and the ASA accordingly considered it to be a true statement, it was nevertheless considered to be misleading because, according to the ASA, most consumers would understand broadband to mean a service of upwards of 500 kbps and were likely to be misled.

A superlative claim in advertising does not need substantiation if it is subjective, cannot be measured and is presented clearly as a matter of opinion, e.g. 'Godzilla was the best movie I've ever seen'. If it is objective, however, and can be measured against factual criteria and is presented as a fact, e.g. 'Britain's cheapest Internet Provider', the claim needs to be supported by satisfactory evidence. The bodies that enforce the codes of conduct tend to treat these kinds of claims, especially price claims, with surprising caution.⁷⁷

71 See notes to Section 5 of the ITCC. See also Henry (1994), para. 9.4.

72 The *DGFT v. Tobyward* [1989] 1 WLR 517, 521, *per* Hoffmann J.

73 E.g. advertising aimed at alcoholics, children, motoring, health & beauty products, employment and business opportunities, betting and gaming, tobacco, weight control, and advertisements that contain environmental claims. See the CAP Code (p. 21-30), the RAC and the ITCC.

74 The *DGFT v. Blenkhorn* (unreported, 7 December 1989, Vinelott J.).

75 See *SKB/ASA per J. Hunt*; *DGFT/Tobyward Ltd. per J. Hoffmann*.

76 Section 7.1 of the Code, Note 2 to section 5.1 ITC Advertising Code. See e.g. the two ASA complaints to Virgin Rail Group Ltd on 9 April 2003 concerning advertising with claims that were not, or just partially, correct.

77 See e.g. the ITC Code, section 5.2.1. note 3; the RA Code section 2 (4); ASA complaint against Holford & Associates 26 March 2003; Excel Recruitment 10 April 2002; Medacs Healthcare Services 3 April 2002.

In determining the target group of the advertisement, the Courts have incorporated, without much difficulty, the criterion of an ‘average consumer’ embodied in EU case law⁷⁸ in their own judgements.⁷⁹ As Jacob J. stated in the *Ryanair* judgement:⁸⁰

‘This ‘average consumer’ test is, to my mind, no different from that which our law has traditionally applied in cases of passing off and trade mark infringement. (...) It is of course the case that the average consumer has been exposed from birth to advertising. People get case hardened by it. They expect hyperbole and puff. One can almost say no advertisement is complete without them. The courts have long recognised this.’

Next, he cited Lord Diplock in *Advocaat* [1979] AC 731 at 742:

‘... in an economic system which has relied on competition to keep down prices and to improve products there may be practical reasons why it should have been the policy of the common law not to run the risk of hampering competition by providing civil remedies to everyone competing in the market who has suffered damage to his business or goodwill in consequence of inaccurate statements of whatever kind that may be made by rival traders about their own wares. The market in which the action for passing off originated was no place for the mealy mouthed; advertisements are not an affidavit; exaggerated claims by a trader about the quality of his wares, assertions that they are better than those of his rivals even though he knows this to be untrue, have been permitted

78 See C-210/96 *Gut Springenheide GmbH and Tusky* [1998] ECR I-4657 at paragraph 31; C-324/97 *Lloyd Shuhfabrik Meyer & Co GmbH v. Klijsen Handel BV* [1999] ETMR 690, at paragraph 26. In chapter 2, section 2.3.4.2a I will discuss this criterion as used in European Case law in more detail.

79 See CoA, *Bach and Bach Flower Remedies Trade Marks* [2000] RPC 513, at pages 524 (paragraph 28) and 534/5; ChD, *British Airways Plc v. Ryanair Ltd* [2000] EWHC Ch 55 (25th October, 2000); *Barclays Bank PLC v. RBS Advanta* (ChD), 26 January 1996, Laddie J [1996] RPC 307]. In passing off cases, the persons to be considered are ordinary, sensible members of the public representative of consumers of the goods or services in question. See *Newsweek Inc. v. British Broadcasting Corporation* [1979] R.P.C. 441 (C.A.); *Morning Star Co-operative Society Ltd. v. Express Newspapers Ltd* [1979] FSR 113. The fact that a ‘moron in a hurry’ might be deceived is insufficient, the customer is assumed to be of average intelligence, [1979] FSR 113 (*Morning Star...*), per Foster J. However, although it is right not to base any test on whether a moron in a hurry would be confused, (...) it is proper to take into account the ignorant and unwary, HL, *Singer Manufacturing Co. v. Loog*, 8 App Cas 15 at 18 per Lord Selbourne; [1993] 2 C.M.L.R. 741 (Taittinger). In most malicious falsehood cases, the test is whether a ‘reasonable man would take the claim seriously’, see e.g. *Jupiter Unit Trust Managers Ltd v. Johnson Fry Asset Managers Plc* [2000] EWHC QB 110 per Morland J at No. 22, and the claim should not be a ‘mere idle puff’, see *De Beers Abrasive Products v. International General Electric* [1975] FSR 323 per Walton J. at 478. In the *Ryanair* judgement (mentioned above) Jacob J. stated that the definition of a consumer under malicious falsehood concurs with the definition thereof under comparative advertising (and probably misleading as well): ‘It is the same average consumer who is relevant when one comes to consider malicious falsehood’.

80 See the previous note.

by the common law as venial ‘puffing’ which gives no cause of action to a competitor even though he can show that he has suffered actual damage in his business as a result.’

However, the relevant standard may be different when the purchasers are illiterate, or in the reverse case, when the purchasers are traders or professional persons like dentists or pharmacists.⁸¹

With regard to the question, finally, of how many consumers need to have been misled for an advertisement to count as misleading, no single answer exists in UK case law.⁸² In general, one could say that under the CMAR the Courts appear to be inclined to protect even those few people who read advertisements with little scepticism – although most people read advertisements with a certain degree of scepticism –, especially if they form a ‘vulnerable’ target group of consumers, such as people who want to lose weight.⁸³ In most cases of advertising where the plaintiffs did not sue for breach of the CMAR, but for infringement of a trademark, the requirement for misleadingness is whether ‘there is a reasonable likelihood of significant numbers of people being misled (...) to any significant degree’.⁸⁴ In most recent malicious falsehood cases, the ‘one meaning rule’ is applied, indicating that the judge as the notional jury has to decide upon the single natural and ordinary meaning of the words used. In such a case, the fact that a statement is interpreted as false by a substantial number of readers or listeners, is insufficient.⁸⁵ This ‘one meaning rule’, however, has recently been subjected to some criticism.⁸⁶ For most cases of passing off, the Courts have verified whether ‘a substantial portion of the public’ was likely to be misled.⁸⁷

Although no clearly marked conclusion can be drawn from the above, it is safe to say that the Courts require a considerable portion of the public to be deceived for an ad-

81 See Wadlow, *The Law of Passing Off*, London: Sweet & Maxwell 1995, at par. 6.23 and the cases there cited.

82 See Ohly/Spence (2000), p. 63.

83 Tobyward, at 270;

84 See e.g. *Cable & Wireless PLC v. British Telecommunications PLC* (ChD), 8 December Jacob J., [1998] FSR 383.

85 See e.g. *Vodafone v. Orange* [1997] FSR 34; *Rubber Improvement Ltd v. Daily Telegraph Ltd* [1964] A.C. 234, *Charleston v. News Group Newspapers Ltd* [1995] 2 All E.R. 313; *Slim v. Daily Telegraph Ltd* [1968] 1 All E.R. 497.

86 See e.g. the statement of Jacob J. in [1997] FSR 34: ‘As a comparative stranger to this branch of the law I find the ‘one meaning rule’ strange, particularly for malicious falsehood. Without authority, I should have thought it would be enough to satisfy the criterion of falsity for the plaintiff to prove that the defendant made a statement which was false to a substantial number of people.’ See also Ohly/Spence (2000), p. 9-10.

87 *J. Bollinger v. Costa Brava Wine Co Ltd* (No 2) [1961] 1 WLR 277; *H.P. Bulmer Ltd. and Showerings Ltd. v. J. Bollinger S.A. and Champagne Lanson Pere et Fils* [1978] RPC 79; *Taittinger v. Allbev* (CA), 25 June 1993 [1993] 2 CMLR 741. Jacob J. seems to limit this test in [1997] FSR 34, where he argues that it is ‘enough to show that the representation fools some of the people, even if not most of them.’

vertisement to be misleading. Under the CMAR the required quota seems to be more easily met than is the case with the torts mentioned above, especially when a ‘vulnerable’ part of the public is targeted. The reason for the lack of a clear misleading quota is probably the normative point of view taken under UK law towards the determination of deception.⁸⁸ There is no factual requirement for a certain number of consumers that have to be misled, it is sufficient to say that a number of people will probably have been misled.⁸⁹

As shown, the British Courts tend to be quite lenient towards most forms of misleading advertising.⁹⁰ In some cases concerning defamation and trade mark infringement or malicious falsehood, they have described the public as being used to the ways of advertisers and aware of a certain amount of exaggeration.⁹¹ This is on a par with the cynical and critical attitude of consumers towards advertising in general, according to a recent study of the public’s perception of advertising, prepared for the ASA.⁹² However, if one considers the very comprehensive CAP Code and the fact that statistics

88 The absence of interaction between misleading advertising regulations and the various appropriate torts, in assessing what is ‘misleading’, also demonstrates that no *uniform* misleading quota exist. So, the criteria for misleadingness used in the CMAR cases are not likely to be ‘borrowed’ from those criteria in e.g. passing off or malicious falsehood cases.

89 See note 74. In the *Ryanair* case, at para. 8, Jacob J. states: ‘Before passing from the witnesses, it is particularly pertinent to observe that no witness testified to anyone actually being misled by either advertisement. There have been no complaints about deceptiveness in respect of any of the matters alleged made by members of the public (to whom the advertisements were directed) or even by anyone independent in the trade. (...) This is a matter to which I attach weight – all the more so having regard to the contrasting fact that there were independent complaints to the ASA about the offensiveness of the Bastards headline. Of course the absence of complaint is not conclusive – and I do not treat it as such.’

90 *Ohly/Spence* (2000), p. 60.

91 *De Beers Abrasive Products Ltd v. International General Electric Co. of New York Ltd* [1975] 1 W.L.R. 972; *Vodafone Group PLC v. Orange Personal Communications Services Ltd.* (ChD), 10 July 1996 [1997] F.S.R. 34, *per* J. Jacob:

‘The public are used to the ways of advertisers and expect a certain amount of hyperbole. In particular the public are used to advertisers claiming the good points of a product and ignoring others, advertisements claiming that you can ‘save ££££ . . .’ are common, carrying with them the notion that ‘savings’ are related to amount to spend, and the public are reasonably used to comparisons--‘knocking copy’ as it is called in the advertising world. This is important in considering what the ordinary meaning may be. The test is whether a reasonable man would take the claim being made as one made seriously, *De Beers Abrasive Products Ltd v. International General Electric Co. of New York Ltd* [1975] 1 W.L.R. 972: the more precise the claim the more it is likely to be so taken -- the more general or fuzzy the less so’.

92 The public’s perception of advertising in today’s society, Report on the findings from a research study, prepared for the Advertising Standards Authority by The Thinking Shop, February 2002, p. 8.

prove that for the most part complaints are upheld,⁹³ the self-regulatory system does seem to be quite strict. This is especially the case if an advertisement is likely to cause offence. It must be noted, though, that the majority of the complaints received are not even investigated by the ASA, because they clearly do not breach the Codes, are withdrawn, are outside the ASA's remit or there is no case to answer. The ones that are investigated may well be the most radical and offensive.

5.4 DISCREDITING ANOTHER'S ENTERPRISE OR ITS ACTIVITIES⁹⁴

5.4.1 Introduction

The tort of malicious falsehood provides protection against the issuing of false statements maliciously made about a person's or a business' trade, the goods which they sell, or the services which they provide, where those statements cause or are calculated to cause pecuniary damage to the trader concerned. This tort often, but not *per se*, gives protection to the reputation of a business. The tort of defamation provides protection for the reputation of an individual, in case defamatory statements are published about him. In some cases, both of the actions will be applicable. In addition to these actions under tort law both the CMAR and British Codes of Conduct may apply to disparaging or discrediting statements about trademarks or goods of a competitor.⁹⁵

93 In 2001, 49% of the investigated complaints were upheld, 16% were not upheld, and 35% were resolved informally, see the 2001 Annual Report, p. 7.

94 For a detailed analysis of this field of law, see Cornish (1999), para. 16-48 et seq.; Rogers, Winfield & Jolowicz on Torts, London: Sweet & Maxwell 2002, para. 12.68 et seq.; Carty, An Analysis of the Economic Torts, Oxford University Press 2001, p. 149 et seq.; Dugdale (g.e.), Clerk & Lindsell on Torts, 18th ed., London: Sweet & Maxwell 2000; Grubb (ed.), The Law of Tort, Butterworths Law 2001; Jones, Textbook on Torts, Oxford University Press 2002; Murphy, Street on Torts, 11th edition, London: Butterworths Law 2003; Howarth, Textbook on Tort, London: Butterworths Law 1995; Harpwood, Modern Tort Law, Cavendish Publishing Ltd 2003; Bagshaw and N. McBride, Tort Law, Longman 2001; Markesinis/Deakin, Tort Law, Oxford University Press 2003, p. 695-696; Cane, Tort Law and Economic Interests, Clarendon Press 1996, p. 98-100; Heuston/Buckley, Salmond & Heuston on the Law of Torts, London: Sweet & Maxwell 1996; Graham/Stephenson, Sourcebook on Torts, Cavendish Publishing Ltd 1996.

95 The discrediting or denigration of another's trademarks or goods is not actionable under the Trade Marks Act 1994, see e.g. The BA/Ryanair case, footnote 105, at 25. However, in some cases where false statements are made about a competitor's goods, an action may lie under the Trade Descriptions Act of 1968, see section 5.2.4.

5.4.2 Malicious Falsehood

5.4.2.1 Introduction

The tort of malicious falsehood – sometimes referred to as injurious falsehood or trade libel – protects, in most cases, the purely financial interests of a business like the interests in goodwill.⁹⁶ The tort does not cover the mere loss of reputation of a business, but requires proof of special damage, i.e. pecuniary loss such as a property that loses its value, or a business that loses its custom or source of supply. The alleged statement need not be made in the course of trade, nor does the tort require the existence of a competitive relationship between the plaintiff and the defendant.⁹⁷ This action is often applied in disputes concerning comparative advertising.

The leading case is *Ratcliffe v. Evans* [1892] 2 QB 524, where Bowen LJ stated, at 527:

‘That an action will lie for written or oral falsehoods, not actionable per se nor even defamatory, where they are maliciously published, where they are calculated in the ordinary course of things to produce, and where they do produce, actual damage, is established law. Such an action is not one of libel or slander, but an action on the case for damage wilfully and intentionally done without just occasion or excuse, analogous to an action for slander of title. To support it, actual damage must be shown, for it is an action which only lies in respect of such damage as has actually occurred.’⁹⁸

In the *De Beers* case Walton J. justified the action for malicious falsehood.⁹⁹ Both the plaintiffs and the defendants manufactured and distributed abrasives made from diamonds. The abrasives of the plaintiffs were made from natural diamonds, whereas those of the defendants were made from synthetic diamonds. One of the defendants had circulated among prospective purchasers of such abrasives a brochure showing the results of comparative scientific tests on the products of the plaintiffs and defendants, clearly with the intention of showing that the plaintiff’s abrasives were distinctly inferior to those of the defendant. *Per* Walton J.:

‘If traders take the time and trouble to dress up their advertising material in this manner, then I think they must stand by it; and, if it contains, as in the case here, statements in disparagement of the plaintiffs’ goods and if, further, on investigation those statements prove to be false and the plaintiff can show malice, the precise con-

96 It overlaps, in this respect, with the tort of passing off, which is the principal source of protection for goodwill.

97 See e.g. *Kaye v. Robertson* [1991] FSR 62.

98 This statement was considered by Roxburgh J in *Joyce v. Motor Surveys Ltd* [1948] 1 Ch D 252.

99 *De Beers Abrasive Products Limited v. International General Electric Company of New York Limited and General Electric Company* [1975] FSR 323, at 333.

stituents of which for present purposes I think it is better not to investigate, it appears to me that they must answer for it’.

In the more recent case of *Kaye v. Robertson* [1991] FSR 62, 67, Glidewell LJ defined the essentials of the tort of malicious falsehood:

‘The essentials [of the tort of malicious falsehood] are that the defendant has published about the plaintiff words which are false, that they were published maliciously, and that special damage has followed as the direct and natural result of their publication’.

Three key elements can be distilled from this formulation. There must be a particular type of ‘falsehood’, that is ‘maliciously’ published and amounts to ‘special damage’.

5.4.2.2 Falsehood

The falsehood must consist of a statement of fact that is not true. ‘If the statement is true, however malicious the defendant’s intention might be, no action will lie’.¹⁰⁰ The plaintiff must prove the falsity.¹⁰¹ The requirement of pecuniary damage has served to limit successful claims mainly to falsehoods about property, profession, trade or business.¹⁰² If the statement is not directly linked to the plaintiff, special circumstances can be present that nevertheless associate the statement with him. This depends on what the statement implicates. If a person states, for instance, that he is the sole agent for particular machinery, it may imply that his opponent is no longer, or never was, such an agent.¹⁰³

Claims that one trader’s goods are superior to those of another trader and other forms of advertising ‘puff’ do not, *per se*, amount to malicious falsehood, even if it is false and known to be so and causes damage.¹⁰⁴ In *British Airways plc v. Ryanair Ltd*,¹⁰⁵ the defendant had placed advertisements comparing its prices with those of the claimant under the headings ‘EXPENSIVE BA...DS!’ and ‘EXPENSIVE BA’. Jacob J. argued that the average consumer is used to this kind of advertising and expects this ‘hyperbole and puff’. Actually, the Courts have been very reluctant to prevent comparative advertising on the ground of malicious falsehood, so as to avoid becoming too involved in arbitrating on the competitive process.¹⁰⁶ They have even allowed a limited form of disparagement for these cases.

100 (1847) 3 CB 831, p. 868, Maule J.

101 *Anderson v. Liebig’s Extract of Meat Co Ltd* (1881) 45 LT (NS) 757. If the plaintiff does not succeed, he ‘shows no case to go to the jury’, *Pater v. Baker* (1847).

102 Cornish (1999), at sect. 16-49.

103 *Danish Mercantile v. Beaumont* (1950) 67 RPC 111.

104 [1895] AC 154 at 164; [1899] 1 QB 86.

105 [2000] EWHC Ch 55.

106 Carty (2001), p. 157.

‘Any trader is entitled to puff his own goods, even though such puff must, as a matter of pure logic, involve the denigration of his rival’s goods’.¹⁰⁷ But does this justify statements like ‘My goods are better than X’s, because X’s are absolute rubbish’? The question is where to draw the line between those statements that are actionable and not actionable under malicious falsehood. The proper test is whether a reasonable man would take the claim being made as being a serious claim or not.¹⁰⁸ In considering the ordinary meaning of a false statement, one has to look at how the statement is communicated. The more precise and specific the claim, the more likely it is that the public will take it seriously.¹⁰⁹ Although the disparaging of someone’s else trademarks or goods is not a prerequisite for malicious falsehood, such cases are likely to be more actionable.¹¹⁰

5.4.2.3 Malice

This element, which lies at the heart of the tort of malicious falsehood, comes with a narrow annotation.¹¹¹ The courts have over the years had some difficulty in deciding how precisely to define it.¹¹² Most modern decisions, however, state that it refers to the defendant’s ‘state of mind’.¹¹³ In the case of false statements made by an enterprise, the state of mind will be ascertained by reference to the state of mind of its servants or

107 [1975] F.S.R. 323.

108 [1975] F.S.R. 323.

109 [1997] F.S.R. 34, at 39. In *London Ferro-Concrete Company Limited v. Justicz* (1951) 68 R.P.C. 65, the defendant did not content himself with saying that his methods were better than the plaintiffs; he said that the plaintiffs’ methods were inadequate. Because of this specific claim, any third party would be likely to take such a statement seriously. Where to draw the line in this respect, remains undecided, and ‘no clear answer is provided by a review of the authorities’, see Crown, Malicious falsehood: into the 21st century, ELR 1997, 7 et seq. See his article for a comprehensive analysis of the requirements for malicious falsehood.

110 See e.g. [1895] AC 154, *per* Watson L., at 166: ‘In order to constitute disparagement which is, in the sense of law, injurious, it must be shown that the defendant’s representations were made of and concerning the plaintiff’s goods; that they were in disparagement of his goods and untrue; and that they have occasioned special damage to the plaintiff’. Walton J. placed the elements ‘untrue’ and ‘disparagement’ next to each other [1975] F.S.R. 323: ‘There was in any event no real disparagement or untrue statement made about the plaintiffs’ paint.’ The fact that disparaging statements will quite likely have been maliciously made, will probably explain the actionability of such statements.

111 See Cornish (1999), par. 16-48.

112 See the statement of Scrutton LJ in *Shapiro v. La Morta* (1923) 40 TLR 201, p. 203: ‘the term ‘malice’ and ‘malicious’ have caused more confusion in English law than any judge can hope to dispel’. There have been different definitions of malice over the years: e.g. (1901) 18 RPC 95, *per* Lord Bankes as meaning the absence of any ‘just cause or excuse’; (1924) 40 TLR 201, *per* Atkin LJ as being an intentionally or recklessly made statement. These definitions can be classified as ‘deceit malice’ and as ‘motive malice’, see in detail: Carty (2001), p. 161 et seq.

113 Cornish (1999), paras. 16-49.

agents.¹¹⁴ A statement is maliciously published if the publisher knows that the statement is false, or if he is reckless, *i.e.* not considering or caring whether it is true or not. In the last case, he is treated as if he knew it to be false.¹¹⁵ It is, however, not enough to show negligence.¹¹⁶ Allegedly, it is very difficult for a person to be found guilty of malice if that person can show an honest belief in the truth of what was said, even if it turns out to be unfounded.¹¹⁷

5.4.2.4 *Special Damage*

The Courts traditionally required the plaintiff in actions based on malicious falsehood to prove special damage, *i.e.* proof of specific economic loss, such as loss of custom or a source of supply, that must arise ‘naturally and reasonably’ from the false statement.¹¹⁸ This requirement proved to be a severe limit on the tort.¹¹⁹ To remedy this far from ideal situation, the Defamation Act 1952 was enacted. Section 3 of the Defamation Act 1952 relieves the plaintiff from the requirement to prove damage if the words in question (1) were calculated¹²⁰ to cause pecuniary damage to the plaintiff and were published in writing or other permanent form, or (2) were calculated to cause pecuniary damage to the plaintiff in respect of any office, profession, calling, trade or business, held or carried on by him at the time of publication.¹²¹ In practice, pecuniary loss will be presumed

114 *Emaco Limited and another v. Dyson Appliances Limited*, [1999] EWHC Patents 260, at 66.

115 *Horrocks v. Lowe* [1975] A.C. 135 at 149, *per* Lord Diplock.

116 See e.g. [1999] EWHC Patents 260, *per* Jonathan Parker J. This case concerned the distribution by two companies, that manufacture and distribute domestic electrical vacuum cleaners, of equally aggressive marketing containing (allegedly) false comparisons between their respective products, resulting in a marketing war. Jonathan Parker J. concluded that while there had been ‘gross carelessness’ by one party in checking the accuracy of certain graphical data, he did not find sufficient evidence for an inference of malice nor, following *Horrocks v. Lowe* (see *supra* n. 115), that carelessness should be equated with recklessness.

117 Bray, Nuclear warfare between Electrolux and Dyson: worth pushing the button, EIPR 1999, p. 325. See in this respect the statement of Scrutton L.J. in *Greers Lrd. v. Pearman & Corder Ltd* (1992) RPC 406 at 417: ‘Honest belief in an unfounded claim is not malice, but the nature of the unfounded claim may be evidence that there is not an honest belief in it. It may be so unfounded that the particular fact that is put forward may be evidence that it is not honestly believed.’. See also *Wilts United Diaries v. Robinson & Sons* [1957] RPC 220 and [1997] F.S.R. 34, *per* Jacob J.: ‘Now I can see that there may be cases where a man makes a statement which is so self-evidently false that if he says he believed it, one does not believe him.’

118 *Hadden v. Lott* (1854) 15 CB 411.

119 Carty (2001), p. 167.

120 Which means ‘likely to’, see *Customglass Boats v. Salthouse Bros* [1976] RPC 589.

121 Glidewell L.J. added to this, in *Kaye v. Robertson* [1991] F.S.R. 62 at 67, the notion that ‘Malice will be inferred if it be proved that the words were calculated to produce damage and that the defendant knew when he published the words that they were false or was reckless as to whether they were false or not’. However, not everyone agrees that the phrase ‘calculated to cause harm’

from making the statement and the plaintiff does not have to prove it, since the tort will mostly be used in a commercial context.¹²² Section 3 is not limited to nominal damages, following Sir Donald Nicholls V-C in *Joyce v. Sengupta*,¹²³ and does even include damages for distress and injury to feelings.¹²⁴ However, it is still clear that there is no recovery for injury to reputation; this is reserved for the tort of defamation.

5.4.3 Defamation¹²⁵

5.4.3.1 Introduction

A defamatory statement is any untrue statement of fact which might cause right thinking members of society to think less of a person¹²⁶ or business.¹²⁷ Damage to reputation is a necessary prerequisite for a claim in defamation, unlike the purely financial interests that are required by the tort of malicious falsehood, or as stated by Weir: malicious falsehood ‘guards not honour but wealth’.¹²⁸ However, the disparagement of a competitor’s goods does not necessarily give rise to an action for defamation.¹²⁹ For a statement

should be taken as part of the element of ‘malice’. See e.g. Carty, p. 160 where she argues that this phrase should be a separate ingredient in the tort of malicious falsehood.

122 Cane (1996), p. 99.

123 [1993] 1 WLR 337.

124 *Khodaparast v. Shad* [2000] EMLR 265.

125 See for an analysis of the law of defamation: Price/Duodu, *Defamation: Law, Procedure and Practice*, Sweet & Maxwell 2003, 580 pp.; Milmo et al., *Gatley on Libel and Slander*, Sweet & Maxwell 2003, 1440 pp.; Duncan/Neill/Rampton (ed.), *Defamation*, Butterworths Law 2000, 342 pp.; Collins, *The Law of Defamation and the Internet*, Oxford University Press 2001, 486 pp.; Clarke-Williams, *Defamation Law*, LexisNexis UK 2002, 441 pp.; Carter-Ruck, *On Libel and Slander*, Butterworths Law 1997, 737 pp.; Scott-Bayfield, *Defamation: Law and Practice*, Sweet & Maxwell 1996, 208 pp.; Mitchell, *The Making of the Modern English Law of Defamation*, Hart Publishing 2005, 400 pp.

126 The tort of defamation protects not only an individual’s reputation, but protects the professional or business aspects of that individual’s life as well. See e.g. *Tolley v. Fry* [1931] AC 333, where a leading amateur golfer succeeded in a claim for defamation when he had been depicted in an advertisement with a bar of Fry’s chocolate sticking out of his pocket. The defamatory meaning of the advertisement was said to be that Mr Tolley had ‘prostituted his reputation as an amateur golfer for advertising purposes’.

127 See *Sim v. Stretch* (1936) 52 TLR 669, *per* Lord Aitken.

128 Weir, *A casebook on torts*, 9th ed. London: Sweet&Maxwell 2000, p. 579.

129 See as an illustration, *South Hetton Coal v. N-E News Association* [1894] 1 QB 133 at 139 *per* Lord Esher MR: ‘Suppose the plaintiff was a merchant who dealt in wine, and it was stated that wine which he had for sale of a particular vintage was not good wine; that might be so stated as only to import that the wine of the particular year was not good in whosoever hands it was, but not to imply any reflection on his conduct of his business. In that case the statement would be with regard to his goods only, and there would be no libel, although such a statement, if it were false and were made maliciously, with intention to injure him, and it did injure him, might be

to be defamatory, it must constitute ‘a personal imputation upon [competitors], either upon their character, or upon the mode in which their business is carried on’.¹³⁰

It is important to distinguish between defamatory statements made in the course of trade and personal accusations that have no commercial context. Since I am concerned with protection against the discrediting of another’s enterprise or its activities, I will not discuss any discrediting statements about a person, out of the context of business.¹³¹ The law of defamation, originally intended to provide sole protection to a person’s reputation, has been expanded and does allow a business (or a person whose professional reputation is damaged) to sue for defamation where its reputation is falsely impugned. Cases of this nature have been scarce and have not always proved successful, but it seems convincingly clear that such an action does exist.¹³² As stated by Bell J. in *McDonald’s v. Steel&Morris*:¹³³

‘The essence of the tort of defamation in English law is the protection of the reputation of a person whether a living human person or a legal fiction such as a corporation or a company. A company has a trading character which may be destroyed by libel, but the words complained of must attack the company in the method of conducting its business or affairs. The question for the court is whether the words complained of contain statements with regard to the Plaintiff company’s conduct of its business, tending to show that it was so improper or inefficient as to bring it into contempt or discredit’.

5.4.3.2 Defamation in relation to malicious falsehood

Contrary to malicious falsehood, an action for defamation does not require proof of (malicious) intent, and neither does the claimant have to prove the falsity of the alleged

made the subject of an action on the case [i.e. malicious falsehood, *RwdV*]. On the other hand, if the statement were so made as to import that his judgment in the selection of wine was bad, it might import a reflection on his conduct of his business, and show that he was an inefficient man of business. If so, it would be a libel. In such a case a jury would have to say which sense the libel really bore; if they thought it related to the goods only, they ought to find that it was not a libel; but, if they thought that it related to the man’s conduct of business, they ought to find that it was a libel.’

130 *Griffiths v. Benn* (1911) 27 TLR 346 at 350, *per* Cozens-Hardy MR.

131 This corresponds to the approach taken in Art. 10^{bis} (3) 2 of the Paris Convention, Article 5 of the WIPO Model Provisions and sect. 7 of the AIPPI Resolution Q150/1994, Yearbook 1994/II, pp. 398-404. This does not mean, however, that any denigrations relating to the attributes of a competitor that have nothing to do with his commercial activities, should not be actionable as unfair business practices, see sect. 7.6 of the previously mentioned AIPPI Resolution.

132 Holyaok et al., *Intellectual Property Law*, London: Butterworths 1995, p. 372; Scott-Bayfield, *Defamation: Law and practice*, London: FT Law & Tax 1996, p. 25-27; Spilsbury, *Guide to Advertising and Sales Promotion Law*, London: Cavendish 1998, p. 52.

133 *McDonald’s Corporation and McDonald’s Restaurants Limited v. Helen Marie Steel and David Morris* [1997] EWHC QB 366, *per* Bell J, at 57.

statement. Furthermore, in defamation the claimant does not have to prove any pecuniary loss.¹³⁴ On the other hand, the tort of malicious falsehood is wider in the sense that the alleged statement need not reflect upon the reputation of the claimant. The statement that company C's product does not look nice, or does not taste good, will not affect C's reputation, but might affect its profits. There can be no action for defamation, but there may be an action for malicious falsehood. The statement that company C's products are of lousy quality, or dangerous, because vital safety precautions have been overlooked, damages C's profits as well as its reputation. C might be able to sue for defamation and malicious falsehood. As shown above, there may be an overlap between defamation and malicious falsehood.¹³⁵ An action for malicious falsehood is often brought in conjunction with an action for defamation.¹³⁶

5.4.3.3 Two types of defamation

Defamation takes the form of two separate torts, libel and slander. If an advertisement contains an untrue allegation that is damaging to a person's reputation, he can sue for libel if the publication is in a permanent form, *i.e.* print, or slander if the publication is in a transient form, *i.e.* speech.¹³⁷ The most important distinction between libel and slander is that in the case of libel, damage is presumed. In an action for slander, the damage must be proved with the exception of the circumstances set out in section 2 of the Defamation Act 1952.

In proceedings before the Court, the plaintiff has to prove the following three essential elements. The alleged statement must be defamatory, it must have been communicated to a third party and, finally, the statement must have been understood to refer to him. In a case of slander, the plaintiff also needs to show damage as mentioned

134 However, in most cases of 'slander' (see the next section), special damage must be shown. See Rogers (2002), para. 12.4.

135 Cf. the *De Beers* case, *supra* at 99. Likewise, an overlap between the torts of malicious falsehood and passing-off is possible as well. A certain misrepresentation, that leads to an action of passing off, may be actionable under the tort of malicious falsehood if it is disparaging and if the requirements of proof of malice and special damage are met. Despite these overlaps, there is no general right to sue in respect of untruths or even to restrain the circulation of untruths, see *Kingdom of Spain v. Christie, Manson & Woods Ltd* [1986] 1 WLR 1120. This affirms the fact that English law is a law of separate torts.

136 This strategy of combining the legal actions was especially popular since legal aid used to be available for malicious falsehood actions. The Courts decided that by doing this, there was no abuse of process even if the sole aim is to facilitate an application for legal aid and in spite of the fact that the defendant will thus be deprived of a right to elect trial by jury, see [1993] 1 WLR 337. However, neither malicious falsehood nor defamation litigation is funded at present.

137 Libel includes statements made on the radio, television and satellite broadcasting. Defamatory statements on the Internet will most likely fall under libel, although this question has remained undecided, see Scott-Bayfield, p. 18-19.

above. A defamatory statement contains ‘words which tend to lower the person in the estimation of right-thinking members of society’.¹³⁸ In considering this definition, words have to be given their ‘natural and ordinary meaning, which they would have to the ordinary reasonable reader’.¹³⁹ A statement that is merely based on a rumour can still be defamatory, even if this statement has (subsequently) been denied, and the plaintiff may be able to recover damages.¹⁴⁰

Although a statement may not have a defamatory meaning at first sight, it may carry a secondary meaning if it is coupled with certain circumstances that reflect adversely upon the plaintiff. The issuing of a statement in those circumstances is described as defamatory by ‘innuendo’. The plaintiff can sue for defamation by innuendo if only a tiny minority of the audience knows of the extraneous facts.¹⁴¹ He must identify the persons with knowledge of the special facts to whom he claims the words were published, and prove their knowledge and publication to them.¹⁴²

5.4.3.4 Defences to an action for defamation

There are several defences to a libel action. The most important are justification, fair comment, privilege and the offer of amends under the Defamation Act 1996.¹⁴³ A statement may be defamatory whether or not it is true. It is up to the defendant to prove that the words complained of were true (justification).¹⁴⁴ In order to do that, the defendant must show the statement to be ‘true in substance and in fact’.¹⁴⁵ A statement that is not true does not necessarily have to be actionable under defamation, e.g. if the statement does not reflect on the reputation of the plaintiff. The next defence is to plead

138 (1936) 52 TLR 669, *per* Lord Aitken.

139 *Bonnick v. Morris and others* (PC) [2003] 1 AC 300. Neill LJ describes the ‘reasonable reader’: ‘The hypothetical reasonable reader (or viewer) is not naive but he is not unduly suspicious. He can read between the lines. He can read in an implication more readily than a lawyer, and may indulge in a certain amount of loose thinking. But he must be treated as being a man who is not avid for scandal and someone who does not, and should not, select one bad meaning where other non-defamatory meanings are available.’ In *Skuse v. Granada Television Limited* [1996] EMLR 278, Sir Thomas Bingham MR provided a comprehensive summary of the principles upon which to approach the meaning of defamatory.

140 See e.g. the statement of Schiemann L.J. in *Aspro Travel Ltd v. Owners Abroad Group plc* [1996] 1 W.L.R. 132, 140.

141 Spilsbury (1998), p. 42.

142 Rogers (2002), p. 417.

143 Other defences are e.g.: consent to publication, accord and satisfaction, mitigation e.g. because an apology has been made, innocent dissemination e.g. for wholesalers, distributors or libraries. See Scott-Bayfield (1996), chapter 7 for a comprehensive list of defences.

144 However, even if the words are true, they may carry an implication which may be untrue.

145 See e.g. *McPhilemy v. Times Newspapers Ltd and others* [1999] EMLR 751 and *Lucas-Box v. News Group Newspapers Ltd; Lucas-Box v. Associated Newspapers Group plc and others*, [1986] 1 All ER 177.

that the statement is a fair comment on a matter of public interest. This defence enables the use of honest criticism in society. For this defence, it must be shown that the statement is based on true facts, is honest, and concerns a matter of public interest. The first element consists of essentially the same criteria as justification.¹⁴⁶ In addition, the defendant must show that his statement was the honest expression of his opinion.¹⁴⁷ Finally, the defendant must show that the matter commented on is of public interest, which is considered fairly easy to establish, since the term ‘public interest’ is rather widely defined.¹⁴⁸

Some classes of statements are said to be ‘privileged’, in cases where the freedom of communication without fear of an action for defamation is more important than protecting the reputation of a person or business. Absolute privilege covers the publication of statements that are made on specific occasions, such as judicial and parliamentary proceedings. There can be no redress for the plaintiff in these cases, however offensive the untrue statement which has been made about him or however malicious the motive of the maker thereof, simply because the defamatory statement was published on an occasion of absolute privilege. Qualified privilege, on the other hand, also protects the maker of an untrue statement, but is only a defence if the plaintiff fails to prove that the defendant was motivated by malice. This defence extends to the publication of defamatory statements, providing they were not malicious, made on certain specified occasions, e.g. the reports of parliamentary proceedings, or statutory reports.

Finally, the statutory defence of an offer of amendment under s. 4 of the Defamation Act 1952¹⁴⁹ offers protection to a defendant in the case of unintentional defamation, *i.e.* when there has been an indisputable mistake or the innocent misuse of another’s name.

5.4.3.5 Remedies under defamation

Publication of a libel can result in a civil action for damages, an injunction to prevent any repetition of the libel, a statement in open court clearing the defendant’s name, or in exceptional cases a criminal prosecution against those responsible if the libel tends to provoke a breach of the peace. The plaintiff can recover general damages to compensate for the damage to his reputation, to compensate for his injured feelings or to vindicate the plaintiff for bringing the action. A jury may award additional sums either as

146 See s. 6 of the Defamation Act 1952.

147 The most common test, for this criterion, is laid down in the case of *Merivale v. Carson* (1887) 20 QBD 275: ‘Would any fair man, however prejudiced he may be, however exaggerated or obstinate his views, have come to this opinion based on these facts?’, further developed in *Silkin v. Beaverbrook Newspapers Ltd* [1958] 2 All ER 516: ‘could a fair-minded man, holding a strong view, holding perhaps an obstinate view, holding perhaps a prejudiced view – could a fair-minded man have been capable of writing this?’.

