Trade Dress Rights as Instruments of Monopolistic Competition: Towards a Rejuvenation of the Misappropriation Doctrine in Unfair Competition Law and a Property Theory of Trademarks

Apostolos Chronopoulos
Emerging Scholars Series: Trade Dress Rights as Instruments of Monopolistic Competition: Towards a Rejuvenation of the Misappropriation Doctrine in Unfair Competition Law and a Property Theory of Trademarks

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EMERGING SCHOLARS SERIES*

TRADE DRESS RIGHTS AS INSTRUMENTS
OF MONOPOLISTIC COMPETITION:
TOWARDS A REJUVENATION OF THE
MISAPPROPRIATION DOCTRINE
IN UNFAIR COMPETITION LAW AND A
PROPERTY THEORY OF TRADEMARKS

APOSTOLOS CHRONOPOULOS**

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I. INTRODUCTION

This paper examines the dogmatic implications of the well-established principle that trademark rights are nothing but a part of unfair competition law. It begins by studying the historical development of trademark protection, which reveals that the grant of an exclusive right was not only directed at combating consumer deception, but also a means to protect goodwill as an intangible value of the trademark holder. In the course of legal development, the notion of protecting the public from various forms of consumer confusion became the dominant justification for recognizing and enforcing trademark rights, thereby suppressing trader interests viably protectable through a system of trademark protection based on the property concept. The interest of the trademark holder to exploit his goodwill, even in distant markets and in the absence of any likelihood of confusion, was the subject of dilution laws, which were often seen as both an undesirable propertization of trademark doctrine that unduly restricted freedom of competition and as an exception to traditional trademark theory.¹ Nowadays, trademarks are used in competition for an array of purposes irrelevant to source identification. Traders make use of the system of trademark protection not simply because they seek to avoid goodwill destruction arising from consumer confusion but in order to capture goodwill in and of itself as an intangible value that generates demand and gives the right-holder the possibility to exercise market power. Trade dress claims are the most obvious example of that phenomenon. For example, making a claim under section 43(a) of the Lanham Act

¹ See ANNE GILSON LALONDE, GILSON ON TRADEMARKS § 5.01(2)(c) (Mathew Bender 2011).
against the imitation of a golf course hole design\textsuperscript{2} cannot be said to be exclusively driven by concerns about source confusion. Rather, the claimant seeks to capture the customers who prefer that type of playing field. In reality, the trade dress plaintiff seeks to avoid competitive imitation. To the extent that this is legitimate in view of the postulate for an effective competition, the exclusive right has to give effect to this valuation of the competitive order. Part II elaborates upon these introductory remarks.

Part III conducts an economic analysis of product imitation by applying the economic theory on product differentiation. The result is that, in principle, the effectiveness of competition relies on competition by substitution because it results in increased product variety leading to the satisfaction of diverse consumer needs. The protection of traders' interests therefore takes place primarily because it promotes a dynamic competition process and not solely in its own merit.\textsuperscript{3} The implication for the unfair competition cause of action is the revival of the misappropriation doctrine in the case of product design imitation.

Having established that the concept of effective competition justifies imitation bans, we proceed to Part IV assuming that this valuation of the unfair competition laws should have an effect on trademark doctrine because the trademark exclusivity is in fact, as its historical development also shows, a realization of mandates flowing out of the competitive order. This is the actual meaning of the statement that trademarks are nothing but a part of unfair competition laws. Such systematic interpretation can also be supported by the complementarity theory of intellectual property rights and competitive norms, which dictates that the promotion of effective competition should be an integral valuation of trademark rules.

The recognition of a protectable interest of the trade dress claimant in avoiding imitative competition and of the public in a dynamic competition with differentiated products affects the interpretation of trademark doctrines such as distinctiveness, functionality, and the likelihood of confusion in a way that promotes such interests by infusing proprietary elements into trademark theory. The proprietary elements coexist with the traditional trademark policy against consumer confusion in a system that purports to balance all competitive interests

\textsuperscript{2} Pebble Beach Co. v. Tour 18 I Ltd., 155 F.3d 526 (5th Cir. 1998).

\textsuperscript{3} On the necessity to design IP rights in a manner that promotes dynamic competition as an effluence of the complementarity principle see generally Josef Drexl, \textit{Is there a 'more economic approach' to intellectual property and competition law?}, in \textsc{Research Handbook on Intellectual Property and Competition Law} 27 (Josef Drexl ed., 2005).
involved in a trademark dispute. Accordingly, trade dress should be held inherently distinctive if it is indeed differentiated from that of competing products and if the existence of alternative designs guarantees that awarding protection would not hinder competition. Functionality should be determined in terms of competitive need in order to enable the protection of differentiation by product design. The economic theory of product differentiation suggests the limits of trade dress rights and the normative scope of the functionality doctrine as well: plaintiffs should be prevented from imposing harm on locational competition by monopolizing submarkets. This observation links the limits of trade dress protection to the normative valuations of the Sherman Act.

At the same time, the point is made that the cumulative protection of product design by different IP rights can be explained if we consider that the market power conferred by trade dress rights has a different justification ground and different limits than the market power conferred by IP rights encouraging authorship and inventorship. If the promotion of product differentiation should indeed be a concern of trademark theory, then the scope of protection should extend beyond source confusion and include imitative action that misappropriates the differentiation value of the senior trade dress. Infringement should therefore be decided pursuant to the “subliminal confusion doctrine,” which prevents the misappropriation of favorable associations of consumers with regard to the senior mark. After providing a summary of the conclusions reached on the scope of trade dress protection, Part IV ends with the proposition of expanding proprietary protection of trademarks independent of the policy against consumer confusion.

II. TRADEMARKS AND COMPETITION

A. Trademark Law as Part of a Broader Unfair Competition Law

In the 1800s, an English Chancery Court recognized a right of property on a sign used to distinguish products in trade for the first time.\(^4\) The new property right sprang out of the tort of unfair competition, which protected traders from fraudulent diversion of their trade.\(^5\) The prohibition of passing-off came about in turn as a

\(^4\) Millington v. Fox (1838), 40 Eng. Rep. 956 (Ch.).

\(^5\) There is a theoretical “chicken or egg” dichotomy of whether it was the tort of trademark infringement or the tort of unfair competition that first came into the legal world. Compare JAMES LOVE HOPKINS, THE LAW OF TRADEMARKS, TRADENAMES AND UNFAIR COMPETITION § 2 at 2–4 (4th ed. 1924); Edward S. Rogers, Comments on the Modern Law of
modification of the nominate tort of deceit so as to regulate the competitive relationship. This was necessary because the action at law for deceit was only available to the deceived consumer, who received the misrepresentation. Under the new unfair competition cause of action, the competitor was able to sue at law for damages arising out of the deceitful trade diversion. The misrepresentation element of the tort was often found established in cases where the defendant had copied or imitated a sign that the plaintiff had used to distinguish his products and thereby deceived the consumer regarding the origin of the goods sold.

Later on, the Courts of Equity realized that such protection was not adequately protecting traders taking part in the competitive process. It was recognized that each trader has a legitimate interest of being protected in the probable expectancy that he will be able to trade undisturbed on the basis of the reputational merits acquired by his performance in the market. In other words, traders should be able to acquire and exploit goodwill. For that purpose, it would be necessary to have a right of exclusivity with regard to a sign distinguishing his products according to their commercial source. It is only through the exclusive use of a trademark that a single undertaking can be held responsible for the goods marketed under one single trademark, and thus, autonomously build up commercial goodwill. Protecting trademarks as property would guarantee the exclusive use of the sign even in those cases where the action at law could not be maintained because the element of fraud was missing. Since the new property

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8. FRANK I. SCHECHTER, THE HISTORICAL FOUNDATIONS OF THE LAW RELATING TO TRADE-MARKS 141–45 (1925); see also Lionel Bently, From Communication to Thing: Historical Aspects of the Conceptualisation of Trademarks as Property, in TRADEMARK LAW AND THEORY: A HANDBOOK OF CONTEMPORARY RESEARCH 8–12 (Graeme B. Dinwoodie & Mark D. Janis eds., 2008) (presenting the relevant case law).

9. SCHECHTER, supra note 8, at 157.

10. Id.

11. Id. at 138–39, 152.
right was constructed in order to protect the interests of traders in competition, trademark law has since then been conceptualized as nothing else but a part of unfair competition law. The consuming public was purported to be the second beneficiary of the new legal action, as trademark protection was a way to protect buying decisions from misrepresentations in trade. At this point, it should be highlighted that at the time the new property right was being conceived, the interests of trademark owners and consumers were held to be equal in terms of worthiness of legal protection.

B. Seeking the Limits of the Trademark Monopoly

In view of the common-law tradition of disregarding monopolies, it was not strange that from the outset, legal theory took a rather restrictive stance against trademark protection. The main concern was that trademarks threatened to create language or production monopolies. The solution provided by the legal order to the problem of the language monopoly was to protect only coined and imaginative word marks as property (“technical trademarks”). Signs other than fanciful marks were termed “tradenames” and their protection was possible only by means of the unfair competition action where it was necessary to prove fraudulent trade diversion. To avoid production monopolies based on trademarks, descriptive terms were totally excluded from property-based trademark protection. In Canal Company v. Clark, for example, the plaintiff was the first company mining coal in the region of the Lackawanna Valley. As the defendant started producing coal in the same region, he asserted trademark rights on the term “Lackawanna coal,” which the new entrants used truthfully to connote the geographical origin of their products. Trademark protection was denied not only due to the inability of descriptive terms to point to the commercial source of a product but also because the plaintiff’s exclusive use of the sign in dispute would practically confer upon the plaintiff “a monopoly in the sale of . . . goods other than those


14. Id.

15. Canal Co. v. Clark, 80 U.S. 311 (1871).

16. Id. at 315.
produced or made by himself.”

Soon it was realized that the line of demarcation provided by the distinction between “technical trademarks” and “tradenames” was not a satisfactory method to find the golden section between furthering competition through the allocation of property rights and avoiding undesirable monopolistic effects in the field of trademark law. Property was, in those days, an absolutist concept, which meant that the owner of a “technical trademark” could even prohibit innocent uses in remote markets, where goodwill destruction or misappropriation did not come into consideration. Getting back to Canal Company v. Clark, it should be noted that the result does not reflect an optimal balance of the competitive interests involved in a trademark dispute. The plaintiff had a legitimate trademark interest on the geographically descriptive term so as to communicate to the consumers the fact that he was a pioneer of the regional mining industry and had a long tradition in the field. The communicative interest of competitors could be satisfied with a non-trademark (descriptive) use of the term.

These problems were overcome as the absolutist conception of property was abandoned for the functional approach propagated by the movement of legal realism in the early twentieth century. The legal exclusivity was restricted on trademark use, while the trademark owner

17. Id. at 323.
18. Daniel M. McClure, Trademarks and Unfair Competition: A Critical History of Legal Thought, 69 TRADEMARK REP. 305, 316–26 (1979). McClure blames the property theory of trademarks for the expansion of the exclusive right observed in the last decades and attributes its rise to the then contemporary method of legal formalism. The property right was obtained by simply usurping and possessing a sign. The conceptualization of trademarks as property has also been presented as a procedural necessity because the equity jurisdiction would not intervene unless a violation of a private right was alleged. Robert G. Bone, Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law, 86 B.U. L. REV. 547, 561–67 (2006). On the other hand, a different view links the property concept of trademarks to a natural right’s theory for the protection of goodwill since this intangible value is created with the right-holder’s costs and labor. Mark P. McKenna, The Normative Foundations of Trademark Law, 82 NOTRE DAME L. REV. 1839, 1873–95 (2007). McKenna also makes the point that equity used to intervene to forbid passing-off even in the absence of an exclusive right. Id. at 1857–58. In any case, the creation of the property right actually derives from the competition policy decision to protect trader goodwill. By recognizing a property right intending protection of trader-goodwill and elimination of deception the Courts of Equity were in essence making unfair competition law.

20. For the shortcomings of formalism and the need to balance the conflicting interests involved in a legal dispute, including an analysis of trademark law issues, see Felix S. Cohen, Transcendental Nonsense and the Functional Approach, 35 COLUM. L. REV. 809, 809–49, (1935); McClure, supra note 18, at 326.
could not prohibit the descriptive uses of a sign.\textsuperscript{21}

In the course of legal history, it turned out that the Chicago School of antitrust analysis was the decisive influence on modern U.S. trademark doctrine.\textsuperscript{22} Its basic premise has been that the purpose of the antitrust laws is to maximize consumer welfare.\textsuperscript{23} As a result, the interests of competitors were neglected so as to promote aggressive forms of competitive rivalry for the benefit of the consumer. Antitrust was taken out of its political context and economic efficiency was held to be the primary goal of the Sherman Act.\textsuperscript{24} Transplanted into the trademark system, the notions of the Chicago School had the following doctrinal implications: (a) the consumer-benefiting efficiencies regulated by trademark law are related to the minimization of consumer search costs in the market.\textsuperscript{25} This conclusion was derived from an application of information economics principles indicating that without a credible system of recognizing the commercial source of trade goods, markets would collapse; and (b) the primacy of the consumer interest as a value judgment of the competitive order projected in the antitrust laws means that trademark law is solely oriented towards consumer protection by limiting consumer search costs. The expansion of the forms of actionable confusion has been sanctified by the necessity of improving the quality of information available to consumers in the marketplace. Although it has been the driving force for the development of trademark rights, the element of trader protection has been suppressed and limited to a reflex of the consumer-protection aspect of trademark protection. It is in this sense that trademark rights are considered as part of the law regulating the competitive process today.

