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Department of Law

LW3081/LW3082 Intellectual Property

“Is it infringing just to tell the truth?”

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# Introduction

This essay examines the relationship between trademarks and comparative advertising in the light of the judgement in *L'Oreal v Bellure*. The statement<sup>1</sup> postulates that the application by the Court of Appeal<sup>2</sup>, of the preliminary ruling by the ECJ, is positive news for trade mark proprietors and brand owners since secondary functions of the registered mark is protected<sup>3</sup>. The essay consists of a description of relevant legislation on the topic, an analysis of the judgement of *L'Oreal v Bellure* that critically evaluates the statement with extensive reference to case law and a conclusion.

## Legislation

The relevant legislation on this topic are the Trademark Directive 89/104/EEC (TMD), which was transposed into English law by the Trade Marks Act 1994<sup>4</sup>(TMA), and The Comparative Advertising Directive 84/450/EEC (MCAD), amended by Directive 97/55/EC, repealed by Directive 06/114/EC. Art. 5(1) and (2) of the Trademark Directive were transposed into sections 10(1) and (3) of the TMA. The implementation of Art. 5(2) was not required by the member states. Article 3a(1) in MCAD was transposed into English law as regulation 4a in the Control of Misleading Advertisements Regulations 2000 (CMAR). For the simplicity in this essay the provisions in the directives will be cited instead of the provisions in the TMA and The CMAR.

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<sup>1</sup> Journal 1 in the “impact” section.

<sup>2</sup> *L'Oreal SA v Bellure* 2010

<sup>3</sup> Ibid.

<sup>4</sup> C-487/07 para. 12

# L'Oreal v Bellure

The essential function of a trademark is to act as a badge of origin, to separate the goods from one undertaking to another<sup>5</sup>. In *L'Oreal v Bellure* it was found that there was no misinterpretation<sup>6</sup>, so passing off was rejected by Justice Lewison in The High Court of Justice.

The question the Court of Appeal had to answer, since some issues were resolved by lower courts<sup>7</sup>, was whether the use, in relation to a comparison list, was within Art. 5(1)(a) and whether the use of the comparison list was within Art. 5(2) in relation to the criteria of “unfair advantage”. After this it was necessary for the court to decide whether the use was protected by the MCAD with “*due cause*” – if not, it is not within the exception in Art. 6(1)(b), since it is not “*in accordance with honest practices*”<sup>8</sup>. To answer these questions the court had to make a reference for a preliminary ruling from the ECJ according to Art. 267 of the TFEU<sup>9</sup>.

## Is the use within Art. 5(1)(a)?

The ECJ has established six conditions that must be satisfied to succeed in a claim under Art. 5(1)(a)<sup>10</sup>. Condition number 6, which says: “*it must affect or be liable to affect the functions of the trade mark, in particular its essential function of guaranteeing to consumers the origin of the goods or services*”<sup>11</sup>, attracts most interest, since the rights protected in Art. 5(1)(a) includes “*not only the essential function of the trade mark, which is to guarantee to consumers the origin of the goods or services, but also its other functions, in particular that of guaranteeing the quality of the goods or*

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<sup>5</sup> See definition in the TMA section 1

<sup>6</sup> See Journal 2 para.5.82 box 5.3.

<sup>7</sup> *L'Oreal SA v Bellure* 2010 para. 1.

<sup>8</sup> *Ibid* para. 45

<sup>9</sup> 2008/C 8/15

<sup>10</sup> *L'Oreal v eBay* para. 283

<sup>11</sup> *Ibid*.

*services in question and those of communication, investment or advertising*<sup>12</sup>. In *Arsenal v Reed* the ECJ stated that the right under Art. 5(1)(a) was given to “*ensure that the trade mark can fulfill its functions*”<sup>13</sup>. There seems to be a difference between these quotes, and the wider protection of the secondary functions was opened in *Arsenal*, but is clear after the ruling in *L’Oréal v Bellure*. This means that, even though there is no infringement of the essential function of the mark<sup>14</sup>, it is possible that there could be an infringement of the mark under Art. 5(1)(a). In *Adam Opel GmbH v Autec* the essential function of the mark was not affected, since the average consumer did not think that the Autec cars was produced by Adam Opel<sup>15</sup>, and since Art. 5(1)(a) only deals with identical goods (toycars) the effects in relation to real cars is not relevant, but it is worth noting that Adam Opel did not “*appear to have claimed that that use affects functions of that trade mark other than its essential one*”<sup>16</sup>, which leaves room open for protection of secondary functions of a mark.

The defendant, in the L’Oréal case, raised two points; first that the use by L’Oréal of word marks in the comparison list is not within Art. 5(1)(a), because it was descriptive use, and, “*second, that if it is, it is saved by Art. 6.1(b)*”<sup>17</sup>. The L’Oréal word trademarks are used in two ways; first it is used to refer to the L’Oréal product and secondly it is used to compare the smell-alike product to the original product – the first use is not an infringement<sup>18</sup>, but the second use is<sup>19</sup>. The reason why the comparison lists falls within Art. 5(1)(a), is because it is not “*purely descriptive*”<sup>20</sup> as they are used in advertising. In *Hölterhoff v Freiesleben* the trademarks, that was claimed to be infringed, were used to describe a certain way to cut diamonds – just as the L’Oréal trademarks were used by Bellure to describe how the smell-alike-perfumes smelled like.

