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U.O.V.S. BIBLIOTEEK

COMPARATIVE ADVERTISING: A COMPARATIVE LEGAL STUDY

by

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HIERDIE EKSEMPLAAR MAG ONDER GEEN OMSTANDIGHEDE UIT DIE BIBLIOTEEK VERWYDER WORD NIE

I would like to thank my promoter, Professor Kelling, for his help and patience during the past two years, as well as Ms Ilse Visser of the Sasol Library of the UOFS for her help with the retrieval of sources.

I must also express my thankfulness towards Advocate Elizabeth Snyman of the Centre for Business Law (UOFS) for her continuous help and inspiration the past four years, and for allowing me to use the facilities of the Centre.

Lastly I would like to thank my parents, and the rest of my family, for always believing in me and supporting me in everything I undertake. Your encouragement has inspired me to believe in my dreams.

To my heavenly Father I could only address a prayer to thank Him for enabling me to complete this paper and for consoling me all those times I have felt like giving up.

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CHAPTER 1

GENERAL INTRODUCTION

1. Subject of the research
2. Purpose of the research
3. Methods of research
4. Definitions
4.1 Advertising
4.2 Comparative advertising
4.3 Indirect comparative advertising
4.4 Direct comparative advertising

1. SUBJECT OF THE RESEARCH

Advertising, in the sense of a process whereby consumers are acquainted with particular goods or services with a view to attracting custom,[1] is one of the most important and frequently utilized activities in the course of trade and industry.

Comparative advertising in the sense of a technique of advertising involving direct or indirect comparisons between goods or services of competitors (whether identifiable or not) or of other business enterprises in the course of trade or industry,[2] is not so frequently utilized, probably in view of the possible legal effect thereof, obviously including the legal liability which may be incurred.

The legal liability which may be incurred as the result of unlawful and/or illegal comparative advertising would include civil- and/or criminal liability and the concept of unlawful - or illegal comparative advertising obviously embraces advertising contrary to the law in a wide sense, including related provisions of statutory- and/or common law: For instance, the legal consequences of

1 Cf *infra*.

2 Cf *infra*.

misleading comparative advertising, at least as far as South African law is concerned, and depending on the facts and circumstances, could embrace, for example, fraud, delictual liability, the Law of Contract, and the current *Trade Marks Act.*

The interests which enjoy legal protection from unlawful and/or illegal comparative advertising would conceivably include those of a public nature such as, for example, the public interest in the protection of or prosperity of consumers and/or the national economy, and of course the related interests of individual suppliers of goods and/or services.

The subject of the research concerns essentially the extent and nature of the legal position in respect of comparative advertising not only in South Africa, but also in other countries. In so far as self-regulation occurs, such will also be considered.

In so far as countries other than South Africa are concerned, the nature and extent of the research envisaged will obviously be dependent on the nature and extent of available literature and be subject to the limitations thereof.

As far as South Africa is concerned, the common law will be considered and especially the civil nature thereof, in relation to comparative advertising. Consequently unlawful competition will be considered more extensively as it is envisaged that the related legal principles could, and would be relied on much more extensively and frequently than other legal principles in the event of unlawful comparative advertising. Common law principles of a criminal nature do not receive much attention as it is envisaged that recourse to such related sanctions in the event of unlawful - or illegal comparative advertising would be rare.[3]

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3 Woker 1999: 12,13.

With regard to statutory law in South Africa, relevant provisions of a number of statutes will be dealt with, especially with a view to the apparent limited or restricted scope of comparative advertising in view of related legal liability which may be incurred.

2. *PURPOSE OF THE RESEARCH*

Pursuant to the subject of the research as set forth *supra*, the purpose thereof is directed essentially at establishing the nature and extent of the legal position in respect of comparative advertising as such appears to be a contentious issue not only in South Africa, but also abroad, such position also differing from country to country.

In the United States of America, for instance, this country being a dominant role-player in the field of the law in question, comparative advertising seems to be well established in the light of an amended legal approach of a more liberal nature. As far as English law is concerned, a more conservative related legal approach seems to have been followed although legal amendments have given effect to a more moderate approach. A consideration of Asian countries, on the other hand, brings to light the importance of culture or cultural values with a view to comparative advertising and the legal effect thereof.

A comparative legal study based on a critical and an analytical approach could possibly give rise to an effective synthesis in respect of the related position in South Africa.

3. *METHODS OF RESEARCH*

As has already been mentioned above, a comparative legal study as contemplated, on the basis of a critical and analytical approach, is envisaged in

respect of various countries albeit subject to limitation which is the result of the nature and extent of available literature.

A number and variety of countries are embraced on the basis of factors such as, for example, economic - and/or legal development, culture, and standards of education and sophistication.

4. DEFINITIONS

4.1 ADVERTISING

The report of the European Commission's Committee on the environment, public health and consumer protection defines 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."[4]

4.2 COMPARATIVE ADVERTISING

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4 Dean 1996: 25. It can be deduced from the definition of advertising that its primary purpose is to persuade or motivate people to buy the advertiser's product. Any information that an advertiser uses in such an advertisement is aimed at increasing the customer's 'need' or desire for the product or service. He or she will accordingly present objective information only if it is in his or her favour, and not because it is in the interest of the consumer to do so. Dean is very critical and states that "[A]dvertising is thus characterised by a selective use of facts presented with an ulterior motive".

Dean[5] defines comparative advertising as follows:

> "A practice whereby a trader in extolling the virtues of his wares in 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 Dean thus implies that 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.

De Jager and Smith[6] define it as -

> "a technique of advertising containing visual, print or audio material which has the effect of making direct or indirect comparisons between products/services of identifiable competitors or other manufacturers/businesses as to the price, qualities, attributes or characteristics of these products or services."

Notably the effect of the definition of De Jager and Smith is that the related direct or indirect comparisons are neither necessarily in respect of well-known products nor necessarily between competitors whether they are identifiable or not.

Wheeldon's consideration of comparative advertising emphasizes the use of competitors' trade marks in the course of advertising by clear reference to the competing products of competitors.[7]

Webster and Page[8] supply the following definition:

> "Comparative advertising, as the name suggests, is advertising where a party (the advertiser) advertises his goods or services by comparing them with the goods or services of another."

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5 1990: 40.
6 1995: 67.
7 1996: 585.
8 1997: par. 12.18.2.

4.3 INDIRECT COMPARATIVE ADVERTISING

Webster and Page[9] also define this form of comparative advertising as:

> "Comparative advertising features where the advertiser does not refer to the brand of a competitor in a direct manner, but rather makes use of techniques, such as innuendo or a play of words."

4.4 DIRECT COMPARATIVE ADVERTISING

Direct comparative advertising exists where an advertiser, in his advertisement, refers to his competitor by name or uses that competitor's mark in such a way as to identify him to consumers.

NOTE:

Due to the word processing program that has been used (Word for Windows) some footnotes that appear in the text on one page, may have been transferred to the following page under the footnote section. If this is the case, the text and the footnote section will be seperated by a longer line than where the footnotes in the footnote section appear on the same page as its corresponding footnotes in the text.

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9 1997: par. 12.18.2.

CHAPTER 2

UNITED STATES OF AMERICA

1. Introduction
2. Common law
3. Trade Commissions
3.1 Federal Trade Commission
3.2 The USA International Trade Commission
4. Statutory law
4.1 Lanham Act

1. INTRODUCTION

In 1910 the first case[1] of many to come concerning comparative advertising, served before court. From that time on it became a hotly debated subject and the USA was at the head of all the developments in this area of the law.[2]

This country is very lenient toward advertisers, but even here advertisers must ensure that their advertisements are honest and will not mislead the consumers. In the past plaintiffs could litigate on the ground of the common law of unfair competition whenever an advertisement defamed a business or compared the goods and in the process disparaged the businesses goods. The general attitude towards comparative advertising was that it was unethical and not practised by a self-respecting businessman.[3] But, as time went by the common law actions became inadequate and the legislation was amended to

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1 *Saxlehner v Wagner* 216 US 375, 30 S CT 298, 54 L Ed 525 (1910).

2 Mills 1996: 193.

3 Beller 1995: 920. But the courts had to distinguish between conduct that was only 'unethical' and conduct that was 'illegal', because it is so far below the standards of the marketplace. The court in *Goodwin v Agassiz*, 283 Mass. 358, 363, 186 N.E. 659, 661 (1933) put it in the following words: "Law in its sanctions is not coextensive with morality. It cannot undertake to put all parties to every contract on an equality as to knowledge, experience, skill and shrewdness". Shell 1988: 1198.

accommodate comparative advertising as the attitudes changed.[4] In the words of Judge Browning in *Smith v Chanel Inc.*:[5]

> "The courts, however, have generally confined legal protection to the trademark's source identification function for reasons grounded in the public policy favouring a free, competitive economy."

And he continued with a quote from *American Safety Table Co. Inc. v Schreiber*:[6]

> "...imitation is the lifeblood of competition. It is the unimpeded availability of substantially equivalent units that permits the normal operation of supply and demand to yield the fair price society must pay for a given commodity."

2. COMMON LAW

The common law has supplied the target of false disparagement with an action in tort to recover damages caused by such a disparagement. This has been the position for the last one and a half centuries and in this time the action of injurious falsehood[7] has been applied the most frequent of all the common law actions.

The Restatement formulates the definition of this tort as follows:

> "One who publishes a false statement harmful to the interests of another is subject to liability for pecuniary loss resulting to the other if: (a) he intends for publication of the statement to result in harm to interests of the other having a pecuniary value, or either recognises or should recognise that it is likely to do so, and (b) he knows that the statement is false or acts in reckless disregard of its truth or falsity."[8]

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[4] In 1987 35% to 40% of all advertising was comparative and 25% to 30% of these advertisements identified the competition. Neiman 1987: 4 col 1.

[5] 402 F2d 562, 159 USPQ 388 (CA 9 1968).

[6] *Id.* at 567, 159 USPQ at 392, quoting the *American Safety Table* case, 269 F2d 255, 272, 122 USPQ 29, 43 (CA 2 1959).

[7] First known as 'slander of title', but it developed to include not only the title to property but also the quality thereof.

[8] Restatement (Second) of Torts, paragraph 623A (1977).

In the *Jartran* case[9] the defendant, a new entrant in the truck rental market, used a comparative advertising campaign to quickly gain a bigger market share. The target of its commercials was the market leader, U-Haul, and Jartran compared this company's equipment and rental rates with that of its own and naturally U-Haul was inferior. As a result of these infamous commercials, U-Haul's gross revenues showed a loss of $49 million, whereas Jartran's gross revenues increased with $92 million in two years.[10] The court found that some of the representations were misleading or even outright lies.[11]

But unfortunately this action does not always supply relief for the injured party, because it contains inherent limitations. For example, the Orajel advertisement claimed that:

> "If you're giving your baby Children's Tylenol, your baby could wind up suffering up to thirty minutes longer than necessary."

Tylenol could not find redress under the injurious falsehood action, because this statement was only a half-truth or a misleading opinion about its product and not a straightforward false assertion of fact, and for this the common law made no provision.[12]

The courts have thus concluded that a statement must be *factual* before it can be actionable. The reason for this seems to lie in the historical toleration of 'puffing' (so called 'sales talk') and the development that even 'negative puffing', i.e. disparaging another's goods or services, should be allowed. The only recourse available to a plaintiff is to contact the Federal Trade Commission (FTC) who is of the opinion that

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9 *U-Haul International Inc. v Jartran Inc.* 522 F. Supp. 1238 (D. Ariz. 1981); 681 F.2d 1159 (9th Circuit 1982); on remand, 601 F. Supp. 1140 (d. Ariz. 1984); 793 F.2d 1034 (9th Circuit 1986).

10 From 1979 to 1981.

11 Hayden 1990: 81.

12 Hayden 1990: 68.

"although room for selling puffery still exists, particularly with regard to opinion rather that fact, it must be such that the consumer will recognise it as puffery and not be deceived."[13]

The FTC will then analyse the target audience in order to determine whether the 'ordinary' or 'average' person would have been misled by the commercial. Judge Hand said in this regard:

"[t]here are some kinds of talk which no sensible man takes seriously, and if he does he suffers from his credulity ... [N]either party usually believes what the seller says about his own opinions, and each knows it."[14]

But is this view correct? Aren't commercials supposed to supply the consumers with information to base their purchasing choices on, meaning that this information is supposed to be dependable? Robert Reich, then the Director of the FTC's Office of Policy Planning, explained it as follows:

"Sellers will not invest in [advertising] unless it generates net revenues. And consumers will not rely on it (and pay for it as a small portion of the price of a given product or service) unless it is more efficient for them to do so than to undertake their own costly trial-and-error search for the products or services they want or to rely on third-party sources of information. Thus the extent to which sellers invest in it will be determined by the extent to which consumers rely on it."[15]

It is unfortunately true what Professor Wolff wrote in 1983, that

"[w]hile consumers, as a rule, may not rely on puffing, at least some portions of them are likely to be influenced today by comparative disparagement",

because it seems that consumers are more likely to believe 'negative puffing' than 'positive puffing'. The line between what kind of 'puffing' can be allowed

13 Hayden 1990: 86.

14 *Vulcan Metals Co. v Simmons Manufacturing Co.* 248 F. 853, 856 (2d Circuit); 247 U.S. 507 (1918).

15 Remarks of Robert Reich, Director, FTC Office of Policy Planning, before the National Conference on the *First Amendment* and the Corporation (March 16, 1979), reprinted in FTC Trade Regulation: Advertising, Rulemaking, and New Consumer Protection 39, 50-51 (1979).

and what not, is accordingly very thin and the common law actions were not equipped to deal with this problem. Thus, the FTC tried to solve it with its requirement that the statements in commercials may not be 'misleading' in any way.[16]

A further problem materialises in the requirement that the plaintiff must prove special damages, i.e. pecuniary loss, before any relief is granted.[17] The judge in *Testing Systems Inc. v Magnaflux Corp.*[18]communicated his concern about this in the following words:

> "[t]he inflexibility of most courts in demanding strict compliance with the rule has hampered the effectiveness of the action [for product disparagement] and contributed to its unpopularity."

Hayden[19] is of the opinion that it is better to do away with this requirement and adopt the standard utilised in the *Restatement of Unfair Competition*. According to him it is preferred that the courts ask for proof that

> "the disparaging statements were a substantial factor in causing pecuniary loss"[20]

or use a similar formulation.

But whichever way you look at it, the common law did not provide sufficient protection for parties who were injured through comparative advertisements and they had to look to other forms of relief instead. Fortunately this situation is changing because of a

> "persistent expansion of [the] common law"

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16 Hayden 1990: 88.

17 *Tobias v Harland* 4 Wend. 537 (N.Y. Sup. Ct. 1830); *Cosgrove Studio & Camera Shop v Pane* 21 Pa. D. & C.2d 89, 91 (1960); *Diehl & Sons, Inc. v International Harvester Co.* 445 F. Supp. 282, 292 (E.D.N.Y. 1978).

18 251 F. Supp. 286, 290 (E.D. Pa. 1966).

19 1990: 98.

20 *U-Haul Int'l, Inc. v Jartran, Inc.* 601 F. Supp. 1140, 1150 (D. Ariz. 1984); 793 F.2d 1034 (9th Cir. 1986).

tort of unfair competition,[21] despite the fact the courts tend to view the boundaries of this tort as imprecise.

Hayden[22] suggests that whenever a 1) competitor publishes a 2) disparaging representation 3) about the plaintiff's goods or services, which is 4) likely to deceive or mislead prospective purchasers to the 5) plaintiff's likely commercial detriment, this commercial should be banned as unfair competition.

- With regard to 1) Publication by a competitor:

This action should only be available to competitors of the plaintiff who engaged in disparaging advertisements and should not be extended to cover third parties who criticise a manufacturer's goods or services. The distinction lies therein that when a competitor disparages a person's goods or services he is most of the time motivated by a selfish desire to increase his own market share at the expense of his competitor and this is not the case with a disinterested third party. Furthermore, competition is in general a prerequisite for the tort of unfair competition.

