

# Brands in the Boardroom 2007

Outlook on dilution and comparative advertisements in Europe

**Kirkland & Ellis International**

*A supplement to* ***Intellectual Asset Management*** *magazine*

***www.iam-magazine.com***

***This text first appeared in the IAM magazine supplement 'Brands in the Boardroom 2007' April 2007***

# Outlook on dilution and comparative advertisements in Europe

By **Pierre-André Dubois** and **Nicola Wiles**, Kirkland & Ellis International, London

After some years of uncertainty, a doctrine of trademark dilution appears to be emerging in Europe, in particular as a result of a number of cases of trademark infringement under the UK Trade Mark Acts 1994 (the Act), which implemented in the UK the Trade Mark Directive, and under the Comparative Advertising Directive, implemented in the UK by the Control of Misleading Advertisements (Amendment) Regulations 2000.

## Infringement and dilution

Article 5(2) of the Trade Mark Directive (and its corresponding Section 10(3) of the Act) provides the means for an earlier trademark owner to prevent registration and the use of a later identical or similar trademark in respect of goods or services which are identical, similar or dissimilar to those for which the earlier trademark is protected; which, to the extent the earlier trademark has a reputation, it believes takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the earlier mark.

Dilution has been said to incorporate two kinds of injury: blurring and tarnishment. In *Premier Brands v Typhoon*, the concept of blurring was said to arise where the mark (or the similar sign) is applied to a wide range of unrelated goods and services, such that its distinctiveness is eroded. In *Adidas v Fitness World*, Advocate General Jacobs described tarnishment as "the situation where…the goods for which the infringing sign is used appeal to the public's senses in such a way that the trademark's power of attraction is affected" (in other words, the weakening of a trademark through unsavoury or unflattering associations).

Proving confusion (or the likelihood thereof) is not, under the Trade Mark Directive, a requirement for a cause of action for dilution. However, a number of decisions created, at least until now, uncertainty on this issue. In *Baywatch Production Co Inc v The Home Video Channel*, it was held that it is illogical to require proof of confusion in case of similar goods but not where goods are dissimilar. In *Oasis Stores Ltd's Trade Mark Application*, it was accepted that, in principle, the likelihood of confusion is not a requirement, but in the end the judge was reluctant to find, in the absence of any evidence of likelihood of confusion, that the proposed mark of the applicant took unfair advantage of the distinctiveness of the opponent's trademark. In contrast, in *British Sugar plc v James Robertson & Sons Ltd* and in *General Motors Corp v Yplon SA*, it was held that no likelihood of confusion is necessary to establish a cause of action for dilution.

The UK High Court's recent decision in *L'Oreal v Bellure NV* is the first successful claim to be brought under Section 10(3) of the Act. The claim was brought by members of the L'Oreal group against a number of smell-alike and look-alike perfume manufacturers. L'Oreal owned registered word marks for Trésor and Miracle, and a number of other word, device and shape marks for the bottles and packaging of its Trésor and Miracle perfumes. L'Oreal claimed that the bottles and packaging of several perfumes produced by the defendants were sufficiently similar to its get-up marks to take unfair advantage of its own marks.

The defendants argued that their use of similar bottles and packaging to the L'Oreal get-up marks and identical marks to its registered Trésor and Miracle marks was in accordance with honest commercial practices to indicate the characteristics of their goods (smells being difficult to describe, except by comparison, for example

"Pink Wonder smells like Miracle") or to identify their goods, without taking unfair advantage of L'Oreal's trademarks.

The High Court held that, although there was no likelihood of confusion between the bottles and packaging of the defendants' perfumes and those of L'Oreal, some of the packaging of the defendants deliberately "winks at" the get up marks of L'Oreal to an extent sufficient to establish a link between them in the minds of consumers. There is no minimum threshold of similarity required (it is a question of degree in every case), but there must be a "causative link between the application of the sign and the tarnishing or blurring of the mark complained of". It is the similarity between the sign and mark, not the similarity between the products, which is key in order to prove dilution. The mere fact that a product was similar or identical in nature to another product and so had a free ride on the popularity of that other product did not necessarily create liability. In this case: "(The defendants) attempted....to avoid infringement (but) they were sailing close to the wind, and it is not surprising that on occasions they capsized."

Shortly after the *L'Oreal* case, the Hearing Officer at the UK Trade Marks Registry upheld an opposition by Direct Line Insurance Plc to an application by Esure Insurance Limited to register a three-dimensional trademark featuring a computer mouse on wheels for insurance and financial services. Direct Line relied on its earlier images of a telephone on wheels which were also registered for insurance and financial services. In his decision, the Hearing Officer set out a useful summary of the legal principles applicable to the concept of dilution:

- There is no need for a likelihood of confusion to exist. It is sufficient that there is sufficient similarity between the marks to cause the relevant public to establish a link between the two.
- The link between the marks must be such that it would cause real as opposed to theoretical effects.
- The stronger the earlier mark's distinctive character and reputation, the easier it will be to accept that detriment has been caused to it by its misuse.
- Unfair advantage of the distinctive character or reputation of an earlier mark will be established when the evidence shows that there is exploitation and free-riding on the coat-tails of a famous mark or an attempt to trade upon its reputation.

