



The Intersection of Comparative Advertising and Trademark Laws  
in the United States and the European Union

A Comparative Analysis Based on *Smith v. Chanel* and *L'Oréal v. Bellure*

by

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## Introduction

United States and European Union trademark laws have common foundations in the Paris Convention for the Protection of Industrial Property and also in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement). As parties to these international agreements, both jurisdictions are obligated to adhere to certain fundamental parameters regarding trademark law and its enforcement. Despite these shared roots, a comparison of the European Court of Justice's ruling in *L'Oréal v. Bellure* with the factually similar US Ninth Circuit Court of Appeals case *Smith v. Chanel* reveals a divergence between the US and the EU in these two jurisdictions' construal of the interaction between trademark law and comparative advertising law.

This variance reflects differences in the cultural and policy considerations behind these jurisdictions' creation of the laws. Ultimately, however, it is due to fundamental differences in subsequent interpretations of those laws, as illustrated by diverging developments in the relevant case law. An understanding of these differences and developments can help clarify not only the reasons for their emergence, but may also help predict future directions the laws may take.

This paper is divided into four main sections. Section 1 presents an overview of comparative advertising laws in the EU and the US, providing background for the case law discussion that follows. Section 2 delves further into these jurisdictions' respective trademark and comparative advertising laws to reveal their interrelationship, the foundations upon which they are based, and the values they are intended to protect. Section 3 reviews the cases at issue in light of those laws and proposes that the divergence in laws between the EU and US stems primarily from opposing interpretations of anti-dilution laws. This divergence then triggers different interpretations regarding the way in which trademark law should intersect with comparative advertising law. Section 4 suggests that the Max Planck Institute's Study on the Overall Functioning of the European Trade Mark System indicates that in the future, the EU laws are likely to align more closely with their US counterparts, if certain proposals made by the Institute are implemented by the European Commission.

## 1 Comparative Advertising in the United States and the European Union: An Overview

### 1.1 United States

#### 1.1.1 United States Code: Title 15

Comparative advertising in the US is defined as 'advertising that compares alternative brands on objectively measurable attributes or price, and identifies the alternative brand by name,

illustration or other distinctive information.’<sup>1</sup> Foundationally, US comparative advertising law stems from Title 15 of the United States Code, primary federal legislation which covers Commerce and Trade. Title 15 gives the Federal Trade Commission (FTC) oversight over business practices.

Title 15 specifically prohibits ‘[u]nfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce.’<sup>2</sup> It also prohibits false advertising.<sup>3</sup> The Lanham Act, which sets out federal protection and registration standards for trademarks and is codified in Title 15, forbids ‘[f]alse designations of origin, false descriptions, and dilution.’<sup>4</sup> Prior to the FTC’s codification of US comparative advertising law, claimants often relied upon the Lanham Act for relief.

### *1.1.2. Statement of Policy Regarding Comparative Advertising*

The current state of US comparative advertising law has been shaped and defined by the FTC’s Statement of Policy Regarding Comparative Advertising. This policy statement, in effect since 1979, emphasizes that the FTC not only tolerates, but actively encourages, truthful, non-deceptive comparative advertising.<sup>5</sup> Prior to this clarification, advertising that compared different brands and identified them had been discouraged by both broadcasters and self-regulation entities.<sup>6</sup> The FTC’s stated viewpoint, however, was that such advertising offers important information to consumers and promotes product improvement and innovation.<sup>7</sup>

The judiciary will defer to agency regulations interpreting a provision of the United States Code, provided the regulations are a ‘permissible construction’ of that provision.<sup>8</sup> The FTC’s regulation codifying its comparative advertising policy statement has withstood the test of time: it was cited approvingly in a judicial opinion as recently as September 19, 2011.<sup>9</sup>

<sup>1</sup> Statement of Policy Regarding Comparative Advertising, 16 C.F.R. § 14.15(b) (2012).

<sup>2</sup> 15 U.S.C. § 45.

<sup>3</sup> 15 U.S.C. §§ 52-54.

<sup>4</sup> 15 U.S.C. § 1125.

<sup>5</sup> Statement of Policy Regarding Comparative Advertising, 16 C.F.R. § 14.15(b) (2012).

<sup>6</sup> John E. Villafranco, ‘The Law of Comparative Advertising in the United States’, *IP Litigator*, Jan.-Feb. 2010, at 1,1.

<sup>7</sup> Statement of Policy Regarding Comparative Advertising, 16 C.F.R. § 14.15(a)-(c) (2012).

<sup>8</sup> *Chevron, USA, Inc. v. Nat. Resources Defense Council, Inc.*, 467 U.S. 837, 843 (1984).

<sup>9</sup> *Ashley Furniture Indus. Inc. v. Am. Signature, Inc.*, No. 2:11-CV-00427, 2011 WL 4383594, at \*4 (S.D. Ohio. Sept. 19, 2011).

The FTC, when determining whether a certain advertisement is authorized, will consider ‘whether or not the advertising has a tendency or capacity to be false or deceptive.’<sup>10</sup> The FTC emphasizes the benefits to the consumer, not the rights of the companies making the products, when conducting its analysis.

## 1.2 European Union

### 1.2.1 *Directive 2006/114/EC Concerning Misleading and Comparative Advertising*

Comparative advertising in the EU is defined as ‘any advertising which explicitly or by implication identifies a competitor or goods or services offered by a competitor.’<sup>11</sup> Directive 2006/114/EC of the European Parliament and of the Council of 12 December 2006 Concerning Misleading and Comparative Advertising establishes this definition and also lays down uniform general principles so as to harmonize the conditions of use of comparative advertising in the EU member states.<sup>12</sup> It is a directive, and not a regulation; therefore, it allows EU member states to choose the form and appropriate method by which to attain those objectives in their own national laws.<sup>13</sup>

Similar to the parallel US law, EU law on comparative advertising is essentially a supplement to earlier existing laws on misleading advertising. Council Directive of 10 September 1984 relating to the approximation of the laws, regulations and administrative provisions of the Member States concerning misleading advertising (84/450/EEC) was amended by the October 1997 Directive so as to include comparative advertising (97/55/EC). It was then subsequently repealed and codified by Directive 2006/114/EC on Misleading and Comparative Advertising (hereinafter the ‘Comparative Advertising Directive’).<sup>14</sup>

Like the FTC in the US, the Parliament and Council acknowledge that truthful comparative advertising ‘can be a legitimate means of informing consumers of their advantage’<sup>15</sup> and ‘can also stimulate competition between suppliers of goods and services to the consumer’s advantage.’<sup>16</sup> As regards protection of consumers against misleading advertising, however, there is crossover with another recent directive.

<sup>10</sup> Statement of Policy Regarding Comparative Advertising, 16 C.F.R. § 14.15(c)(2) (2012).

<sup>11</sup> Directive 2006/114/EC, OJ L 376 at 22, art. 2(c).

<sup>12</sup> Directive 2006/114/EC, OJ L 376 at 21, para. 6.

<sup>13</sup> Directive 2006/114/EC, OJ L 376 at 22, para. 20.

<sup>14</sup> Directive 2006/114/EC, OJ L 376 at 26, annex I, part A.

<sup>15</sup> Directive 2006/114/EC, OJ L 376 at 22, para. 8.

<sup>16</sup> Directive 2006/114/EC, OJ L 376 at 21, para. 6.

According to Article 1 of 84/450/EEC, its purpose was to ‘protect consumers, persons carrying on a trade or business or practising a craft or profession and the interests of the public in general against misleading advertising and the unfair consequences thereof.’ However, the Comparative Advertising Directive specifies that its purpose is to ‘protect *traders* against misleading advertising and the unfair consequences thereof and to lay down the conditions under which comparative advertising is permitted.’ (emphasis added) This change in focus from consumers to traders as regards misleading advertising is due to the adoption of the Unfair Commercial Practices (UCP) Directive in 2005.

The UCP Directive regulates the commercial practices of business to consumers (B2C), so its misleading advertising rules replaced the B2C rules in what is now the Comparative Advertising Directive.<sup>17</sup> It is worth noting that there is no such division regarding comparative advertising. When claims regarding unlawful comparative advertising simultaneously include claims regarding advertising that misleads consumers, the provisions of both directives are therefore implicated.

### 1.2.2 *Implementation of Comparative Advertising Rules*

The only primary sources of EU law are the treaties that create the European Union, to which all EU member states are signatories and from which all EU institutions derive their authority.<sup>18</sup> Secondary sources of law include regulations and directives. Regulations promulgated by EU institutions are directly binding on the member states and become part of national laws with no additional steps necessary. The language of regulations is verbatim law. Directives, on the other hand, are binding only as to the result: member states are responsible for drafting national legislation to reach that result. Because comparative advertising law in the EU is based on a directive, not a regulation, there are variations in national laws.