To pass as a publication the representation must be

> "effectuated by any form of communication to a third person",[23]

other than the advertiser or his competitor (the target of the commercial).

- With regard to 2) A disparaging representation:

The representation can consist of words, sounds or images, individually or in any combination and should not be limited to a particular form, i.e. fact, opinion, innuendo or even half-truths should be actionable. Whenever such a representation disparages another's goods or services, it should qualify as unfair competition whether the advertiser intended it to cast doubt on the quality of the

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21 Restatement (Third) of Unfair Competition (1988), Paragraph 2.
22 1990: 100.
23 Hayden 1990: 102.

goods or services or not. The existing common law requires that a representation must be disparaging, but even where a representation about another's product or service is not disparaging, it may still be tortious. The Supreme Court created a category for 'commercial speech' and these representations must fall within this category's ambit.

- With regard to 3) About the Plaintiff's Goods or Services:

The common law requires that the commercial must either directly refer to the competitor, or must be understood to do so. This then covers direct and indirect comparative advertising and Hayden does not suggest any amendment to the current situation.[24]

- With regard to 4) Likely to Deceive or Mislead Prospective Purchasers:

The middle ground has to be found between the current position on the one hand, that a plaintiff must prove that the statement is false, and on the other hand making even a representation which is disparaging, but factually true, actionable. Last mentioned may contravene *First Amendment* values.

Hayden[25] suggests that the common law must import the same formulation as that in the *Restatement of Unfair Competition.*[26] Plaintiffs must accordingly only be required to prove that the commercial was

> 'likely to deceive or mislead a significant number of prospective purchasers'.

The Restatement states that a

> "representation may be likely to deceive or mislead because it is literally false"

or

> "if the audience is likely to infer from [the representation] additional assertions, that are themselves false".[27]

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24 Hayden 1990: 103.

25 *Id.*

26 Restatement (Third) of Unfair Competition, Par. 2.

27 *Id.* par 2, comment, at 33.

It does not require of the plaintiff to supply evidence of actual deception, but such evidence will be of relevance when he needs to prove a 'likelihood of deception'.[28] The Restatement simplifies the matter for the plaintiff, because it will look at the intention of the advertiser and if it is to deceive, it may

> "justify the inference that deception is likely".[29]

Although the courts shall have to depart from the existing common law rules in order to accommodate the aforementioned, they will not be lost in a maze. They will be able to take into regard the decisions of the FTC, and also cases which reviewed FTC cases, in order to determine which kind of commercials are likely to mislead.

Hayden is thus a firm believer in the fact that it is necessary for the common law to undergo a change to make provision for disparaging commercials which may be true, but may still mislead consumers.[30] He uses the Orajel[31] commercial as an example. Parents may be led to believe that Tylenol is ineffective in treating teething babies. The 'truth' conveyed by the advertisement is that Tylenol takes longer to act than Orajel, but the question can be asked if this 'truth' is not selected at random and as to the impression which it creates that Tylenol is no good in combating toothing pain, is this not too disparaging? Hayden even goes further and says that it might also be 'true' that although Tylenol does take a longer time before it soothes the pain, when it does start to act it may work for a longer period than Orajel. According to him self-help should not be the only form of protest available to the plaintiff,[32] but if Tylenol should now react with an advertisement stating the above, namely that it is effective for a longer period than Orajel for example, is this not to the advantage of the consumer? The consumer will now be aware of both the products' advantages and weaknesses

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28 *Id.* at 34.
29 *Id.*
30 Hayden 1990: 104.
31 Discussed *supra*.
32 Hayden 1990: 105.

and will accordingly be able to make an informed choice. Given, the advertisers will now have to increase their advertising budget, but at least the consumers receive material information, and not only some opinions, e.g. "our product is the best" etc..

- With regard to 5) The Plaintiff's Likely Commercial Detriment

As argued above, the requirement of special damages[33] is too strict, and once again Hayden wants the courts to look to the Restatement for inspiration. The Restatement provides that a disparaging commercial must be

> "likely to cause commercial detriment"

and this will be the case when:

> "a) the representation is material,[34] in that it is likely to influence the conduct of prospective purchasers; and
> b) there is a reasonable basis for believing that the representation has caused or is likely to cause a diversion of trade from the other or harm to the other's reputation or goodwill."[35]

And in addition it also states that it should be

> "unnecessary to prove that the actor foresaw or should have foreseen that the representation would be likely to influence prospective purchasers",

as well as that

> "[e]vidence indicating an intent to deceive ... may justify an inference that the misrepresentation is material since a seller will not ordinarily make a fraudulent representation unless it believes that the representation is likely to influence prospective purchasers".[36]

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33 Currently part of the common law.

34 "[I]f a significant number of prospective purchasers are likely to attach importance to the representation when making a purchasing decision"; Restatement (Third) of Unfair Competition, par 3.

35 Hayden 1990: 105.

36 Restatement (Third) of Unfair Competition, par 3.

3. TRADE COMMISSIONS

3.1. FEDERAL TRADE COMMISSION[37]

Before 1971 comparative advertising was seldom used in the USA, but in this year the FTC enacted Article 14.15(c)[38] that conveys the belief that:

> "[c]omparative advertising, when truthful and nondeceptive[39], is a source of important information to consumers and assists them in making rational purchase decisions[40]... [It] encourages product improvement and innovation, and can lead to lower prices".

The FTC's Code further encourages the

> "naming of, or reference to competitors, but requires clarity, and, if necessary, disclosure to avoid deception of the consumer".[41]

And Article 14.15(c)(1) even states that an advertisement can disparage a competitor as much as the advertiser wants to as long as the statements are true and not misleading. Advertisers are, however required to supply proof of the truthfulness of their claims. An example of this is that the FTC was in favour of an advertisement of Brioschi that made consumers aware of the fact that Alka-Seltzer contained aspirin which can be harmful to some people. The advantage of such a comparative advertisement laid therein that Alka-Seltzer was under no obligation to disclose this fact and Brioschi's advertisement thus was important for consumer information.[42]

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37 FTC.

38 FTC Commercial Practices, 16 C.F.R..

39 A commercial is considered to be deceptive when consumers are likely to be misled by a representation, practice, or omission in the commercial and if the aforementioned is likely to play a material role in the consumers' purchasing choice.

40 But as Andrè Oulette, as quoted by Mungovan 1990: 57, said: "[F]alse and misleading advertising and unethical promotional practices distort our free economic system which is build on honesty and fair play. They deny the consumer the information required to make wise and effective buying decisions, and they deprive ethical promoters and honest advertisers of the deserved awards for offering better quality, more competitive prices, or simply the undoctored facts."

41 Article 14.15(b), 1994.

42 Mills 1996: 193.

The FTC will however act in the public interest if it seems necessary and take legal steps against an advertiser. Unfortunately the business that is the object of the comparison and suffers injury as a result, has no power whatsoever, because the choice of bringing an action lies with the FTC alone. When the FTC does bring such an action it need only to prove that

> "a reasonable consumer is likely to be misled and that the advertisement played a material role in the consumer's purchasing choice".[43]

The remedies available are a cease and desist order and in addition the FTC may also compel the advertiser to disclose further information to prevent confusion or deception.[44]

Although the FTC is very powerful and carries a low burden of proof, it seldom takes action against comparative advertisers because of its policy to encourage this kind of advertising.[45]

3.2 THE USA INTERNATIONAL TRADE COMMISSION[46]

If a person's goods or services are denigrated by a foreign competitor in the USA, the aggrieved party can take recourse and file a complaint with the ITC. The plaintiff must supply the details of the injury caused by the other's actions and from these facts it must be obvious that the other party's conduct was an unfair act or constituted an unfair method of competition. As is the case with the FTC the ITC decides whether it is going to pursue the matter and it is consequently out of the hands of the aggrieved business. The remedy afforded in such cases is generally a cease and desist order which the plaintiff can enforce in a federal district court.

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43 Beller 1995: 921.

44 Beller 1995: 922.

45 Beller 1995: 922. The former Federal Trade Commission official, Tracey Weston, an early proponent of comparative advertising stated that "confusion is a higher state of knowledge that ignorance". As quoted by Morner 1978: 105.

46 ITC.

Although the rules of the ITC and the FTC are similar, the one important difference between these two institutions is that the ITC does not possess an affirmative policy in the sense that it encourages comparative advertising. It does however permit an advertiser to refer to the goods or services of another person, as long as the comparison is honest and the public is not misled as to whom is the producer of the goods.

A plaintiff carries a heavier burden of prove in a ITC case than a plaintiff in a FTC case and consequently there are seldom complaints of this kind lodged at the ITC.

4. STATUTORY LAW

4.1 THE LANHAM ACT[47]

Section 43(a) of this Act provides that:

> "Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which-
>
> (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or
>
> (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act."

[47] As amended in 1988.

In *Mutation Mink Breeders Association v Neirenberg Corp.*[48] 'any person' was defined as someone with a commercial interest (generally accepted to be a direct pecuniary interest) who is reasonably threatened by another's alleged false advertising (consumers excluded).

Whenever someone in the private sector felt that he (or his goods or services) was injured by an advertiser, he had to rely on either the FTC or the ITC to bring suit, and this was exactly the situation which section 43(a) wished to remedy. Under this section a plaintiff has direct access to the courts and does not have to rely on one of the above mentioned entities. A business can thus take civil action against an advertiser who made use of a comparative advertisement that communicated a false description or representation of its goods or services and on account of which the business is or is likely to be injured.[49] The burden of proof rests on the plaintiff and requires of him to prove that the statements complained of are actually false or misleading.[50] This can only be done if the advertiser has no substantiation for his claim[s]. In addition he has to prove that:

1) a substantial portion of the public was actually deceived by this false statement, or that it contains the capacity to deceive;[51]
2) this deception will have a material influence on the consumers' purchasing choices;
3) he [the plaintiff] was (or still is) injured by the statement, e.g. declining sales, loss of goodwill etc.; and
4) the advertised goods travelled interstate in commerce.[52]

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48 23 FRD 155, 1161-1162 (SDMY 1959).

49 Beller 1995: 923.

50 Buchanan and Goldman 1989: 39.

51 This implies that even where the claims of an advertiser is literally true, but it actually deceive or have the capacity to deceive, it will be prohibited under the *Lanham Act*. The Federal Court in *American Home Products v Johnson & Johnson*, 577 F 2d 160 (2d Cir. May 1, 1978) has held that "the *Lanham Act* encompasses more than literal falsehoods... Were it otherwise, clever use of innuendo, indirect intimations, and ambiguous suggestions could shield the advertisement from scrutiny precisely when protection against such sophisticated deception is most needed". See discussion of this judgement by Buchanan and Goldman 1989: 42.

52 *American Home Care Products Corp. v Johnson & Johnson* 577 F2d 160, 165-166, 198

A plaintiff accordingly does not rid himself very easily of this burden, but fortunately the courts are sympathetic towards consumers and will therefore find deception more easily than it might have done otherwise. But the fact still remains that if there is no misrepresentation or confusion, the proprietor will not be able to prevent the commercial, as was seen in the *Societe Comptoir de l'Industrie Cotonniere Establishments Boussac* case.[53] In this case the court ruled that Alexander's Exclusive could not be prohibited from referring to its adaption of originally designed Dior clothes as "Original by Christian Dior - Alexander's Exclusive - Paris- Adaption", because there was no deception or confusion.[54] In the words of the judge:

> "Registration bestows upon the owner of the mark the limited right to protect his goodwill from the possible harm by those uses of another as may engender a belief in the mind of the public that the product identified by the infringing mark is made or sponsored by the owner of the mark... The *Lanham Act* does not prohibit a commercial rival's truthfully denominating his goods as a copy of a design in the public domain, though he uses the name of the designer to do so. Indeed it is difficult to see any other means that might be employed to inform the consuming public of the true origin of the design."[55]

Based on these words the judge in the *G.D. Searle & Co. v Hudson Pharmaceutical Corporation* case found that the defendant could not be prevented from referring to the plaintiff's trademark on his packaging under all circumstances, because third parties can only be prohibited from using another's trademark where such use is likely to cause confusion.[56] This case is somewhat similar to that of *Bismag v Amblins,*[57] that was decided under the old law, where the defendant was prevented from using the plaintiff's trademark under similar

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USPQ 132 (CA 2 1978).

53 *Societe Comptoir de l'Industrie Cotonniere Establishments Boussac v Alexander's Department Stores Inc.* 299 F2d 33, 132 USPQ 475 (CA 2 1962).

54 Mills 1996: 195.

55 *Supra* at 36, 132 USPQ at 477.

56 Mills 1996: 195.

57 *Bismag Ltd. v Amblins (Chemists) Ltd.*, (1940) 57 RPC 209.

conditions. But, the approach adopted by the court in the *G.D. Searle* case differs from that of the United Kingdom, for in the *Dior* case the court might have found that the defendant's conduct constituted trademark infringement in terms of section 10(6),[58] because he tried to trade off the established reputation of the other trademark by associating it with his goods or services. But although the court granted an injunction in the *G.D. Searle* case, it was only to prevent the defendant from referring to the plaintiff's trademark in lettering larger than that used on its label for the words "equivalent to".[59] A case involving direct comparative advertising was that of *Charles of the Ritz Group Ltd. v Quality King Distributors Inc.*[60] where Omni used the words: "If you like Opium ... you'll love Omni", on their perfume packages. The court held that a likelihood of confusion, as required by section 43(a),[61] existed and accordingly the defendant was ordered to discontinue the use of the slogan on his packaging. It can thus be deduced from the foregoing discussion of the various cases that if an advertisement is deceptive or causes a likelihood of confusion as to the origin or source of the products or services being advertised, it will be banned.

Mills[62] raises a valid question, namely why A (a newcomer) must be allowed (or even wants) to refer to another brand (B) in his commercials when it is possible to convey the necessary information about the nature of his goods without any such references. Is he not only taking a so-called 'free-ride' at the expense of the other proprietor? This is a possibility, because when he (A) compares his goods to, for example, Dior or Chanel, he does not simply refer to the functional aspects, but also calls the emotional attributes of these brands to mind. He thus attempts to transfer some of these emotional elements to his own (cheaper) product, and injures B (the original) in the process. But what happens when both brands are not identical (which they seldom are) as far as the physical or

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58 *Trade Marks Act* 1994.
59 Mills 1996:196.
60 832 F2d 1317, 4 USPQ 2d 1778 (CA 2 1987).
61 *Lanham Act.*
62 1996: 198.

chemical composition is concerned? The characteristics of the brands are thus not identical and the consumer is deceived when he/she attributes the same emotional elements to the 'new' brand as associated with the well-known brand. As a consequence, the equivalency statement is deceptive. It seems therefore that the approach that the EC Directive on Comparative Advertising[63] adopts is preferable to that of the USA,[64] for the CAD places a restriction on companies to take a 'free ride' and it also does not inhibit competition because the newcomer can still refer to his brand by, for example, generic means. The newcomer will however be obliged to create public awareness of his product through advertising and marketing, and then only will he be able to refer to or compare his goods or services to an established brand.[65]

The remedies available to injured parties under this section are injunctions, damages, corrective advertising and monetary awards.[66]

If consumers were actually deceived by the advertisement and the plaintiff can prove this, the court will grant damages, but if he can prove only the capacity to deceive he will obtain equitable relief. In the case of an indirect comparative advertisement a plaintiff will be required to show monetary damages in order to get an injunction, but where it was a direct comparative advertisement he need not prove monetary damages. Whenever the advertisement conveyed statements which are explicitly false, the plaintiff's burden of proof is considerably easier than when it is only implicitly false, because the advertiser will in the last mentioned case be obliged to conduct consumer surveys to determine whether the consumers were actually deceived.