## Comparative advertising

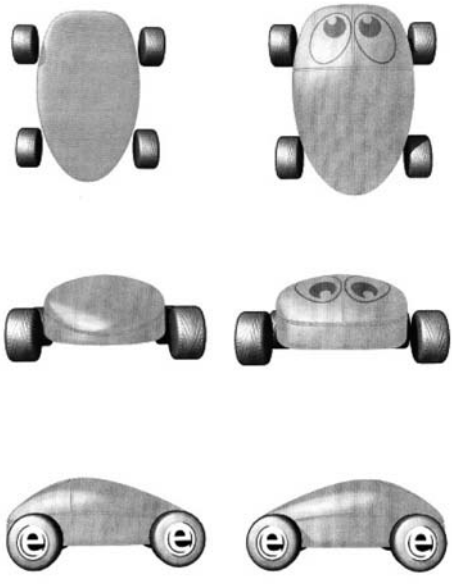
Comparative advertisements, where one trader makes reference to the registered trademark of a third party for the purpose of identifying the goods and services of the trademark owner, are permitted in the UK under Section 10(6) of the Act and in Europe under the Misleading Advertising Directive, providing the advertising is made in accordance with honest practices and the use by the advertiser of the trademark owner's trademark does not take unfair advantage of or cause detriment to that trademark. The issues around comparative advertising are not dissimilar to those in the context of dilution.

In the recent decision in *O2 Holdings Limited v Hutchinson 3G Limited*, the UK High Court provided some helpful guidance on interpretation of the Misleading Advertising Directive. In this case, O2 (a leading mobile phone company) brought a claim for trademark infringement against its competitor 3G. 3G had launched an advertising campaign which featured images of bubbles. O2 commonly used images of bubbles in relation to its products and had a number of registered trademarks for images of bubbles (although these were not exactly replicated in the 3G advertisement).

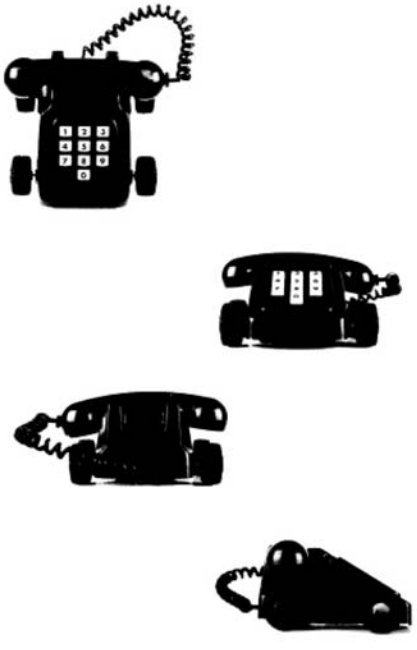
At first, the judge in this case accepted O2's claim that the bubbles in 3G's advertisement were similar to those featured

**The mouse v the telephone**

eSure marks:



Direct Line marks:



in the registered trademarks of O2. He found that the bubble imagery was being used in a trademark sense (ie, to indicate the origin of the goods) and that such use could be infringing irrespective of the fact that the images were being used to indicate that the goods or services were those of O2, not 3G. However, he also found that 3G had a defence under the Misleading Advertising Directive.

He held that, in determining whether the advertisement complied with the Misleading Advertising Directive, the question to be answered first was whether 3G's use of the bubble imagery was indispensable to making the comparative advertisement effective or, as O2 contended, merely gratuitous and unnecessary in that 3G could have used O2's name or logo alone to identify O2 and did not need to also use the bubble imagery to make the comparison in the advertisement effective.

The judge noted that what makes a comparative advertisement effective varies depending on the medium in which it appears. In order to be effective as a TV advertisement, the advertisement must have some visual impact. The advertiser must be free to choose what visual imagery to present and, providing the overall message of the advertisement is compliant with the Misleading Advertising Directive (not misleading as well as fair and objective), it would be inappropriate to curtail the advertiser's use of subsidiary means of persuasion (for example, imagery) which give additional impact to that lawful message. Therefore, an advertiser may use a device mark of a competitor in order to identify the competitor in the same vein as it may use the word mark of a competitor. It may also use an amended version of the competitor's trademark (eg, in terms of colour, style, animation and sound) in order to augment the persuasive sting of the comparative advertisement and still comply with the terms of the Misleading Advertising Directive.

O2 has appealed the decision to the Court of Appeal. The Court of Appeal, in a judgment delivered by Lord Justice Jacob, commented that the case requires a decision based upon the philosophy of how competitive the law allows European industry to be and has referred the matter to the European Court of Justice (ECJ). The ECJ will now have to consider – in particular, where a defendant uses in a comparative advertisement the registered trademark of another – whether such use is indispensable and, if so, the criteria by which indispensability is to be judged in order to be permissable under the Misleading Advertising Directive.

## Beer or wine?

Further guidance on the interpretation of the Misleading Advertising Directive can be found in the opinion given by Advocate General Mengozzi in November 2006 on certain questions referred to the ECJ by the Brussels Court of Appeal. Such questions arose in the context of legal proceedings between the *Comité Interprofessional du Vin de Champagne* and Veuve Clicquot Ponsardin (the claimants) and De Landtsheer Emmanuel (the defendant).

In 2001, the defendant launched a beer called Malheur Brut Reserve which is brewed using a process based on the production method for sparkling wine. The defendant intended to market this beer as an exceptional product, conferring on it an image different from the usual image of beer as a common, everyday drink. In so doing, it printed on the beer bottle, the label attached to the neck of the bottle and the packaging of the bottles the following words: "BRUT RESERVE"; "*La Première Bière BRUT au monde*" (the first brut beer in the world); "*Bière blonde à la méthode traditionnelle*" (light beer produced according to the traditional method); and "Reims-France" (together, "the images") – as well as a reference to the wine-growers of Reims and Epernay.

Before the Court of Appeal in Brussels, the claimants claimed that the use of the images (as well as references to sparkling wine and champagne) in statements designed to promote the sale of the beer made reference to themselves and their products and constituted unlawful comparative advertising. In order to resolve the dispute, the Court of Appeal in Brussels referred a number of questions on the interpretation of the Misleading Advertising Directive to the ECJ.

In advance of the ECJ's ruling, Advocate General Mengozzi found as follows:

- The requirement of the Misleading Advertising Directive that the advertisement "identifies a competitor or the goods or services offered by a competitor" is satisfied only if a reference is made in a comparative advertisement to a specific competitor or its goods or services and not only to a type of product or service. Were this not the case, other less aggressive forms of advertising such as general claims of superiority, leadership, unique or exclusive character would be rendered illegal.
- There are many ways of identifying a competitor (or the related products or

services of the competitor). As well as forms of explicit identification (for example, a reference to a competitor's name, its trademarks or distinctive signs), it is possible to imagine various kinds of implicit identification which may result in the identification of one or more competitors. Such implicit identification will satisfy the identification requirements of the Misleading Advertising Directive providing: (1) each competitor can be identified individually; and (2) the advertising makes it possible to identify that there is competition between the advertiser and the other undertaking (or its product/service), whether that be because there is competition between the goods/services of the undertakings referred to in the advertisement or because there is competition between other goods/services they each offer (even if those goods/services are not referred to in the advertisement).

- Parties may be deemed competitors even if their products/services are not currently regarded as substitutable or interchangeable if the kind of relations exists which suggests the potential for a shift in demand from one set of products to the other in the near future.
- In determining whether two undertakings are in competition, courts must take into consideration the special characteristics of the products or services which form the subject matter of the advertising and the image which the advertiser is seeking to convey of the product being advertised. For example, if the advertiser presents its product as a valid alternative to the product of the other undertaking to which the advertising refers, even if that product belongs to a different commodity group, it will be necessary to presume that a competitive relationship within the meaning of the Misleading Advertising Directive exists.

Once a decision is issued by the ECJ, it remains to be seen whether the Belgium Court of Appeal will find that the use of the images by the defendant is sufficient to conjure up in the minds of the average customer an image of each of the claimants individually, whether the defendant and the claimants are in competition with each other in relation to some part of the range of products or services each offers (which is not necessarily obvious when comparing beer and sparkling wine), and whether consumers in the Belgian territory where the advertising is disseminated would consider the beer produced by the defendant to be substitutable for the sparkling wines produced by the claimants.

Dilution, which was, in the past, a concept with little attraction in Europe, is clearly now moving to the forefront of protection available to trademark owners in Europe.



***Kirkland & Ellis International LLP***
*30 St Mary Axe,*
*London EC3A 8AF, UK*
*Tel: +44 20 7469 2000*
*Fax: +44 20 7469 2222*

*www.kirkland.com*

***Pierre-André Dubois***
*Partner*
*pdubois@kirkland.com*

*Pierre-André Dubois is a partner and the head of the firm's UK IP and Competition Group. He obtained a first-class LLB (honours) from the University of Montréal in 1984. His practice covers all aspects of intellectual property law, as well as UK and EU competition law.* PLC Which Lawyer? Global 50 *named him as a leading lawyer in 2005 and 2006, while he was named as a leading lawyer by the* Legal 500 *(UK Edition 2003) and* Global Corporate Counsel *(2002).*



***Kirkland & Ellis International LLP***
*continued*

***Nicola Wiles***
*Associate*
*nwiles@kirkland.com*

*Nicola Wiles is an associate with the firm. She obtained her LLB from Southampton University and her legal practice qualification from Guildford Law School with distinction. Nicola's practice covers all aspects of contentious and non-contentious IP and IT law.*

**Kirkland & Ellis International LLP**

30 St Mary Axe,
London EC3A 8AF, UK

**Tel:** +44 20 7469 2000
**Fax:** +44 20 7469 2222

**Web:** www.kirkland.com