\textbf{C. Trade Dress Rights, Product Differentiation, and Protection from Imitative Competition}

The comprehension of trademarks purely as instruments that principally promote informational values in the marketplace is a

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{21} Handler & Pickett, supra note 13, at 175.
\item \textsuperscript{22} McKenna, supra note 18, at 1846–48.
\item \textsuperscript{24} This became the main point of criticism towards the Chicago conceptualization of antitrust. See generally Herbert Hovenkamp, Antitrust Policy After Chicago, 84 Mich. L. REV. 213 (1985).
\end{itemize}
\end{footnotesize}
misconception because it disregards the actual use of those legal rights in competition. This could be exemplified in the field of trade dress protection. It is hard to believe that the assertion of trademark rights on the outer appearance of products takes place because the trademark holder is concerned about the consumer not being able to immediately and without delay find his product without being confused with regard to its source. In making a trade dress claim, his main goal is to obtain protection against imitative competition from his competitors. Now the question arises as to whether such a business aim could or should be part of the legislative program of the trademark laws. The fact that trademarks are a part of unfair competition law leads to the thought that the interests of the trademark holder have to be taken into account on equal terms with those of competitors and consumers. Legal evaluations regarding trademark matters should be provided after balancing all interests involved without giving an a priori prominence to consumer interests related to market transparency. The information-transmitting model of trademark law is not apt to make such a balance of interests. Approaching the legal question of the scope of trade dress protection from the point of view of consumer search costs tends to undermine the claimant’s interest against competitor imitation. The consumer is in fact not used to making inferences about the commercial origin of goods from product design. This argumentation denies in many cases protection to the interests of trademark holders without substantively assessing their merit.

III. FUNDAMENTAL INTUITIONS OF THE ECONOMICS OF PRODUCT DIFFERENTIATION

A. The Theory of Monopolistic Competition

At some point, the neoclassical concept of perfect competition stumbled upon the reality that monopolistic elements are unavoidable.

26. The need to adopt a teleological approach in trademark law is also highlighted by Graeme B. Dinwoodie, The Death of Ontology: A Teleological Approach to Trademark Law, 84 IOWA L. REV. 611 (1999). Annette Kur, Strategic Branding: Does Trademark Law Provide for Sufficient Self Help and Self Healing Forces?, in INTELLECTUAL PROPERTY, MARKET POWER AND THE PUBLIC INTEREST 191, 195 (Inge Govaere & Hanns Ullrich eds. 2008) (emphasizing the necessity of shaping the doctrine in a way that balances all competitive interests involved). See also McKenna, supra note 18, at 1896–1915 (McKenna has, for similar reasons, a positive stance towards the expansion of the trademark exclusivity so as to protect legitimate interests of the right-holder).
in actual markets. Economic theory started then to analyze the implications of those imperfections for market performance. Edward Chamberlin focused on product heterogeneity and observed that the existence of differentiated products in the market prevents the exhaustion of economies of scale. He slightly modified the model of a perfectly competitive market by assuming that products are heterogeneous while there is a significant grade of substitutability among them. In the short run, it is further assumed that the number of competitors is small enough to allow supra-competitive profits. As the supply is differentiated, consumer preferences are being created. At this stage it is observed that contrary to what happens under perfectly competitive conditions, each producer is able to exercise some degree of price control regarding the consumers who prefer his product, which is of course limited by the rules governing the elasticity of demand.

Assuming absence of barriers to entry and that new market entrants proportionally usurp market share from incumbents, the development of market conditions runs as follows: newcomer entrance will continue until the economic profits of the market fall to zero level. In equilibrium there is a relatively large number of producers offering differentiated products. Because of their small market share—also attributed to the relatively high substitutability of the various products offered—none of these producers has enough customers to support production that takes advantage of scale economies (“excess capacity theorem”). Chamberlin found such an outcome unsatisfactory from the perspective of productive efficiency because the same total market output could have been produced by a fewer number of firms exhausting their productive ability. Macroeconomically this would better serve the efficient allocation of resources. On the other hand, he realized that sacrifices in productive efficiency also have positive

27. EDWARD HASTINGS CHAMBERLIN, THE THEORY OF MONOPOLISTIC COMPETITION: A RE-ORIENTATION OF THE THEORY OF VALUE 214 (7th ed. 1956) (“pure competition may no longer be regarded as in any sense an ‘ideal’ for purposes of welfare economics”).
31. CHAMBERLIN, supra note 27, at 115.
welfare implications in the sense that product differentiation satisfies diverse consumer needs arising out of the inhomogenity of the consumer preferences. Moreover, Chamberlin argued that productive efficiency and product variety are equally important elements in a market economy, which according to his view means that economic decisions should balance them taking into account not only a specific industry but also the economy as a whole.  

The observations of Chamberlin prepared the ground for the concept of workable competition formulated later on by John M. Clark, who made the point that market imperfections (e.g. product heterogeneity) may lead to welfare-enhancing results if coupled with other “remedial” imperfections (e.g. diverse consumer preferences).

B. Product Variety and Social Welfare

Subsequent economic models integrated the consumer welfare aspects of product variety in the Chamberlinian economic model. A new assumption was introduced to this effect, namely that each marginal consumption unit introduced into the market adds to the total utility of the consumer, who is better off when having the possibility to choose among substitutable products. In other words, each new product creates marginal utility because it broadens the available choices within the market. Product variety demands a price premium though, since introducing a new product raises the cost of entry, which is then reflected in the end-price. The price premium can also be seen in macroeconomic terms as social loss attributed to the resulting excess capacities. Accordingly, achieving the social optimum entails the task of finding out how many product varieties should be produced and in what quantity.

Those economic studies come to the conclusion that the market mechanism would never gravitate around an equilibrium that corresponds to the social optimum. Given the possible economic


33. J. M. Clark, Toward a Concept of Workable Competition, 30 AM. ECON. REV. 241–56 (1940). Perfect competition was then considered as the optimum but unrealistic benchmark of competition policy. The impossibility of achieving perfectly competitive markets led to the idea of attempting to make competition workable by adding remedial imperfections (Theory of Second Best).


profits of the relevant market, if the fixed costs of entry are at a relatively high level, then the number of firms (products) would be suboptimal. There would be less variety than demanded. On the other hand, if fixed costs are low, excessive entry will follow, which in turn means that there would be too much variety. Social losses in the form of unexhausted economies of scale go in tandem with new market entry. In conclusion, the market mechanism cannot by itself lead to optimal product variety.

C. Locational Competition

1. Asymmetrical Preferences and Market Power

Chamberlinian models assume that consumer preferences are symmetric in the sense that the brands available are equally good substitutes for each other. This assumption simplifies the economic analysis in that it allows us to examine the impact of product variety on social welfare by focusing on a representative consumer. In real markets however, one cannot under normalcy claim that the consumers see all available products as equally appealing. Each consumer prefers his own ideal product and there are only a few highly substitutable offers that come into play as serious alternatives. Competition is therefore being intensified in market segments comprised of goods depicting high demand substitutability. For strategic firm behavior this implies that there are demand elasticities in the market waiting to be exploited and that it pays for a producer to create a market niche including the customers preferring his own product. Within the limits of such niche, he is able to exercise control over the price and earn monopolistic profits. Differentiation thus leads to a certain degree of market power.

2. Hotelling’s Linear Market

Hotelling was the first economist occupied with the question of whether firms tend to differentiate or conversely prefer to compete in terms of quantity and price. As a starting point for his economic model, he took a linear market of specific length, where two Bertrand-Duopolists (A and B) compete by offering a differentiated product. To envision this, one could consider a long narrow city having one single

street with two gas stations or a sandy beach with two ice cream vendors. Consumers are supposed to be symmetrically resided along the street or be lying down at the beach. The differentiating factor is the transport costs. Buying decisions are influenced not only by the price but also by the transportation costs, as each consumer prefers the outlet nearer to his location.

The social optimum is achieved when both outlets lie at the anti-diametrical points W and E distancing 1/4 of the total market length from the market’s endpoints. At this point, the total transportation costs incurred by consumers are the lowest possible. It is rather unlikely though that under such a state of affairs firms would remain inactive since they have the possibility of shifting their location and gain in market share. As A is moving along the linear market towards B, he wins all of the customers he is leaving behind on his westward side. He is maximizing his market share amounting to a 75% increase when he places his outlet right next to that of his competitor supplying all customers located within a distance of 3/4 of the linear market’s length. A profit-maximizing B would in turn move westwards placing his outlet right next to that of A who is now supplying only 25% of the market covering only 1/4 of the total market’s length. A would react analogously. The strategic interaction of the duopolist culminates in a Nash-Equilibrium regarding location, where both outlets standing back-to-back in the middle of the market.

At this point both sellers have a 50% market share and no player has anything to gain by changing strategy. This means practically that the transport costs are double compared to those reflecting the social optimum. For every consumer there is only one possible supplier (principle of minimum product differentiation).

3. The Principle of Maximum Product Differentiation

Hotelling’s conclusion is strictly bound to the extreme assumptions underlying his model, namely the existence of a Bertrand-Duopoly and the limited length of the linear market. Modifying the model would

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39. See Appendix, diagram 1.
40. See Appendix, diagram 2.
41. Id.
42. Id.
43. Hotelling, supra note 37.
44. Beath & Katsoulacos, supra note 29, at 22.
45. See generally Nicholas Economides, Hotelling’s Main Street With More Than Two
lead to different results. Suppose a third seller comes along: the profit
maximizing location for him would be right next to one of the two
neighboring sellers in the middle of the market. The middle player is
being squeezed by his competitors and has no market share at all. He
can retaliate though by jumping on the other side of one of his
competitors and invading thus in the latter’s territory. Such strategic
interaction between the involved firms continues until it does not pay
for the middleman to relocate anymore. At this phase all firms are
located at the quartiles of the linear market. A single competitor stands
alone at one quartile serving 2/4 of the consumers situated along the
beach (50% market share). The other two players are located at the
other quartile, each one supplying 1/4 of the market (25% market
share). The middleman has no way to increase his market share by
moving along the linear market. However, the spatial competition
model with three players has no equilibrium since the “dominant”
player would make use of his possibility to expand his market share
even further by moving towards the opposite quartile. The strategic
game on location choice would then start all over again. In any case the
model shows that firms have a tendency to disperse along the linear
market so as to enlarge their market share to the greatest extent
possible. This is confirmed when more players are added and strategic
interaction culminates in an equilibrium. If there are four ice-cream
vendors competing for the bathers of the sandy beach, then they will be
evenly spread along the linear market at equilibrium each one
controlling 1/4 of the market (25% market share). The mitigation of the
exceptional circumstances from which Hotelling’s principle of minimum
product differentiation is derived, leads to the exact opposite
conclusion, namely that undertakings seek to differentiate by vendor
location in order to maximize profits (principle of maximum product

Competitors, 33 J. REGIONAL SCI. 303 (1993); Claude d’Aspremont Lynde, J. Jaskold
Gabszewicz & Jacques-Francois Thisse, On Hotelling’s “Stability in Competition,” 47
ECONOMETRICA 1145 (1979) (assuming quadratic costs instead of extending the linear
market).
46. A. P. Lerner & H. W. Singer, Some Notes on Duopoly and Spatial Competition, 45
47. See Appendix, diagram 3.
48. Id.
49. Id.
Reconsidered: Some New Developments in the Theory of Spatial Competition, 42 REV. ECON.
STUD. 27 (1975).
differentiation). However, it must be acknowledged that Hotelling set the conceptual framework for analyzing competition with differentiated products.

4. Locational Competition in Product Space

The seminal works of Lancaster pioneered this field. He discredited the consumer theoretical axiom that the gain in utility is proportional to the number of goods consumed. Consumer preferences are directed at product characteristics for the sake of which products are being bought (characteristics approach). If, for example, the consumer is looking for foodstuffs rich in protein and vitamins, he is rather interested in obtaining the optimum amount of such consumption units regardless of the number of products needed for this purpose. The consumer is indifferent towards the prospect of obtaining the desired amount of protein and vitamins by buying a single product or a combination of products. Lancaster’s concept has influenced many fields of economic analysis and in particular that of product differentiation. His conception allows the drawing of the following analogy: Just as gas stations compete on location within a city, undertakings compete by differentiating the characteristics of their products. Just as firms place their outlets in a linear market, undertakings choose a location in a fictitious product space. Taking breakfast cereal as an example, one could assume that products of this category vary according to their sweetness, oral sensation, brand character, and package-design. Given this four-dimensional spectrum (product space) firms differentiate by creating a unique bundle of those characteristics.

5. Spatial Models with a Circular Market

The analysis of locational competition within the product space confirms the principle of maximum product differentiation. The scholarly example studies locational competition with regard to consumer demand for ice cream. The possibilities for different flavors

52. KELVIN LANCASTER, INTRODUCTION TO MODERN MICROECONOMICS 217–18 (Rand McNally 2d ed. 1974).
55. CARLTON & PERLOFF, supra note 36, at 223.
of ice cream represent the various locations in product space. Apart from that, competitors face competition only from an outside good (e.g., cake). The example gives us a rough picture of locational competition within a broader relevant market. Competition among differentiated products (characteristic bundles) is modeled on a circular rather than a linear market assuming again that consumers are evenly spread on its perimeter. Contrary to a linear market of defined boundaries, in the circular model there is no preferable location conferring monopoly in the literal sense. On Hotelling’s street one could imagine a gas station in its middle capturing the whole market. Due to its economic importance, the middle point unfolds a centripetal force in the marketplace. This is not the case, however, when the street is of infinite length or so long that it does not pay for the duopolists to locate themselves next to each other in the center of the market. If the road is too long it might be that the movement towards the center results in losing peripheral customers who cannot afford buying the product due to immense transportation costs. Settling at the center of the market is not the optimal strategic choice if those customers outnumber those won by such a move. Thus, the concept of a circular market avoids the fallacy detected in Hotelling’s model. The absence of an economically preferred location provides a rough simulation of a linear market of indefinite length.