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63 CAD.

64 "[That] a large expenditure of money does no in itself create legally protectable rights. [Trademark owners] are not entitled to monopolise the public's desire for the unpatented product, even though they themselves created that desire at great expense...". Mills 1996: 200.

65 Mills 1996: 199.

66 Beller 1995: 924.

Although plaintiffs do want damages they are particularly interested in obtaining an injunction to prevent the further broadcast of the relevant advertisement. It is a speedy remedy and the plaintiff must show that he

> "will suffer irreparable damage if an injunction is not issued and the abusive message is allowed to persist".[67]

Furthermore the plaintiff must show that there exist either a likelihood of success on the merits, or that there are sufficiently serious questions going to the merits to make them fair ground for litigation.[68]

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67 Beller 1995: 924.

68 Beller 1995: 924.

CHAPTER 3

CANADA

1. Direct comparative advertising
2. Indirect comparative advertising
3 Conclusion

1. DIRECT COMPARATIVE ADVERTISING

It is possible for an injured party in this country to restrain a competitor from using a comparison or reference to his goods, services, business[1] or trade mark.[2] Comparative advertising is mainly governed by the *Trade Marks Act*, especially section 22 that states:

> "No person shall use a trade mark[3] registered by another person in a manner that is likely to have the effect of depreciating the value of the goodwill attaching thereto."

These requirements were applied in a case concerning a comparison of goods, namely *Clairol International Corp v Thomas Supply and Equipment Co.*[4] In this case the court had to determine the meaning of the word 'use' in terms of section 22, and in doing so the court took note of the definitions supplied by the Act. The court ruled that a trade mark is used by a person if it appears on the packaging of the goods or if it is affixed to the goods in any other way. With regard to 'use'

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1 E.g. *Purolater Courier Ltd v Mayne Nickless Transport Inc*, (1983), 70 CPR (2d) 61 (Federal Court. Trial Division).

2 E.g. *Source Perrier Societe Anonyme v Fira-Less Marketing Co*, (1983), 70 CPR (2d) 61 (Federal Court, Trial Division). Burshtein 1995: 13.

3 Judge Richard Posner, as quoted by Johnson 1996: 906, explains that the economic function of trade marks is to economise on consumer search costs, because the trade marks give the assurance of uniform quality. The search costs are reduced "because the consumer is able to quickly identify or locate the product that is desirable". Transaction costs are also reduced, "because the buyers and sellers are able to accurately and effectively communicate about the products, goods and services traded". Johnson 1996: 907.

4 (1968) 55 C.P.R. 176.

pertaining to services it was decided that a trade mark is used if it is applied in any way in the supply or advertising of these services. In addition the court found that a person could infringe a competitor's goodwill, even if the comparisons are *in toto* true.

Another case regarding the comparison of services was *Future Shop Ltd. v A & B Sound Ltd.*[5] The facts of the case were that Future Shop registered its name, Future Shop, as well as the names "Future Shop" and "Future Shop Ltd." as trade marks. One of these names, Future Shop, was used in a comparative advertisement by A & B Sound. Future Shop argued that this constituted infringement of its trade mark in terms of section 22. The court found in their favor and thus complicated the matter for future comparative advertisements. The courts are also wary not to apply the word 'use' in too wide a sense, and consequently limit commercial speech.[6]

2. *INDIRECT COMPARATIVE ADVERTISING*

The cases discussed above involved advertisements where the competitor was named, but what is the position where a comparative advertisement uses an unnamed target? The following five cases that will be discussed may shed some light on this position.

2.1 Unitel Communications Inc v Bell Canada

The first of these decisions was that of *Unitel Communications Inc v Bell Canada.*[7] This case came before the court as a result of the extremely competitive relationship in the telephone market. Bell launched a television commercial to encourage their users to remain with them. Although they did not mention Unitel's name in the commercial, they portrayed the image that 'other'

5 (1944) 55 CPR (3d) 1282 (British Columbia Supreme Court). See also *Eye Masters Ltd v Ross King Holdings Ltd* (1992) 44 CPR (3d) 459 (Federal Court, Trial Division).

6 Taylor and Lamer 1997: 3.

long distance telephone services serve only major centres and do not provide repair services. Unitel reacted on this commercial and sued Bell on the ground that they were the unnamed target of the commercial and that the commercial was also false and misleading contrary to the *Competition Act.*[8] It thus constituted injurious falsehood according to Unitel. Bell's counter argument was that the commercial was of a generic nature and consequently did not identify any competitor. The court discussed in its *ratio decidendi* the requirements a plaintiff must adhere to for a successful claim under the *Competition Act* and for the tort of injurious falsehood. Under the *Competition Act* Unitel had to prove that it was being targeted in the commercial and to do this they conducted a focus group study. Unfortunately this study was inconclusive, because on review of the focus group transcripts it was clear that there was a difference of opinion as to who the target of the commercial was. Unitel could subsequently not sue under the *Competition Act.*

Their claim based on injurious falsehood was unsuccessful as well, because this tort also depends on the identity of the plaintiff and as stated above there existed no evidence that Unitel was identified in the advertisement. In addition the court was of the opinion that even if there were serious issues to be tried, there would still be no irreparable harm to Unitel, because they would not suffer permanent market losses. Unitel did not hold a very big market share and also did not try to address the falsehoods with a commercial of their own.[9]

2.2 Church & Dwight Ltd v Sifto Canada Inc

In direct contrast to the above decision, the same court[10] decided in favor of Church & Dwight and granted an interlocutory order to stop Sifto from making certain promotional claims in the launch of its new baking soda. This case,

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7 (1994), 56 CPR (3d) 232 (Ontario Court (General Division)).
8 RSC 1985, c C-34, as amended.
9 Burshtein 1995: 13.
10 Ontario Court (General Division).

Province of Ontario is controlled by the Ontario Milk Marketing Board (OMMB) which imposes very high standards. Ault (the largest processor and marketer of milk in Canada)[19] developed a new process through which bulk milk is passed, and after the completion of the process the milk is 99.9 percent bacteria-free. Although milk that is only pasteurized is only 99.4 percent bacteria-free, the remaining live bacteria are harmless.

Beatrice, who was one of the two other major dairies, contended that these statements of Ault could diminish the public's confidence in the safety of other milk (those pasteurized in the traditional way). It based its application on three grounds, namely, a) that the *Trade Marks Act*[20] prohibits a person from making a false or misleading statement that tends to denigrate or discredit the business, goods or services of a competitor; b) that the *Competition Act* prohibits

> "a person, for the purpose of promoting, directly or indirectly, the supply or use of a product or for the purpose of promoting, directly or indirectly, any business interest, by any means whatever, from making a representation to the public in the advertising that was false or misleading in a material respect";[21]

and c) the tort of injurious falsehood.

With regard to a) the court found that Beatrice was not mentioned in the advertisements and that it pertained to milk as a general product.

With regard to b) the court could not find any direct or indirect representation to the public in these commercials that were false or misleading in a material respect.

And with regard to c) it was held that Beatrice was never identified in the commercials. Although Beatrice attempted to argue that it was implied in the advertisement because it was a major seller of milk, the court distinguished this

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18 Unreported, 94-CQ-59371, 1 March 1995, Wilkins J (Ontario Court (General Division)).

19 It held 33 percent of the Ontario market.

20 RSC 1985, c T-13, as amended.

case from that of Church & Dwight in that Beatrice had a smaller share of the milk market than Ault. Its share was also not bigger than that of the third major competitor. The requested relief was refused.

2.5 Purolator Courier Ltd v United Parcel Services Ltd

The only case that was decided after a trial was *Purolator Courier Ltd v United Parcel Service Ltd.*[22] One of the most competitive markets in Canada is the courier industry. This industry is dominated by four major players who control about 50 percent of the market. Purolator had a 28 percent market share, the second competitor about 26 percent, the third competitor about 24 percent and United Parcel Services (UPS) about 5 percent. It can be deduced from the given facts that there was strong competition between them with regard to the price of their services. UPS broadcast an indirect comparative commercial containing the statement that it guaranteed overnight courier delivery "usually at rates up to 40 percent less than other couriers charge". Purolator sought relief in the form of an interlocutory injunction to prevent UPS to use these commercials. It based its claims on the *Competition Act* and the common law tort of unlawful interference with economic relations.

UPS cited prior decisions and argued on these authorities that an unnamed competitor can only be identified by implication in a commercial if its market share is so significant that the representation can point only to it and to no one else. But the court took note of the *Knupffer* case where Viscount Simon LC said:

> "There are cases in which the language used in a reference to a limited class may be reasonably understood to refer to every member of the class, in which case every member may have a cause of action."[23]

With regard to the claim under the *Competition Act* the court found that there was

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21 Bursthein 1995: 16.

22 Unreported, 94-CU- 81492, 3 April 1995, Lederman J (Ontario Court (General Division)).

no express requirement that a competitor had to be identified in the commercial. The court subsequently held that although Purolator was not such a dominant market shareholder as the plaintiffs in *Church & Dwight* and *Maple Leaf*, it was a member of a small class and therefore any reference to competitors will by implication refer to Purolator.[24] The court considered the literal meaning, as well as the general impression that was conveyed by the commercial, in order to determine if it was false or misleading in a material respect. After the assessment the conclusion was reached that the UPS commercial was not misleading, and that it had not contained claims that lacked a reasonable basis.[25]

Bursthein[26] deduced some guidelines from the above cases. In the common law action of injurious falsehood he lists the following criteria to be assessed in order to determine whether an unnamed plaintiff may succeed:

1. whether the references in the comparative advertisement point implicitly to identifying the target or its products;
2. whether the target is the market leader; and
3. whether the target holds such a large share of the market, for example 75 percent or more, that the inescapable conclusion is that the market leader is or its products are the target of the comparison.

It does seem however as if the burden of proof resting on a plaintiff who sues under the *Competition Act* is lighter, because it may suffice

> "if the target is one of a limited class in which each member may be reasonably understood to be a target'.[27]

3. CONCLUSION

From the above it can be concluded that Canada has a more restrictive approach to comparative advertising than the USA or the *European Community Directive*.

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23 [1944] AC 116, at page 199.
24 In the words of the Judge: "[Reference to Purolator] will be reasonably understood."
25 Bursthein 1995: 18.
26 1995: 18.
27 *Id.*

Comparative advertising in Canada can be divided into two categories:[28]

1) Comparative advertising that is false or misleading, and
2) Comparative advertising that is neither of the aforementioned.

With regard to 1):

An advertiser who uses such a comparative advertisement may be liable in terms of

a) the Common law for damages for trade libel.

   The requirements are that:

   (i) the statements must be false;
   (ii) the advertiser had the intent to cause injury;
   (iii) the statements did in fact injure the aggrieved party;
   (iv) the advertiser is unable to prove lawful justification.

a) the *Trade Marks Act* for unfair competition, for section 7 states specifically that:

   > "No person shall make false or misleading statements tending to discredit the business, wares or services of a competitor."

b) the Canadian Competition law with regard to sections 52(1)(a) and 36 of the *Competition Act*.

With regard to 2):

An advertiser who makes use of comparative advertising may still be liable in terms of the *Trade Marks Act*.[29] Although the case law interpreting section 22 are contradictory, generally the following two principles emerge therefrom:

i) Where an advertiser uses direct comparative advertising in order to bring the *similarities* between his own products or services and that of his competitor to the consumers' attention, he is liable in terms of section 22(1), for he appropriates (or misappropriates) his competitor's goodwill.

ii) In contrast with the aforegoing it appears that it may be lawful for an

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28 See at Internet: Anthony de Fazekas, http://www.kmblaw.com/ip/articles/03-98/cat.htmp.

advertiser to use direct comparative advertising (thus using his competitor's trademark) to stress the *differences* between the two entrepreneurs' performances, because in doing so he does not appropriate his competitor's goodwill; comparative price lists and the like thus appearing to be permissible.

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[29] See section 22 *supra*.

CHAPTER 4

EUROPE

1. Portugal
2. France
3. Spain
4. Denmark
5. Belgium
6. Luxembourg
7. Italy
8. Switzerland
9. The Netherlands
10. Greece
11. Germany
12. Conclusion

1. PORTUGAL

The laws of this country make provision for comparative advertising on condition that it does not make use of another's trademark. It must also be in accordance with honest standards and usages.[1]

2. FRANCE

The creators of a comparative advertisement in France have to be extremely careful, for the advertisement can be prohibited on the grounds of trademark infringement or of contravening the *French Civil Code*. The provisions of this *Code* require that no act may be of such a nature that it *unnecessarily harms* others, and whenever a comparative advertisement may result in confusion or in discrediting another's product or service, it is thought to be an act that does

1 Beller 1995: 929.

exactly that.

Fortunately the French Constitutional Council amended article 10 of the *French Legal Code* in 1992.[2] Advertisers may now make use of a comparative advertisement as long as it is

> "fair, true, objective and not misleading to consumers".[3]

It must also be based on

> "substantial, significant and verifiable qualities".[4]

Whenever an advertisement compares the respective prices of goods or services, it must be for identical goods or services sold under the same conditions. It must also state in clear language the period of time for which the price is applicable.[5]

The above mentioned requirements that a comparative advertisement must adhere to, complicate the situation for advertisers, because in theory it is allowed, but these requirements are so restricting that this kind of advertising will rarely be allowed in practice.

3. SPAIN

Before the Spanish Government passed the *General Advertising Law* in 1988, this field of the law was governed by the *Law of Industrial Property* of 1902 and the *Statute of Advertising* of 1964. According to Boddewyn and Marton[6] the Statute of 1902 provided that no advertisement, whether true or false, with a tendency to depreciate the quality of a rival's goods or services, may have been published. The *Statute of Advertising's* provisions required that whenever an advertisement may result in the

> "discrediting of competitors or their products"

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[2] January 18.
[3] Beller 1995: 930.
[4] *Id.*
[5] *Id.*

it must be banned. In fact it banned

> "all advertising which are contrary to correct usages and commercial practices".[7]

Thus, although an advertiser could make use of general comparisons with unnamed rivals, comparative advertising was technically banned at this stage.

This situation was amended in 1988[8] to allow these kinds of advertisements, subject to the condition that such must be based on

> "essential, analogous and verifiable characteristics".[9]

If the commercial does not adhere to these requirements it is considered to be 'unfair' and accordingly prohibited. Where an advertiser is unknown in the market or participates only in a limited fashion in this market, he or she may also not compare his or her products or services with those of other producers.

Consequently, the favourite form of advertising in Spain was indirect or general comparative advertising and they seldom made use of direct comparative advertising. This was a result of the difficulty involved therein for advertisers to prove the superiority of their products or services.

The Bill which was approved in 1990 made provision for comparative advertising as long as it is

> "not deceitful, misleading or subliminal".[10]

Now an advertiser is allowed to make use of this kind of advertising subject to the conditions as set out above.

4. DENMARK

In the past comparative advertising was rarely used in Denmark. This was due to the strict provisions applicable to such advertising, namely that it must not be

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6 As quoted by Beller 1995: 930.
7 *Id.*
8 When the *General Advertising Law* was passed.
9 Beller 1995: 930.

"false, misleading, unreasonably incomplete or unfair"

towards consumers or rivals.[11] The law further forbids an advertisement to mention a competitor's trademark without permission, where the only objective of the advertisement is to state the superiority of its own goods or services. However, where a company tries to assist consumers in their purchasing choices, it may use an entrepreneur's trademark.

In recent years the trend has been towards allowing comparative advertising and the use of this method might increase in future.[12]

5. BELGIUM

Although the legal status of comparative advertising differed in the countries discussed above, none of these countries explicitly banned this technique in their statutes. There are however two European countries whose laws explicitly ban comparative advertising, and one of them is Belgium. Beller[13] is of the opinion that the reason for this lies in the traditional principles applied in the Belgian commercial law, namely that business interests are more important and must enjoy greater protection than those of consumers.