148 Scott-Bayfield (1996), p. 62.

149 Simplified under ss. 2-4 of the Defamation Act 1996.

special damages, e.g. to compensate for the loss of earnings if the libel has forced him to leave his employment, as aggravated damages for any increased or additional hurt caused to the plaintiff's feelings by the defendant's conduct, or as exemplary or punitive damages, where a defendant hopes that the economic advantages of publication will outweigh any sum awarded. Damages can also be nominal if the damage inflicted on the reputation of the plaintiff by the libel is trivial. The amount of damages awarded to companies is generally lower than for individuals. Companies cannot recover damages for distress and injury to feelings, whereas individuals can.¹⁵⁰

For a company to bring an action for defamation has its plus and minus points. On the one hand, the burden of proof for the plaintiff, contrary to the defendant's burden of proof, is fairly light,¹⁵¹ and the damages awarded are often large, because normally defamation trials will be held before a jury. The damages are not restricted to the actual loss of earnings, but can include compensation for damage to goodwill.¹⁵² On the other hand, the costs of High Court litigation are generally very high,¹⁵³ the proceedings tend to be rather lengthy partly because of the trial by jury,¹⁵⁴ which is also likely to involve increased and unwanted (media) attention to the alleged statement, one has to deal with the unpredictability of the jury in determining the meaning of a statement, and the damages awarded to companies are generally lower than those awarded to individuals. Finally, the courts tend to be reluctant to grant interlocutory injunctions against a defendant who proposes to raise a defence of justification.¹⁵⁵ And, given the fact that most of the alleged statements are not 'a personal imputation' upon the plaintiff itself and as such are not actionable under defamation law, most companies will favour an action for the more appropriate tort of malicious falsehood.¹⁵⁶

5.4.4 CMAR and the British Codes of Conduct

Section 4A(1)(e) of the CMAR 2000, which implements the directive on misleading and comparative advertising,¹⁵⁷ prohibits any comparative advertisements that 'discredit or denigrate the trade marks, trade names, other distinguishing marks, goods, services, activities, or circumstances of a competitor'. Up until the entry into force of the CMAR

150 Spilsbury (1998), p. 52.

151 See Spilsbury (1998), p. 46.

152 *South Hetton Coal Co. v. N-E News* [1894] 1 QB 133.

153 Amounting to £500,000, see Scott-Bayfield (1996), p. 170.

154 See e.g. the McDonalds case [1997] EWHC QB 366. The action before the Court of Appeal lasted 313 trial days. Sections 8, 9, and 10 of the Defamation Act 1996 introduced a summary, non-jury procedure which may speed up the process.

155 *Coulson v. Coulson* (1887) 3 TLR 846; *Bonnard v. Perryman* [1891] 2 Ch. 269 at 283, *per* Bowen and Lopes LJ.

156 Holyoak (1995), p. 373.

157 See chapter 2, § 2.3.5.2d.

2000, the Courts were reluctant to ban the use of discrediting statements in comparative advertising, but this attitude seems to have changed since then.¹⁵⁸

In addition to these statutory provisions, some provisions of the CAP Code, ITCC and RAC are applicable. Section 20.1 of the CAP Code states that ‘although comparative claims are permitted, marketing communications that include comparisons with identifiable competitors and/or their products should not discredit or denigrate the products, trade marks, trade names, other distinguishing marks, activities or circumstances of competitors. Other marketing communications should not unfairly attack or discredit businesses or their products’. Although this section shows denigration to be unacceptable in the eyes of the ASA,¹⁵⁹ the self-regulatory body has demonstrated a tolerant view towards advertisements that denigrate a competitor or its products. This is particularly the case if an advertisement is true and does not mislead.¹⁶⁰ The more it seems to refer to a specific person or product, the more likely it will be considered to be a denigrating advertisement.¹⁶¹ The ASA takes into account whether the general public will take such an advertisement literally. If an advertisement is of a subjective character and is likely to be seen as the expression of the advertiser’s opinion, it will be allowed.¹⁶² If an advertisement is likely to be seen as humorous, the ASA will in most cases refrain from labelling it as unfairly denigrating.¹⁶³ The ASA seems to be especially tolerant towards advertisements that are intended to counter another comparative advertisement or advertising campaign.¹⁶⁴

158 See e.g. the *BA v. Ryanair* case, *supra* n. 105, at 25, where Jacob J. argued that the ‘Bastards’ headline does not fall under 10(6) of the Trade Marks Act 1994, but would probably be caught by the CMAR 2000 regulations if they had applied at that time. There has not been much case law on this issue so far.

159 See also the 2001 ASA report ‘40 years of effective self-regulation’, where it states at p. 16: ‘denigration has always been unacceptable, whether of products or personalities, as the ASA made clear in 1968: ‘There can be no possible excuse... for comparisons of an unfair kind or for contemptuous references to the products and services of a competitor... The Authority notes with approval that some advertisers..., although provoked by disparaging references to their wares by manufacturers of competing products, have shown commendable restraint in refraining from descending to the same level. (...) Denigration in advertisements continues to be prohibited.’

160 See e.g. the complaints B & Q PLC, 16 April 2003 and The British Horseracing Board Ltd, 17 July 2002.

161 If the advertisement refers to some group of companies in general, without specifying one in particular, e.g. comparing ceramic tiles and PVC wall cladding, the complaint will not likely be upheld. See e.g. the complaints about Burton’s Biscuits Ltd, 2001; ITV Digital, 13th March 2002; Altro Ltd t/a Altro Walls, 7th July 1999; JPA Graduate, 9th April 2003; Oliver James Hair Company, 12th March 2003.

162 See e.g. the complaints: Associated Newspapers Ltd t/a Daily Mail, 2nd April 2003, JPA Graduate, 9th April 2003, Oliver James Hair Company, (12th March 2003).

163 See e.g. the complaints ITV Digital, 13 March 2002 and Anheuser-Busch, Inc t/a Anheuser-Busch European Trade Ltd., 8 January 2003.

164 See e.g. the Anheuser-Busch, Inc t/a Anheuser-Busch European Trade Ltd., 8 January 2003.

The ASA, however, does draw a line at some point. For example, advertisements that are unnecessarily degrading, use foul language, or are based on facts that cannot be substantiated, will likely be considered inadmissible by the ASA. Much of it depends on the make-up of the advertisement. A complaint made with respect to a comparative advertisement between two aircraft companies may illustrate this. EasyJet had compared the prices of its flights with those of British Airways in an advertisement, containing the following text: *'Dear Fellow Travellers. We wanted to bring to your attention an attempted nationwide con of the British public by one of Europe's least successful airlines – British Airways. The Con BA now claim to offer low fares. (...) Have you been duped by BA's trickery? Then help others to avoid the same fate and share your tale of woe at easyJet.com – clicking on 'Low fares needn't BA con!'. (...) PS – We are campaigning for BA's chairman Rod Eddington, to change his email address to rob.everyone@ba.con!!!'*. The ASA held that the advertisement, particularly the words 'con', 'trickery' and 'rob', suggested dishonesty and went beyond what was acceptable in competitive advertising. It concluded that the advertisement unfairly denigrated BA's business and staff.¹⁶⁵ Even though an advertisement is not intended to denigrate a competitor, it will still be held inadmissible if the public would assume that it was intended to discredit.¹⁶⁶

Section 5.4.3 of the ITCC states that 'advertisements must not discredit or unfairly attack other products or services, advertisers or advertisements either directly or by implication'.¹⁶⁷ Finally, section 2 (7) of the RAC states that 'advertisements must not attack or discredit other products or services, people, advertisers or advertisements either directly or by implication. Advertisers must not discredit competitors or their products by describing them in a derogatory way or in a denigratory tone. This is particularly important in comparative advertising. While it is acceptable for an advertiser whose product has a demonstrable advantage over a competitor to point this out, care must be taken to ensure that the competitor's product is not depicted as generally unsatisfactory or inferior.'¹⁶⁸

165 EasyJet Airline Co Ltd., 29 January 2003.

166 See e.g. the complaint by Rover against an advertisement by Nissan Motors (GB) Ltd of 12 January 2000, the headline of which stated: 'It's a dog eat world and who wants a mongrel called Rover?'

167 See e.g. for a case in which denigratory claims about competing (exercise) products were held to be unacceptable, ITC, 1 April 2001 (*ORBITREK – PIN 24*). In ITC, 14 April 2003 (*Halifax/Bank of Scotland – Personal Loans*) the ITC stated that an advertisement merely identifying real differences between the advertiser and its competitors, was not *per se* denigratory.

168 A denigratory statement about a non-competitor is, in most cases, not actionable under the RAC. See e.g. RACC Clearance talkSPORT (National), Teletext Holidays, A005/48 and RACC Clearance 96.4 FM BRMB (Birmingham), Coldseal, A029/38. The RA, just like the ASA, adopts a flexible approach to denigratory statements in advertising. A complaint against a commercial that started with the sound of an alarm clock followed by a voice that posed the question 'Fed up with scrambling your lenses as soon as you wake up in the morning?', was not upheld by the RA

5.5 IMITATION AND MISAPPROPRIATION

There is no separate group of actions in the English legal doctrine that provide for protection against (unlawful) imitation or misappropriation.¹⁶⁹ The tort of passing off seems to be very similar to the actions granted under Civil Law in most countries on the continent, like slavish imitation or other forms of unlawful imitation. Therefore, in the next sections, I will give an overview of the law of passing off. I will conclude this overview by looking into the question of whether the tort of unfair competition may serve as a basis for a more general action against unfair competition. Finally, I will address the protection provided for know-how under English law.

5.5.1 Passing Off¹⁷⁰

5.5.1.1 Introduction

The common law tort of passing off is arguably the most important economic tort in English law. The origins of passing off date from the nineteenth century and the action is based upon the principle that ‘nobody has any right to represent his goods as the goods of somebody else’.¹⁷¹ The tort of passing off aims to protect ‘successful’ traders

because it merely alerted listeners to a possible alternative treatment, RACC Clearance Mercury 96.2 FM (Tunbridge Wells & Sevenoaks), The Centre for Sight, A019/39. The more personal or specific the advertisement is, the sooner it will be denigratory. An advertisement stating ‘Office Interiors from Woods – Any other company is just a waste of space’ was found to be denigratory while a slightly wider version stating ‘Any thing else is just a waste of space’ was allowed, Station Clearance Classic Gold 1260 (Swindon & West Wiltshire), Woods Office Furniture, A008/47.

169 For a brief analysis of the United States doctrine of misappropriation, see *supra* Chapter 2, § 2.5.2.

170 For an analysis of the law of passing off, in addition to the general treatises on tort law – *supra* 94 –, see: Wadlow, *The Law of Passing-off: Unfair Competition by Misrepresentation*, London: Sweet & Maxwell 2004, 3d ed., 935 pp.; Kitchin et al., *Kerly’s Law of Trade Marks and Trade Names*, London: Sweet & Maxwell 2005, 1760 pp.; Drysdale/Silverleaf, *Drysdale and Silverleaf: Passing Off – Law and Practice*, Butterworths Law 1995, 320 pp.; Young, *Passing Off*, London: Sweet & Maxwell 1994., 195 pp.; Narayanan, *Trade Mark, Trade Name and Passing Off Cases*, Sweet & Maxwell 1997, 2400 pp; Carty, *An Analysis of the Economic Torts*, Oxford University Press 2001, p. 175 et seq.

171 *Reddaway v. Banham* [1896] AC 199 at 204, 13 RPC 218 at 224. See also Lord Langdale MR in *Perry v. Truefitt*, 49 ER 749: ‘A man is not to sell his own goods under the pretence that they are the goods of another man; he cannot be permitted to practice such a deception, nor to use the means which contribute to that end. He cannot therefore be allowed to use names, marks, letters, or other indicia, by which he may induce purchasers to believe, that the goods which he is selling are the manufacture of another person.’ Or as adequately put by Lord Oliver in the case *Reckitt*

that have built up goodwill, while at the same time protecting consumers against misinformation.¹⁷² The tort has been the subject of continued development ‘to meet changing conditions and practices in trade’.¹⁷³ Case law expanded the action throughout the twentieth century.¹⁷⁴ Because of these developments it has become increasingly difficult to state the law of passing off with any clarity or precision. It was observed by Justice Gummow that ‘the law of passing-off contains sufficient nooks and crannies to make it difficult to formulate any satisfactory definition in short form’.¹⁷⁵

The classic action of passing off is based upon the trinity of goodwill, misrepresentation and damage.¹⁷⁶ It requires a misrepresentation by the defendant, express or implied but not necessarily fraudulent, and a consequent likelihood of damage to the plaintiff’s goodwill. A modern definition, consisting of five elements, was provided by Lord Diplock in the ‘*Advocaat*’ case between *Erven Warwink BV* and *Townend and Sons Limited*.¹⁷⁷ He required the following elements as being essential for the tort: There must be (a) a misrepresentation, (b) made by a trader in the course of trade, (c) to prospective or ultimate customers, (d) which is calculated to injure the business or goodwill of another, and (e) which causes or threatens actual damage to a business or goodwill of the trader by whom the action is brought. This reformulation has been followed in some leading cases,¹⁷⁸ but most of the recent judgements show the application of the simpler classic trinity formula.¹⁷⁹ As Nourse LJ commented in the *Parma Ham* case:¹⁸⁰

& *Colman v. Borden* (The *Jiff* case), [1990] 1 W.L.R. 491; [1990] R.P.C. 340: ‘The principle that no man is entitled to steal another’s trade by deceit’.

172 Carty, *Passing off and instruments of deception: the need for clarity*, EIPR [2003] 25(4), 188. It is, nonetheless, important to point out that the tort of passing off only provides the trader/competitor with an action, not the consumer.

173 *Lego System Atkieselskab v. Lego M Lemelstrich* [1983] FSR 155, per Falconer J. See for a detailed description of the history of passing off: Wadlow (2004), 1-1 et seq.; Carty (2001), p. 175 et seq.

174 See *sub* § 5.5.1.6.

175 *ConAgra v. McCain Foods* (Aust) (1992) 33 FCR 302.

176 See e.g. *H.P. Bulmer Ltd. and Showerings Ltd. v. J. Bollinger s.a. and Champagne lanson pere et fils* [1978] RPC 79.

177 [1979] AC 731.

178 See e.g. *Taittinger and Others v. Allbev Limited and Another*, [1993] 2 C.M.L.R. 741, per Peter Gibson L.J., at 14; *Chocosuisse Union des Fabricants de Chocolat v. Cadbury Ltd.* [1998] RPC 117, per Laddy J. (upheld on appeal [1999] RPC 866).

179 See e.g. *The Jiff* case [1990] 1 W.L.R. 491; [1990] R.P.C. 340, per Oliver L; *Conorzio Del Prosciutto Di Parma v. Marks & Spencer Plc* [1991] RPC 351, 358 per Nourse LJ; *Harrods Ltd v. The Harrodian School Ltd* [1996] RPC 697; *United Biscuits (Uk) Limited v. Asda Stores Limited*, [1997] RPC 513 per Robert Walker J.; *Reed Executive plc and another v. Reed Business Information Ltd and others* [2002] EWCA 1015 (CH), per Pumfrey J, 136.

180 *Conorzio Del Prosciutto Di Parma v. Marks & Spencer Plc* [1991] RPC 351, CA.

‘Although those speeches [of Lord Diplock and Lord Fraser] are of the highest authority, it has been my experience, and it is now my respectful opinion, that they do not give the same degree of assistance in analysis and decision as the classical trinity of (1) a reputation (or goodwill) acquired by the plaintiff in his goods, name, mark, etc., (2) a misrepresentation by the defendant leading to confusion (or deception), causing (3) damage to the plaintiff.’

It has sometimes been said that there can be no cause of action for passing off if there is no ‘common field of activity’ in which the plaintiff and defendants are, however remotely, operating.¹⁸¹ The concept of ‘common field of activity’ only extends the goodwill, as protected under passing off law, to similar goods.¹⁸² This concept has been applied in a number of subsequent English cases, particularly those relating to character and personality merchandising,¹⁸³ but has been criticised as well.¹⁸⁴ However, as this requirement was not manifest in passing off cases outside character merchandising, and was not a characteristic identified by Lord Diplock in the *Advocaat* case, judges in character merchandising cases began to rely less on the doctrine of ‘common field of activity’.¹⁸⁵ In *Mirage Studios v. Counter Feat Clothing Co Ltd*¹⁸⁶ the plaintiffs were the creators of popular cartoon characters, the Teenage Mutant Ninja Turtles. They did not manufacture or market any goods themselves. The majority of the plaintiff’s business income arose from royalties received from licensing. The court issued an injunction for the first time in a character merchandising case on the basis of a possible misrepresentation. Nonetheless, although no requirement for a competitive relationship exists, a strong association between the field of activity of the claimant and that of the defendant makes it easier to establish likely confusion.

181 This approach was initiated by Wynn Parry J in *McCulloch v. May* 65 RPC 58, where a radio presenter alleged that his professional name was being used to sell a breakfast cereal.

182 See e.g. *Rolls Razors Ltd v. Rolls (Lighters) Ltd* [1949] 66 RPC 137. Razors and lighters are consequently considered to be different trades. The same is the case with retailers and wholesalers, see *Fortnum & Masons plc v Fortnum Ltd* [1994] FSR 438.

183 MacQueen, *Passing Off*, at 14.039. This is a draft version of a chapter on passing-off, I have been graciously entrusted with by Professor H. MacQueen, and that will be published in April 2006 in the *Textbook on Intellectual Property*, MacQueen/ Waelde/Laurie, Oxford University Press, in Part VI, chapter 14: ‘Passing Off’. See also e.g. *Wombles Ltd v. Wombles Skips* [1975] FSR 488; *Taverne Rutledge v. rexapalm Ltd* [1977] RPC 255.

184 MacQueen, at 14.039. See e.g. Phillips and Coleman, (1985) 101 LQR 242.

185 Carty (2001), p. 185. This is especially the case if there is a large proportion of goodwill involved. The larger the goodwill, the larger will be the sphere of influence of this goodwill. See in this respect e.g. the Lego case, *Lego System v. Lego M Lemelstrich* [1983] FSR 155, where Lego could prevent the use of its name on garden furniture.

186 186 [1991] FSR 145.

5.5.1.2 Misrepresentation

The most important element of passing off is the misrepresentation by the defendant. The simplest and traditional form of misrepresentation is the straightforward presentation that the goods, services or business of the defendant are those of the plaintiff or closely connected to him, when they are not. The tort has expanded, however, to deal with other misrepresentations as well.¹⁸⁷ The misrepresentation can consist of an exact reproduction of the claimant's badge of identity. This can be, for example, his mark, business name, the get-up in which his goods are packaged, or other manifestations of his goodwill, 'such as slogans or visual images, which radio, television or newspaper advertising campaigns can lead the market to associate with the plaintiff's product, provided always that such descriptive material has become part of the goodwill of the product'.¹⁸⁸ In most cases the (mis)representation is implied and there is no exact reproduction of the claimant's badge of identity.

In accordance with the requirements set out by Lord Diplock in the *Advocaat* case, the misrepresentation – in order to be actionable under the tort of passing off – should be 'calculated' to injure the business or goodwill of another trade. 'Calculated' as formulated by Lord Diplock, means *likely* rather than *intended*.¹⁸⁹ The motivation of the person making the misrepresentation is irrelevant. It does not have to be made fraudulently or with the intention to deceive.¹⁹⁰ The plaintiff need only show the probability of deception caused by the misrepresentation. The likelihood of confusion depends for a part on the conditions in the market where the parties operate. Differences between the get-up of the products of the claimant and defendant should only be given the degree of attention which the typical customer would use.¹⁹¹ 'Thirsty folks want beer, not explanations'.¹⁹² In *Haig & Co v. Forth Blending Co*¹⁹³ the defender's labelling of 'dimple'-shaped whisky bottles was different from the plaintiff's, and there was little likelihood of confusion while the bottles remained unopened. The whisky was, however, sold in pubs, with the bottles open and a pourer attached to the top. Given the fact that

187 See for an analysis of the expansion of the tort of passing off, § 5.5.1.6. et seq.

188 Lord Scarman in the *Pub Squash* case, [1981] RPC 429, p. 490. In addition, the Courts have held, *inter alia*, the following types of distinctive material or activities to establish goodwill: a fictional film character, 'the One-armed Swordsman' ([1972] RPC 559); an authorised Sony dealership ([1983] FSR 302), professional ballroom dancers ([1969] RPC 218); 'Swiss' chocolate [1998] RPC 117. However, the shape of the product itself generally cannot be a badge of identity and goodwill, see MacQueen, at 14.027.

189 Wadlow (1995), p. 185.

190 However, although not essential to passing off, proof of bad faith makes it much easier for the court to infer deception, one of the elements inherent in misrepresentation. See Chitty J in *Montgomery v. Thompson* [1889] 41 Ch Div 40.

191 MacQueen, at 14.037.

192 *Montgomery v. Thompson* [1891] AC 217 *per* Lord Macnaughten at p. 225.

193 1954 SC 35.

even the barmen might confuse the rival products in the atmosphere of a pub, the court held that the defender's bottle was likely to cause confusion sufficient to amount to passing off.

Another prerequisite for passing off is that the misrepresentation has to deceive or be likely to deceive the customer. There is a difference, albeit minor, between the terms 'deception' and 'confusion'. Mere confusion does not establish passing off.¹⁹⁴ In the case of deception, the customer is confused as a result of the misrepresentation initiated by the seller. 'Deception presupposes the existence of a misrepresentation, confusion does not'.¹⁹⁵ Confusion can in many cases lead to deception. However, in modern law no form of fraud or even negligence is essential to establish liability under common law.¹⁹⁶ In literature and case law these terms are therefore usually put on a par. To judge whether a misrepresentation is likely to deceive (or confuse), one needs to consider the ordinary, sensible member of the public representative of consumers of the goods or services in question.¹⁹⁷ A substantial amount of these people must be likely to be deceived by the misrepresentation in order for it to be unlawful.¹⁹⁸ And, finally, the deception must be more than momentary and inconsequential.¹⁹⁹ English law does not provide an unequivocal answer to the question of at what point in time must the public be deceived. Does the tort of passing off provide protection against post-sale confusion? The basic assumption, in most cases, is that the confusion must occur at the time of purchase.²⁰⁰

In *Bostik v. Sellotape*²⁰¹ the claimant manufactured and sold a blue reusable adhesive putty called Blu-tac. The defendants launched a competing blue-coloured adhesive called Sellotak, that was sold in a similar sized case as Blu-tac. Apart from their same size, the products were clearly distinguished by both their brand name and by their get-up. The court held that the blue colour of both parties' products, i.c. the sole basis for the claim of passing off, was not part of their get-up because it was invisible until after the purchase. In other cases the point in time when the product is consumed or used is

194 [1990] RPC 314 at 412, *per* Lord Oliver. See also Lord Jauncey in his speech in the same case, at 417: 'Mere confusion which does not lead to a sale is not sufficient. Thus, if a customer asks for a tin of black shoe polish without specifying any brand and is offered the product of A which he mistakenly believes to be that of B, he may be confused as to what he has got but he has not been deceived into getting it. Misrepresentation has played no part in his purchase' and Robert Walker J. in *Barnsley Brewery Co Ltd v. RBNB*, [1997] FSR 462, at 467: 'there must be deception, whether intentional or unintentional. If there is no deception, mere confusion or the likelihood of confusion is not sufficient to give cause to action'.

195 Wadlow (2004), at 1-19.

196 Rogers (2002), p. 675.

197 See *supra* 79.

198 See *supra* 87.

199 See e.g. the *Pub Squash* case, [1981] 1 All ER 213, [1981] 1 WLR 193, at 495.

200 Karet, Passing off and trademarks: confusing times ahead, EIPR [1995] 17(1), 3-5.

201 [1994] RPC 556.

taken as a starting point. In *Clark v. Associated Newspapers*²⁰² the plaintiff, Mr Alan Clark, at the time of the judgement a member of Parliament and an author with an established reputation, objected to the way certain articles in the Evening Standard were presented to the reader. According to Clark the articles were written in such a form that a substantial number of readers attributed them to his authorship. The court held that the relevant time to consider whether the public is confused is when the persons read the story, rather than when the newspaper is purchased.²⁰³ Post-sale confusion has been occasionally accepted, for example with respect to designer goods, such as clothes or kitchen equipment, where the manufacturer's label is often visible long after purchase.²⁰⁴

5.5.1.3 Goodwill

A passing-off action brought by a claimant against a defendant cannot succeed if the plaintiff has neither a business nor any goodwill in the UK, even if there is a clear misrepresentation by the defendant. Passing off will not provide a remedy if the claim-

202 [1998] RPC 261, 271.

203 *Per* Lightman J in the *Clark v. Associated Newspapers* case: '(...) the readers of the Evening Standard read it with varying degrees of attention. A substantial number of such readers do so after the day's work, often on the journey home; they do not see the Evening Standard as, or want, what may be termed a heavy or serious newspaper calling for attentive reading, or attentive reading throughout; rather it is something generally to skim read looking for something which may attract the reader's interest and only focusing attention as and when required. It is not the type of publication which is read 'word for word'. This is most particularly so in the case of the pages on which the articles appear (...)'

204 *Bently/Sherman, Intellectual Property*, Oxford University Press: 2004, p. 707. See also *Chelsea Man Menswear v. Chelsea Girl* [1987] RPC 189, 204, where Slade LJ, when considering the risk of damage, observed that 'labelled garments can readily move about the country with their wearers'. In *Arsenal Football Club plc v. Reed* the claim for passing off was rejected in the first judgement of 6 April, 2001 before the High Court of Justice (not published) on the grounds that no evidence of actual confusion had been produced to the Court. The Judge (Laddie J) also made it clear that he doubted that the way in which Mr Reed was using the signs on his goods amounted to trade mark infringement. This was because those signs were being used as badges of allegiance or loyalty to Arsenal Football Club, and not to indicate the trade origin of the goods to which they were applied. However, Laddie J identified this as a matter of construction of the First Trade Marks Directive and he therefore referred the matter of trademark infringement to the ECJ. The ECJ accepted post-sale confusion with respect to trademarks in its judgement, [2003] RPC 144. The case was referred back to the High Court of Justice. Laddie J, however, refused to follow the ECJ judgement, since the ECJ had exceeded its jurisdiction by making findings of fact. Instead, he applied the ECJ's guidance on the law to the facts as found at the (first) trial, and found good grounds for believing that the defendant had succeeded on the issue of trade mark infringement, [2002] EWHC 2695 (Ch). The Court of Appeal reversed this judgment and accepted protection against post sale confusion, [2003] EWCA Civ 96.

ant's goodwill has not been damaged, even when the defendant has copied his badge of identity.²⁰⁵ Lord MacNaghten in *Inland Revenue v. Muller & Co's Margarine Ltd*²⁰⁶ defined goodwill as follows:

'What is goodwill? It is a thing very easy to describe, very difficult to define. It is the benefit and advantage of a good name, reputation and connection of a business. It is the attractive force that brings in custom. It is one thing that distinguishes an old established business from a new business at its first start. The goodwill of a business must emanate from a particular centre or source. However widely extended or diffused its influence may be, goodwill is worth nothing unless it has power of attraction sufficient to bring customers home to the source from which it emanates'.

Goodwill must be attached to a business. It is acquired through trading and hence only traders can rely on passing off.²⁰⁷ A political party in many cases does not have any goodwill worthy of protection, since it undertakes no commercial activities.²⁰⁸ A claimant generates goodwill by using a name, mark, description or get-up in relation to his goods, services or business, that is distinctive to him. Certain unusual trade symbols, such as made up or fancy words, can easily become distinctive for a particular trader's goods, and will as a consequence lighten the burden of proving deception.²⁰⁹ On the other hand, a trade symbol that consists of words that are merely descriptive of the trader's goods or services will not easily generate goodwill and the claimant will, as a result, find it difficult to maintain an action for passing off.²¹⁰ Traditionally, passing off protected the 'source goodwill' when the claimant alone was attacked. The action for passing off has expanded into protecting 'product goodwill', i.e. the goodwill attached to products, such as Champagne, that is not limited to one trader.²¹¹

The plaintiff has to prove a reputation in business sufficient for customers to be misled by the defendant's conduct into thinking that they are acquiring the goods or services of the plaintiff. However, a damaged reputation alone is insufficient, the goodwill of the plaintiff's business must be damaged. Goodwill requires, other than reputation, an actual customer connection or experience.²¹² It is based upon an economic

205 See e.g. *County Sound plc v. Ocean Sound plc* [1991] FSR 367.

206 (1901) AC 217.

207 See e.g. The 'Chocosuisse' case, *supra* 178.

208 *Kean v. McGivan* [1982] FSR 119. In *Burge v. Haycock* [2002] RPC 28 (553), this restriction was in some part removed and it was held that charities have the right to protect their established goodwill. However, the plaintiff, the Countryside Alliance, an organization that lobbies for countryside interests, was partly concerned with commercial activities.

209 Dugdale, Clerk & Lindsell (2004), p. 1505.

210 He must show that the words have lost their primary descriptive meaning, and have acquired a so-called secondary meaning, as a term distinctive of his goods or services. See Dugdale, Clerk & Lindsell (2004), p. 1506.

211 See for an analysis of the expansion of the tort of passing off, § 5.5.1.6.

212 Carty (2001), p. 181. See also Walker J. in *Nice and Safe Attitude Ltd v. Piers Flook* [1997] FSR 18.

concept: the attractive force to bring in custom.²¹³ In *Anheuser-Busch Inc v. Budejovicky Budvar PN*²¹⁴ the plaintiffs were unable to succeed in their claim of passing off because their product was not available on the English market, although it was well known by a substantial number of people in the UK.²¹⁵ Even damage to a business' general reputation may be insufficient if there is no damage to the goodwill. In *Harrods Limited v. Harroddian School Limited*²¹⁶ the proprietor of the world-famous department store 'Harrods' in London brought an action in passing off against a business which proposed to run a private preparatory school under the name 'The Harroddian School'. The action failed, mainly on the ground that the plaintiff was unable to show the likelihood of any damage to its goodwill. The Court considered that even if the school had become entangled in a scandal, there would be no real danger that the customers of Harrods would withdraw their custom from the store.

The action for passing off is based on a property right, so as to justify injunctive relief. Until the mid-nineteenth century, this property right was said to be located in the name or symbol employed. Case law has rejected this approach and placed the property in the customer connection or 'goodwill' as the basis of equitable intervention.²¹⁷ There is no property in a name as such.²¹⁸

5.5.1.4 Actual damage

The third and final element of the tort of passing off is that of damage. The plaintiff must 'demonstrate that he suffers or, in a *quia timet* action, that he is likely to suffer damage by reason of the erroneous belief engendered by the defendant's misrepresenta-

213 *IRC v. Muller & Co's Margarine Ltd* [1901] AC 217 per Lord Macnaghten at 223. At 235 Lord Lindley provided an alternative definition: goodwill is 'whatever adds value to a business by reason of situation, name and reputation, connection, introduction to old customers, and agreed absence from competition, or any of these things, and there may be others which do not occur to me'.

214 [1984] FSR 423.

215 For an analysis of the territorial nature of the tort of passing off, see Cohen/Schmit, *Is the English law of passing off discriminatory to continental European Trade Mark owners?*, [1999] EIPR p. 88; Carty, *Passing off and the concept of goodwill*, J.B.L. 1995, March, 139-154.

216 [1996] RPC 697 with a strongly dissenting opinion by Sir Michael Kerr.

217 Per Lord Parker *Spalding v. Gamage* (1915) 32 RPC 273: 'There appears to be considerable diversity of opinion as to the nature of the right, the invasion of which is the subject of what are known as passing-off actions. The more general opinion appears to be that the right is a right of property. This view naturally demands an answer to the question – property in what? Some authorities say property in a mark, name, or get-up improperly used by the defendant. Others say property in the business or goodwill likely to be injured by the misrepresentation (...) if the right invaded is a right of property at all, there are, I think, strong reasons for preferring the latter view (...).' See also *Perry v. Truefit* (1842) 44 ER 749; *Draper v. Trist* [1939] 3 All ER 513, p. 526 per Goddard LJ; the *Advocaat* case, [1980] RPC 31, p. 92 per Lord Diplock.

218 Cornish (1999), p. 620.

tion that the source of the defendant's goods or services is the same as the source of those offered by the plaintiff.²¹⁹ As stated before, the misrepresentation must be calculated to injure the claimant's goodwill. The link between damage and goodwill is an important limitation to the tort of passing off.²²⁰ The presence of actual damage is not a strict requirement. It is sufficient to prove that the misrepresentation will probably cause damage to the goodwill.²²¹ The damage will be assumed if the other elements of passing off are present.²²²

The English courts have recognized four heads of damage. These are loss of existing trade and profits, loss of potential trade and profits, damage to reputation and dilution.²²³ The first, most common type of damage where there is a loss of sales, will only occur where the plaintiff and defendant deal in similar goods or services or operate in similar fields. The misrepresentation generates confusion about the source of the goods or services, leading the customers to buy more from the defendant instead of the plaintiff. Next, the misrepresentation by the defendant may lead to a loss of future profits for the plaintiff. This includes the loss of an opportunity to expand into a new field.²²⁴ Thirdly, the courts have recognized that damage may occur where the misrepresentation has a negative impact on the plaintiff's reputation. This kind of damage will, in particular, occur in the case of high-quality goods or services. The misrepresentation may lead to an injurious association, e.g. if the defendant has misrepresented himself or his goods as being in some way connected to the plaintiff. In *Annabel's v. Stock*²²⁵ a high-class London nightclub, Annabel's, successfully prevented the defendant from carrying on the business of an escort agency under the name of Annabel's Escort Agency. Or, in another case, the plaintiff may allege that an apparent connection with the defendant may lead to a loss of goodwill with existing trade connections.

The final form of damage recognized by the courts is the dilution of the plaintiff's goodwill. The theory behind the concept of dilution harm, introduced by the American academic Schechter in 1927, is that 'the more widely a symbol is used, the less effective it will be for any one user'.²²⁶ The defendant's misrepresentation dilutes the pulling power or goodwill of the plaintiff's badge of trade.²²⁷ This head of damage was first

219 *Reckitt v. Borden* ('Jif Lemon' case) [1990] RPC 341 *per* Lord Oliver.

220 Carty (2001), p. 211.

221 See Lord Diplock in the *Advocaat* case, [1980] RPC 31 and Lord Oliver in the *Jiff Lemon* case, [1990] RPC 340. *Per* Lord Parker in *Spalding v. Gamage* (1915) 32 RPC 273 (H.L.): 'It is sufficient to say that the misrepresentation being established, and being in its nature calculated to produce damage, the plaintiffs are *prima facie* entitled both to an injunction and to an inquiry as to damage, the inquiry, of course, being at their own risk in respect of costs.'

222 Wadlow (1995), 3.04, p. 151.

223 Carty, Heads of damage in passing off, [1996] EIPR 487.

224 Bently/Sherman (2004), p. 719. See e.g. *Alfred Dunhill Ltd v. Sunoptic SA* [1979] FSR 337, CA.

225 [1972] FSR 261, CA.

226 Brown, Advertising and the public interest, 57 Yale LJ (1940) 1165, p. 1191.

227 Bently/Sherman (2004), p. 722.

acknowledged in English law in *Taitinger v. Allbev*.²²⁸ The plaintiff produced a famous sparkling wine from the Champagne district, which was known in the UK as ‘champagne’. The plaintiff brought an action against the defendant, who produced a non-alcoholic sparkling beverage called Elderflower Champagne that was produced in the UK. While the plaintiff failed to prove the likelihood of damage at first instance, the Court of Appeal reversed this decision and stated that the plaintiff’s goodwill had been damaged or was likely to be damaged as the elderflower drink brought about ‘a gradual debasement, dilution or erosion of what is distinctive’.²²⁹ The *Harrods v. Harroddian School*²³⁰ decision, however, has thrown the status of dilution damage into doubt. Millet LJ held in this case that it was highly unlikely that, as a result of the defendant’s activities, the Harrods name would lose its distinctiveness or become a generic term to refer to shops that sell luxury goods.²³¹ Because of this decision, it is uncertain to what extent dilution will be recognized as a distinct head of damage.²³²

In addition, the development of the tort of passing off shows two fundamental characteristics that cancel out an action for trade mark dilution within the confines of passing off. First of all, passing off rejects any notion of property capable of being protected in a trade mark itself. By protecting trade marks against dilution, however, one seeks to protect the value in the trade mark itself instead of the traditional function of indication of origin. Second, passing off requires a misrepresentation that is likely to deceive a significant number of people. Dilution, however, concerns the use of marks on dissimilar goods, even where consumers appreciate there is no connection. In most dilution cases the public are not confused at all as to the origin of the goods or services. Recognizing dilution as a distinct head of damage is therefore illogical, when set off against the requirements for an action of passing off. As put by Millett LJ in *Harrods Limited v. Harroddian School Limited*:²³³

228 [1993] FSR 641.

229 See also Cross J in the same case [1993] FSR 641, at 754: ‘if people were allowed to call sparkling wine not produced in Champagne ‘Champagne,’ even though preceded by an adjective denoting the country of origin, the distinction between genuine Champagne and ‘champagne type’ wines produced elsewhere would become blurred; that the word ‘Champagne’ would come gradually to mean no more than ‘sparkling wine’; and that the part of the plaintiffs’ goodwill which consisted in the name would be diluted and gradually destroyed’.

230 See *supra* 216.

231 See Bently/Sherman (2004), p. 723.

232 On the one hand, dilution is treated as an appropriate form of damage only in extended passing-off cases, see Laddie J in the ‘*Chocosuisse*’ case (*supra* 178). Some judges have, on the other hand, accepted dilution in the context of a classic form of passing off, see e.g. *British Telecommunications v. One in a Million* [1998] 4 All ER 476, 497; *Pontiac Marina Private v. Cdl. Hotels International* [1998] FSR 839. See also Carty, Dilution and passing off: cause for concern, 112 LQR (1996) 632; Annand/Norman, Blackstone’s guide to the Trade Marks Act 1994, London 1994, p. 157 et seq.

233 *Supra* n. 179.

‘Erosion of the distinctiveness of a brand name has been recognised as a form of damage to the goodwill of the business with which the name is connected in a number of cases, particularly in Australia and New Zealand; but unless care is taken this could mark an unacceptable extension to the tort of passing off. To date the law has not sought to protect the value of the brand name as such, but the value of the goodwill which it generates; and it insists on proof of confusion to justify its intervention. But the erosion of the distinctiveness of a brand name which occurs by reason of its degeneration into common use as a generic term is not necessarily dependent on confusion at all. (...) I have an intellectual difficulty in accepting the concept that the law insists upon the presence of both confusion and damage and yet recognises as sufficient a head of damage which does not depend on confusion.’