### 1.2.3 *Directive 2008/95/EC Relating to Trademarks*

EU trademark law is directly implicated in comparative advertising law. The Trademark Directive is mentioned in the recitals paragraphs 13 through 15 of the Comparative Advertising Directive, where it is acknowledged that, despite trademark owners’ right to prevent third parties from using their mark on identical or similar products or services, comparative advertising cannot be effective if a competitor’s goods or services cannot be identified. While recitals do not constitute the law, they do reflect underlying policy objectives behind the law.

<sup>17</sup> The European Commission web site pages on Consumer Protection: [http://ec.europa.eu/consumers/cons\\_int/safe\\_shop/mis\\_adv/index\\_en.print.htm](http://ec.europa.eu/consumers/cons_int/safe_shop/mis_adv/index_en.print.htm) (last accessed May 25, 2011)

<sup>18</sup> Sources of European Union Law: [http://europa.eu/legislation\\_summaries/institutional\\_affairs/decisionmaking\\_process/114534\\_en.htm](http://europa.eu/legislation_summaries/institutional_affairs/decisionmaking_process/114534_en.htm) (last updated August 18, 2010; last accessed May 25, 2011); with the entry into force of the Treaty of Lisbon on December 1, 2009, EU primary law also includes the Charter of Fundamental Rights of the European Union.

The use of trademarks in comparative advertising is pivotal in *L'Oréal v. Bellure*, the European Court of Justice (ECJ) case at issue here.<sup>19</sup>

#### 1.2.4 Case Law

The *L'Oréal v. Bellure* ruling was handed down by the ECJ, the EU's highest court. However, unlike the US, the EU legal system is primarily based on civil law principles, which traditionally have not included the common law doctrine of precedent. The Europa website labels ECJ case law as 'supplementary';<sup>20</sup> that is, judicial opinions constitute neither primary nor secondary law. It is nonetheless significant that the *L'Oréal v. Bellure* decision was made in response to a preliminary ruling, a procedure whereby national courts question the ECJ on the interpretation or validity of European law.<sup>21</sup> Such a process is 'not a recourse taken against a European or national act, but a question presented on the application of European law.'<sup>22</sup>

The ECJ's interpretations of EU law, when formulated in response to a preliminary ruling, are binding on *all* member states' national courts as well as the court of the member state that requested the ruling.<sup>23</sup> There is no formal doctrine of stare decisis, or binding precedent, in the EU, but the ECJ does tend to follow its own decisions even though it is not obligated to do so.<sup>24</sup> Consequently, while the ECJ did not "decide" the case in the same way a US court would, the ECJ's interpretation of the EU laws implicated in *L'Oréal v. Bellure* nonetheless impacts the interpretation of those laws in all the EU member states and in future ECJ decisions.

### 1.3 *Smith v. Chanel* in the US and *L'Oréal v. Bellure* in the EU

More than forty years after the US Ninth Circuit Court of Appeals (Ninth Circuit) handed down its decision in *Smith v. Chanel*, the ECJ issued a preliminary ruling in *L'Oréal v. Bellure* in 2009. The factual similarity between these two cases is remarkable, although the context of the decisions is different. Despite the passage of time, *Smith v. Chanel* remains binding precedent in

<sup>19</sup> The *L'Oréal v. Bellure* decision was reached under earlier versions of the laws discussed here, but the relevant provisions remained consistent.

<sup>20</sup> [http://europa.eu/legislation\\_summaries/institutional\\_affairs/decisionmaking\\_process/114533\\_en.htm](http://europa.eu/legislation_summaries/institutional_affairs/decisionmaking_process/114533_en.htm) (Last updated August 20, 2010; last visited May 10, 2011).

<sup>21</sup> [http://europa.eu/legislation\\_summaries/institutional\\_affairs/decisionmaking\\_process/114552\\_en.htm](http://europa.eu/legislation_summaries/institutional_affairs/decisionmaking_process/114552_en.htm) (Last updated October 1, 2010; last visited April 22, 2012).

<sup>22</sup> *Id.*

<sup>23</sup> *Id.*

<sup>24</sup> Juha Raitio, *The Principle of Legal Certainty in EC Law* 86 (Kluwer Acad. Publishers 2003); see also Hans W. Micklitz, *The Politics of Judicial Co-Operation in the EU* 121 (Cambridge U. Press 2005).

the US; in fact, it has been referenced in other judicial opinions more than 575 times since its publication, most recently in August, 2011.<sup>25</sup>

However, in light of certain proposals outlined in the recently issued Max Planck Institute Study on The Overall Functioning of the European Trademark System, it remains to be seen whether *L'Oréal v. Bellure* will continue to provide accurate guidance on interpretation of the intersection of trademark law and comparative advertising law in the EU, or whether future changes to the applicable laws will render this case moot.

### 1.3.1 *Smith v. Chanel, Inc.*

#### 1.3.1.1 Facts<sup>26</sup>

Smith created a fragrance called 'Second Chance' as a duplicate of Chanel, Inc.'s fragrance 'Chanel No. 5' at a fraction of the latter's price. He advertised this and other 'smell-alike' perfumes in a trade journal directed to wholesale purchasers, claiming that his perfumes 'duplicate 100% perfect the exact scent of the world's finest and most expensive perfumes and colognes at prices that will zoom sales to volumes you have never before experienced!'

This advertisement also contained an order blank with a 'comparison list' presenting each Smith fragrance along with the name of the well-known fragrance it purportedly duplicated. Below 'Second Chance' appeared '(Chanel No. 5)' with an asterisk referring to a statement at the bottom of the form reading 'Registered Trade Name of Original Fragrance House.'

Chanel, Inc. filed suit against Smith claiming violation of US trademark laws, 15 USC. §§ 1051 et seq. 'Without regard to the truth or falsity of the statements made in defendant's advertisement and notwithstanding the fact that the plaintiffs' toilet preparations are not protected by the patent laws,<sup>27</sup> the trial court held that Smith infringed Chanel, Inc.'s trademarks and that irreparable harm would result if the infringements continued. Chanel, Inc. was therefore granted a preliminary injunction prohibiting any reference to Chanel No. 5 in the promotion or sale of Smith's 'smell-alike' perfumes. Smith appealed.

<sup>25</sup> According to Westlaw Citing References, Apr. 24, 2012.

<sup>26</sup> All facts are drawn from *Smith v. Chanel, Inc.*, 402 F.2d 562, 562-63 (9<sup>th</sup> Cir. 1968), and *Chanel, Inc. v. Smith*, 151 U.S.P.Q. 685 (N.D.Cal. 1966).

<sup>27</sup> *Chanel, Inc. v. Smith*, 151 U.S.P.Q. 685, 687 (N.D.Cal. 1966).

### 1.3.1.2 Decision

The Ninth Circuit reversed the trial court's decision. Noting that both parties agreed that 1. Smith had the right to copy Chanel's perfume; 2. Smith's copy was indeed equivalent to Chanel's original, and 3. the packaging and labeling of 'Second Chance' was not misleading or confusing,<sup>28</sup> the court framed the issue as 'whether one who has copied an unpatented product sold under a trademark may use the trademark in his advertising to identify the product he has copied.'<sup>29</sup> Stating that such use was allowed, the Ninth Circuit held that a manufacturer of a perfume may market its perfume as a duplicate of a trade-mark perfume which was not patented so long as the manufacturer does not misrepresent or create a reasonable likelihood that purchasers would be confused as to source, identity, or sponsorship of manufacturer's product.<sup>30</sup>

The Ninth Circuit's reasoning will be discussed further in Section 3.

### 1.3.2 *L'Oréal SA v. Bellure NV*

#### 1.3.2.1 Facts<sup>31</sup>

Bellure produced and marketed 'smell-alike' perfumes, using a comparison list for retailers that indicated the word marks of the luxury brands to which the smell-alike product corresponded. Some of the luxury brands, such as Trésor and Anais Anais, were owned by L'Oréal. Bellure's cheaper perfumes included 'Coffret d'Or' and 'La Valeur,' which Bellure's comparison lists identified as sharing characteristics, specifically smell, with certain of L'Oréal's luxury perfumes.

L'Oréal filed suit against Bellure in the High Court of Justice of England and Wales (Chancery Division), claiming that Bellure's similar packaging and comparison lists showing which products corresponded to which L'Oréal perfume infringed L'Oréal's registered trade marks for those perfumes. L'Oréal claimed that the reputations of its well-known luxury perfumes were harmed by the cheaper imitations. The packaging issue was later resolved, so this discussion will focus on the comparison list claim.

Dissatisfied with the High Court's ruling, L'Oréal appealed and the case reached the Court of Appeal of England and Wales (Civil Division). The Appeals Court stayed the proceedings and,

<sup>28</sup> *Smith v. Chanel, Inc.* at 563.