Market behavior is presented in the circular model as a two-stage game where firms first choose location and then pricing strategy. The choice of location is affected by the monopolistic prospect of avoiding price competition and exercising of price control within a market niche consisting of the consumers situated in the captured location. Under such circumstances, firm behavior confirms the principle of maximum product differentiation: sellers would distance from one another around the circle so that each one acquires a monopolistic area and becomes the sole supplier for consumers situated within its boundaries. If barriers to entry are high and the number of participants in the market low, then the consumer location areas confined to each firm would—in view of the transport costs—not intersect (monopoly regions). This means

56. Id.
57. Id.
58. Id. Circular models build upon the work of Steven C. Salop, Monopolistic Competition with Outside Goods, 10 BELL J. ECON. 141, 156 (1979).
60. See Appendix, diagram 4.
that there would be no competition on the price, which is actually what firms pursue. The social loss of higher prices is a premium that the consumer has to pay in order to satisfy needs not covered by competition among homogenous products. The concept of dynamic competition promotes efforts to win the consumer by delivering products matching individual taste and not necessarily by offering lower prices. If barriers to entry are low, the circle bows allocated to market players would to some extent intersect with the result that, at least regarding some consumers, there would be two or more suppliers coming into play (competitive regions). Within those competitive areas, there would be price competition.

6. Cluster Effects

The economic models discussed above study the phenomenon of locational competition assuming that the consumers are evenly distributed across the characteristics spectrum. In fact, some locations of the product space might be vacant of consumers because the preferences of the latter concentrate on some specific characteristic bundles. Firms would then cluster around such locations where competition on the price would be intensified.

7. Summary of the Emerging Economic Principles

Firms tend to differentiate so as to create their own market niche. Product differentiation leads to static inefficiencies but creates dynamic gains for consumers in the form of innovation (introduction of new products) and, consequently, product variety. The socially optimal degree of product differentiation has to be defined by setting a limit to the static losses an economy wishes to sacrifice for the sake of dynamising competition. The economic theory of product differentiation disapproves competition by imitation. Imitative activity makes the choice of location in the product space futile from an economic point of view, since firms would not be able to reap the benefits of their strategic move in competition. This would undermine product variety.

62. See Appendix, diagram 5.
64. Lancaster, supra note 54, at 197.
D. Implications for Unfair Competition Theory: The Revival of the Misappropriation Doctrine

The legality of appropriating valuable assets of competitors unworthy of patent or copyright protection is one of the most challenging questions of unfair competition law. Prohibiting imitation on the grounds of the misappropriation doctrine is something that case law avoids and legal literature condemns. It is difficult to see any tort in such cases because the alleged tortfeasor is competing on the price by imitation of unpatented material and his conduct is, therefore, covered by the competitive privilege.

The misappropriation cause of action was articulated by the Supreme Court in the case of *INS v. Associated Press* (AP). The parties to the dispute were providers of news wire services. INS was obtaining copies of AP's newspapers, rewriting the stories, and distributing them to its network. Due to the respective time span, INS was able to deliver the news before AP in some distant areas of the U.S. territory. The Court found for AP and in a metaphorical manner, described the competitive behavior as an attempt of INS to "reap where it has not sown." The essence of the wrong does not lie, as often thought, in the appropriation of the "harvest of those who have sown." The protection of the intangible asset was rather decided with the help of a "but for" approach by examining the competitive circumstances in the absence of protection. In such a scenario, INS would obtain a crucial and undeserved competitive advantage since the costs of collecting the marketed information would only be borne by AP. INS would not even need to hire reporters. Without legal intervention, the most probable outcome would be that the undertaking actually able to provide the demanded service would be driven out of the market. Ascertaining the *ratio decidendi* of the case precisely leads to the conclusion that the result in *INS* was fact-specific. Subsequent case law refused to recognize a general rule of misappropriation, as that would,

66. *Id.* at 239–40.
67. *Id.*
in the view of the Court, undermine the competitive privilege.\textsuperscript{70} The commercial loss of the competitor and the harm to the public interest was clearly discernable in \textit{INS} and it was thus easy to see the point in constructing the tort.

As previously indicated, this is not valid for the evaluation of product imitation under the system of competitive torts because the harm to the injured party is one that the competitive order has good reasons to allow. Excluding competitors by imitating their products and under pricing them is seen as a normal phenomenon in the competitive world. Moreover, the configurations usually imitated are not deemed worthy of property-like protection. The evaluation changes if one considers the interests of the consuming public deriving from a dynamic competition with differentiated products. Instead of excluding rivals by undercutting the market price, competitors are challenged to win their customers by offering a product that comes closer to satisfying their preferences. The promotion of this public interest justifies the construction of a competitive tort.\textsuperscript{71} The qualification of a conduct as tortious is not only an issue of whether a specific person has unlawfully damaged the interests of another. The regulation of human behavior by tort laws aims at the promotion of social norms serving the public interest in general. As a result, the prohibition of product imitation on the basis of the misappropriation doctrine is justified in view of the mandate for an effective competition. It is therefore valid that misappropriating foreign goodwill in the form of market power attributed to product differentiation by design amounts to a competitive tort. The observation of Justice Black in \textit{Standard Brands v. Smidler} is indeed to the point: “the doctrine of so-called unfair competition is really a doctrine of unfair intrusion on a monopoly.”\textsuperscript{72}


\textsuperscript{71} More specifically to the issue of competitive tort construction, see S. CHESTERFIELD OPPENHEIM, UNFAIR TRADE PRACTICES, CASES, COMMENTS, AND MATERIALS: TRADE REGULATION 42 (2d ed. 1950).

\textsuperscript{72} Standard Brands v. Smidler, 151 F.2d 34, 40 (2d Cir. 1945).
IV. IMPLICATIONS FOR TRADEMARK DOCTRINE

A. The Inherent Distinctiveness of Trade Dress

1. The Requirement of Inherent Distinctiveness as a Balance of Interests

The concept of distinctiveness is a method of setting limits to the trademark monopoly. To avoid unnecessary burdens on competition, it is only unequivocal indicators of commercial origin that are deserving of trademark protection. The legal evaluation is based on the actual (secondary meaning) or the alleged (inherent distinctiveness) consumer perception. The comprehension of the substantive content of the legal term of distinctiveness presupposes its projection on the legal rationale of trademark protection. If trademark law is seen as a set of norms protecting consumers from confusion regarding the commercial source of goods offered in the marketplace and undertakings from fraudulent trade diversion, then the signs qualifying as inherently distinctive are those that their usurpation by competitors would create exactly such type of commercial harm.\(^{73}\) On the other hand, if trademark law is seen in its initial conception as a part of the wider field of unfair competition laws that equally protects the interests of the right-holder, his competitors, and the consuming public, then it would be logical to assume that protection should be allowed even in cases of extremely weak distinctiveness so long as the granting of an exclusive right promotes an interest of the right-holder that the competitive order considers worthy of furtherance.\(^{74}\)

This thought has already found acceptance in trademark case law. Suggestive trademarks are not effective source identifiers from the perspective of the consumer since they contain, to a large extent, descriptive elements. Regarding products offering protection against the sun’s rays, the word-mark “Coppertone,” for example, is neither generic nor descriptive because it does not directly connote to the consumer the kind of trademarked product. The consumer has to engage himself in a process of guessing the type of product for which the

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trademark is going to be used. Suggestive trademarks are protected because they are effective marketing instruments from the point of view of the trademark holder as they support his advertising campaign. The word-mark “Coppertone” has an advertising value since it connotes to the consumer not only commercial origin but also the positive aesthetic effect of the product on human skin. This is an illustrative example that the decision to be made on a sign’s protectability as a trademark within the framework of the interpretation of the distinctiveness requirement is not exclusively driven by the information-transmission model of trademark protection. On the contrary, since trademark law is a part of the set of norms regulating the competitive relationship, the right-holder’s competitive interests should adequately be taken into consideration.

2. Case Law on the Protectability of Trade Dress

Having depicted the theoretical background of the distinctiveness concept, it is now time to concretize it on the example of trade dress protection. It is true that the consumer is not accustomed to perceiving product shapes as indicators of commercial origin. It is also true though that product configurations have the potential of functioning as trademarks if the right-holder educates the public to treat them as such with the proper advertising measures. The protection of trade dress claimants’ interests in obtaining protection against imitative competition furthers consumer interest in an effective competition with differentiated products. Such interpretation brings trademarks in their actual context with their genus proximum, namely, the group of norms addressing the competitive process. In the following paragraphs it will be shown that the legal notion finds support in case law after going through the various legal tests developed by courts in order to assess the inherent distinctiveness of trade dress.

76. McCARTHY, supra note 75, at § 11:63 (considering the protection of suggestive trademarks as a common law reaction to the actual use of such marks in competition). United Lace & Braid Mfg. v. Barthels Mfg., 221 F. 456, 461 (E.D.N.Y. 1915) (“Every good trademark is suggestive; once seen or heard, its association with the product is readily fixed in the mind. If there were no association of ideas between the two, it would require an independent effort of memory to recall the connection”). Van Camp Sea Food Co. v. Alexander B. Stewart Orgs., 50 F.2d 976, 979 (C.C.P.A. 1931); Continental Scale Corp. v. Weight Watchers Int’l, Inc., 517 F.2d 1378, 1380 (C.C.P.A. 1975) (“[A]s we have often pointed out and as is very well understood, suggestive words may be and frequently are very good trademarks”).
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a. The Approach of the United States Court of Appeals for the Fifth Circuit in Chevron

In Chevron v. Voluntary Purchasing the defendant marketed garden products using a bottle, which had a similar shape to that of its direct competitor. The court opined that trade dress could be inherently distinctive, just as every other type of mark. No valid reason was found to treat the various trademark formats in a non-uniform manner, especially given that the Lanham Act itself does not make any distinction of that kind. The trade dress at issue was held to be inherently distinctive in the meaning of the Abercrombie scale of distinctiveness because there was nothing in it connoting the nature or the characteristics of the trademarked goods. It was thus highly likely that the consumer would perceive it as a source indicator. In its reasoning, however, the court based the outcome of the dispute on the assumption that trademark laws recognize a legitimate interest of the claimant to seek the protection of “the combination of particular hues of these colors, arranged in certain geometric designs, presented in conjunction with a particular style of printing, in such fashion that, taken together, they create a distinctive visual impression.” The protectability of trade dress is meant, in other words, not only to guarantee consumer protection against confusion but also as a matter of protecting traders’ product differentiation. Both elements were relevant in affirming inherent distinctiveness.

b. The Seabrook-Test

Seabrook Foods v. Bar-Well Foods was also a product packaging case involving the imitation of a “stylized leaf design,” which was an

77. Chevron Chem. Co. v. Voluntary Purchasing Grps., Inc., 659 F.2d 695, 697 (5th Cir. 1981) (“The [claimant’s] package shows a background composed of three horizontal bands of color; the top 20% is white, the next 30% is yellow, and the bottom 50% is red. [Claimants] registered trademark, “ORTHO,” is printed on the white band in bold black letters, along with the distinctive chevron mark of the Chevron companies. The yellow band contains the name of the particular product, e.g., Bone Meal, which is also printed in black letters. The red band contains the required warnings regarding toxicity, general information about the product and its ingredients, and a drawing suggestive of the uses of the product, e.g., the insects which a particular pesticide will eradicate. The printing in this red band is partly in black and partly in white. The back of the package is white and yellow; the top band is white and is the same width as the top white band on the front, and the rest of the back is yellow. The product’s contents and directions for its use are printed on the back. Those Ortho products sold in liquid form come in bottles bearing a label identical to the design just described. The bottle itself is dark brown and has a yellow cap”).

78. Id. at 702–03.

79. Id. at 703.
element of claimant’s composite mark. The court did not challenge the proposition that trade dress has an equal ability of being inherently distinctive just as any other trademark form. However, no recourse should be made on the methodology of Abercrombie because it was developed to fit word-marks only. The C.C.P.A. developed its own test to ascertain consumer perception of trade dress.

In determining whether a design is arbitrary or distinctive this court has looked to whether it was a ‘common’ basic shape or design, whether it was unique or unusual in a particular field, whether it was a mere refinement of a commonly-adopted and well-known form of ornamentation for a particular class of goods viewed by the public as a dress or ornamentation for the goods.

In practice, the ruling disfavors product differentiation through trade dress protection because it does not protect industrial design incrementally improving on existing configurations, which is a typical action of location in the product space. It is a test that fails to grasp the essence of trademarks as part of unfair competition laws because it only takes into account the consumer perspective of source identification since it seeks only to single out unique, unusual, or unexpected shapes for which one can assume that they will automatically be perceived by customers as an indicator of origin. The test has been rightfully praised for putting the trademark inquiry into its marketplace context by mandating a comparison of the mark at issue with the source identification methods of the relevant market. Nevertheless, it does not consider important and already-prescribed competitive interests of traders and consumers that should be part of the trademark law valuations. Moreover, the rejection of Abercrombie as an authority is misconceived because this case, as the example of suggestive marks mentioned above shows, dictates a balance of all competitive interests involved when deciding on trademark protectability.

81. Id. at 1344.
82. Id.
c. The Supreme Court Ruling in Two Pesos

Some judicial opinions concerned about competitive restrictions arising out of imitation bans had, in the meantime, required proof of secondary meaning for product design trade dress. In Two Pesos v. Taco Cabana, the Supreme Court had to resolve a respective circuit split. The location in product space sought to be secured by means of a trade dress claim concerned in this case the interior design of a Mexican restaurant. Requiring secondary meaning for a successful trade dress claim would, according to the Court’s opinion, unduly shrink the scope of application of section 43(a) of the Lanham Act and render trade dress protection a rare exception. The argument makes the point that such a legal notion would create social losses by lowering market transparency as it practically deprives the consumer from an additional tool of market orientation, namely the three-dimensional trademark. In addition, the Supreme Court recognized that trademark law should protect non-reputational interests of the trade dress claimant; the protection against imitators was held to be necessary to provide the claimant the opportunity to expand his trade, which is after all a purpose promoted by the system of federal registration. That would not be possible if the imitation of his product was allowed in geographically-distant markets where he has not yet been active.

