TRADEMARK LAW SEMINAR

COMPARATIVE ADVERTISING

CHRISTOS CHRISSANTHIS & PARTNERS
& Xenia Chardalia, LL.M., LL.M.

Introduction

- Strong tension between IP Law and Free Competition.
- IP Law promotes exclusivity of legal rights, whereas Free Competition focuses on the promotion of a wide public sector with limited exclusivities.
- Comparative Advertising is one aspect of Trademark Law, where this tension is evident.

Comparative Advertising (CA) - EU

- Definition:

According to Art. 2 CA Dir. 2006/114, advertising is: ***"any representation in any form in connection with trade, business, or profession, etc., destined to promote goods or services, which, directly or by implication, identifies a competitor, or goods/services offered by a competitor."***

→ a very broad definition of advertising

- So, CA is when one compares the features, qualities and prices of his own product to the characteristics of a product of other manufacturers; consequently, there is usually use of the trademark of another producer.
- The comparison of the products or the reference to those may be **direct** or **implied.**
- Usually the comparison is between a specific competitor/product; however, it can also be made to a whole category of products, if still one/more competitors can be identified.
- ***De Landtsheer***: defendant indirectly compared his beer to champagne

Is CA a trademark infringement?

- The problem with CA is that one needs to refer to the trademark of a competitor, in order to compare products or group of products; otherwise comparison cannot be achieved.
- Under the *"double identity"* principle

  (= identical marks, identical goods), reference to another's trademark would amount to infringement, unless there are specific provisions allowing comparative advertising.

- In addition, CA may lead to likelihood of confusion, because when products are compared, the chances to cause confusion are greater.
- In terms of **free competition**, CA is considered to be the essence of free competition, meaning that it is highly crucial for one producer to be able to compare features, qualities and prices of his own products to those of his competitors' *(*ECJ *Pippig).*
- So, tension exists between CA & free competition vs. exclusive trademark rights.

Arguments in favor of CA in general

1. **Consumer, Information, Competition, Transparency.**

   CA promotes:

- transparency in the market
- information available to consumers
- consumers' interests
- competition

2. CA reduces transaction costs.

CA, as described in the 2006/114 Directive, promotes informative (instead of suggestive) advertising and hence, it reduces transaction costs, because it makes it easier for consumers to collect all the necessary information to make a reasoned purchase choice.

3. Honest CA.

Most of the arguments against CA are based on the assumption that CA is misleading, confusing, degrading etc. However, the issue is whether it is possible to set conditions for honest CA, which will be only beneficial to competition and consumers. This is what is attempted through CA.

Arguments that CA is <u>not</u> a Trademark infringement

1. ***No confusion.*** CA, if honest, is just the opposite of confusion, that is it does not lead to confusion; so, trademark rights are not really impaired; bear in mind that according to the ECJ reasoning in the ***<u>OPEL</u>*** case, likelihood of confusion must be established, even in case of the "double identity" rule (i.e. use of identical marks in identical goods);

2. ***Trademark functions.*** The origin function is **not** frustrated and the same applies to other trademark (TM) functions; so, it is difficult to argue in favor of TM infringement;
3. ***Trademark limitation of rights.*** CA is a case for limitation of trademark rights: Art. 6(1) of the EU TM Directive provides for a rather general and broad clause regarding limitation of TM rights, in cases where *honest practices* are complied with; this provision has been broadly applied by the ECJ in cases like ***BMW*** and ***TOSHIBA*** (the latter being a CA case);

4. *Remedies from other fields of law.*

Even if CA is not honest, i.e. it is misleading, again it could not qualify as TM infringement, because even in such a case, TM functions are not always frustrated and confusion does not arise; there must be other remedies provided from other fields of law (other than TM law) for misleading CA.

(*Jacobs J.* in the English case of ***O2***);

5. ***Telling the truth cannot be considered as taking unfair advantage.***

In the English case of ***L'Oreal vs. Bellure,*** Jacobs J. heavily criticized the ruling of the ECJ that telling the truth about a product, i.e. that it looks alike (or smells) like another famous product, takes unfair advantage of the reputation of that other product.

Arguments <u>against</u> CA

1. **Right to Privacy.**

   Each enterprise has a right to privacy under which it is entitled not to allow its name to be mentioned by competitors in their advertisements *(the **Hellegold** case from the German Reich Court 1931)*.

It is regarded contrary to honest practices and moral ethics to advertise yourself by referring to someone else (unfair competition).

This view is oriented towards protection of the trademark owner's interests and does not take into account any pro competition public policy, or any consumers' interest.

This view was developed at an era when unfair competition law was oriented towards protection of merchants from unfair practices and unfair competition law was not associated with consumers' interests and free competition.

2. Unethical restriction of competition.

Honest practices and good ethics were understood towards the direction that by using CA, one attempted to steal a march on competitors not by improving his own products, quality and prices, but by degrading and hindering competitors *(**Ulmer**)*.

CA is sometimes more aggressive than necessary. CA sometimes emphasizes more on deficiencies and disadvantages of competitor's products, rather than on the qualities and advantages of own products.