<sup>29</sup> *Id.*

<sup>30</sup> *Id.*

<sup>31</sup> All facts are drawn from Case C-487/07, *L'Oréal v. Bellure* [2009] ECR I-5185, paras. 14-26. The facts are simplified somewhat here (particularly as regards the parties' names) in the interests of brevity.

in a reference for a preliminary ruling, sought guidance on the inter-relationship of the Trademarks Directive and the Comparative Advertising Directive.

### 1.3.2.2 Decision

The ECJ's interpretation of the directives gave the UK court no choice but to rule that Bellure's use of L'Oréal's registered marks in its comparison lists constituted trademark infringement and unlawful comparative advertising.

In its reference for a preliminary ruling, the UK court had specifically asked whether Article 5(1)(a) of the Trademark Directive (prohibiting use of an identical mark for identical goods) was implicated when the trader uses registered marks in a way that such use plays a significant role in the promotion of the trader's product, but does not cause confusion, harm the sales or reputation of the well-known product, or jeopardize the registered marks' essential function. Then, if so, was there a defense under the Comparative Advertising Directive that the comparison lists were lawful, and did the use of the marks in the comparison lists infringe Article 5(2) of the Trademark Directive by taking unfair advantage of the reputation of the marks?<sup>32</sup>

The ECJ, in answering the questions, addressed the last question first, holding that unfair advantage under Article 5(2) of the Trademark Directive does not require a likelihood of confusion or detriment to the distinctive character of the repute of the mark or to its proprietor.<sup>33</sup> The court also ruled that Article 5(1)(a) of the Trademark Directive allows the proprietor of a registered trademark to prevent a third party's use of the mark in a comparative advertisement when that advertisement does not satisfy all the conditions of the Comparative Advertising Directive.<sup>34</sup> Further, the court ruled that an advertiser who explicitly or implicitly states in comparative advertising that his product is an imitation of a product bearing a well-known trademark violates Article 3a(1) of the Comparative Advertising Directive and takes unfair advantage of the mark.<sup>35</sup>

The ECJ's reasoning will be discussed further in Section 3.

<sup>32</sup> Case C-487/07, *L'Oréal v. Bellure*, paras. 27-30.

<sup>33</sup> *Id.*, para. 50.

<sup>34</sup> *Id.*, para. 65.

<sup>35</sup> *Id.*, para. 80.

## 2 Comparative Advertising and Trademark Law in the US and the EU: Foundations and Protected Values

Two cases, almost identical facts, laws complying with international obligations – so why such opposite outcomes? An understanding of the foundations for those laws, as well as the values they protect, is crucial to an analysis of their interpretation.

### 2.1 United States

In the US, comparative advertising law developed primarily from judicial interpretations of certain aspects of trademark law.

#### 2.1.1 Trademarks

##### 2.1.1.1 Constitutional Basis of Trademark Law

Trademarks are considered intellectual property (IP) and therefore are generally grouped with copyrights and patents, but in the United States, Congress's authority to regulate trademarks is derived from a different Constitutional clause than these other two primary forms of IP. Congress's power to set federal trademark law stems from the Commerce Clause, which gives Congress power to regulate commerce between the states and with foreign nations.<sup>36</sup> IP laws, however, stem from the Copyright Clause, which gives Congress the power to 'promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.'<sup>37</sup>

This distinction signifies that the policy rationales for these types of IP differ. Copyright and patent protection is afforded to stimulate innovation for the common good. Trademark protection, on the other hand, has its foundation in regulation of commerce. Of course, innovation in the arts and sciences intersects with commerce, but the two areas have very different considerations: copyright and patent law rewards creativity, while that is not the primary purpose of trademark law. The focus of US trademark law may have fluctuated in the past few centuries, but its foundation has not. Ultimately, this commercial foundation has determined the direction in which trademark law, and the case law interpreting it, has developed in the US.

<sup>36</sup> U.S. Const., art. 1, § 8, cl. 3.

<sup>37</sup> U.S. Const., art. 1, § 8, cl. 8.

### 2.1.1.2 History, Development and Judicial Interpretation of the Lanham Act

Attempts to pass federal trademark laws were made starting in 1870, but all were considered inadequate prior to the adoption of the Federal Trademark Act of 1946, known as the Lanham Act. For the first time, Congress passed a law creating substantive, as well as procedural, rights in trademarks and unfair competition.<sup>38</sup>

The law was not without its opponents. The Department of Justice expressed a number of strong concerns, including the assertion that trademarks are monopolistic and the law would favor 'big business' and encourage violation of antitrust laws.<sup>39</sup> However, in support of the new law, the Senate Committee on Patents implied that these fears were overstated, noting that 'the protection of trademarks is merely protection to good will, to prevent diversion of trade through misrepresentation, and the protection of the public against deception.'<sup>40</sup> The Committee also pointed out that the new law was necessary to align US law with its international obligations. US failure to carry these out meant that industrialists had been 'seriously handicapped in securing protection in foreign countries.'<sup>41</sup>

It appears that, at least initially, the 'protection to good will' cited by the Senate Committee translated into protection of the rightsholder's investment. US trademark law as codified in the Lanham Act was (according to some) intended to serve the dual goals of protecting both consumer and rightsholder. In a Report accompanying the Lanham Act in 1946, the Senate said

The purpose underlying any trade-mark statute is twofold. One is to protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats. This is the well-established rule of law protecting both the public and the trade-mark owner.<sup>42</sup>

Perhaps in response to the DOJ's initial fears, however, US case law interpreting the Lanham Act has since emphasized the consumer protection aspect.

<sup>38</sup> 4 *McCarthy on Trademarks and Unfair Competition*, § 5:4 (4<sup>th</sup> ed.).

<sup>39</sup> *Id.*

<sup>40</sup> S. Res. No. 1333, 79<sup>th</sup> Cong. 2d. Sess (1946), U.S.C.C.A.N. at 1277, as cited in *McCarthy on Trademarks and Unfair Competition*, § 5:4.

<sup>41</sup> *Id.*

<sup>42</sup> S. Rep. No. 1333, 79<sup>th</sup> Cong., 2d Sess., 3 (1946).

Consumer protection is not, however, the sole focus of US trademark law. The Federal Trademark Dilution Revision Act (FTDRA) protects a rightsholder's investment in a trademark that has become 'famous' even when there is no consumer confusion. Under the FTDRA,

[T]he owner of a famous mark that is distinctive...shall be entitled to an injunction against another person who...commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, or competition, or of actual economic injury.<sup>43</sup>

With the incorporation into the Lanham Act of the FTDRA, US legislation has at least acknowledged the initial dual goals of trademark law by creating a separate area of the law recognizing the private rights of certain trademark owners.

The FTDRA places limits on those rights, limits that reflect an ongoing emphasis on consumer protection. The dilution provision tilts the balance more towards rights holders, but the exception for comparative advertising focuses the emphasis back on the consumer: a third party's use "in connection with advertising or promotion that permits consumers to compare goods or services" is not actionable as dilution.<sup>44</sup> In certain situations, then, a deciding body will not even reach an analysis of harm before determining that a use is not actionable as dilution. Use of even a famous mark for the purposes of comparative advertising is specifically designated as fair.

### 2.1.2 *Comparative Advertising*

In the United States, maximizing consumer welfare and encouraging a free and competitive economy have been the guiding objective and keystone of governmental attitude towards business for over a century.<sup>45</sup> Consequently, truthful and non-deceptive comparative advertising, including the right to use a competitor's trademark to describe a legal imitation, has long been lawful in the US – in fact, it pre-dates the creation of the Lanham Act.

In 1910, the US Supreme Court upheld the right of a seller of mineral water to use a competitor's trademark to truthfully tell the public that he was selling water which was identical in content to the 'trademarked' water.<sup>46</sup> In 1917, the Eighth Circuit Court of Appeals (Eighth Circuit) followed the Supreme Court's guidance in holding that reproduction of another manufacturer's medicines, and sale under representations that they were the same article, did

<sup>43</sup> 15 U.S.C. 1125(c)(1).

<sup>44</sup> 15 U.S.C. 1125(c)(3).

<sup>45</sup> Charlotte J. Romano, 'Comparative Advertising in the United States and in France', 25 *NW. J. Int'l L. & Bus.* 371, 377 (2005).

<sup>46</sup> *Saxlehner v. Wagner*, 216 U.S. 375 (1910).

not constitute unfair competition, if the medicines were not sold as the goods of such other manufacturer.<sup>47</sup> Such use was ‘properly descriptive’ and did not constitute a ‘deceptive imitation.’

Despite the judiciary’s consistency in its approval of lawful comparative advertising, an FTC investigation revealed that, in reality, industry self-regulation often limited such advertising.<sup>48</sup> The FTC’s Policy Statement was issued to correct this tendency. In strong language, this Statement emphasized that ‘comparative advertising, when truthful and non-deceptive, is a source of important information to consumers’, ‘encourages product improvement and innovation’ and ‘can lead to lower prices in the marketplace.’ It warned that restraints upon use of comparative advertising would be subject to challenge by the FTC.