Read under the light of the circuit split that had to be resolved, the judgment should be interpreted as confirming the approach of the Fifth Circuit by accepting that trade dress can be inherently distinctive for the purposes of establishing trademark protection, not only as a matter of consumer perception but also for the sake of protecting other competition-related legitimate interests of the trader asserting a claim under section 43(a) of the Lanham Act.

86. Id. at 765 (protection was sought for “a festive eating atmosphere having interior dining and patio areas decorated with artifacts, bright colors, paintings and murals. The patio includes interior and exterior areas with the interior patio capable of being sealed off from the outside patio by overhead garage doors. The stepped exterior of the building is a festive and vivid color scheme using top border paint and neon stripes. Bright awnings and umbrellas continue that theme.”).
87. Id. at 774.
88. Id. at 775.
89. Id.
d. The Qualification of Two Pesos: A Secondary Meaning Requirement for Product Design Trade Dress

In *Wal-Mart Stores, Inc. v. Samara Brothers, Inc.* the Supreme Court was once again requested to rule on the requirements for trademark protection of trade dress. Samara’s claim pursuant to section 43(a) of the Lanham Act concerned the imitation of its children’s clothing product line. The trade dress claim extended to some one-piece seersucker outfits featuring appliqués of hearts, flowers, and fruits. Wal-Mart, a big retail store, placed a large order of knock-offs to another clothing company, which it subsequently marketed at prices lower than those offered by the original manufacturer. The opinion of the Court was delivered by Justice Scalia.

Distinctiveness was again analyzed under the prism of two conceptually separate groups of interest: (1) the consumer interest in combating source confusion in the marketplace and (2) the more general concern for maintaining an effective competitive process. The opinion concretized both evaluation principles in a manner that excluded protection. As far as market transparency is concerned, the Court ruled that shape marks would not add anything, since consumers are not accustomed to identifying commercial source by relying on product design. Awarding a trademark right on a product design would thus amount to a creation of a monopoly without any redeeming precompetitive benefit with regard to source identification in the marketplace. Furthermore, protecting trade dress as an inherently distinctive mark would induce undertakings into a strategic game that the legal order has no interest in allowing. Incumbent firms would raise trade dress claims to prevent imitative entry. Potential entrants would consequently hesitate to penetrate the market.

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91. *Id.* at 212–13.


would be a suboptimal level of competitive rivalry. The outcome of such a balance of interests changes, according to the Court, when it comes to product packaging. Since there are infinite ways to package a product, this type of trade dress poses no substantial threat to restrict competition and it is therefore not necessary to impose a secondary meaning requirement for product packaging trade dress. The Court also recognized a third category of trade dress referred to as “tertium quid,” which one could not categorically qualify either as product design or as product packaging. In this case, the trade dress in dispute has to be analyzed so that a conclusion can be reached whether protection is sought on the configuration or the packaging of the product. Such an example would be the trade dress under consideration in Two Pesos.

e. Critical Analysis of the Wal-Mart Ruling: Inherent Distinctiveness of Trade Dress and Dynamic Competition with Differentiated Products

The analytical approach adopted by the Supreme Court in Wal-Mart for deciding on the distinctiveness question is the proper one because it makes the inquiry dependent not only on consumer perception but also on other competitive parameters related to the effectiveness of competition. The objections to the Wal-Mart ruling should be directed at the substantive valuation of the competitive interests involved. Even if the consumer is not accustomed to making conclusions about the assumption of product liability based on trade dress design, the legal order may grant an exclusive right in the event that a product shape will develop a source-identifying function. The trademark monopoly would thus not constitute an unnecessary restriction of competition even if the redeeming precompetitive virtue is not present at the time of registration or claim assertion. This interpretation of the distinctiveness requirement makes a wider protection of trade dress possible, which in turn stimulates a dynamic competition with differentiated products. It might also be an example of a trademark system like the one described by Graeme Dinwoodie, which is actively shaping social norms instead of being reactive to consumer perception. The promotion of consumer

95. Id. at 215.
96. This argument in favor of the protection of the non-conventional has been formulated by the former presiding judge of the German Supreme Court Eike Ullmann. Kur, supra note 26, at 208–09.
97. Graeme B. Dinwoodie, Trademark Law and Social Norms (2007), OXFORD INTELLECTUAL PROPERTY RESEARCH CENTER,
welfare by allowing product differentiation has been expressly considered by the Fifth Circuit as part of the valuations relevant to the interpretation of trademark law dictated by federal statute.\footnote{98} The protection of product differentiation promotes the policy against consumer confusion as well, since market transparency is more likely to exist when supply is heterogeneous.\footnote{99}

The implication for trademark doctrine is that it is better to be permissive at the stage of ascertaining the inherent distinctiveness of trade dress and to seek to redress potential competitive harms when they arise in the marketplace rather than trying to exclude the possibility of competitive harm by requiring proof of secondary meaning.\footnote{100} After all, competition is a discovery process ("Entdeckungsverfahren")\footnote{101} in the course of which we find out which products are demanded by consumers. It is only after the interaction of supply and demand that we have enough input to spot restrictions of locational competition caused by imitation bans. The approach of the Supreme Court in \textit{Wal-Mart} is an attempt to resolve the legal problem of balancing the competitive interests in cases of product imitation in a rather procrustean manner by reducing the trade dresses protectable under the Lanham Act to a minimum.\footnote{102} In this way it loses sight of


\footnote{99}{ Stormy Clime Ltd. v. Progroup, Inc., 809 F.2d 971, 978–79 (2d Cir. 1987).}

\footnote{100}{ \textit{Two Pesos}, 505 U.S. at 769–70. This approach was proposed by the Supreme Court in \textit{Two Pesos} where the Court argued that the functionality doctrine guarantees that trade dress protection would not have anticompetitive effects.}

\footnote{101}{ FRIEDRICH A. HAYEK, LAW, LEGISLATION AND LIBERTY 67 (1979).}

\footnote{102}{ For the same reason the test promulgated by the United States Court of Appeals for the Third Circuit in \textit{Duraco Prods., Inc. v. Joy Plastic Enters.}, 40 F.3d 1431 (3d Cir. 1994) has to be turned down. Accordingly, a configuration must be (i) unusual and memorable; (ii) conceptually separable from the product; and (iii) likely to serve primarily as a designator of origin of the product. \textit{Id.} at 1434. The test cannot provide a conceptual framework for balancing the competitive interests involved since its second element practically considers product features as non-eligible for trademark protection. See Dinwoodie, \textit{supra} note 84, at 539–41. Additionally, the third criterion is in addition intended to eliminate the possibility of
product differentiation as a constitutive element of the system of effective competition. The opinion of the Court emphasizes the potential negative effects of an abusive intellectual property litigation aimed at excluding competitors and preventing market entry without examining the economic aspects of product imitation. Furthermore, the distinction between product design and packaging is of ambivalent normative value. Nowadays, packaging is an additional form of product differentiation meant to generate demand for the trademarked good. Let us take the trade dress disputed in Two Pesos, for example. During the oral hearings it was debated whether the interior design of a restaurant qualifies as product design or packaging. The latter view prevailed at the thought that the actual good sold was the food and not the restaurant décor. This approach does not reflect contemporary marketplace reality and modern economic theory. We live in an experience economy where the consumption of commodities includes the enjoyment of product attributes that accompany the main product. Eating in a restaurant is, from the demand perspective, not simply the consumption of food and beverages but an experience influenced by the atmosphere of the surroundings. The décor is part of the bundle of characteristics (consumable good) created by the supplier. Sound trademark policy has to take such economic factors into account.

In order to achieve the proper balance between the commercial source identification as a justification ground for trademark protection and the competitive necessity for protecting product differentiation, the inherent distinctiveness of trade dress has to be, as a matter of principle, accepted if there are enough alternative configurations for competitors acquisition of non-reputational competitive advantages based on trade dress protection even if the configuration at issue fulfills an origin function. Id. at 541–43. Equally unsatisfactory is the approach to inherent distinctiveness taken by the Second Circuit in Knitwaves Inc. v. Lollytogs Ltd., 71 F.3d 996 (2d Cir. 1995). The claimant has to prove that the primary purpose behind the design was to identify its product’s source. Id. at 1008–09. Although the Knitwaves test seems to allow for protection of product differentiation, it places the importance on the intention of the claimant and is thus not considering the possibility that the alternative configurations are limited.


to participate in the market.\footnote{Jay Dratler, Jr., \textit{Trademark Protection for Product Designs}, 1988 U. ILL. L. REV. 887, 954–55 (arguing that if the number of alternative designs is limited in a certain market segment, then trade dress would be aesthetically generic. Although he reaches the same result the concept of aesthetic genericness does not analyze the actual collision of interests involved in a trade dress dispute).} In other words, trademark protection of product differentiation by product design should be the rule unless the restricted number of differentiation possibilities speaks to the contrary. Such an administration of the distinctiveness requirement is necessary to build the normative correlation of trademarks to the superordinate set of norms governing the competitive process. Trademarks are a part of unfair competition law.

The Second Circuit has been particularly generous in awarding trade dress protection without demanding an unequivocal finding that the consumer will perceive the configuration at issue as an indicator of commercial origin.\footnote{See, e.g., Paddington Corp. v. Attiki Imp. & Distrib., Inc., 996 F.2d 577, 583 (2d Cir. 1993).} It has namely ruled that in a market where there is an almost limitless supply of patterns, colors, and designs, the unique combination of commonly used elements (differentiation) would amount to trade dress protectable under the Lanham Act. The United States District Court for the Southern District of New York held that a sweater consisting of standard Aran stitches combined to create a unique Aran-style design was inherently distinctive.\footnote{Banff Ltd. v. Limited, Inc., 869 F. Supp. 1103, 1115–17 (S.D.N.Y. 1994). The Aran-design category refers to a traditional Irish style of knitting that additionally served to identify fishermen’s background and relationship to their environment. \textit{Id.} at 1105.} The court’s opinion does not seem to focus on the putative consumer perception of the trade dress at issue. It explicitly justifies the legal protection by referring to the right-holder’s position of interest in protecting his effort to convey a commercial message by differentiating within a fashion standard, which is held protectable in light of the fact that the possible combinations of Aran-style stitches are innumerable, and as a result, there would be no danger of market foreclosure.\footnote{\textit{Id.} at 1115–16 (“Express puts forward evidence to show that Aran sweaters are a fashion standard, but that same evidence also reveals that there are numerous stitches in Aran knitting, and that these stitches can be combined in innumerable ways within the confines of a traditional Aran pattern. Indeed these stitches seem akin to the fishermen’s alphabet, woven together in different combinations to convey the desired message of its creator”).} Both cases apply \textit{Abercrombie} in that they recognize a rule that considers trade dress as arbitrary when the design choices in the relevant market are almost infinite because under such circumstances, product shape is not driven
However, it is to be noted that the acceptance of a protectable interest of the right holder in marketing a product, which is different than others on the market (differentiation), significantly contributes to the positive decision on trade dress protectability.

Similarly, in Kompan A.S. v. Park Structures Inc. the United States District Court for the Northern District of New York affirmed the inherent distinctiveness of claimant’s playground equipment although it was a combination of elements commonly used in the industry. Overall, the total impression created by the trade dress at issue was found to be unique. The argument that the claimant has a distinct product line and markets a different product than his competitors underlies the opinion and supports the finding of inherent distinctiveness. The decision on protectability is thus influenced by the right-holder’s interests at stake without much elaboration on the public interest against confusion. In another case, the Southern District of New York held the respective trade dress protectable as inherently distinctive mainly because its trademark monopolization would not have an adverse effect on the ability of rival firms to compete. In Callaway Golf Co. v. Golf Clean Inc. the court broke the Searbrook-Test into three conceptually separate limbs so that it was sufficient for fulfilling the distinctiveness requirement that the design of the golf club marketed by claimant was unique in the sense of looking “noticeably different than any other club on the market.” In assessing the inherent distinctiveness of the trade dress at issue by establishing its uniqueness compared to the competing products the court was depicting, in the subconscious manner described by Posner, the claimant’s location in the product space. His design was compared to other products “pleasingly different” as he adopted a “chunky and aggressive wide top line” for his product.

The case law discussed in this section tends to reach a finding of inherent distinctiveness of a trade dress if the respective shape or design differs from that of the competing products. If protecting product differentiation is a right-holder’s interest that should be part of

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110. Id. at 1173–74.
112. Id. at 1115; see also Paddington Corp. v. Attiki Imp. & Distrib., Inc., 996 F.2d 577, 583 (2d Cir. 1993).
115. Id. at 1212.
trademark protection, independent of the policy against source confusion as a result of its integration into the system of competitive norms, then the dogmatic underpinnings of the distinctiveness requirement should be altered to protect such a competitive interest. In terms of trademark theory, the cases seem to adopt the concept of differential distinctiveness, which stands for the capacity of the trademark to stand out from other signs, regardless of its ability to connote the commercial source of the marked goods. The concept has been developed to protect the advertising value of a sign and is a doctrinal tool to protect trader interests embodied in a trademark other than those of signifying commercial origin. The issue of the protectability of a trademark’s advertising value goes beyond the scope of this paper, although the economic analysis undertaken above points to an affirmative answer.