The applicable laws are the *Belgian Commercial Practices Law* that prohibits misleading or denigrating advertising, and the trademark law. This implies that an advertiser may not even use completely truthful comparisons, and may also not make price comparisons where the other brand is identified.[14]

Consumer pressure groups are however not satisfied with the current situation. They believe that the present advertisements are uninformative, as well as

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10 Beller 1995: 931.
11 Beller 1995: 931.
12 Beller 1995: 931.
13 1995: 932.
14 Beller 1995: 932.

misleading and subjective. Comparative advertising might have a positive influence and provide consumers with more information to base their purchasing choices on. But the businesses do not take kindly to this prospect, because they believe that this kind of advertising is inherently unfair and up till now they have succeeded in their protestations.[15]

This situation is bound to change because Belgium will be obliged to amend its legislation to accommodate the *European Directive on Comparative Advertising*. But until that time advertisers must be aware of the ban on comparative advertising in this country and refrain from using it.

6. LUXEMBOURG

Luxembourg is the other European country that specifically bans comparative advertising through its commercial law, and in addition this kind of advertising may also infringe a trademark and as such be prohibited.[16]

The same fate can therefore be envisaged for the Luxembourg laws as for those of Belgium in view of the *EC Directive*.

7. ITALY

As in Germany, the legislation applicable to comparative advertising makes it nearly impossible for an advertiser to make use of a comparative commercial, for the *Italian Civil Code* prohibits any unfair competition, which includes a reference to someone else's product, on the grounds that it denigrates the competitor's product or service. If a statement in a commercial is likely to create confusion or appropriate the rival's product, the commercial may be regarded as an infringement of a trademark. Although the present stance was almost altered in

[15] Beller 1995: 932.

1993, the relevant bill was not passed and the position remained unaltered.[17]

8. SWITZERLAND

Between 1943 and 1988 the courts applied the *Unfair Competition Act*[18] when a case of comparative advertising was served before them. If the advertisement was objective, did not mislead the consumers, and did not unnecessarily injure the competitor, it was allowed.[19]

In 1988 a new *Unfair Competition Act*[20] was passed that prohibited misleading comparative advertisements. Under this Act consumers are permitted to take action against unfair selling practices.[21] When an advertiser's only objective is to bar or materially hinder the competitor's activities, including undercutting the other person's prices, it is prohibited. The one exception where a company is able to limit competition is when it is

> "justified by overriding legitimate interests and when [the] results do not adversely affect the public welfare."[22]

To conclude, the position in Switzerland is very similar to those in Italy and Germany where the law does not in so many words forbid comparative advertising, but makes it in effect impossible through the strict requirements these kind of advertisements must adhere to.

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16 Beller 1995: 932.
17 Beller 1995: 933.
18 1943.
19 Beller 1995: 934.
20 Amending the 1962 *Federal Cartels and Similar Organisations Act*.
21 Beller 1995: 934.
22 Beller 1995: 934.

9. THE NETHERLANDS

Although comparative advertising is viewed in a more positive light at present,[23] its position is still uncertain, for it is not specifically banned nor encouraged. The *Dutch Civil Code* complicates the matter even further, because it forbids unfair competition that harms others without a good cause. Depending on the specific circumstances and on the statements made in a commercial, the *Code* may thus prohibit comparative advertising. Even though offensive statements are prohibited, case law shows that there exists a possibility that if the comparison deals with relevant product characteristics it may be allowed.[24]

10. GREECE

Although comparative advertising is seldom used in this country, it is still important to determine its legal status.

The Greek law places no explicit ban on comparative advertising,[25] but the unfair competition law does forbid an advertisement which is contrary to good morals. Boddewyn and Marton[26] state that an advertisement which makes use of an uncritical comparison may be allowed, but the position remains uncertain. Advertisers are advised to rather follow the example of the Pepsi advertisement, where MC Hammer was handed a plain white cup instead of the Coke can, and thus use indirect comparative advertising.[27]

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[23] Beller 1995: 935.
[24] Beller 1995: 935.
[25] Beller 1995: 935.
[26] As quoted by Beller 1995: 935.
[27] Beller 1995: 935.

11. GERMAN LAW

11.1 STATUTORY LAW

German law takes the stance that an advertiser makes use of comparative advertising *only* to emphasize the quality of his own goods or services *vis-à-vis* those of a rival's goods or services.[28] At the core of the German law that pertains to advertising, lies the requirement that an advertisement must not be misleading.[29] Steckler and Bachmannn[30] state that the law on comparative advertising must strike a fine balance between several competing interests, namely, those of advertisers in selling their goods or services, the interests of consumers to receive truthful and factual educational information, those of competitors not to be unfairly damaged as far as their goods or services, and subsequently their market position, are concerned, and finally the interests of the general public in a functional competitive economy.

The law of unfair competition governs comparative advertising[31] and subsequently the *Unfair Competition Act* ("*UWG*")[32] is applicable in these cases. The legal question to be answered in each case is whether a statement in an advertisement, although objectively true, can be considered as misleading.[33]

Section 1 of the above mentioned Act, as well as the law on unfair competition,

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28 The believe that it is the consumer's responsibility to compare the goods/services and not the advertiser's. The problem that emerges in the case of comparative advertising is that when an advertiser judges his competitor's goods or services he becomes a "judge of the merits of competing products". Steckler & Bachmann 1997: 581.

29 Willimsky 1996: 652. E.g. BGH GR 52, 418.

30 1997: 580.

31 The German Advertising Council also recommends certain remedies for unfair advertising practices. It does not posses any legal force but these recommendations are published as expert opinions in the law of advertising, and thus serve as useful guidelines. Steckler & Bachmann 1997: 581.

32 1900, as amended in 1909.

33 Section 3 has far-reaching consequences. It entails that not only false, but also truthful advertising can be considered to be misleading. This will depend on the perceptions of the addressees of the advertisement. These perceptions will be determined through market surveys among the target group.

make use of a more concept-based approach. The advantage of this approach is that the degree of flexibility is increased, but unfortunately it also leads to legal uncertainty as to what can be considered as 'unfair'.[34]

When a case serves before the court the judge will usually apply a broad 'balance of interest' test to reach a decision. The German law thus allows comparative advertising on the condition that the statements used in the advertisement are

> "true,[35] the comparison justifiable[36] and the other competitor is not unnecessarily degraded'".[37]

If this comparison violates "good manners", which includes advertising that

> "usurps the efforts, reputation or advertising of a competitor",[38]

it transgresses the German antitrust laws.

An advertiser in Germany needs also to ensure that the general impression presented by the advertisement is truthful, otherwise it may be considered to be unlawful in terms of the *Unfair Competition Act*. This implies that although an advertiser who does not refer to a competitor's goods or services need not state the weaknesses of his or her own product as well, whereas another advertiser who does make use of comparative advertising and accordingly criticizes another's goods or services, would have to mention the weaknesses of his or her

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[34] This encompasses the general rule of fair and unfair trade practices. What is required is the decent behaviour of all proper and fair thinking persons. In a competitive sense this entails that an action will be considered 'unfair' if it does not accord with the decent behaviour of the average businessperson, or if the general public disapprove thereof. Steckler & Bachmann 1997: 581.

[35] This basically requires an advertisement to compare only comparable attributes, it must thus provide a complete presentation. Steckler & Bachmann 1997: 582.

[36] Thus relevant to the consumer's decision-making process. If this is not the case, the comparison will normally not be permitted.

[37] The consumer must still get a correct overall impression. This means that the competitor's goods or services must not be degraded overall, and to ensure this, recent cases state that general comparisons need to be more accurately verified. Steckler & Bachmann 1997: 582. See also Willimsky 1996: 652.

[38] Beller 1995: 933.

own goods as well.[39]

The German law distinguishes between three classes of comparative advertising, namely, personal, imitative and critical comparative advertising.[40]

11.1.1 PERSONAL COMPARATIVE ADVERTISING

This kind of advertising aims at degrading the *image* of the *person* of the competitor. Section 3 of the *UWG* covers such comparative advertisements and provides that it is unlawful even if the statements are true. The only exception is the case where

> "a sufficiently substantiated interest"[41]

exists to justify it, e.g. the existence of an urgent need of the public to be informed about the specific facts of the situation. If damages result from *false* statements in the advertisement the injured party can sue under section 14 of the *UWG* for compensation and discontinuance. *True* allegations that infringe a person's privacy are actionable under section 1 of the *UWG* as such statements still violate the general rule of fair and unfair trade practices.

11.1.2 IMITATIVE COMPARATIVE ADVERTISING

This type of advertising constitutes a "parasitic free-ride" and

> "is a form of unfair exploitation".[42]

The main concerns about imitative comparative advertising are that it has a

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[39] The German law does not contain a requirement that advertisements must be complete, but where an advertiser refers to the qualities and effects of the rival's goods/services, he must compare the advantages and disadvantages in a complete manner. Steckler & Bachmann 1997: 582.

[40] Steckler & Bachmann 1997: 582.

[41] In 1970 the Bundesgerichtshof held that consumers are entitled to be informed of facts that will have a substantial impact on their buying decisions. But in a subsequent decision, the court ruled that even the fact that persons are endangered is not a sufficiently substantiated reason to degrade a competitor's goods or services. Because of these contrasting decisions there is at present legal uncertainty as to what the term 'sufficiently substantiated reason' encompasses. Steckler & Bachmann 1997: 584.

[42] Steckler & Bachmann 1997: 583.

tendency to confuse consumers and it also gives the advertiser an undeserved advantage. It is generally unlawful, because such an advertisement does not base its claims on the advertised product's own merits but rather exploits the goodwill of the rival's business and of the good reputation of his goods/services.

The only exception is once again

> "a sufficiently substantiated reason for the comparison".[43]

11.1.3 CRITICAL COMPARATIVE ADVERTISING

Stekler & Bachmann[44] identify the following characteristics of the above mentioned advertising:

1) the boosting of the advertiser's own goods or services by degrading[45] the competitor's goods or services;
2) the identification of the competitor(s). Sections 1 and 3 (UWG) prohibit *misleading* critical comparative advertising, and section 1 in addition, prohibits true statements that are shown in an 'unfactual' manner.[46]

An advertisement will even be unlawful where the competitor(s) is not mentioned in the advertisement, but where it is still possible for the target group to identify a competitor (or group of competitors).[47] In this regard the law distinguishes between:[48]

1) The demarcation of exclusive positioning (the boosting of the advertiser's own

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43 Steckler & Bachmann 1997: 583.
44 1997: 583.
45 This can be done by means of subjective judgements and/or by factual arguments.
46 Steckler & Bachman 1997: 583.
47 *Id.* The following cases may serve as examples to show just how strict the laws of this country are. It prohibited a Carlsberg beer commercial in 1994 that proclaimed that this beer is "[p]robably the best lager in the world", and went even further in the Avis case to prevent the slogan, "We try harder", on the ground that consumers might think that it refers to Avis's main rival, Hertz. An advertiser may claim that his product or service is "better" or "cheaper" as long as the public will not recognize (or there is only a very slight possibility that they will recognize) the competitor. As the public most of the time does know to whom the advertisement refers, comparative advertising is essentially banned here. Beller 1995: 933.
48 Steckler & Bachman 1997: 583.

goods or services without any direct reference to a competitor's goods or services).

This does not constitute critical comparative advertising. It will thus be allowed as long as it is true and not misleading.

2) The demarcation of comparisons of the advertiser's *own* goods or services (the advertiser compares the quality of a new product with that of an older one).

This is lawful, provided that it is true and not misleading, because there is no reference to a competitor.

3) The demarcation of comparisons with concealed goods or services (the advertiser makes use of an unidentified competitor for the comparisons).

This kind of advertising does also not necessarily constitute critical comparative advertising just because the manufacturers of the goods or services are a small and identifiable group.

4) The demarcation of general references.

General references are allowed provided that it is truthful, factual and stays within the boundaries of necessity.

5) The demarcation of the comparison of systems.

This type of comparative advertising does once again not constitute critical comparative advertising because there is no specific referral to an identified competitor.

6) The demarcation of the comparison of product categories.

To constitute critical comparative advertising the advertisement must identify the competitor or his goods or services. The law permits a truthful comparison of the product categories, provided that all the merits of the products or services are mentioned and the overall impression of the consumer is correct. It is however not necessary for an advertiser to specifically mention all the attributes of a product category.

- EXCEPTIONS

The German courts have traditionally provided for the next few exceptions on the

prohibition of critical comparative advertising.

The first situation is where the competitor publishes or broadcasts a defensive comparative advertisement. This will happen when his interests have been unfairly attacked by another advertiser, either by way of a comparative advertisement or a misleading advertisement, under section 3 *UWG*. The defensive advertisement is subject to certain conditions, including the requirement that the advertiser may only denigrate his competitor's efficiency if it is essential for the defence to do so. An unnecessary degradation of a competitor is not allowed. The statements made in the advertisement must also be an appropriate means to defend the advertiser against the unfair competitive acts of his rival. The usual requirements of truthfulness and factuality are also applicable and in addition the defensive advertisement must also stay within the boundaries of necessity.[49]

Another exception is where the comparison is made on the explicit request of the customer.[50] In such an instance the advertiser is not obliged to refer the customer to a neutral third person to compare the goods or services. There are however several requirements that such a comparison on request must adhere to, i.e. 1) that the inquiry of the customer must pertain to specific questions of substance, thus a customer's general interest in competing goods or services is not a valid defence; 2) that the information has to be truthful and factual and not unnecessarily degrading; etc.[51]

[49] Steckler & Bachman 1997: 584.

[50] A similar exception, but not a traditional one, is that of comparison for rectification of misconceptions. In this case the advertiser is allowed to supply a consumer with a truthful and factual critical comparative advertisement, only when the advertiser realises that such a person has a misconception about e.g. the origin, quality or effect of the product or service. This exception differs from the traditional comparison on request only in respect of the ignorance of the consumer and that he or she consequently does not request the necessary information. A critical comparative advertisement may be used in the discussed circumstances if it is the only efficient means to enlighten the customer. Steckler & Bachman 1997: 585.

[51] Steckler & Bachman 1997: 584.

The third exception regards necessary comparison, or a comparison for the explanation of a progress. Although this is a case of comparison of systems, the law sets very strict standards for this defence. This critical comparative advertisement must be necessary for the description of a material technological process. The Bundesgerichtshof[52] extended the application of the defence to cases where the economic advantages are represented.[53]

11.2. CONCLUSION

It can be deduced from the above that although the German law does in theory allow the use of comparative advertising, the courts still do not view it in a very positive light.[54] An advertiser thus may not use either direct or indirect comparative advertising in Germany. Germany will be forced to amend its laws to adhere to the requirements of the European Directive on Comparative Advertising.[55]

12. CONCLUSION

The European countries can be divided as follows:[56]

1) Liberal policies towards comparative advertising:

   United Kingdom and Portugal

2) Allow comparative advertising subject to restrictions:

   France, Spain and Denmark

3) Explicitly ban comparative advertising:

   Belgium and Luxembourg

4) Enacted legislation which make comparative advertising nearly impossible:

   Italy and Switzerland

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52 In 1964.

53 Steckler & Bachman 1997: 584.

54 Steckler & Bachman 1997: 584.

55 97/55/EC of 6 October 1997.

56 Beller 1995: 936.

5) No clear legal provisions:

The Netherlands and Greece

CHAPTER 5

EUROPEAN UNION

European Directive on Comparative Advertising[1]

Comparative advertising[2] has quite a history in the European Union. As in the USA the EC Council, since 1975, states in its policies that comparative advertising is allowed, because this technique assists consumers to make better purchasing choices. The first step was taken on 1 March 1978, when the Commission sent the Council a proposal on the standards to be implemented for misleading, unfair and comparative advertising. The first provisions to be accepted were that of unfair advertising on 10 September 1984, and implemented in *Directive* 84/450/EEC. The *Draft Directive on Comparative Advertising* was first published in 1991. Since then it has undergone many amendments till at last it was approved on 25 June 1997 by a joint Parliament/Council Conciliation Committee[3] and finally by the European Parliament and the *Council Directive* on 6 October 1997.