Note that this argumentation is based on the assumption that CA is not honest, not objective, not true and hence degrading.

3. Lack of reliability and informative value.

It is argued that the information deriving from CA is by definition unreliable and not objective, since it comes from a competitor and is destined to injure other competitors.

The idea that a competitor was judging his own self and his other competitors was not at all appealing in Germany *(**Kohler**)*.

In many cases, CA consists of negative information about or negative references to competitors' products, while it does not provide any information about one's own products. In addition, CA may be selective and not objective → CA does not really promote transparency.

However, again this argumentation is based on the assumption that CA is not honest, is misleading and not objective.

4. **CA leads to inevitable TM infringement.** Under the *"double identity"* principle (= use of identical marks for identical goods), use of another's trademark in CA inevitably results to TM infringement.

   The counter-arguments are:

(a) CA does not lead to frustration of the TM functions, particularly the origin function,

(b) CA does not favor confusion, and

(c) trademark rights are limited, under s. 6(1) of the TM Directive.

   In addition, CA is particularly suspect of being confusing, because it compares similar products/services; so, there is an obvious need to regulate it.

5. Dilution of Reputation.

CA leads to inevitable dilution of competitor's reputation, or unfair advantage from it and free riding in general.

The counter-argument is that a true comparison cannot by perceived as unfair advantage;

(as per *Jacobs J.* in the English case of ***L'Oreal vs. Bellure***).

CA & Interests of Trademark Owners

- *Reputation.* Trademark owners have legitimate interest to object to CA in cases where such advertising is confusing, or misleading, or not honest in any way; or results to obtaining unfair advantage from the reputation of the trademark, tarnishes or dilutes the reputation of the trademark.

- *Free riding.* CA is a sophisticated tool to associate your products with well-known products and to achieve free riding on their reputation.

  Why should we allow an unknown product to be so associated to a well-established one and to free ride against it?

- *Volume of advertising.* CA is also a sophisticated method to benefit from another's extensive advertising. Once an unknown product is advertised in comparison to one that has been extensively advertised, it benefits from the volume of the past advertising of the rival well-established product.

CA & Interests of Competitors

- Competitors have self-evident interests to be able to compare their products.

- So, there is tension between Trademark Law and CA, which is mainly overcome through the concept of ***"honest practices"***.
- ***"Honest practices"*** are referred to in the CA Directive. The concept also appears in Art. 6(1) of the Trademark Harmonization Directive and Art. 10 bis of the Paris Convention on Unfair Competition.

EU DIRECTIVE 2006/114

- It amended EU Directives 1984/450 and 1997/55
- All these Directives have dealt with both misleading and comparative advertising.
- **B2B**

  Directive 2006/114 is **a business to business regulation**; this is derived from Art. 1 which states that: ***"The purpose of this Directive is to protect traders … and to lay down the conditions for CA".***
- **B2C**

  Protection to consumers is granted through Directive 2005/29 on Unfair Commercial Practices. This does not refer to CA specifically. It refers to misleading and aggressive practices. If CA falls within the requirements of misleading or aggressive practices, consumers may seek protection against CA also.

- The general principle is that CA is legitimate,

  if the comparisons made are **material, relevant, verifiable, representative and not misleading**.

- Recitals in the Directives provide that:

- CA reinforces competition, as it allows consumers to make better choices;

- CA reinforces the integration of the internal market, as it provides consumers with more information about what is available on the market, and in an integrated internal market, consumers will have more choices available to make a decision, so, they need more efficient information;

- CA favors consumers' interests and the balancing among CA and trademark owners' interests should be made in view of the interests of consumers, as well as in view of the policy favoring competition;
- A broad concept of CA is needed, so, as to cover all methods of CA;
- Harmonization of CA is necessary, so, as to achieve equal terms throughout the EU.

Art. 4 of Dir. 2006/114:

- Comparative advertising shall, as far as the comparison is concerned, be permitted when the following **cumulative** conditions are met:
- **(a)** it is ***not misleading*** within the meaning of Articles 2(b), 3 & 8(1) of this Directive or Articles 6 & 7 of Directive 2005/29/EC of the European Parliament and of the Council dated 11 May 2005, concerning unfair business-to-consumer commercial practices in the internal market *("Unfair Commercial Practices Directive")* [7];
- **(b)** it compares goods or services, meeting the same needs or intended for the same purpose;

- **(c)** it ***objectively compares*** one or more ***material, relevant, verifiable and representative features*** of those goods and services, which may include price;
- **(d)** it does ***not discredit*** or degrade the trademarks, trade names, other distinguishing marks, goods, services, activities or circumstances of a competitor;
- **(e)** for products with designation of origin, it relates in each case to products with the same designation;

- **(f)** it does ***not take unfair advantage of the reputation*** of a trademark, trade name or other distinguishing marks of a competitor or of the designation of origin of competing products;
- **(g)** it does ***not present goods or services as imitations or replicas*** of goods or services, bearing a protected trade mark or trade name;
- **(h)** it does ***not create confusion*** among traders, between the one being advertised and a competitor or between the trademarks, trade names, other distinguishing marks, goods or services of the one being advertised and those of a competitor.