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<sup>12</sup> Case C-487/07, para. 58

<sup>13</sup> para. 51

<sup>14</sup> As it was the case in *Arsenal v Reed*, para. 60

<sup>15</sup> *Adam Opel GmbH v Autec*, para. 24

<sup>16</sup> *Adam Opel GmbH v Autec*, para. 25

<sup>17</sup> *L’Oreal SA v Bellure* 2010, para. 30

<sup>18</sup> *Ibid.* para. 25

<sup>19</sup> *Ibid.* para. 26

<sup>20</sup> *Ibid.* para. 28

In the Hölterhoff-case the use was descriptive<sup>21</sup>, and did not infringe the interests Art. 5(1)(a) is supposed to protect<sup>22</sup>, while the use in *L'Oréal v Bellure* was infringing since it was for advertising. There is a difference between using a method of cutting diamonds (trademark) to describe how they are cut between sellers of diamonds, and using a trademark to describe how another product smells in a comparison list in advertising – the difference is that the latter affects some of the functions of the mark and is therefore not “*purely descriptive*”<sup>23</sup>. The use is then within Art. 5(1)(a), and must be within the exception in Art. 6(1)(b), in accordance with the conditions in the MCAD Art. 3(a)(1), not to be infringing.

### Is the use within Art. 5(2)?

The purpose of Art. 5(2) is to create a strong protection of known marks and “*facilitate the free circulation of goods and services, to ensure that henceforth registered trade marks enjoy the same protection under the legal systems of all the Member States*”<sup>24</sup>. An oral interpretation of Art. 5(2) would not lead to a conclusion where the use of a similar mark on identical/similar goods would be within Art. 5(2). The ECJ took, however, the position that an interpretation of Art. 5(2) cannot lead to a better protection of a known mark used on identical/similar goods than use of a known mark on non-similar goods<sup>25</sup>. The claimed infringement of Art. 5(2) is connected to the use by Bellure of similar marks on identical goods on the packaging and bottles of the smell-alike perfumes<sup>26</sup>. The use by the defendant of a known trademark is within Art. 5(2) when: 1) the defendant's sign is identical with, or similar to, the registered trade mark, 2) use of that sign is without due cause and 3) the use takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark. Under the first

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<sup>21</sup> Ibid. para. 26

<sup>22</sup> *Hölterhoff v Ulrich Freiesleben*, para. 16

<sup>23</sup> Same discussion as Lord Jacobs in *L'Oreal v Bellure* 2007, para. 31

<sup>24</sup> 9<sup>th</sup> recital to the TMA

<sup>25</sup> *Davidoff v Gofkid*, para. 25

<sup>26</sup> See “*La Valeur*” compared to “*Trésor*” in *L'Oreal v Bellure* 2007 para. 9 and 19

condition it is not necessary that there is likelihood of confusion between the mark with reputation and the sign used<sup>27</sup>, but sufficient if “*the relevant section of the public establishes a link between the sign and the mark*”<sup>28</sup> and there must some “*effect on the economic behaviour of consumers*”<sup>29</sup>. The first condition is met<sup>30</sup>. The second condition is met<sup>31</sup>. The third condition, which is the injury that Art. 5(2) protects against, is the most interesting in relation to taking “unfair advantage” of the “*distinctive character or the repute of the trade mark*”<sup>32</sup>, and just one of these injuries has to be met for the protection to apply<sup>33</sup>. The ECJ states that the “unfair advantage” is “*where a third party attempts, through the use of a sign similar to a mark with a reputation, to ride on the coat-tails of that mark in order to benefit from its power of attraction, its reputation and its prestige, and to exploit, without paying any financial compensation and without being required to make efforts of his own in that regard*”<sup>34</sup>. Whether the use is taking unfair advantage is a “*global assessment, taking into account all factors relevant to the circumstances of the case*”<sup>35</sup> Lord Jacobs opinion is that ECJ-judgment means that the provision should be read as the word “unfair” not to be there<sup>36</sup>, which could be argued to be wrong. It is necessary to make a global assessment to decide whether the use is unfair or not, including factors as “*the strength of the mark’s reputation and the degree of distinctive character of the mark, the degree of similarity between the marks at issue and the nature and degree of proximity of the goods or services concerned.*”<sup>37</sup> - the ECJ shows, unclearly, how to make this assessment in

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<sup>27</sup> *Adidas-Salomon AG v Fitnessworld*, para. 31

<sup>28</sup> *Ibid.* para. 31

<sup>29</sup> *L’Oreal v Bellure* 2007, para. 79

<sup>30</sup> *Ibid.* para. 82

<sup>31</sup> C-487/07, para. 45

<sup>32</sup> *Ibid.* para. 41

<sup>33</sup> *Intel v CPM*, para. 28

<sup>34</sup> C-487/07, para. 49

<sup>35</sup> *Ibid.* para. 44

<sup>36</sup> *L’Oreal v Bellure* 2010, para 49

<sup>37</sup> C-487/07, para. 44

paragraph 44-49 in the judgment, and therefore the use by the defendant had to be found to take unfair advantage of the mark, and is within Art. 5(2)<sup>38</sup>.