The EC Council found it necessary to formulate the *Directive on Comparative Advertising,* because the various Member States have diverse provisions concerning comparative advertising. As advertising is used throughout the Community to create outlets for all goods and services, this created a problem,

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1 COM (94) 151 final – COD 343: OJ 1994 C136/4 (Amended Proposal for a European Parliament and Council Directive concerning comparative advertising and amending Directive 84/450/EEC (OJ 1991 C180/14) concerning misleading advertising). European parliament and the Council Directive 97/55/EC of 6 October 1997 amending Directive 84/450/EEC concerning misleading advertising so as to include comparative advertising. Internet:http://www.law.nyu.edu/engelbercentre/l...tivewatcinternational/proposal1997.htmp.
See Internet: wysiwyg://131/http://www.fs.dk/uk/acts/eu/vild-uk.htmp, as well as wysiwyg://137/http://www.fs.dk/uk/acts/eu/vild-uk.htmp.

2 The Directive defines comparative advertising in Article 2(a) as "any advertising which explicitly or by implication identifies a competitor or goods or services offered by a competitor ...".

for in a common market the basic regulations governing it should be uniform.[4] The solution was provided in the form of the *Directive* to harmonize[5] these provisions.[6] It also serves as a supplement to the provisions as set out in the *Misleading Advertising Directive*[7] and the *Broadcasting Directive*.[8] The *Directive* requires all Member States[9] to adopt legislation that implements its provisions before May 2000.[10]

The five basic rights identified by the resolution of the Council[11] included:

1. the right of consumers to be protected against misleading and

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3 Harrison 1997: 20.

4 Steckler & Bachmann 1997: 580.

5 The three main objectives of the Directive are: 1) to harmonise the laws and regulations, 2) to protect consumers and 3) to promote competition. Steckler & Bachmann 1997: 580.

6 The European Parliament and the Council Directive 97/55/EC of 6 October 1997, amending Directive 84/450/EEC concerning misleading advertising so as to include comparative advertising, states that "the completion of the internal market will mean an even wider range of choice: whereas, given that consumers can and must make the best possible use of the internal market, and that advertising is a very important means of creating genuine outlets for all goods and services throughout the Community, the basic provisions governing the form and content of comparative advertising should be uniform and the conditions of the use of comparative advertising in the Member States should be harmonised; whereas if these conditions are met, this will help demonstrate objectively the merits of the various comparable products; whereas comparative advertising can also stimulate competition between suppliers of goods and services to the consumer's advantage" and furthermore that "the laws, regulations and administrative provisions of the individual Member States concerning comparative advertising differ widely; whereas advertising reaches beyond the frontiers and is received on the territory of other Member States; whereas the acceptance or non-acceptance of comparative advertising according to the various national laws may constitute an obstacle to the free movement of goods and services and create distortions of competition; whereas, in particular, firms may be exposed to forms of advertising developed by competitors to which they cannot reply in equal measure; whereas the freedom to provide services relating to comparative advertising should be assured; whereas the Community is called on to remedy the situation". Internet: http://europe.eu.int/vild-uk.txt.
But Harrison (1997: 19) is of the opinion that some of the provisions of the Directive are so vague that it will not be able to harmonise these laws, because the various Member States will interpret the provisions in different ways. He submits that the only solution will be to amend the Directive even further.

7 Adopted in 1984.

8 Adopted in 1989.

9 Many of these States are opposed to comparative advertising, e.g. Germany and Finland. Harrison 1997: 21.

10 Articles 4, 5 and 6 provide for the implementation of the Directive. These provisions allow for implementation by action in the courts and/or before an administrative authority. Harrison 1997: 20.

11 Dated 14 April 1995.

unsubstantiated advertising; and

2. the right of consumers to information regarding the basic features of goods and services (including nature, quality, quantity and price) to allow them to make rational purchasing choices between competing goods and services.[12]

Recital 7 of the Directive states that comparative advertising will be allowed as long as it does not

> "distort competition, be detrimental to competitors and have an adverse effect on consumer choice ..."

and that these conditions are implemented to assure that

> "permitted advertising ... include[s] criteria of objective comparison of the features of goods and services ...".

Recital 19 requires comparative advertisements not to transgress EU bans on advertising concerning certain goods[13] and services.[14]

The Directive defines comparative advertising as

> "any advertising which explicitly or by implication identifies a competitor or goods or services offered by a competitor ...".[15]

Paragraph 3(a) is of great significance because it sets the standards for comparative advertising, namely:

(1) Comparative advertising shall, as far as the comparison is concerned, be permitted when the following conditions are met:

(a) it is not misleading according to Articles 2(2), 3 and 7(1);

(b) it compares goods or services meeting the same needs or intended for the same purpose;

(c) it objectively compares one or more material, relevant and representative

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12 See also decisions of the European Court of Justice in this regard. It was held that "excessive consumer protection through the restriction of advertising is nonsensical. Instead of protecting the consumer, substantial information would be withheld". Steckler & Bachmann 1997: 579.

13 E.g. tobacco products. See Article 7.

14 Harrison 1997: 20.

15 Article 2(a).

, 1150 480 44

features[16] of those goods and services, which may include price;[17]

(d) it does not create confusion[18] in the marketplace between the advertiser and a competitor or between the advertiser's trade marks, trade names, other distinguishing marks, goods or services and those of a competitor;

(e) it does not discredit or denigrate the trademarks, trade names, other distinguishing marks, goods or services or activities of a competitor;[19]

(f) for products with designation of origin it relates in each case to products with the same designation;[20]

(g) it does not take unfair advantage of the reputation of a trade mark, trade name or other distinguishing marks of a competitor or of the designation of origin of competing products.[21]

Article 3(a)(2) provides that where the goods or services compared are only applicable for a limited time period, the advertiser is responsible to indicate

"in a clear and unequivocal way"

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16 These words, 'relevant and representative features', are unfortunately not defined in the current draft. It thus allows the courts and administrative bodies of the EU Member States plenty of room for different interpretations.

17 New Recital 8 in the preamble: "Whereas the comparison of the price only of goods and services should be possible if this comparison respects certain conditions, in particular that it shall not be misleading ..." Harrison 1997: 22 fn 2.

18 Replaces the requirement: "does not create a risk of confusion". Harrison (1997: 22) submits that this may lessen the burden of proof resting on the advertiser, for now he should be able to meet this standard unless actual confusion has resulted.

19 'To discredit or denigrate' is interpreted in most European countries as meaning 'to indicate that the advertiser's goods or services are superior to that of his competitor referred to in the commercial'. For obvious reasons this will make comparative advertising virtually impossible and will accordingly permit only compatibility claims. But this complicates the matter for companies who really offer a superior product or service, for how will they now be able to emphasise their products' or services' superiority? Harrison 1997: 21.

20 New Recital (12) in the preamble: "Whereas these conditions should include, in particular, consideration of the provisions resulting from Council Regulation (EEC) No 2081/92 of 14 July 1992 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs, and in particular Article 13 thereof, and of the other Community provisions adopted in the agricultural sphere..." Harrison 1997: 22 fn 3.

21 New Recitals 13, 14, 15 and 17 state the circumstances when use of another's mark is allowed. Harrison 1997: 22 fn 4. This subsection replaces the previous vague reference to "not principally capitalise on the reputation of a trade mark or trade name of a competitor". Harrison (1997: 21) submits that the current wording is an improvement on that of the previous Recital, because this section now extends the protection to other distinguishing marks as well, which is in the interest of trade mark owners.

the period for which the special offer is available.[22]

It remains the responsibility of the various Member States to enact adequate legislation (and make use of other effective means) to ensure that the interests of the consumers, the general public and even competitors are not imposed on by misleading comparative advertising.[23] A restrictive interpretation of the aforementioned provisions of the *Directive* may cause Member States to restrict comparative advertising 'to protect consumers' and such a situation must be avoided at all cost.[24] It is accordingly important to encourage the uniform liberalization of regulations applicable to this kind of advertising.[25]

But Harrison[26] submits that the current *Directive* will not be able to do so on the following grounds:

1. the 'denigration' provision will continue to prevent advertisers from illustrating the differences in quality and effectiveness of their product or service and that of competitors;
2. "relevant and representative features", as well as "creating confusion" are not sufficiently defined.

The main problem however proves to be the attitude that exists towards comparative advertising in Europe. It seems unlikely that this negative attitude

22 See Council of the E.C., Common Position No. 29/96 [1996] O.J. C219/14-17; and Commission of the E.C., Amended proposal [1997] O.J. C32/7-15.

23 Possible remedies include the following: 1) the courts or administrative authorities may issue preliminary and/or permanent injunctions, even without proof of actual loss or damage; 2) publicity of the decision in full or in part, as well as requiring the publication of a corrective statement (Article 4). Self-regulatory bodies are also encouraged by the Directive to control comparative advertisements (Article 5). Harrison 1997: 20. The draft, approved on 25 June 1997, apparently provides that "national self-regulatory bodies may co-ordinate their work through associations or organisations established at Community level and, *inter alia*, deal with cross-border complaints".

24 The provisions of Article 7 Directive 84/450/EEC that allow Member States to adopt legislation to provide more extensive protection for consumers, business people and the general public, is not applicable in the case of comparative advertising, because the objective of the amendment of the Directive is to establish conditions under which comparative advertising will be allowed.

25 Willimsky 1996: 650.

26 1997: 22.

will change, and it is more likely, that in future, it will still be coloured by a conservative cultural bias.[27]

[27] Vogt 1998: 11. Germany and Finland are absolutely opposed to the Draft Directive as stated *supra*. Harrison 1997: 21.

CHAPTER 6

UNITED KINGDOM

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1. INTRODUCTION

Comparative advertising is not a new practice in the United Kingdom. But as opposed to the view held in the United States, the British were quite hostile towards such advertising. They were of the opinion that advertising should

centre around images rather than facts. Their main complaint was that direct comparative advertising was of a negative nature, as well as impolite.[1]

The United Kingdom's legal regime held this kind of advertising to be an unfair business practice. This situation prevailed since 1938 (when the *Trade Marks Act* was passed) and was reaffirmed in 1974.[2]

The case that preceded the *Trade Marks Act*, and subsequently led to its enactment, is *Irving's Yeastvite Ltd v Horsenail,*[3] where the defendant used a direct comparative advertisement. He used the phrase "Yeast tablets a substitute for Yeastvite" on his labels. The plaintiff applied for an injunction to stop the defendant from using his trademark, but it was refused. The court found that the *Trade Marks Act* (1905) did not regard this use as "trademark use". Trademark use had to be 'use' to identify the origin of the goods or services and it did therefore not fall within the ambit of trademark infringement.[4] This decision caused a flutter in the advertising world and the proprietors of trademarks felt that such use was 'unfair'. With this in mind the legislators amended the *Trade Marks Bill*, 1938, which was proceeding through Parliament at that stage.[5] The additional clause provided that a trademark will be infringed where an advertiser makes use of such a registered trademark in a public advertisement in the course of trade.

The case of *Bismag Ltd v Amblins (Chemists) Ltd*[6] sheds some light on the meaning and the implications of the amendment. The plaintiff argued that the direct comparison made by the defendant fell within the ambit of section 4(1)(b)

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1 Beller 1995: 928.

2 Walsh 1995: 33. Mathys Committee, see British Trademark Law and Practice, Cmnd 5601, May 1974, paragraphs 80 to 88. This committee was founded to review trade mark law. Their conclusion and consequent recommendation was that the prohibition on comparative advertising must be maintained.

3 (1934) 51 RPC 110.

4 See article on Internet: http://www.solent.ac.uk/law/ssmith.htmp.

5 Mills 1996: 185.

of the *Trade Marks Act.*[7] Accordingly this section prevented advertisers from using a proprietor's trademark in a comparative chart where the advertiser's goods or services are compared with those of the proprietor. It was thus the intention of Parliament to prevent third parties from employing another's registered trade mark as a 'marketing shorthand'[8] which will give him or her an "unfair" competitive advantage over the proprietor of a trademark.[9] This will be the result when someone uses a comparison to extol the virtues of his or her own goods or services and in doing so, makes use of a registered trademark. This precedent was followed for a period of approximately fifty years.[10]

During this period the scriptwriters dreamed up advertisements which stepped ever so lightly over the obstacles set by the Act.[11] A classical example is the *Duracell* case[12] where Eveready claimed that its batteries lasted longer than those manufactured by Duracell. The defendant did not make use of the trademark of the plaintiff, but instead used its corporate name (Duracell Batteries Limited) and although the 'get up' of the battery in the advertisement reminded one of that of the Duracell battery, its colours were different. The court found that there was no trademark infringement and since the colours of the registered 'get up' was limited to copper and black, Eveready had not infringed this either.

The court was not quite as lenient as this in the *Chanel* case.[13] The defendant used the plaintiff's registered trademarks in his [the defendant's] manual for distributors with the objective of identifying its 'smell alike' fragrances. The judge

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6 (1940) 57 RPC 209.
7 Of 1983.
8 Mills 1996: 185.
9 Sir Wilfred Greene, The Master of the Rolls, as quoted by Mills 1996: 185.
10 See discussion by Smith on Internet: http://www.solent.ac.uk/law/ssmith.htmp.
11 Section 4(1)(b) of the *Trade Mark Act.*
12 *Duracell International Ltd v Ever Ready Ltd* [1989] FSR 87.
13 *Chanel v Triton Packaging Ltd.,* [1993] RPC 32. See also *Compaq v Dell* (1992) FSR 93, where the court found that the defendant could not claim, as a defence, that the mark was not used 'as a trade mark' or that the advertisement is only a honest comparison of the products or services.

held that such use did infringe Chanel's trademark despite the fact that the manual was not an advertisement to the public as such.

Mills[14] suggests that the reason for the obvious contradiction between the two judgements is contained therein that the court will take a robust view of direct comparative advertisements that seek to positively differentiate products, but they take a much tougher view of such advertisements that seek to associate an unknown brand with a well-known brand. This approach, which is followed in order to stop 'unfair competition', is in keeping with those of Germany, the Benelux countries and Italy.

Even though comparative advertising was effectively prohibited during this time,[15] some industries still used it, e.g. the car trade. This was the case because the industry considered the benefits of free advertising to be greater than the disadvantages. This exception was implemented through the express or implied commercial decisions by the relevant traders, not to take legal action for registered trademark infringement.[16]

This field of the law is subject to the criteria laid down in voluntary codes and must adhere to the provisions of the *Control of Misleading Advertisements Regulations* 1988, the *Broadcasting Act* 1990, the *Trade Descriptions Act* 1968, the *Consumer Protection Act* 1987 and the *Trade Marks Act* 1994.

The legal position is even more complex, because in addition to the above mentioned statutory remedies, the actions based on the torts of trade libel and passing off are also available to a plaintiff.[17]

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[14] 1996: 186.
[15] Prior to the 1994 *Trade Marks Act*.
[16] Walsh 1995:33.
[17] Beller 1995: 928.

2. COMMON LAW

2.1 INJURIOUS FALSEHOOD

This tort is invoked where a comparative advertisement contains a false statement. It thus excludes any true statements regardless of how harmful or disparaging they may be. This tort also requires intent in the form of malice.[18] Therefore the plaintiff has to show that the defendant had some dishonest or improper motive.[19] This will be possible if the advertisement contained a false comparison which the advertiser knew to be false, whether or not there existed any intention to harm the plaintiff. The tort of injurious falsehood is also applicable where the defendant believed the statements to be true, but still advertised them with the purpose of injuring the plaintiff. It must still be established whether a statement made recklessly as to its truth is sufficient for the purposes of malice. The last requirement is that the statements complained of must have been calculated to cause the plaintiff pecuniary loss.[20]

It must be noted that the courts make one exception in this regard, that being in the case of "puffing", where the advertiser paints his product or services in glowing colours. But to make a distinction between "puffing" and disparagement is no easy task. In *White v Mellin,*[21] a retailer of baby food applied stickers to one of his competitor's brands of baby foods, claiming that his brand was

> "far more nutritious and healthful than any other preparation".