In passing off cases the aim of the court is to put the plaintiff in the position in which he would have been if the misrepresentation had not been made – it is not to put him in the position in which he would have been if the statement constituting the misrepresentation was true.²³⁴ The plaintiff can therefore recover all the expenses incurred and all the gains forgone because of the misrepresentation, for example the reduction in sales of goods and materials. Exemplary or punitive damages may be awarded in respect of a claim in tort, although their ambit is restricted. Such damages will be awarded in special circumstances only for example when the defendant’s conduct has been calculated to make him a profit which may well exceed the compensation payable to the plaintiff.²³⁵ No intentional act of the defendant is required to claim damages.²³⁶ In general, only individual competitors – no industrial associations – will have a right of action under passing off, except if there is an ‘*Advocaat*’ case²³⁷ where an individual trader is able to bring a claim on behalf of himself and other members of a group of traders with a shared interest. A plaintiff may, in respect of his losses, claim for damages calculated on the account of profits made by the defendant from the passing off. The defendant will have to disgorge his profits only if he deliberately passed off the claimant’s goods.²³⁸ A claim for damages²³⁹ is usually coupled with a claim for an injunction whenever the latter is the main relief sought from the court. The plaintiff may bring such a claim in order to stop and prevent the repetition of the defendant’s conduct. The injunction may be made in qualified form, by restraining the defendant from selling his goods without sufficiently distinguishing from the claimant’s.

234 See Tyler, Report of the UK Competition Law Association, LIDC 2002/2003, Question II, available at <http://competitionlawassociation.org.uk>, p. 21.

235 Cornish (1999), § 2-38.

236 Winfield/Jolowicz (2002), § 18.56.

237 See § 5.5.1.6. for an analysis of the *Advocaat* case.

238 *My Kinda Town Ltd v. Soll* [1982] RPC 109.

239 In special cases a claim for unjust enrichment may be brought in the English courts but they do not play any particular role in passing off cases.

5.5.1.5 Relation to the Trade Marks Act 1994²⁴⁰

The action for passing off is, in many cases, concerned with trade marks and service marks, but is by no means confined to misrepresentations conveyed through the use of marks that can be registered under the Trade Marks Act 1994.²⁴¹ Section 2(2) of the Trade Marks Act 1994 specifically leaves the action for passing off unaffected.²⁴² If a business has a reputation in the UK in a trade mark in relation to goods and/or services and another business makes a misrepresentation which results in damage to that reputation, there may be, in addition to an action for an infringement of its registered trade mark, a basis for a passing off action. The statutory protection provided by the Trade Marks Act 1994 does not pre-empt the protection provided by the tort of passing off to registered and unregistered trade marks. This means that a plaintiff can bring an action for passing off, despite the fact that he can also bring an action for infringement, or despite the fact that he has forgotten to register his trade mark or could not do so under statutory law.

The action for passing off is often used as a parallel action to the statutory protection of registered trade marks,²⁴³ but it can also be used to protect non-registered trade marks. It is no defence to passing off that the defendant's trade mark is registered.²⁴⁴ Conversely, a trade mark shall not be registered if its use in the UK is liable to be prevented, *inter alia*, by the law of passing off.²⁴⁵ Passing off and trade-mark law deal with overlapping situations, but deal with them in different ways and from different points of view.²⁴⁶ The extension of the statutory trade-mark law to include protection against dilution in the Trade Marks Act 1994,²⁴⁷ may however affect the development of the tort

240 See also: Lim/Kwek, Conflict between Common Law and Statutory Trade Mark Rights, [2004] EIPR 36-40.

241 Wadlow (2004), at 1-9.

242 See Section 2 of the Act:

(1) A registered trade mark is a property right obtained by the registration of the trade mark under this Act and the proprietor of a registered trade mark has the rights and remedies provided by this Act.

(2) No proceedings lie to prevent or recover damages for the infringement of an unregistered trade mark as such; but nothing in this Act affects the law relating to passing off.

243 And on various occasions, with success, see e.g. *Jay v. Ladler* (1888) 6 RPC 136; *Hart v. Colley* (1890) 7 RPC 93; *Montgomery v. Thompson* [1891] 8 RPC 361 (CA and HL); *Barber v. Manico* (1893) 10 RPC 93; '*Yorkshire Relish*' [1897] 14 RPC 720.

244 See, in relation to s. 2(2) Trade Marks Act 1994, e.g. *Van Zeller v. Mason, Cattley* (1907) 25 RPC 37; *Lyle & Kinahan* (1907) 24 RPC 249 at 262; *Eli Lilly v. Chelsea Drug* [1966] RPC 14 at 18.

245 See s. 5(4)(a) of the Trade Marks Act 1994 and the case *Wild Child* [1998] RPC 14 at 455.

246 Wadlow (2004), at 1-9.

247 Section 10 (3) of the Trade Marks Act, which is based on the optional provision of Section 5(2) of the Trademark Directive, states: 'A person infringes a registered trade mark if he uses in the course of trade a sign which

(a) is identical with or similar to the trade mark, and

of passing off.²⁴⁸ Since protection provided under the tort of passing off runs parallel to the protection of trade marks under the Trade Marks Act 1994, the expansion of this act may well lead to an expansion of the tort.²⁴⁹ The extension of the Trade Marks Act 1994 may, on the other hand, diminish the *need* to bring an action for passing off in parallel with trade-mark infringement proceedings. A product's get-up or branding, previously capable of being protected only by an action for passing off, falls within the scope of protection of the Trade Marks Act 1994. Furthermore, the trade-mark infringement rights have been extended to dissimilar goods or services in cases of a well-known mark, so the owner of a well-known trade mark can still bring an action for infringement although he has not registered his trade mark for the defendant's class of goods or services.

The tort of passing off recognises, as opposed to trade mark law, no exclusive monopoly right to any name, mark, or get-up of a product or service.²⁵⁰ The tort, however, protects the 'right of property in the business or goodwill in connection with which the mark was being used',²⁵¹ and is therefore not confined to the defendant's misuse of the plaintiff's name, mark or get-up. In short: the tort is not equivalent to a 'common law trade mark'. This is, however, to some extent an artificial distinction. In many cases, the goodwill connected to trade mark use as protected by the tort, is actually vested in the trade mark or name itself. Moreover, the tort of passing off can often *de facto* act as an extension to the statutory protection of trade marks. The Trade Marks Act 1994 creates, especially with the extended protection against dilution, a monopoly and can give exclusive control over the sale of goods or services with a particular name, mark or get-up. This statutory regime of protection has been defined by Parliament (and the European legislator) so as to strike a balance between the interests of the trade-mark owner and his competitor, in view of the free market principles. Especially since both the law of trade marks and passing off are primarily concerned with the protection of the same party, being the (honest) trader, and both are only secondarily concerned with the protection of the consumer or the public as a whole, it is important from a dogmatic point of view to clearly define the boundaries of statutory trade mark law. In many cases, a business that fails to register its trade marks can still bring an action for passing off to prevent the use of his 'unregistered trade marks'.

(b) is used in relation to goods or services which are not similar to those for which the trade mark is registered, where the trade mark has a reputation in the United Kingdom and the use of the sign, being without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.'

248 Carty (2001), p. 287.

249 Ibid.

250 *Burberrys v. J.C. Cording & Co. Ltd* (1909) 26 RPC 693; *Payton & Co. v. Snelling, Lampard & Co.* [1901] AC 308.

251 *Star Industrial Co. Ltd v. Yap Kwee Kor* [1976] FSR 256, 271 (P.C.) *per* Lord Diplock.

Should this be considered desirable in view of the freedom of trade and freedom of competition?

Some points can be raised to counter this question. First of all, as stated above, the law of passing off provides for protection from a point of view which is different to that of trade mark protection,²⁵² albeit that both can be at cross-purposes. Secondly, it can be very difficult and expensive to prove passing off, possibly leading the plaintiff to think twice before bringing an action for passing off.²⁵³ This threshold has, however, not prevented passing off from becoming a ‘popular’ action. Finally, the European Trade Marks Directive²⁵⁴ expressly provides that it ‘does not exclude the application to trade marks of provisions of law of the Member States other than trade mark law, such as the provisions relating to unfair competition, civil liability or consumer protection’. This directive thus seems to leave room for the development of ancillary protection by, for instance, unfair competition alongside the statutory protection provided for by the Trade Marks Act 1994.²⁵⁵

252 See also Cane (1996), p. 187.

253 Cf. House of Commons, Session 1998-1999, Minutes of Evidence taken before the Trade and Industry Committee, 14 April 1999, Memorandum submitted by The British Brands Group. There are many disadvantages to bringing an action for passing off. Proceedings in terms of passing off are extremely expensive and time-consuming, since it is notoriously difficult to prove reputation and goodwill. For passing off the plaintiff will have to prove that he has developed a reputation in the mark and that the use of the other mark would be likely to confuse or deceive the public. Once a trade mark has been registered it is protected from the date of registration even if it has not been used, whereas a mark will be protected under the tort of passing off only if it has been used long enough to generate goodwill. Besides, the protection given by a registered mark may be wider than that offered by the tort of passing off because the goodwill protected may only exist in a limited area, see Phillips/Firth, *Introduction to Intellectual Property Law*, 3rd ed., London 1995, p. 288. It should therefore be recognised that it is generally more difficult to enforce unregistered rather than registered trade-mark rights, see House of Commons, Research paper 01/84 of 31 October 2001 on the Patents Act 1977 (Amendment) Bill, p. 33. Under the Trade Marks Act 1994 it has been made very easy to secure the registration of a trade mark. So a trademark owner does not have much trouble in proving that he has a trade mark, while it is considerably harder to prove that there is an action for passing off. Registration confers on the proprietor or licensee of a trade mark an exclusive moveable and personal property right in the trade mark, giving rise in cases of infringement to a statutory infringement action, where it will not be necessary for the proprietor or licensee to prove public deception or confusion for the action to be successful. The registration of a trade mark is *prima facie* proof of title in and to the mark, and is a convenient and inexpensive way to obtain a proprietary right in a trade mark in use or proposed to be used in the definite future.

254 First Council Directive of 21 December 1988 to approximate the laws of the Member States relating to trade marks (89/104/EEC).

255 In cases other than trademark law, the courts have not been very eager to allow the common law to be used to protect trade values that are recognized by statute in situations where the statute affords no protection. This is, in particular, the case with copyright law. In *CBS Songs Ltd v. Amstrad Computer Electronics PLC*, [1988] Ac 1013, the plaintiffs argued that the defendants

These arguments do not change the dogmatic view that passing off can undesirably blur the outlines of the scope of protection of UK trade mark law, in particular as to its registration requirement. The extension of the Trade Marks Act 1994 might, nonetheless, lead one to wonder whether the action for passing off will continue to be useful, since it is fair to say that the main use of passing off in the past has been as a substitute when one cannot allege trade mark infringement, and with the new Trade Marks Act 1994 many of the old technicalities of registered trade mark law have been swept away. The outcome of this question will be affected by the continuous development of the law of passing off and the (new) roles it will play on the market in the future.

5.5.1.6 *The tort of passing off and its boundaries*

In the twentieth century, the tort of passing off expanded enormously. This started off with the ‘extended’ definitions of this tort by Lord Diplock and Lord Fraser in the *Advocaat* case.²⁵⁶ Furthermore, the tort extended ‘beyond the sale of goods to cover services, beyond pretences concerning the origin of goods to cover pretences concerning their quality and beyond simple pretences that the goods are those of another trader, to cover pretences that the goods have been licensed by another trader’.²⁵⁷ The scope of protection for passing off has extended along the lines of its three elements, misrepresentation, goodwill and damage.

The traditional form of misrepresentation consisted of straightforward misrepresentation by the defendant as to the source of his goods, services or business by presenting them as those of the plaintiff or closely connected to him, when they are not. The tort has, in this respect, expanded to deal with misrepresentations as to the quality of the plaintiff’s goods, as to the (non-existing) connection between the defendant and the

were in breach of their copyrights by selling large volumes of tape recorders to the public which could be used to copy commercially recorded audio tapes onto blank tapes, thereby ‘authorizing’ breaches of copyright by the buyers of the tape recorders. The House of Lords held that the acts of the defendants amounted only to ‘facilitation’ of breaches of copyright, and that this was therefore not a form of infringement recognized by the legislation. As to the plaintiff’s argument of breach of a duty of care, Lord Templeman replied that: ‘The pleading assumes that we are all neighbours now, Pharisees and Samaritans alike, that foreseeability is a reflection of hindsight and that for every mischance in an accident-prone world someone solvent must be liable in damages (...) The rights of [the copyright owner] are to be found in the [Copyright] Act of 1956 and nowhere else. Under and by virtue of that Act Amstrad owed a duty not to infringe copyright and not to authorize an infringement of copyright. They did not owe a duty to prevent or discourage or warn against infringement’. The underlying rationale of this decision seems to be that it is for Parliament, and not the courts, to determine the equilibrium between assigning exclusive rights of intellectual property and promoting the principle of free trade, thereby deciding the extent to which competition should be restrained. See Cane (1996), p. 187-189.

256 See § 5.5.1.1.

257 Bently/Sherman (2004), p. 708.

plaintiff's goods or business, and, finally, misrepresentation as to the product itself. A misrepresentation as to the quality of the plaintiff's goods involves making a misdescription of his goods by selling, e.g., his inferior products as his superior output.²⁵⁸ This form of actionable misrepresentation has proven to be a useful weapon in combating the black-market circulation of discarded goods.²⁵⁹ So the claimant in the *Spalding v. Gamage* case,²⁶⁰ a manufacturer and seller of footballs, brought an action for passing off against the defendants who had obtained some of the claimant's old disused stock and sold them as if they were new and improved footballs. This extension of the scope of protection for passing off against source misrepresentations to protection against misdescriptions involved a major extension of the tort.²⁶¹ It has been particularly useful for traders to control the parallel importation of their goods.²⁶²

Secondly, as a variation on source misrepresentations, protection under passing off was created against connection misrepresentations, leading the public to believe that the defendant's and plaintiff's business or goods are connected or associated with each other.²⁶³ So it is passing off to falsely represent oneself as an agent of the plaintiff or as an authorized dealer in the plaintiff's goods.²⁶⁴ A mere suggestion by the defendant of a connection to the claimant will not necessarily amount to passing off. The defendant's misrepresentation must suggest that the claimant has some type of control or responsibility over the goods or services in question.²⁶⁵ There is, however, still uncertainty about the exact nature of the misconnection that must be shown by the plaintiff.²⁶⁶ In this context, a point of debate is whether protection against connection misrepresentations should be provided for in cases of character merchandising. In the 'Teenage Mutant

258 See *Spalding v. Gamage* (1915) RPC 273, HL.

259 Carty (2001), p. 192-193.

260 [1915] 32 RPC 273.

261 Carty (2001), p. 192.

262 See e.g. *Colgate-Palmolive v. Maxwell Finance* [1989] RPC 497.

263 *Per Romer L.J. in Clock Ltd v. Clock House Hotel Ltd* (1936) 53 RPC 269 (CA): 'The principle is this, that no man is entitled to carry on his business in such a way or by such a name as to lead to the belief that he is carrying on the business of another man or to lead to belief that the business which he is carrying on has any connection with the business carried on by another man'. See also *Ewing v. Buttercup Margarine* [1916-17] All E.R. 1012; *British Legion v. British Legion Club (Street) Ltd* (1931) 48 RPC and *United Biscuits v. Asda* [1997] RPC 513.

264 *Sony K.K. v. Saray Electronics (London) Ltd* [1983] FSR 302; *International Scientific v. Pattison* [1979] FSR 429; *Kimberley-Clark Ltd v. Fort Sterling Ltd* [1997] FSR 877.

265 Bently/Sherman (2004), p. 698-699.

266 See the *Harrods Ltd v. The Harroddian School Ltd* case, [1996] RPC 697, Millett LJ seemed to apply a narrow interpretation of misconnection. He held that the relevant connection must be one by which the plaintiffs would be taken by the public to have made themselves responsible for the quality of the defendant's goods or services. See also § 5.5.1.3. Sir Michael Kerr, however, took a much wider view in *Ewing v. Buttercup Margarine* (1917) 34 RPC 232, p. 237, stating that it would be sufficient that the public assume the plaintiff and defendant to be 'mixed up'.

Ninja Turtles' case,²⁶⁷ the defendants began selling T-shirts with pictures of creatures that clearly had an affinity with the original Teenage Mutant Ninja Turtles, although they had introduced some differences in an attempt to avoid copyright infringement. The defendants had designed their own humanoid turtle characters to take only the concept rather than the form of the plaintiff's famous Teenage Mutant Ninja Turtles. The defendants applied the images of their turtles to their clothing products without having a licence from the creators of the original Turtles. The plaintiffs instituted an action for passing off, as an alternative to a claim for infringement of copyright. Brown-Wilkinson VC granted an interlocutory injunction against the defendant and held that the absence of a licence to use pictures of the Turtles would lead to deception because consumers would generally be under the impression that there was a connection between the T-shirts and the plaintiff in the sense that a licence to use a picture of the Turtles was necessary and had been granted. Brown-Wilkinson VC concluded that the sale of the merchandise involved two misrepresentations: as to the fact that the goods were 'genuine' and as to the fact that the goods were licensed.

This case has, however, been criticised,²⁶⁸ in particular the following sentence by the Vice-Chancellor:

'The critical evidence in this case is that a substantial number of the buying public now expects and knows that where a famous cartoon or television character is reproduced on goods, that reproduction is the result of a licence granted by the owner of the copyright or owner of other rights in that character'.

First of all, it is arguable whether the public *is* actually being deceived at all. In most cases, the public will not expect goods bearing the likeness of a famous personality to emanate from a particular source.²⁶⁹ And, as Jaffey has argued, 'even if one could establish that there were common assumptions about such matters amongst members of the public, there is no conceivable reason for making them determinative of the issue'.²⁷⁰ According to Jaffey there are no sound reasons for the 'deceptiveness as to licensing'

267 See *supra* 186. This case was welcomed by some. See Seung Chong/Maniatis, The Teenage Mutant Hero Turtles case, [1991] EIPR 253; Elmslie/Lewis, Passing off and image merchandising in the U.K., [1992] EIPR 270. For recent analyses of merchandising and passing off, see Carty, Character merchandising and the limits of passing off [1993] L.S. 289; Holyoak, U.K. character rights and merchandising rights today [1993] J.B.L. 444; Martino, Trademark Dilution, Oxford: Clarendon Press 1996, 114.

268 See e.g. Wadlow (1995), no. 5.41, who characterises this case as unusual and states that it leaves the English law of passing off 'in an unsatisfactory state from almost every point of view'. See also Cornish (1999), par. 16-45 et seq.; Jaffey, Merchandising and the Law of Trade Marks, I.P.Q. 1998, 3, 240-266, at 249; Elmslie/Lewis, Passing Off and Image Marketing in the UK, EIPR 1992, p. 270 et seq.

269 Cordery/Watts, Character Merchandising – All shook up, ELR 1997, p. 147.

270 Jaffey, Merchandising and the Law of Trade Marks, I.P.Q. 1998, 3, p. 249.

argument, since the law of passing off is primarily concerned with deception as to the origin, and since it is ‘implausible to attribute any opinion to consumers on a complicated legal issue like the question whether a licence is necessary for the use of a certain mark, or to treat such an opinion as material to the decision to make a purchase’. This extension of the tort of passing off to deceptiveness as to licensing has been limited in the following case law. In the *Elvis Presley* case,²⁷¹ Laddie J. held that Elvis Presley Enterprises Inc. was not entitled to register the name ‘Elvis Presley’ as a trade mark for certain toiletries. According to Laddie J., it might be possible to show that the public expected to get a product from a genuine source, for instance if the product bore the word ‘Official’.²⁷² But the general rule will be that the public will not expect goods bearing the likeness of a famous personality to emanate from a source connected with that individual. As phrased by Laddie J.:

‘When people buy a toy of a well known character because it depicts that character, I have no reason to believe that they care one way or the other who made, sold or licensed it. When a fan buys a poster or a cup bearing an image of his star, he is buying a likeness, not a product from a particular source. Similarly the purchaser of any one of the myriad of cheap souvenirs of the royal wedding bearing pictures of Prince Charles and Diana, Princess of Wales, wants mementoes with likenesses. He is likely to be indifferent as to the source. Of course it is possible that, as a result of the peculiarities of the way goods are marketed or advertised, an inference of association with a particular trader may be possible to draw. This may be the case when the proprietor’s products bear the word ‘Official’. But that does not mean that absent that word members of the public would draw any such inference.’

In the *Teletubbies* case,²⁷³ the court adopted a similarly hostile approach to the enforceability of merchandising rights as in the *Elvis Presley* case. The claimants argued that they had built up a reputation in relation to the merchandising of the Teletubby characters and that the defendant’s activities would lead to the deception of the public or to placing instruments of deception into the hands of others. Laddie J held that:

‘It seems to me that it inevitably must be a question of fact whether or not members of the public seeing the T-shirts in issue will be deceived. To succeed on this part of the case the plaintiffs will need to show that they have built up the necessary reputation so that members of the public would look at this type of artwork and consider it to represent the plaintiffs or products made with the plaintiffs’ approval. It seems to me that it is quite possible that members of the public will look at T-shirts bearing this artwork and think no more than it is artwork bearing illustrations of well-known television characters without having any regard whatsoever to the source of supply and

271 *Re Elvis Enterprises* [1997] R.P.C. 543.

272 See in addition to the *Elvis Presley* case also the *Teletubbies* case, *BBC Worldwide Ltd v. Pally Screen Printing Ltd*, [1998] FSR 665. Of course, when the look-alikes are of such similarity that there is likelihood of direct confusion or confusion as to the commercial origin, the imitations will be actionable under the tort of passing off.

273 *BBC Worldwide Ltd v. Pally Screen Printing Ltd*, [1998] FSR 665.

without having any regard as to whether or not these T-shirts were put out with the sanction of or under the aegis of the plaintiffs. It seems to me impossible to say at this stage that the defendants cannot succeed on the passing off issue since they may be able to prove that there has been no deception of the public and that none is likely’.

In its present state, the law of passing off has not been fully extended so as to provide full protection for character merchandising. Passing off will only apply when the public see a definite link between the claimant’s character and the defendant’s products in the sense that the products are authorised. Unless there are special circumstances such as the printing of the word ‘Original’ or ‘Genuine’ on the article, the court may assume that the public are indifferent as to source or origin and allow the free sale of unauthorised merchandise.

Finally, the tort has been extended to protect product misrepresentations. This area has provided the most radical extensions of the tort of passing off.²⁷⁴ It is subdivided into different types of misrepresentation. First of all, the protection of passing off was extended to misdescriptions concerning a distinctive product or kind of products rather than a distinctive plaintiff. The focus is on the product itself and how it is misdescribed.²⁷⁵ This type of misrepresentation was first recognized in *Bollinger v. Costa Brava Wine Co.*,²⁷⁶ where the plaintiffs brought an action for passing off against producers of ‘Spanish champagne’. There was no case of source misrepresentation; the name ‘champagne’ was not distinctive for the plaintiff’s particular goods. The issue was whether a commonly used description of goods by traders could be protected from misrepresentation by another trader who misuses that description to describe his goods. The plaintiff had to show that he was protecting a clearly defined class of goods, and was entitled to share the goodwill of this class. So the goodwill in such cases, unlike that protected by classical passing off, is not limited to one trader; instead it is shared by all who produce goods having the characteristics in question, and all have the right to claim passing off protection.

The Spanish champagne case was endorsed by the House of Lords in the *Advocaat* case.²⁷⁷ In this case, the Dutch plaintiffs had for many years produced a liqueur called ‘advocaat’, with specially selected ingredients made up of Brandenwijn, spirit and egg yolks. The plaintiff had, over the years, acquired a substantial reputation in the UK. The defendants introduced a beverage at a lower price, called ‘Keeling’s Old English

274 Carty, p. 195.

275 Carty, p. 195.

276 [1960] RPC 16. It was subsequently applied in the different so-called exclusive drink cases, where the plaintiffs were the producers of select alcoholic drinks from particular geographical areas. See *Vine Products v. Mackenzie* [1969] RPC 1 regarding sherry, *John Walker v. Henry Ost* [1970] RPC 489 regarding Scotch whisky and *Bullmer v. Bollinger* [1978] RPC 79, regarding champagne.

277 See *supra* 177.

Advocaat', made from dried egg powder and Cyprus sherry. This was not a classic case of passing off, since there was no source misrepresentation. The name 'advocaat', however, was known to the English public as 'a product endowed with recognizable qualities'. The defendants had induced the public to believe that they were buying advocaat when, in fact, they were not. The plaintiffs suffered damage due to sales losses and damage to their reputation. The plaintiffs were able to claim protection for 'product goodwill'.²⁷⁸

In the *Chocosuisse* case²⁷⁹ the protection of product goodwill was extended even further.²⁸⁰ A trade association for Swiss-based chocolate manufacturers by the name of Chocosuisse, with members such as the famous companies Kraft Jacobs Suchard (the manufacturer of Toblerone) and Lindt & Sprungli, exported chocolate to the United Kingdom. Cadbury, the leading manufacturer of chocolate confectionery in the United Kingdom, introduced a new chocolate bar under the name 'Swiss Chalet'. The plaintiff, Chocosuisse, alleged that by selling chocolate under the name Swiss Chalet, Cadbury was representing that it is Swiss chocolate and that, as a result, a substantial number of the interested public in the United Kingdom were likely to be confused. Laddie J pointed out that the protection of product goodwill was not available only to 'superior' products. What mattered was the public's perception of a distinctive quality about the product, and this was regardless of whether there was any difference in quality and

278 Carty (2001), p. 201.

279 [1998] RPC 117, affirmed by [1999] RPC 866.

280 In addition to 'Champagne', 'Advocaat' and 'Swiss chocolate', the courts recognised other manifestations of product goodwill in extended passing off actions, e.g. 'Scotch whisky' (*John Walker & Sons v. Douglas McGibbon* [1972] SLT 128), 'Harris Tweed' (*Argyllshire Weavers Ltd v. Macaulay Tweeds Ltd* [1965] SLT 21) and 'Sherry' (*Vine Products Ltd v. Mackenzie & Co Ltd* [1969] RPC 1). However, the action for passing off in the Parma case (*Consorzio Del Prosciutto Di Parma v. Marks & Spencer Plc and Others* [1991] RPC 351) was rejected. The reason for this was not the absence of shared product goodwill, but the absence of a misrepresentation by the defendant. The plaintiffs contended that, whilst the slices of the defendants' 'Genuine Parma Ham' had indeed been carved from whole, genuine Parma hams bearing the mark of authenticity required by Italian law and that the sliced ham, as a consequence, did not cease to be Parma ham, it could still not be described or sold as 'Parma ham'. For a ham to be described or sold as 'Parma ham' either (1) each such slice has to bear the crown mark of authenticity (which was obviously impossible) or (2) the ham should be sliced in front of the customer so that the customer could see the crown mark as the ham was being sliced. These arguments, however, were put aside by Nourse LJ who stated that he is unable to see 'how it can be a misrepresentation to sell as Parma ham a slice of ham carved from what the Consortium accepts is a Parma ham merely because the purchaser is not present. The truth of the matter is that the crown on the ham is a mark of authenticity. To apply it to a ham which is not produced in accordance with Italian law may well amount to passing off. But to take it off a ham which was so produced by the operation of carving, in my judgment, cannot do so'. Nourse LJ also pointed to the distinction between the 'Spanish Champagne' case and this. The Spanish Champagne was not and never had been champagne and, as a result, there was a clear and deliberate misrepresentation as to the nature of the product.

ingredients between goods sold under the name and competing goods. The point arose because Swiss chocolate was not necessarily unique in its recipes or taste, and there might be types of chocolate made elsewhere which were indistinguishable in a blind-tasting test.

A second type of product misrepresentation is the protection of the plaintiff against a defendant who alleges that his goods are 'equivalent to' or 'the same as' those of the plaintiff. In *Combe International Ltd v. Scholl (UK) Ltd*,²⁸¹ Combe had marketed a shoe insole under the name 'Odor-Eaters' containing latex and activated charcoal which had been designed to alleviate foot odour. Combe's evidence was that the activated charcoal constituent was the agent responsible for this virtue. The defendant, Scholl, put a rival product on the market in boxes which contained an antibacterial agent and charcoal which was not however activated charcoal. The defendants' trade name and colours were displayed on their boxes which were identical in size and shape to the plaintiffs' boxes. Combe argued that the presentation of Scholl's product, certain wording on their boxes, the emphasis on the 'charcoal' constituent and the strikingly similar appearance of the product itself would lead the public to believe that their product was the same as Combe's, which was not the case. Fox J. found this case to be passing off, by way of product misrepresentation rather than connection misrepresentation,²⁸² and granted an injunction primarily based on the very large sums expended in advertising the Odor-Eaters. However, the courts have shown reluctance in providing protection against this type of misrepresentation, since many cases will simply consist of a trader's 'mere puffing' that his goods are as good as someone else's.²⁸³

Finally, the tort of passing off has expanded to provide protection against 'inverse passing off'.²⁸⁴ In this case, the defendant asserts that the plaintiff's goods are his goods or that the plaintiff's quality is his quality. The defendant thus tries to claim the benefit of the plaintiff's goods or services to enhance his own reputation.²⁸⁵ This is the opposite to the classic form of passing off, where the defendant represents his goods or business to be those of the plaintiff with a better reputation. It is not clear whether inverse passing off amounts to an actionable wrong.²⁸⁶ In most cases, it will be difficult to prove misrepresentation as well as damage since the claimant manufacturer has already placed the goods on the market.²⁸⁷ English courts have traditionally been reluctant to provide

281 [1980] RPC 1.

282 Carty (2001), p. 198-199.

283 See Carty (2001), p. 199 and § 5.4.2.2 (Malicious Falsehood).

284 Also often referred to as 'reverse passing off'.

285 Cross, Giving credit where credit is due: Revisiting the doctrine of reverse passing off in Trademark law, (1997) 72 Washington LR 709-73.

286 Carty, Inverse Passing Off: a Suitable Addition to Passing Off?, [1993] EIPR 370.

287 Bently/Sherman (2004), p. 737.

protection to this kind of market behaviour.²⁸⁸ Only in specific cases will the courts provide for this form of extended passing off protection. This maybe the case, for instance, when a trader represents the claimant's goods as his own, but subsequently supplies his own goods.

In *Bristol Conservatories Ltd v. Conservatories Custom Built Ltd*²⁸⁹ it seems that such a case of inverse passing off was accepted. The defendants' salesmen showed prospective customers a portfolio of photographs of ornamental conservatories, while in fact they were photographs of the plaintiffs' ornamental conservatories. In so doing, they led the customers to believe that the photographs were a sample of their own goods and workmanship. The Court of Appeal held that the defendants had made a misrepresentation by falsely claiming that the photographs depicted conservatories of their own design and work. The court added that it was not necessary to show confusion in this case, because the concept of confusion is irrelevant when the misrepresentation 'leaves no room for confusion', as was the case here. Lastly, the Court of Appeal submitted that 'the goodwill was asserted and demonstrated as the photographs were shown and was at the same moment misappropriated by Custom Built'. The Court of Appeal did not want to explicitly acknowledge inverse (or reverse) passing off. Per Ralph Gibson LJ:

'I do not intend to decide whether there is a form of the tort to be known as reverse passing off. It is sufficient, I think, to hold that the facts alleged can properly be regarded as within the tort of passing off'.²⁹⁰

In *Matthew Gloag & Son v. Welsh Distilleries*,²⁹¹ Laddie J nonetheless accepted the legitimacy of an allegation of inverse passing off.²⁹²

288 Carty (2001), p. 196. Also in the literature, it is a matter of debate whether reverse passing off amounts to an actionable wrong in English law, see e.g. Bently/Sherman (2004), p. 703, Carty, [1993] EIPR 370; Drysdale/Silverleaf, *Passing Off: Law and Practice*, (1995), par. 4.14, who doubt that the concept of reverse passing off is of any value. Wadlow (1995) remarks that inverse passing off is tortious and that it can be 'accommodated within the wider form of passing off', but that it is not 'a nominate tort in its own right, but a further example of an actionable misrepresentation to which the normal principles of passing off apply'. Carty, EIPR 1993, 15 (10), 373, argued that the common law should accept inverse passing off as part of the tort of passing off and that the term 'inverse passing off' should be abandoned. She stated that 'accepting inverse passing off as part of the tort will not lead the courts into the uncharted waters of unfair competition. It is, in fact, a natural extension of the tort'.

289 [1989] RPC 455.

290 Wadlow (1995), § 5.54, 331 rejected the classification of this case as 'reverse passing off'. In his view, it is just a further example of an actionable misrepresentation to which the normal principles apply.

291 [1998] FSR 718, p. 724.

292 See Carty (2001), at p. 195 et seq. for a detailed analysis of this issue.

5.5.1.7 Conclusion

a Creation of a tort of unfair competition?

The question arises whether the extensions, as mentioned above, to the tort of passing off may lead to the creation of a tort of unfair competition or misappropriation.²⁹³ This development into such a general tort has in particular been speeded up by the growth of protection for product goodwill, with its ability to prevent dilution damage. A few Australian and English judges have called for a more general tort of unfair competition to be established.²⁹⁴ Some case law, for example the *Spanish Champagne* and the *Taittinger* cases,²⁹⁵ has presented the key issue whether the tort should develop beyond a misrepresentation tort that protects goodwill, into a tort that protects commercial potential as such.²⁹⁶ In *Vine Products v. Mackenzie*,²⁹⁷ Cross alleged that the *Spanish Champagne* case was not a passing off action, but a ‘new fangled tort called unfair competition’. Particularly during the 1970s and the 1980s, the UK courts were developing the tort of passing off in a way that looked as if it was evolving into a general tort

293 See for a reference to the doctrine of misappropriation, *supra* 169.

294 In the *Advocaat* case [1979] AC 731, 742-743, Lord Diplock contemplated the extension of the tort of passing off into new realms. He argued that ‘[These findings of fact] seem to me to disclose a case of unfair, not to say dishonest, trading of a kind for which a rational system of law ought to provide a remedy to other traders whose business or goodwill is injured by it’. See also the *Spanish champagne* case, [1960] RPC 16, where Danckwerts J held that ‘The substance of the argument of counsel for the defendants was that, before a person can recover for loss which he suffered from another person’s act, it must be shown that his case falls within the class of actionable wrongs. But the law may be thought to have failed if it can offer no remedy for the deliberate act of one person which causes damage to the property of another. There are such cases, of course, but they occur, as a rule, when the claims of freedom of action outweigh the interests of the other persons who suffer from the use which a person makes of his own property (...) There seems to be no reason why such licence [to carry out a deliberate act which causes damage to the property of another person] should be given to a person, competing in trade, who seeks to attach to his product a name or description with which it has no natural association so as to make use of the reputation and goodwill which has been gained by a product genuinely indicated by the name or description. In my view, it ought not to matter that the persons truly entitled to describe their goods by the name and description are a class producing goods in a certain locality, and not merely one individual. The description is part of their goodwill and a right of property. I do not believe that the law of passing off, which arose to prevent unfair trading, is so limited in scope’. In *Hexagon Pty Ltd v. Australian Broadcasting Commission* (1975) 7 ALR 233, the concept of ‘unfair competition’ was described as an extension of the doctrine of passing off or, possibly, a new and independent cause of action. *Per* Justice Needham: ‘It seems to me that there is room in our jurisprudence for a concept such as unfair competition. The English Courts have applied it in situations where passing-off may be unavailable. It may be, of course, that no new tort is necessary’.

295 See *supra* 228 and 229.

296 Carty, *Passing off at the crossroads*, EIPR [1996] 18(11), 629; Cane (1996), p. 195.

297 [1969] RPC 1, 28.

of unfair trading.²⁹⁸ Nonetheless, most English judges have rejected the introduction of a general action of unfair competition,²⁹⁹ in accordance with the judicial tendency at that time.³⁰⁰ In some cases, plaintiffs have sought to bring the action of unfair competition under the umbrella of the business torts of ‘inducing breach of contract’ and ‘unlawful interference with contractual relations’. These torts, however, do not (at the moment) provide for a sound basis for an introduction of a general concept such as unfair competition.³⁰¹

In the *Pub Squash*³⁰² case, the Privy Council concluded that there is no cause of action for misappropriation as such. The plaintiffs had tried to persuade the court to introduce a general action of unfair competition analogous to the misappropriation doctrine established in the US Supreme Court landmark case of *International News Service v. Associated Press*.³⁰³ The Privy Council, in the *Pub Squash* case, held that the law of passing off does not extend this far. In the case before the Supreme Court of New South Wales that preceded the case before the Privy Council, Justice Powell stipulated:

‘I do not consider that the judgment of Danckwerts J. in the Spanish Champagne case brought into being a new species of tort independent of the tort of passing off. Rather, I consider the judgment in the Spanish Champagne case as no more than a particular example of the development of the law by the adaptation of existing principles to new situations or new circumstances.’

The Privy Council held that there was no case of extended passing off, nor misappropriation³⁰⁴ of the marketing formula for ‘Pub Squash’.³⁰⁵ As formulated by Lord Scarman of the Privy Council:

298 Bently/Sherman (2004), p. 762; Dworkin, Unfair competition: Is the Common Law developing a new tort?, (1979) EIPR 295, 244.

299 See *supra* § 5.2.

300 Kamperman Sanders, Unfair competition law: The protection of intellectual and industrial creativity, Oxford 1997, Clarendon Press, p. 202.

301 Cf. Carty (2001), p. 128 et seq.; 282 et seq.; Robertson/Horton, Does the United Kingdom or the European Community need an unfair competition law, EIPR 1995, 17(12), 568-582; Hull, Anton Piller abuses, EIPR 1989, 11(10), p. 386-387. See also Wadlow (2004), No. 1-56 where he indicates the inconsistent nature of this action.

302 [1981] 1 All ER 213.

303 (1981) 248 US 215.

304 As to the misappropriation issue, see the analysis of Lord Scarman in the *Pub Squash* case [1981] R.P.C. 491 et seq.

305 In the words of Justice Powell: ‘it is my view, as I have earlier indicated, that, as the facts, as I have earlier found them, do not reveal any relevant misrepresentation on the part of the defendant as to its goods, the plaintiffs have not made out a case for relief based upon the extended concept of passing off or upon unfair trading’. The Privy Council, however, decided not to consider the argument for unfair competition as raised by the claimant on the ground that it had been withdrawn. See Bently/Sherman (2004), p. 762; Dworkin, Passing off and unfair competition: An opportunity missed, (1981) 44 MLR 564, 567.

‘It is only if a plaintiff can establish that a defendant has invaded his ‘intangible property right’ in his product by misappropriating descriptions which have become recognised by the market as distinctive of the product that the law will permit competition to be restricted. Any other approach would encourage monopoly. The new, small man would increasingly find his entry into an existing market obstructed by the large traders already well known as operating in it (...)