Later cases reveal the extent to which these policies have been integrated into US judicial approaches to comparative advertising claims involving trademark use. In a 1995 case that is particularly applicable to *Smith v. Chanel* and *L’Oréal v. Bellure*, the Eighth Circuit refused to issue a preliminary injunction against an imitator’s use of the trademark ‘Obsession’ in a claim for a perfume advertised as ‘our version of Obsession,’<sup>49</sup> citing ‘the strong public interest in the lowest possible prices’ as well as ‘the interest in avoiding monopolies and in encouraging, not stifling, competition.’<sup>50</sup>

There are, of course, limits on what is acceptable. For example, comparative advertising will not be allowed if it is likely to confuse buyers as to exactly what they are getting.<sup>51</sup> If the claims therein are not completely true and accurate, there may be liability for false advertising or trade disparagement.<sup>52</sup> It is indisputable, however, that ‘if a seller has the right to copy public domain features of his competitor’s goods, then, as a corollary, he must have the right to inform the public of this fact.’<sup>53</sup>

<sup>47</sup> *Viavi Co. v. Vimedia Co.*, 245 F. 289 (8<sup>th</sup> Cir. 1917).

<sup>48</sup> Statement of Policy Regarding Comparative Advertising, 16 C.F.R. § 14.15(a) (2012).

<sup>49</sup> *Calvin Klein Cosmetics Corp. v. Lenox Laboratories, Inc.*, 815 F.2d 500 (8<sup>th</sup> Cir. 1995).

<sup>50</sup> *Id.* at 505.

<sup>51</sup> 4 *McCarthy on Trademarks and Unfair Competition*, § 25:52 (4<sup>th</sup> ed.).

<sup>52</sup> *Id.*

<sup>53</sup> *Id.*, citing *Geisel v. Poynter Prods., Inc.*, 295 F. Supp. 331 (S.D.N.Y. 1968).

## 2.2 European Union

### 2.2.1 Trademarks

#### 2.2.1.1 Legislative Foundation and Functions of Trademark Law

In the European Union, three sources of law govern trademarks: the Trademark Directive harmonizing national trademark laws; the Community Trademark Regulation (CTM Regulation); and ECJ case law.<sup>54</sup>

The Trademark Directive was created pursuant to the internal market provisions of the treaties.<sup>55</sup> The CTM Regulation sets out a system for a centralized European Community trademark (as opposed to national trademarks granted individually by member states). Its rules broadly match those contained in the Directive. It also contains procedural and administrative rules, but ‘does not replace the laws of the Member States on trade marks.’<sup>56</sup> Two systems therefore essentially exist side by side: national laws and the EU laws (including the CTM) with which the national laws must not conflict. This paper will focus on the EU laws, and more specifically, the Trademark Directive and ECJ cases.

According to the Trademark Directive, the function of the registered trade mark is ‘in particular to guarantee the trade mark as an indication of origin.’<sup>57</sup> As one commentator (Keeling) points out, the inclusion of the words ‘in particular’ suggests that the origin function is not the only function<sup>58</sup> and then goes a step further to insist that ‘it is certainly important to avoid taking an excessively narrow view of the origin function of trademarks.’<sup>59</sup>

And indeed, extended protection to marks with a reputation has been granted by EU legislation. Article 5(2) of the Trademark Directive contains what is essentially an anti-dilution provision, as discussed further in Section 3. It allows member states to give the proprietor of a trademark with a reputation the right to prevent another

using in the course of trade any sign which is identical with, or similar to, the trade mark in relation to goods or services which are not similar to those for which the trade

<sup>54</sup> Bryan Harris, *Intellectual Property Law in the European Union* 51-52 (William S. Hein & Co. 2005).

<sup>55</sup> Directive 2008/95/EC, OJ L 299 at 25, para. 2.

<sup>56</sup> Council Regulation 207/2009, OJ L 78 at 1, para. 6.

<sup>57</sup> Directive 2008/95/EC, OJ L 299 at 26, para. 11.

<sup>58</sup> David T. Keeling, *Intellectual Property Rights in EU Law, Vol. I – Free Movement and Competition Law* 159 (Oxford U. Press 2003).

<sup>59</sup> *Id.* at 149.

mark is registered ... where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.

In the case of a mark with a reputation, therefore, the goods and services need not even be similar in order to trigger the right to protection. Such a provision broadens the scope of the protection right.<sup>60</sup> Since an unauthorized use cannot be lawfully prevented if it does not impinge upon a trademark's function, broadening the scope of protection essentially constitutes a broadening of the functions of the trademark.

#### 2.2.1.2 ECJ Case Law

ECJ case decisions reflect such a broadening of function. While not precedential, they have nonetheless developed to take into consideration not only the origin function of trademarks, but also what Keeling calls 'ancillary functions' such as goodwill, quality and publicity. Early ECJ decisions were dismissive of trademark rights, and therefore viewed trademark functions narrowly. In 1971, the court stated that 'interests protected by other rights of industrial and commercial property are usually more important, and merit a higher degree of protection, than the interests protected by an ordinary trademark.'<sup>61</sup>

Subsequent cases demonstrate a shift in approach to trademark protection. In 1990, the Advocate General of the ECJ<sup>62</sup> emphasized a trademark owner's right to protection by noting that 'trademarks reward the manufacturer who consistently produces high-quality goods...'<sup>63</sup> Seven years later, in *Parfums Christian Dior SA v Evora BV*, Case C-337/95, the ECJ considered whether the function of a trade mark may include protection of investment in advertising or promotion.

In this Christian Dior case, Dior opposed the use of its trademark by a reseller for advertising purposes. The ECJ held that such opposition would normally not be permissible, but made an exception for situations where serious damage would be caused to the reputation of the trademark. While this case involved parallel imports, not the use of a mark on a legal imitation, the potential repercussions on comparative advertising issues were significant, since the ECJ essentially acknowledged the advertising function of a trademark. As mentioned above, with recognition of the function come the associated rights. Here, the ECJ recognized that the

<sup>60</sup> Case C-487/07, *L'Oreal v. Bellure*, para. 34.

<sup>61</sup> Case 40/70, *Sirena v. Eda*, [1971] ECR 69, para. 78.

<sup>62</sup> Advocate Generals present opinions on the cases brought before the ECJ, which is not obligated to follow them. [http://europa.eu/about-eu/institutions-bodies/court-justice/index\\_en.htm](http://europa.eu/about-eu/institutions-bodies/court-justice/index_en.htm)

<sup>63</sup> Keeling, supra note 58 at 157, citing Opinion of AG Jacobs in Case C-10/89, *CNL Sucal v. HAG GF* [1990] ECR I-3711.

value of this function to the rightsholder could be protected through allowing a trade mark owner to prevent advertising detrimental to the image of the trade mark.

Similarly, in *BMW v. Deenik*, Case C-63/97 (1999), the ECJ concluded that, although generally a proprietor of a mark may not prohibit use of its mark by another to inform the public as to repairs and maintenance of the product associated with the mark, an exception will be made if the mark is used in a way that may create the false impression that there is a commercial connection between the user of the mark and the mark owner.<sup>64</sup>

Consistent with this reasoning, the ECJ clarified in *Gillette v. LA Laboratories*, Case C-228/03 (2005) that a third party's use of another's mark is lawful when such use is necessary to indicate the intended purpose of a product marketed by the third party, and such use is necessary where it "constitutes the only means of providing the public with comprehensible and complete information on that intended purpose."<sup>65</sup> As in *Dior* and *BMW v. Deenik*, the court noted exceptions in cases where the use discredited or imitated the mark, affected the value of a well-known mark, or gave the false impression of a commercial connection.<sup>66</sup>

These cases, wherein the ECJ acknowledges the consumer's right to information (and, implicitly, a trader's right to impart that information) while reiterating the power of a trademark owner to restrict certain forms of advertising, lay the groundwork for ECJ comparative advertising cases.

### 2.2.2 Comparative Advertising

The EU faced a number of challenges in implementing comparative advertising laws. Variations in national laws made harmonization efforts difficult, and this difficulty was reflected in subsequent requests for preliminary rulings.

#### 2.2.2.1 Varying National Laws

A major challenge to the creation and implementation of the comparative advertising directive in the EU was the initial variation - even conflict - in outlook on the subject among the EU Member States. This caused problems with the internal market, for cross-border advertisements originating in a Member State where they were lawful would have to be accepted on the territory of other Member States to comply with ECJ case law regarding free movement of goods and services.<sup>67</sup> Additionally, Member States with liberal comparative advertising laws could have

<sup>64</sup> Case C-63/97, *BMW v. Deenik* [1999] ECR I-905, summary, para. 8.

<sup>65</sup> Case C-228/03, *Gillette v. LA Laboratories* [2005] ECR I-2337, para. 39.

<sup>66</sup> *Id.*, para. 49.