The judge found that this was mere puffing. The test which is presently applied in the courts was formulated in *De Beers Abrasive Products v International Co. of New York.*[22] Judge Jacob held that

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[18] See discussion on Internet: http://twobirds.com/liberarty/brandtrade/comparative.htmp.
[19] Fitzgerald 1997: 711.
[20] *Vodafone Group plc v Orange Personal Communications Services Ltd, supra* at 87. Fitzgerald 1997: 711.
[21] [1895] A.C. 154 at 164.
[22] [1975] 2 All E.R. 599.

"a reasonable person must regard the comparative statement as a serious claim" and continued that "the more precise the claim the more it is likely to be taken [seriously] ... the more general or fuzzy the less so".[23]

If a judge is of the opinion that there is a possibility that the statements will be found to be true, however remote this may be, an interlocutory injunction will be refused. An injunction will however be granted where a statement is untruthful or libellous to such an extent that no jury would reasonably consider it to be true.[24]

2.2 PASSING OFF

The purpose of this action is to prevent damage to the goodwill of a trader through misrepresentations of another trader. The plaintiff is not required to show intent or even negligence on the side of the defendant, for the important issue is whether there arose any confusion from this misrepresentation.

The aim of comparative advertising is to disassociate the advertised product or service from the rival's. It will accordingly not constitute an action of passing off, for to succeed on this basis the plaintiff has to show that his customers have been or are likely to be misled into mistaking the defendant's goods or services for the plaintiff's, or into falsely believing that there exists a business connection between the defendant and the plaintiff.[25]

Where free-ride advertising occurs and there is an obvious danger of confusion, the plaintiff may make use of the passing off action. This was the case in *McDonalds v Burgerking*[26] where Burgerking advertised its "Whopper" burger with the slogan: "It's Not Just Big, Mac" with reference to McDonald's "Big Mac" burger. According to the surveys, which the plaintiff handed up as proof in court,

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23 *Vodafone v Orange supra* at 89.
24 Fitzgerald 1997: 711.
25 Fitzgerald 1997: 711.
26 [1986] F.S.R. 45.

a significant number of people surveyed thought that the advertisement was for "Big Mac" hamburgers and that they were now available at Burgerking.[27]

In *Ciba Geigy plc v Parke Davis Co.*[28] the advertiser, who claimed that his anti-inflammatory drug was a 25% cheaper substitute for the plaintiff's product, made use of indirect comparative advertising to avoid a potential action based on trade mark infringement. Ciba Geigy's prescription drug, Voltarol, carried the design of an apple for a couple of years, but it was not registered as a trade mark. Parke Davis used a picture of an apple with a bite taken out of it with the heading: "Diclomax Retard takes a chunk out of your prescribing costs". The legal question was if this claim constituted passing off. The court held that it constituted mere puffing and the consumers were not misled or confused as to the origin of the brand "Diclomax Retard". Consequently the plaintiff could not litigate on the ground of the common law tort of passing off.

For a claim of passing off the plaintiff had to prove:

> "1) a misrepresentation
>
> 2) made by a trader in the course of trade
>
> 3) to prospective customers of his or ultimate consumers of goods or services supplied by him
>
> 4) which is calculated to injure the business or goodwill of another trader ... and
>
> 5) that causes actual damage to a business or goodwill of the trader by whom the action is brought or .. will probably do so."[29]

Even if the plaintiff could prove actual damages, the court decided that an advertiser was prohibited from representing his goods as that of another.[30]

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27 See discussion on Internet: http://twobirds.com/liberary/brandtrade/comparative.htmp.

28 14 B.M.L.R. 64.

29 Beller 1995: 929.

30 Beller 1995: 929.

The decision in the *Ciba Geigy* case is an indication that the courts are reluctant to prohibit the use of indirect comparisons where the consumers are not confused. If this was not the case, the scope of passing off might have increased considerably.[31]

2.3 DEFAMATION

For this action the plaintiff does not have to prove malice. Where an advertisement criticizes a competitor's goods or services and can be interpreted as attacking the honesty or integrity of the competitor, the action of defamation arises.[32] In *Cosgrove Studio v Paine* [33] the defendant referred to the practice of the plaintiff, to give a free roll of film for each film brought in for developing, as deceptive or dishonest. The court held that this amounted to defamation. If the defendant can however establish the truth of his statements it will serve as a complete defence.[34]

2.4 CRIMINAL LAW

The various provisions of the criminal law, which regulate misleading advertising in the United Kingdom, have a minor influence on comparative advertising.[35] The reasons are that interim injunctions are not available in criminal proceedings and the prosecution bears the onus to prove the defendant's guilt beyond reasonable doubt.

Examples of the applicable criminal law provisions are:

- Sections 1 and 14 of the *Trade Descriptions Act* 1968 which prohibit false trade descriptions and false statements as to services;

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[31] Mills 1996: 184.
[32] Fitzgerald 1997: 712.
[33] 408 Pa. 314 (1962).
[34] Fitzgerald 1997: 712.
[35] Fitzgerald 1997: 712.

- Section 20 of the *Consumer Protection Act* 1987 proclaims misleading indications as to the price of goods or services as a criminal offence.[36]
- Section 15 of the *Theft Act* prohibits the deliberate or reckless disparagements of another's goods or services that are false.[37]

3. STATUTORY LAW

3.1 THE TRADE MARKS ACT, 1994

3.1.1 Section 10(6)

At the end of October 1994 the *Trade Marks Act* came into effect and it changed the picture considerably. According to Beller[38] this Act will permit references to a competitor's trade mark, within certain boundaries, to ensure that consumers have sufficient information in order to compare the prices and qualities of rival goods and services.

Section 10(6) of the Act regulates infringements of trade marks as follows:

> "Nothing ... in this section shall be construed as preventing the use of a registered trade mark by any person for the purpose of identifying the goods or services as those of the proprietor or a licensee. But any such use otherwise than in accordance with honest practice 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 interpreter of this section may have regard to its legislative history, but it is doubtful if it will be of any real help. The Act was passed in response to the then

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36 See discussion on Internet: http://twobirds.com/liberary/brandtrade/comparative.htmp.
37 Fitzgerald 1997: 712.
38 1996: 196-197.

European Community's First Council Directive of 21 December 1988[39] to harmonise the laws relating to trademarks. It was a reasonable expectation that the *Directive* would be able to provide material guidelines as to the interpretation of section 10(6). This was however proved to be a misconception. The Government stated in the White Paper to the Act that the *Directive* is silent as to whether [unauthorised use] should include use in comparative advertising.[40]

Gradually the view changed and in its report on this Bill the House of Lords was of the opinion[41] that the clause was included to comply with Article 5(5) of the *Directive* that states:

> "Paragraphs 1 to 4 [which are infringement provisions] shall not affect provisions in any Member State relating to the protection against the use of a sign other than for the purposes of distinguishing goods or services, where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the mark."

Critics are consequently of the opinion that there exists some uncertainty as to whether section 10(6) was based on the *Directive* at all.[42] But even so, the draft *Directive* may still provide some guidelines as to how this section should operate.[43]

3.1.2 *Barclays Bank v RBS Advanta*[44]

In the *Barclays Bank v RBS Advanta* case the plaintiff, the owner of the registered trade mark Barclaycard, sought an interlocutory injunction to restrain

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39 89/104/EEC OJ NO L 40, 11.2.89, p1.
40 Reform of Trade Marks, Cm 1203, September 1990, paragraph 3.28.
41 In the words of Lord Strathclyde.
42 Walsh 1995: 34.
43 Walsh 1995: 36. See also discussion by Smith on Internet: http://www.solent.ac.uk/law/ssmith.htmp.
44 [1996] R.P.C. 307.

the defendant from using this mark in a leaflet listing 15 ways its (the defendant's) card was said to be 'a better card all round'.

As this case was the first to examine the infringement section of the *Trade Marks Act* of 1994 in this context it is definitely worthwhile to discuss it in some detail, especially since the Judge mentioned the fact that section 10(6), unlike the other provisions of this Act, was not enacted to comply with the European Community's trade mark harmonisation *Directive*. He rather referred to the Hansard for help with the interpretation of this section. This seems to be one of the few provisions that is open to such an interpretation, in view of Judge Jacob's comment in his judgement[45] that when a court interprets provisions enacted to implement the *Directive*, it must not make use of the Hansard since this is inappropriate.

Laddie J. commenced by stating that this section's primary objective was to legalise comparative advertising. According to him the onus of proof rests upon the proprietor of a mark, who claimed that an advertising campaign which refers to his trade mark was unlawful, to show that such use would not be considered honest by members of the reasonable audience.[46] The second *proviso*, requiring that this use must not take unfair advantage of etc., was criticised as being unclear and even tautological. The honourable judge held that in order for the plaintiff to succeed in his claim, he has to prove more than that the defendant had taken unfair advantage of his mark. Also, the second half of the *proviso* does not add much to the first, as most advertisements which make dishonest use of a registered mark will almost always take unfair advantage of it as well, and *vice versa*. He was of the opinion that this second half can be viewed as a

[45] *British Sugar v James Robertson* (unreported, Chancery Division action no CH 1995 B No 5936, written judgement handed down 7 February 1996).

[46] [1996] R.P.C. 307 at 315.

de minimis rule, in that it requires the use of the mark to take some advantage of the registered mark or be detrimental to it.[47]

The test for an honest practice is objective. When a court has to decide whether the use complained of was dishonest in "industrial and commercial matters", it does not have to apply statutory or industry self-regulation codes to determine what the standard of objective conduct is,[48] the *ratio* being that these codes are primarily formulated to ensure probity, but frequently cover other matters and are therefore not relevant. Accordingly this use should be tested against what is to be reasonably expected by the relevant public of advertisements for such goods or services.

In doing so the court will not take notice of mere 'puffing' of the advertised goods or services, for the reasonable observer will not regard this use as dishonest. The judge stated that the 'honesty' requirement must not impose a more "puritanical"[49] standard than necessary. The extent to which hyperbole will be permitted will however vary from situation to situation.

With regard to the submissions that the advertisement did not compare all the features of both credit cards and also not like with like, the court found that no reasonable observer will expect an advertiser to point out all the advantages of the rival's goods or services.[50] This does not invariably lead to the advertisement being classified as dishonest, as long as the omissions are not significantly misleading.[51]

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47 *Ibid* at 316.

48 This rejection of a potentially useful guideline is a pity.

49 As used by Judge Laddie.

50 Quinn 1996: 370.

51 Fitzgerald 1997: 710.

Judge Laddie thus refused the requested relief and held that all that the alleged offending material conveyed was RBS's *bona fide* belief that its package, taken as a whole, offered customers a better deal.[52]

Willimsky[53] submits that this judgement is an encouraging confirmation of the traditional liberal British approach. It also gives a wider scope for comparative advertising to operate in, as it now requires that the use of the registered mark must be misleading, equivalent to the degree of deception which is required for injurious falsehoods, before these kind of advertisements will be prohibited.[54] This is a reinforcement of the view of the Government that comparative advertising is a "legitimate, useful and effective marketing tool" and in the words of Mr Jonathan Evans:

> "[I]t is [a tool] which we believe stimulates competition and informs the consumer in a way that the man and the woman in the street find easy to understand". [55]

3.1.3 *Vodafone Group plc v Orange Personal Communications Services Ltd.*[56]

Shortly after the decision in the aforementioned case Judge Jacob had to bring out judgement in *Vodafone Group plc v Orange Personal Communications Services Ltd.* and he did so in a very 'robust' way.

The defendants had published an advertisement claiming that

> "on average, Orange users save 20 pounds every month".

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[52] [1996] R.P.C. 307, at 318. His Lordship said: "...the advertisement does not say, and I think it is unlikely that there are no features of the plaintiff's service which are better than the defendant's. The advertisement merely picks out the features taken together which are being promoted as making the defendant's product a good package. See discussion by Bristows on Internet: http://www.bristows.com/updates/upd-lies_statistics.htmp.

[53] Willimsky 1996: 651.

[54] Fitzgerald 1997: 710.

[55] European Standing Committee B (November 1995).

[56] [1997] E.M.L.R. 84.

This was based on a comparison made between Vodafone's and Cellnet's "equivalent tariffs". The plaintiff alleged that the defendant had taken unfair advantage of his trade mark, constituting an infringement in terms of section 10(6).[57]

The Judge confirmed that the test for honest use is objective. The plaintiff must satisfy this requirement by showing that

> "the comparison is significantly misleading on an objective basis to a substantial portion of the reasonable audience".

After considering the offending slogan of the defendant, Jacob J. held that although it clearly took advantage of the distinctive character or repute of the plaintiff's trade mark it was not misleading, as a substantial portion of the addressees of the advertisement would not be misled by it. If it was misleading as well, it would have taken unfair advantage of the other trade mark. Relief was thus refused.[58]

The trend which was set in the *Barclays Bank* case, to accord a liberal interpretation to the provisions of the *Trade Marks Act*, was followed by Judge Jacob. It seems that the judgement was based on the belief that this kind of advertising should *prima facie* be allowed and that it should only be diverted from in limited circumstances. Only these circumstances will allow judicial intervention.[59]

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57 *Trade Marks Act* 1994.

58 Fitzgerald 1997: 710.

59 But this situation may change in future, for it does appear as if the UK legislation is too lenient in this regard and consequently not in line with the provisions of the European Directive on Comparative Advertising 97/55/EEC. http://www.dibbluptonalsop.co.uk.

3.1.4 *British Telecommunications plc v AT & T Communications (UK) Limited*[60]

AT & T distributed certain advertising and promotional materials (including leaflets) containing comparisons between the rates of British Telecommunications and those of AT & T. British Telecommunications consequently applied for an interlocutory injunction to order AT & T to discontinue the publication and distribution of the aforementioned materials. The judge refused the requested relief on the grounds

> "that *overall*, there was nothing seriously misleading or dishonest about the statements made by AT & T."[61] [My emphasis]

3.1.5 Operation of section 10(6)

As yet it is not certain which uses will be regarded as dishonest for the purposes of this section. From the three cases discussed above it can be deduced that false or misleading statements as to the quality or nature of goods or services which are identifiable by the trade marks they carry, may qualify as dishonest use. However, the courts interpreted the *proviso's* of section 10(6) rather restrictively[62] and the possibility exists that they will not be willing to extend the protection of these safeguards to cases where unfair advantage has been taken, but no confusion was caused.[63] Fitzgerald[64] submits that the *rationale* for this can be found in that if the courts depart from the traditional requirement of deception, it would open up this area to unfair competition jurisprudence, which the courts have traditionally refused to recognise.

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60 Unreported - 18 December 1996.
61 Bristow's article on Internet: http://www.bristows.com/updates/upd-lies_statistics.htmp. See also Taylor Joynson Garrett's article on Internet: http://www.tjguk.com/topical/ip_mat_trademarks.htmp.
62 "significantly misleading".
63 Fitzgerald 1997: 710.
64 Fitzgerald 1997: 711.

3.2 COPYRIGHT, DESIGNS AND PATENTS ACT, 1988

The effect of copyright on comparative advertisements must not be underestimated. Its importance was stressed by Richard McCombe QC in the case of *IPC Magazines Ltd v MGN Ltd*,[65] where he reached a decision only on the questions of law. MGN, publishers of the Sunday Mirror newspaper, authorised a free magazine, Personal (that was inserted in the Sunday Mirror), to use an advertisement in which the cover of an edition of Woman Magazine (published by IPC Magazines), including its masthead, appeared. The price of Woman Magazine was also printed in large letters on the cover thereof. Personal used this advertisement to show that it provided better value for money than Woman. On these facts IPC sued MGN for infringement of copyright.