The intention was not to pass off the respondent’s goods as those of the appellants but to take advantage of the market developed by the advertising campaign for ‘Solo’. Unless it can be shown that in so doing the respondent infringed ‘the [appellants’] intangible property rights’ in the goodwill attaching to their product, there is no tort, for such infringement is the foundation of the tort’.

The Privy Council’s reluctance in adopting a general action of unfair competition had been echoed by UK courts.³⁰⁶ While the courts have not accepted the introduction of a general action for unfair competition,³⁰⁷ debates still continue as to whether the United Kingdom should recognize unfair competition as a separate action. Some authors believe that the tort of passing off should be contained within clearly defined paths.³⁰⁸ Other authors, on the other hand, are in favour of expanding the common law ‘by reference to the ethical and juridical principles of unfair competition’.³⁰⁹

b Arguments for the introduction of unfair competition

Several arguments have been put forward in favour of introducing a general principle of unfair competition. Robertson and Horton argue that either Parliament or the courts

306 See e.g. the *Moorgate Tobacco* case (*supra* 338) and *supra* § 5.2.

307 Adams, Is there a tort of unfair competition? The legal protection of advertising campaigns and merchandising, [1985] J Business Law 26, 32; Lahore, The Pub Squash case. Legal theft or free competition?, [1981] EIPR 54; Ricketson, Reaping without sowing: Unfair competition and intellectual property rights in Anglo-Australian Law, [1984] University of New South Wales LJ 1, 30; Bently/Sherman (2004), p. 708 at 11.

308 E.g. Carty (2001), p. 287; Naresh, Passing off, goodwill and false advertising, [1986] CLJ 97, p. 125; Spence, Passing off and the misappropriation of valuable intangibles, (1996) 112 LQR 472.

309 Bently/Sherman (2004), p. 763. For example: Terry, Unfair Competition and the Misappropriation of a Competitor’s Trade Values, (1988) 51 MLR 296, 312. Terry proposes an equitable notion of unconscionable conduct. See also Dworkin, [1979] EIPR 295, Reichman, Legal hybrids between the Patent and Copyright paradigms, (1994) 94 Columbia LR 2432; Burns, Unfair competition – A compelling need unmet, [1981] EIPR 311; Brett, The danger of throwing the baby out with the bathwater – the reform of UK copyright law and the protection of designs, [1981] 6 EIPR 163; Cornish, Unfair Competition? A Progress Report (1972) 12 JSPTL 126; Lahore, Intellectual property rights and unfair copying: Old concepts, New Ideas [1992] EIPR 428; Gordon, On owning information: Intellectual property and the restitutionary impulse, (1992) 78 Virginia LR 149, 223. Gordon proposes to introduce a tort of ‘malcompetitive copying’. Kamperman Sanders (1997), in his book that was based on his Ph.D. thesis, argues for the recognition of an action of ‘malign competition’ that is based on the doctrine of unjust enrichment augmented by principles of constructive knowledge.

in the United Kingdom (or either the EU by means of harmonisation) should reform the law by adopting the United States Supreme Court's misappropriation doctrine. In their view, there are three main criticisms of English law that support the need for an additional unfair competition law. First of all, there is a problem of 'timing'. Until a new product on the market has been registered as a trade mark or has generated enough goodwill to support a passing off claim, the producer has no protection 'against even the most blatant slavish copying'. Secondly, with reference to the *In Bostik v. Sellotape* case,³¹⁰ Robertson and Horton point out the fact that passing off may not be applicable in cases where only the packaging was visible at the point of sale, while the similarity related not to the packaging but to the shapes of the products 'hidden' inside. Thirdly, they argue that the law of passing off provides little protection for the interior and exterior design elements as those are found in e.g. restaurants.

Brett stresses the need to adopt a tort of unfair competition in the light of the international conventions and laws in other jurisdictions that have already developed unfair competition concepts.³¹¹ He argues that an action for unfair competition would add a much needed flexibility to UK law, 'which would not only remove technicalities [that arise from the application of the tort of passing off, *RwdV*], but would provide an atmosphere in which the merits of unrestrained competition could be considered objectively'. This flexibility would be particularly useful in view of the many developing technologies as well as business practices. Dworkin has argued in favour of an action of unfair competition since, in his view, the law should promote honest and conscionable conduct in the market place.³¹² He is, however, reserved in allotting the courts the task of developing the law, instead of it being considered as being within parliamentary cognisance. Harms has indicated the need for a tort of unfair competition in light of the 'stifled unfair competition through the application of the tort's pseudonymic henchmen,' for example passing off in the *Advocaat* case. He recalled³¹³ that 'although the need, the effectiveness and the elasticity of the tort of unfair competition have been accepted without much ado, its theoretical basis remains in doubt'. Harms mentions as one of the main reasons for the problems English law faces in adopting such a general rule the fact that there is not a law of tort but one of torts that prevails in English law.³¹⁴ He states that 'those who ask for the creation of a tort of unfair competition grapple with a disparate series of economic torts, to which new members are added with the usual piecemeal strides'. However, by drawing a line with the 'Aquilian action', as developed under South African law, he concludes that 'it is evident that the common law can cross its Rubicon with no more effort than the familiar piecemeal stride'. Reichman alleges that, like in patent law, the action of unfair competition will provide incentives to those

310 *Supra* 201.

311 Brett, Unfair competition – Not merely an academic discussion, [1979] EIPR 295-296.

312 Dworkin, [1979] EIPR 295.

313 By referring to Terry (1988), at 308.

314 Harms, Hark! There goes a tort, EIPR 1995, 17(9), 455 et seq.

people that expend time and effort developing products which are easily copied.³¹⁵ The adoption of such an action would, in Reichman's view, be preferable to adopting *sui generis* legislation (such as unregistered design rights) that bestows the owners of those rights with protection which is too strong and inhibits free competition.³¹⁶ Ricketson argued that intellectual property rights are specific manifestations of the general principle of unfair competition, which is that it is wrong for one person to appropriate the fruits of another's skill, time or labour, and that the law will therefore not permit a person to reap where he has not sown. Since the courts therefore make use of the concept of unfair competition through existing intellectual property rights, it would be only logical to preserve the integrity of this concept by explicitly acknowledging unfair competition law.³¹⁷ Bently and Sherman stress the point that the apparent vague concept of fairness is well understood and applied by judges 'in other areas such as fair dealing with copyright works, unfair contract terms, and unfair dismissal'.³¹⁸

Kirkbride refers to the argument that unfair competition law could provide 'rules of the game'.³¹⁹ He alludes to the parallel that is often drawn with competition in sports

315 Reichman (1994) 94 Columbia LR 2432. Although Reichman argues his case under American law, it is still relevant to list his arguments since they are often referred to in the UK literature, see e.g. Colston, *Sui Generis Database Right: Ripe for Review?*, *The Journal of Information, Law and Technology (JILT)*, 2001 (3); Beverley-Smith, *The Commercial Appropriation of Personality*, Cambridge 2002; Mazeh, *Present and Future Priorities in Copyright Law*, Oxford: 2002, note 43. See for analysis of this doctrine by (other) American authors: Reichman/Samuelsan, *Intellectual Property Rights in Data?*, (1997) 50 *Vanderbilt L. Rev.* 51. at 139 et seq.; Samuelson, *Privacy as Intellectual Property?*, 52 *Stan. L. Rev.* 1125 (2000) at note 146; Gordon, *On Owning Information: Intellectual Property and the Restitutory Impulse*, 78 *Va. L. Rev.* 149 (1992); *Ibid*, *Asymmetric Market Failure and Prisoner's Dilemma in Intellectual Property*, 17 *U. Dayton L. Rev.* 853 (1992); Reichman/Samuelsan, *Intellectual Property Rights in Data?*, (1997) 50 *Vanderbilt L. Rev.* 51. at 139 et seq.

316 In the *Australian Broadcasting Corporation Ltd v. Lenah Game Meats Pty* (2002) 185 ALR 1 (High Court of Australia) at 316, an attempt was made to prohibit the Australian Broadcasting Corporation ('the ABC') from using part of a tape or film in a broadcast. An unknown person or unknown persons had secretly planted a camera in an abattoir used for the killing of possums. To install the camera the person or persons had entered the abattoir. This amounted to the tort, or civil wrong, of trespass to land. The recording made with the camera had been passed on to the ABC. The ABC was proposing to broadcast part of the recording in a programme concerning the activities of Lenah Game Meats Pty Ltd ('Lenah'), the operators of the abattoir. Callinan J, argued in this case that there should be recognition of rights in a spectacle. He stated that 'that the time is approaching, indeed it may already have arrived, for the recognition of a form of property in a spectacle'.

317 See Ricketson, *Reaping without sowing: Unfair competition and Intellectual Property rights in Anglo-Australian law*, [1984] *University of South Wales LJ* 1, 30.

318 Bently/Sherman (2004), p. 764.

319 Kirkbride, *The law of unfair competition: Is there an E.C. approach*, *Company Lawyer* 2000, p. 230. See also Mills, *Own label products and the 'lookalike' phenomenon: A lack of trade dress and unfair competition protection*, *EIPR* 1995, 17(3), p. 132.

games. Just like there are rules in sport games, there should also be a set of rules that guarantee fairness on the marketplace. He argues that under present English law, consumers and competitors remain insufficiently protected because of the absence of a law of unfair competition.³²⁰ In Kirkbride's view, the consumer movement which started in the early 1960s and effected into a call for more extensive consumer protection has led to a closer and more effective blending of unfair competition law with consumer protection. He regrets the fact that in the United Kingdom consumers cannot participate directly in the rules that govern unfair competition.³²¹ Kirkbride argues that the introduction of (statutory) provisions would give 'consumers their own legal standing in court to fight unfair trade practices directly and independently'. Booy also stresses the fact that the tort of passing off does not extend to protecting members of the public from the effect of a misrepresentation carried out upon them.³²² She argues that the law of tort, including passing off and malicious falsehood, still remains 'excessively technical, catching only specifically defined (albeit generally easily recognised) forms of aberrant commercial behaviour'.³²³ As a solution she proposes a 'half-way house' based on the Australian experience with section 52 of the Australian Trade Practices Act 1974, that contains a statutory prohibition against unfair trading behaviour and is available to both consumers and competitors alike.³²⁴ Lahore, based on the 'Australian experience', likewise favours the introduction of an action 'directed against certain conduct, whether it be described as unfair competition or unfair copying or in some other way (...) as a flexible and cost-effective remedy' supplementary to the traditional remedies for infringement of intellectual property rights. Lahore believes that recognizing and developing a general law of unfair competition 'is a preferable method for dealing with many of the claims for protection [especially resulting from the rapid development of new technologies, *RwdV*] (...), rather than by the creation of an ever-increasing range of property rights within or analogous to traditional intellectual property'.³²⁵

Mills suggests that, in particular because of the controversy regarding the protection of 'look-alikes', a legal principle of unfair competition should be considered 'within the

320 Ibid, 230-231.

321 I presume he is primarily referring to the various torts like passing off, malicious falsehood etc.

322 Booy, A half-way house for unfair competition in the United Kingdom – A practitioner's plea, EIPR 1991, 13(12), p. 439.

323 Ibid.

324 Ibid, p. 441. Duxbury also favours an approach along the lines of section 52 of the Australian Trade Practices Act 1974. See Duxbury, Ninja turtles versus Crocodile Dundee – A comparison of Australian and English approaches to unfair competition, EIPR 1991, p. 426 et seq. See also Lahore, who suggests that a section 52 action is becoming 'in fact, if not in form, an action for unfair competition'. Lahore, The Herchel Smith lecture 1992: Intellectual property rights and unfair copying: old concepts, new ideas, EIPR 1992, p. 432.

325 Lahore (1992), p. 433.

context of a social policy that promotes and encourages the game of competition, ensuring a level playing field for all'.³²⁶ She argues that 'clearly a need remains unmet and that the voice of those calling for such a law grows ever stronger', while indicating calls for providing protection under the heading of unfair competition by academics and professionals, as well as practising lawyers.³²⁷ Pendleton identified five factors that favour an expanded scope of passing off into the realms of unfair competition.³²⁸ First of all, he points out that the law of passing off is inherently flexible in nature, 'due to the difficulty of drawing lines of demarcation between what is and what is not actionable'. A second factor that might form an incentive for expanding the scope of passing off is the pressure on the United Kingdom's Parliament and courts to harmonise their intellectual property law with their 'European partners'.³²⁹ As to this argument, Wadlow has stated that 'it is not too early for common lawyers to give thought to whether domestic law complies with Paris Convention norms [regarding unfair competition, *RwdV*], and to see what can be done, absent legislation, to bring into conformity where it might be thought to depart'.³³⁰ Thirdly, Pendleton believes that developments in the area of merchandising rights might induce the courts to overcome the 'common field of activity' test, thereby expanding the tort of passing off in this area. A fourth factor indicated by Pendleton is the extended protection for consumers by consumer legislation which is actionable by competitors that should go hand in hand with a broadened scope of passing-off.³³¹ Finally, Pendleton refers to the new economic tort of interfering with business relations by unlawful means that might incline the courts towards a law of unfair competition. This tort might, in his view, give persons a civil action in particular if their 'performance' is not protected under intellectual property laws. Pendleton admits, however, that 'the action is clearly at an early stage of development'.³³² Despite these advantages of an action for unfair competition, Pendleton embraces the traditional judicial caution towards competitor actions and expresses the view that 'further restrictions on competition via a law of unfair competition is undesirable'.³³³ He justifies this by enumerating four dangers inherent in a law of unfair competition, that will be discussed below.

326 Mills (1995), p. 124.

327 Ibid, p. 129.

328 Pendleton, The evolving law of unfair competition, in: Law Lectures for Practitioners (Hong Kong Law Journal), Vol. 1982, p. 82.

329 Ibid, p. 83.

330 Wadlow, (2004), p. v

331 Ibid, p. 85. Pendleton refers to the *Advocaat* case. He does not expand on this fourth factor, so it remains somewhat unclear.

332 Ibid.

333 Ibid, p. 86.

c Arguments against the introduction of unfair competition

Various authors oppose the idea of introducing a general action for unfair competition under English law. One of the main objections is that such introduction might impede free competition. Cornish, while not a radical opponent of the introduction of unfair competition law, fears that adding to the range of intellectual property rights, a right against misappropriation or unfair imitation 'is to place an amorphous further impediment in the way of competition by imitation and that is an inherently controversial step'.³³⁴ Adams supports the resulting general reluctance of common law jurisdictions to accept a general action for unfair competition and elucidates it by referring to the differences between adversarial and inquisitorial procedures. In Adams' view, the advantage of the common law adversarial procedure is its swiftness and its clearly defined torts.³³⁵ Spence, in a well thought out article,³³⁶ deals with the question whether the tort of passing off should be developed into a more generalised tort of misappropriation of valuable intangibles. He argues that there are 'strong grounds of principle for upholding the tort of passing off in its classic formulation', although there may be 'arguments of principle for expanding it into a more generalised tort of misrepresentation'.³³⁷ Spence demonstrates how difficult it is to mount an argument of principle for the development of a general tort of misappropriation, since *inter alia* it is a complicated exercise to identify a particular valuable intangible and to speak of that intangible as having a 'creator'.³³⁸ He argues that an action for unfair competition based on misappropriation would be too general to provide any guidance to judges in particular scenarios.³³⁹

334 Cornish/Llewelyn, *Intellectual Property: Patents, Copyrights, Trademarks and Allied Rights*, Sweet & Maxwell 2003, at 1-17.

335 Adams, *Unfair competition: Why a need is unmet*, *EIPR* 1992, 14(8), p. 260.

336 Spence, *Passing off and the misappropriation of valuable intangibles*, *L.Q.R.* 1996, 112(JUL), p. 472-498.

337 Spence (1996), p. 498.

338 Spence (1996), p. 480.

339 Spence (1996), p. 476-477. See *Moorgate Tobacco v. Phillip Morris* [1985] RPC 219, *per* Deane J, who believes that 'The rejection of a general action for 'unfair competition' involves no more than a recognition of the fact that the existence of such an action is inconsistent with the established limits of the traditional and statutory causes of action which are available to a trader in respect of damage caused or threatened by a competitor. Those limits, which define the boundary between the area of legal or equitable restraint and protection and the area of untrammelled competition, increasingly reflect what the responsible Parliament or Parliaments have determined to be the appropriate balance between competing claims and policies. Neither legal principle nor social utility requires or warrants the obliteration of that boundary by the importation of a cause of action whose main characteristic is the scope it allows, under high-sounding generalizations, for judicial indulgence of idiosyncratic notions of what is fair in the market place'.

Jaffey adds to this argument that such a general tort of misappropriation, although being an appropriate basis for a merchandising right, would be highly controversial 'because of the difficulty for a court in determining the scope of the principle and of reconciling it with the basic principle of free competition and free dissemination'.³⁴⁰ Carty also dismisses the idea of introducing a concept of misappropriation. She is not against the provision of (additional) protection to claimants where consumer misinformation and the preserving of efficient consumer choices are at issue, as long as this protection focuses on the trader's goodwill instead of the free riding achievement of the defendant.³⁴¹ The expansion of the tort of passing off, based on misrepresentation, into a misappropriation action would be contrary to the public interest.³⁴² As Carty states, 'the rationale of the tort [of passing off] is not the protection of trade values or advertising tools *per se*'.³⁴³ She therefore stresses that 'backdoor unprincipled extensions are not acceptable'.³⁴⁴ Morcom, on the other hand, opposes the introduction of a tort of unfair competition, because he believes that the history of the tort of passing off shows that there is ample scope 'for developing or extending the tort of passing off to meet new kinds of unfair trading practices which may arise'.³⁴⁵ To develop, in addition to such an extended tort of passing off, a general unfair competition law would be an undue response to those cases which cannot be so accommodated.³⁴⁶

Just as Carty, Cane is not a strong supporter of protecting 'currently unprotected trade values' by developing a tort of unfair competition.³⁴⁷ He lists four objections to the recognition of such a tort. Firstly, he conveys that, at present, English case law only leaves room for liability in four cases of intentional infliction of economic loss, which do not include unfair competition. Secondly, he argues that it would require the courts to decide which competitive practices are 'unfair'. He admits, nonetheless, that under the present law the courts have 'considerable discretion to decide what constitutes unlawful behaviour,' so introducing 'unfair behaviour' would remove the need for the courts to 'hide behind the cloak of unlawfulness'. Thirdly, he believes that an action for unfair competition would give 'too much legal protection to the purely economic 'right to trade''. Purely economic interests are in his mind 'less worthy of the law's attention'

340 Jaffey (1998), p. 241-242.

341 Carty (2001), p. 287.

342 Carty, Do marks with a reputation merit special protection, EIPR 1997, 19(12), p. 688. Carty notes that the attempts to expand the protection provided by the tort of passing off is probably caused by the uncertainty present within the framework of liability. 'Within the tort of passing off the doctrine of instruments of deception (or instruments of fraud) is one such area of uncertainty'. See Carty, Passing off and instruments of deception: The need for clarity, EIPR 2003, 25(4), p. 188.

343 Carty (2001), p. 287.

344 Carty, Heads of damage in passing off, EIPR 1996, 18(9), p. 493.

345 Morcom, Developments in the law of passing off, EIPR 1991, 13(10), 384-385.

346 Bently/Sherman (2004), p. 764.

347 Cane (1991), p. 193 et seq.

especially in the field of commercial competition. Cane's fourth objection relates to the third and concentrates on his fear of a tort of unfair competition disproportionately inhibiting competition and commercial activity. He concedes that the purpose of the concept of unfair competition is to actually foster 'full competition', and that this concept only restrains competition in cases that might have an adversative effect; 'unfair competitive activity is really anti-competitive activity'.³⁴⁸ Cane is therefore not *per se* opposed to a concept of unfair competition, although he dismisses an approach that is based on an action for misappropriation. He also believes that it is important to strike a proper balance between freedom of competition and encouragement of effort and innovation, and that it is not for the courts to decide what is unfair competition.³⁴⁹

Pendleton who, as noted above, listed a couple of advantages for the introduction of a concept of unfair competition, mentions four disadvantages as well. First of all, a law of unfair competition would in his view create monopolies which are 'anathema to competition'.³⁵⁰ He concedes that this might also be the case with intellectual property rights, but with these rights a clear line has been drawn between monopoly and competition.³⁵¹ Secondly, he fears a flood of litigation 'especially in a business world so dependent on mass media advertising'.³⁵² Thirdly, Pendleton opposes the interests of consumers being assimilated to those of competitors. In his view, these interests will never 'totally coincide as consumers will sometimes be satisfied with inferior quality copies provided they are cheap'.³⁵³ Fourthly, he disagrees with the assumption of any quasi-property rights. Pendleton believes that any talk of such rights has 'traditionally led to fallacious judicial reasoning'. He states that judges who want to create an exclusive right use terms such as 'quasi-property rights' to avoid the issue of whether they are creating a right by judicial legislation.³⁵⁴

d Final observations

The above shows that the introduction of a concept of unfair competition in English law is still a very controversial subject. The courts have until now been very reluctant to

348 Ibid, p. 194.

349 Ibid, p. 195.

350 Pendleton (1982), p. 86.

351 The argument of the 'pre-emption' of a law of unfair competition by intellectual property rights was also used in the following cases: *Cheney Bros v. Doris Silk Corp.* (1929) 35 F (2d) 279 *per* Judge Learned Hand; *Victoria Park Racing v. Taylor* (1937) 58 CLR 479, 509; *Moorgate Tobacco v. Phillip Morris* [1985] RPC 219.

352 See also Cornish/Llewelyn (2003), at 1-19 and *White v. Mellin* [1895] AC 154.

353 This seems to be a somewhat crude assumption, since in many cases the interests of consumers will coincide with those of the competitor, e.g. in cases of misleading and comparative advertising.

354 Pendleton (1982), p. 86.

accept such a general concept. They have shown allegiance to a pro-competition policy. The domestic legislator has provided proof of their restraint to introduce a concept of unfair competition by signalling a reticence concerning legislation in this field, either generally or in response to specific issues such as look-alike brands.³⁵⁵ Many authors oppose the introduction of a law of unfair competition because they fear it will be moulded in the form of a general action of misappropriation. They fear that this might have an adverse effect on the freedom of competition, would open up the floodgates of litigation and would imperil the fostered adversarial system of common law with its clearly defined torts. Authors in favour of introducing a general concept of unfair competition praise its flexibility and its possibilities in adapting to fast-changing markets, since ‘with the dawning of the information age a whole panoply of interests including character merchandisers and sponsors are pressing for the extension of legal protection for an ever-increasing range of information-related ‘products’.³⁵⁶

However, the problems and objections that arise when facing the introduction of a general action for unfair competition are ‘not just academic’,³⁵⁷ but also, and maybe primarily, of a cultural nature. There is a fear that such a general action may disrupt the English system of torts. This fear is particularly fuelled by the problem that ‘unfair competition’ has not been properly defined in the common law world. This problem has been addressed by Wadlow, who enumerates the various interpretations that have been given over the years to this concept by the courts.³⁵⁸ As stated by Harms: ‘Presently and unfortunately unfair competition is not a new and general cause of action. It is at the most a generic name which covers a range of actions: passing off, extended passing off, the ‘classical’ economic torts and the ‘intellectual property torts’, such as the action for breach of confidence, remain under an unfair competition tort umbrella; each a separate cause of action for different and mostly distinct manifestations of unscrupulous competition’.³⁵⁹ Most English lawyers interpret unfair competition as misappropriation, while the concept of misappropriation is certainly not an extensive part of unfair competition law and is only to a very small extent accepted under the unfair competition laws of the Continental countries. A better term would therefore be the one used by Wadlow in the latest edition of his standard work on passing off: ‘Unfair Competition by Misrepresentation’. This term clarifies that misrepresentation, be it specifically confusion or deceit or maybe even ‘misleading’, is in many cases of vital importance to an action of unfair competition because it includes the interests of the consumer next to those of

355 See e.g. Elmslie, Trade marks: Legislation: Trade marks act in force from 31 October, EIPR 1994, p. D239-240; Binns/Everitt, Intellectual property – The U.K. Copyright and Trade marks Bill, EIPR 2000, p. N86-87; Hansard (HL) 17 March 2000, cols. 1885 et seq.

356 Pendleton, Character Merchandising and the Proper Scope of Intellectual Property, [1990] Australian Intellectual Property Journal 242.

357 Brett (1979), 296.

358 Wadlow (2004), no. 1-1 and 1-49.

359 Harms (1995), p. 455.

the competitor. Whether the tort of passing off could be the foundation for a general action for unfair competition is questionable, so legislative intervention is probably needed. And, as stated by Lahore, ‘how to articulate the mechanism to balance a right to protect labour skill and effort against a right of access to information creates great difficulties but may not be insoluble once a basis for protection outside the traditional concept of property is devised’.³⁶⁰ The precise ambit of a general action for unfair competition involves important policy choices as to the proper balance to be struck between free competition and the protection of legitimate trade interests against improper interference.

5.5.2 Protecting Know-how³⁶¹

5.5.2.1 Introduction

Protecting one’s know-how³⁶² is possible under the English law of confidentiality. The law of confidentiality provides a remedy for the unauthorised disclosure or use of information which is confidential in nature and which has been entrusted to a person in circumstances which either expressly or implicitly impose an obligation of confidence. Know-how is part of the broader concept of confidential information. In order to prevent the use of confidential information, an action for breach of confidence is possible based on the law of confidentiality. English law does not distinguish between types of information that may be protected against breach of confidence, such as technological secrets, marketing methods and commercial records.³⁶³

In the *Coco vs. Clark* case,³⁶⁴ the Court held that three criteria must be satisfied before an action for breach of confidence can be commenced:

360 Lahore (1992), p. 433.

361 See for more information on this topic, Coleman (1993), 149 pp.; Gurry, *Breach of confidence*, Oxford: Clarendon Press 1984, 487 pp.; Campbell et al., *Licensing agreements: patents, know-how, trade secrets and software*, Deventer: Kluwer 1988, 423 pp.; Towse /Holzhauer (eds.), *The economics of intellectual property*, Vol. III: Empirical evidence, trade secrets and trademarks, Cheltenham: Elgar 2002, 472 pp. See also some of the handbooks on Intellectual Property Law, Blair/Cotter, *Intellectual Property, Economic and Legal Dimensions of Rights and Remedies*, Cambridge University Press 2005, p. 23; Cornish/Llewelyn (2003), at 8-01 et seq. as well as the literature referred to in footnote 1; Phillips/Firth, *Introduction to Intellectual Property Law*, 4th ed. Oxford University Press 2001, chapter 20; Torremans, *Intellectual Property Law*, 3rd ed., Oxford University Press 2001, 676 pp., chapter 28.

362 Instead of know-how, this confidential information is often referred to as ‘trade secrets’. Henceforth, I will use both terms, know-how as well as trade secrets, indifferently.

363 Cornish (1999), 8-01.

364 *Coco v. Clark* [1969] R.P.C. 41, per Justice Megarry.

‘First, the information itself...must have the necessary quality of confidence about it. Secondly, that information must have been imparted in circumstances importing an obligation of confidence. Thirdly, there must be an unauthorised use of that information to the detriment of the party communicating it’

These criteria will be discussed below, followed by a brief analysis of the issue whether trade secrets are based on a property right.

5.5.2.2 Confidential information

The information, in order to receive the protection of the law, must be confidential. To be such, it must not be something which is public property or knowledge. Therefore, information which is in the public domain cannot be confidential. Lord Greene MR gave a widely quoted description of confidential information in *Saltman Engineering v. Campbell Co.*³⁶⁵

‘The information, to be confidential, must, I apprehend, apart from contract, have the necessary quality of confidence about it, namely, it must not be something which is public property and public knowledge. On the other hand, it is perfectly possible to have a confidential document, be it a formula, a plan, a sketch, or something of that kind, which is the result of work done by the maker on materials which may be available for the use of anybody; but what makes it confidential is the fact that the maker of the document has used his brain and thus produced a result which can only be produced by somebody who goes through the same process’.

Besides the information being public property or public knowledge, information may also lack the ‘necessary quality of confidence’ because of its triviality,³⁶⁶ immorality,³⁶⁷ or vagueness.³⁶⁸ For an action under breach of confidence to proceed, it is therefore

365 [1963] 3 All ER 413, 65 RPC 203.

366 See *Coco v. Clark* [1969] R.P.C. 41, per Justice Megarry: ‘I doubt whether equity would intervene unless the circumstances are of sufficient gravity; equity ought not to be invoked merely to protect trivial tittle-tattle, however confidential’.

367 Bently/Sherman (2004), p. 1001. This is often argued by analogy concerning the refusal of the courts to enforce copyright in literary works of a grossly immoral nature, see e.g. *Glyn v. Weston Film Feature*, [1916] 1 Ch 261. The Courts are nonetheless careful in reprimanding such types of behaviour on the basis that it is immoral, see *Stephens v. Avery* [1988] 2 All ER 477, 480-481.

368 *De Maudsley v. Palumbo* [1996] FSR 447; *Secton v. Delawood* (1991) 21 IPR 136, 155; *Intelsec Systems v. Grechi-Cini* [1999] 4 All ER 11,31. The reason for the limitation of breach of confidence to information that is not vague is that protecting such information would provide a claimant with a possibility to impose confidentiality on very general ideas and thereby imposing unjustifiable burdens on anyone who receives that information in confidence. See Bently/Sherman (2004), p. 1001. To protect a concept or idea, it therefore has to be ‘sufficiently developed to be capable of being realized’, *Talbot v. General Television Corp.* [1981] RPC 1 per Harris J. The claimant must therefore show a ‘considerable degree of particularity in a definitive product’, see *De Maudsley v. Palumbo* [1996] FSR 447, instead of simply identifying a desirable goal.

necessary to examine whether the information has been identified in sufficient detail. The claimant should make it absolutely clear and certain what it is that he alleges to be confidential and which he seeks to protect.³⁶⁹ In order for trade secrets to remain protected, it is, however, very important to ensure that all who might get to know about the information that is being protected, such as other employees and collaborators in other businesses, understand and are bound by the conditions of confidentiality. The information does not need to be kept a total secret before it can be accorded protection in the law. It may be known by more than one person,³⁷⁰ in which case there still remains some ‘relative secrecy’.³⁷¹ It is thus clear that the law of confidence does not use such a strict test as is used under patent law, where (any) disclosure of information will be more likely to prevent an invention from being patented because of a lack of novelty or newness.³⁷² While in the case of a patent or copyright, the acts that constitute infringement are limited by relatively precise criteria, the notion of breach of confidence is loosely defined.³⁷³ The action for breach of confidence protects the information in substance and not in form and consequently can also protect ideas or thoughts.

5.5.2.3 *Obligation of confidence*

The second element that must be proved in a breach of confidence action is that the confidential information was disclosed in circumstances that give rise to an obligation of confidence. The circumstances must make it reasonably clear to the recipient of the information that the information is being communicated in confidence and that the recipient is expected to keep it confidential. In *Coco v. Clark*, Megarry J. stated that:³⁷⁴

‘However secret and confidential the information, there can be no binding obligation of confidence if that information is blurted out in public or is communicated in other circumstances which negate any duty of holding it confidential. (...) It seems to me that if the circumstances are such that any reasonable man standing in the shoes of the recipient of the information would have realised that upon reasonable grounds the information was being given to him in confidence, then this should suffice to impose upon him the equitable obligation of confidence. In particular, where

369 *PA Thomas v. Mould* [1968] QB 913, 922; *Ocular Sciences v. Aspect Vision* [1997] RPC 289, 359-369; *CMI-Centers for Medical Innovation v. Phyttopharm* [1999] FSR 235, 243.

370 Coleman (1992), p. 5.

371 *Franchi v. Franchi* [1967] RPC 149 *per* Cross J.

372 *Ibid.*, p. 5-6.

373 Cornish/Llewelyn (2003), at 8-37.

374 [1969] RPC 41. The facts of the case are as follows: Between 1965 and 1967, Coco designed a new moped, which the Clark company expressed an interest in making. Coco showed Clark his prototype, and supplied information and drawings about the design of the Coco moped. Nothing was signed, and the relationship between the parties broke down. Clark then manufactured its own moped, known as the Scamp moped, and Coco sought an interim injunction to restrain the manufacture of the Scamp moped based on a breach of the equitable duty of confidence.

information of commercial or industrial value is given on a business-like basis and with some avowed common object in mind, such as a joint venture or the manufacture of articles by one party for the other, I would regard the recipient as carrying a heavy burden if he seeks to repel a contention that he was bound by an obligation of confidence’.

This citation shows that Megarry J., in assessing whether there is in fact an obligation of confidence, concentrated on the views of the recipient of the information. In the case *Thomas Marshall v. Guinle*,³⁷⁵ that was heard ten years later, Megarry J. (by that time he had become Sir Robert Megarry VC) shifted his viewpoint to the owner of the information instead of the recipient. In this case, he argued that:

‘four elements may be discerned which may be of some assistance in identifying confidential information or trade secrets which the court will protect. I speak of such information or secrets only in an industrial or trade setting. First, I think that the information must be information the release of which the owner believes would be injurious to him or of advantage to his rivals or others. Second, I think the owner must believe that the information is confidential or secret, i.e., that it is not already in the public domain. It may be that some or all of his rivals already have the information: but as long as the owner believes it to be confidential I think he is entitled to try and protect it. Third, I think that the owner’s belief under the two previous heads must be reasonable. Fourth, I think that the information must be judged in the light of the usage and practices of the particular industry or trade concerned’.

In practice, both viewpoints will be of importance in assessing whether there is an obligation of confidence. The owner’s viewpoint will clarify whether information amounts to a trade secret and whether a recipient will therefore be bound by an obligation to respect its confidentiality, while the recipient’s viewpoint will clarify whether a reasonable man could be expected to realise that the information was being given to him in confidence.³⁷⁶

The action for breach of confidence may be founded on various jurisdictional bases, such as, for example, contract, equity, good faith, tort or even a *sui generis*³⁷⁷ action.³⁷⁸ Coleman stated that in practice ‘the action would seem to possess a rather chameleonic

375 [1979] Ch. 227.

376 Cf. Coleman (1992), p. 32-33.

377 In *Lac Minerals Ltd. v. International Corona Resources Ltd*, [1989] 2 S.C.R., the Canadian court suggested that the action for breach of confidence should be characterized as a *sui generis* hybrid that springs from multiple roots in equity and the common law. The *sui generis* concept was adopted to recognize the flexibility that has been shown by the courts in the past to uphold confidentiality and in crafting remedies for its protection. The result of *Lac Minerals* is to confirm jurisdiction in the courts in a breach of confidence action to grant a remedy dictated by the facts of the case rather than strict jurisdictional or doctrinal considerations. The action is of a *sui generis* nature, but the starting point is principles of equity and the appropriateness of a particular equitable remedy.

378 Coleman (1992), p. 37.

character, changing to meet the facts of individual cases, with judges able to draw on any of those jurisdictional bases'.³⁷⁹ Some judges have even intermingled these concepts.³⁸⁰ In most cases, actions for breach of confidence have been based on contract, equity or tort and, sometimes, property.³⁸¹ Contract is an important jurisdictional basis for the obligation of confidence, since parties to the action will often be in a contractual relationship, for example as parties to a joint venture or as employer and employee. These contractual obligations therefore typically arise in employment contracts and in the licensing of know-how. If a confidence obligation arises contractually, the contractual provisions may be express or implied.³⁸² The obligation of confidence can arise outside the realms of contract as well. Equity plays an important role when confidential information is disclosed without the presence of any contract. In addition to any contractual obligation, all employees, regardless of rank, owe a duty of good faith and loyalty to their employers. These duties protect the employer from competition by the employee during the course of employment, and also impose on the employee a duty to keep confidential and not to disclose his employer's trade secrets and other confidential information.³⁸³ In particular, in situations involving high-ranking employees and company officers, there are fiduciary obligations which protect an employer's trade secrets or confidential information. An obligation of confidentiality might exist as part of such a fiduciary relationship. In these circumstances, the obligation of confidence will most likely be equitable.

These broad principles under equitable law have been established so as to prevent a person who has received information in confidence from taking unfair advantage thereof.³⁸⁴ Such a person must not make use of the confidential information to the prejudice of the person who gave such information without obtaining his consent. These broad equitable notions are probably applied by the Courts to ensure that, whatever basis is pleaded, the confidence is respected to the fullest possible extent, whether by reference to equitable principles or to implied terms.³⁸⁵ The Courts have tried, by way of these equitable notions, to balance the rights of the proprietor of confidential information against the rights of those who have an interest in using it. Tort is not, at this moment in time, one of the main foundations of the action for breach of confidence in English Law.³⁸⁶ However, breach of confidence has assumed an important role in proposals for reform in English law, where it has been suggested that the action for

379 Coleman (1992), p. 37.

380 Ibid.

381 Ibid.

382 Bently/Sherman (2004), p. 1013.

383 Lang, The protection of Commercial Trade Secrets, EIPR 2003, 25(10), p. 470.

384 *Seager Limited v. Copydex Limited* [1967] 2 All ER 415, Lord Denning MR.