<sup>67</sup> Jules Stuyck, 'Regulating Comparative Advertising in the European Community', *European Advances in Consumer Research*, Vol. 1, 1993, at 565.

a competitive advantage over States with tighter controls, resulting in distortions in competition.<sup>68</sup> The Comparative Advertising Directive was created to correct this imbalance.<sup>69</sup> Prior to the implementation of this Directive, for example, Belgium, Luxembourg, France, Italy, and Germany essentially prohibited comparative advertising. In Denmark, Ireland, Portugal and the UK, comparative advertising was authorized unless it was misleading or unfair. Some countries, such as Spain, Greece and the Netherlands, lacked an express statutory provision but case law founded in unfair competition was evolving from a system of prohibition to a system of authorization.<sup>70</sup>

Some of the countries that banned or restricted the practice often did so on cultural grounds, considering it to be in bad taste or unnecessarily violative of the competitor.<sup>71</sup> Others considered it an infringement of trademark rights, and still others felt it encouraged misrepresentation or gave adverse press to competitors.<sup>72</sup>

In fact, objections to comparative advertising were so strong that an initial attempt to authorize it in the Directive 84/450/EEC on misleading advertising was rejected and the Commission dropped it from that directive.<sup>73</sup> A second attempt was more successful, and Directive 97/55/EC, amending the misleading advertising directive to include comparative advertising, did ultimately pass - but more than a decade after its initial attempt, the Commission still encountered difficulties in obtaining consensus among the Member States regarding comparative advertising.

It was in this conflictual environment that the Comparative Advertising Directive was implemented.

#### 2.2.2.2 Case Law

Despite the resistance in many instances to the practice of comparative advertising, the ECJ was obligated, with the passage of the Directive, to recognize its importance to the internal market, and rule accordingly. Case decisions over the past ten years have addressed, among other issues, the definition of comparative advertising and when the use of trademarks in comparative advertising amounts to trademark infringement. While the latter may seem the most directly

<sup>68</sup> T. Prime, *European Intellectual Property Law* 124 (Dartmouth Publishing Co. Ltd. 2000).

<sup>69</sup> Directive 2006/114/EC, OJ L 376 at 21, para. 6.

<sup>70</sup> Stuyck, *supra* note 67, at 565 (footnote applicable to all preceding sentences in the paragraph).

<sup>71</sup> S.M. Kirmani, 'Cross-border Comparative Advertising in the European Union', 19 *B.C. Int'l & Comp. L. Rev.* 201, 201 (1996).

<sup>72</sup> *Id.* at 204-5.

<sup>73</sup> *Id.* at 203.

relevant in the context of this paper, cases dealing with other issues have laid a foundation for subsequent decisions.

In *Toshiba Europe GmbH v. Katun Germany GmbH*, Case C-112/99 (2001), Katun sold spare parts and consumables used in Toshiba photocopiers. It copied Toshiba's product numbers in its catalogues so as to identify which spare parts could be used with which Toshiba product. Toshiba filed suit. In response to the German court's referral for a preliminary ruling, the ECJ set the tone by noting that 'the conditions required of comparative advertising must be interpreted in the sense most favourable to it',<sup>74</sup> thereby acknowledging that comparative advertising is to be encouraged. It held that the use of another person's trademark may be legitimate where it is necessary to inform the public of the nature of the products or the intended purpose of the services offered. Nevertheless, it held that a third party's use of a trademark may not take unfair advantage of the distinctive character or the reputation of the mark or be detrimental to it.

In a factually similar case, *Siemens AG v VIPA*, Case C-59/05 (2006), VIPA manufactured and sold components compatible with Siemens products. Siemens filed suit, claiming VIPA used an identification system for its products that was virtually identical to Siemens'. The ECJ pointed to the Recitals of Directive 97/55 which stated that the purpose of comparative advertising is also 'to stimulate competition between suppliers of goods and services to the consumer's advantage' and concluded that the benefit of comparative advertising to consumers was a relevant factor to consider. An advertiser cannot be regarded as taking advantage of the reputation of distinguishing marks if effective competition requires a reference to those marks.

The ECJ continued in this direction in *O2 Holdings Limited v. Hutchinson 3G UK Limited*, Case C-533/06 (2008). 3G, the mobile phone service provider, had launched a UK television advertising campaign comparing 3G's services with those of O2. 3G referred to O2 using images of bubbles. O2 claimed that 3G's use of this imagery infringed certain of O2's registered trademarks. In response to a reference for a preliminary ruling to clarify the relationship between the Trademark Directive and the Comparative Advertising Directive, the ECJ held as a matter of general principle that the proprietor of a registered trademark cannot prevent the use by a third party of a sign identical with, or similar to, his mark, in a comparative advertisement which satisfies all the conditions of the Comparative Advertising Directive.<sup>75</sup> However, if the use of the trademark would cause confusion, it would not be lawful. The ECJ noted that in the circumstances at hand, 3G's use of imagery similar (but not identical) to O2's trademarks did not give rise to a likelihood of confusion and therefore O2 was not entitled to prevent use of the bubble imagery by 3G in comparative advertising.

<sup>74</sup> Case C-112/99, *Toshiba Europe GmbH v. Katun Germany GmbH*, [2001] ECR I-7945, para. 37.

<sup>75</sup> Case C-533/06, *O2 Holdings Limited v. Hutchinson 3G UK Limited*, [2008] ECR I-0000, paras 45-49, 51, operative part 1.

Such was the state of EU comparative advertising law prior to *L'Oréal v. Bellure*.

### 3 Comparative Application of US and EU Laws to *Smith v. Chanel* and *L'Oréal v. Bellure*

The application of the legislation and case decisions discussed above to the cases at issue brings to the forefront the key areas of divergence between them. US law's current emphasis on consumer rights as the primary purpose of trademark law<sup>76</sup> manifests a departure from the Senate's stated original policy rationale behind the Lanham Act, which emphasized not only the consumer's right to information but also the property rights of IP holders.

US comparative advertising laws reflect the current emphasis on consumer rights. In contrast, particularly after the *L'Oréal v. Bellure* decision, current EU law has evolved in directions that maintain the IP holders' property rights. The divergence in interpretation is due primarily to conflicting developments in case law, as opposed to major foundational differences in the rationale behind the laws' creation.

#### 3.1 Differences in the Laws

Using the registered trademark of a well-known product to describe another product that lawfully imitates the better-known one, when such use is truthful and not misleading or deceptive, is unlawful in the EU and lawful in the US. The discrepancies in judicial opinions stem from this fundamental divergence. A closer review of both jurisdictions' trademark laws reveals that the heart of this divergence lies in opposing interpretations of anti-dilution laws.

##### 3.1.1 Anti-Dilution and Comparative Advertising

A primary purpose of general trademark law is to protect against a likelihood of consumer confusion.<sup>77</sup> Trademark anti-dilution laws, in contrast, protect a rightsholder's investment in a trademark that has become 'famous' (in the US) or 'has a reputation' (in the EU) even when there is no consumer confusion. The concept of trademark dilution is therefore particularly important in the context of comparative advertising generally and even more so in the context of these two cases specifically, since the divergence of outcome in these two cases arises out of

<sup>76</sup> 'The only legally relevant function of a trademark is to impart information as to the source of sponsorship of the product.' *Smith v. Chanel Inc.* 402 F.2d 562 at 566.

<sup>77</sup> Directive 2008/95/EC, OJ L 299 at 26, para. 11; Case 102/77, *Hoffmann-La Roche v. Centrafarm*, [1978] ECR 1139 (EU); *August Storck K.G. v. Nabisco, Inc.*, 59 F.3d 616 (7<sup>th</sup> Cir., 1995) 'Trademarks designate origin and quality of products, thus, use of rival's mark that does not engender confusion about origin or quality is permissible.' (US)

the different emphasis the two courts place on the parties' respective rights. Simply put, the ECJ comes down on the side of the rightsholder; the US on the side of the consumer.

Generally speaking, both the US and the EU laws provide protection against trademark dilution. Under US law,

the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner's mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.<sup>78</sup>

'Dilution by blurring' is defined as "association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark."<sup>79</sup> 'Dilution by tarnishment' is "association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark."<sup>80</sup>

In EU legislation, the word 'dilution' does not actually appear in the Trademark Directive, but commentators consider Articles 4(4)(a) and 5(2) to be anti-dilution laws.<sup>81</sup> Although optional, every pre-2004 EU member state incorporated the provisions of these articles into national law.<sup>82</sup> Article 4(4)(a) gives member states latitude to prohibit registration of a mark identical or similar to an earlier mark even when the goods or services are not similar,

where the earlier trade mark has a reputation in the Member State concerned and where the use of the later trade mark without due cause would take unfair advantage of, or be detrimental to, the distinctive character or the repute of the earlier trade mark.