CRITICISMS against the CA DIRECTIVE

1. ***Too many and too vague conditions.*** The legality of CA is dependent on too many and too detailed conditions; some of which are very difficult to be applied, i.e. the condition about not taking unfair advantage of the reputation.
2. ***In effect CA is NOT allowed.*** Under so many and so detailed conditions, CA becomes an inconvenient tool and it seems that in reality it is prohibited, rather than allowed.

3. ***Broad definition.*** The definition of CA is too broad and seems to include other forms of advertising, such as parasitic and abusive advertising.

4. ***Doubtful harmonization.*** It is doubtful whether harmonization will be achieved, because the conditions, which are too vague, may be applied differently in each Member State.

ECJ CASES

- ***Toshiba***

  The defendant sold Toshiba spare parts for photocopiers. In order to identify his products and their intended used, he used the respective Toshiba code numbers of the respective Toshiba products.

  Held: (1) This practice was covered by the broad definition of advertising, so, it qualified as comparative advertising; (2) CA can be explicit or by implication; (3) This practice was legitimate CA.

- ***Pippig***

  Pippig was manufacturing high quality spectacles. Hartlauer was re-selling Pippig spectacles obtained through parallel imports. Hartlauer was advertising the products by comparing the prices that it charged to those that Pippig itself charged. Pippig alleged that reference to prices was detrimental to the reputation of its mark.

  Held: comparison of prices was of the very essence of competition and could not qualify as trademark infringement; so, CA was legitimate.

- ***De Landtsheer***

  A Belgian brewer launched a new beer in a Champagne-like bottle and advertised it as "Champagnebier" and accompanied it by wording "brut reserve" to suggest that it had champagne like characteristics.

  Held:

  The above could qualify as CA, if a competitor could be identified in it, even by implication.

  The legal issue was that in this advertising, the product in question was not compared to another specific product; nor was a specific competitor referred to. Instead, the product in question was compared to a whole type of products (i.e. Champagne).

The Court held that such a reference to a category of products could qualify as CA, **if** it is possible to identify a specific undertaking or product as being in fact referred to.

If a specific undertaking or product cannot be identified, then the legitimacy of such advertising should be assessed in the light of other provisions of national law - or EU law where appropriate - irrespective of the fact that that it could mean a lower level of protection than that established for CA.

- ***O2***

  The defendant compared his prices to those of O2, but he did not use a mark identical to that of O2, but only similar to that of O2. He actually used O2 mark with certain modifications. In particular, the defendant did not use the word mark of O2, but instead it used the device mark of O2, consisting of "bubbles in blue color".

  Held:

  The use of a device mark (not a word mark) falls under the CA regime, because it identifies a specific competitor. Such advertising is legitimate, **if** all the other conditions of CA are in place.

- ***L'Oreal vs. Bellure***

  Bellure manufactured perfumes, which smelled like the respective L'Oreal perfumes and were packaged in look-alike get up.

  Bellure advertised its products and prices in lists in comparison to the respective L' Oreal perfumes.

  Held: this was not legitimate, because Bellure was advertising its products as imitations of the respective L'Oreal products and also in this way, it gained unfair advantage from the reputation of L'Oreal trademarks (free riding).

  In the English case of ***L'Oreal vs. Bellure,*** Jacobs J. heavily criticized the ruling of the ECJ that telling the truth about a product, i.e. that it looks alike (or smells) like another famous product, takes unfair advantage of the reputation of that other product.

  [Note that a similar, smell-alike perfumes case in the **US** is ***Charles of the Ritz Group vs. Quality King*****,** where the phrase *"if you like Opium, you will love Omni"* was found to be confusing.]

- ***SPIRIT SUN & CONTEXT CUT***

  SPIRIT SUN and CONTEXT CUT were registered trademarks in connection to particular methods of cutting precious stones destined for jewelry. The defendant used those marks to indicate that his jewelry was also prepared according to similar methods. However, the defendant caused no confusion as to origin and his use of another's trademark only intended to describe the method of production used for his products.

  Held: infringement was not found, because TM functions were not frustrated. It was also held that, in interpreting the Trademark Directive, one should take into account that CA was legitimate under the CA Directive., that is, that the TM Directive should be interpreted in view of the CA Directive.

How are Trademark Law Principles applied in the CA context?

- CA would be impossible if a third party's trademark could not be used.
- In CA, however, such use is destined to distinguish among the respective products and not to confuse.
- A frustration of trademark functions cannot be identified because of CA, so, an infringement cannot be established.
- Even under the *"double identity"* principle (identical marks used in identical services) a frustration of TM functions cannot be traced; so, it is worth applying the reasoning of the ECJ ***OPEL*** case that, in order to establish infringement, it is always necessary to trace likelihood of confusion.

- In addition, since CA is beneficial to competition, a limitation of Trademark rights as per clause 6(1) of the Trademark Directive is justifiable.

  Such limitation of TM rights is conditioned on that *“honest practices”* (referred to in 6.1) are complied with. Such honest practices are reflected in the conditions set by Directive 2006/114 for CA.