It was common cause that IPC owned the copyright in the masthead of Woman, the lay out of the magazine's front cover and the two photographs printed thereon. MGN's defence was based on section 31 of the *Copyright Act* which provides that copyright in a work is not infringed by its 'incidental' inclusion in a broadcast. To determine whether the use was incidental the judge must ask whether it was

> "casual, not essential, subordinate or merely background".

He concluded that the advertisement would not have had the same effect if Woman's cover page was not used and its inclusion was thus an essential and important feature of the advertisement. Consequently the advertisement did constitute copyright infringement. The judge did however remark that it is surprising that the English copyright legislation did not contain a parallel provision to Section 10(6) of the *Trade Marks Act*.[66]

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[65] [1998] FSR 431.
[66] Linklaters News March 1998, Issue 44, page 3.

The *Copyright Act* does however not cover radio comparative advertisements that make the same claims, although they might have been equally damaging to IPC.[67]

4 SELF-REGULATION

4.1 STRUCTURE

Comparative advertising disputes in the United Kingdom are mainly dealt with through self-regulation in the industry. The different industries have extensive codes dealing with this subject and these regulations complement the existing law.[68]

The trade and professional bodies that comprise the advertising business lay down the industry standards through the Committee of Advertising Practice (CAP). This committee compiled the *British Code of Advertising* (the *CAP Code*)[69] and handles complaints from the industry. It thus jointly administers the *CAP Code* with the Advertising Standards Authority (ASA).

The ASA supervises the system of self-regulation which was set up by the industry. This body is a limited company and exists independent from the Government, as well as the industry. In contrast to the CAP the majority of the ASA's members have no connection whatsoever with the advertising business. The ASA handles complaints made by the *public*, whereas the CAP handles complaints made by the *industry*.[70]

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67 Linklaters News March 1998, Issue 44, page 4.
68 Fitzgerald 1997: 712.
69 The ninth edition of January 1995.
70 Fitzgerald 1997: 712.

Private broadcasters are not bound by the CAP code in as far as television and radio advertising are concerned. On the basis of the *Broadcasting Act* of 1990, codes[71] were passed which regulate these medias. But the most prominent code which covers all the others, is the *Control of Misleading Advertising Regulations* 1988 (CMA Regs.)[72] administered by the Director General of the Office of Fair Trading.

4.2 THE BRITISH CODE OF ADVERTISING PRACTICE

The CAP placed three general rules at the head of the *CAP Code*:

> "All advertisements should be legal, decent, honest and truthful.
>
> All advertisements should be prepared with a sense of responsibility to consumers and to society.
>
> All advertisements should respect the principles of fair competition generally accepted in business."[73]

In addition to these general rules the provisions of the Code in question require of the advertisers to retain all documentary evidence in order to prove their claims.[74] On the request of the committee the advertiser must produce such evidence without delay and when judged, the supplied evidence must be capable of substantiating both the detailed claims as well as the overall impression.[75] This has the effect that, although there is no general burden on the advertiser to prove that the advertisement complies with the *CAP Code*, he or she still bears the burden to prove any factual claims, for regulation 7.1 requires advertisements not to mislead by inaccuracy, ambiguity, exaggerations, omissions or otherwise. The Code however does accommodate *obvious* untruths or exaggerations.[76]

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[71] The *Independent Television Commission Code of Advertising Standards and Practice* of Autumn 1995 ("*ITC Code*") and the *Radio Authority Advertising and Sponsorship Code* of August 1996 ("*RA Code*").

[72] S.I. 1988 No. 915.

[73] See Fitzgerald 1997: 712.

[74] Regulation 3.1 and 8.1 of the CAP Code.

[75] Regulation 3.1 of the CAP Code.

[76] Regulation 3.4 of the CAP Code.

Regulations 19 to 21 make specific provision for comparative advertising. It is allowed in the interests of competition and public information, provided that it is clear and fair and that the features of the goods or services which are compared, should not be selected in such a way that the advertiser is given an artificial advantage.[77] Furthermore, the advertisements must not unfairly attack or discredit a competitor's product or service or make unfair use of the goodwill attached to the competitor's trade mark.[78]

In the last instance, regulations 14.5 and 20.2 compel advertisers, who refer to tests or trials in their advertisements, to do so only with the express permission of those concerned and they must also mention the source, nature and results of these comparative tests.[79]

Thus the ASA permits obvious puffing which claims that the product or service is "the best" or "better than any other", provided that it can be substantiated. False statements without back-up are however, prohibited. It is also not necessary for an advertisement to compare all the relevant advantages and disadvantages of the product or service, as long as it is not misleading.[80]

When an advertisement is considered to be in breach of the *CAP Code*, the CAP or the ASA will order the advertiser to either amend it or withdraw it. In addition he or she will have to give an undertaking not to publish any further advertisements in breach of this Code. If he or she refuses to adhere to this decision, the CAP or the ASA will inform the relevant media organisations of such refusal and they will then usually refuse to publish such an advertisement. Advertisers are extremely careful not to contravene the Code, for if they do, the CAP and the ASA issue case reports which reflect very negatively on them.

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[77] Regulations 19.1 and 19.2 of the CAP Code.

[78] Regulations 20.1 and 21.1 of the CAP Code.

[79] Fitzgerald 1997: 712.

[80] Fitzgerald 1997: 713.

Legal sanctions are only possible under the overarching *CMA Regulation*, but where an advertiser persists in his actions the relevant advertising bodies may exclude him or her from membership.[81]

4.3THE TELEVISION AND RADIO CODES

The general principles of the *Independent Television Commission (ITC)* and the *Radio Authority (RA) Codes*, as well as the special provisions for comparative advertising, correspond with that of the *CAP Code*. Although *private* broadcasters must be convinced that factual claims in advertisements have been substantiated before the broadcast, there is no general requirement that advertisers must provide such material in advance of the transmission. The RA may, whenever it heads an investigation into a complaint under the CMA Regulations, request an advertiser to supply it with evidence to prove any factual claim. The advertiser must furnish the proof immediately when requested to do so, otherwise the RA/ITC may consider the relevant claim inaccurate. Either of the bodies can rule that, where an advertisement is misleading it may not be broadcast, or that it may only be broadcast after modification.[82] Broadcasters follow the above principles closely and will not transmit an advertisement that does not comply with the codes. This is due to the fact that he or she (the broadcaster) might be fined or, if the situation requires a drastic sanction, his or her license may even be revoked.[83]

4.4. ADMINISTRATIVE PROCEEDINGS

If any person should find an advertisement misleading, he or she may lay a complaint at the Director General of the Office of Fair Trading. The Director General will investigate the complaint and may require any person to disclose

81 Fitzgerald 1997: 713.
82 Sections 9 and 93 of the *Broadcasting Act* 1990.

any information or documents held by such a person. Should this person disregard the request, the Director General will apply to the High Court for an order of disclosure. The appropriate relief that the Director General will apply for when an advertisement is considered misleading, is an injunction from the High Court. In this instance the advertiser may be required to substantiate the accuracy of any factual claim.

Although the Director General has extensive powers he or she will only exercise it to

> "support and reinforce the controls exercised by these [self-regulatory] bodies where they have been unable to deal with a complaint adequately".[84]

Whenever the Director General does exercise his or her powers, he or she must take all the relevant interests into account, e.g. the public interest and the desirability of encouraging the control of advertisements by self-regulating bodies.[85]

4.5. ADVANTAGES AND DISADVANTAGES OF SELF-REGULATION

The main disadvantage of statutory remedies is that it takes some time before the issue is settled satisfactorily. In the case of self-regulation the informal procedures provide a more speedy system. It is also quite flexible, and consequently much vaguer criteria for standards of behaviour are used. Another advantage is the ease with which the rules can be adapted when or if the public standards should change.[86]

As neither the CAP nor the ASA can require compliance with the *CAP Code*, the major disadvantage of self-regulation is that there does not exist an effective

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[83] Sections 41, 42, 110, 111 of the *Broadcasting Act* 1990. Fitzgerald 1997: 713.
[84] *Annual Report of the Director General of Fair Trading* (1996), p30.
[85] Fitzgerald 1997: 713.
[86] Fitzgerald 1997: 713.

enforcement procedure. The various codes also do not make provision for compensation or a right of action for consumers or traders who are unfairly harmed by comparative advertising. They can only seek relief in terms of the general law.[87]

4.6. SELF-REGULATION VERSUS LEGAL REGULATION

The self-regulatory system requires substantiation of factual claims and thus invokes more stringent requirements with regard to comparative advertising than at law. Its main objective is also to ensure that all actions are in accordance with general 'fairness' and the rules are thus more rigorous than the common law rules. The self-regulatory bodies however emphasise the ability of consumers to critically assess an advertisement and to differentiate between puffing and serious statements. In practice the voluntary codes are adhered to and advertisers comply with the directions of the supervisory bodies.[88]

5. CONCLUSION

From the interpretation of section 10(6) it appears that the stance which the United Kingdom takes with regard to comparative advertising is one of the most liberal in Europe. Other than this enactment, the main intention of civil, criminal and administrative provisions (when they are applicable) are mainly concerned with the prevention of comparisons which are likely to mislead as to origin or nature of goods or services. Consequently, the self-regulation system mainly regulates issues of comparative advertising.[89]

The *European Directive on Comparative Advertising* permits this kind of advertising subject to certain mandatory standards. The member states have an

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[87] But see the powers of the RA and the ITC, *supra*.
[88] Fitzgerald 1997: 714.
[89] Fitzgerald 1997: 714.

open choice as to which method they want to use to implement the objectives of the Directive. The United Kingdom will thus be permitted to continue using self-regulation. The Directive states that an advertisement must

> "objectively compare one or more material, relevant, verifiable and representative features of ... goods or services".[90]

Fitzgerald[91] is of the opinion that such stricter regulations will not necessarily be to the benefit of consumers, competitors or even the public interest. To substantiate his opinion he quotes De Mooij on advertising regulation:

> "ever-growing restrictions may not result in more informative advertising but rather in more puffery and life-style advertising".[92]

A more conservative approach may also inhibit the competition when traders are not allowed to inform the consumers about the advantages of their own products over those of their rivals.

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90 Art. 3a(1)(c) of the Common Position of the Council.

91 Fitzgerald 1997: 714.

92 *Id.*

CHAPTER 7

ASIA

1. Japan
2. China
3. Singapore, Hong Kong, Taiwan and South Korea
4. Conclusion

1. JAPAN

The Japanese culture does not take kindly to comparative advertising although it has been recognised as a legal activity since 1986, provided that the contents are

> "impartial and objectively verifiable, and that the competing product is not subject to slander or libel".[1]

The Japanese population however is of the opinion that

> "explicit comparative advertising ... is ill-mannered, crass and generally disruptive to civilized relations between competitors".[2]

Yet the technique is sometimes used and there is hope that in future its use may even be more successful than at present.[3]

The Pepsi commercial, featuring the rap star MC Hammer, caused havoc in the advertising industry of Japan. The commercial made its debut in March 1991 and had to be pulled from the market in May 1991, after only two months. The controversy ignited a debate about the advantages and disadvantages of this technique. The argument raised by the free market proponents was that these advertisements will increase the flow of information to consumers and will also allow new entrants into the market with greater ease. The younger generation

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1 Tom Ormonde as quoted by Beller 1995: 937.
2 *Id.*

Japanese was all in favour of the commercial, but unfortunately the advertising regulators were against it. They believed it to be slanderous and deceptive.[4] Coke succeeded in their plea that the commercial must not be broadcast, and four Tokyo stations refused to continue its broadcast. In August the commercial was back on the air when two stations decided to continue its broadcast on condition that the cans must not be Coke cans and an audio reference to Coke must be bleeped.[5]

The Japanese were set against comparisons and were also strong believers in harmony. In 1988 they even criticized the President of Nissan Motor Sales when he specifically targeted Honda's Prelude as the competition, at a press conference, for his company's Silvia coupe.[6]

As in other parts of the world the scene is however changing, for consumers want value for their money and they believe that comparative advertising will supply them with more relevant and material information. As a result they are urging for more comparative commercials.[7] It remains to be seen if this technique will ever be popular in Japan, for at present the advertisers and the businesses cannot agree on this issue.

2. *CHINA*

The situation with regard to comparative advertising is far more delicate in China than in Japan. When an advertiser writes a script for his advertisement, he must ensure that he caters specifically for the Chinese market. The reason for this is that a foreign company is a guest in China and it must act accordingly.

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3 Maskery 1992: 552.
4 Beller 1995: 937.
5 Maskery 1992: 552.
6 *Id.*
7 Beller 1995: 938.

In order to promote foreign trading, the Chinese Government amended the law in 1978, but although advertisers had more freedom, they were still not allowed to use comparative advertising. New entrants into the market mainly use comparative advertising, and because the Chinese population is extremely brand conscious they are wary of these new brands and do not appreciate any comparisons with the more established brands.

Even after the amendment of the law in 1994, to increase fair competition, their stance remained unchanged and the ban remained.[8]

3. SINGAPORE, HONG KONG, TAIWAN and SOUTH KOREA

Of the four Asian countries, Singapore's legislation is the most liberal as far as comparative advertising is concerned. However, the legislation of the country remains very strict, for the *Singapore Code of Advertising Practice* states that

> "where items are listed and compared with those of a competitor's products, the list should be complete or else the advertisement should make it clear that the items are only a selection, and advertisements should not unfairly attack or discredit other products, advertisers, or advertisements directly or by implication".[9]

The advertising agencies however, are very innovative and would not be easily suppressed, thus frequently using indirect comparative commercials, but assuming that they are always able to substantiate their claims and that they also never reflect their rivals in a bad light.

The other three countries do not have such 'liberal' viewpoints as Singapore. Hong Kong's legislation explicitly bans comparative advertising, including indirect comparative advertising, and the technique is rarely used in Taiwan and South

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8 *Id.*

9 Beller 1995: 939.

Korea, because their cultures are not ready for it yet. As the above mentioned countries made their debut in the industrial world not so long ago and are still growing, this situation may thus change with time.[10]

4. CONCLUSION

The situation in Asia is very similar to that of Europe. The viewpoints of the different countries vary from 'liberal' to that of explicitly banning comparative advertising.

Whether Japanese culture will accept comparative advertising remains an issue for the future, but there is a strong possibility that the advertising regulators will gradually come around to accepting it. The question whether the view points of the consumers and the advertising agencies in Taiwan and South Korea will alter with their development in the industrial world is anyone's guess. The provisions of the Hong Kong legislation unfortunately leave no one in doubt as to the legal status of comparative advertising in this country, namely that it is specifically prohibited.[11]

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10 Beller 1995: 939.

11 *Id.*

CHAPTER 8

LATIN AMERICA

1. Introduction
2. Mexico
3. Argentina
4. Brazil
5. Chile
6. Venezuela
7. Paraguay
8. Conclusion

1. INTRODUCTION

Currently the economies of the Latin American countries are in a stage of integration.[1] The governments are changing their policies and now promote decentralised structures and free market mechanisms. To cater for this economic integration many of these countries have adopted consumer protection laws.[2] Consumers are particularly vulnerable in such new free markets and consequently these laws are designed to protect their economic interests, dignity and integrity and in general to increase their confidence in these new policies.[3] The governments concerned were aware of the fact that advertising has a material influence on consumer choices and behaviour and were thus motivated

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1 For example the *North American Free Trade Agreement* of 17 December 1992 (NAFTA). This agreement was signed by the leaders of Canada, Mexico and the United States. A significant number of the provisions of Chapter 17 of this Agreement are similar to that of the General Agreement of Tariffs and Trade (GATT) concerning trade related aspects of intellectual property rights (TRIPs).One of NAFTA's objectives is to provide adequate, effective protection and enforcement of intellectual property rights. It further states in the preamble that it will attempt to "foster creativity and innovation, and promote trade in goods and services that are the subject of intellectual property rights". Zendel and Prahl 1993: 20. For more information on NAFTA see also Rangel-Ortiz, Intellectual Property and NAFTA with reference to TRIPs and to Mexican Law, *International Review of industrial property and copyright*, Volume 27, page 771-791.