Article 5(2) allows member states to

provide that the proprietor [of an earlier mark] shall be entitled to prevent all third parties not having his consent from using in the course of trade any sign which is identical with, or similar to, the trade mark in relation to goods or services which are not similar to those for which the trade mark is registered, where the latter has a

<sup>78</sup> 15 U.S.C. § 1125(c)(1).

<sup>79</sup> 15 U.S.C. § 1125(c)(2)(B).

<sup>80</sup> 15 U.S.C. § 1125(c)(2)(C).

<sup>81</sup> J.T. McCarthy, 'Dilution of a Trademark: European Union and United States Law Compared', 94 *Trademark Rep.* 1163, 1164 (2004).

<sup>82</sup> *Id.* at 1163.

reputation in the Member State and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.

The Advocate General, in his opinion for the 2003 *Adidas* case, defined ‘dilution’ as ‘detriment to the distinctive character of a trademark’<sup>83</sup> and went on to incorporate therein the concept of ‘free riding’, stating that ‘the concepts of taking unfair advantage of the distinctive character or repute of the mark must be intended to encompass instances where there is clear exploitation and free-riding on the coattails of a famous mark.’<sup>84</sup> <sup>85</sup> ‘Free-riding’ is a key concept in the *L’Oréal* case, and one of the bases upon which the ECJ found advantage unfairly taken by Bellure.

Article 4 of the Comparative Advertising Directive lays down the conditions under which comparative advertising is allowed. It contains no ‘without due cause’ qualifier in its prohibition on misleading advertising, denigration of others’ marks, taking unfair advantage, or presenting goods as replicas. In the EU, therefore, anti-dilution laws may be used to limit comparative advertising.

However, in the US, a dilution claim may not be the basis for an attack on the use of a mark in comparative advertising. The Lanham Act dictates that use of trademark in lawful comparative advertising is considered fair use:

Any fair use, including a nominative or descriptive fair use, or facilitation of such fair use, of a famous mark by another person other than as a designation of source for the person’s own goods or services, including use in connection with advertising or promotion that permits consumers to compare goods or services’ is not actionable as dilution.<sup>86</sup>

The use of the word ‘descriptive’ in the anti-dilution provisions of the Lanham Act is key, particularly since the right to use well-known trademarks to describe a product as an imitation of the well-known product is not specifically laid out in the statute. Rather, the right to do so is found in case law. The exclusion of ‘descriptive fair use’ from the scope of the Lanham Act’s anti-dilution provisions implicitly allows advertisers to describe their product as an imitation of

<sup>83</sup> Opinion of AG Jacobs, 10 July 2003, Case C-408/01, *Adidas Salomon AG and Adidas Benelux BV v Fitnessworld Trading Ltd*, para. 37.

<sup>84</sup> *Id.*, para. 39.

<sup>85</sup> Here, the AG uses the word ‘famous’, mirroring the language in the US’s FTDRA as opposed to the ‘has a reputation’ language in the Trademark Directive.

<sup>86</sup> 15 U.S.C. § 1125 (c)(3)(a)(i).

another without risking an anti-dilution action. Indeed, 'descriptive fair use' is in essence how Bellure framed its actions.<sup>87</sup>

Bellure's arguments were not without precedent in the EU. The ECJ acknowledged that 'certain uses for purely descriptive purposes are excluded from the scope of application of Article 5(1) of Directive 89/104, because they do not affect any of the interests which that provision is intended to protect and accordingly do not constitute 'use' within the meaning of that provision.'<sup>88</sup>

The ECJ, however, disagreed that Bellure's use in these circumstances was 'for purely descriptive purposes', finding instead that 'the word marks belonging to L'Oréal are used in the comparison lists not for purely descriptive purposes, but for the purpose of advertising.'<sup>89</sup> The ECJ then reasoned that, in the context of advertising, use of the marks in the comparison lists constituted presenting an article as a replica, in contradiction of the Comparative Advertising Directive. Article 4(g) specifies that 'comparative advertising shall, as far as the comparison is concerned, be permitted when ... it does not present goods or services as imitations or replicas of goods or services bearing a protected trade mark or trade name.'

In finding only advertising use, and not descriptive use, the ECJ ignores a salient point made by the US Supreme Court in 1910 in *Saxlehner v. Wagner*, when the copied product was a 'bitter water' sold under the name 'Hunyadi Janos.' The lower court had allowed the defendants to use the mark to identify the plaintiff's water as the product the defendants were copying. In affirming that there was no unfair competition and no fraud in allowing such use, the court noted that the copiers 'are not trying to get the good will of the name, but the good will of the goods.'<sup>90</sup>

The distinction is a narrow one, but particularly significant in *L'Oréal*, since the product in question was perfume, which, when worn, has no visible identifying features. Consumers would buy Bellure's products because they like the smell of the copied product (the goodwill of the goods), not because they are relying on the reputation of L'Oréal's marks (the goodwill of the name). In direct contrast to US courts, the ECJ considered Bellure's attempts to 'get the good will of the goods' to amount to unfair competition.

<sup>87</sup> See *L'Oréal v. Bellure*, U.K. High Court of Justice, Chancery Division [2006] EWHC 2355 (Ch).

<sup>88</sup> Case C487/07, *L'Oréal v. Bellure*, para. 61.

<sup>89</sup> *Id.*, para. 62.

<sup>90</sup> *Saxlehner v. Wagner*, 216 U.S. 375 at 380-81.

### 3.1.2 Unfair Competition

Because of the two jurisdictions' opposing views regarding use of trademarks to describe copies, what constitutes unfair competition will also be different, as seen above in the Advocate General's incorporation of free-riding into his definition of dilution. Article 10bis (2) of the Paris Convention defines unfair competition as 'any act of competition contrary to honest practices in industrial or commercial matters.' The difference in the two jurisdictions' interpretations arises here from a divergence of opinion on what constitutes an 'honest practice.'

In the US, a competitor who produces low-priced substitutes for better known, name-brand items, and uses the name-brand to truthfully tell consumers what has been copied, does not compete unfairly.<sup>91</sup> On the other hand, in the EU, 'comparative advertising which presents the advertiser's products as an imitation of a product bearing a trademark is inconsistent with fair competition...any advantage gained by the advertiser through such advertising will have been achieved as the result of unfair competition and must, accordingly be regarded as taking unfair advantage of the reputation of that mark....'<sup>92</sup>

Part of this variation in approach is due to the difference in emphasis on the expenditures made by rightsholders to build and maintain their brand. In the US, such expenditure does not, in itself, create additional rights (although, as discussed above, rightsholders' expenditures were initially considered when creating the Lanham Act). In the EU, however, it does.

The Ninth Circuit in *Smith v. Chanel* stated definitively that 'a large expenditure of money does not in itself create legally protectable rights' and that Chanel was 'not entitled to monopolize the public's desire for the unpatented product, even though they themselves created that desire at great effort and expense.'<sup>93</sup> Subsequent courts have confirmed this statement. The Northern District of California, in *Sykes Laboratory, Inc. v. Kalvin*, noted that 'one consequence of the rule announced in *Smith v. Chanel* is that the copyist may freely capitalize on the goodwill and product recognition developed at great cost by the trademark owner.'<sup>94</sup>

The ECJ in *L'Oréal v. Bellure* stated unequivocally that 'riding on the coat-tails of a mark' is unfair competition when it involves exploitation 'of the marketing effort expended by the proprietor of the mark in order to create and maintain the mark's image.'<sup>95</sup> This statement

<sup>91</sup> 4 McCarthy on Trademarks and Unfair Competition, § 25:52 (4<sup>th</sup> ed.).

<sup>92</sup> Case C-487/07, *L'Oréal v. Bellure*, para. 79.

<sup>93</sup> *Smith v. Chanel, Inc.* at 568.

<sup>94</sup> *Sykes Laboratory, Inc. v. Kalvin*, 610 F.Supp. 849 at 854 (C.D. Cal. 1985).

<sup>95</sup> Case C487/07, *L'Oréal v. Bellure*, Ruling, para. 1.

reflects the EU's expansion of both the Trademark Directive's stated function for the protection of marks generally – to guarantee the trademark as an indication of origin<sup>96</sup> – and the protection of marks with a reputation under its anti-dilution provisions. Since it is not codified in the Trademark Directive, the groundwork for such expansion must have been laid primarily through ECJ case law.

As the Advocate General notes in his Opinion, 'neither the Trademark Directive nor ... the case-law of the Court has provided a list or a description of the functions of a trade mark other than that as a guarantee of origin.'<sup>97</sup> In its *L'Oréal* decision, the ECJ accepts the Advocate General's implicit invitation and provides such a list, citing 'communication, investment or advertising' as additional trademark functions.