385 Gurry, *Breach of Confidence*, Oxford: Clarendon Press, 1982.

386 Coleman (1992), p. 47.

breach of confidence should be based on tortious liability.³⁸⁷ In 1981, the Law Commission recommended that the action for breach of confidence should be abolished and replaced by a new statutory tort of breach of confidence.³⁸⁸

Finally, a number of calls have been made for the criminalization of the act of misappropriating trade secrets,³⁸⁹ analogous to the United States model 'Uniform Trade Secrets Act', provided by the Commission on Uniform State Laws, which many individual states in the United States have adopted.³⁹⁰ Unlike many Continental countries, the United Kingdom does not provide criminal sanctions against the abuse of know-how. The Law Commission issued a Consultation Paper in 1997³⁹¹ that examined the issue of whether there should be criminal liability for the deliberate misuse of another's know-how, thereby extending the protection of the criminal law to the misuse of confidential business information. The Law Commission *inter alia* proposed 'that the unauthorised use or disclosure of a trade secret should, in certain circumstances, be an offence'. According to Cornish, 'the discussion in the Paper reflects the difficulties that the civil law has faced in reaching reasonable clear limits to the scope of liability'.³⁹² Cornish points out the danger involved in providing for a wide array of criminal sanctions, since these sanctions 'might unduly weight the balance in favour of the person asserting the misuse of a secret'. Nonetheless, the Consultation Paper concluded that the case for criminal offences of trade secret misuse is a strong one, in view of the close analogy between trade secrets and property 'in the strict sense' and in view of the economic importance of protecting business investment.³⁹³

5.5.2.4 Third parties

The courts sometimes impose an obligation of confidence even where there is no relationship between the parties. An example of this is where liability is imposed on third parties who acquire information as a result of a breach of confidence. Any person who receives information resulting from a breach of confidence may be restrained from using the information if he or she has actual or constructive notice of the breach or because of the way the information is communicated. This third party is bound to respect the confidentiality of the information in the same way as the informant. Such third parties may be liable in tort for inducing a breach of contract if the obligation of confidence is contractual, or liable for conspiracy in case there are several third parties

387 Ibid.

388 Law Commission Report No. 110 of 1981 on Breach of Confidence (Cmnd 8388), § 6.2.

389 See e.g. Coleman (1992), p. 93.

390 Available at <http://nys-stlc.syr.edu/lawlibrary/tradeseecret/utsa.aspx>.

391 Law Commission Consultation Paper No. 150 of 25 Nov 1997, *Legislating the Criminal Code: Misuse of Trade Secrets*.

392 Cornish/Llewelyn (2003), at 8-63.

393 Consultation Paper (150), § 3.1. See Bently/Sherman (2004), p. 1051.

acting in concert with the confidant.³⁹⁴ The position of the third party who exploits a trade secret without knowing that he is in breach of confidence, is unclear.³⁹⁵

5.5.2.5 *Unauthorised use*

Finally, it is required that the confidential information is disclosed in an unauthorised manner. The issue here is whether the information has been disclosed without the consent (actual or implied) of the discloser. It is immaterial that the information was used without bad faith on the defendant's part.³⁹⁶ Even the negligent disclosure of the information will suffice.³⁹⁷ However, the recipient's use of the information may be justified if it is in the public interest.³⁹⁸

In addition to not making any unauthorised disclosure, the recipient of the confidential information must not make use of the confidential information in an unfair manner. Therefore, the recipient must not use the information as a 'springboard' for other activities which may give the recipient an unfair advantage over or be detrimental to the confider of the information. This may be the case, e.g., if the recipient acquires information for one purpose and later uses part of it for his own purposes. In such cases, a court may grant an injunction to stop the recipient of the information from using it for a period which is calculated to offset the unfair advantage which the recipient would otherwise have had. This is called the 'springboard' doctrine. In *Terrapin v. Builders Supply* Roxburgh J. elucidated the 'springboard doctrine':³⁹⁹

'As I understand it, the essence of this branch of the law, whatever the origin of it may be, is that a person who has obtained information in confidence is not allowed to use it as a springboard for activities detrimental to the person who made the confidential communication, and springboard it remains even when all the features have been published or can be ascertained by actual inspection by any member of the public (...) The possessor of the confidential information still has a long start over any member of the public.'

However, this 'springboard does not last forever',⁴⁰⁰ so as to prevent the owner of the confidential information from exercising an unreasonable restraint upon the ability of enterprises to develop their technology and compete within a fast-evolving market.

394 Coleman (1992), p. 47.

395 Ibid, p. 48.

396 *Seager Limited v. Copydex Limited* [1967] 2 All ER 415, [1967] 1 WLR 923, Lord Denning MR.

397 *Weld-Blundell v. Stephens* [1920] AC 956.

398 *Woodward v. Hutchins* [1977] 2 ALL ER 751.

399 RPC 375 at 392.

400 Lord Denning M.R., *Potters-Ballotini v. Weston-Baker* [1977] RPC 202 at 205.

5.5.2.6 Trade secrets as property rights

The question of whether the right to prevent unauthorised use or disclosure of confidential information is based on a property right, is an unsettled issue.⁴⁰¹ This issue is of particular relevance to criminal law, for many offences are designed to protect property. In addition, if trade secrets were to be viewed as property rights, it would mean that they could be transferred, pledged and so on. However, English law has consistently negated the property concept of trade secrets. As we have seen, trade secrets' protection in the UK is based upon the law of confidentiality. Confidentiality does not ascribe proprietary interest to the information, but focuses on the relationship among the parties and the context in which the information was transmitted. As long as the context posits a relationship of confidence, the confidential information deserves protection from unauthorised usage. The owner of a trade secret is thus protected against unfair behaviour, but not against (every form of) theft or misappropriation of his trade secrets.

In its Consultation Paper on the misuse of trade secrets,⁴⁰² the Law Commission argued that trade secrets are not property 'in the strict sense'. The Law Commission shares the view, as expressed in some cases, that 'the similarity of confidential information to property lies less in its nature than in the fact that equity protects it with the remedies appropriate to property rights'. This is partly due to the fact that trade secrets are granted protection only for as long as they remain secret, as Owen CJ formulated in *De Beer v. Graham*.⁴⁰³

'Property may be defined to be the exclusive right to the possession or enjoyment of something; such right may be limited in time or by conditions, but while it lasts it must be exclusive. So long as the secret remains undivulged it remains the exclusive possession of him who has the secret, but when divulged or rediscovered, the exclusive possession has ceased and I cannot see any principle on which the divulgence of the secret can be restrained, unless there be contract or relationship between the parties of trust or confidence, or some fraud in acquiring the secret. ... [T]he Court acts on the conscience of the party, and not on any ground of property'.

In *Boardman v. Phipps*,⁴⁰⁴ Lord Upjohn approached this issue and concluded that:

'In general, information is not property at all. It is normally open to all who have eyes to read and ears to hear. The true test is to determine in what circumstances the information has been acquired. If it has been acquired in such circumstances that it would be a breach of confidence to disclose it to another then courts of equity will restrain the recipient from communicating it to another. In

401 Gurry, *Breach of Confidence*, Clarendon Press: Oxford 1984, 46-56; Palmer/Kohler, *Information as property*, in Palmer/McKendrick (eds.), *Interests in Goods*, LLP Inc, London 1993, p. 203; Cane (1996), p. 73.

402 *Supra* 390.

403 (1891) 12 NSWLR (E) 144, 146.

404 [1967] 2 AC 46, at pp. 127, 128.

such cases such confidential information is often and for many years has been described as the property of the donor, the books of authority are full of such references; knowledge of secret processes, 'know-how,' confidential information as to the prospects of a company or of someone's intention or the expected results of some horse race based on stable or other confidential information. But in the end the real truth is that it is not property in any normal sense but equity will restrain its transmission to another if in breach of some confidential relationship'.

For trade secrets to be considered as property rights, they would have to 'be definable, identifiable by third parties, capable in its nature of assumption by third parties, and have some degree of permanence or stability',⁴⁰⁵ which is not the case for trade secrets. Trade secrets cannot therefore be considered property rights; nevertheless, their protection may be equivalent to the protection offered to property rights. As put forward by Gummow J. in *Smith Kline & French Laboratories v. Secretary of the Department of Community Services and Health*:⁴⁰⁶

'The degree of protection afforded by equitable doctrines and remedies to what equity considers confidential information makes it appropriate to describe confidential information as having a proprietary character not because the property is the basis upon which that protection is given, but because of the effect of that protection'.

The Law Commission thus did not classify trade secrets as property, because doing so could lead to undesirable consequences since confidential information is unlike other forms of property. The normal rules of property law regarding the transfer of property and concerning the priorities between competing innocent acquirers of property cannot, according to the Law Commission, be applied to confidential information.⁴⁰⁷ Besides, unlike 'normal property rights', trade secrets may lose their protection if the obligation of confidence is destroyed when the information loses its confidential character or in case public interest justifies a breach of confidence.⁴⁰⁸ The question remains, nonetheless, to what extent are trade secrets treated as property for the purposes of deciding what remedies are available when there is a breach.⁴⁰⁹ Cane notes that 'classifying confidential information as property is a way in which the courts could make the common law remedy of damages available (...) in circumstances where there has been no breach of contract'.⁴¹⁰ Another advantage of treating confidential information as property is that it justifies imposing liability for innocent breach of confidence.⁴¹¹ Treating trade secrets as property would enable a plaintiff to follow a misappropriation

405 [1965] AC 1175, 1247-1248.

406 (1990) 95 ALR 87.

407 Cane (1996), p. 24-25.

408 Cane (1996), p. 73-74.

409 Cf. Cane (1996), p. 74.

410 Cane (1996), p. 76.

411 Cane (1996), p. 77.

approach. In this sense, he could argue the misappropriation of trade secrets when they have been obtained through improper means. As such, the misappropriation theory would emphasize trade secrets as assets, recognizing in that sense the proprietary interests over the protected information. Nonetheless, trade secrets are still different from patents, since they do not give the owner the exclusive right to use the confidential information. A trade secret enables only the owner to prevent its unauthorised use by those who receive the confidential information directly or (in some cases) indirectly from him.

5.6 CONCLUSION

At present, unfair competition law has no legal basis in English law. This does not mean, however, that unfair competition is not recognised as a concept of law. Although case law as well as Parliament have been reticent in accepting a general concept of unfair competition, the literature shows that this concept is at least worthy of discussion and, according to some, should be introduced into English law. As formulated by Cane: 'At the end of the day, however, the basic issue is not whether to adopt one juridical technique (...) or another (...), but rather where the proper balance lies between freedom of competition and encouragement of effort and innovation; and, perhaps more importantly, who should decide where this line lies.'⁴¹² One of the problems will be to accommodate such a concept in English law, that is characterised by its closed number of clearly defined torts. Besides, what is fair or unfair will be difficult for the courts to decide as, historically, they have become used to applying only torts with narrow boundaries. Wadlow, however, makes a convincing argument by stating that any objections to terms like 'unfairness' based on their vagueness, 'lie awkwardly in the mouth of a common lawyer'.⁴¹³ He reminds us that common lawyers are used to imprecise and inappropriate categories, like 'economic torts'.

It would therefore be preferable to introduce a general concept of unfair competition in English law, be it that it should allow competitors and consumer groups equally to enforce these standards, since 'the particular advantage of these civil proceedings is that they make available the potent weapon of injunctive relief'⁴¹⁴ to both consumers and competitors alike. Such a concept of unfair competition should, however, not be turned into a concept of pure misappropriation, since that would contradict one of the most fundamental assumptions about a competitive economy that 'once a producer enters a market, exactly that type of imitation [copying a novel product after 'reverse engineer-

412 Cane (1996), p. 195. Cane hereby referred to Heydon, Restrictive trade practices and unfair competition, in: Kamenka and Tay (eds.), *Law and Social Control*, London 1980, 143.

413 Wadlow (2004), at 1-5.

414 Cornish/Llewelyn (2003), at 1-21.

ing', *RwdV*] needs to be present. (...) For no other mechanism will so efficiently secure the welfare of consumers as the prospect of such competition'.⁴¹⁵ The dangers to consumers, as well as the market as a whole, of adopting a concept of law that is based on misappropriation has been meticulously addressed by Kaufmann.⁴¹⁶ It is therefore only natural that the English courts have refrained from allowing a cause of action for misappropriation as such, not only because it does not fit in with the English legal system, but also because it is not a desirable case of action *an sich*.

Whether English law is ready to accept a law of unfair competition therefore remains unclear. This chapter has nonetheless demonstrated that English law provides for various means to counter unfair trading practices, be it by way of the extended tort of passing off, malicious falsehood or defamation or by way of the various consumer protection-related Acts and Statutory Regulations as well as self-regulatory Codes of Conduct. It would therefore be incorrect to declare that English law does not provide for protection against unfair competition. The greatest problem is that the protection provided under English law is highly segmented and that the courts have refused to accept any general law of unfair competition.

415 Cornish/Llewelyn (2003), at 1-17.

416 Kaufmann, *Passing Off and Misappropriation – An Economic and Legal Analysis of the Law of Unfair Competition in the United States and Continental Europe* (Diss. Utrecht), VCH Verlag: Weinheim 1986, 178 pp.

Comparative Law

6.1 INTRODUCTION

In the second chapter, the rules under International as well as European law on unfair competition have been addressed. In the three chapters that followed, I have indicated how the law on unfair competition has developed under Dutch, German and English law. These analyses have shown that the three jurisdictions meet the requirements set by Section 10^{bis} of the Paris Convention for the Protection of Industrial Property. As we have seen, Dutch, German and English law have drafted rules or established case law that provide protection against the (1) the creation of confusion, (2) the discrediting of competitors through false allegations and (3) the misleading of the public.¹ The only incompatibility exists in the case of English law, insofar as it has not embraced a general clause on unfair competition in accordance with Section 10^{bis}(2) of the Paris Convention.² In this chapter the law of unfair competition will be addressed by way of a comparison between Dutch, German and English law in an International and European context. This comparison will involve substantive as well as procedural law. On the basis of this analysis we can assess the possibilities for, as well as feasibility of, regulating the ‘problem areas’ of unfair competition law that have not (or have not completely) been harmonized so far, namely misleading advertising, denigrating one’s competitor, unlawful imitation, misappropriation of another’s achievements, and, finally, trade secrets. This will help us to determine what ‘model of law’ is best suited for being adopted as an approach to unifying unfair competition law.

In the next section, I will – inspired by Ulmer’s study on comparative unfair competition law³ – determine whether under Dutch, German and English law a general concept

1 Cf. chapter 2 (International and European law), § 2.2.1.

2 See chapter 5 (English law), §§ 5.2 and 5.5.1.7.

3 See chapter 2 (International and European law), § 2.3.5.1. for a list of his proposals. It is safe to say that many of his proposals have been enacted in some way or another. The proposals that concerned acts of competition that are related to trade mark law, have largely been implemented by way of trade mark law harmonisation, for example concerning the protection of one’s get-up and other insignia utilised by traders in the distribution of their goods and services (by the introduction of *inter alia* three-dimensional trade marks), the protection against dissimilar products and the protection of well known marks against dilution. Other areas that needed to be regulated and harmonised according to Ulmer were those of slavish imitation, trade secrets, disparagement (including personal and comparative advertising), and geographical indications. Except for comparative advertising, none of these areas have been completely harmonised so far,

of unfair competition is present or whether these jurisdictions use concepts that are fundamentally different from each other, especially in view of their presuppositions on free competition and consumer protection. Next, I will compare the way in which the above-mentioned ‘problem areas’ have been addressed under these jurisdictions.

6.2 UNFAIR COMPETITION AS A LEGAL CONCEPT

Before looking into national law, I will start by addressing International and European law. On an international level, the concept of unfair competition has been introduced under Section 10^{bis} of the Paris Convention for the Protection of Industrial Property of 1883. The Paris Convention contains a general clause supplemented by three provisions that relate to specific acts of unfair competition.⁴ Following the Paris Convention, a number of international legislations were enacted that contain provisions on specific (small) parts of unfair competition, like the TRIPs.⁵ All these international rules have in common that they focus on acts of competition between competitors. Consumer protection law is not included. Within the European Union, the process of unfair competition legislation started as late as the 1960s. After a comprehensive comparative law study conducted by the Max Planck Institute of Munich, several proposals for European legislation were made but none of them were enacted. Under the influence of the upcoming consumer protection movement, a directive on misleading advertising was finally adopted in 1984, providing protection for the consumer and competitor alike. After that, several ‘piece-meal’ rules were introduced that only relate to very specific parts of unfair competition law. In the last decade, consumer protection has strengthened its position within European unfair competition law even more. The recent 2004 Unfair Commercial Practices Directive is restricted to consumer protection, and it does not offer protection to the honest trader who is injured by an unfair commercial practice. This gradually increasing focus on consumer protection is reflected in the national laws of the Member States of the European Union. Member States with a modern unfair competition law, like Denmark, Sweden, Norway and Belgium all have adopted a ‘modern’ consumer-oriented marketing practice law, providing for a more progressive model of combined competitor and consumer protection law.⁶ Now that we have seen

although the law on geographical indications has been unified for a large part, see *sub* 70. In this chapter I will discuss whether the national laws of Germany, the Netherlands and the United Kingdom on slavish imitation, trade secrets and disparagement show any similarities. The establishment of a uniform legal body on unfair competition law by way of a convention, as proposed by Ulmer, no longer seems to be feasible, especially in view of the already existing Unfair Commercial Practices Directive.

4 See chapter 2 (International and European law), § 2.2.1.

5 See chapter 2 (International and European law), § 2.2.2 and 2.2.3.

6 See chapter 2 (International and European law), § 2.4.

that a concept of unfair competition exists both on an international and on a European level, albeit either competitor oriented or consumer oriented, let us have a look at the national laws of The Netherlands, Germany and the United Kingdom.

However, before doing that, it is important to state that all three jurisdictions start from the same fundamental principle: the freedom of competition. Basically, the entering into competition with one's competitor that may involve the benefiting from his achievements must principally be allowed. Only in specific circumstances is it necessary to put aside the freedom of competition in order to counter specific unfair trading practices that are likely to hinder competition. Each of the three jurisdictions has developed rules that provide protection to traders and consumers against those unfair trading practices.

Dutch law, like German law, recognizes a clear concept of unfair competition law, although it has not been codified⁷ as being analogous to German law despite the many initiatives that have been taken in this respect.⁸ Instead, in the case law unfair competition law has been framed under the general tort clause. So, as opposed to German and English law that utilise more concrete norms, Dutch unfair competition law is based on an abstract norm of 'unlawfulness' that is related to the breach of 'a rule of unwritten law pertaining to proper social conduct'.⁹ Consequently, under case law and legal doctrine, a comprehensive set of rules on unfair competition has been developed, albeit not of the same detail and magnitude as under the German UWG. Dutch law, like German law, utilises a general notion to describe what is unfair competition, although the criterion used is not unfairness, but unlawfulness.

German law has recognized an all-embracing concept of unfair competition in its law. Germany has codified the rules on unfair competition in statutory rules on unfair competition law, which has resulted in very comprehensive and detailed legal regulations, endorsed by case law as well as the literature. German unfair competition law traditionally started from the basis that its rationale is to enforce the 'bonos mores' of the marketplace.¹⁰ This criterion has been replaced by the criterion of 'unfairness', that is quite similar to the criterion of 'bonos mores' although its scope is not confined to what is fair according to the 'best market practices' in a specific branch of producers, but rather what is deemed to be fair or unfair in the eyes of the public. The criterion of 'unfairness' has been extensively elaborated in the UWG 2004 by way of a set of provisions that relate to specific acts of unfair competition.¹¹

English law, on the other hand, does not recognize a concept of unfair competition, although the introduction of it has been widely discussed in the literature and has even

7 Apart from the codification that is a result of Community legislation.

8 See on the development of unfair competition law in the Netherlands and the various efforts that have been made to attain codification, chapter 3, § 3.3 and § 3.6.

9 See chapter 3 (Dutch law), § 3.3.1. and in particular footnote No. 19.

10 See chapter 4 (German law), § 4.5.2.

11 See chapter 4 (German law), § 4.5.3.

been promoted by some authors.¹² One of the problems that go hand in hand with any attempt to introduce a concept of unfair competition in English law is the fact that the English lawyers all use different definitions of this concept. While some use it as a synonym for passing off,¹³ others use it as a ‘collective name for a variety of nominate or emergent torts which have in common their usefulness in protecting traders in their relationships with one another’.¹⁴ A third definition was provided by Deane J. in the *Moorgate Tobacco v. Philip Morris* case, where he stated that the phrase ‘unfair competition’ has been used to ‘describe what is claimed to be a new and general cause of action which protects a trader against damage caused either by ‘unfair competition’ generally or, more particularly, by the misappropriation of knowledge or information in which he has a quasi-proprietary right’.¹⁵ It is in particular this last concept, i.e. an unfair competition law protecting a trader against the misappropriation of his ‘quasi-proprietary’ rights, that has gone against the grain with most English common law lawyers.¹⁶ Nonetheless, a tendency is perceptible that shows many English lawyers willing to accept a concept of unfair competition law that is confined to misrepresentation, which has, as its focus, preventing customers from being confused. Provided customers have correct information available regarding with what and with whom they are dealing, then the law should leave the proper functioning of the market to the free play of market forces.¹⁷ But aside from these issues of terminology, the basic obstacle in the process of harmonisation is that English law does not recognize a general clause that refers to unfair behaviour. Rather, English law has developed in a very different manner. In times when a certain unwanted behaviour was apparently present on the ‘marketplace’, English judges would address the issue at hand by framing a concrete, narrowly defined tort that could counter that specific unfair trading practice. As a result,

12 See chapter 5 (English law), § 5.1 and 5.2.

13 See e.g. *Arsenal Football Club plc v. Reed* (No. 2) [2003] EWCA Civ 696; [2003] 2 CMLR 25, CA, where Aldous L.J. formulated this as follows: ‘the cause of action traditionally called passing-off, perhaps best referred to as unfair competition’.

14 Wadlow (2004), No. 1-1; Dworkin, *Unfair Competition: is it time for European harmonization*, in Vaver/Bently (eds.), *Intellectual Property in the New Millennium*, Cambridge: Cambridge University Press, 2004, p. 177. See also the statement of Lord Diplock in *Erven Warnink BV v. Townend & Sons (Hull) Ltd* [1979] AC 731; [1979] 2 All E.R. 927; [1980] RPC 31 at 91 (the ‘Advocaat’ case, see chapter 5, § 5.5.1.6.): ‘Unfair trading as a wrong actionable at the suit of other traders who thereby suffer loss of business or goodwill may take a variety of forms, to some of which separate labels have become attached in English law. Conspiracy to injure a person in his trade or business is one, slander of goods another, but most protean is that which is generally and nowadays, perhaps misleadingly, described as “passing off.” The forms that unfair trading takes will alter with the ways in which trade is carried on and business reputation and goodwill acquired’.

15 [1985] RPC 219.

16 See chapter 5 (English law), § 5.5.1.7c and 5.6.

17 Robertson/Horton, *EIPR* 1995, 17(12), p. 569.

there are various torts that may be applicable when a trader tries to confront unfair competition, without there being a single 'higher' standard of unfairness that acts as a theoretical basis for these separate torts. On the continent, on the other hand, most jurisdictions have built up a law of unfair competition on the foundation of 'unfairness', 'immorality' or 'unlawfulness', that provides for a sound theoretical basis for protection against unfair competition. The pragmatic problem-solving approach as practised by English common law lawyers is arguably a logical consequence of their fear of adopting any general rule that prescribes certain behaviour to be unfair in the absence of any intellectual property laws.

Nonetheless, despite this difference in a systematic approach, both the civil law as well as the common law jurisdictions use the same starting point for these cases of unfair competition: the freedom of competition.¹⁸ And both jurisdictions have correspondingly struggled with the difficult issue of finding the right balance between freedom of competition and protecting the interests of the trader who feels that his interests are being prejudiced.¹⁹ So while there is a clear difference in the systematic approach, probably caused by the differences between the common law jurisdiction that is based on precedents and the civil law jurisdiction that is based on statute law, both jurisdictions support the freedom of competition as a general principle thereby formulating exceptions to this principle only for certain specific cases of unfair trading practices that are likely to hinder competition. But while the laws of the civil law countries use a general clause as a basis for the rules that are drafted to counter these specific unfair trading practices, English law has adhered to its system of separate and independent torts. This does not mean that the model of a general clause is alien to common law lawyers. Wadlow has clearly pointed out that the common law lawyers are used to imprecise and inappropriate categories, like 'economic torts' and that any objections to terms like 'unfairness' based on their vagueness, 'lie awkwardly in the mouth of a common lawyer'.²⁰ In particular the directives and regulations that have been drafted by the Community legislator, e.g. the 'unfair' contract terms Directive, have led to the insertion of various general notions in English law,²¹ thereby forcing common lawyers

18 Cf. Adam Smith in his famous publication 'Wealth of Nations': 'Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man or order of men.' See also *supra* § 6.2.

19 Granting a trader to much protection means depriving his competitors of their right to imitate. See the statement of Allart, *Traité théorique et pratique de la concurrence déloyale*, 1892, No. 2: 'Dans le domaine de l'industrie, comme dan celui de la politique, la liberté de chacun finit la où le droit des autres commence.', translated: 'In commerce, like in politics, a person's freedom ends where the right of others commences.'

20 See chapter 5 (English law), § 5.6.

21 See e.g. Article 3(1) of the Unfair Contract Terms Directive 93/13/EEC of 5 April 1993. See also e.g. Articles 1 and 2(2) of the Directive on Misleading and Comparative Advertising; Article 8(5), 9(1)(e) and 12(c) of the Community Trademark Regulation 40/94; Article 4(3), 5(5) and 6(1)(c)

to deal with them. Also primary EC law contains general clauses, such as, for example, Section 82 of the EC Treaty that strikes a balance between the legitimate use of the freedom of competition and the misuse of this freedom by stating that it is prohibited to ‘abuse a dominant position’ in the market. General clauses are therefore an accepted tool for controlling ever-changing market practices, for preventing the circumvention of existing statutory provisions and, finally, for drawing a line between acceptable and unacceptable commercial innovations.²² Moreover, the 2004 Unfair Commercial Practices Directive, forces the EC Member States – including the United Kingdom – to introduce a general clause on ‘unfair commercial practices’ in their laws. Considering the fact that all EC Member States are already familiar with a general clause based on the concept of ‘unfairness’, in particular after the introduction of the EC unfair contract terms directive, such a general clause might be a basis for building a Community concept of unfair competition law. For reasons of legal certainty and competition policy, however, it is imperative that a general clause with respect to unfair competition is elaborated upon by way of a set of provisions dealing with specific acts of competition.²³ This would make the general clause only applicable in the few cases that the specific provisions are not applicable, but the behaviour is still considered unfair, in line with the general clause introduced in the new German UWG. If the general clause is constructed in this way, it will provide flexibility when needed if special circumstances apply, but in all other cases the general clause will not be applicable and the principle of freedom of competition will precede. The inclusion of a ‘*de minimis*’ threshold in the German UWG 2004 is a good example of how to construct such a limited general clause. The introduction of an action for unfair competition,²⁴ based on such a limited general clause that clearly brings into prominence the principle of freedom of competition, could well be acceptable to common law lawyers.

6.3 MISLEADING ADVERTISING

Misleading advertising has never been fully harmonised,²⁵ leaving the EC Member States to retain or devise their own set of criteria to determine whether or not an advertisement is misleading. Whether this is the case depends on the view of the national courts of the Member State where the allegedly misleading statement is being advertised. The Dutch, German and English courts basically use the same subdivision

of the First Trademark Directive 89/104/EEC. See also Schricher/Henning-Bodewig (2001), p. 36.

22 Schricher/Henning-Bodewig (2001), p. 35. See also chapter 2 (International and European law), § 2.6.2.2e.

23 This is also similar to the approach taken in the Unfair Commercial Practices Directive.

24 Provided that ‘unfair competition’ does not include misappropriation.

25 Since the EC Misleading Advertising Directive only provides for minimum protection.

in types of advertisements. First of all, false claims that contain facts that are untruthful will likely be held to be misleading in any case.²⁶ Statements that do not contain untrue facts, but that are incomplete because of the omission of certain facts that are relevant to the consumer will most likely be held to be misleading as well.²⁷ Truthful claims that are likely to be misunderstood or are likely to create a false impression may be held to be misleading if the information contained is vital to the consumer in making his decision.²⁸ Finally, hyperbolic claims are generally not held to be misleading since the consumer is allegedly used to those kinds of claims.²⁹ So while these jurisdictions make a roughly similar distinction in the types of advertisements, there used to be a great deal of difference in the actual assessment of the criterion of ‘misleading’. As a consequence an advertisement could be held to be misleading under e.g. German law, while the English judiciary did not see any objections to the advertisement. The German consumer model used to be based on the protection of minorities and of the ‘consumer in a hurry’, while utilising a factual approach based on a percentage of the consuming public being misled for assessing whether an advertisement should be assumed to be misleading. English law, on the other hand, used a more liberal model attuned to consumers who ‘expect hyperbole and puff’ and are therefore not very easily misled.³⁰ However, recent case law of the ECJ has established a model for a ‘European consumer’ who is ‘reasonably well-informed and reasonably observant and circumspect’.³¹ Under the influence of this normative European approach there has been a gradual convergence of consumer models. The German Federal Supreme Court has consequently adopted the European approach and mitigated its exaggerated evaluation of misleading advertising.³² Since Dutch law was already basically in line with the standards set by the ECJ in its case law, it is safe to say that the past few years have seen the law on misleading advertising *de facto* becoming more fully harmonised. This does not mean that there will never be any differences between interpretations by national courts. The ECJ has held that it ‘is for the national court (...) to ascertain in the circumstances of the particular case and bearing in mind the consumers to which the advertising is addressed, whether the latter could be misleading’.³³ National courts are not precluded from resorting to consumer research polls.

26 See chapter 5 (English law), § 5.3.7; chapter 4 (German law), § 4.6.3; chapter 3 (Dutch law), § 3.5.3.1a.

27 *Ibid.*

28 *Ibid.*

29 *Ibid.*

30 Chapter 5 (English law), § 5.3.7.

31 ECJ Case C-201/96 of 16 July 1998. See chapter 2 (International and European law), § 2.3.5.2a. footnote 134.

32 See chapter 4 (German law), § 4.6.3.

33 ECJ Case C-373/90 of 16 January 1992, ECR 1992 Page I-00131 et seq.

This harmonised law of misleading advertising is based on the model of a rational consumer choice. Consumers have to be able to make their choice on the basis of information which has been adequately provided to them by the advertisers. Advertising is arguably the most important source of product information. The provisions on misleading advertising should therefore initiate the disclosure of truthful product information which enables the consumer to make a rational choice, thereby improving the functioning of a free market. The Unfair Commercial Practices Directive sets a good example by introducing an obligation for the trader to give certain specific (product) information to the consumer which is needed to make a transactional decision,³⁴ although it does not contain a general ‘positive’ obligation with which a trader has to comply in order to show that he is trading fairly.³⁵

As to the remedies available in the case of misleading advertising, the national laws still diverge significantly.³⁶ The Netherlands feature, like the United Kingdom, a comprehensive system of self-regulation. The recipient of an advertisement, be it a consumer or a competitor, can lodge a complaint with the Advertising Standards Committee (RCC) in the case of misleading advertising. The RCC can recommend that the advertiser should stop using the advertisement in question, but this recommendation is not legally binding. If the advertiser does not comply with the RCC’s recommendation, the consumer or competitor can institute legal proceedings under civil law.³⁷ Businesses will *de facto* be the only ones bringing these proceedings, since doing so is too expensive (and complicated) for the average consumer. Both the consumer as well as the competitor can file for injunctive relief by requiring the advertiser to stop or prevent the allegedly misleading advertisement from being broadcast or to prevent the advertiser from doing so in the future. In addition, they can claim the rectification of the advertisement. Both parties can also claim damages under the general tort clause,³⁸ although consumers will find it difficult to prove any damage. Consumer organisations can bring (the same) proceedings as well, although they are not allowed to claim damages.³⁹

Under German law a competitor who wants to proceed against a misleading advertisement can bring his case under Section 5 UWG that exclusively concerns misleading advertising. The UWG provides him, if he successfully proves his case, with different remedies like filing for injunctive relief by requiring the advertiser to stop or to prevent the allegedly misleading advertisement from being broadcast or to prevent the advertiser from doing so in the future.⁴⁰ In addition, the competitor can claim compensation for

34 See Section 7 of the Unfair Commercial Practices Directive.

35 See chapter 2 (International and European law), § 2.6.2.2a and 2.6.2.2f.

36 This can probably be attributed to the fact that the Misleading Advertising Directive as well as the Unfair Commercial Practices Directive do not provide for rules on remedies.

37 Sections 6:194-196 of the Dutch Civil Code (BW).

38 Section 6:162 BW.

39 See chapter 3 (Dutch law), § 3.5.5.2c.

40 See chapter 4(German law), § 4.3.3.

actual damages, for lost profits, or he can demand an adequate licence fee under Section 9 UWG. The individual consumer, on the other hand, cannot himself take any action under the UWG 2004.⁴¹ The only thing which he or she can do is to file a complaint with one of the official consumer associations. These consumer organisations have the same remedies available as the competitor does, although they have no possibility to claim for damages. It is of course questionable whether a consumer organisation will institute proceeding if it has only received a complaint by a single consumer. The UWG therefore primarily protects the collective interests of consumers.⁴²

Under English law neither a consumer⁴³ nor a competitor⁴⁴ is granted a civil action against misleading advertisements. However, the recipient of an advertisement – be it a consumer or a competitor – can lodge a complaint with the Advertising Standards Authority (ASA). This system of self-regulation is very comprehensive and provides the recipient of an advertisement with a broad set of rules that can be invoked.⁴⁵ A judgement by the ASA is not legally binding, although the ASA can impose certain sanctions like publishing the judgement on the internet.⁴⁶ If an advertiser does not comply with an ASA judgement the recipient of the advertisement can complain to the Director General of Fair Trading (DGFT) which will lead to an investigation under the Control of Misleading Advertisements Regulations 1988 (CMAR). Since it is up to the DGFT to decide whether he will bring proceedings under the CMAR, and in most cases he refrains from doing so, only a handful of cases has been brought by the DGFT under the CMAR.⁴⁷ In addition to filing a complaint with the ASA, the consumer can make a complaint to one of the local Trading Standards Departments, that enforce several consumer protection laws and can impose criminal sanctions on advertisers for making false or misleading descriptions concerning goods or services or for issuing misleading price indications.⁴⁸ Therefore a consumer has, therefore, under English law, many ‘indirect tools’ but no ‘direct tools’ for suppressing misleading advertisements or for claiming damages if he or she is damaged. A competitor can, in addition to a complaint addressed to the ASA, bring a civil claim under the tort of passing off. However, for this action to succeed, he needs to prove that the requirements for this tort have been met.

41 See chapter 4 (German law), § 4.3.3.

42 This is also the case with the new remedy that has been introduced in the UWG 2004, whereby certain consumers’ and traders organizations can order a skim-off of extra profits gained by the defendant at the expense of a multitude of customers in the case of unfair competition.

43 Neither can the consumer take action under the tort of passing off. As formulated by Fleming, *Law of tort*, 9th ed., Sydney: LBC Information Services 1998, p. 794.: ‘But of course consumers cannot sue under this tort. The prime concern of the action is to protect the claimant ‘rather than champion the consumer’.

44 Since there is no tort of misleading advertising.

45 See chapter 5 (English law), § 5.3.2.

46 See chapter 5 (English law), § 5.3.2.

47 See chapter 5 (English law), § 5.3.5.

48 See chapter 5 (English law), § 5.3.4.

In particular, he must prove that the advertiser has made a misrepresentation that was calculated to injure his goodwill and which caused or threatened to cause actual damage to his business or goodwill.⁴⁹ This will probably be more difficult to prove than it is to prove that there is misleading advertising. So both consumer as well as competitors who feel they have been wronged by an advertisement, have only limited possibilities for bringing a direct 'hard' action for misleading advertising. However, it must be noted that the self-regulatory system of the ASA⁵⁰ has proven quite successful in dealing with misleading advertisements.

So, from the above we can conclude that as to substantive misleading advertising law, the three jurisdictions are quite comparable. This is mainly because of the fact that all three jurisdictions adhere to the European model of an 'average consumer'. However, it is evident that these jurisdictions differ greatly as to the different remedies that are available in the case of misleading advertising. While Germany focuses on providing competitors and (consumer or trade) organisations with a civil action, the United Kingdom's policy is based on self-regulation with legal sanctions being available only in special cases. The Netherlands has some aspects of both approaches, by providing civil actions to competitors, consumers and consumer organisations alike as well as having a system of self-regulation. While Germany does not have a system of self-regulation it is important to remember that consumers' organisations play an important role in countering misleading advertising in the interest of the consumers. While all of these systems have their advantages, it is important, if it would ever come to a complete harmonisation of unfair competition law, that the legal remedies are also made uniform. On the European level, a couple of initiatives have been taken to bring these remedies into line, for example by way of the Injunction Directive⁵¹ that improves the enforcement of breaches known as 'Community infringements'.⁵² On 27 October 2004, the Council adopted a Regulation on Consumer Protection Cooperation, that will introduce a new EU-wide network of national enforcement authorities capable of taking co-ordinated action against 'rogue traders', starting in 2006. This Regulation empowers enforcement authorities to seek and obtain action from their counterparts in other Member States.⁵³ While these initiatives originating from the Community legislator may certainly be helpful in providing in particular the consumer with efficient means of redress in cases of cross-border purchases, it does not change the undesirable situation that the Member States provide for a very different set of legal remedies for cases of misleading advertising.

49 See chapter 5 (English law), § 5.5.1.1.

50 As well as the advertising codes of the Radio Authority (RA) and the Independent Television Commission (ITC), see chapter 5 (English law), § 5.3.3.

51 Injunctions Directive 98/27/EC (OJ No. L 166, 11 June 1998, p. 51).

52 See § 5.3.4 note 41.

53 See also the various options proposed by the European Commission in its Green Paper on Consumer Protection. See chapter 2 (International and European law), § 2.6.2.1.

6.4 DENIGRATING ONE'S COMPETITOR

Supplementary to the protection provided by the (fully) harmonised area of comparative advertising,⁵⁴ plaintiffs can bring an action under unfair competition law, or in the case of the United Kingdom under specific torts, if they have been discredited by their competitor. All three jurisdictions differentiate between statements that are truthful and untruthful, and between statements that are aimed at harming a person and statements that are not. German and English law also differentiate between statements that are based on facts and that are purely based on the opinion of the advertiser; Dutch law makes the same distinction indirectly. Denigratory statements that contain false information will in most cases be deemed to be unlawful.⁵⁵ If the statements are truthful, they will in most cases be allowed, except if special circumstances apply. Under the common law tort of malicious falsehood, true statements will never lead to an action, however malicious the defendant's intention might be.⁵⁶ Under the law of defamation the defendant can plead the defence that the statement was 'true in substance and fact', which will increase the possibility of it being allowed.⁵⁷ Under Dutch law, special circumstances that might result in a truthful statement being unlawful depend on e.g. the degree of aggressiveness and the detail of the statement, whether it is needlessly offensive, its relevance, its public nature, the issuer's relation to the addressee, or if it is a statement in defence. Under German law a truthful statement may be unlawful if it is directly aimed at insulting another business.⁵⁸

Under all three jurisdictions, the possibility of a denigratory statement being held unlawful will increase if it is directly aimed at harming a person. The more personal and confronting the statement is, the more likely it will be held to be unlawful. German and English law differentiate between statements of fact and statements of opinion. Statements of opinion are less likely to be held unlawful especially when it is evident to the public that the advertiser is simply expressing his opinion. Under English law the advertiser can plead in defence that the statement was an honest expression of opinion and a fair comment on a matter of public interest. Although Dutch law does not explicitly differentiate between statements of fact and opinion, these statements are nevertheless dealt with differently. A statement of opinion will in many cases be of less rele-

54 See Section 3a(e) of the Comparative Advertising Directive, implemented in the various national laws, see Section 6:194a(e) BW; Section 6(2)(5) UWG; Section 4A(e) Control of Misleading Advertisements (Amendment) Regulations 2000, that allow comparative advertising in so far as it does not discredit or denigrate the trade marks, trade names, other distinguishing marks, goods, services, activities, or circumstances of a competitor.

55 See chapter 3 (Dutch law), § 3.5.4; chapter 4 (German law), §§ 4.7.2 and 4.7.3; chapter 5 (English law), §§ 5.4.2.2, 5.4.3.4 and 5.4.4.