### Does the use comply with the conditions in Art. 3(a)(1)?

The use does not comply with the condition in 3a(1)(h)<sup>39</sup> of the MCAD, which excludes compliance with the condition in 3a(1)(g), and the reason is that the smell-alike perfumes is presented as imitations by using registered trademarks in comparative advertising. When the use does not comply with the conditions in Art. 3(a)(1) the use is “*with out due cause*” and not within Art. 6(1)(b) of the TMD<sup>40</sup>.

## **Conclusion**

Is it infringing to tell the truth? No, not if the truth is the only thing said and done; in relation to Art. 5(1)(a) and the comparison list it was infringing, since the use affected the function related to advertising and was not then purely descriptive. In relation to Art. 5(2), dealing with the packaging and bottles<sup>41</sup>, it was infringing to tell the truth after a global assessment, where “*all factors relevant to the circumstances of the case*”<sup>42</sup>, were taken into account. It might not have been the case if Bellure had only told the truth, but they did more than that; the marks owned by L’Oréal were very strong and distinctive, the signs used by Bellure were very similar to the trademarks owned by L’Oréal and the “*proximity of the goods or services concerned*” was very close<sup>43</sup>. Under these circumstances the use was within Art. 5(2).

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<sup>38</sup> *L’Oreal v Bellure* 2010, para. 50

<sup>39</sup> See recital 19 in the preamble to the MCAD

<sup>40</sup> On <http://eur-lex.europa.eu/> - TMD it says h instead of b in Art. 6 (typo).

<sup>41</sup> A fact the ECJ mentioned in para. 47

<sup>42</sup> C-487/07 para. 44

<sup>43</sup> *Ibid.*

The result in *L'Oréal v Bellure* is “positive news” for trademark owners, since it is now almost impossible for fabricants of replicas and imitations to use a registered mark in comparing advertising and impossible to use similar bottles and packaging with similar trademarks. The scope of the trademark protection is wider than the essential function, as the above analysis shows, but it is taking it to far to state that every advantage in comparing advertising should be read as unfair. In this global assessment, under Art. 5(2), the bottles and packaging plays an important role, and the result might have been different if the packaging and bottles were not imitated as well – this seems to be what is bringing the “unfair advantage argument” home. The problem with this assessment is that it is very unclear, and the ECJ did not give clear guidelines how to exercise it.

The case shows that even in situations where the essential function of a mark is not infringed, the secondary functions<sup>44</sup> can be “enough” to infringe the rights of a mark. When the interests of free competition clash together with intellectual property rights it is hard to decide what is most important. Lord Jacobs had a strong opinion on the right to free comparison in the name of free competition and freedom of speech, but it is worth to remember that the TMD is a harmonisation of the “*conditions under which comparative advertising in Member States might be lawful*”<sup>45</sup>, and what might be the normal approach in the UK might not be it in Sweden, that is why judges should read and understand the law. The fact that the defendant is fabricating imitations of the L'Oréal products does not seem to matter to Lord Jacobs, since the products are legal – from my point of view the defendant is riding on the coat tail of L'Oréal trying to get an economical benefit out of the massive investments in advertising and brand protection. Lord Jacobs points out that the background for this decision by the ECJ is that “*copyists, even of lawful products should be condemned*”<sup>46</sup> and not economic content. How to prioritize between the free competition and the intellectual property rights is

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<sup>44</sup> *L'Oreal v Bellure* 2010, para 31

<sup>45</sup> *Pippig v Hartlauer*, para. 44

<sup>46</sup> C-487/07, para. 49

most of all a political question, but it is not true that the decision by the ECJ is with no economic content; the undertakings is using millions of pounds to built up these trademarks, which means that the product price is higher than the imitations and L'Oréal trademarks could also be weakened by the look-alikes on the market since the exclusivity vanishes<sup>47</sup>. The fact that L'Oréal, assumingly, is not in competition with the smell-alike perfumes, so it is not necessary for Bellure to compare to the L'Oréal products to compete effectively on the market<sup>48</sup> is also very important. The purpose of protecting the functions of a trademark in the context of imitations, replicas and copy products is reasonable since the actions of Bellure, in many other parts of Europe, would be regarded, as taking unfair advantage – and this was also the result the ECJ reached to.

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<sup>47</sup> Journal 3

<sup>48</sup> *Toshiba v Katun*, para. 54 and *Siemens v VIPA*, para. 15

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