In fact, the ECJ draws this list directly from the Advocate General's Opinion, which provides further reasoning: 'communication, investment, or advertising functions...arise from the fact that the investment in the promotion of a product is built around the mark and are, therefore, values which deserve protection as such, even when there is no abuse arising from misrepresentations about either origin or quality.'<sup>98</sup> The ECJ's specific inclusion of protection of a mark owner's investment in a list of trademark functions reflects an adoption of another Advocate General's view that it was 'simplistic reductionism to limit the function of the trade mark to an indication of trade origin.'<sup>99</sup>

Here, the ECJ goes in the opposite direction of US courts. In *Smith v. Chanel* and subsequent cases, the 'dual goals' of US trademark law have been narrowed to the single primary one of preventing consumer confusion (with anti-dilution provisions simply a narrow exception to this purpose). In the EU, on the other hand, the ECJ's condemnation of 'free-riding' clearly strengthens the legal protection afforded the trademark owner's investment.

## 3.2 Reasons for the Differences

### 3.2.1 Historical Development

EU trademark and comparative advertising laws were created primarily in response to the founding treaties' requirements of facilitating the internal market, even though intellectual

<sup>96</sup> Directive 2008/95/EC, OJ L 299 at 26, para. 11.

<sup>97</sup> Opinion of AG Mengozzi, Case C-487/07, *L'Oréal v. Bellure*, para. 50.

<sup>98</sup> *Id.*, para. 51 (citing Opinion of AG Jacobs in *Parfums Christian Dior*).

<sup>99</sup> As cited in Opinion of AG Mengozzi, Case C-487/07, *L'Oréal v. Bellure*, para. 52.

property was not specifically mentioned in those treaties.<sup>100</sup> Indeed, this silence initially led to wide variations in Member States' prior laws, with the consequence that EU legislation was sometimes at odds with the rules it was intended to replace or harmonize.

Parallel US laws, however, grew out of more gradual developments in policy. Put another way, US law developed in a more organic fashion, while EU law was created to forcibly harmonize conflict. This means the public and the judiciary have had time to gradually adjust to developments in the US law. Its longer history means it is also more familiar to them.

In fact, in the US, allowing use of a mark to describe a copy has a more established history than does use of a competitor's mark to disparage the competitor. Prior to the creation and codification of the FTC's Policy Statement, neither US industries nor broadcasters favored comparative advertising when it disparaged the competitor,<sup>101</sup> while use of a mark to describe a legitimate copy has been permitted for over a century, as discussed in Section 2.1.2.

The concept of comparative advertising is relatively new to the EU, however, as discussed in Section 2, and therefore less established. Comparative advertising has not been part of cultural mores for decades, as it has in the US. In fact, in the years immediately following the implementation of the Comparative Advertising Directive, referrals to the ECJ highlighted the uncertainty that surrounded this Directive, particularly in countries where, historically, comparative advertising was largely prohibited.<sup>102</sup> As a practice with only recent, as opposed to long-term, acceptance, it is more likely to be viewed as suspect, particularly when the acceptance was so difficult to obtain.

This uncertainty is reflected in the conflict of the ECJ's *L'Oréal* decision with earlier ECJ case law. In *Siemens*, the ECJ said an advertiser does not take advantage of the reputation of distinguishing marks if effective competition requires a reference to those marks. In allowing VIPA's use of Siemens' numbers, ECJ stated that the only way VIPA could effectively compete was by using Siemens' marks.

The *L'Oréal* decision is at odds with this statement. Effective competition means that manufacturers are encouraged to try to make an equally good product for less and pass the savings on to the consumer. This is exactly what Bellure did. In *L'Oréal*, for Bellure to compete effectively, it had to reference the *L'Oréal* marks; there was no other way to accurately identify

<sup>100</sup> A. Jolly and J. Philpott, *The Handbook of European Intellectual Property Management* 4 (Kogan Page Ltd 2d ed. 2009).

<sup>101</sup> Statement of Policy Regarding Comparative Advertising, 16 C.F.R. § 14.15(c)(1) (2012).

<sup>102</sup> Patty Kamvounias, 'Comparative Advertising and the Law: Recent Developments in the European Union', 2010 EABR & ETLC Conference Proceedings, Dublin, Ireland, 620, 623.

the product. Simply calling it 'perfume' does not adequately inform the public of the product's characteristics.

The ECJ's statement that an advertiser does not take advantage of the reputation of distinguishing marks if effective competition requires a reference to those marks also conflicts with the *L'Oréal* decision's interpretation of unfair competition. VIPA's replacement parts could be viewed as 'riding the coat-tails' of Siemens' efforts to promote its products just as Bellure was considered to be 'riding the coat-tails' of L'Oréal's investment. To create demand for its own product, VIPA was relying upon the demand for Siemens' original product, a demand Siemens undoubtedly created by investing in advertising and marketing. This is no different from the situation in *L'Oréal* for which Bellure was censured by the ECJ. Bellure created a product that competed with L'Oréal's, and, by inviting comparison, relied upon the demand L'Oréal had created for its product. Both VIPA and Bellure 'exploited, without paying any financial compensation, the marketing effort expended by the proprietor of the mark in order to create and maintain the mark's image.'<sup>103</sup>

The ECJ notes in *L'Oréal* that 'it is irrelevant ... whether the advertisement indicates that it relates to an imitation of the product bearing a protected mark as a whole, or merely the imitation of an essential characteristic of that product.'<sup>104</sup> However, if this were truly the case, *Siemens* and *Toshiba*, discussed above, would have been resolved differently. For what is a spare part, but an imitation of an essential characteristic of a product?

These conflicts reflect a shift in the balance of interests on the part of the ECJ, towards an emphasis on the private, as opposed to public, rights.

### 3.2.2 *Different Perspectives on the Balance of Interests*

Article 17 of the TRIPS Agreement states that parties 'may provide limited exceptions to the rights conferred by a trademark, such as fair use of descriptive terms, provided that such exceptions take account of the legitimate interests of the owner of the trademark and of third parties.' As discussed above, the US and the EU agree in general terms on what constitutes legitimate interests - that is, protection of consumers and protection of the property rights of the trademark owners. In 1990, the ECJ's Advocate General wrote that 'trade marks find their justification in a harmonious dovetailing between public and private interests.'<sup>105</sup>

<sup>103</sup> Case C-487/07, *L'Oréal v. Bellure*, para. 50.

<sup>104</sup> *Id.*, para. 76.

<sup>105</sup> Opinion of AG Jacobs in *CNL Sucal v. HAG GF*, Case C-10/89 (1990), cited in Keeling, *supra* note 58 at 157.

While acknowledging the need for a balance of interests,<sup>106</sup> US courts have nonetheless agreed that ‘protection of trademark values other than source identification would create serious anti-competitive consequences with little compensating public benefit,’<sup>107</sup> and noted that ‘courts have generally confined legal protection to the trademark’s source identification function for reasons grounded in the public policy favoring a free, competitive economy.’<sup>108</sup>

Here, the divergence of US and EU laws as illustrated in the two cases at issue lies in the respective weight accorded those interests. The Advocate General viewed those interests as ‘dovetailing.’ However, commentators have noted an increase in the potential for conflicts between laws prohibiting unauthorized use of another’s mark and the right to freedom of expression,<sup>109</sup> citing in particular anti-dilution laws, which protect famous marks regardless of likelihood of confusion. As discussed above, US trademark law protects free speech by exempting from dilution liability the fair use of another’s mark ‘other than as a designation of source’ in comparative advertising.<sup>110</sup>

In an impassioned opinion, Justice Jacob, of the U.K. court that had requested the preliminary ruling in *L’Oréal v. Bellure*, directly confronted the free speech issues arising out of the ECJ’s decision. Justice Jacob made it quite clear he applied the ECJ’s guidelines only because he was obligated to, not because he respected them.

Calling the ECJ decision a ‘muzzle’ on freedom of expression, Justice Jacob wrote, ‘my own strong predilection, free from the opinion of the ECJ, would be to hold that trade mark law did not prevent traders from making honest statements about their products where those products are themselves lawful.’<sup>111</sup> Further, Justice Jacob spoke to the corollary rights of consumers to be informed, pointing out that ‘the right of free speech extends not only to those who wish to tell the truth, but also those who would wish to hear it...in terms of the market place the hearer’s right to receive information translates into the right of the consumer to make an informed choice about products on the market.’<sup>112</sup>

<sup>106</sup> ‘Involved in the instant case is a conflict of values which necessarily arises in an economy characterized by competition and private property.’ *Dior case*, 299 F.2d at 37.

<sup>107</sup> See the court’s support for its reasoning in *Smith v. Chanel, Inc.*, at 566-67.

<sup>108</sup> See the court’s support for its reasoning in *Smith v. Chanel, Inc.*, at 566.

<sup>109</sup> Lisa P. Ramsey, ‘Free Speech and International Obligations to Protect Trademarks’, 35 *Yale J. Int’l Law* 405, 406 (2010).

<sup>110</sup> 15 U.S.C. § 1125(c)(3)(a)(i).