56 Chapter 5 (English law), § 5.4.2.2.

57 Chapter 5 (English law), § 5.4.3.4.

58 Section 4(7) UWG. If a statement is true, no action lies under Section 4(8) UWG.

vance to the public than solid facts, so it will therefore not be equally scrutinized. If an advertiser claims certain facts, on the other hand, he is required to substantiate them since the public will attach special value to factual statements. All three jurisdictions allow the possibility for the advertiser to raise a defence based on the principle of freedom of expression. Of course commercial advertising involves, contrary to non-commercial idealistic advertising, the commercial use of freedom of expression that involves judicial review limited to an examination of the reasonableness and proportionality of the interference.⁵⁹

It is important, finally, to point out that under English law basically three different areas of law apply, sometimes simultaneously, sometimes not. The tort of malicious falsehood will only be applicable if the plaintiff has proven malice and the falsity of the statement as well as financial loss, although no injury to the plaintiff's reputation is required. Under the law of defamation it is required that the plaintiff's reputation has been harmed although no financial loss is required and there must be a personal imputation upon a competitor. Finally, the advertisement may be actionable under rules of self-regulation that have no specific prerequisites other than that there must be an advertisement (that is allegedly denigrating or misleading).⁶⁰ It is difficult to determine whether one jurisdiction has a more strict approach towards denigrating one's competitor than another jurisdiction, since these issues are very casuistic. It is apparent, though, that like the case of misleading advertising, the consumer models of the three jurisdictions seem to have centred on the European 'average consumer'. Despite this recognizable convergence, the English courts seem to be more willing to allow advertisements containing denigrating remarks on the basis that they simply consist of the usual 'hyperbole and puff'.⁶¹ This does not necessarily mean that the average English recipient of advertising is *de facto* more used to such statements, it could also mean that the courts believe that they should be more used to it.

Under Dutch law (3.5.4), a person who discredits his competitor(s) can be held liable under the general tort clause of Section 6:162 BW or he can, in special cases, be held liable under criminal law under the Penal Code. Liability under Section 6:162 BW can lead to a claim for damages, injunctive relief, that is expeditiously enforceable by preliminary injunction or a statement in open court clearing the defendant's name. Under German law, such a person can be held liable under Sections 4(7) or (8) UWG. This liability may lead to one of the civil remedies found in Sections 8-10 UWG, like a claim for damages or injunctive relief, that is like Dutch law, expeditiously enforceable by preliminary injunction. Damages are not only available in case of wilful acts but also in case of negligible breaches. Under the English law of tort, plaintiffs may chose

59 See the Troostwijk case, ECJ Case C-71/02 of 25 March 2004, OJ of 30 April 2004, C 106/09. See chapter 2 (International and European law), § 2.3.6.

60 Chapter 5 (English law), §§ 5.4.2.2, 5.4.3.4 and 5.4.4.

61 See e.g. the Ryanair case, [2000] EWHC Ch 55. See also chapter 5 (English law), § 5.4.2.2.

between a legal remedy, like a specific amount of monetary damages, or an equitable remedy, for example by injunctive relief. In case of malicious falsehood the claim for damages is not limited to nominal damages, but does even include damages for distress and injury to feelings. In case of defamation the plaintiff can have in a civil action for damages, an injunction to prevent any repetition of the libel, a statement in open court clearing the defendant's name, or in exceptional cases a criminal prosecution against those responsible if the libel tends to provoke a breach of the peace.

So for many cases, the three jurisdictions will produce the same results. The English courts seem to be a bit more tolerable though towards denigrating statements than their Dutch and German counterparts, in particular if the statements contain truthful facts. A difference is that there is no general right to sue in respect of untruths under English law. Instead separate torts may be applicable with their own requirements and remedies. Although German law also has split up this area of law in two Sections 4 (7) and (8) UWG, these sections are clearly interrelated. Since under Dutch law the discrediting of a competitor leads to tortious behaviour that has been elaborated in case law, only one set of rules apply.

6.5 UNLAWFUL IMITATION BY MISREPRESENTATION

In this section, I will compare the protection granted against unlawful imitation by misrepresentation under the national laws of the Netherlands, Germany and the United Kingdom. A trader who wants to prevent his product from being imitated by a competitor will start by invoking his intellectual property rights. If it is the technical features of his product that he wants to protect, he can seek protection under the regime of patents and utility models. If he is concerned about his artistic works he may turn to copyright. If he wants to protect the design of his product he may seek protection under a registered design right or, for a short period of three years under an unregistered Community design right. In that case, he may also invoke copyright law and trademark law protection for three-dimensional marks.

So while in most cases the trader will receive sufficient protection under intellectual property rights, what happens if these rights do not apply to his product, or their term of protection has expired, or he has forgotten to register? All three jurisdictions have developed a form of additional protection that can be invoked in such cases, albeit that special circumstances must apply. Under English law this protection is basically provided for under the tort of passing off, under German law it may be actionable as unlawful imitation while under Dutch tort law it may be actionable under the heading of slavish imitation. Under German law, unlike Dutch and English law, protection against unlawful imitation may be granted in the absence of any likelihood of confusion. This case will be discussed in the next section under the heading of misappropriation.

The starting point is the freedom of competition as stated above in section 6.2. A trader should be allowed to imitate the products (or services) of his competitor in the

absence of intellectual property protection.⁶² Under German and Dutch law intellectual property laws may pre-empt unfair competition law as a basis for ancillary protection. In particular intellectual property rights that protect the technical features of a product, such as e.g. patent law, provide for an exhaustive regime of protection whereby the granting of ancillary protection under tort law is not deemed to be appropriate. Intellectual property rights that protect the design of a product or its means of identification allow for more room in the granting of additional protection based on tort law.⁶³ English law is not familiar with the concept of pre-emption by intellectual property law. A reason for this may be that the common law torts and statutory intellectual property rights stand in isolation and are applied interdependently. Section 2(2) of the Trade Marks Act 1994 specifically leaves the action for passing off unaffected.⁶⁴ Although the pre-emption of unfair competition law, in particular the law of passing off, is not an issue, case law often nevertheless *de facto* produces a pre-emptive effect. Especially in cases other than trademark law, the courts have not been very eager to allow the common law to be used to protect trade values that are recognized by statute in situations where the statute affords no protection.⁶⁵ These arguments are not placed under the heading of a pre-emptive effect, but under the principle of freedom of competition.

Under all three jurisdictions an imitation can be held unlawful only if certain circumstances apply. The first requirement is that the customer is likely to be confused by the misrepresentation.⁶⁶ In the past, both the German as well as the Dutch courts used to assessing whether the hurried, non-vigilant consumer was likely to be confused by the imitation, but the last few years has seen these courts taking the more liberal European model of the average, well-informed consumer into account. The three jurisdictions differ in the type of confusion that may fall within the protection against unlawful imitation. While the Dutch courts primarily provide protection against cases of confusion as to origin including 'direct confusion', the English and German courts have also provided protection against connection misrepresentations,⁶⁷ leading the public to believe that the defendant's or the plaintiff's business or goods are connected or associated with each other.⁶⁸ The English courts have, however, not allowed the

62 See chapter 3 (Dutch law), § 3.2; chapter 4 (German law), § 4.8.2; chapter 5 (English law), § 5.2.

63 See chapter 3 (Dutch law), § 3.5.5.2b; See chapter 4 (German law), § 4.8.2. in particular footnote 176.

64 This is, however, in line with the Trademark Directive that states that it 'does not exclude the application to trade marks of provisions of law of the Member States other than trade mark law, such as the provisions relating to unfair competition, civil liability or consumer protection'.

65 See chapter 5 (English law), § 5.5.1.5.

66 The term 'misrepresentation' as used in English law largely corresponds to the term 'confusion' used by the civil law countries in these cases. There is, however, a slight difference since misrepresentation requires deception as to the trade source of goods and deception and confusion are not entirely similar, see chapter 5 (English law), § 5.5.1.2. I will put these terms on a par.

67 See for this term, chapter 5 (English law), § 5.5.1.6.

68 See chapter 4 (German law), § 4.8.3.4a; chapter 5 (English law), § 5.5.1.6.

protection awarded under passing off against connection misrepresentations to be turned into a merchandising right. In the area of character merchandising, look-alikes are only protected if the imitated product shows a sign that leads the public to believe that they are getting a product from a genuine source, for instance if the product bears the word 'Official'.⁶⁹ In addition to the protection against 'source misrepresentations' including confusion as to origin and the 'limited' protection against connection misrepresentations, the law of passing off may also provide protection against 'product misrepresentations'. In the champagne cases, there was no confusion as to the origin of the imitations, but there was a misrepresentation in so far as that the defendant had misused the commonly used description shared by all who produced the original 'real' champagne. The defendant by selling goods of inferior quality could exploit the goodwill shared by the producers of 'real' champagne, by pretending that its goods belong to a class of goods to which they do not belong. In these cases, the tort of passing off has been extended to offer protection of collective goodwill in geographical indications of origin or indications of quality.⁷⁰ Finally, the tort of passing off has in a limited number of cases allowed protection against 'inverse' passing off. In such a case, the defendant asserts that the plaintiff's goods are his goods or that the plaintiff's quality is his quality, in contrast to the classic case of passing off. Under German law, the protection provided under unfair competition law against connection misrepresentations not only includes cases where the consumer assumes that there is a business or organisational connection between the original business and the business of the imitator, but also cases where the consumer thinks that the imitated product is part of the second product line of the original manufacturer.⁷¹ Dutch law does not offer the protection provided for under German and English law as described above, although in many cases the Dutch Trade-mark Act will be applicable.

Besides the requirement of a misrepresentation that is shared by all three jurisdictions, German and Dutch law require the imitated product to have a certain degree of distinctiveness.⁷² The product does not have to be original, or new, rather the distinctiveness relates to the product's function to serve as an indicator of commercial origin.⁷³ German and Dutch law both distinguish between products that derive their distinctiveness from aesthetic (design) features, and products that derive their distinctiveness from technical features. Products belonging to the last category are not likely to fall under the protection of unfair competition law, since it is at variance with the principle that businesses (who imitate other businesses) should be free to assign those technical

69 See chapter 5 (English law), § 5.5.1.6.

70 Many of these cases are, basically, misdescriptions as to the geographical indications of origin. See chapter 1 (Introduction), § 1.3, footnote 18.

71 Chapter 4 (German law), § 4.8.3.4a.

72 Chapter 3 (Dutch law), § 3.5.5.1a; Chapter 4 (German law), § 4.8.3.2. Under German law, the term 'competitive characteristics' is used and it corresponds with the term distinctiveness.

73 See chapter 4 (German law), § 4.8.3.2.

features to their products that enhance the quality of their product in the interest of the consumers. The law of passing off does not require distinctiveness, but instead it requires the plaintiff to show that he has generated goodwill.⁷⁴ It is insufficient if the plaintiff alleges that his reputation has been damaged, since goodwill requires an ‘actual customer connection or experience’, which is based on the economic concept of the attractive force to bring in custom.⁷⁵ Goodwill can be acquired through trading, for example by using marks or other indicators in relation to one’s goods, services, or business. Goodwill is normally attached to a distinctive sign. Trading symbols that have through trading become clearly distinctive will generate goodwill. The requirement of goodwill is thus closely related to the requirement of distinctiveness under German and Dutch law, although goodwill will be more difficult to prove.⁷⁶

Whether an imitation is unlawful depends on the circumstances of the case. Under Dutch and German law imitations will more likely be considered to be unlawful the more the products look alike, the higher the level of distinctiveness of the original and the more potential alternatives there are. The first two of these three factors equally apply to the English law of passing off as well. If a plaintiff has generated a large amount of goodwill, for example by using fancy get-up or words, his burden of proving deception will be lightened. Also, if the original product and the imitated product look very similar, a misrepresentation will more likely occur. The fact that there are other alternatives on the market that are similar to the original product is, however, of less relevance in cases of passing off. Its relevance for Dutch and German law stems from the fact that these jurisdictions provide for protection against needless confusion as to origin. That means that an imitated product that confuses the public as to its commercial origin, does not necessarily lead to unfair competition. The imitator can only be held liable if he could have avoided the confusion by taking reasonable measures. If the original product primarily has technical features, it is not reasonable to expect the imitator to refrain from copying these features, since they are necessary to attain the same ‘technical effect’ as the original. The same holds true for those features of a product that have been ‘standardised’. The imitator is thus allowed to copy a product more precisely if this is required in order to remain compatible with the standard set by the original product. Under Dutch law, it is sufficient for the defendant to prove that he has done all that is reasonably needed to prevent confusion.⁷⁷ If, however, under Ger

74 Chapter 5 (English law), § 5.5.1.3.

75 *Ibid.*

76 I can imagine that a product may well be considered distinctive, but it has not (yet) generated enough goodwill to be granted protection under the tort of passing off.

77 Chapter 3 (Dutch law), § 3.5.5.1d. C.1. See the Board Script case, where the Supreme Court stated that in case one’s products are imitated it is not reasonable to require the imitator to differentiate its product on all possible points that do not impair the reliability and usefulness of one’s product; instead, an imitation is only unlawful if the imitator has failed to do all what is reasonable possible

man law there is a case of direct imitation by means of a technical duplicating process, the plaintiff will have a lesser burden in proving that there was needless confusion.⁷⁸

A famous group of cases involving unlawful imitation by misrepresentation, or slavish imitation, are the Lego cases. The Lego Corporation that manufactures the famous Lego bricks, has brought proceedings all over the globe against businesses that have imitated their bricks, some of which were successful⁷⁹ and some not.⁸⁰ Following

and necessary to prevent likelihood of confusion caused by the similarity of his products to the originals.

78 Chapter 4 (German law), § 4.8.3.3a. German law thus draws a distinction between cases of slavish imitation, where the imitation is achieved by the imitator's own efforts, and direct appropriation with the help of modern means of reproduction technology, the latter being more likely to constitute an act of unfair competition.

79 Lego has brought a claim under unfair competition in almost all 'Western' countries, as well as China, Hong Kong etc. These cases give a very diffuse picture as to whether Lego can or cannot receive protection for its bricks. Some courts deny protection to Lego for its toy bricks. In France, the trial court of Nanterre in Paris, (1994) 8 WIPR 196, rendered a judgement stating that Lego's registration of a three-dimensional trademark for a brick was declared invalid as their shape was primarily dictated by technical imperatives disclosed in long-expired patents. The claims under unfair competition law were also dismissed on the basis that the Mega Bloks products were not likely to cause confusion with the Lego bricks as Mega Bloks had their own distinctive containers, packaging, trademarks and colour assortments. See also the decision of the French Supreme Court of 29 March 1994, 1995 GRUR Int. 505. The Austrian Supreme Court of Justice delivered a judgement in 2000 (Case 4 Ob 196/00B) denying Lego protection against the imitation of its bricks. The imitator's boxes bore a prominent text, in black letters on a yellow background, stating: 'This series of building blocks is not a LEGO product'. The catalogues for its themed construction sets also stated: 'B***** is a standardised construction system of the B***** company and should not be confused with other construction systems'. The imitator's boxes prominently bore its company's name and respective trade mark. The Supreme Court held that the injunction should be set aside since the imitator's products were not marketed on the basis that they were Lego products and they were clearly marked with a statement that they were not the products of Lego.

80 Many courts have adopted a more 'protective' approach. On March 9, 1998, the Italian Supreme Court rendered a judgement which adopted the German approach followed in the 'Klemmbaustein I and II' cases (see § 4.8.3.4d). The Supreme Court held that post-sale confusion was likely especially because the bricks were aimed at children who are less discerning than adults in distinguishing original copies. It held that the imitator had breached its duty to introduce 'innocuous variations'. This protective approach has been followed by the lower Italian courts, see e.g. the Court of Appeal of Milan of 28 October 2003 which held that, even after the expiry of design or patent rights, the activity of a competitor which is clearly aimed at achieving a perfect interchange with the modular system of another undertaking constitutes unfair competition, being a form of appropriation of another competitor's goodwill, contrary to fair-trade practices under article 2598 (3), of the Italian Civil Code. The Danish Maritime and Commercial Court held that although the shape of the Lego brick was not covered by Trade Mark protection, there was a successful case of unfair competition. The Court found that the extent of similarity between the imitation and the Lego brick (they were interchangeable) was beyond what was necessary to

the expiry of its intellectual property laws, in particular patent law, and the difficulties it faced in bringing an action under trademark law,⁸¹ Lego has increasingly resorted to

achieve the technical effect described in the expired patent. The marketing of the imitation was found to be contrary to good marketing practices, see EIPR 1995, 17(3), D65. On the 1st of October 2004, the Swedish court of Marknadsdomstolen (MD 2004:23) ruled in favour of Lego by accepting the argument that it was possible to design the toy bricks in other ways but with the same technical result that would not mislead the consumer about the origin of the goods and that the imitator had deliberately exploited the possibility of confusion in its marketing. The Finnish Market Court in its decision of 12 April 2005 (to where the case has been returned by the Supreme Court after its 29 March 2004 judgement) has prohibited an imitator from selling its bricks in Finland unless they are modified so that they can no longer be mistaken for Lego bricks. The Court held that the imitator had abused the goodwill of the Lego group while creating confusion as to commercial origin by marketing imitations that were of inferior quality to the original Lego products. Consequently the imitator was held to be in violation of good marketing practices. It is noteworthy that the Market Court held – in line with the earlier ruling by the Supreme Court in the matter – that the criteria for distinguishing an imitation from the original should be set particularly high if the original product is well known among consumers. In 2003 the Norwegian court of Drammen Tingrett ruled in favour of the LEGO Company and stated that there was a case of unfair competition on the ground that the imitated products were liable to cause confusion and the imitator had used this product confusion for marketing purposes. See also the judgement of Supreme Court of Norway, 20 December 1997, 1995 GRUR Int. 508, that is much more restrictive in allowing protection under unfair competition. The Lego group also won a case against a Chinese manufacturer of imitations in 2003 before the Beijing High Peoples Court (*Interlego AG v. Tianjin COKO Toy Co Ltd*). The manufacturer was ordered to surrender its moulds to the court, which then arranged for their destruction. In addition, the manufacturer had to publish an official apology in a national Chinese daily newspaper and pay a sum of money as compensation to the Lego Group.

- 81 Lego has tried, for example, to bring an action under US trademark law after Lego's patents ran out in the United States in 1983. The imitator Tyco Toys Incorporated had begun producing lines of building blocks that connected with Lego-brand building blocks. Tyco's blocks were less expensive, and its advertising directly attacked Lego with the slogans 'If you can't tell the difference, why pay the difference?' and 'Tyco looks and acts like Lego blocks.' The United States Court of Appeals (Tyco Industries, 5 U.S.P.Q. 2d. 1023 (D.N.J. 1987) aff'd 853 F.2d 921 (3rd. Cir 1988)) rejected Lego's argument of deceptive advertising as well as its claim of a common law trademark that consisted of a two by four inch building block. The United States Supreme Court declined to hear Lego's appeal. In its decision of 14 July 2003 the Canadian Federal Court of Appeal (2003 FCA 297) held that 'the LEGO Indicia in question is invalid as a 'trademark' because it is primarily functional'. The Supreme Court of Canada is poised to have the final word on this issue. Lego has experienced adversity by the decision of the OHIM to invalidate the shape of a LEGO-like construction brick on the ground that the shape was necessary to achieve a technical result (Case 63 C 107029/1). See also the UK case of *Interlego* [1998] RPC 69, in which the registration of the shapes of Lego bricks as trade marks under the 1938 Act was refused partly on the ground that it would have perpetuated Lego's patent monopoly.

unregistered rights and, in particular, protection under unfair competition law.⁸² Both in Germany and the Netherlands two very recent cases were brought before the courts that involved the imitation of the famous Lego toy bricks. On the 2nd of December, the German Federal Supreme Court delivered its judgement in such a Lego case.⁸³ The Federal Supreme Court held that in the absence of confusion at the time of the sale of the imitated bricks –since the packagings of the bricks were clearly distinctive–, there was no violation of unfair competition law. It attached importance to the fact that the imitator had clearly distinguished its products’ get-up. Whether or not there was a likelihood of post-sale confusion was irrelevant, since this type of confusion does not lead to protection under Section 4(9) UWG according to the Federal Supreme Court. In a recent case before the Dutch District Court of Breda, on the other hand, Lego’s claim under unfair competition law was allowed.⁸⁴ Despite the fact that the imitator Mega Bloks had clearly tried to prevent confusion by removing the Lego marks and adding its own marks, by changing the colour of the bricks and by using different packaging, the court held that the public were nevertheless likely to be confused by way of post-sale confusion.⁸⁵ Next, the court held that Mega Bloks had not sufficiently differentiated its products from the original Lego bricks. Mega Bloks’ defence that it had imitated the Lego bricks so closely because the public calls for bricks that are compatible with and able to be integrated into the system of Lego bricks, was rejected. The Court held that the Mega Bloks and the Lego bricks did not ‘necessarily have to be compatible or interchangeable’. This judgement by the District Court does not appear to be in line with the case law laid down by the Dutch Supreme Court.⁸⁶ In the United Kingdom there has not been a clear case brought by Lego under passing off. In a case in 1986 before the High Court of Justice, Lego was denied a claim under copyright law for copyright

82 Cuonzo/Pike, The Italian Supreme Court adopts the ‘Klemmbaustein’ approach to protection of Lego bricks, EIPR 2000, 22(3), p. 138.

83 BGH 2 December 2004, I ZR 30/02. See also chapter 4 (German law), § 4.8.3.4d.

84 District Court of Breda, 6 July 2005, LJN: AT8962.

85 The court argued that after the sale of the bricks, and after the packaging was removed, they were likely to confuse people that were confronted with them, e.g. family, friends etc. This line of reasoning is not very convincing. Even if those people are confused by ‘post-sale’ confusion, they will no longer be confused if they go to a retail outlet and try to buy the imitated bricks because it will become evident to them, e.g. based on the packaging used, that they are not buying the original Lego bricks.

86 There have been several cases by lower courts that show a more protective and anti-competitive approach towards unfair competition than the one that has been taken by the Dutch Supreme Court. See e.g. the earlier Lego case of *Lima v. Lego*, Court of Appeal Amsterdam 23 December 1999, IER 2000, no. 2, p.103-109. In this case, the Court of Appeal did consider that Lima had not sufficiently differentiated its imitated bricks and allowed an action against unfair competition.

infringement.⁸⁷ However, despite the fact that English law and German law have not granted protection to Lego for its toy bricks, the company has in many cases succeeded in preventing its competitors from marketing imitated products.⁸⁸

As to the remedies available, Dutch law basically provides for the same set of remedies as under misleading advertising (see the previous paragraph), since unlawful imitation by misrepresentation establishes tortious liability under 6:162 BW as well.⁸⁹ This means that the plaintiff can file for an injunction, he can claim damages, or he can ask for a declaratory judgement. In respect with the damages, the plaintiff can claim special damages or he can claim for the surrender of profits. Finally, the plaintiff may have some specific remedies available to him, like a claim for submission of exhibits, or a claim for a product recall. Under German law, the ‘usual’ remedies contained in the UWG, are available to the plaintiff.⁹⁰ First of all, under Section 8 UWG he can file for injunctive relief by requiring the offender to abate the nuisance, or, if there is danger of repetition, to refrain from acting. This means that he can stop the imitator from offering his imitations. In most cases only the competitors can take action, so not the consumers’ or trade organisations. Secondly, under Section 9 UWG the plaintiff can claim damages, provided the wrongdoer has acted intentionally or negligently. These damages may be calculated by way of the so-called ‘triple damage calculation’. This means he can claim (1) special damage, (2) a fair licence fee (this possibility is not -directly- available under Dutch and English law), (3) or damages based on account of profits. Finally, the plaintiff may have some specific remedies available to him, like a claim on the account of unjust enrichment or a claim for third party discovery. Under the English law of passing off, the plaintiff may file for injunctive relief, so as to stop and prevent the repetition of the defendant’s conduct. The plaintiff can also claim for special damages, e.g. based on loss of profits. In addition, damages may be granted in respect of losses to the claimant based on the account of profits made by the defendant from the passing off. No intentional act of the defendant is required to claim damages. The plaintiff can recover all the expenses incurred and all the gains forgone because of the misrepresentation, for example the reduction in sales of goods and materials. In general, only individual competitors – no industrial associations – will have a right of action under passing off,

87 [1987] F.S.R. 283. See, however, the trademark case of *Lego System Atkieselskab v. Lego M Lemelstrich* [1983] FSR 155, where Lego was allowed to prevent the use of its name on garden furniture.

88 See the cases mentioned *supra* 80. As formulated by one of the imitators, Tyco in the proceedings before the Hong Kong High Court ([1987] FSR 409), ‘the dominance of Lego [over the toy building brick market] is such that no building system can be successfully marketed unless it is compatible with Lego’.

89 See chapter 3 (Dutch law), § 3.5.5.

90 See chapter 4 (German law), § 4.3.3 for the remedies available under German law.

except in '*Advocaat*' cases⁹¹ where an individual trader is able to bring a claim on behalf of himself and other members of a group of traders with a shared interest.

So, all three jurisdictions basically offer the plaintiff the possibility to claim damages and file injunctions. There are only minor differences between remedies available, in particular as to the heads of damages available. German law seems like the only jurisdiction that explicitly allows damages based on a fair licence fee. As to the substantial law, the requirements for establishing a successful action against unlawful imitation are basically the same under the three jurisdictions. The imitation must lead to a misrepresentation and specific circumstances must apply. The jurisdictions differ, however, in the exact manner in which these requirements are assessed and what extra specific circumstances are required. It is striking that in particular the Dutch lower courts do not really base their judgements on the principle of freedom of competition as clearly formulated in the Supreme Court's case law, but seem to focus too much on the position of the original manufacturer. The lower courts appear to be quite willing to assume the likelihood of confusion, and they require the imitator to distinguish, to a high degree, its imitations from the originals, as is shown for example in the above-mentioned Lego case. As to the specific circumstances, both English and German law do not only protect against confusion as to origin and 'direct confusion', like Dutch law, but they also protect against connection misrepresentations, although the English Courts have prevented the development of 'merchandising rights'. The English tort of passing off has extended its boundaries even further, providing, in some cases, the protection of collective goodwill in indications of quality or geographical indications of origin although these latter cases can also be accommodated within various other legal areas like trademark law. The tort of passing off also recognises restrictions by way of the requirements that are laid down, in particular showing that goodwill has been damaged. The greatest restrictions are exercised by German and Dutch law as they only provide protection against misrepresentations that could have been avoided by taking reasonable measures (*needless* confusion). Unfortunately, unlike German law, Dutch law attaches only minor importance to the get-up of a product, including its packaging and the badges of trade used to indicate its origin, when assessing the likelihood of confusion. Instead the Dutch lower courts have proved themselves to be quite willing to accept post-sale confusion.

91 See for an analysis of the *Advocaat* case, § 5.5.1.6.

6.6 MISAPPROPRIATION OF ANOTHER'S ACHIEVEMENTS⁹²

In this section I will discuss imitations that are held to be unlawful not because they lead to misrepresentation, but because of other reasons. The protection provided to traders against unlawful imitations by misrepresentation is primarily based on protecting the identification function of the imitated product. That is the reason why in such cases the imitated product has to be distinctive and that there should be a likelihood of (needless) confusion in order to be eligible for protection under unfair competition law. With regard to imitations that are considered to be unlawful for reasons other than confusion, the protection under unfair competition law is of a different nature. In these cases, it is not the identification function of the imitated product that is protected, but the labour and capital invested in the production or promotion of certain products, services or intangibles are protected. The original manufacturer can invoke this 'sweat of the brow' protection to prevent competitors from benefiting from the fruits of these labour and investments. It is precisely this form of protection that the courts of the three jurisdictions have shown exceptional difficulty in coping therewith. It offers traders protection for their goodwill even if there is no misrepresentation, for example in the case of dilution of their badges of trade or in case their goodwill or achievements are exploited. This kind of protection does not focus on a misrepresentation to the public, but on the misappropriation of the achievements or assets of a trader.

Even more than is the case with unlawful imitation by misrepresentation, in these cases the principle of freedom of competition steps very prominently into the limelight. This is most evidently shown by the English courts that have in no uncertain terms dismissed the law of passing off from being turned into an action against misappropriation. In their view there is no liability for misappropriation without misrepresentation since there is nothing inherently wrong with copying as such.⁹³ But also the German and Dutch courts have stated that the principle of free competition should take precedence since the protection offered against misappropriation is equivalent to the protection offered by intellectual property rights and it is not desirable to create more monopolies. A trader should therefore be allowed to imitate the products of his competitor in the absence of any likelihood of confusion.⁹⁴

English law does not recognize a right to be protected against misappropriation of one's achievements or intangibles. The common law leans against monopolies. Although the tort of passing off has been expanded by *inter alia* stretching the requirement

92 Under Dutch law, the protection of achievements ('prestatiebescherming') only concerns the protection of certain intangibles that are not protected under the specific intellectual property laws. I will use it for all cases where a trader is granted protection for his goods or services or intangibles in case of imitation or exploitation by another, where there is no risk of confusion.

93 See chapter 5 (English law), §§ 5.2 and 5.5.1.7.

94 See chapter 3 (Dutch law), §§ 3.2 and 3.5.5.4a; chapter 4 (German law), § 4.8.2.

of misrepresentation, this expansion has not gone so far as to include misappropriation.⁹⁵ The courts have warned that if the common law were to stray beyond cases of deception it would serve only to stifle competition. The limits set by intellectual property rights define the boundary between legal or equitable protection and ‘untrammelled’ competition which reflects the balance between competing interests which Parliament has regarded as adequate. Unfair competition protection against misappropriation would open the door to ‘judicial indulgence of idiosyncratic notions of what is fair in the market place’.⁹⁶ One of the consequences of this approach is that English law does not provide for protection against look-alikes e.g. in cases of character merchandising, at least when there is no misrepresentation.⁹⁷ German courts are more willing to provide protection against imitations that do not confuse.⁹⁸ Section 4(9)(c) involves the imitation that is accomplished by unlawfully obtaining another’s trade secrets. This case will be discussed in the next section under the heading of Know-how protection. Section 4(9)(b) provides a trader with protection if his goods or services are imitated involving the exploitation or damaging of his reputation. Unlike English or Dutch law, German law prohibits unlawful imitation that does not involve misrepresentation, but where the focus is primarily on the protection of the reputation of the manufacturer of the original products. So instead of protecting the identification function of a product, that is of value to all market participants, German law protects in these cases the reputation⁹⁹ or goodwill¹⁰⁰ of a single business. The original manufacturer can thus prevent the transfer of his goodwill to a competitor, despite the fact that his competitor is only ‘engaged in competition’ and does not confuse the public by providing misdescriptions concerning his own product. In many cases, this form of unfair competition is used by traders to counter the danger of dilution of their trade assets in case intellectual property rights, e.g. trademark right, do not provide the trader with suitable protection.¹⁰¹ German law thus seems to be more willing to provide protection against dilution than English and

95 See chapter 5 (English law), § 5.5.1.7. et seq.

96 See chapter 5 (English law), § 5.5.1. et seq.

97 See *supra* 69.

98 This protection is also endorsed by the AIPPI in its 1995 resolution, Q 115, see e.g. No. 2.6: ‘slavish or quasi-slavish imitation and direct appropriation of a product or service are acts of unfair competition, not only if they cause confusion but also, if they exploit the reputation of the imitated product or service or substantially damage its distinctive quality’; No. 2.7: ‘under such circumstances, no undue and unlimited monopoly right is given but a concrete unfair business practice is prohibited’; No. 2.8: ‘slavish or quasi-slavish imitation of a product or service does not constitute an act of unfair competition to the extent that it is necessary to the technical function of the product or service’. See also Schricker/Henning-Bodewig, Gutachten (2001), p. 46.

99 See e.g. the Rolls Royce case, BGH, GRUR 1983, 247.

100 See e.g. the Mars case, BGH, GRUR 1994, 808 and the Nivea case, BGH, GRUR 1995, 57.

101 See chapter 4 (German law), § 4.8.3.4b.

Dutch law.¹⁰² These differences between the national laws of unfair competition with regard to dilution seem to have been diminished by Article 5 (2) of the Trade Marks Directive.¹⁰³ However, the seemingly broad protection against *inter alia* dilution appears to be applied with some restriction by the German courts, especially after the enactment of the UWG 2004. If the defendant has adequately informed the public of the fact that his products are not the same as the originals, he will not be considered to be taking advantage of the plaintiff's reputation.¹⁰⁴ Neither will the potentially broad form of protection awarded to traders who claim that a competitor has inserted a product in their 'non-proprietary series' (see the German Lego case) lead to any *de facto* monopolies since the German Federal Court has seriously restricted this doctrine.¹⁰⁵ However, the category 'obstructing the competitor' that includes cases of systematic imitation and imitation of transient products like fashion, is more likely to lead to unwanted monopolies.¹⁰⁶ The Federal Supreme Court has reinforced the view that if there is no clear confusion in these cases, they should not be actionable according to the principle of freedom of competition. Moreover, there is a possibility that especially transient products may fall within the scope of protection of one of the intellectual property rights, in particular the unregistered community design. Finally, German law also protects against the unlawful imitation of valuable intangibles, like TV programme formats, fictive characters and advertising concepts.¹⁰⁷ Under English law, this is not possible. Dutch law provides, in theory, for the protection of one's achievements even in the absence of confusion. This is however limited to achievements consisting of valuable

102 German law is, in this respect, strongly supported by the WIPO in its WIPO Model Provisions on protection against unfair competition (see chapter 2, § 2.2.4) and the AIPPI in its 1995 Resolution, Q 115 (see chapter 2, § 2.2.5, footnote 63). Article 3 (damaging another's goodwill or reputation) of the WIPO Model Provisions calls for very broad protection against dilution including the protection of 'celebrities' and 'well-known fictional characters' and it also explicitly mentions dilution in its wording, although it deals with the concept of dilution primarily in the context of the protection of well-known and famous trademarks. The AIPPI 1995 resolution calls for very broad protection as well, see e.g. No. 9.3: 'dilution should be generally regarded as unfair competition' and No. 9.4: 'marks and other distinctive signs having a reputation should be protected against the taking of undue advantage of or causing detriment to their distinctive character or reputation'.

103 This optional clause of the EC Trade Marks Directive has been implemented by virtually all the countries of the European Union, including Germany, the United Kingdom and the Netherlands. See Section 10 (3) UK Trade Marks Act 1994, Section 13A(1)(c) Benelux Trade Mark Act and Section 14 (2)(3) German Trade Mark Act.

104 See e.g. the recent Lego case, *supra* 83.

105 *Ibid.* One could nonetheless argue that it is comprehensible that German law tried to put the Lego case in a specific category providing *de facto* for protection of achievements, since this approach is to be preferred over the approach by the Dutch lower courts that have placed it in the category of slavish imitation by confusion thereby unnecessarily stretching the requirement of confusion.

106 Cf. chapter 4 (German law), § 4.8.3.4e.

107 See chapter 4 (German law), § 4.8.3.5.

intangibles. This theoretical doctrine under Dutch law has not been substantiated in any solid form of protection. The main reason for this is that the Supreme Court has exercised considerable restraint in granting traders full protection for their achievements as this would seriously imperil the freedom of competition.¹⁰⁸ While it has been attempted in several cases, the Supreme Court has never granted this so-called ‘sweat of the brow’ protection except for one case that involved an anticipated judgement.¹⁰⁹

So, one may conclude that protection outside the scope of the classical unlawful imitation by misrepresentation is not broadly granted under any of the three jurisdictions, although German law provides the original manufacturer with the most possibilities in this respect. As to the remedies available in cases of misappropriation, in so far as such an action is possible under the three jurisdictions, the observations made in the previous section are similarly applicable.

6.7 PROTECTING KNOW-HOW

The protection of know-how has, surprisingly, not yet been harmonised despite the many international rules that have been drafted in this field. Although it is not addressed in the Paris Convention, it is contained within the TRIPs Agreement, the WIPO Model Provision and the various international reports that have been drafted such as, for instance, the resolutions of the International Association for the Protection of Intellectual Property (AIPPI). All three jurisdictions embrace the protection of know-how under various legal regimes, in particular under civil law, under criminal law and sometimes under specific rules in separate regulations.

Dutch law does not provide for exclusive and absolute rights of know-how.¹¹⁰ Unlike German and English law, Dutch law does not enable the keeper of a trade secret to transfer it. This omission has, in my opinion correctly,¹¹¹ been criticized in the literature.¹¹² Only in the case of unfair behaviour, for example by using improper methods in retrieving trade secrets, can the retriever be held liable. Such behaviour may be actionable under tort law. The intentional abuse of trade secrets is punishable under the Dutch

108 See the *Holland Nautic v. Decca* case, HR 27 June 1986, NJ 1987, 191.

109 See chapter 3 (Dutch law), § 3.5.5.4b.

110 The European Commission also believes this to be the case. See e.g. 76/743/EEC: Commission Decision of 26 July 1976 relating to a proceeding under Article 85 of the EEC Treaty (IV/28.996 – Reuter/BASF).

111 One argument is that even the European Commission assumes that trade secrets can be transferred, see EC Commission Regulation No. 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements (OJ L 123/11). See also Gielen (1999), p. 7; Brinkhof (1997), p. 40; van Engelen (NJB 1991), p. 431; Wessels (1995), p. 99.

112 See chapter 3 (Dutch law), § 3.5.5.5.

Criminal Code, for example the intentional disclosure of confidential information by a (former) employee.¹¹³ The Criminal Code does not criminalise the use of the confidential information by third parties. The contracting party who breaches confidentiality by disclosing confidential information, may be held liable for breach of contract. Like Dutch law, German law provides for criminal sanctions, as well as the possibility of bringing an action under tort law, and under contract law for breach of contract.¹¹⁴ Under German law the abuse of know-how constitutes a 'special statutory offence'.¹¹⁵ It is not clear whether German law provides for exclusive and absolute rights of know-how,¹¹⁶ although they are certainly not considered to be industrial property rights.¹¹⁷ Unlike German and Dutch law, the United Kingdom does not provide criminal sanctions against the abuse of know-how.¹¹⁸ But apart from that, English law does not provide for protection under the law of confidence that can lead to actions on the basis of contract, tort, equity, good faith or even *sui generis* actions.¹¹⁹ Just like German and Dutch law, English law does not consider trade secrets to be property 'in the strict sense'. Property rights are, as opposed to trade secrets, 'definable, identifiable by third parties, capable in its nature of assumption by third parties, and have some degree of permanence or stability'.¹²⁰ Trade secrets are only granted protection for as long as they remain secret. It is therefore better, based on these findings of German, Dutch and English law, to describe them as 'quasi-property rights'.¹²¹

The three jurisdictions stipulate (for the greater part) similar conditions for information to be protected as know-how. First of all, the information must be confidential or secret, that is to say, not generally known or easily accessible.¹²² English law excludes information that lacks 'the necessary quality of confidence' because of its triviality,

113 Ibid.

114 See chapter 4 (German law), § 4.8.4.1.

115 Fezer/Rengier (2004), § 17, 30

116 This is probably not the case since the literature does not explicitly mention it, while it does explicitly mention it in the case of patent law.

