

Intellectual Property and Comparative Advertising

Introduction

Intellectual property law, i.e. that part of the law which protects and grants exclusive rights in products of the intellect, comprises the laws of patents, designs, trade marks, copyright and the common law relating to unlawful competition. For the present purposes, the laws of patents, which protect inventions, and designs, which protect the outward appearance of manufactured articles, have no relevance. The law of copyright, which protects the exploitation of literary, artistic and other works, has minor relevance. The principal areas of intellectual property law which impact on competitive aspects of advertising are the law of trade marks and the common law relating to unlawful competition. The effect of these areas of the law on competitive advertising will be the main area of focus of this discussion.

Advertising

The report of the EC Committee on the environment, public health and consumer protection defined advertising as follows:

"The process of persuasion using the paid media, in which purchases of goods, services or ideas are sought; Its primary aim is to convince the consumer to obtain the advertiser's product/service and/or his specific brand. Advertising is thus a commercial message designed to influence consumer behaviour ... The commercial involves both information and promotion, always with the aim of enhancing the message which the advertiser wishes to put across to the consumer in order to influence the latter in favour of the particular product/service. The objective information value of the commercial is thus secondary, as the information is used solely if, and insofar as, it can act as a persuasive element in the advertisement."

This quotation emphasises that the presentation of objective information is a secondary consideration in advertising. The primary motivation is to persuade or motivate the consumer to buy a particular product and in general only information which assists him in achieving this objective is utilised in advertising a product. Advertising is thus characterised by selective use of facts presented with an ulterior motive.

Comparative advertising, in general terms, is a practice whereby a trader in extolling the virtues of his wares advertising draws comparisons between his goods and the goods of another, which goods are usually well known and held in high regard by the consumer, with a view to stimulating the demand for his own goods in preference to those goods with which the comparison is made. In essence one who resorts to comparative advertising is attempting to "ride on the back" of a well known and successful product and to use the repute of that product as a platform from which to generate sales of his own product. The host product or trade mark is parasitised by the comparative advertiser. Comparative advertising can be indirect - where reference is made only to one brand of product but indirectly to the characteristics or attributes of a rival or competing product, or direct - where the attributes or characteristics of one product are compared with attributes and characteristics of a specifically named or easily identifiable competing brand. Forms of comparative advertising which have come to the fore in the past are :

The making of a direct comparison, such as in the phrase

"Just one ADVIL is as effective as two regular strength TYLENOL" or "similar to ALLIGATOR or ALLIGATOR type"; the use of a comparative price list giving the price of one product in juxtaposition to the price of another product; stating that one product is a substitute for another, such as the phrase "all KLEP diaphragm valve parts are interchangeable with SAUNDERS diaphragm valves"; suggesting that a product has the attributes of another product, as in "every part shall be inspected and approved by engineers with many years experience in the manufacture of NORTHROP parts"; and disparaging a competitor's product, as in the phrase "product A has fewer side effects than product B".

Comparative advertising is a form of advertising which is particularly common in the United States of America but is creeping into advertising in Europe and elsewhere, including in South Africa. Comparative advertising is widely regarded as a very effective form of advertising although there is no empirical evidence to support this belief. In the field of advertising the age old proverb that "comparisons are odious" is coming progressively into contention.

In general intellectual property law has little role to play in advertising which seeks to promote the sale of a particular product/service solely by extolling the virtues of the product or describing its characteristics. The law of unlawful competition deals in certain respects with this form of advertising which is dishonest or misleading as to its content but in general intellectual property law only comes into play when advertising draws comparisons with someone else's product/service or his advertisements for such products/services. In this situation an advertiser can impinge upon the intellectual property rights of a competitor.

Comparative advertising, when utilised in a competitive context, can, it is submitted, in certain circumstances be unlawful on two grounds, namely, by infringement of a registered trade mark and by unlawful competition at common law. Each of these grounds will be discussed separately. A brief reference will also be made to copyright law.

Trade Mark Infringement

Trade mark law in South Africa is currently governed by the Trade Marks Act, No. 194 of 1993. This Act came into operation on 1 May 1995 and repealed the Trade Marks Act, No. 62 of 1963. For reasons which will emerge below, it is important to describe the way in which the Trade Marks Act, 1963, dealt with the use of registered trade marks in comparative advertising before going on to analyse the position under the current Trade Marks Act, 1993.

Section 44(1) (b) of the 1963 Act dealt with trade mark infringement through use of a registered trade mark or a confusingly similar mark "otherwise than as a trade mark", in other words, not for purposes of denoting that the goods/services in relation to which the contentious use takes place originates from the registered trade mark proprietor but for some other purpose. Such other purpose included making a comparison with the goods of the trade mark proprietor. For a registered trade mark to be infringed in terms of this provision, in addition to the other elements which the trade mark proprietor was required to establish, it was necessary for him to show that the use complained of was "likely to cause injury or prejudice to the proprietor of the trade mark". In the Klep Valves case the court held that the use by Klep Valves of the registered trade mark SAUNDERS in the context of the phrase "all KLEP diaphragm valve parts ... are interchangeable with SAUNDERS diaphragm valves" infringed that registered trade mark. In that case the court was persuaded that this form of comparative advertising was likely to cause injury or prejudice to Saunders Valves. At least theoretically, however, a comparative advertiser could avoid a claim of trade mark infringement by showing that his use of the Plaintiff's trade mark in his comparative advertisement was not likely to cause injury or prejudice to the trade mark proprietor.

Under the 1963 Act a trade mark proprietor could only sue a comparative advertiser for trade mark infringement if the goods or services to which the advertisement related fell within the scope of the specification or description of goods/services for which the trade mark was registered. For instance, if the trade mark ADIDAS was only registered in class 25 in respect of clothing and the comparative advertiser used this trade mark in the context of bags or rugby balls, the proprietors of the trade mark ADIDAS would not have been able to sue the comparative advertiser for trade mark infringement.

The ambit of trade mark infringement has been greatly broadened in the Trade Marks Act, 1993. In terms of Section 34(1) of that Act, the rights acquired by the registration of a trade mark are infringed by the unauthorised use by another in the course of trade:

- a. of that mark or a confusingly similar mark in relation to the goods/services for which the mark is registered;
- b. of that mark or a confusingly similar mark in relation to the goods or services which are similar to the goods or services for which the mark is registered;
- c. of that mark or a similar mark in relation to any goods or services if the registered trade mark is well known in South Africa and the use complained of would be likely to take unfair advantage or, or be detrimental to, the distinctive character or the repute of the registered trade mark, notwithstanding the absence of confusion or deception -this form of infringement is commonly referred to as "dilution".

The 1993 Act has also broadened infringement of rights granted under it to include protection of unregistered well known international trade marks that is marks which are well known in South Africa as being the well known international trade mark of a foreign proprietor. The rights residing in a well known trade mark are infringed by the unauthorised use of a mark which is a reproduction, imitation or translation of it in relation to goods or services which are identical or similar to those identified with the well known mark and where such use is likely to cause deception or confusion.

Use of another's registered trade mark in comparative advertising could constitute trade mark infringement in terms of paragraphs (a), (b) or (c) above and in terms of the provision protecting well known foreign trade marks.

To sum up, under Section 34(1) of the 1993 Trade Marks Act, a registered trade mark can be infringed unconditionally by a comparative advertiser if it is used in relation to goods/services for which the mark is registered or which have an affinity with such goods/services. It can be infringed even in respect of unrelated goods or services where it is well known in South Africa and the use complained of is likely to cause dilution of it. Even an unregistered trade mark which is known in South Africa to be a famous foreign trade mark can be infringed if the comparative advertiser uses that mark in relation to the actual goods or services for which the mark is famous or similar goods or services so as to be likely to cause deception or confusion. The limitations upon infringement of a registered trade mark through use in comparative advertising under the 1963 Trade Marks

Act, namely that the goods or services must be the actual goods or services for which the trade mark is registered and that the use complained of must cause injury or prejudice to the trade mark proprietor, have for all practical purposes fallen away. The Trade Marks Act, 1993, thus prohibits the use of trade marks in comparative advertising far more comprehensively than its predecessor. The inference can be drawn from this that the legislature, in enacting the Trade Marks Act, 1993, was concerned that there should be greater obstacles in the way of using trade marks in comparative advertising than was previously the position. Put differently, the legislature in 1993 viewed the use of trade marks in comparative advertising more negatively than in the preceding years.

Section 34(2) of the Trade Marks Act, 1993, creates certain exemptions from trade mark infringement but these exemptions do not materially detract from the general proposition advanced above. The only exemption worthy of mention in the present context is that provided for in Section 34(2) (c). This exemption relates to the situation where a trade mark is used in a bona fide manner where it is reasonable to indicate the intended purpose of goods, including of spare parts and accessories. In other words, it is permissible to use a description such as "this part is a replacement part for a VOLKSWAGEN motor vehicle". The exemption does not, however, entitle a comparative advertiser to say that his product is "as good as, or equal to, a VOLKSWAGEN part." He is merely entitled to describe the purpose or destined use of his product and not to attribute to it any of the qualities or characteristics of the original part, other than that it fits the vehicle.

In broad terms a registered trade mark (and even a non-registered famous foreign trade mark) cannot be used in comparative advertising without the authority of the trade mark proprietor and the violation of this prohibition will give rise to trade mark infringement.

Unlawful Competition

Stated briefly, the common law remedy of unlawful competition is Aquilian in nature and requires the Plaintiff to show that the Defendant's wrongful and culpable conduct caused him patrimonial loss. Before conduct can constitute unlawful competition it must satisfy the general requirements for Aquilian liability, namely:

- a. A wrongful act or omission;
- b. Fault which may consist either of negligence or intention;
- c. Causation which must not be too remote; and
- d. Patrimonial loss.

Comparative advertising which is likely to attract custom away from the competitor's product and is intended to have this effect, can, provided the conduct of the Defendant can be categorised as wrongful, constitute unlawful competition. The crucial question is thus whether utilising the common forms of comparative advertising can be said to be wrongful. This issue will be discussed under two separate headings, namely Passing-Off and Contravention of the Boni Mores.

Passing-Off

Passing-off originates from the British common law but is currently regarded in South Africa as a particular species of unlawful competition and thus to be Aquilian in nature. The classical definition of passing-off is that given in the *Capital Estate* case and reads as follows :

"The wrong known as passing-off consists in a representation by one person that his business (or merchandise, as the case may be) is that of another, or that it is associated with that of another, and, in order to determine whether a representation amounts to passing-off, one enquires whether there is a reasonable likelihood that members of the public may be confused into believing that the business of the one is, or is connected with, that of another."

Passing-off can relate to a trade mark, get-up or any characteristic of a product or service which is capable of performing an identificatory function as to origin. Accordingly, the use of any such sign of another by a comparative advertiser can in principle give rise to passing-off if the other elements of the delict are present. The foundation for a claim of passing-off is that the sign in question has achieved notoriety through extensive use. A good example of how comparative advertising can give rise to passing-off is to be found in the British McDonald's case. McDonald's uses the trade mark BIG MAC in relation to hamburgers while Burger King uses the trade mark WHOPPER. An advertisement placed by Burger King included a reference to the McDonald's product in the form of a pun. They used the phrase "Not Just Big, Mac" in an advertisement for their WHOPPER product. The court found that this manner of use of the trade mark BIG MAC by Burger King created a risk of confusion in that it was

unclear whether the WHOPPER product was a variation of the BIG MAC product and whether it was available at Burger King or McDonald's. The court thus held that Burger King's advertisement constituted passing-off.

In general it is relatively rare that comparative advertising will give rise to passing-off. Indeed, comparative advertising is usually more concerned with differentiating the two products and suggesting that the comparative advertiser's product is equal or superior to the host product which it seeks to parasitise.

Contravention of Boni Mores

In general the criterion for judging the wrongfulness of unfair or dishonest behaviour in the context of unlawful competition was stated in the Atlas Organic case as being the boni mores or the general sense of justice of the community. This formulation was adopted in subsequent cases and finally approved by the Appellate Division in the Schultz case. The court said in the Schultz case, however, that the sense of justice must be interpreted as that of the communities legal policy makers such as the legislature and the court. In the Atlas Organic case, and subsequently in the Lorimar case it had been emphasised that the business ethics of that section of the community where the norm is to be applied are of major importance in determining the boni mores.

The question of whether comparative advertising in any given situation constitutes wrongful conduct and thus unlawful competition turns on what the boni mores are in that situation. The boni mores are in turn determined by the standards of fairness and honesty in the field of marketing and advertising the goods in question and as interpreted by the legislature and the court.

The Advertising Standards Authority (ASA) of South Africa is an independent body set up and financed by the advertising industry to ensure that its system of self-regulation operates in the public interest. The ASA has produced a Code of Advertising Practice, the main purpose of which is two-fold and is described as follows:

"The protection of the consumer and to ensure fair play among advertisers. In the latter case it lays down criteria for professional conduct while at the same time informing the public of the self imposed limitations accepted by those using or working in advertising. Its rules form the basis for arbitration where there is a conflict of interest within the business, or between advertisers and the general public."

The Code of Advertising Practice has been adopted also by the South African Media Council and the Newspaper Press Union as their code of conduct. It has also been given official recognition by the Independent Broadcasting Authority. It is submitted that the ASA code is a codification of the business ethics of the section of the community engaged in marketing and advertising consumer goods.

Prior to October 1994 the ASA Code largely, if not entirely, precluded comparative advertising in its general forms. In particular, clause 7.2 of the Code stated that:

"Advertisements should not take advantage of the goodwill attached to the trade name or symbol of another firm or its product or the goodwill acquired by its advertising campaign ..."

However, in October 1994 the Code was amended and deals as follows in clause 7.1 of the General Principles deals as follows with comparative advertising:

7.1 Advertisements in which comparisons are made between products and/or services are permitted provided that:

7.1.1 All legal requirements are adhered to. Attention is drawn to the provisions of the Trade Marks Act 193 of 1993, in terms of which the unauthorised use of a competitors' Trade mark in an advertisement constitutes trade mark infringement;

7.1.2 Only facts capable of substantiation are used;

7.1.3 Only objectively determinable and verifiable claims are made;

7.1.4 The claims are not misleading or confusing;

7.1.5 No infringement of goodwill takes place;

7.1.6 No disparagement takes place;

7.1.7 The facts or criteria used are fairly chosen (significant, relevant and representative; basis of comparisons the same; compare like with like);

7.1.8 The contextual implication be strictly limited to the facts;

7.1.9 Where claims are based on substantiated research, the express consent as to the accuracy and scope of such claims be obtained from the relevant research body;

7.1.10 The advertiser accepts responsibility for the accuracy of the research and claims;

7.1.11 All comparative advertisements are submitted to the ASA for pre-clearance.

While the ASA Code purports to allow comparative advertising the conditions set forth in clause 7.1 of the Code are rather onerous and one questions whether in actual fact many of the typical forms of comparative advertising will meet these conditions. In essence the ASA Code is somewhat negative to the whole question of comparative advertising; however the current version of the Code takes a somewhat more benign view of the matter than the earlier version. Although the legislature in the Trade Marks Act has adopted a more negative approach to comparative advertising as compared to the past, by contrast the ASA Code has adopted a somewhat more positive approach to it.

While it is true that the Trade Marks Act is concerned essentially with the use of registered trade marks in comparative advertising and the ASA Code deals with the broader aspects of comparative advertising, it is incongruous that these two expressions of principle should appear to be moving in opposite directions. It is submitted that there is no difference in principle between the use of registered trade marks in comparative advertising and the broader aspects of comparative advertising. As mentioned previously, the *boni mores* must be determined having regard to the communities legal policy makers such as the legislature and the court as well as the business ethics of that section of the community where the norm is to be applied. Given the very tentative and equivocal sanction of comparative advertising in the ASA Code in contrast to the unequivocal and unconditional prohibition of comparative advertising in the Trade Marks Act, 1993, it is submitted that as a general proposition the *boni mores* are adverse to the practice of comparative advertising and that there is a strong risk that comparative advertising will be found to be *contra bonos mores* and could therefore give rise to a claim of unlawful competition on the part of the producer of the host product.

Van Heerden en Neethling, "Unlawful Competition" express the view that there can be no doubt that comparative advertising is in conflict with the principle of fair competition and thus is *contra bonos mores*. The learned authors say that "*as with passing-off, the perpetrator attempts to draw customers, not through the merit of his own performance but through the merit of his competitor's performance.*" The learned authors thus reach the same conclusion as that reached above, albeit perhaps by a slightly different route.

To sum up, it is submitted that in general comparative advertising, whether indirect or direct, constitutes unlawful competition despite the qualified approval given to it in the ASA Code.

Copyright

The Copyright Act, 1978, protects written texts, including advertising copy, as literary works and drawings, photographs and artwork in general as artistic works, subject to certain conditions being met. On the whole, all original advertising copy and artwork utilised in advertising in South Africa can be assumed to be protected by copyright. The unauthorised reproduction or adaptation, or broadcasting, of an artistic or literary work, or any substantial part thereof, constitutes copyright infringement. Accordingly, if a comparative advertiser uses a reproduction or adaptation of any substantial part of a copyrighted work belonging to the producer of the host product such action on his part can constitute copyright infringement and the use of the relevant advertising material would be unlawful.

Foreign Approach to Comparative Advertising

The basic anti-comparative advertising approach followed by South African intellectual property law is currently shared by several leading foreign countries, notably Germany, the Benelux countries and Italy. On the other hand, comparative advertising is prevalent in the United States of America where a recent analysis of the content of television advertisements in that country found that 60% contained indirect comparative claims, 20% contained direct comparative claims and 20% contained no comparative claims. Another survey shows that comparative advertising currently makes up approximately half of all advertising in the United States of America. Britain, France, Spain and Austria, as well as the European community as a whole, occupy the middle ground. The position in the United States of America, the European community in general and Britain will be discussed below.

United States of America

Comparative advertising is dealt with in Section 43(a) of the United States Trade Mark Act, known as the Lanham Act. The provisions of this Section are not unlike the position described under the law of passing-off in South Africa above. In applying the provisions of this Section the American court in the American Home Care Products case said that the test is whether:

1. The Defendant had made false or misleading statements as to his own product (or another's);
2. There was actual deception or at least a tendency to deceive a substantial portion of the intended audience;
3. The deception is material in that it is likely to influence purchasing decisions;
4. The advertised goods travelled interstate in commerce; and
5. There is a likelihood of injury to the plaintiff in terms of declining sales, loss of goodwill and so on.

Belinda Mills summarises the position in America as follows:

"The courts will prevent the use of a competitor's trade mark in an (indirect comparison) or (direct comparison) advertisement if it is deceptive or gives rise to a likelihood of confusion as to the origin or source of the brand being advertised. If, however, the advertiser clearly distinguishes its own brand from that of the competitor and the comments made are truthful and honest, then it is permissible to refer to a registered trade mark either to associate or differentiate brands."

Europe

The European Commission published a draft directive on comparative advertising in October 1994. This draft may of course change before it is implemented but it is probably fair to assume that it gives a good indication of the direction in which the European Community is headed on the question of comparative advertising. Once the final directive has been issued it will be obligatory for all member countries of the European Union to bring their national laws into conformity with the directive. The basic principle of the draft directive is that use of comparative advertising must be permitted in each member state under certain very stringent conditions. In terms of these conditions comparative advertising is only permitted provided that it is :

1. Objective, relevant, always verifiable; and
2. Compares fairly chosen and representative features.

It must not:

1. Mislead;
2. Create a risk of confusion;
3. Discredit or denigrate the goods/services/marks/name of a competitor;
4. Refer to personalities or personal characteristics;
5. Principally capitalise on the reputation of the trade mark or trade name of a competitor.

The requirements with which comparative advertising must comply in the draft directive have some resemblance to the conditions stipulated in the South African ASA Code.

The United Kingdom

The current British Trade Marks Act dates from October 1994. Prior to then, trade mark law was regulated in the United Kingdom by the Trade Marks Act, 1938. This Act contained a provision which was similar in its effect to Section 44(1)(b) of the South African Trade Marks Act, 1963 and also prevented the use of a registered trade mark in comparative advertising. Section 10(6) of the British Act of 1994 has, however, changed the position materially. This section no longer regards use of a registered trade mark by a third party for the purposes of identifying the goods or services of the proprietor of the trade mark as an infringement of a registered trade mark. In effect, therefore, the provision removes the prohibition against the use of a registered trade mark in comparative advertising. However, the section lays down qualifications applicable to the removal of the prohibition. It says that "such use otherwise than in accordance with honest practices in industrial or commercial

matters shall be treated as infringing the registered trade mark if the use without due cause takes unfair advantage of, or is detrimental to, the distinctive character or repute of the trade mark."

The British section is based on the draft European Directive and its interpretation is far from clear.

Conclusion

The international trend is in the direction of removing restrictions against comparative advertising. The draft European Directive appears to represent the modern norm. In drafting the South African Trade Marks Act, 1993, the legislature based its work to a considerable extent on the European Directive for harmonisation of trade mark laws. Yet, on the subject of comparative advertising the South African legislature has not embraced the European norm. Since the approach of the South African legislature also plays a significant role in determining the boni mores of the law of unlawful competition, it would seem that the approach of South African intellectual property law to the subject of comparative advertising is out of step with modern international developments. Perhaps our legislature needs to look afresh at this question.

The main argument advanced by those who are proponents of comparative advertising is that it increases consumer information and promotes an assessment of the competing brands and thus enables consumers to reach better informed and more rational purchasing decisions. However, Wilkie & Farris express the view that "the primary basis for marketer's interest in this phenomenon is its potential for increasing profits through market share gain". Mills comments that "there is no sign of virtuous intent here in terms of educating the consumer or enabling the consumer to make a more informed purchasing decision. This may not be surprising given the whole aim of advertising is to seek to persuade consumers to purchase the particular goods in question." Does one protect the host producer's goodwill or does one benefit the consumer by providing him with the opportunity of being given greater information?

Against this background the decision which confronts the South African legislature is a complex one.

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