<sup>111</sup> *L’Oréal v. Bellure*, U.K. Court of Appeals, [2010] EWCA Civ 535, para. 8.

<sup>112</sup> *Id.*, para. 12.

The ECJ was not unaware of these issues when it crafted its ruling in *L'Oréal*, but it presented them very narrowly when it described the Comparative Advertising Directive's objective as reconciling

...the interest of the proprietor of the mark in benefiting from protection of his exclusive right, on the one hand, and the interest of the proprietor's competitors and of consumers in having effective comparative advertising which objectively highlights the differences between the goods or services offered.<sup>113</sup>

After making a point of its obligation to broadly define 'comparative advertising' in *Siemens* and *Toshiba*,<sup>114</sup> the ECJ in *L'Oréal* subsequently limits its definition of effective comparative advertising to that which 'objectively highlights the differences between the goods or services offered.' Yet in *Toshiba*, the court said the display of Toshiba's product numbers alongside Katun's own order numbers was permissible because it 'constituted a positive statement that the two products have equivalent technical features.'<sup>115</sup> However, such a statement does not 'objectively highlight the differences.' By narrowing its definition of lawful comparative advertising, the ECJ also narrows advertisers' free speech rights and the rights of the consumer to be informed.

#### 4 Conclusion

After the ECJ's decision in *L'Oréal v. Bellure*, it appears that the only kind of lawful comparative advertising in the EU involves implicitly or explicitly unfavorable comparisons, at least where marks with a reputation are concerned.

A favorable comparison with a well-known mark is likely to be considered as 'riding the coat-tails' of that mark, in contravention to the prohibition against unfair advantage in Article 4(f) of the Comparative Advertising Directive. If the product advertised is essentially the same as the well-known product to which it is being compared, it risks being deemed a replica, in contravention to Article 4(g).

This risk is not merely theoretical, as recognized in the Max Planck Institute's 'Study on the Overall Functioning of the European Trade Mark System' (the Study). This study, produced in response to a request from the European Commission, examines procedural and substantive

<sup>113</sup> Case C-487/07, *L'Oréal v. Bellure*, para. 71.

<sup>114</sup> Additionally, in both cases, the systems used to allow consumers to identify the corresponding products constituted comparative advertising, yet it highlighted similarities, not differences.

<sup>115</sup> Case C-112/99, *Toshiba Europe GmbH v. Katun Germany GmbH*, [2001] ECR I-7945, para. 37.

aspects of EU trademark law and makes recommendations with the ultimate goal of assisting the Commission in a future review of EU trade mark laws.<sup>116</sup> If the Commission follows the Study's recommendations, which is deemed likely, it may result in significant changes to these laws.<sup>117</sup>

Notably, many of the proposals 'radically depart from developments in the law arising from references to the ECJ.'<sup>118</sup> The Study acknowledges that, 'in addition to indicating origin, marks may acquire intrinsic value as business assets' with the economic rationale being that 'reputation enjoyed by a mark is regularly the fruit of intensive investments, for which further incentives are provided by the additional protection granted.' It then warns that 'for competition, however, the *phenomenon is not without risks...which have to be considered for the balancing of interests...*'<sup>119</sup> (emphasis added). This conclusion recalls the US court's concerns that 'protection of trademark values other than source identification would create serious anti-competitive consequences with little compensating public benefit.'<sup>120</sup>

The Study's concerns as to anti-competitive behavior are particularly significant in any discussion of unfair advantage, since the ECJ relied upon a finding that Bellure was 'riding the coat-tails' of L'Oréal's investments in its determination that Bellure took unfair advantage of L'Oréal's marks. The Study suggests clarifying the law so that it is more difficult to make out an unfair advantage than it is under current EU law, which incorporates *L'Oréal v. Bellure*.

The related issue of allowing manufacturers to copy a product, but not allowing them to describe their products as such, is addressed in the section on comparative advertising. The Study declares 'it appears appropriate to make provision for a broader clause exempting 'honest referential use' from infringement, i.e. cases where the protected trade mark is used as a reference to the proprietor's goods or services.'<sup>121</sup> This recalls Justice Jacobs's insistence that 'trade mark law did not prevent traders from making honest statements about their products where those products are themselves lawful'<sup>122</sup> and the US courts' statement that 'if a seller has

<sup>116</sup> Max Planck Institute's 'Study on the Overall Functioning of the European Trade Mark System', 15 Feb., 2011 (full text available at the European Commission's website at [http://ec.europa.eu/internal\\_market/indprop/docs/tm/20110308\\_allensbach-study\\_en.pdf](http://ec.europa.eu/internal_market/indprop/docs/tm/20110308_allensbach-study_en.pdf)) at 1.

<sup>117</sup> Hiroshi Sheraton and Leigh J. Smith, 'European Commission Publishes Max Planck Institute Study on European Trade Mark System,' *McDermott Newsletters*, Mar. 22, 2011, available online at <http://www.mwe.com/publications/uniEntity.aspx?xpST=PublicationDetail&pub=5095>

<sup>118</sup> *Id.*

<sup>119</sup> Max Planck Study, *supra* note 116, at 52.

<sup>120</sup> See the court's support for its reasoning in *Smith v. Chanel, Inc.*, at 566-67.

<sup>121</sup> Max Planck Study, *supra* note 116, at 121.

<sup>122</sup> *L'Oréal v. Bellure*, U.K. Court of Appeals, *supra* note 111, para. 8.

the right to copy public domain features of his competitor's goods, then, as a corollary, he must have the right to inform the public of this fact.<sup>123</sup>

This right ties into fair use exceptions, which the Study recommends clarifying to include free speech, through incorporation of a new proposed provision regulating use for purposes other than distinguishing goods or services in the course of trade.<sup>124</sup>

Noting that these issues cannot be viewed solely in the context of trade mark law (the subject of the study), the Max Planck Institute referenced a workshop discussion wherein participants pointed out that 'it is not for trade mark law alone to provide a full and satisfactory catalogue of limitations and exceptions...this also depends on the contents of adjacent regulations, such as the Comparative Advertising Directive.'<sup>125</sup> This Directive incorporates trade mark laws,<sup>126</sup> however, and while it can provide a different context for their interpretation, it cannot be in conflict with those laws.

The Study is non-binding on the Commission, but it is understood that consultations took place between the Max Planck Institute and the Commission during its drafting, indicating a greater likelihood that the Commission will follow the study's recommendations.<sup>127</sup> The Commission is currently preparing a Communication on the Comparative Advertising Directive, to be based in part on a Public Consultation that closes in mid-December 2011.<sup>128</sup> This Communication will "identify any problematic issues in the interpretation or application of the Directive and explore options for its possible review."<sup>129</sup> In 2012, the Commission is expected to announce proposed legislation and other changes as a result of the Study and additional assessments such as the Public Consultation. It therefore appears possible that the area of EU law where trademarks and comparative advertising intersect will in the near future align more closely with its US counterparts.

<sup>123</sup> 4 *McCarthy on Trademarks and Unfair Competition*, § 25:52 (4<sup>th</sup> ed.), citing *Geisel v. Poynter Prods., Inc.*, 295 F. Supp. 331 (S.D.N.Y. 1968).

<sup>124</sup> Max Planck Study, *supra* note 116, at 122-23.

<sup>125</sup> *Id.* at 103.

<sup>126</sup> Directive 2006/114/EC, OJ L 376 at 22, paras. 13-15.

<sup>127</sup> Sheraton, H. et al, *supra* note 117.

<sup>128</sup> The European Commission web site pages on Consumer and Marketing Law: [http://ec.europa.eu/justice/newsroom/consumer-marketing/opinion/111021\\_en.htm](http://ec.europa.eu/justice/newsroom/consumer-marketing/opinion/111021_en.htm) (last visited November 25, 2011).

<sup>129</sup> *Id.*

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### **Abbreviations**

AG	Advocate General of the European Court of Justice
CFR	Code of Federal Regulations (United States)
Comparative Advertising Directive	Directive 2006/114/EC of the European Parliament and of the Council of 12 December 2006 Concerning Misleading and Comparative Advertising <i>and all prior versions</i> .
CTM Regulation	Council Regulation (EC) No. 207/2009 of 26 February 2009 on the Community trade mark <i>and all prior versions</i> .
DOJ	Department of Justice (United States)
ECJ	European Court of Justice
FTC	Federal Trade Commission (United States)
FTDRA	Federal Trademark Dilution Revision Act
IP	Intellectual Property

Max Planck Study	'Study on the Overall Functioning of the European Trade Mark System', Max Planck Institute for Intellectual Property and Competition Law, Munich, 15.02.2011.
Ninth Circuit	United States Court of Appeals, Ninth Circuit
Policy Statement	Federal Trade Commission's Statement of Policy Regarding Comparative Advertising
Trademark Directive	Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate the laws of the Member States relating to Trademarks <i>and all prior versions</i> .
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights