Comparative advertising and trade mark use after O₂

The ECJ has delivered its long-awaited judgment in *O₂ Holdings Limited v Hutchison 3G Limited*. To the relief of many trade mark owners, the ECJ concluded that using a trade mark in a comparative advertisement can, in appropriate circumstances, amount to an infringement. The ECJ’s reasoning is, however, potentially problematic and leaves unanswered a number of important questions regarding the interaction of trade mark rights and comparative advertising.

The facts
In 2004, Hutchison 3G Limited ("H3G") ran a television advertisement comparing the cost of its pay-as-you-go service with that of O₂. The advert featured moving images of bubbles, together with visual and spoken references to the O₂ name. O₂ sued H3G, alleging trade mark infringement. O₂ conceded for the purposes of the claim that the advert as a whole was not misleading and that H3G was entitled to use the O₂ name. What O₂ objected to was the additional use of bubble imagery.

Trade mark infringement
The bubbles used by H3G in its adverts were not identical to any particular representation of bubbles that O₂ had registered as a trade mark. O₂ could therefore not allege infringement under s.10(1) Trade Marks Act 1994 (the "Act"), which requires the use of an identical mark in relation to identical goods. This corresponds to Art. 5(1)(a) Trade Marks Directive ("TMD").

O₂ instead alleged infringement under s.10(2) of the Act (Art. 5(1)(b) TMD) and s.10(3) of the Act (Art. 5(2) TMD). Article 5(1)(b) provides that it is an infringement to use an identical or similar mark in relation to identical or similar services in such a way as to give rise to a likelihood of confusion. Article 5(2) provides that it is an infringement to use an identical or similar mark in relation to identical or similar services in such a way as to take unfair advantage of, or cause detriment to, the distinctive character or repute of the registered trade mark, provided the registered mark has a reputation.

The Comparative Advertising Directive
The Comparative Advertising Directive (Directive 84/450/EEC as amended by Directive 97/55/EC, "CAD") sets out a series of conditions that a comparative advertisement must meet if it is to be permissible. A comparative advertisement is permissible if, among other things, it:

- is not misleading;
- does not create confusion in the marketplace between the two competitors or their goods, services or trade marks;
- does not discredit or denigrate the goods, services or trade marks of the competitor;
- does not take unfair advantage of the reputation of the competitor’s trade mark.

The first instance decision
At trial, the infringement allegation under Art. 5(2) failed. O₂ did not appeal this aspect of the decision. As for Art. 5(1)(b), Lewison J held that there was a prima facie case of infringement. However, taken as a whole, the advert was neither misleading nor confusing; nor did it denigrate or take unfair advantage of O₂’s marks. The advertisement therefore satisfied the
CAD conditions. Lewison J considered this meant H3G had a defence to the prima facie case of infringement.

Lewison J rejected H3G’s argument that any use it had made of O₂’s trade marks was simply not capable of amounting to an infringement. H3G argued that it was only using O₂’s marks to refer to O₂’s own services. This cannot jeopardise the essential function of the trade mark – namely, to act as a badge of origin for O₂’s services – and so cannot even in principle constitute an infringement. While Lewison J was “strongly attracted” to this proposition, he ultimately felt unable to accept it, not least because it would drive a coach and horses through the law of exhaustion.

Appeal and reference
Both parties appealed Lewison J’s decision. The Court of Appeal referred three questions to the European Court of Justice ("ECJ").

In accordance with recent practice, Jacob LJ not only set out the questions, but also offered his preferred answers.

The questions (and answers) proposed by the Court were:

Q1 Where a comparative advertisement does not cause confusion or otherwise jeopardise the essential function of a trade mark, do either of Art.5(1)(a) or Art. 5(1)(b) TMD apply?

A1 No. The advertiser is not using the trade mark as a badge of origin for his own goods or services. There is no need for trade mark law to regulate such use of the mark. Trade mark law should not be engaged.

Q2 Does CAD apply only where the use of a trade mark is “indispensable” and, if so, what does “indispensable” mean in this context?

A2 This question only arises if the answer to Q1 is “yes”. If it does arise, the answer to Q2 should in any event be “no”. What matters is enabling the advertiser to make an effective comparison that promotes competition.

Q3 If in fact there is an indispensability requirement to be met, does this preclude the use of confusingly similar (as opposed to identical) marks?

A3 No. Absurd results would follow from imposing a strict requirement that a trade mark can only be used exactly as registered.

The ECJ’s decision
Advocate General Mengozzi agreed with Jacob LJ on all points. The ECJ did not. In particular, the ECJ concluded that use of a trade mark in a comparative advertisement was, in principle, capable of constituting trade mark infringement. However, where that advertisement satisfies all CAD conditions, the advertiser has a defence to any such infringement allegation.

The preservation of trade mark rights is of particular significance because there is no private right of action under CAD (though this is to be reviewed in three years’ time). CAD is enforced by specified authorities, typically trading standards. While they have a duty to enforce it, there is scope for giving priority to other issues and it is difficult to see what are essentially disputes between traders attracting significant amounts of their limited resources, unless there is a risk that the public are being seriously misled.

The ECJ declined to consider whether or not there is an implicit “indispensability” requirement in the CAD conditions. However (as discussed below), the likely answer to this question can be inferred from the reasoning adopted by the ECJ.

The precise contours of the interrelationship between the TMD and the CAD appear to vary depending on the nature of the infringement allegation. The ECJ expressly considered only Art. 5(1)(b) – and declined to address Art. 5(1)(a) – on the basis that this was the only species of infringement relevant to the main proceedings. Art. 5(2) infringement was not considered because it was not covered by the Court of Appeal’s questions.

Confusion infringement
Art. 5(1)(b) requires that the infringer’s use of the trade mark be likely to cause confusion. If confusion cannot be shown to be likely, then the case for infringement is not made out. One of the CAD conditions that must be met if the CAD is to provide a defence is that the advertisement does not create confusion in the marketplace.

The ECJ held that “confusion” in the CAD must be given the same meaning as “confusion” in the TMD. Therefore, a situation can never arise in which there is both an Art. 5(1)(b) infringement and a CAD defence available.

If there is confusion (so an Art. 5(1)(b) case can be made out), then by definition the CAD conditions will not be satisfied and CAD will provide no defence. If there is no confusion, then no infringement allegation can be made out under Art. 5(1)(b) and the presence or absence of a CAD defence is irrelevant.

The result is that, in practice, no acts can simultaneously fall within the scope of Art. 5(1)(b) and the “safe harbour” provided by CAD. The CAD does not truly impose any limit on the scope of Art. 5(1)(b) infringement. The defence it provides is available only when it is not needed.
Reputation based infringement

The ECJ did not consider infringement under Art. 5(2). However, the logic of the ECJ’s reasoning in relation to Art. 5(1)(b) would appear to apply with equal force to Art. 5(2).

Art. 5(2) requires that the trade mark have a reputation and that the infringement either takes unfair advantage of, or is detrimental to, the distinctive character or repute of that trade mark. Like confusion, the concepts of unfair advantage and detriment are echoed in the CAD. An advertisement that denigrates a competitor’s trade mark, or which takes unfair advantage of its reputation, will not satisfy the CAD conditions.

It is likely that where an Art. 5(2) case can be made out, e.g. because the comparative advertisement takes unfair advantage of a trade mark, then it follows the CAD conditions are not satisfied and there is no CAD defence. Likewise, if all the CAD conditions are satisfied, then it follows the requirements of Art. 5(2) are not met and no infringement allegation can be sustained. Again, the CAD would appear to offer a defence to Art. 5(2) infringement only when no defence is required.

Identical mark infringement

The situation is different in relation to Art. 5(1)(a). Under this limb of the TMD, it is not necessary to prove confusion, unfair advantage or detriment. Provided the use made of the trade mark (for identical goods or services) is such as to jeopardise the essential function of that mark – i.e. its ability to operate as a badge of origin – that use will be an infringement. Nothing more need be shown than that the appropriate sort of “use” has been made of the trade mark.

The ECJ explicitly stated that use of a trade mark in a comparative advertisement is the right sort of “use” to engage trade mark law. That being so, it is perfectly possible for an infringement case to be made out under Art. 5(1)(a) in relation to an advertisement that satisfies all the CAD conditions. In such circumstances, the inescapable implication of the ECJ’s decision is that the advertiser will have a defence to any infringement action and indeed that is consistent with the whole thrust of the regime allowing comparative advertising.

Issues created or left unanswered by the ECJ

The ECJ’s judgment raises a number of substantial issues that were not explicitly dealt with by the Court of Appeal.

“Use” of a trade mark and exhaustion of rights

The ECJ identified two forms of “use”: the mark is used to identify the proprietor’s own goods to services to enable a comparison to be made (“direct” use) and it is also used in relation to the advertiser’s own goods or services, to promote those goods by means of the comparison (“referential” use).

The ECJ’s analysis appears to be that trade mark law is engaged only by referential use. Direct use alone would not be enough. An infringer must in some way use a trade mark in relation to its own goods or services before there can be infringement.

The ECJ’s reasoning threatens to drive a coach and horses through the law of exhaustion. The doctrine applies only to direct use and provides that in certain circumstances (essentially when a product has already been put on the market under the trade mark), use of that trade mark does not amount to infringement. But on the reasoning of O2, such direct use would not be infringement in the first place. There was no discussion of exhaustion and it seems unlikely that the court intended to have this effect. It is doubtful the analysis adopted in O2 will survive in future cases.

The test for “confusion” in Art. 5(1)(b)

Lewison J thought it was possible for there to be trade mark infringement under Art. 5(1)(b) despite the fact that the advertisement as a whole was not misleading. The ECJ disagreed. It emphasised that infringement generally – and the likelihood of confusion in particular – must always be assessed in context. In this case, the context was a short advertisement that was not misleading and which clearly distinguished between the services offered by O2 and those offered by H3G. There was no confusion for the purposes of Art. 5(1)(b).

This appears to be a move away from the limited “mark for sign” comparison previously understood to be the basis for analysing trade mark infringement. The analysis seems more characteristic of passing off.

The reasoning of the judgment however suggests that the ECJ did not intend to change the test for confusion and that it is still a “mark for sign” test, though the issue of confusion requires a “global appreciation” of all the circumstances.

Indispensability

The ECJ declined to give a judgment on the question of whether use of a trade mark must be “indispensable” before the CAD defence applies. However, it is possible to infer that there is no indispensability requirement.

The ECJ was apparently entirely untroubled by the fact that H3G used the bubbles when it could have restricted itself to the O2 name. The ECJ also explicitly stated that satisfaction of the CAD conditions provides a defence irrespective of whether the sign used by the advertiser is identical or only similar to the trade mark alleged to have been infringed. There will be few circumstances in which it could be said to be “indispensable” not to replicate exactly the trade mark as registered.
On balance, the likelihood is that there is no indispensability requirement. However, this will not be known for certain unless or until the question is put to the ECJ again.

The O₂ decision and the “new” CAD
By the time the ECJ’s decision in O₂ was delivered on 12 June 2008, the CAD had been repealed and replaced by Directive 2006/114/EC (the “New CAD”). The ostensible purpose of the New CAD is simply to codify the old CAD which had been amended several times. In fact, there are potentially very significant differences between the New CAD and the old CAD.

In particular, the old CAD required there to be no confusion “in the market place”. The New CAD requires there to be no confusion “among traders”. Consumers have dropped out of the picture. It is unlikely that the ECJ’s analysis of the relationship between Art.5(1)(b) infringement and the CAD conditions still holds good under the New CAD. Ultimately, the questions decided by the ECJ in O₂ will need to be revisited.

The Practical Impact of O₂
> If confusion is present, a trade mark owner can sue for infringement and need not rely on enforcement of CAD by the authorities
> Reputation type infringement is probably also available – but detriment/unfair advantage remain unclear until the ECJ deals with L’Oréal v. Bellure
> Trade mark rights are cut down by CAD: CAD provides a defence to identical mark infringement
> An advertiser can use a competitor’s logo in an advert and may alter it – as long as that does not cause confusion or amount to unfair advantage or detriment

Comment
The decision in O₂ was greeted with relief by many trade mark owners. It had been feared that the comparative advertisements would be put beyond the reach of trade mark law. This would have been particularly significant in those Member States – such as the UK – that have not elected to establish any private right of action for breach of the CAD conditions as such. Closer analysis of the judgment indicates that a number of unresolved issues remain and some will need to be addressed by the ECJ.

In referring the Court of Appeal’s questions to the ECJ in O₂, Jacob LJ observed that European trade mark law “is in danger of becoming a forest of case law where everyone loses their way”. It will be interesting to see how the Court of Appeal reacts on the return of the case from the ECJ.