Analyzing a trade dress case under the differential distinctiveness concept, namely the uniqueness of a trade dress, is the theoretical vehicle to protect through trademark laws legitimate competitive interests of the right-holder, the protection of which enhances dynamic competition. It has been argued that the distinctiveness inquiry should not depend on the availability of alternatives because such valuation belongs to the normative field of application of the functionality doctrine. The problem with such an approach is, however, that if the balance of interests related to the protection of product differentiation is deferred for the stage of examining functionality, then this analysis of colliding competitive interests could not be effectuated within the system of trademark protection, since non-functionality cannot by itself establish protection when the requirement of distinctiveness is not met. In other words: In order to make a balance of all interests colliding in a trade dress case, the respective legal evaluation has to be part of the distinctiveness inquiry. Distinctiveness is after all the central requirement of trademark protection and it has to provide substantive valuations regarding protectability.

117. Dinwoodie, supra note 84, at 597–602; see also Publications International Ltd. v. Landoll, Inc., 164 F.3d 337, 339–40 (7th Cir. 1998) (emphasizing the different procedural aspects of the two doctrines: “Formally, distinctiveness and functionality are separate issues. While the burden of proving distinctiveness is of course on the plaintiff, some courts, including our own, hold that functionality is an affirmative defense and so the burden of proof rests on the defendant.”).
B. The Scope of Protection: Confusion or Association?

 Protecting trader interests related to trademark use other than source identification leads to an expansion of the protective scope of trademark rights. Since the protectable interest is an individual one, trademark law tilts towards a proprietary type of protection. The protection of product differentiation through trade dress rights would be unattainable if the scope of protection was defined on the basis of likelihood of confusion. The imitation ban has to go beyond that to guarantee for the right-holder the protection of his choice of location in the product space. The relevant trademark concept is that of “subliminal confusion,” which is basically an application of the misappropriation doctrine in the trademark context. It refers to associations that lead to misappropriation of the advertising value of a trademark without creating source confusion.118 More specifically, competitors may not misappropriate the favorable associations of the consumers with regard to the senior mark. Equally, competitors should imitate the trade dress of third parties in a manner that gives them the opportunity to market the same bundle of characteristics.

C. Limits to Trade Dress Protection: New Ground for the Functionality Doctrine

1. The Constitutional Right to Copy

   a. The Relevant Case Law

   The Constitutional Right to Copy is a theory standing for the proposition that there cannot be any trademark rights on product configurations because the patent and the copyright system mandates absolute freedom of imitation outside their field of application. Moreover, the exclusion of product shapes from trademark protection is a constitutional mandate flowing out of the Intellectual Property Clause (IPC), which practically means that both the federal and the state legislatures cannot act to the contrary.119

   The doctrinal development goes back to the early Supreme Court rulings on the legality of product simulation such as Singer Mfg. Co. v.

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119. See generally Graeme B. Dinwoodie, Trademarks and Unfair Competition, Law and Policy 192–93 (3d ed. 2010); see also Anne Gilson Lalonde, supra note 1, at § 2A.10[3].
June Mfg. Co.\textsuperscript{120} and Kellogg Co. v. National Biscuit Co.\textsuperscript{121} In terms of the facts, both cases have in common that the products imitated, a sewing machine and pillow shaped cereal respectively, incorporated technical and aesthetical norms revealed in expired utility and design patents. The Supreme Court derived a freedom to copy such articles based on the bargain theory of patent law.\textsuperscript{122} The exclusive right is supposedly given in consideration for the dedication of the patented subject matter to the public by putting the respective product configuration at the disposal of imitators after the expiration of the patent. The public interest against source confusion and fraudulent trade diversion, according to the Court, ought to be served by sanctioning the omission of the competitor to mark his imitative product with his own sign of origin via state unfair competition law. In any event, the act of imitation could not as such rise to a violation of trademark rights on a product configuration, even if product simulation was creating confusion. The invocation of the patent bargain for supporting this legal result shows that the Court understood the freedom to copy as a principle arising from the patent laws.

The exact meaning of those rulings remained unclear for many years. The question left open was whether the prescribed right of the public to copy was only valid for the case of imitative actions following the expiry of patent rights, or whether it was also referring to items that have never been patented either because there was no filing of a respective invention or because the teaching embodied in the relevant product configuration was not patentable or copyrightable in the first place.\textsuperscript{123} In both cases, no bargain between the inventor/author and the state with regard to a specific item took place. The issue was reexamined by the Supreme Court in its two landmark decisions of 1964, Sears, Roebuck & Co. v. Stiffel Company\textsuperscript{124} and Compco Corp. v. Day Brite Lighting, Inc.\textsuperscript{125} In the meantime, the legal problem of the relationship between the patent laws and trade dress protection took on

\begin{itemize}
\item 122. Singer Mfg., 163 U.S. at 185-87; Kellogg Co., 305 U.S. at 119–23.
\item 123. Paul Bender, \textit{Product Simulation: A Right or Wrong?} 64 \textsc{Colum. L. Rev.} 1228, 1236 (1964).
\end{itemize}
an additional dimension due to the following reason. After the federal
courts were stripped of their authority to create federal common law,
disputes of diversity jurisdiction involving the unfair competition cause
of action had to be decided by the application of state laws. This
brought patent and trade dress law in a normative hierarchical
relationship whereby patent laws as federal legislation were to be held
as a higher norm pursuant to the Supremacy Clause of the U.S.
Constitution.

The opinion of the Court in Sears analyzes the field of conflict
between patent laws and state unfair competition statutes that renders
the latter unconstitutional. The defendant’s imitation of the pole lamp
marketed by the plaintiff was qualified under Illinois law as palming off.
Production restrictions belong, according to the Court, to the realm of
the patent laws. Forbidding imitation on the grounds of state unfair
competition law is therefore, in the Court’s view, an encroachment upon
federal jurisdiction on intellectual property matters. The imitation ban
was allegedly annulling federal patent policy because it was extending
the monopoly on the product configuration after the expiry of the
exclusive right and for an unlimited time. During litigation, the
plaintiff’s patents on the pole lamp had been held invalid due to the lack
of an invention. Although there was no formal act of dedication of the
product design to the public because there had been no valid patent
bargain between an inventor and the state with regard to the specific
configuration, the Court found the imitation prohibition to be contrary
to federal patent policy because the state legislature was creating a
property right on something that the Patent Act attributes to the
public. The evolitional step taken in Sears is that the substantive
ruling of the Court spots a conflict between patent law and the
prohibition of product simulation based on passing-off principles. The
Supremacy Clause dictated the preemption of the state statute against
palming-off by the federal patent laws.

The second case, Compco, involved a similar set of facts. The
petitioner had been held guilty of unfair competition under Illinois law.
for having verbatim imitated a light reflector, which was designed to be used on fluorescent lighting fixtures. The arguments set forth in Sears were repeated. The Supreme Court took a step further and opined that the unconstitutionality of the state statute does not result from its conflict with federal patent policy by virtue of the Supremacy Clause, but due to its collision with the valuations of the Intellectual Property Clause, which provides for timely limited property rights on novel intangible subject matter.\textsuperscript{130} The practical importance of this assertion is great. It means that the protection of trade dress by a federal statute such as the Lanham Act is unconstitutional.

\textit{b. The Quest for a Dogmatic Foundation of the Constitutional Right to Copy}

Unfortunately, the Supreme Court did not elaborate further and gave no insight in the dogmatic underpinnings of the constitutional right to copy. Its opinion provoked commentators to question or confirm its legal reasonableness. The ruling in \textit{Compco}, created a furor in the trademark world because it actually sought to eliminate the functionality doctrine.\textsuperscript{131} Courts would not be compelled to engage themselves in the puzzling inquiry of whether a product feature is functional or not. It would suffice to simply ascertain the usefulness or the ornamental character of a shape so as to dismiss the trade dress claim altogether. Moreover, \textit{Compco} was read as eradicating the misappropriation doctrine in the field of product imitation.\textsuperscript{132}

Corroborative to the argumentation put forward by the Supreme Court in \textit{Compco} is the work of Malla Pollack, who has written extensively on the topic. She falls back on the historical interpretation of the IPC and argues that the phrase “for limited times” encrypts an intention of the constitutional fathers to use intellectual property rights as a means of bringing new items into the public domain.\textsuperscript{133,134}

\textsuperscript{130} \textit{Compco}, 376 U.S. at 237–38.
\textsuperscript{131} Derenberg, \textit{Product Simulation: A Right or a Wrong?}, 64 COLUM. L. REV. 1192, 1204-08 (1964).
\textsuperscript{132} James M. Teece, \textit{Patent Policy and Preemption: The Stiffel and Compco Cases}, 32 U. CHI. L. REV. 80, 90 (1964–1965); Derenberg, supra note 131, at 1192 (“The roof had seemingly fallen in on a vast structure of federal and state precedents laboriously built up since the days of the Court’s famous decision in the International News case”).
\textsuperscript{134} For an account of IP rights as a mechanism of creating public goods, see EDMUND W. KITCH & HARVEY S. PERLMAN, \textit{LEGAL REGULATION OF THE COMPETITIVE PROCESS}
Accordingly, trade dress protection is unconstitutional because it interferes with the right of the public to make use of the public domain. In addition, the IPC makes provision for Authors’ Exclusive Rights (AERs) and Inventors’ Exclusive Rights (IERs), which have to be limited in duration. The mortality of the legal position vindicates its exclusive nature. Since trade dress protection is unlimited in duration, the argument goes, its constitutionality becomes a matter of whether it is qualitatively equivalent to an AER or an IER. In the view of Pollack, trade dress rights are equivalent to those rights prescribed by the IPC since they lead to production bans, namely exclusive rights on product configurations. This is because likelihood of confusion can be established by the imitative act itself. The argument of equivalency becomes more persuasive when it comes to protection from product imitation based on a dilution claim.

Equivalency was also conceived in terms of market power. It is only the limited rights conferred by the IPC that are meant to provide the right holder with the ability to raise prices and reduce output. The meaning of the constitutional provision is that the ability to exercise market power based on a legal monopoly should be a timely restricted reward for inventions and copyrightable works. The protection of product configuration under trade dress protection rules is therefore unconstitutional because it confers market power for an unlimited

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135. The legal construction implementing the constitutional right to copy is complex. Since trademarks find their constitutional foundations in the Commerce Clause (CC), it is argued that the IPC sets limits to legislation enacted under the CC by negative implication. The difficult question is how could the IPC forbid state legislation on trademark protection of trade dress because the question of whether the state legislator has retained authority to pass laws on intellectual property manners is still unclear. See Edward C. Walterscheid, The Nature of the Intellectual Property Clause: A Study in Historical Perspective 448-68 (2002). The solutions proposed by Pollack are a) that the federal IP laws, which are enacted in execution of the IPC, would preempt state trade protection by virtue of the Supremacy Clause b) the doctrinal development of a dormant IPC and c) indirect intervention of the IPC with the relevant state legislation by a limitation of the dormant CC. See Malla Pollack, Unconstitutional Incontestability? The Intersection of the Intellectual Property and Commerce Clauses of the Constitution: Beyond a Critique of Shakespeare Co. v. Silstar Corp., 18 Seattle U. L. Rev. 259 (1995). These issues are not to be analyzed here any further.


137. Pollack, supra note 133, 297–99.


period of time without enriching the public domain with an original or inventive public good. The contemporary economic analysis of Compco suggested that the Supreme Court sought to eliminate the possibility of sustaining positions of economic power deriving from product differentiation through trade dress law. Market power due to product differentiation supported by a sign protectable under the Lanham Act could only derive from reputational values created by the seller embodied in a more traditional trademark such as a word or a picture mark. This point had been already suggested by the Supreme Court in Kellogg, where it had been held that sharing on the product goodwill of an article not eligible for patent protection does not amount to unfair competition.

The recognition of a constitutional right to copy has also been put forward that according to the IPC, there could be no exclusive right on an intangible thing in the absence of an original or a non-obvious performance. The argument draws upon case law, which considers that the copyright concept of originality and patent requirement of novelty are constitutionally mandated. Thus, the federal legislator could not award property rights on non-patentable and non-

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144. Feist Publications, Inc. v. Rural Telephone Service Co., 499 U.S. 340 (1991) (holding unconstitutional the protection of a telephone catalogue by applying the “sweat of brow” doctrine by arguing that the constitutionally mandated requirement of originality is a limitation of congressional power to legislate in the field of IP); see also, Graham v. John Deere Co., 383 U.S. 1 (1966) (ruling that the IPC forbids the federal legislator to provide for protection of obvious inventions).
copyrightable subject matter. In essence, the freedom of imitation is deducted *e contrario* from the high thresholds for IP protection.

c. *Evaluation of the Constitutional Right to Copy as a Legal Doctrine*

The logic behind the positive recognition of constitutionally mandated individual rights in the public domain is to create a counterbalance to the growth of intellectual property both in terms of expanding existing rights and creating new exclusive legal positions.\(^{145}\) The interest prevailing in cases of product imitation is that of the public, which is concretized as the enjoyment of a competitive process free from monopolistic positions arising out of property rights to the greatest extent possible. The model has the disadvantage that it is rather static. It fails to balance the interest of trademark holders in receiving protection against imitative competition and the possible benefits of the consumer that would be derived by coercing competitors through imitation bans to dynamically compete by substitution.

In order to ascertain the constitutional mandate, Pollack falls back on historical contextualism, seeking to show that by adopting the phrase “limited times,” it was the creation and maintenance of a Lockian common that the constitutional fathers had in mind.\(^{146}\) The problem with such an interpretation is that it exaggerates in downsizing the scope of the Commerce Clause of the U.S. Constitution and the ability of the Congress to shape a dynamic competitive process by regulating imitative activity. Furthermore, her interpretation stands for the prominence of the Intellectual Property Clause over the Commerce Clause, whereas constitutional theory instructs that in case of colliding norms of the Constitution, the law interpreter should strive to guarantee a balanced limitation of conflicting interests and policies so as to achieve the unity of the ultimate set of norms. Moreover, the idea of an evolving constitution does not support this argumentation. Even if at the time of the Constitution’s inception the competitive ideal was absolute freedom of imitation outside the application scope of AERs and IERs, the economic analysis conducted already shows that this is not the case today.\(^{147}\) The wording of the Constitution and especially the coexistence of the Intellectual Property and the Commerce Clause can


\(^{146}\) For this method of ascertaining the normative content of constitutional norms see Antonin Scalia, *Originalism: The Lesser Evil*, 57 U. CIN. L. Rev. 849, 853 (1989).

support a more modern interpretation where IP rights regulate innovation and unfair competition laws imitative activity in general so as to achieve the effectiveness of competition.

That is also why the argument of *e contrario* derivation of the freedom of imitation principle from the high standards of IP protection fails. Setting high thresholds of protection is part of the legislative objective of encouraging the generation of innovations and works of authorship. They are not meant to regulate the optimal degree of imitation in a system of effective competition.\(^\text{148}\)

The argument that regards trade dress protection as unconstitutional because, allegedly, only patent and copyright laws are meant by the constitutionally mandated competitive order to confer market power through product differentiation is also flawed. The economic analysis conducted above shows that the concept of effective competition allows for the protection of such positions of economic power, even if the intangible subject matter supporting it is not patentable or copyrightable.\(^\text{149}\) However, it can become particularly fruitful, since it points to the right line of thinking. It reveals that the key to approach the issue of overlapping intellectual property rights on product design is to consider that each exclusive position is meant to confer a different degree of market power for a different competitive purpose.

2. The Federal Preemption Doctrine: Establishing a Peaceful Coexistence Between Patent, Copyright, and Trade Dress Protection

Subsequent case law departed from the sweeping language of the Supreme Court in *Compco*. The first blow on the constitutional preemption doctrine was struck in *Goldstein v. California*, where the Supreme Court held that a state statute criminalizing the piracy of

\(^{148}\) See Interpart Corp. v. Imos Italia, Vitaloni, S.p.A., 777 F.2d 678, 685 (Fed. Cir. 1985) ("[T]he patent laws ‘say nothing about the right to copy or the right to use, they speak only in terms of the right to exclude.’ The California law does not “clash” with the federal patent law; the two laws have different objectives. Absent an existing patent right, we see nothing in the federal patent statutes that conflicts with California’s desire to prevent a particular type of competition, which it considers unfair. This California statute is not preempted by federal law, contrary to the district court’s conclusion.").

\(^{149}\) Just as any other IP right, trademarks do also offer the right-holder the possibility to exercise market power. See Josef Drexl, *The Relationship Between the Legal Exclusivity and Economic Market Power: Links and Limits*, in *INTELLECTUAL PROPERTY, MARKET POWER AND THE PUBLIC INTEREST* 191, 195 (Inge Govaere & Hanns Ullrich eds. 2008) (using the example of exercising control over price by forbidding parallel importations of goods already marketed outside the EU). See also Oppenheim, *The Public Interest in Legal Protection of Industrial and Intellectual Property*, 40 TRADEMARK REP. 613, 624 (1950) (emphasizing the link between trademarks, product differentiation and market power).
sound recordings was not in conflict with the Constitution. The Court opined that the IPC was exclusively addressing the breadth of Congressional jurisdiction in legislating to create AERs and IERs. It did not purport to exclude the state legislator in every possible respect from regulating intellectual property matters. As long as Congressional power remained unaffected exactly as prescribed in the IPC, the state legislature had its own room to maneuver in implementing state copyright policy. In particular, as far as sound recordings were concerned, the Court opined that the fact that Congress left that type of work unprotected did not indicate an intention to preempt the field of regulation, so as to forbid the construction of a state monopoly on the same subject matter. The absence of federal laws was attributed to the special circumstances of the specific industry, which was, in those days, considered to be of rather local importance. This made legislation at federal level unnecessary. As a result, no unconstitutionality issue of the kind articulated in Sears or Compco arose because there was no conflict between the state statute and federal copyright policy.

State regulatory power over discoveries in terms of providing protection for trade secrets was also affirmed as going in tandem with federal patent policy. If an object claimed as a trade secret is non-patentable or of doubtful patentability, then there is no conflict with the patent policy of providing incentives for disclosing discoveries to the public because the patent system itself does not promote the public disclosure of such subject matter. Furthermore, there is no public interest served by disclosing items such as customer lists or advertising campaigns. Moreover, it would undermine dynamic competition by reducing incentives to compete based on one’s own innovative business methods. Even when it comes to the protection of patentable subject matter under trade secret law and both regimes share a common field of application, no inconsistencies arise in the legal order by the existence of two parallel systems of promoting innovation.

151. Id. at 560–61.
152. Id. at 557–58.
153. Id. at 561 (the issue of unconstitutionality was accordingly examined under the Supremacy Clause of the U.S. Constitution).
155. Id. at 483, 487–88.
156. Id. at 483.
157. Id. at 484, 489.
effect of trade secrecy is substantially weaker than that of a patent since an independent discovery of the claimed item does not violate the trade secret rights asserted upon it. The inventor is thus prone to elect to disclose his discovery for the consideration of a patent, since it does not pay risking the loss of the competitive advantage of the exclusive use of patentable subject matter. The preference of trade secrecy over the acquisition of a patent would, according to the Court, be such a rare exception that it creates no danger of impeding the progress of science and the useful arts by withholding technical information.

It remains uncertain if the coexistence of patents and trade secrets is as frictionless as presented by the Supreme Court in *Kewanee*. In any event, as already indicated, the two sets of norms serve distinct purposes, the legal implementation of which is of such importance for a competitive economy, that none of them could supplant the other. The protection of trade secrets by the national legislator does not therefore collide with the patent policy crafted by the Congress. The issue of preemption of state legislation was again examined pursuant to the Supremacy Clause and not the IPC.

In the landmark case of *Bonito Boats*, the Supreme Court repeated in clear terms that the IPC has no direct impact on the legitimacy of state-crafted monopolies. The legal question there concerned the constitutionality of a Florida statute providing for patent-like protection of unpatented boat hull designs by prohibiting the use of a direct molding process for their duplication. State legislation was found to run afoul of patent policy for two reasons: (a) the prohibition of imitation is a hindrance to sequential innovation by refinement, and (b) imitation was seen as the “lifeblood” of a competitive economy, which is only true if the emphasis is put on static efficiency though. Even if the state statute was held to contradict the ratio of the patent policy prescribed by the IPC, its unconstitutionality was based on the Supremacy Clause.

Falling back on Paul Goldstein’s analysis of the discussed case law is instructive for understanding the outcome in *Bonito Boats*. He makes the point that all the property rights conferred by state law in the

158. *Id.* at 490.
159. *Id.* at 490–91.
162. *Id.* at 146.
163. *Id.*
aforementioned cases have a valuable role to play in a competitive economy.\textsuperscript{164} The effectiveness of competition would suffer if the IPC could on its own, independent of other constitutional provisions, dismantle precompetitive exclusive rights such as trade secrets or trademarks. The federal preemption doctrine is the legal construction that guarantees the implementation of an effective competition in this sense. It vests upon Congress a mandate to legislate so as to maintain a competitive economy. The constitutional mandate is derived not only from the IPC but also from other provisions of the economic constitution such as the Commerce Clause. At this point, the Supremacy Clause intervenes and makes the concept of effective competition the yardstick for ascertaining the constitutionality of state-legislated property rights. That could not be possible if the normative content of a single constitutional provision, like the IPC, could override the marketplace concerns served by other constitutional provisions.

The public interest against source confusion is a constitutive element of a system of effective competition, which is distinct from the valuations of the patent system and on its own worthy of legal protection.\textsuperscript{165} The same goes for the regulation of imitative activity so as to promote the welfare resulting from a dynamic competition with differentiated products.\textsuperscript{166} In the trade dress context this means that the


\textsuperscript{165} Mark Alan Thurmon, \textit{The Rise and Fall of Trademark Law's Functionality Doctrine}, 56 FLA. L. REV. 243, 344–49 (2004) (arguing that the hurdles of distinctiveness and non-functionality for obtaining trademark protection are adequate doctrinal tools to avoid conflicts with patent and copyright system); Jay Dratler, Jr., \textit{Trade Dress Protection for Product Configurations: Is there a Conflict with Patent Policy?} 24 AIPLA Q.J. 427 (1997) (arguing in addition that the necessity of proving a likelihood of confusion and the flexibility of trade symbol remedies requiring measures to eliminate confusion created by imitation exclude the possibility of such conflicts); see also Thomas F. Cotter, \textit{Is this Conflict Really Necessary?: Resolving an Ostensible Conflict Between Patent Law and Federal Trademark Law}, 3 MARQ. INTELL. PROP. L. REV. 25, 62–63 (1999) (pointing out that it is in any event difficult to imagine that trade dress would lead to a monopoly in the antitrust sense). \textit{See also} Kohler Co. v. Moen, Inc., 12 F.3d 632, 638–39 (7th Cir. 1993).

\textsuperscript{166} If unfair competition regulates as a competitive tort imitative activity of competitors irrespective of the existence of expired IP rights on the same subject matter, this means that the theories negating trade dress protection with the argument that the various IP rights should be partitioned regarding their field of application are not valid. As it will be shown trade dress protects product design for different purposes than patents and copyrights. Tobias U. Braegger, \textit{An Economic Analysis of Overlapping Protection for Product Configuration Trade Dresses – Applied to the Legal Systems of the United States of America, the European Union, Germany, and Switzerland}, 40–50, available at http://www1.unisg.ch/www/edis.nsf/SysLkpByIdentifier/2974/$FILE/dis2974.pdf (arguing, for example, that there is an institutional economic inefficiency to protect trade dress with
competitive mandate imposed on Congress creates an obligation of the latter to conciliate patent laws with the protection of trade dress.

3. An Introduction to the Functionality Doctrine

The concept of functionality in trademark law is far from clear because there is no consistent and generally accepted idea regarding its rationale, be it in court opinions or in the legal literature. Given this fact, the only legal definition that can avoid the possibility of a mistake would be to broadly define functionality as a legal doctrine reacting to the competitive concerns that arose after trade dress was held protectable subject matter under the unfair competition cause of action and subsequently under the Lanham Act. Functionality may bar protection of product configurations either as a non-fulfilled affirmative element of a trade dress claim or as a successful defense against an infringement action. Apart from that, de jure functional trade dress cannot be federally registered (Section 2(e)(5) Lanham Act). With regard to the substantive content of the doctrine, the *Inwood* case contains a legal rule which was incorporated later on in the *ratio decidendi* of Supreme Court opinions. Accordingly, “a product feature is functional . . . if it is essential to the use or purpose of the article, or if it affects the cost or quality of the article.” The judicial definition of the functionality doctrine does not reveal much for its normative content because its formulation may support different interpretations.

4. Defining de jure Functionality in Terms of Competitive Need

One way to interpret the *Inwood* formulation is to consider that it describes situations where the exclusive right on a product configuration influences the ability of a competitor to somehow compete with the right-holder.

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167. *Dinwoodie*, supra note 97, at 157; see also Note, Unfair Competition and the Doctrine of Functionality, 64 COLUM. L. REV. 544, 551–52.

168. RUDOLF CALLMANN, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 19:7 (Supp. 2011); See ANNE GILSON LALONDE, supra note 1, at § 2A.04.


170. *LeSportsac, Inc. v. K Mart Corp.*, 754 F.2d 71, 76 (2d Cir. 1985) (stating that “[t]his conclusion is reinforced when evaluated against the rationale of the functionality defense: encouraging competition by preventing advances in functional design from being monopolized. K mart’s ability to compete is not unduly hindered by the determination that LeSportsac’s particular configuration of design features is nonfunctional and therefore eligible for protection.”) The competitive need rationale is also adopted by the Restatement (Third) of Unfair Competition.
The essentiality of the product feature refers to a situation where a design is necessary to participate in a market in the sense of being able to manufacture a specific type of product. Accordingly, the exclusive position of an undertaking on a product feature should not put competitors at a competitive disadvantage by raising production costs or by restricting his ability to compete on quality because there are only a few alternative forms that confer these advantages. The competitive need rationale is, therefore, to be understood as a question of ability to compete effectively by substitution. In the absence of such a competitive need, the right to copy should be restricted by imitation bans to avoid consumer confusion that would arise if imitative activity were free. By allowing protection of product configurations not needed to compete in the market, the functionality doctrine promotes economic efficiency in that it minimizes confusion flowing out of product imitation. According to this view, functionality is not simply a method to avoid conflicts with patent policy but also a doctrine that serves search cost minimization. Imitation of design leads inevitably to some degree of confusion because it triggers associations between different products.

The competitive necessity of a trade dress is, therefore, determined in the light of its superiority in terms of function, economy of manufacture, or some other economic variable. The C.C.P.A. has provided guidance regarding the evidence required for affirming de jure functionality of trade dress. Four factors are relevant: (a) the existence of an expired utility patent that discloses the utilitarian advantages of the shape sought to be registered as a trademark; (b) the claimant’s advertising material touting the utilitarian superiority of his trade dress; (c) the availability of alternative designs; and (d) evidence that the specific design promotes productive efficiency.

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A design is ‘functional’ for purposes of the rule stated in section 16 if the design affords benefits in the manufacturing, marketing, or use of the goods or services with which the design is used, apart from any benefits attributable to the design’s significance as an indication of source, that are important to effective competition by others and that are not practically available through use of alternative designs.


5. The Distinction Between Utilitarian and Aesthetic Functionality

According to this legal notion, a distinction should be drawn between utilitarian and aesthetic product features. While there are infinite ways of designing an aesthetically pleasing trade dress, the features that serve the utility of the product cannot be arbitrarily chosen with the same convenience. The potential for competitive harm arising from trade dress protection is, for that reason, much more tenacious when it comes to utilitarian features. Consequently, it is necessary to create different rules concretizing the de jure functionality of each type of trade dress. This is the current state of the law as established by the Supreme Court in TrafFix.\textsuperscript{174} The respective trade dress claim concerned a dual-spring design built upon road signs so as to keep them upright during windy weather. The design has been revealed in expired utility patents. According to the Court, the technical character of the trade dress under consideration was a necessary and sufficient condition for the finding of de jure functionality. Thus, if the first prong of the definition is satisfied and the trade dress claimed is found to serve a technical purpose, then de jure functionality could be established without being necessary to examine the existence of alternative designs.\textsuperscript{175} Applied to the specific facts, the dual spring was held to be de jure functional because it was simply the reason why the device worked. The justification provided by the Supreme Court for this ruling was also supported by competition-related arguments. The Court seems to recognize a protectable interest of competitors not to be restricted in their freedom to copy design features driven by technical considerations. Accordingly, there is no duty imposed upon competitors to use an alternative configuration.\textsuperscript{176}

On the other hand, the Court found no protectable interest of the trade dress claimant at stake, since the Lanham Act, in contrast to the patent laws, does not purport to reward innovative effort.\textsuperscript{177} Furthermore, the Court refused to protect investments on utilitarian product design that aimed to monopolize it through the creation of secondary meaning. The outcome was equally affected by the thought that trade dress protection of utilitarian configurations would inhibit the innovative process.\textsuperscript{178} Finally, the Supreme Court ruled on the relevance

\textsuperscript{175} Id. at 33.
\textsuperscript{176} Id.
\textsuperscript{177} Id. at 34–35.
\textsuperscript{178} Id.
of expired patents for the determination of functionality and opined that in such cases there is a presumption of functionality. The ruling seems to use the burden of proof to resolve a competition-related matter, a method often deployed by antitrust in cases where a blanket balance of pre- and anticompetitive effects of a certain competitive behavior is not feasible.

The argument that competitors should not be coerced to compete by substitution is in its generality flawed as the economic analysis of product differentiation shows. Trade dress protection as part of a system of competitive norms promoting effective competition should, on the basis of imitation bans, stimulate dynamic competition. In addition, the Supreme Court did not accurately prescribe the protectable interest of the trade dress claimant, which is the protection of his location in product space (differentiation) so that he can obtain the degree of market power necessary to successfully market his products. The protection of this interest also serves the public interest in dynamic competition. Freedom of imitation is the proper means to foster innovation when sequential innovation is important, or when a technical configuration is an artifact of technological information that should be at the disposal of all manufacturers without distinction. If this is not the case, then trade dress protection of these shapes would stimulate innovative activity by directing manufacturers to try out and develop multiple technical solutions. The limits to such protection should be sought in the concept of dominant design, namely to the observation that at some point of product development a technical design emerges that is durable and supports mass production.

The Supreme Court confirmed the vitality of the competitive need rationale for determining functionality in the field of aesthetically effective product design. At first glance the doctrine seems to be a legal concept without a considerable field of application. For example, only under exceptional circumstances would an ornamental design be considered an essential input for participating in a market. For example, a heart-shaped box for a product market including goods to be delivered on Valentine’s Day. A rare example from case law is the finding of de jure functionality of a luminaire’s

179. Id. at 29–30.
design because its shape was necessary to achieve architectural compatibility with a specific type of building. A number of theories of aesthetic functionality have been put forward to confine the right-holder to reputational advantages and to prevent him from obtaining economic benefits as a consequence of the trademark protection of an aesthetically pleasing design (identification theories of aesthetic functionality). The application of those theories reduces the scope of trade dress protection for aesthetically pleasing product design. This line of argumentation is flawed because it does not consider that product differentiation is, in terms of competition policy, desirable and one of trademark law’s substantive valuations. Competitive need should be the threshold for denying protection on the grounds of aesthetic functionality (competition theory of aesthetic functionality).


183. See Mitchell M. Wong, The Aesthetic Functionality Doctrine and the Law of Trade-Dress Protection, 83 CORNELL L. REV. 1116, 1132-65 (1997–1998) (providing an analytical overview of those theories with case law examples). Under the “indicia of source test” a feature is protectable as trade dress if it exclusively serves the designation of the commercial source of the product. The “actual benefit” test asks whether the design adds to the product any additional value other than information about its source. The “consumer motivation test” denies protection if the considered trade dress is a factor that affects the consumer decision to buy the product. The “commercial success test” excludes from protection a design that contributes to the commercial success of the product for reasons other than source identification. See also Publications International Ltd. v. Landoll, Inc., 164 F.3d 337, 339 (7th Cir. 1998) (stating that “[o]n the other hand, a seller should not be allowed to obtain in the name of trade dress a monopoly over the elements of a product’s appearance that either are not associated with a particular producer or that have value to consumers that is independent of identification. In the lingo of unfair competition, elements of the latter type—elements whose value is not merely signification—are a product’s ‘functional’ features; They [sic] can be either utilitarian in the narrow sense of that word, or aesthetic . . . . But if consumers derive a value from the fact that a product looks a certain way that is distinct from the value of knowing at a glance who made it, then it is a non-appropriable feature of the product”).

184. Some opinions in the literature point out that the competitive rationale of functionality promotes design differentiation and simultaneously advances classic trademark goals as it eliminates source confusion arising out of imitative activity. See Robert Unikel, Better By Design: The Availability of Trade Dress Protection for Product Design and the Demise of “Aesthetic Functionality”, 85 TRADEMARK REP. 312, 332-42 (1995); Erin M. Harriman, Aesthetic Functionality: The Disarray Among Modern Courts, 86 TRADEMARK REP. 276, 299-303 (concluding that this test provides a balance between the freedom and the fairness of competition). The result is that functionality prevents only effective, not imitative competition. The effectiveness of competition is therefore considered according to this opinion not a good in itself but a way to promote classic trademark policy since competition on product design by substitution would minimize confusion. Another way to restrict the exclusive effect of aesthetic functionality regarding trade dress protectability is to adopt a utilitarian approach and exclude protection only when an aesthetic feature is of substantial value in the use or efficiency of a product, Deborah J. Krieger, The Broad Sweep of Aesthetic Functionality: A Threat to Trademark Protection of Aesthetic Product Features, 51 FORHAM.
If a certain product feature is not necessary for competing with the right holder, then competitors should be prompted to compete by substitution. Shrinking the scope of the functionality doctrine in such a way promotes dynamic competition by protecting product differentiation by design.

Concluding on the evaluation of the Supreme Court’s ruling in *TrafFix*, it should be noted that the Court restricts the protection of trade dress in the field of useful articles drastically and undermines the protection of product differentiation.\textsuperscript{185}

6. The Ruling of the Tenth Circuit in Vornado Air Circulation Systems, Inc. v. Duracraft Corporation

The court’s analysis of the functionality doctrine puts grave emphasis on the potential of trade dress claims to suppress the ability of the public to practice inventions disclosed in expired utility patents.\textsuperscript{186} Accordingly, the test promulgated by the Tenth Circuit asks whether a feature being part of a claim in an expired utility patent amounts to “a significant inventive aspect of the invention so that without it the invention could not fairly be said to be the same invention.”\textsuperscript{187} In other words, the feature would be considered as *de jure* functional, if it is deployed for implementing the special advantages brought forward by the technical rule disclosed in the patent and is described as such in the claims or the patent specification. Therefore, it becomes immaterial, for the purposes of trade dress protection, whether the trade dress at issue is simply one of a wide group of alternative configurations that could bring forward the same technical result.

The claimant had obtained a patent for a fan with multiple features including a spiral grill. The latter feature has been included in the patent claims as the element of the fan that enabled an optimal air-flow. The inventive significance of the grill was also emphasized in the

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\textsuperscript{187} *Id.* at 1510.
claimant’s advertising campaign. A competitor copied the feature at issue without infringing the patent, which had not expired yet. Then, the claimant asserted trade dress rights thereupon.

The court ruled for the defendant arguing that the feature was functional in the aforementioned sense. The spiral grill at issue was specifically designed so as to allow an optimal air flow. This teaching of the patent should be available for the public to practice. It is immaterial according to the Vornado-rule that other designs might work equally well in optimizing the air flow. As a matter of federal patent policy the public should, according to the Tenth Circuit, be able to practice the invention exactly as it is disclosed in the patent application. The court seems actually to put the emphasis of its analysis on the “disclosure theory” of patent law. Furthermore, the court considered that an item of inventive significance contained in an expired utility patent should remain in the public domain so as to promote innovation through diffusion of existing technical knowledge. If trade dress protection were granted, the claimant would be able to prohibit third parties to practice the invention exactly as taught in the specification even after the expiry of the patent. The threat of consumer confusion arising from product imitation becomes, therefore, a peripheral concern of the Lanham Act.

The ruling of the court can be criticized in many respects. For sure, it fails to balance the competitive concerns involved. Where there are many equally effective alternatives capable of reducing the same technical rule to practice, trade dress protection would minimize confusion attributed to imitative activity without seriously inhibiting the ability of the public to make use of the underlying inventive idea. Allowing trade dress protection in this case would amount to a more effective reconciliation between patent and trademark law policy.

An additional critique is that the judgment encourages third parties to successfully attack product configurations effectively operating a trademark function simply because they have been previously disclosed in a utility patent. If there is a large number of alternative

188. The relevant patents had not expired yet at the time the trade dress issue was being argued. The court felt probably the need to bar trade dress protection in the fear that the trademark would have achieved the status of incontestability by the time the patents would have expired. Functionality was not then a valid ground to challenge the validity of an incontestable trademark. See Shakespeare Co. v. Silstar Corp. of America, Inc., 9 F.3d 1091 (4th Cir. 1993).

189. See DINWOODIE, supra note 97, at 189–94.

190. Thurmon, supra note 165, at 350-55; DINWOODIE, supra note 97, at 192–93.
configurations able to implement the same technical rule the inventor would probably choose to adopt the configuration that he would also like to have as a trademark after the expiration of the patent. The choice of the configuration would, in such case, reflect not only technical considerations but trademarking or even marketing concerns as well. A competitor would then be in a position to destroy that trademark by arguing he has the right to copy the configuration included in the patent specification that forms a significant inventive aspect of patented technical rule, although, he does not need it so as to compete effectively with the party alleging infringement of trade dress.  

7. Functionality and Trademark Genericity

Functionality is to a certain extent linked to the notion of genericness. An extreme theoretical example of a shape being de jure functional due to the competitive necessity of its free use by third parties would be a trade dress claim over the shape of an airplane or a football. Because the plaintiff in such cases seeks to monopolize “features somehow intrinsic to the entire product,” the doctrine of functionality could be paralleled to the genericness concept. It is true that under these extreme sets of facts, functionality and genericity overlap. However, functionality purports to redress more subtle competitive harms regarding locational competition as we shall see. Trademark genericism refers in the context of trade dress simply to the competitive harm caused by the monopolization of the archetypical configuration of the product.

8. The Competition Theory of Functionality and Its Economic Analysis

In our view, functionality has to be decided on the ground of competitor’s ability to compete effectively with the trade dress right-holder. This permissive approach is dictated by the need to promote a dynamic competition with differentiated products and is a result of the substantive integration of trademarks into the set of norms regulating competition. The limits of the trade dress protection are to be ascertained by analyzing its effects on the marketplace, and not by an

194. This is a consequence of the complementarity principle. See also Anna F.
abstract reference to the ideal of a competitive process, which is free
from exclusive rights to the greatest extent possible. As already
indicated, the substantive valuation underlying the competitive need of
the functionality doctrine is the postulate of maintaining locational
competition by preventing the foreclosure of submarkets through trade
dress claims.

a. Defining Submarkets

The submarket concept is an analytical tool for identifying and
remedying locational anticompetitive effects. The notion is that
within a relevant antitrust market there are narrower groupings of high-
substitutable products in respect of which competitive harm may be
independently analyzed. These market segments are particularly
susceptible to the exercise of market power. The analytical tool of
submarket definition seeks to ascertain independent locations in
product space either by grouping together products that are
interchangeable on objective grounds offering an equivalent
consumption bundle, or by spotting cluster effects on the market
attributable to consumer preferences for specific product characteristics
without recourse to the hypothetical monopolist test. This definition is
derived by projecting the criteria held by case law to be the yardstick for
defining submarkets on the economic principles related to locational
competition. In the much-celebrated case of Brown Shoe Co. v. United
States, the Supreme Court held that the boundaries of a submarket may
be determined by such practical indicia as “industry or public

Courts Use an Antitrust Approach to Market Definition?, 8 MARQ. INTELL. PROP. L.
REV. 63, 66–73 (2004). More specifically in the trademark context, see Diana Elzey Pinover,
Aesthetic Functionality: The Need for a Foreclosure of Competition, 83 TRADEMARK REP.
of a Competition-based Market Economy, in INTELLECTUAL PROPERTY AND MARKET
POWER 167 (Gustavo Ghidini & Louis Mariano Genovesi eds., 2008).

195. For the latter approach, see Ralph S. Brown, Jr., Product Simulation: A Right or a
Wrong?, 64 COLUM. L. REV. 1216 (1964); Robert C. Denicola, Freedom to Copy, 108 YALE
L.J. 1661 (1999); Anthony E. Dowell, Trade Dress Protection of Product Designs: Stifling the
Progress of Science and the Useful Arts for an Unlimited Time, 70 NOTRE DAME L. REV. 137
(1994–1995); Melissa R. Gleiberman, From Fast Cars to Fast Food: Overbroad Protection of
Product Trade Dress under s. 43(a) of the Lanham Act, 45 STAN. L. REV. 2037 (1992–1993);
Glynn S. Lunney, Jr., Trademark Monopolies, 48 EMORY L. J. 367 (1999); Kevin E. Mohr, At
the Interface of Patent and Trademark Law: Should a Product Configuration Disclosed in a
(1997).