117 They are assumed to be part of a company's property assets. Cf. Baumbach/Hefermehl/Köhler (2004), § 17, 1.

118 See chapter 5 (English law), § 5.5.2.3.

119 Ibid.

120 [1965] AC 1175, 1247–1248.

121 Since they have many characteristics similar to property rights, as they represent capital value and are transferable, see e.g. the EC Commission Regulation No. 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements (OJ L 123/11). See also Buydens, La protection de la quasi-cr ation, Larcier: Brussels 1993, p. 354, who proposes to devise rules for trade secrets as 'quasi-creative achievements'.

122 See chapter 3 (Dutch law), § 3.5.5.5; chapter 4 (German law), § 4.8.4.2; chapter 5 (English law), §§ 5.5.2.1 and 5.5.2.2. See also EC Commission Regulation, *supra* 111, Section 1(1)(i) 'know-how' means a package of non-patented practical information, resulting from experience and testing, which is: (i) secret, that is to say, not generally known or easily accessible.

immorality or vagueness.¹²³ German and Dutch law also requires the keeper of the trade secret to have an economic interest in keeping the information confidential. Secondly, the keeper of the confidential information must show his intention to keep the information confidential. He can do this, for example, by entering into a confidentiality agreement with the parties to whom he discloses the confidential information. The three jurisdictions all deal with the question of whether the discloser of confidential information can be held liable even if the information was received in good faith. In most cases, the discloser will not be held liable. This is not the case if the discloser should have known that he disclosed confidential information that has been obtained without permission, for example based on the way he had acquired the information or based on the existence of a fiduciary relationship. In such cases, English law looks at what the reasonable man should expect.¹²⁴ This casuistic approach largely corresponds with the approach proposed by the WIPO in its model provisions on protection against unfair competition.¹²⁵

The three jurisdictions partly differ in the various unauthorised uses of confidential information that are held to be unlawful. The German UWG contains an extensive list of actions with regard to trade secrets that are considered to be unfair. First of all, the UWG considers it a criminal act for an employee to betray trade secrets during his employment. If he discloses the confidential information after the period of his employment he may still be held liable under civil law. Secondly, the UWG criminalises cases of industrial espionage, where a person, by applying technical means, appropriates a trade secret. Thirdly, a person may be held liable under the UWG if he, without proper

123 See chapter 5 (English law), § 5.5.2.2. See also EC Commission Regulation, *supra* 111, Section 1(1)(i): '[know-how means a secret that is] (ii) substantial, that is to say, significant and useful for the production of the contract products, and (iii) identified, that is to say, described in a sufficiently comprehensive manner so as to make it possible to verify that it fulfils the criteria of secrecy and substantiality;'

124 See chapter 5 (English law), § 5.5.2.2.

125 See e.g. the notes to Article 6 of the Model Provisions. Note 6.15 states that 'only if the competitor did not know that the acquisition involved an act [of using or acquiring a trade secret by improper means] (...) should his act not be regarded as an act of unfair competition'. Other types of 'fair use' mentioned in these notes are e.g. in note 6.08: 'Former employees generally have the right to use and exploit, for the purpose of earning their living, any skills, experience and knowledge that they may have acquired in the course of previous employment' and note 6.09: 'The disclosure or use of secret information by a person who has acquired it in a legitimate business transaction with the rightful holder cannot be regarded as an act of unfair competition if the disclosure or use is made without violation of the contract (for example, if the contract is silent on the matter).' See also the recommendations made by the AIPPI in its 1986 Resolution, Q 115, where it states that 'in general, the use or disclosure of a trade secret received in good faith from a person to whom it was entrusted or who obtained it improperly is not considered to be an act of unfair competition.' and that 'if, as a consequence of the use by the third party, the trade secret is disclosed to the public, it has lost its secret character. Consequently everybody is free to use it'.

authorisation, exploits another's trade secrets, which he has obtained by unlawful means. Fourthly, a person may be liable if he exploits, without proper authorisation, confidential information that has been entrusted to him, for example in the course of contractual negotiations. Finally, a person can be held criminally liable if he induces another person, or offers another person the possibility to commit one of the previously mentioned criminal actions.¹²⁶ Under Dutch law, the unauthorised disclosure of confidential information will likewise be held unlawful, if the person has used improper methods in acquiring it. This includes the use of industrial espionage, theft, the bribery of employees or the use of information disclosed by employees in violation of their obligation of secrecy as well as the abuse of confidential information acquired during the precontractual stage, as well as the exploitation and reproduction of samples acquired during business cooperation.¹²⁷ Also under English law the unauthorised disclosure of confidential information may be held to be unlawful in certain cases. One of the requirements is, similar to Dutch law, that the recipient of the confidential information uses it in an unfair manner, for example as a 'springboard' for other activities. He may be held liable if he discloses the confidential information without the consent of the original keeper of the confidential information. Third parties may also be held liable for exploiting confidential information if they have acquired it from another person as a result of a breach of confidence.¹²⁸

So, whereas the German UWG provides for a very extensive regulation on the protection of know-how, Dutch case law has created a protection that is nearly equivalent by declaring almost the same multitude of actions with respect to confidential information to be unlawful. English law seems to be somewhat more limited by declaring improper methods of acquiring and exploiting confidential information to be unlawful, although the requirement that the recipient of the confidential information uses it in an 'unfair manner' does not demonstrate a very narrow scope of protection. Nevertheless, English law, just as Dutch and German law,¹²⁹ does meet the requirements set out in Article 39 of the TRIPs Agreement that states that improper methods 'shall mean at least practices such as breach of contract, breach of confidence and inducement to breach, and includes the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition'. English law does not *explicitly* require, as opposed to German and Dutch law, that the confidential information should be of economic interest to the

126 See for more on these actions under the UWG: chapter 4 (German law), §§ 4.8.4.3-4.8.4.7.

127 See chapter 3 (Dutch law), § 3.5.5.5.

128 See chapter 5 (English law), §§ 5.5.2.4 and 5.5.2.5.

129 The requirements posed under Dutch, English and German law are also very similar to the requirements proposed by the AIPPI in its 1985 Resolution, Q 115, see No. 11 et seq., as well as the requirements posed by the WIPO in Article 6 (Unfair Competition in Respect of Secret Information) of its Model Provisions on protection against unfair competition.

keeper of the information.¹³⁰ The main difference between the three jurisdictions, however, is the fact that English law does not provide for criminal sanctions.

130 This requirement (which is also formulated in the TRIPs Agreement and the WIPO Model Provisions) is, however, not very essential since a trade secret will nearly always be of value to an entrepreneur otherwise he would not try to keep it secret.

Conclusion

It has long been established that competition, as a dynamic process, is the driving force behind the development and instigation of economic activities in the marketplace. In particular the establishment and increased growth of the Internal Market, following its institution after the Second World War, have resulted in a boost to cross-border trade in the EU. New types of trade by e-commerce are expected to accelerate this trend even further. Although the ideal laissez-faire model of competition presupposes that it works on its own in the market process with no interference at all by the state or any other party, in practice this ideal has proved to be susceptible to various types of market failures, caused by anti-competitive behaviour. To counter this unwanted behaviour, anti-trust laws were drafted that provide states with the means to stop behaviour by market participants that was likely to distort competition, in the interest of the market as a whole. In addition, unfair competition laws were drafted that enabled individual traders to prevent their competitors from engaging in unfair trading practices, so as to ensure that all the market participants would fight and compete in a fair, ethical way which accords with the competition rules of the ‘game’.

The protection against unfair competition has consequently already been recognised in most jurisdictions for more than a century. Under Continental laws, rules against unfair competition relate to a wide range of unfair trading practices, including *inter alia* misleading and comparative advertising, disparagement of competitors, creating confusion by passing off, betraying trade secrets, and certain forms of misappropriation. English law has, as we have seen in chapter 5, meticulously rejected the adoption of any general law of unfair competition. The fear of ‘vague and broad notions’ intruding into the common law of torts, of a flood of litigation and of unwanted legal interference in the economic market were some of the reasons for this rejection. Most of the hesitancy of the common law lawyers is perfectly understandable, since they do not have a common definition of unfair competition nor do they know what unfair competition seeks to protect, the concept thus remaining alien to them. Does this mean that there is no general concept of unfair competition in the Community? The previous chapters have shown that this is not the case. Although the common law jurisdictions of the European Union (the United Kingdom and Ireland)¹ do not recognise a law of unfair competition, they do recognise the same principles underlying the laws of unfair competition in the

1 For an analysis of unfair competition law in Ireland, see Bodewig, *Unlauterer Wettbewerb in Irland*, GRURInt 2004/10, p. 827-832.

Continental countries.² These principles are that the law starts from the freedom of competition, and only allows exceptions to this rule if specific circumstances apply. These specific circumstances have, within the common law jurisdictions, primarily been moulded in a set of discrete nominate torts and a number of specific statutory consumer protection regulations, while under the civil law jurisdictions, these circumstances have been moulded in a general concept of unfair competition. So in most cases English law protects against the same unfair trading practices that the laws of the Continent do, the only difference being that English law does not refer to it as offering protection against unfair competition. ‘What’s in a name’, Shakespeare would say.³ Besides, in the English literature a general concept of unfair competition seems to be increasingly a topic of discussion, considering the strikingly large number of articles on this topic, if not a topic of actual consideration. Of course, the fact that the Member States of the EC all provide protection against unfair trading practices does not mean that the same practices will be judged under the same standards. Despite the unifying effect produced by the liberalisation of European competition policy predominantly influenced by the EC consumer model, the national courts still have (and will always have), a *de facto* different casuistic approach towards a case if only because of the many cultural differences between the Member States. But this is just a fact of judicial life, and not something we have to deplore.

Although all EC Member States offer protection against unfair trading practices to a certain degree, there are many differences between the legal systems concerning the extent of the protection offered as has been previously indicated by Ulmer in his study on comparative unfair competition law and as is still the case nowadays. Neither international nor Community regulations on unfair competition have succeeded in unifying this area of the law. The protection offered under the Paris Convention for the Protection of Industrial Property has been transferred to the national laws of the EC Member States – albeit that the common law jurisdictions have not placed it under the heading of unfair competition law –, except for the general clause that has been rejected by the common law jurisdictions. The Community regulation of unfair competition mainly consists of a patchwork of piecemeal rules not showing any cohesion at all. Part of unfair competition law has been embodied in specific EC regulations, like the Misleading and Comparative Advertising Directive and the Television without Frontiers Directive. A second part has been framed in the form of new *sui generis* rights, for

2 Cf. Dworking, Unfair competition: is it time for European harmonisation?, in: Vaver/Bently (eds.), Intellectual property in the new millennium, essays in honour of William R. Cornish, Cambridge University Press 2004, p. 177, where he states that ‘as is so often the case, both perspectives are extreme. When the mists of misunderstanding are cleared away, it can be seen that both systems provide similar remedies for most forms of ‘unfair competition’ and that, where the civil law does provide more extensive protection, it does so uncomfortably, lacking a clear perspective or principle as to how far its more extensive protection should go.’

3 Shakespeare, Romeo and Juliet, Act 2, Scène 2 (Juliet).

example databases and unregistered community designs. A third part has been incorporated within the existing regimes of intellectual property law, for example the protection against dilution under the Trademark Directive (although it is also regulated in the Comparative Advertising Directive). Finally, a part of unfair competition law has not been regulated at all by the EC legislator, for example in the areas of slavish imitation, trade secrets and disparagement of competitors.

The recent EC Unfair Commercial Practices Directive promises an all-inclusive approach towards the law of unfair trading, but fails to comply. This directive is clearly a product of the 'fair trading movement' that has been instigated by the increased focus on consumer protection in the European Community. This free trading movement has displayed itself in the recent unfair competition laws of the Scandinavian countries and Belgium, as well as (partly) in the new German UWG. These laws are based on the concept of fair trading, an 'enhanced' version of unfair competition one might say, at least in theory. This new legal concept of fair trading is based on a 'protective purpose triad' ('*Schutzzwecktrias*'). It underlines the inclusion of the interest of consumers, next to the interest of competitors and the market as a whole, under the law of unfair competition. This concept, although it is already basically present in the EC Directive on Misleading Advertising, was not adopted by the European Commission when it drafted the Unfair Commercial Practices Directive. The Unfair Commercial Practices Directive, although it is the first European directive that calls for the total harmonisation of laws on unfair trading practices, is limited to business-to-consumer transactions and does not provide rules on the classic unfair trading practices 'between competitors'. The harmonisation of the national laws on unfair competition by way of this directive has therefore essentially been a matter of developing and implementing a Community policy on consumer protection. Because of this limitation, the Directive effectively cuts the law of unfair competition in half, allowing for even more legal uncertainty, complexity as well as the fragmentation of unfair competition law within the Community. Although the Unfair Commercial Practices Directive marks an important step towards the harmonisation of the complete area of unfair competition law, it is unfortunate that it does not contain a very important part of unfair competition: the protection of a trader against the unfair practices of his competitor.

It is regrettable that the recent German law on unfair competition, the UWG 2004, was not enacted a couple of years earlier. It might have pushed the Community legislator in the right direction while it was drafting proposals for harmonisation. The UWG 2004 clearly reflects the increased importance of consumer protection in the Community area as well as the liberalised consumer model adopted by the European Court of Justice. More importantly, it shows that a legal system such as that of Germany, that has always been accused of providing an excessive amount of protection to traders, has the power and the will to adapt to the more liberal standards that are endorsed by the Community legislator. Harmonisation is not solely a product of juridical harmonisation, but also of social and political desire. Recent developments have shown that the Member States of the European Union are more willing to make an attempt at concilia-

tion. It is unfortunate that the European legislator has abstained from seizing this momentum and to propose a regulation for the complete area of unfair competition law instead of proposing a Directive that is solely based on consumer protection that clearly portrays the fact that it originates from the 'Health and Consumer Protection' Directorate-General, indicating a demarcation dispute within the European Commission.

The previous chapters have shown that the not fully harmonised areas of misleading advertising, discrediting competitors, unlawful imitation by misrepresentation and know-how are all in some way regulated within the three jurisdictions that have been researched, although an analysis of the national laws shows that there are currently still differences between most of them. The area of misleading advertising has shown a gradual convergence of consumer models under the influence of the normative Community approach. So, although misleading advertising has only been harmonised by way of 'minimum harmonisation', the laws of the three jurisdictions seem to have approached a near complete harmonisation. The other areas still show various differences between the national laws concerning the requirements for bringing an action. There is one aspect that shows differences between the national laws on all areas of unfair competition law, and that is the available remedies, particularly in the case of misleading advertising where the interests of the consumer are involved. Under German and English law, for example, the consumer cannot directly take action when his interests are injured because of an unfair trading practice. In addition, English law separates between consumer protection law and torts that protect the competitor. The consumer protection laws provide for criminal penalties, while the separate torts provide for civil remedies under common law. A consumer can make a complaint to a local Trading Standards Departments that may file for injunctive relief in its enforcement of consumer protection law, while a competitor can file for injunctive relief or claim damages under e.g. the tort of passing off. Next, English law does not provide for criminal sanctions in the case of a violation of trade secrets. Finally, it is worth mentioning the fact that the United Kingdom and the Netherlands provide for an extensive system of self-regulation in the case of misleading or otherwise unfair advertising. Germany has placed its faith in a system where the consumer as well as trade organisations play an important role in countering unfair trading practices. For a harmonised unfair competition law, it is not only of importance to look at substantive law but also to take into account whether the plaintiff can actually exercise or enforce his rights. Although the EC has launched various initiatives to streamline the enforcement of unfair trading laws, these initiatives are mainly aimed at cooperation between national authorities in cases of cross-border purchases by consumers and do not tackle the issue of streamlining the national provisions on enforcement.

The main substantive comparative law problems discussed in this research are to be found in the area of unlawful imitation of another's products, services or intangibles. In assessing this area, I have distinguished between unlawful imitation by misrepresen-

tation⁴ and other unlawful imitations. These other unlawful imitations I have indicated by the term ‘misappropriation’. The categories of unlawful imitations by misrepresentation on the one hand, and misappropriation, on the other, are clearly distinct. The protection against unlawful imitations by misrepresentation is based upon protecting the ‘indicative function’ of the original goods or services, that is their ability to indicate their commercial origin.⁵ This function is of importance to the public because if they receive confusion information it will likely distort their economic behaviour. In these cases, the law of unfair competition corresponds to trademark law although the focus is not solely on the protection of the trader’s interest, but has shifted to include the interests of the consumer as well. This means that the requirement of confusion will to be more difficult to fulfil than is the case under trademark law. For a successful action against unlawful imitation by misrepresentation, the plaintiff has to show actual confusion, meaning that a person is (likely to be) confused as to certain aspects of a product or service that are essential to his decision to purchase this product or acquire this service. Moreover, the plaintiff has to prove that the confusion was ‘needless’. If an imitator can show that even by taking reasonable measures he was not able to avoid the confusion, since he needed to imitate certain features of a product so as to attain e.g. compatibility or the same technical effect, he will not be held liable. Imitations will more likely be considered unlawful the more the products look alike, the higher the original’s level of distinctiveness and the more potential alternatives are on the market. In my view, the English tort of passing off provides too broad a protection (in addition to trademark law) by not explicitly requiring the misrepresentation to be ‘needless’. German law (as well as English law) should be favoured in so far as it attaches importance to whether an imitator has clearly distinguished its product’s get-up, e.g. by not showing the marks of the original manufacturer but instead adding his own marks or by using a different packaging. This defence to likelihood of confusion has not been allowed under Dutch law.

The most controversial issue is the question whether the law of unfair competition should provide protection against misappropriation. This kind of protection, sometimes referred to as ‘sweat of the brow’ protection, does not protect the identification function of a certain good, but seeks to protect the labour and capital invested in the production or promotion of certain products, services or intangibles. The original manufacturer can invoke this ‘sweat of the brow’ protection to prevent any competitors from benefiting from the fruits of these labour and investments. By providing such protection, the law creates quasi-intellectual property rights with the result that ‘the basic concepts themselves lose their focus, and the policy justification for granting intellectual property

4 I deliberately refrain from using the word ‘slavish imitation’, since it has all kinds of undesirable marginal meanings, although the advantage of using this term would be that it would sound familiar to most readers.

5 The unfair behaviour by the imitator who harms this ‘indicative function’ of the original goods, will lead to unfair competition.

rights in the first place, that is, the reward and incentive to the creator balanced against technological, commercial or cultural development for society, becomes increasingly under challenge'.⁶ The English courts have been, in my opinion, right in their extremely cautious stance in allowing an action against misappropriation. In particular in the area of misappropriation the basic principle of freedom of competition as well as the relation between unfair competition law and intellectual property laws come to the fore. If people ask: why do we need an unfair competition law if we already have comprehensive intellectual property law? My answer would be simple: because their goals are different. Intellectual property law provides for exclusive rights that can be invoked even when there is no malice or knowledge of wrongful behaviour on the part of the defendant. Unfair competition law provides for the rules of the game (in the field of competition).⁷ The plaintiff, in the case of an action for unfair competition, will have to prove that the defendant acted unfairly, that specific circumstances apply and that he has a right to prevent the defendant from acting in this way. In many cases, the specific circumstance will be the (likelihood of) confusion. If unfair competition law is invoked solely to protect the economic interests of the plaintiff e.g. if his reputation is damaged or his goodwill is diluted, the plaintiff *de facto* tries to invoke protection equivalent to the protection offered under intellectual property law. The copying of another's goods, services, or intangibles that are not protected under intellectual property laws does not constitute unfair behaviour *per se*. Quite the contrary, 'imitation is the lifeblood of competition',⁸ and should principally be allowed,⁹ even if the competition turns out to

6 Lahore, The Herchel Smith Lecture 1992: Intellectual property rights and unfair copying: Old concepts, new ideas, [1992] 12 EIPR 428 at 433.

7 Kabel, review of Van Engelen's book, *Prestatiebescherming en ongeschreven intellectuele eigendomsrechten*, NJB 1995, p. 1009.

8 Kaufmann (1986), p. 5.

9 In fact, if imitations would never have been allowed, we would probably have missed out on various famous cultural works, as stated by Posner, Federal Appeals Court judge and Professor at the University of Chicago Law School, in: *The Truth About Plagiarism: It's usually a minor offence and can have social value*, *Newsday New York*, May 18, 2003: 'Plagiarism of work in the public domain is more common than otherwise. Consider a few examples: 'West Side Story' is a thinly veiled copy (with music added) of 'Romeo and Juliet,' which in turn plagiarized Arthur Brooke's 'The Tragical Historye of Romeus and Juliet' published in 1562, which in turn copied from several earlier Romeo and Juliets, all of which were copies of Ovid's story of Pyramus and Thisbe. 'Paradise Lost' plagiarizes the book of Genesis in the Old Testament. Classical musicians plagiarize folk melodies (think only of Dvorak, Bartok, and Copland) and often 'quote' (as musicians say) from earlier classical works. Edouard Manet's most famous painting, 'Dejeuner sur l'herbe,' copies earlier paintings by Raphael, Titian, and Courbet, and 'My Fair Lady' plagiarized Shaw's play 'Pygmalion,' while Woody Allen's movie 'Play It Again, Sam' 'quotes' a famous scene from 'Casablanca.' Countless movies are based on books, such as 'The Thirty-Nine Steps' on John Buchan's novel of that name or 'For Whom the Bell Tolls' on Hemingway's novel. Many of these 'plagiarisms' were authorized, and perhaps none was deceptive; they are what Christopher Ricks in his excellent book 'Allusions to the Poets' helpfully terms 'allusion'

be tough.¹⁰ As noted by Kamperman Sanders, ‘Where exploitation of another’s achievements becomes inequitable, unfair competition law acts provides a remedy. This means that the mere fact that another’s achievement is being exploited does not call for any impediment on the basis of unfair competition provisions. On the contrary, appropriating and building on others’ achievements is the cornerstone of cultural and economic development. The axiom of freedom to copy epitomizes the principles of the free market system’.¹¹ The Courts thus have to be very careful in allowing protection equivalent to intellectual property rights, under the heading of unfair competition.¹² Provided that an action against misappropriation would be possible, it should only be granted in the very specific case that a trader exploits the achievements of another trader, who cannot invoke any intellectual property right, but nonetheless has a clear interest that should be protected from an objective perspective. The Dutch doctrine of ‘equivalent performance’ is a good example of how to frame such an action that should, because of its nature, be very limited in scope. The doctrine of ‘equivalent performance’ seeks to protect the trader if his valuable intangibles – so not his tangibles – are misappropriated by using unfair means.¹³ This doctrine has been limited in several ways by the Dutch Supreme Court. It is confined to the protection of those intangibles that are of such a nature that they could be put on a par with other products of labour that justify the

rather than ‘plagiarism.’ But what they show is that copying with variations is an important form of creativity, and this should make us prudent and measured in our condemnations of plagiarism’. A nice indication is also given by one of Voltaire’s pithy oxymoronic epigrams: ‘Originality is nothing but judicious imitation. The most original writers borrowed one from another. The instruction we find in books is like fire. We fetch it from our neighbours, kindle it at home, communicate it to others, and it becomes the property of all.’

10 See e.g. Weir, *Chaos or Cosmos: Rookes, Stratford and the Economic Torts*, [1964] CLJ 225, stating that: ‘Social life must not be a jungle ... economic life is bound to be a race’.

11 Kamperman Sanders (1997), p. 8.

12 This does not mean that the Courts or the legislators should allow all these desired ‘new’ types of protection to be included under the existing intellectual laws, since this would expand their scope of protection to unwanted proportions. Some of these forms of misappropriation (e.g. imitation that does not confuse at all nor denigrate a competitor) are better left unaffected by any legal regime. Cf. Kamperman Sanders, *Ongeoorloofde mededinging in Europa*, CIER lezingen 1998/1999, *Ars Aequi Libri*, p. E1 et seq.; Lahore (1992), p. 433.

13 See also in this respect Ladas, *Patents, Trademarks and Related Rights: National and International Protection*, Harvard University Press: Cambridge 1975, p. 1689: ‘...where does lawful competition end and unlawful competition begin? The fact that a competitor may derive a profit from his act of competition or cause monetary loss to another is not, in itself, unlawful. The dictum ‘no one should reap where he has not sown’ requires delicate application. Progress would be paralyzed and monopoly would become general if we should attempt to prevent persons from using the work or experience of others. We must encourage people in the same trade or industry to compete for the custom of the public on the most favorable terms. The issue is whether the means employed in such competition are fair and lawful. An act may lack tact or taste but not be dishonest’.

granting of an intellectual property right, and there must be special circumstances¹⁴ that are of such weight that they can overrule the principle of freedom of competition. There is only one instance under Dutch law where this kind of ‘quasi-property right’ was awarded. In 1989 the Supreme Court awarded such a right to the performing artists and their record companies that at that time were not protected under Dutch intellectual property law. However, a bill ratifying the 1961 Rome Convention for the protection of performers, producers of phonograms and broadcasting organisations was pending in the Lower House at that time, so in fact this was a case of anticipatory application. If one would construct an action against misappropriation under such strict limitations, it would be acceptable also in view of the predominant freedom of competition, although it would *de facto* be primarily of theoretic value since the prerequisites are very difficult to fulfil. Anyway, provided that such an action is desirable it should, in my view, be very limited and only be regulated in national laws, and not by way of harmonisation since this is an area of law that requires each Member State individually to strike a balance between freedom of competition and protection of achievements. Introducing a broad concept of misappropriation in Europe, would, as the English lawyers argue,¹⁵ create unwanted monopolies that would serve to stifle competition, thereby crossing the boundaries between legal or equitable protection and untrammelled competition that reflects the balance between competing interests which Parliament has regarded as adequate.

However, apart from misappropriation, unfair competition law is a subject of Community interest on two accounts, namely as it is likely to constitute an unjustified obstacle to the free movement of goods and services within the Community’s Common (Internal) Market and because there are still legitimate differences among national laws that affect the functioning of the common market. It is therefore necessary to harmonise unfair competition law, not by a piecemeal approach, but by a comprehensive approach including the interests of consumers and competitors alike while adhering to the way this area has been regulated in most of the Member States of the European Union.¹⁶ As put by Ohly, ‘If the idea of an internal market in the EU is to make practical sense, Euro-marketing must be possible without consulting lawyers in 25 countries first.’¹⁷ The Unfair Commercial Practices Directive takes a great step towards harmonisation by bringing a new momentum to the process of harmonisation, but instead of taking a solid approach it is unfortunately restricted to consumers and ‘a split European unfair

14 For example, benefiting from another’s investments.

15 See chapter 6 (Comparative law), § 6.6 and chapter 5 (English law), in particularly § 5.5.1.7c.

16 See also Beier, [1985] 16 IIC 139, at 164, who concludes: ‘The future unfair competition law of the Community should not lean too strongly towards consumer interests. It must give equal effect to the interests of all market participants (...) for the European Economic Community a model of an integrated unfair competition and consumer protection law with a neutral position on goals of structural policy would seem even more appropriate than for individual member states’.

17 Ohly (2005), p. 17.

competition law makes life more complicated than it should be'.¹⁸ Nevertheless, this EC directive has cleared the road of many obstacles that were hindering the complete harmonisation of unfair competition law. One of its great features is its structure that provides for a general clause with a '*de minimis*' threshold ensuring that only truly anti-competitive practices will be scrutinised. The United Kingdom will have to implement the directive which will force this country to relinquish its resistance to a general clause that prohibits unfair behaviour. It will take some time for the English Courts to get used to finding a clear-cut and worldwide definition of what constitutes an unfair act.¹⁹ But this will similarly be the case for the other Member States since standards of 'fairness' may differ from country to country in order to reflect the economic, sociological and moral concepts of a given society. It will be the task of the European Court of Justice to set the standards in this field without impairing the flexibility of the national courts to counter new forms of unfair trading practices. The effects of more internationalised trade, as well as the effects of the liberalisation of unfair competition law, in particular in the field of consumer protection by way of adherence to a European consumer model, combined with the new EC Unfair Commercial Practices Directive, may well have cleared the path for addressing the problematic areas of unlawful imitation by misrepresentation,²⁰ competitor disparagement and know-how protection. The time has come to cross the boundaries between common law and civil law and to develop a general concept of unfair competition that is primarily based on protecting the consumer, competitor and the market as a whole from unfair behaviour like confusing the consumer or discrediting a competitor instead of providing the sole trader with a new 'quasi-intellectual property right' based on misappropriation. A future extension of the EC Unfair Commercial Practices Directive's scope of protection so as to include the protection of traders, with the addition of specific 'traditional' acts of unfair competition, would provide the needed legal certainty and clarity for consumers and traders that are engaged in cross-border transactions. Since the recent Community legislation is embodied in a directive, the extension should preferably be framed in the form of a directive as well. Such a coherent body of marketing practice rules should be accompanied by efficient rules on enforcement across Europe, although a unified approach to these issues of procedural law will be the most difficult task to fulfil. The various

18 Ibid.

19 Maybe the English Courts can take comfort from this statement by Marcus Aurelius, who was Emperor of Rome from 161-180 AD: 'I used to think it was awful that life was so unfair. Then I thought, wouldn't it be much worse if life were fair, and all the terrible things that happen to us come because we actually deserve them? So, now I take great comfort in the general hostility and unfairness of the universe.'

20 This area of law is roughly equivalent to what is called 'slavish imitation'. This does, as stated above, not include the other forms of unlawful imitation that I have indicated by the term 'misappropriation' since these are concerned with the protection of one's achievements instead of the protection against confusion.

Chapter 7

initiatives taken by the European Commission to come to an efficient enforcement of 'community infringements', by introducing mandatory rules, self-regulation, co-regulation or by adhering to the New Approach, will prove helpful in this respect.

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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')

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 95 thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Economic and Social Committee ⁽¹⁾,

Acting in accordance with the procedure laid down in Article 251 of the Treaty ⁽²⁾,

Whereas:

- (1) Article 153(1) and (3)(a) of the Treaty provides that the Community is to contribute to the attainment of a high level of consumer protection by the measures it adopts pursuant to Article 95 thereof.
- (2) In accordance with Article 14(2) of the Treaty, the internal market comprises an area without internal frontiers in which the free movement of goods and services and freedom of establishment are ensured. The development of fair commercial practices within the area without internal frontiers is vital for the promotion of the development of cross-border activities.
- (3) The laws of the Member States relating to unfair commercial practices show marked differences which can generate appreciable distortions of competition and obstacles to the smooth functioning of the internal market. In the field of

advertising, Council Directive 84/450/EEC of 10 September 1984 concerning misleading and comparative advertising ⁽³⁾ establishes minimum criteria for harmonising legislation on misleading advertising, but does not prevent the Member States from retaining or adopting measures which provide more extensive protection for consumers. As a result, Member States' provisions on misleading advertising diverge significantly.

- (4) These disparities cause uncertainty as to which national rules apply to unfair commercial practices harming consumers' economic interests and create many barriers affecting business and consumers. These barriers increase the cost to business of exercising internal market freedoms, in particular when businesses wish to engage in cross border marketing, advertising campaigns and sales promotions. Such barriers also make consumers uncertain of their rights and undermine their confidence in the internal market.
- (5) In the absence of uniform rules at Community level, obstacles to the free movement of services and goods across borders or the freedom of establishment could be justified in the light of the case-law of the Court of Justice of the European Communities as long as they seek to protect recognised public interest objectives and are proportionate to those objectives. In view of the Community's objectives, as set out in the provisions of the Treaty and in secondary Community law relating to freedom of movement, and in accordance with the Commission's policy on commercial communications as indicated in the Communication from the Commission entitled 'The follow-up to the Green Paper on Commercial Communications in the Internal Market', such obstacles should be eliminated. These obstacles can only be eliminated by establishing uniform rules at Community level which establish a high level of consumer protection and by clarifying certain legal concepts at Community level to the extent necessary for the proper functioning of the internal market and to meet the requirement of legal certainty.

⁽¹⁾ OJ C 108, 30.4.2004, p. 81.

⁽²⁾ Opinion of the European Parliament of 20 April 2004 (OJ C 104 E, 30.4.2004, p. 260), Council Common Position of 15 November 2004 (OJ C 38 E, 15.2.2005, p. 1), Position of the European Parliament of 24 February 2005 (not yet published in the Official Journal) and Council Decision of 12 April 2005.

⁽³⁾ OJ L 250, 19.9.1984, p. 17. Directive as amended by Directive 97/55/EC of the European Parliament and of the Council (OJ L 290, 23.10.1997, p. 18).

- (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. In line with the principle of proportionality, this Directive protects consumers from the consequences of such unfair commercial practices where they are material but recognises that in some cases the impact on consumers may be negligible. It neither covers nor affects the national laws on unfair commercial practices which harm only competitors' economic interests or which relate to a transaction between traders; taking full account of the principle of subsidiarity, Member States will continue to be able to regulate such practices, in conformity with Community law, if they choose to do so. Nor does this Directive cover or affect the provisions of Directive 84/450/EEC on advertising which misleads business but which is not misleading for consumers and on comparative advertising. Further, this Directive does not affect accepted advertising and marketing practices, such as legitimate product placement, brand differentiation or the offering of incentives which may legitimately affect consumers' perceptions of products and influence their behaviour without impairing the consumer's ability to make an informed decision.
- (7) This Directive addresses commercial practices directly related to influencing consumers' transactional decisions in relation to products. It does not address commercial practices carried out primarily for other purposes, including for example commercial communication aimed at investors, such as annual reports and corporate promotional literature. It 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.
- (8) 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. It is understood that there are other commercial practices which, although not harming consumers, may hurt competitors and business customers. The Commission should carefully examine the need for Community action in the field of unfair competition beyond the remit of this Directive and, if necessary, make a legislative proposal to cover these other aspects of unfair competition.
- (9) This Directive is without prejudice to individual actions brought by those who have been harmed by an unfair commercial practice. It is also without prejudice to Community and national rules on contract law, on intellectual property rights, on the health and safety aspects of products, on conditions of establishment and authorisation regimes, including those rules which, in conformity with Community law, relate to gambling activities, and to Community competition rules and the national provisions implementing them. The Member States will thus be able to retain or introduce restrictions and prohibitions of commercial practices on grounds of the protection of the health and safety of consumers in their territory wherever the trader is based, for example in relation to alcohol, tobacco or pharmaceuticals. Financial services and immovable property, by reason of their complexity and inherent serious risks, necessitate detailed requirements, including positive obligations on traders. For this reason, in the field of financial services and immovable property, this Directive is without prejudice to the right of Member States to go beyond its provisions to protect the economic interests of consumers. It is not appropriate to regulate here the certification and indication of the standard of fineness of articles of precious metal.
- (10) It is necessary to ensure that the relationship between this Directive and existing Community law is coherent, particularly where detailed provisions on unfair commercial practices apply to specific sectors. This Directive therefore amends Directive 84/450/EEC, Directive 97/7/EC of the European Parliament and of the Council of 20 May 1997 on the protection of consumers in respect of distance contracts ⁽¹⁾, Directive 98/27/EC of the European Parliament and of the Council of 19 May 1998 on injunctions for the protection of consumers' interests ⁽²⁾ and Directive 2002/65/EC of the European Parliament and of the Council of 23 September 2002 concerning the distance marketing of consumer financial services ⁽³⁾. This Directive accordingly applies only in so far as there are no

⁽¹⁾ OJ L 144, 4.6.1997, p. 19. Directive as amended by Directive 2002/65/EC (OJ L 271, 9.10.2002, p. 16).

⁽²⁾ OJ L 166, 11.6.1998, p. 51. Directive as last amended by Directive 2002/65/EC.

⁽³⁾ OJ L 271, 9.10.2002, p. 16.

specific Community law provisions regulating specific aspects of unfair commercial practices, such as information requirements and rules on the way the information is presented to the consumer. It provides protection for consumers where there is no specific sectoral legislation at Community level and prohibits traders from creating a false impression of the nature of products. This is particularly important for complex products with high levels of risk to consumers, such as certain financial services products. This Directive consequently complements the Community *acquis*, which is applicable to commercial practices harming consumers' economic interests.

- (11) The high level of convergence achieved by the approximation of national provisions through this Directive creates a high common level of consumer protection. This Directive establishes a single general prohibition of those unfair commercial practices distorting consumers' economic behaviour. It also sets rules on aggressive commercial practices, which are currently not regulated at Community level.
- (12) Harmonisation will considerably increase legal certainty for both consumers and business. Both consumers and business will be able to rely on a single regulatory framework based on clearly defined legal concepts regulating all aspects of unfair commercial practices across the EU. The effect will be to eliminate the barriers stemming from the fragmentation of the rules on unfair commercial practices harming consumer economic interests and to enable the internal market to be achieved in this area.
- (13) In order to achieve the Community's objectives through the removal of internal market barriers, it is necessary to replace Member States' existing, divergent general clauses and legal principles. The single, common general prohibition established by this Directive therefore covers unfair commercial practices distorting consumers' economic behaviour. In order to support consumer confidence the general prohibition should apply equally to unfair commercial practices which occur outside any contractual relationship between a trader and a consumer or following the conclusion of a contract and during its execution. The general prohibition is elaborated by rules on the two types of commercial practices which are by far the most common, namely misleading commercial practices and aggressive commercial practices.
- (14) It is desirable that misleading commercial practices cover those practices, including misleading advertising, which by deceiving the consumer prevent him from making an informed and thus efficient choice. In conformity with the laws and practices of Member States on misleading advertising, this Directive classifies misleading practices into misleading actions and misleading omissions. In respect of omissions, this Directive sets out a limited number of key items of information which the consumer needs to make an informed transactional decision. Such information will not have to be disclosed in all advertisements, but only where the trader makes an invitation to purchase, which is a concept clearly defined in this Directive. The full harmonisation approach adopted in this Directive does not preclude the Member States from specifying in national law the main characteristics of particular products such as, for example, collectors' items or electrical goods, the omission of which would be material when an invitation to purchase is made. It is not the intention of this Directive to reduce consumer choice by prohibiting the promotion of products which look similar to other products unless this similarity confuses consumers as to the commercial origin of the product and is therefore misleading. This Directive should be without prejudice to existing Community law which expressly affords Member States the choice between several regulatory options for the protection of consumers in the field of commercial practices. In particular, this Directive should be without prejudice to Article 13(3) of Directive 2002/58/EC of the European Parliament and of the Council of 12 July 2002 concerning the processing of personal data and the protection of privacy in the electronic communications sector⁽¹⁾.
- (15) Where Community law sets out information requirements in relation to commercial communication, advertising and marketing that information is considered as material under this Directive. Member States will be able to retain or add information requirements relating to contract law and having contract law consequences where this is allowed by the minimum clauses in the existing Community law instruments. A non-exhaustive list of such information requirements in the *acquis* is contained in Annex II. Given the full harmonisation introduced by this Directive only the information required in Community law is considered as material for the purpose of Article 7(5) thereof. Where Member States have introduced information requirements over and above what is specified in Community law, on the basis of minimum clauses, the omission of that extra information will not constitute a misleading omission under this Directive. By contrast Member States will be able, when allowed by the minimum clauses in Community law, to maintain or introduce more stringent provisions in conformity with Community law so as to ensure a higher level of protection of consumers' individual contractual rights.