196. See generally Jonathan B. Baker, Stepping Out in an Old Brown Shoe: In
recognition of the submarket as a separate economic entity, the product’s peculiar characteristics and uses, unique production facilities, distinct customers, distinct prices, sensitivity to price changes, and specialized vendors.\textsuperscript{197}

In the antitrust domain, the submarket concept has found a field of application in cases where the effects of a merger between firms selling differentiated products have to be assessed. The harmful effect of substantially lessening competition prescribed by section 7 of the Clayton Act as the legal ground for prohibiting a merger is to be seen in the disappearance of locational competition. On the basis of such an argument the Federal Trade Commission (FTC) opposed Staples’ proposed acquisition of Office Depot.\textsuperscript{198} Both firms were office superstores active in the business of consumable office supplies. The acquisition was prohibited as substantially lessening competition in the submarket of consumable office supplies sold by superstores because after their merger, the respective location would be served by only two undertakings.\textsuperscript{199} The importance the decision puts on locational competition is evident by the fact that a submarket was defined even though the products involved were identical to those of the wider product market of consumable office supplies. The independent location of the product space resulted from product differentiation with regard to the sales outlet. The Court delimited a submarket for office supplies sold by superstores.

For the purposes of section 2 of the Sherman Act the submarket analysis is unsuitable.\textsuperscript{200} The monopolization offense aims at the protection of the integrity of the competitive process while taking an extremely cautious stance towards interfering with unilateral conduct in competition in the fear of discouraging undertakings to compete rigorously. For the value system of section 2 of the Sherman Act the exercise of market power is in principle desirable in order to maintain incentives to compete but also for the sake of the benefits associated with big undertakings such as economies of scale or capacity to allocate resources for innovation. Demand substitutability ascertained by the application of the Small but Significant and Non-transitory Increase in Price (SSNIP) test is therefore the proper analytical tool for achieving

\textsuperscript{197} Brown Shoe Co. v. United States, 370 U.S. 294, 325 (1962).
\textsuperscript{199} Id. at 1081–86.
\textsuperscript{200} PHILLIP E. AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW: AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION ¶ 533c, 254–57 (3d ed. 2007).
the goals set by the legal order in section 2. By shrinking the boundaries of the antitrust market in a specific line of commerce, the law would in fact penalize the unilateral acquisition and exercise of market power.

b. The Relevance of Submarkets for Trademark Law

The systematic adherence of trademarks to the rules regulating the competitive process means that the application of trademark rules cannot ignore the actual effect of the exclusive right on the marketplace. Locational competition should therefore be a concern of trademark law. The argument that it is not worthwhile, from the perspective of the enforcement costs, to detect and prevent locational competitive harm cannot be persuasively made. No antitrust-like economic analysis is needed since the Brown Shoe factors are objective. Moreover, the application of the submarket concept is not a more difficult task than the administration of the group of factors relevant for the diagnosis of a likelihood of confusion, where no factor is determinative for the outcome of the dispute.

If trade dress protection should be broadened in order to protect both the right-holder’s interest for protection against imitation and the interest of the public for product variety and dynamic competition, then the limits of such protection should guarantee that locational competition remains unaffected. This observation is analytically instructive for the understanding of the phenomenon of the cumulation of different intellectual property rights on a single product configuration. Copyrights and patents are allowed to lead to monopolizations covering single locations of the product space. Such a degree of market power seems logical when considering that the right-holder contributes an original or innovative intangible asset to the public domain. Regarding product configurations not covered by patents or copyrights, the conference of such a degree of market power through trade dress rights would be disproportional. Trade dress

201. That is why functionality should not be assessed by measuring demand elasticity as this concept cannot address locational competitive harm. Contra Mark A. Cunningham, Utilitarian Design Features and Antitrust Parallels: An Economic Approach to Understanding the Functionality Defense in Trademark Litigation, 18 HASTINGS COMM. & ENT. L. J. 569, 585 (1996).

protection aims at maintaining a dynamic competitive process where product variety is accomplished by imitation bans coercing competitors to compete by substitution. The degree of market power that accrues to the right-holder should only serve this purpose. Accordingly, trademark law is not allowed to suppress locational competition within submarkets.

c. Trade Dress Cases Invoking the Submarket Concept

Some court opinions that make \textit{de jure} functionality dependent on competitive necessity, address issues of locational competition by deploying a submarket analysis. In \textit{Vornado}, the Tenth Circuit based its functionality ruling on an alternative ground. By examining consumer preferences in the broader market for fans, it identified that there was enough consumer demand for the design sought to be protected by the claimant to create a submarket for fans with spiral grills. The functionality doctrine was applied in order to maintain competition within the boundaries of this submarket. The Eighth Circuit held the design of a pocket structure for trousers functional because the features claimed as trade dress had a competitive appeal that the consumer sought to find at the most attractive price and were therefore \textit{de jure} functional.\footnote{J.C. Penney Co. v. H.D. Lee Mercantile Co., 120 F.2d 949, 954 (8th Cir. 1941).} The court detected cluster effects arising from consumer preferences and opined that the demand created for this type of product should not be captured by means of a trademark monopoly. Most importantly, it did not focus on the potential utilitarian value that the feature conferred on the product, but it rather sought to ascertain whether the creation of a separate demand is attributed to the consumer perception regarding appeal of the trade dress.\footnote{Id. (“If, however, the public believes generally that a certain feature adds a utilitarian value to the goods—whether it actually does or not—and will be materially influenced to purchase them on that basis, over other competitive goods in the market, it will be held to be functional.”)}

In \textit{Wallace International Silversmiths, Inc. v. Godinger Silver Art Co., Inc.},\footnote{Wallace International Silversmiths, Inc. v. Godinger Silver Art Co., 916 F.2d 76 (2d Cir. 1990), \textit{cert. denied}, 499 U.S. 976 (1991).} the claimant asserted trademark protection for the ornamentation of his line of silverware products. The court opposed to the trademark monopolization because the features claimed as trade dress were indispensable for producing baroque silverware. For that particular product there was enough demand to consider it a substantial market (submarket).\footnote{See Mark Bric Display Corp. v. Joseph Struhl, 2003 WL 21696318, 6 (D.R.I.)} Trademark protection would lead to the
foreclosure of the submarket for baroque silverware. The court was actually addressing locational competitive harm. An example of a submarket delineated by the peculiar characteristics of the product can be found in the case of In re Babies Beat Inc. Although the Trademark Trial and Appeal Board (TTAB) did not explicitly refer to the submarket concept, it used the respective methodology. At first it analyzed the *de facto* functional aspects of the product configuration under consideration. The configuration of the plastic baby bottle claimed as trade dress served its tangibility and made it easier to clean. Since the same functional purposes could be served by numerous alternative designs, the TTAB opined that protection under the Lanham Act would not adversely affect competition. Harm to locational competition was therefore not possible. In such cases, the assessment of functionality requires a determination of the contribution of the design to the bundle of product characteristics and the effects of its trademark monopolization on locational competition.

In *Leatherman Tool Group, Inc. v. Cooper Industries, Inc.*, the question of functionality regarded a multi-purpose handheld tool.

(concluding that if the trade dress supporting a claim under section 43(a) of the Lanham Act does not confer a significant market share to the claimant, then no submarket can arise and trademark protection is not threat to cause harm to locational competition).

207. *Id.* at 80–81 (providing that “[the district Judge] found in the instant matter that there is a substantial market for baroque silverware and that effective competition in that market requires [use of essentially the same features] as are found on Wallace's silverware . . . . [W]hatever secondary meaning Wallace’s baroque silverware pattern may have acquired, Wallace may not exclude competitors from using those baroque design elements necessary to compete in the market for baroque silverware. It is a first principle of trademark law that an owner may not use the mark as a means of excluding competitors from a substantial market.”) See also *Lon Tai Shing Co., Ltd. v. Koch & Lowy*, 1991 WL 170734, 32 (S.D.N.Y.).

The only remaining question is whether trade dress protection for the overall design of the Dove [bird-like design of a table lamp] could preclude LTS from competing for a substantial portion of the market. There is little question that the design of the Dove is attractive to a significant number of purchasers of halogen table lamps, but this does not demonstrate preclusion of alternative lamp designs. . . . LTS would have to show, at the very least, that a significant number of customers or potential customers prefer halogen table lamps that have the type of minimalist bird-like profile featured by the Dove, and that there are no alternative designs that might appeal to these customers. . . . The record does not reflect either such a consumer demand or a lack of attractive alternative designs, and thus LTS has failed, on the present record, to carry its burden on the functionality defense.


209. *Id.* at 1730–31.


211. *Leatherman Tool Grp., Inc. v. Cooper Indus.*, 199 F.3d 1009 (9th Cir. 1999).
Despite the existence of alternative designs the court denied protection because no other configuration offered the same functional advantages in the sense that all other available shapes led to heavier and bigger tools. The analysis of the Ninth Circuit is indeed reminiscent of the practical indicia set forth in Brown Shoe. On top of everything, the ruling refers, even if this happens in an indirect manner, to the submarket concept, since it justifies the outcome by stating that the trade dress claimant “does not have the right to preclude competition in any particular subset of the overall market.”

In Banff v. Limited, Inc. a particular expression of the elements of an Aran sweater was held non-functional because it was not “essential” for competing in the market for Aran sweaters. Competitors would be able to market their own Aran sweaters after creating their own unique combination of Aran style stitches. Trade dress law should not in any event lead to monopolization of a decorative style (submarket). It should be noted though, that the suppression of locational competition (monopolization of a decorative style) is possible in the case of a design patent covering an innovative design. The different degree of market power, which can be permissibly exercised by different IP rights, is a perspective that facilitates our understanding of the overlaps between design patents and trade dress.

The economic analysis of the functionality doctrine based on the theory of product differentiation leads to the conclusion that the inquiry of the competitive necessity of the trade dress should refer to the availability of alternative designs that would allow competitors or new entrants to effectively compete by marketing a reasonably substitutable product. The competitive necessity refers to the ability of competitors to participate in a market delineated by antitrust methodology. On the other hand, when the Courts inquire on the availability of comparable alternative configurations in the spirit of Brown Shoe, they practically engage themselves in an analysis of locational competition.

Another instructive case is Disc Golf Ass’n v. Champion Discs, Inc. Disc golf is a game whose aim is to throw a frisbee at a target that catches it and drops it into a basket below. Plaintiff obtained a patent

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212. Id. at 1013–14.
213. Id. at 1014.
215. Id. at 1114–15.
216. Id.
217. Disc Golf Ass’n v. Champion Discs, Inc., 158 F.3d 1002 (9th Cir. 1998).
covering a parabolic chain configuration for disc golf targets. After the expiration of the patent, he attempted to extend his monopolistic position by asserting trade dress rights on the target’s configuration. In the meantime the trade dress in dispute had become the standard target used by 77% of the disc golf courses in the United States. The court was not concerned about a possible continuation of the patent monopoly on the specific configuration but it mainly disfavored the exercise of such a degree of market power based on a trade dress claim.

The case is helpful in analyzing the phenomenon of cumulative protection of product design by various IP rights. The market power secured by the patent aims at rewarding inventive activity by means of ensuring the possibility of the inventor to charge the price offered in the market for his invention. The reward is proportional to the qualitative level of his contribution. Monopoly power suppressing locational competition does not amount to a social loss in this case because the patentee has dedicated a novel, useful item to the public in consideration. When the patent monopoly expires, the exercise of market power by means of asserting an IP right on a product configuration cannot be justified by reference to the argument that the patentee deserves a reward for his inventive contribution. The dedication of the technical rule to the public allows competitors to use alternative configurations so as to compete with the right holder. If there are many alternative configurations implementing the teachings of the expired patent, then trade dress protection would promote product differentiation in the marketplace. The protection of a configuration disclosed in an expired utility patent should not be a priori considered as an impermissible extension of the market power conferred by the patent. Trade dress protection is concerned with promoting differentiation by regulating imitative activity. The existence of expired exclusive rights does not say anything about the optimal degree of imitative activity in a given market.

Trade Dress protection is, in other words, meant to confer market power to the right-holder for different purposes than those of the patent system. It confers market power to the right-holder primarily for the sake of fostering a dynamic competition with differentiated products. Where the assertion of trade dress claims enables the exercise of market power restricting locational competition, the degree of market power exercised by the trademark holder reaches a level that should only accrue to a patent or a copyright. The relationship between legal exclusivity and market power is the key to discern the cases where trade dress protection becomes the practical equivalent of an expired utility
Trademark rights are used in competition to secure competitive advantages that go beyond source identification. The actual aim is to exercise market power by capturing goodwill as an intangible asset that leads to consumer patronage. Current trademark theory frowns upon such an expansion of the trademark monopoly because it rests on the false normative premise that the competitive mandate dictates a competitive order, which is kept free from exclusive legal positions to the greatest extent possible. The economic analysis of product differentiation shows that competing by imitation often creates losses in dynamic efficiency. The misappropriation doctrine as an unfair competition cause of action can coerce competitors to compete by substitution in such cases so as to promote the effectiveness of competition. If trademark rights are used for a purpose that the competitive order approves and promotes, then the expansion of the scope of protection beyond the level necessary to prevent confusion is legitimate. As part of unfair competition law, trademarks should implement such substantive valuation. This indicates that trademarks might be protected independently from a confusion-based rationale. Such proprietary protection of trademarks presupposes the ascertainment of the interest sought to be protected by the right-holder, who uses his legal exclusivity for a purpose other than source identification. This interest should be balanced with potentially colliding interests of competitors and the public. If the individual interest prevails or its furtherance contributes to the effectiveness of competition, then the trademark claim asserted for a non-confusion related purpose, e.g. protection from imitative competition, should be affirmed.

APPENDIX
Diagram 4

monopoly regions: αβγδ, αβηθ

Diagram 5

competitive regions: αβγδ

TRADE DRESS AND COMPETITION