(¹) OJ L 201, 31.7.2002, p. 37.

- (16) The provisions on aggressive commercial practices should cover those practices which significantly impair the consumer's freedom of choice. Those are practices using harassment, coercion, including the use of physical force, and undue influence.
- (17) It is desirable that those commercial practices which are in all circumstances unfair be identified to provide greater legal certainty. Annex I therefore contains the full list of all such practices. These are the only commercial practices which can be deemed to be unfair without a case-by-case assessment against the provisions of Articles 5 to 9. The list may only be modified by revision of the Directive.
- (18) It is appropriate to protect all consumers from unfair commercial practices; however the Court of Justice has found it necessary in adjudicating on advertising cases since the enactment of Directive 84/450/EEC to examine the effect on a notional, typical consumer. In line with the principle of proportionality, and to permit the effective application of the protections contained in it, this Directive takes as a benchmark the average consumer, who is reasonably well-informed and reasonably observant and circumspect, taking into account social, cultural and linguistic factors, as interpreted by the Court of Justice, but also contains provisions aimed at preventing the exploitation of consumers whose characteristics make them particularly vulnerable to unfair commercial practices. Where a commercial practice is specifically aimed at a particular group of consumers, such as children, it is desirable that the impact of the commercial practice be assessed from the perspective of the average member of that group. It is therefore appropriate to include in the list of practices which are in all circumstances unfair a provision which, without imposing an outright ban on advertising directed at children, protects them from direct exhortations to purchase. The average consumer test is not a statistical test. National courts and authorities will have to exercise their own faculty of judgement, having regard to the case-law of the Court of Justice, to determine the typical reaction of the average consumer in a given case.
- (19) Where certain characteristics such as age, physical or mental infirmity or credulity make consumers particularly susceptible to a commercial practice or to the underlying product and the economic behaviour only of such consumers is likely to be distorted by the practice in a way that the trader can reasonably foresee, it is appropriate to ensure that they are adequately protected by assessing the practice from the perspective of the average member of that group.
- (20) It is appropriate to provide a role for codes of conduct, which enable traders to apply the principles of this Directive effectively in specific economic fields. In sectors where there are specific mandatory requirements regulating the behaviour of traders, it is appropriate that these will also provide evidence as to the requirements of professional diligence in that sector. The control exercised by code owners at national or Community level to eliminate unfair commercial practices may avoid the need for recourse to administrative or judicial action and should therefore be encouraged. With the aim of pursuing a high level of consumer protection, consumers' organisations could be informed and involved in the drafting of codes of conduct.
- (21) Persons or organisations regarded under national law as having a legitimate interest in the matter must have legal remedies for initiating proceedings against unfair commercial practices, either before a court or before an administrative authority which is competent to decide upon complaints or to initiate appropriate legal proceedings. While it is for national law to determine the burden of proof, it is appropriate to enable courts and administrative authorities to require traders to produce evidence as to the accuracy of factual claims they have made.
- (22) It is necessary that Member States lay down penalties for infringements of the provisions of this Directive and they must ensure that these are enforced. The penalties must be effective, proportionate and dissuasive.
- (23) Since the objectives of this Directive, namely to eliminate the barriers to the functioning of the internal market represented by national laws on unfair commercial practices and to provide a high common level of consumer protection, by approximating the laws, regulations and administrative provisions of the Member States on unfair commercial practices, cannot be sufficiently achieved by the Member States and can therefore be better achieved at Community level, the Community may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty. In accordance with the principle of proportionality, as set out in that Article, this Directive does not go beyond what is necessary in order to eliminate the internal market barriers and achieve a high common level of consumer protection.
- (24) It is appropriate to review this Directive to ensure that barriers to the internal market have been addressed and a high level of consumer protection achieved. The review could lead to a Commission proposal to amend this Directive, which may include a limited extension to the derogation in

Article 3(5), and/or amendments to other consumer protection legislation reflecting the Commission's Consumer Policy Strategy commitment to review the existing *acquis* in order to achieve a high, common level of consumer protection.

- (25) This Directive respects the fundamental rights and observes the principles recognised in particular by the Charter of Fundamental Rights of the European Union,

HAVE ADOPTED THIS DIRECTIVE:

CHAPTER 1

GENERAL PROVISIONS

Article 1

Purpose

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.

Article 2

Definitions

For the purposes of this Directive:

- (a) 'consumer' means any natural person who, in commercial practices covered by this Directive, is acting for purposes which are outside his trade, business, craft or profession;
- (b) 'trader' means any natural or legal person who, in commercial practices covered by this Directive, is acting for purposes relating to his trade, business, craft or profession and anyone acting in the name of or on behalf of a trader;
- (c) 'product' means any goods or service including immovable property, rights and obligations;
- (d) 'business-to-consumer commercial practices' (hereinafter also referred to as commercial practices) means any act, omission, course of conduct or representation, commercial communication including advertising and marketing, by a trader, directly connected with the promotion, sale or supply of a product to consumers;
- (e) 'to materially distort the economic behaviour of consumers' means using a commercial practice to appreciably impair the consumer's ability to make an informed decision, thereby causing the consumer to take a transactional decision that he would not have taken otherwise;
- (f) 'code of conduct' means an agreement or set of rules not imposed by law, regulation or administrative provision of a Member State which defines the behaviour of traders who undertake to be bound by the code in relation to one or more particular commercial practices or business sectors;
- (g) 'code owner' means any entity, including a trader or group of traders, which is responsible for the formulation and revision of a code of conduct and/or for monitoring compliance with the code by those who have undertaken to be bound by it;
- (h) 'professional diligence' means the standard of special skill and care which a trader may reasonably be expected to exercise towards consumers, commensurate with honest market practice and/or the general principle of good faith in the trader's field of activity;
- (i) 'invitation to purchase' means a commercial communication which indicates characteristics of the product and the price in a way appropriate to the means of the commercial communication used and thereby enables the consumer to make a purchase;
- (j) 'undue influence' means exploiting a position of power in relation to the consumer so as to apply pressure, even without using or threatening to use physical force, in a way which significantly limits the consumer's ability to make an informed decision;
- (k) 'transactional decision' means any decision taken by a consumer concerning whether, how and on what terms to purchase, make payment in whole or in part for, retain or dispose of a product or to exercise a contractual right in relation to the product, whether the consumer decides to act or to refrain from acting;
- (l) 'regulated profession' means a professional activity or a group of professional activities, access to which or the pursuit of which, or one of the modes of pursuing which, is conditional, directly or indirectly, upon possession of specific professional qualifications, pursuant to laws, regulations or administrative provisions.

*Article 3***Scope**

1. This Directive shall apply to unfair business-to-consumer commercial practices, as laid down in Article 5, before, during and after a commercial transaction in relation to a product.

2. This Directive is without prejudice to contract law and, in particular, to the rules on the validity, formation or effect of a contract.

3. This Directive is without prejudice to Community or national rules relating to the health and safety aspects of products.

4. In the case of conflict between the provisions of this Directive and other Community rules regulating specific aspects of unfair commercial practices, the latter shall prevail and apply to those specific aspects.

5. For a period of six years from 12 June 2007, Member States shall be able to continue to apply national provisions within the field approximated by this Directive which are more restrictive or prescriptive than this Directive and which implement directives containing minimum harmonisation clauses. These measures must be essential to ensure that consumers are adequately protected against unfair commercial practices and must be proportionate to the attainment of this objective. The review referred to in Article 18 may, if considered appropriate, include a proposal to prolong this derogation for a further limited period.

6. Member States shall notify the Commission without delay of any national provisions applied on the basis of paragraph 5.

7. This Directive is without prejudice to the rules determining the jurisdiction of the courts.

8. This Directive is without prejudice to any conditions of establishment or of authorisation regimes, or to the deontological codes of conduct or other specific rules governing regulated professions in order to uphold high standards of integrity on the part of the professional, which Member States may, in conformity with Community law, impose on professionals.

9. In relation to 'financial services', as defined in Directive 2002/65/EC, and immovable property, Member States may impose requirements which are more restrictive or prescriptive than this Directive in the field which it approximates.

10. This Directive shall not apply to the application of the laws, regulations and administrative provisions of Member States relating to the certification and indication of the standard of fineness of articles of precious metal.

*Article 4***Internal market**

Member States shall neither restrict the freedom to provide services nor restrict the free movement of goods for reasons falling within the field approximated by this Directive.

CHAPTER 2

UNFAIR COMMERCIAL PRACTICES

*Article 5***Prohibition of unfair commercial practices**

1. Unfair commercial practices shall be prohibited.

2. A commercial practice shall be unfair if:

(a) it is contrary to the requirements of professional diligence,

and

(b) it materially distorts or is likely to materially distort the economic behaviour with regard to the product of the average consumer whom it reaches or to whom it is addressed, or of the average member of the group when a commercial practice is directed to a particular group of consumers.

3. Commercial practices which are likely to materially distort the economic behaviour only of a clearly identifiable group of consumers who are particularly vulnerable to the practice or the underlying product because of their mental or physical infirmity, age or credulity in a way which the trader could reasonably be expected to foresee, shall be assessed from the perspective of the average member of that group. This is without prejudice to the common and legitimate advertising practice of making exaggerated statements or statements which are not meant to be taken literally.

4. In particular, commercial practices shall be unfair which:
- (a) are misleading as set out in Articles 6 and 7,
 - or
 - (b) are aggressive as set out in Articles 8 and 9.
5. Annex I contains the list of those commercial practices which shall in all circumstances be regarded as unfair. The same single list shall apply in all Member States and may only be modified by revision of this Directive.

Section 1

Misleading commercial practices

Article 6

Misleading actions

1. A commercial practice shall be 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, in relation to one or more of the following elements, and in either case causes or is likely to cause him to take a transactional decision that he would not have taken otherwise:

- (a) the existence or nature of the product;
- (b) the main characteristics of the product, such as its availability, benefits, risks, execution, composition, accessories, after-sale customer assistance and complaint handling, method and date of manufacture or provision, delivery, fitness for purpose, usage, quantity, specification, geographical or commercial origin or the results to be expected from its use, or the results and material features of tests or checks carried out on the product;
- (c) the extent of the trader's commitments, the motives for the commercial practice and the nature of the sales process, any statement or symbol in relation to direct or indirect sponsorship or approval of the trader or the product;
- (d) the price or the manner in which the price is calculated, or the existence of a specific price advantage;
- (e) the need for a service, part, replacement or repair;

- (f) the nature, attributes and rights of the trader or his agent, such as his identity and assets, his qualifications, status, approval, affiliation or connection and ownership of industrial, commercial or intellectual property rights or his awards and distinctions;
- (g) the consumer's rights, including the right to replacement or reimbursement under Directive 1999/44/EC of the European Parliament and of the Council of 25 May 1999 on certain aspects of the sale of consumer goods and associated guarantees ⁽¹⁾, or the risks he may face.

2. A commercial practice shall also be regarded as misleading if, in its factual context, taking account of all its features and circumstances, it causes or is likely to cause the average consumer to take a transactional decision that he would not have taken otherwise, and it involves:

- (a) any marketing of a product, including comparative advertising, which creates confusion with any products, trade marks, trade names or other distinguishing marks of a competitor;
- (b) non-compliance by the trader with commitments contained in codes of conduct by which the trader has undertaken to be bound, where:
 - (i) the commitment is not aspirational but is firm and is capable of being verified,
 - and
 - (ii) the trader indicates in a commercial practice that he is bound by the code.

Article 7

Misleading omissions

1. A commercial practice shall be regarded as misleading if, in its factual context, taking account of all its features and circumstances and the limitations of the communication medium, it omits material information that the average consumer needs, according to the context, to take an informed transactional decision and thereby causes or is likely to cause the average consumer to take a transactional decision that he would not have taken otherwise.

⁽¹⁾ OJ L 171, 7.7.1999, p. 12.

2. It shall also be regarded as a misleading omission when, taking account of the matters described in paragraph 1, a trader hides or provides in an unclear, unintelligible, ambiguous or untimely manner such material information as referred to in that paragraph or fails to identify the commercial intent of the commercial practice if not already apparent from the context, and where, in either case, this causes or is likely to cause the average consumer to take a transactional decision that he would not have taken otherwise.

3. Where the medium used to communicate the commercial practice imposes limitations of space or time, these limitations and any measures taken by the trader to make the information available to consumers by other means shall be taken into account in deciding whether information has been omitted.

4. In the case of an invitation to purchase, the following information shall be regarded as material, if not already apparent from the context:

- (a) the main characteristics of the product, to an extent appropriate to the medium and the product;
- (b) the geographical address and the identity of the trader, such as his trading name and, where applicable, the geographical address and the identity of the trader on whose behalf he is acting;
- (c) the price inclusive of taxes, or where the nature of the product means that the price cannot reasonably be calculated in advance, the manner in which the price is calculated, as well as, where appropriate, all additional freight, delivery or postal charges or, where these charges cannot reasonably be calculated in advance, the fact that such additional charges may be payable;
- (d) the arrangements for payment, delivery, performance and the complaint handling policy, if they depart from the requirements of professional diligence;
- (e) for products and transactions involving a right of withdrawal or cancellation, the existence of such a right.

5. Information requirements established by Community law in relation to commercial communication including advertising or marketing, a non-exhaustive list of which is contained in Annex II, shall be regarded as material.

Section 2

Aggressive commercial practices

Article 8

Aggressive commercial practices

A commercial practice shall be regarded as aggressive if, 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 with regard to the product and thereby causes him or is likely to cause him to take a transactional decision that he would not have taken otherwise.

Article 9

Use of harassment, coercion and undue influence

In determining whether a commercial practice uses harassment, coercion, including the use of physical force, or undue influence, account shall be taken of:

- (a) its timing, location, nature or persistence;
- (b) the use of threatening or abusive language or behaviour;
- (c) the exploitation by the trader of any specific misfortune or circumstance of such gravity as to impair the consumer's judgement, of which the trader is aware, to influence the consumer's decision with regard to the product;
- (d) any onerous or disproportionate non-contractual barriers imposed by the trader where a consumer wishes to exercise rights under the contract, including rights to terminate a contract or to switch to another product or another trader;
- (e) any threat to take any action that cannot legally be taken.

CHAPTER 3

CODES OF CONDUCT*Article 10***Codes of conduct**

This Directive does not exclude the control, which Member States may encourage, of unfair commercial practices by code owners and recourse to such bodies by the persons or organisations referred to in Article 11 if proceedings before such bodies are in addition to the court or administrative proceedings referred to in that Article.

Recourse to such control bodies shall never be deemed the equivalent of foregoing a means of judicial or administrative recourse as provided for in Article 11.

CHAPTER 4

FINAL PROVISIONS*Article 11***Enforcement**

1. Member States shall ensure that adequate and effective means exist to combat unfair commercial practices in order to enforce compliance with the provisions of this Directive in the interest of consumers.

Such means shall include legal provisions under which persons or organisations regarded under national law as having a legitimate interest in combating unfair commercial practices, including competitors, may:

- (a) take legal action against such unfair commercial practices;

and/or

- (b) bring such unfair commercial practices before an administrative authority competent either to decide on complaints or to initiate appropriate legal proceedings.

It shall be for each Member State to decide which of these facilities shall be available and whether to enable the courts or administrative authorities to require prior recourse to other established means of dealing with complaints, including those referred to in

Article 10. These facilities shall be available regardless of whether the consumers affected are in the territory of the Member State where the trader is located or in another Member State.

It shall be for each Member State to decide:

- (a) whether these legal facilities may be directed separately or jointly against a number of traders from the same economic sector;

and

- (b) whether these legal facilities may be directed against a code owner where the relevant code promotes non-compliance with legal requirements.

2. Under the legal provisions referred to in paragraph 1, Member States shall confer upon the courts or administrative authorities powers enabling them, in cases where they deem such measures to be necessary taking into account all the interests involved and in particular the public interest:

- (a) to order the cessation of, or to institute appropriate legal proceedings for an order for the cessation of, unfair commercial practices;

or

- (b) if the unfair commercial practice has not yet been carried out but is imminent, to order the prohibition of the practice, or to institute appropriate legal proceedings for an order for the prohibition of the practice,

even without proof of actual loss or damage or of intention or negligence on the part of the trader.

Member States shall also make provision for the measures referred to in the first subparagraph to be taken under an accelerated procedure:

— either with interim effect,

or

— with definitive effect,

on the understanding that it is for each Member State to decide which of the two options to select.

Furthermore, Member States may confer upon the courts or administrative authorities powers enabling them, with a view to eliminating the continuing effects of unfair commercial practices the cessation of which has been ordered by a final decision:

(a) to require publication of that decision in full or in part and in such form as they deem adequate;

(b) to require in addition the publication of a corrective statement.

3. The administrative authorities referred to in paragraph 1 must:

(a) be composed so as not to cast doubt on their impartiality;

(b) have adequate powers, where they decide on complaints, to monitor and enforce the observance of their decisions effectively;

(c) normally give reasons for their decisions.

Where the powers referred to in paragraph 2 are exercised exclusively by an administrative authority, reasons for its decisions shall always be given. Furthermore, in this case, provision must be made for procedures whereby improper or unreasonable exercise of its powers by the administrative authority or improper or unreasonable failure to exercise the said powers can be the subject of judicial review.

Article 12

Courts and administrative authorities: substantiation of claims

Member States shall confer upon the courts or administrative authorities powers enabling them in the civil or administrative proceedings provided for in Article 11:

(a) to require the trader to furnish evidence as to the accuracy of factual claims in relation to a commercial practice if, taking into account the legitimate interest of the trader and any other party to the proceedings, such a requirement appears appropriate on the basis of the circumstances of the particular case;

and

(b) to consider factual claims as inaccurate if the evidence demanded in accordance with (a) is not furnished or is deemed insufficient by the court or administrative authority.

Article 13

Penalties

Member States shall lay down penalties for infringements of national provisions adopted in application of this Directive and shall take all necessary measures to ensure that these are enforced. These penalties must be effective, proportionate and dissuasive.

Article 14

Amendments to Directive 84/450/EEC

Directive 84/450/EEC is hereby amended as follows:

1. Article 1 shall be replaced by the following:

'Article 1

The purpose of this Directive is to protect traders against misleading advertising and the unfair consequences thereof and to lay down the conditions under which comparative advertising is permitted.;

2. in Article 2:

— point 3 shall be replaced by the following:

'3. "trader" means any natural or legal person who is acting for purposes relating to his trade, craft, business or profession and any one acting in the name of or on behalf of a trader.;

— the following point shall be added:

'4. "code owner" means any entity, including a trader or group of traders, which is responsible for the formulation and revision of a code of conduct and/or for monitoring compliance with the code by those who have undertaken to be bound by it.;

3. Article 3a shall be replaced by the following:

4. Article 4(1) shall be replaced by the following:

'Article 3a

1. Comparative advertising shall, as far as the comparison is concerned, be permitted when the following conditions are met:

- (a) it is not misleading within the meaning of Articles 2(2), 3 and 7(1) of this Directive or Articles 6 and 7 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 (*);
- (b) it compares goods or services meeting the same needs or intended for the same purpose;
- (c) it objectively compares one or more material, relevant, verifiable and representative features of those goods and services, which may include price;
- (d) it does not discredit or denigrate the trade marks, trade names, other distinguishing marks, goods, services, activities, or circumstances of a competitor;
- (e) for products with designation of origin, it relates in each case to products with the same designation;
- (f) it does not take unfair advantage of the reputation of a trade mark, trade name or other distinguishing marks of a competitor or of the designation of origin of competing products;
- (g) it does not present goods or services as imitations or replicas of goods or services bearing a protected trade mark or trade name;
- (h) it does not create confusion among traders, between the advertiser and a competitor or between the advertiser's trade marks, trade names, other distinguishing marks, goods or services and those of a competitor.

*1. Member States shall ensure that adequate and effective means exist to combat misleading advertising in order to enforce compliance with the provisions on comparative advertising in the interest of traders and competitors. Such means shall include legal provisions under which persons or organisations regarded under national law as having a legitimate interest in combating misleading advertising or regulating comparative advertising may:

- (a) take legal action against such advertising;
- or
- (b) bring such advertising before an administrative authority competent either to decide on complaints or to initiate appropriate legal proceedings.

It shall be for each Member State to decide which of these facilities shall be available and whether to enable the courts or administrative authorities to require prior recourse to other established means of dealing with complaints, including those referred to in Article 5.

It shall be for each Member State to decide:

- (a) whether these legal facilities may be directed separately or jointly against a number of traders from the same economic sector;
- and
- (b) whether these legal facilities may be directed against a code owner where the relevant code promotes non-compliance with legal requirements.;

5. Article 7(1) shall be replaced by the following:

*1. This Directive shall not preclude Member States from retaining or adopting provisions with a view to ensuring more extensive protection, with regard to misleading advertising, for traders and competitors.'

(*) OJ L 149, 11.6.2005, p. 22.;

Article 15

Amendments to Directives 97/7/EC and 2002/65/EC

1. Article 9 of Directive 97/7/EC shall be replaced by the following:

'Article 9

Inertia selling

Given the prohibition of inertia selling practices laid down in Directive 2005/29/EC of 11 May 2005 of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices in the internal market (*), Member States shall take the measures necessary to exempt the consumer from the provision of any consideration in cases of unsolicited supply, the absence of a response not constituting consent.

(* OJ L 149, 11.6.2005, p. 22.;

2. Article 9 of Directive 2002/65/EC shall be replaced by the following:

'Article 9

Given the prohibition of inertia selling practices laid down in Directive 2005/29/EC of 11 May 2005 of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices in the internal market (*) and without prejudice to the provisions of Member States' legislation on the tacit renewal of distance contracts, when such rules permit tacit renewal, Member States shall take measures to exempt the consumer from any obligation in the event of unsolicited supplies, the absence of a reply not constituting consent.

(* OJ L 149, 11.6.2005, p. 22.'

Article 16

Amendments to Directive 98/27/EC and Regulation (EC) No 2006/2004

1. In the Annex to Directive 98/27/EC, point 1 shall be replaced by the following:

1. 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 (OJ L 149, 11.6.2005, p. 22).'

2. In the Annex to Regulation (EC) No 2006/2004 of the European Parliament and of the Council of 27 October 2004 on cooperation between national authorities responsible for the enforcement of the consumer protection law (the Regulation on consumer protection cooperation) (1) the following point shall be added:

'16. 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 (OJ L 149, 11.6.2005, p. 22).'

Article 17

Information

Member States shall take appropriate measures to inform consumers of the national law transposing this Directive and shall, where appropriate, encourage traders and code owners to inform consumers of their codes of conduct.

Article 18

Review

1. By 12 June 2011 the Commission shall submit to the European Parliament and the Council a comprehensive report on the application of this Directive, in particular of Articles 3(9) and 4 and Annex I, on the scope for further harmonisation and simplification of Community law relating to consumer protection, and, having regard to Article 3(5), on any measures that need to be taken at Community level to ensure that appropriate levels of consumer protection are maintained. The report shall be accompanied, if necessary, by a proposal to revise this Directive or other relevant parts of Community law.

2. The European Parliament and the Council shall endeavour to act, in accordance with the Treaty, within two years of the presentation by the Commission of any proposal submitted under paragraph 1.

Article 19

Transposition

Member States shall adopt and publish the laws, regulations and administrative provisions necessary to comply with this Directive by 12 June 2007. They shall forthwith inform the Commission thereof and inform the Commission of any subsequent amendments without delay.

(1) OJ L 364, 9.12.2004, p. 1.

They shall apply those measures by 12 December 2007. When Member States adopt those measures, they shall contain a reference to this Directive or be accompanied by such a reference on the occasion of their official publication. Member States shall determine how such reference is to be made.

Article 20

Entry into force

This Directive shall enter into force on the day following its publication in the *Official Journal of the European Union*.

Article 21

Addressees

This Directive is addressed to the Member States.

Done at Strasbourg, 11 May 2005.

For the European Parliament
The President
J. P. BORRELL FONTELLES

For the Council
The President
N. SCHMIT

ANNEX I

**COMMERCIAL PRACTICES WHICH ARE IN ALL CIRCUMSTANCES
CONSIDERED UNFAIR**

Misleading commercial practices

1. Claiming to be a signatory to a code of conduct when the trader is not.
2. Displaying a trust mark, quality mark or equivalent without having obtained the necessary authorisation.
3. Claiming that a code of conduct has an endorsement from a public or other body which it does not have.
4. Claiming that a trader (including his commercial practices) or a product has been approved, endorsed or authorised by a public or private body when he/it has not or making such a claim without complying with the terms of the approval, endorsement or authorisation.
5. Making an invitation to purchase products at a specified price without disclosing the existence of any reasonable grounds the trader may have for believing that he will not be able to offer for supply or to procure another trader to supply, those products or equivalent products at that price for a period that is, and in quantities that are, reasonable having regard to the product, the scale of advertising of the product and the price offered (bait advertising).
6. Making an invitation to purchase products at a specified price and then:
 - (a) refusing to show the advertised item to consumers;
 - or
 - (b) refusing to take orders for it or deliver it within a reasonable time;
 - or
 - (c) demonstrating a defective sample of it,with the intention of promoting a different product (bait and switch)
7. Falsely stating that a product will only be available for a very limited time, or that it will only be available on particular terms for a very limited time, in order to elicit an immediate decision and deprive consumers of sufficient opportunity or time to make an informed choice.
8. Undertaking to provide after-sales service to consumers with whom the trader has communicated prior to a transaction in a language which is not an official language of the Member State where the trader is located and then making such service available only in another language without clearly disclosing this to the consumer before the consumer is committed to the transaction.
9. Stating or otherwise creating the impression that a product can legally be sold when it cannot.

10. Presenting rights given to consumers in law as a distinctive feature of the trader's offer.
11. Using editorial content in the media to promote a product where a trader has paid for the promotion without making that clear in the content or by images or sounds clearly identifiable by the consumer (advertorial). This is without prejudice to Council Directive 89/552/EEC ⁽¹⁾.
12. Making a materially inaccurate claim concerning the nature and extent of the risk to the personal security of the consumer or his family if the consumer does not purchase the product.
13. Promoting a product similar to a product made by a particular manufacturer in such a manner as deliberately to mislead the consumer into believing that the product is made by that same manufacturer when it is not.
14. Establishing, operating or promoting a pyramid promotional scheme where a consumer gives consideration for the opportunity to receive compensation that is derived primarily from the introduction of other consumers into the scheme rather than from the sale or consumption of products.
15. Claiming that the trader is about to cease trading or move premises when he is not.
16. Claiming that products are able to facilitate winning in games of chance.
17. Falsely claiming that a product is able to cure illnesses, dysfunction or malformations.
18. Passing on materially inaccurate information on market conditions or on the possibility of finding the product with the intention of inducing the consumer to acquire the product at conditions less favourable than normal market conditions.
19. Claiming in a commercial practice to offer a competition or prize promotion without awarding the prizes described or a reasonable equivalent.
20. Describing a product as 'gratis', 'free', 'without charge' or similar if the consumer has to pay anything other than the unavoidable cost of responding to the commercial practice and collecting or paying for delivery of the item.
21. Including in marketing material an invoice or similar document seeking payment which gives the consumer the impression that he has already ordered the marketed product when he has not.
22. Falsely claiming or creating the impression that the trader is not acting for purposes relating to his trade, business, craft or profession, or falsely representing oneself as a consumer.
23. Creating the false impression that after-sales service in relation to a product is available in a Member State other than the one in which the product is sold.

⁽¹⁾ Council Directive 89/552/EEC of 3 October 1989 on the coordination of certain provisions laid down by Law, Regulation or Administrative Action in Member States concerning the pursuit of television broadcasting activities (OJ L 298, 17.10.1989, p. 23). Directive as amended by Directive 97/36/EC of the European Parliament and of the Council (OJ L 202, 30.7.1997, p. 60).

Aggressive commercial practices

24. Creating the impression that the consumer cannot leave the premises until a contract is formed.
25. Conducting personal visits to the consumer's home ignoring the consumer's request to leave or not to return except in circumstances and to the extent justified, under national law, to enforce a contractual obligation.
26. Making persistent and unwanted solicitations by telephone, fax, e-mail or other remote media except in circumstances and to the extent justified under national law to enforce a contractual obligation. This is without prejudice to Article 10 of Directive 97/7/EC and Directives 95/46/EC ⁽¹⁾ and 2002/58/EC.
27. Requiring a consumer who wishes to claim on an insurance policy to produce documents which could not reasonably be considered relevant as to whether the claim was valid, or failing systematically to respond to pertinent correspondence, in order to dissuade a consumer from exercising his contractual rights.
28. Including in an advertisement a direct exhortation to children to buy advertised products or persuade their parents or other adults to buy advertised products for them. This provision is without prejudice to Article 16 of Directive 89/552/EEC on television broadcasting.
29. Demanding immediate or deferred payment for or the return or safekeeping of products supplied by the trader, but not solicited by the consumer except where the product is a substitute supplied in conformity with Article 7(3) of Directive 97/7/EC (inertia selling).
30. Explicitly informing a consumer that if he does not buy the product or service, the trader's job or livelihood will be in jeopardy.
31. Creating the false impression that the consumer has already won, will win, or will on doing a particular act win, a prize or other equivalent benefit, when in fact either:
 - there is no prize or other equivalent benefit,
 - or
 - taking any action in relation to claiming the prize or other equivalent benefit is subject to the consumer paying money or incurring a cost.

⁽¹⁾ Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data (OJ L 281, 23.11.1995, p. 31). Directive as amended by Regulation (EC) No 1882/2003 (OJ L 284, 31.10.2003, p. 1).

ANNEX II

**COMMUNITY LAW PROVISIONS SETTING OUT RULES FOR ADVERTISING
AND COMMERCIAL COMMUNICATION**

Articles 4 and 5 of Directive 97/7/EC

Article 3 of Council Directive 90/314/EEC of 13 June 1990 on package travel, package holidays and package tours ⁽¹⁾

Article 3(3) of Directive 94/47/EC of the European Parliament and of the Council of 26 October 1994 on the protection of purchasers in respect of certain aspects of contracts relating to the purchase of a right to use immovable properties on a timeshare basis ⁽²⁾

Article 3(4) of Directive 98/6/EC of the European Parliament and of the Council of 16 February 1998 on consumer protection in the indication of the prices of products offered to consumers ⁽³⁾

Articles 86 to 100 of Directive 2001/83/EC of the European Parliament and of the Council of 6 November 2001 on the Community code relating to medicinal products for human use ⁽⁴⁾

Articles 5 and 6 of Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (Directive on electronic commerce) ⁽⁵⁾

Article 1(d) of Directive 98/7/EC of the European Parliament and of the Council of 16 February 1998 amending Council Directive 87/102/EEC for the approximation of the laws, regulations and administrative provisions of the Member States concerning consumer credit ⁽⁶⁾

Articles 3 and 4 of Directive 2002/65/EC

Article 1(9) of Directive 2001/107/EC of the European Parliament and of the Council of 21 January 2002 amending Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) with a view to regulating management companies and simplified prospectuses ⁽⁷⁾

Articles 12 and 13 of Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation ⁽⁸⁾

Article 36 of Directive 2002/83/EC of the European Parliament and of the Council of 5 November 2002 concerning life assurance ⁽⁹⁾

⁽¹⁾ OJ L 158, 23.6.1990, p. 59.

⁽²⁾ OJ L 280, 29.10.1994, p. 83.

⁽³⁾ OJ L 80, 18.3.1998, p. 27.

⁽⁴⁾ OJ L 311, 28.11.2001, p. 67. Directive as last amended by Directive 2004/27/EC (OJ L 136, 30.4.2004, p. 34).

⁽⁵⁾ OJ L 178, 17.7.2000, p. 1.

⁽⁶⁾ OJ L 101, 1.4.1998, p. 17.

⁽⁷⁾ OJ L 41, 13.2.2002, p. 20.

⁽⁸⁾ OJ L 9, 15.1.2003, p. 3.

⁽⁹⁾ OJ L 345, 19.12.2002, p. 1. Directive as amended by Council Directive 2004/66/EC. (OJ L 168, 1.5.2004, p. 35).

Article 19 of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments ⁽¹⁾

Articles 31 and 43 of Council Directive 92/49/EEC of 18 June 1992 on the coordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance ⁽²⁾ (third non-life insurance Directive)

Articles 5, 7 and 8 of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading ⁽³⁾

⁽¹⁾ OJ L 145, 30.4.2004, p. 1.

⁽²⁾ OJ L 228, 11.8.1992, p. 1. Directive as last amended by Directive 2002/87/EC of the European Parliament and of the Council (OJ L 35, 11.2.2003, p. 1).

⁽³⁾ OJ L 345, 31.12.2003, p. 64.

WIPO MODEL PROVISIONS ON PROTECTION AGAINST UNFAIR COMPETITION (1996)

Article 1 *General Principles*

(1) [*General Provision*]

(a) In addition to the acts and practices referred to in Articles 2 to 6, any act or practice, in the course of industrial or commercial activities, that is contrary to honest practices shall constitute an act of unfair competition.

(b) Any natural person or legal entity damaged or likely to be damaged by an act of unfair competition shall be entitled to the remedies referred to in ...

(2) [*Relationship Between Articles 1 to 6 and Provisions Protecting Inventions, Industrial Designs, Trademarks, Literary and Artistic Works, and Other Intellectual Property Subject Matter*] Articles 1 to 6 shall apply independently of, and in addition to, any legislative provisions protecting inventions, industrial designs, trademarks,¹ literary and artistic works, and other intellectual property subject-matter.

Article 2 *Causing Confusion with Respect to Another's Enterprise or Its Activities*

(1) [*General Principle*] Any act or practice, in the course of industrial or commercial activities, that causes, or is likely to cause, confusion with respect to another's enterprise or its activities, in particular, the products or services offered by such enterprise, shall constitute an act of unfair competition.

(2) [*Examples of Confusion*] Confusion may, in particular, be caused with respect to

- (i) a trademark, whether registered or not;
- (ii) a trade name;
- (iii) a business identifier other than a trademark or trade name;
- (iv) the appearance of a product;
- (v) the presentation of products or services;
- (vi) a celebrity or a well-known fictional character.

Article 3 *Damaging Another's Goodwill or Reputation*

(1) [*General Principle*] Any act or practice, in the course of industrial or commercial activities, that damages, or is likely to damage, the goodwill or

¹For the purposes of these Model Provisions, the term 'trademark' covers marks relating to goods, marks relating to services, and marks relating to both goods and services.

reputation of another's enterprise shall constitute an act of unfair competition, regardless of whether such act or practice causes confusion.

(2) [*Examples of Damaging Goodwill or Reputation*]

(a) Damaging another's goodwill or reputation may, in particular, result from the dilution of the goodwill or reputation attached to

- (i) a trademark, whether registered or not;
- (ii) a trade name;
- (iii) a business identifier other than a trademark or a trade name;
- (iv) the appearance of a product;
- (v) the presentation of products or services;
- (vi) a celebrity or a well-known fictional character.

(b) [*Definition of ADilution@*] For the purposes of these Model Provisions, "dilution of goodwill or reputation" means the lessening of the distinctive character or advertising value of a trademark, trade name or other business identifier, the appearance of a product or the presentation of products or services, or of a celebrity or well-known fictional character.

Article 4 *Misleading the Public*

(1) [*General Principle*] Any act or practice, in the course of industrial or commercial activities, that misleads, or is likely to mislead, the public with respect to an enterprise or its activities, in particular, the products or services offered by such enterprise, shall constitute an act of unfair competition.

(2) [*Examples of Misleading*] Misleading may arise out of advertising or promotion and may, in particular, occur with respect to

- (i) the manufacturing process of a product;
- (ii) the suitability of a product or service for a particular purpose;
- (iii) the quality or quantity or other characteristics of products or services;
- (iv) the geographical origin of products or services;
- (v) the conditions on which products or services are offered or provided;
- (vi) the price of products or services or the manner in which it is calculated.

Article 5 *Discrediting Another's Enterprise or Its Activities*

(1) [*General Principle*] Any false or unjustifiable allegation, in the course of industrial or commercial activities, that discredits, or is likely to discredit, another's enterprise or its activities, in particular, the products or services offered by such enterprise, shall constitute an act of unfair competition.

(2) [*Examples of Discrediting*] Discrediting may arise out of, advertising or

promotion and may, in particular, occur with respect to

- (i) the manufacturing process of a product;
- (ii) the suitability of a product or service for a particular purpose;
- (iii) the quality or quantity or other characteristics of products or services;
- (iv) the conditions on which products or services are offered or provided;
- (v) the price of products or services or the manner in which it is calculated.

Article 6 *Unfair Competition in Respect of Secret Information*

(1) [*General Principle*] Any act or practice, in the course of industrial or commercial activities, that results in the disclosure, acquisition or use by others of secret information without the consent of the person lawfully in control of that information (hereinafter referred to as "the rightful holder") and in a manner contrary to honest commercial practices shall constitute an act of unfair competition.

(2) [*Examples of Unfair Competition in Respect of Secret Information*] Disclosure, acquisition or use of secret information by others without the consent of the rightful holder may, in particular, result from

- (i) industrial or commercial espionage;
- (ii) breach of contract;
- (iii) breach of confidence;
- (iv) inducement to commit any of the acts referred to in items (i) to (iii);
- (v) acquisition of secret information by a third party who knew, or was grossly negligent in failing to know, that an act referred to in items (i) to (iv) was involved in the acquisition.

(3) [*Definition of Secret Information*] For the purposes of this Article, information shall be considered "secret information" if

- (i) it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
- (ii) it has commercial value because it is secret; and
- (iii) it has been subject to reasonable steps under the circumstances by the rightful holder to keep it secret.

(4) [*Use or Disclosure of Secret Information Submitted for Procedure of Approval of Marketing*] Any act or practice, in the course of industrial or commercial activities, shall be considered an act of unfair competition if it consists or results in

- (i) an unfair commercial use of secret test or other data, the origination of which involves considerable effort and which have been submitted to a competent authority for the purposes of obtaining approval of the marketing of pharmaceutical or agricultural chemical products which

utilize new chemical entities, or
(ii) the disclosure of such data, except where necessary to protect the public, or unless steps are taken to ensure that the data are protected against unfair commercial use.