2 Beller 1995: 940.

3 *Id.*

to make advertising in general subject to strict regulations. They were even more concerned about comparative advertising and consequently enacted stringent provisions to be applied in this regard.

Despite all these restrictions advertisers are using direct comparative advertising more and more. The motivation behind it is that competition is increasing and as more developed nations, e.g. the USA, enter the markets the need for comparative commercials increase.[4]

2. *MEXICO*

In the past the advertisers were not very fond of comparative advertising. The reason for this was that although there were no legal restrictions,[5] the regulators scrutinised the advertisements and very few could pass muster. Other reasons were that the industry itself did not encourage this kind of advertising and the Ministry of Health was also not in favour of it as far as health-related products were concerned.[6]

The two relevant, but insufficient statutes are:

1. The *Mexican Industrial Property Law* of 1991, as amended in 1994, and;
2. The *Federal Consumer Protection Law* of 1992.

With regard to 1: *Mexican Industrial Property Law*

> "Mexican Industrial Property Law states that trade mark infringement is committed when one party uses another party's registered trade mark to slander or attempt to slander the other's 'products, services, industrial/commercial activity or establishment'"[7]

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4 Beller 1995: 940.

5 The first regulations on comparative advertising saw the light in the early 1990's. Internet: http://www.ipww.com/sept96/p24latin.htmp.

6 Beller 1995: 941.

7 See Rossi's article on Internet: http://www.ipww.com/sept96/p24latin.htmp. Article 213, Section X, as amended on August 2, 1994.

Furthermore a comparative advertisement will not amount to trade mark infringement

> "provided that the comparison is not tendentious, false or exaggerated pursuant to the Federal Consumer Protection Law."[8]

With regard to 2: *Federal Consumer Protection Law*

The *Federal Consumer Protection Law* defines the phrase 'tendentious, false or exaggerated' as :

> "Information or advertising related to goods or services, when disseminated by any formal media, must be truthful, provable, and free of text, dialogues, sound, images and other descriptions which, if inaccurate, could lead the public to error or confusion."

Some of the basic concepts which were not defined in any of the above legislations, were defined by the Federal Prosecutor's Office for Consumer Protection (PROFECO) in September 1995. In order to find a standard by which comparative advertising issues could be judged, PROFECO published rules containing the aforesaid definitions.

'False and deceitful advertising' was identified as:

> "All advertising which, because of its deceitful content in any manner whatever, including its presentation, leads or may lead people to whom it is directed to error, affecting their behaviour or adversely affecting their patrimony."[9]

And an advertisement is misleading when,

> "although stating true facts about the competitor, it induces or may induce the consumer to error by presenting information in a partial, artful or artificial

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8 *Id.*

9 *Criteria and Definitions for the Resolution of Matters on Comparative Advertising*, published by the Federal Prosecutor's Office for Consumer Protection, October 1995.

manner."[10]

An advertiser is guilty of exaggeration when he

> "excessively overstates the virtues of a product or service, in relation to its standard and natural characteristics."[11]

The Pepsi advertisement created a stir in Mexico's advertising world, for it was the first direct comparative advertisement that was broadcast in this country. The Coke company was quick to complain and Pepsi had to remove their preference claim. This commercial was the spearhead and many other comparative advertisements will follow in its wake, because of the increase in brand choices and also because the younger generation favour it.[12]

3. ARGENTINA

Despite all the laws that in practice forbid comparative advertising, Pepsi was true to its reputation and tried to run a comparative advertisement (the 'Pepsi challenge') in this country.[13] Even though there is no explicit ban on this technique, the 'brands' law prohibits an advertiser to name his competitor and in addition he/she must also adhere to the unfair competition laws, the trademark laws and the provisions of the Advertisers' Association.

Thus no easy test to pass and Pepsi failed miserably. Although Pepsi used an indirect comparative advertisement that depicted people drinking Pepsi and another unknown brand of cola, the advertisement was banned in the same year.

Argentina's Government has a conservative outlook and considers all the statements in an advertisement about the product's characteristics, to be part of

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10 *Id.*
11 *Id.*
12 Beller 1995: 941.
13 In 1993.

the contents of the contract between the advertiser and the consumer. Therefore an advertiser has to be careful, because this contract is legally binding.[14]

Advertisers must also take note of the unwritten industry code of ethics that reveals a negative attitude toward comparative advertising.[15]

At least Pepsi had succeeded in creating a new awareness of this kind of advertising and the optimists believe that in time Argentina may amend its laws to provide for comparative advertising.[16]

4. BRAZIL

The Brazilian legislation does not burden advertisers with many restrictions, thus allowing advertisers to make use of comparative advertisements whenever they like. The only requirements are that it may not denigrate the competitor's goods or services, or even the competitor himself, too much.[17] Should he claim that his product or service is superior to that of another he must be able to prove it and must also keep all

> "factual, technical and scientific data on which [his] advertising is based".[18]

Comparative advertisements are therefore prohibited only when it is misleading, i.e. when there exists a likelihood that consumers may be misled in any way or where the advertisement contains a false statement. If an advertisement should contain a material omission it will also be regarded as misleading.[19]

Advertisers in this country are following the world wide trend and are increasing

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14 Beller 1995: 940.
15 Beller 1995: 941.
16 Beller 1995: 942.
17 Beller 1995: 942.
18 Beller 1995: 942.
19 *Id.*

their use of comparative advertisements.[20]

5. *CHILE*

Whenever an advertisement should accord certain characteristics to goods or services, the advertiser must be able to support it.[21] If a commercial is not in accordance with this, it is actionable under the criminal law as well as the law of tort.[22]

6. *VENEZUELA*

Venezuela's laws expressly address comparative advertising. This kind of advertising is allowed as long as the advertiser is able to back his claim with the necessary facts, that is to say to supply 'objective verification'.[23] But as in Germany the intellectual property law of this country may successfully bar these advertisements from publication, because it prohibits advertisers from referring to the trademark of a competitor.[24]

7. *PARAGUAY*

The only similarity between Venezuela's laws and Paraguay's with regard to this issue is that both these legal systems specifically address it. Whereas comparative advertising is allowed in Venezuela, it is expressly forbidden in Paraguay.[25] Article 22(d) of the *Paraguay Consumer Code* prohibits:

"[the] promotion of products or service by diminishing or depreciating other

20 *Id.*
21 *Id.*
22 *Id.*
23 Beller 1995: 943.
24 Beller 1995: 943.

products, service or recognisable brands that operate in the national market or abroad, through direct allusions, figures, or suggestions whether in words or images."[26]

8. *CONCLUSION*

It is advisable for an advertiser to obtain permission from the authorities before he runs a comparative advertisement in Latin America for, as seen above, the viewpoints of the different governments on this subject are divergent.

The trend in Mexico is towards allowing comparative advertising, whereas its future in Argentina looks a little more bleak. The Brazilian legislation allows advertisers quite a lot of scope and the use of comparative advertising is increasing. The two countries that specifically address this issue take directly opposite views, namely Venezuela permits it and Paraguay prohibits it. The stance of the Chilli government is not quite clear.[27]

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25 Beller 1995:943.
26 Beller 1995: 943.
27 Beller 1995: 943.

CHAPTER 9

SOUTH AFRICA

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4.2 Advertising Standards Authority
4.3 Association of Marketers
4.4 Association of Advertising Agencies

1. INTRODUCTION

With regard to the position in South Africa, a study of the common law and the statutory law, as far as it is applicable to comparative advertising, is undertaken.

Regarding the common law almost all the applicable forms of unlawful competition[1] are discussed and in each of these cases the question is considered as to whether a comparative advertisement may constitute unlawful competition, and if so what the advertiser must avoid in order to safe-guard an advertisement from being classified as unlawful competition.

The grounds of justification that are available to an advertiser are also discussed.

The study also included the various statutes that could find application in the case of a comparative advertisement. This legislation was scrutinized in order to determine when a comparative advertisement would infringe a statutory provision.

Lastly an overview of the advertising world's self-regulatory bodies is given.

Tanya Woker[2] states as follows:

> "The modem advertiser operates in an increasingly complex and demanding market, therefore it is necessary for the law in its legislative, common-law and self-regulatory form to provide a comprehensive framework of principles which function in such a way that advertising is effectively regulated without being

[1] See definition under 2.2.
[2] 1999: 19.

unnecessarily stifled."

The related legal effect of the *Constitution* of the Republic of South Africa, 1996, is considered *infra* in a separate chapter.

2. COMMON LAW

2.1 FOUNDATIONS OF SOUTH AFRICAN LAW OF DELICT

2.1.1 ACTIO INIURIARUM

This action can, in principle, find application in comparative advertising, in so far as it is used as a remedial action for the protection of *fama, corpus* or *dignitas*.[3]

In the Jackson case[4] two requirements were set for an action based on the *actio iniuriarum*, namely-

1. that there was indeed an infringement of a personality interest which is worthy of legal protection (*fama* or reputation in this instance) and
2. that the perpetrator had the necessary *animus iniuriandi*.

In *SABC v O'Malley*[5] the court ruled that the publication of defamatory matter[6] gives rise to two presumptions:

1. that the publication was wrongful and
2. that the publisher intended to injure the reputation of the victim.[7]

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3 Neethling, Potgieter, Visser 1995: 55 *et sqq.* Cf Van Heerden & Neethling 1995: 54.

4 *Jackson v SA National Institute for Crime Prevention and Rehabilitation of Offenders* 1976 3 SA 1(A)11.

5 1977 (3) SA 394 (A). See also *Neethling v Du Preez and Others; Neethling v The Weekly Mail and Others* 1994 (1) SA 708 (A).

6 In order to determine whether an advertisement is defamatory, the courts use an objective test in that they ask if the competitor's reputation was lowered in the eyes of the reasonable reader, hearer or viewer.

7 The only exception being the media, which is liable even in the absence of intention to defame, because of the powerful position it occupies. See *Pakendorf v De Flamingh*

This means that one of the following defences are available to the defendant in a comparative advertising case, that:

a) the matter was true[8] and in the public interest,

b) it was a fair comment or

c) that it was communicated in jest.

In *Multiplan Insurance Brokers (Pty)Ltd v Van Blerk*[9] it was held that even though the applicant (trading corporation) did not have any feelings which were capable of being hurt by the adverse publicity, it did have an interest in preserving and maintaining its business reputation. This reputation should be granted protection even in the absence of proof of "special , i.e. financial, damages".

It can be deduced from the above case that the *actio iniuriarum* could provide a remedy for a plaintiff business in a disparaging comparative advertising case,[10] where a comparative advertisement tarnishes the reputation of such a business.

Van Heerden and Neethling contend that the *actio iniuriarum*

> "... is of no importance to the field of unlawful competition",

furthermore, their contention being that

> "[t]he right which is relevant in this regard - the right to goodwill - is an immaterial property right and thus a patrimonial right."[11]

Although it is submitted that the *actio iniuriarum* will seldom be invoked in the course of comparative advertising, this does not detract from the fact that it could be invoked when related personality rights are infringed by comparative advertising.[12]

1982(3) SA 146 (A).

8 In the case of *Post Newspapers (Pty) Ltd v World Printing and Publishing Co. Ltd* 1970 (1) SA 454(W), the court found that a denigrating statement that is true is in principle allowed, but the court also ruled: "...comparison – yes; but disparagement – no".

9 1985 3 SA 164 (D).

10 De Jager 1992: 28.

11 Van Heerden & Neethling *op cit* 1995: 55-56.

12 Cf Van Heerden and Neethling 1995: 298-301; and related cases referred to by the said authors.

2.1.2 ACTIO LEGIS AQUILIAE

In the previous paragraph the conclusion was reached that the *actio iniuriarum* is not the suitable action to use in a case of unlawful competition and the submission was made that the more appropriate action to use may be the *actio legis Aquiliae*.

Whenever a party suffers patrimonial losses due to the wrongful, negligent or intentional[13] actions of another, he/she may institute a claim based upon the *actio legis Aquiliae*.[14]

The decision in *Geary & Son (Pty) Ltd v Gove*[15] acknowledges the *actio legis Aquiliae* as basis, in the South African law, for the protection of businesses against unlawful competition. Also *in Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd and Others*[16] Van Dijkhorst J held:

> "that the law of South Africa recognises and grants a general action in the case of unlawful competition, based on the principles of the lex Aquiliae."

2.2 UNLAWFUL COMPETITION[17]

Unlawful competition[18] includes any competitive act, i.e. one which is aimed at

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13 Van Heerden & Neethling 1995: 56. See also Neethling 1991: 206.

14 Van der Merwe & Olivier 1989: 226.

15 1964 1 SA 434 (A).

16 1981 2 SA 173 (T) 186.

17 Van Dijkhorst J in *Lorimar Productions Inc v Sterling Clothing Manufacturers (Pty) Ltd, Lorimar Productions Inc v OK Hyperama Ltd, Lorimar Productions Inc v Dallas Restaurant* 1981 3 SA 1129 (T) 1141 defined competition as follows: "In general terms competition involves the idea of a struggle between rivals endeavouring to obtain the same end. It may be said to exist whenever there is potential diversion of trade from one to another. For competition to exist the articles or services of the competitors should be related to the same purpose or must satisfy the same need."

18 Parker (1996: 116) defines this concept as: "The law of unlawful competition entitles any person (regardless of any patents, registered designs, trade marks, or copyright) to stop another person from conducting business or other activities in a way that harms the claimant illegally in the conduct of his own business or activities. The activities of the other person must be unlawful in some way."

gaining an advantage over a rival or prejudicing him, when such an act is censured by law. Therefor it necessarily implies that a competitive relationship must exist. This does however not limit its application significantly, because many different acts qualifying as competitive conduct (when they are wrongful), can be classified as species of the genus of unlawful competition. Van Heerden and Neethling[19] define it as a collective term for dissimilar acts that infringe various interests, with the common factor that they are all wrongful and part of competitive conduct.

There are authors who suggest that the delict of unlawful competition may undergo a transformation and emerge as the delict of unlawful trading,[20] for the goodwill of a business may be infringed even in the absence of a competitive relationship between the relevant parties. However, in the present research, most of the infringements caused by comparative advertisements present themselves within the competitive relationships between the advertiser and the injured party.

2.2.1 THE RIGHT TO GOODWILL

In the case of *Universiteit van Pretoria v Tommie Meyer Films (Edms) Bpk*[21] the court accepted the doctrine of subjective rights. This doctrine encompasses that:

1. all legal subjects (irrespective of their nature, i.e. natural or juristic persons) are capable/ competent to hold private law subjective rights;
2. the law does not create these subjective rights, it only recognises them as personal interests worthy of legal protection;
3. a subjective right must a) be of value[22] to the person concerned and b) it must be of such a nature (measure of distinctness, definiteness and independence) that the holder of this right will be able to use it, enjoy it and (if possible) dispose of it;

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19 Van Heerden and Neethling 1995: 4.
20 Woker 1999: 102, quoting De Jager & Smith.
21 1977 4 SA 376 (T) 381-383, 387.
22 I.e. relatively scarce.

4. the holder of the subjective right holds it with regard to the legal object[23] and can enforce it against other persons;[24]
5. to determine what kind of subjective right the holder has, regard must be given to the nature of the legal object of the right. Subjective rights are divided into five classes, namely: real rights (object: tangible objects), personality rights (object: aspects of personality),[25] personal rights (object: performances, e.g. human conduct), immaterial property rights (object: intellectual property, e.g. intangible products of the human mind, intellect and activity, embodied in a tangible agent) and personal immaterial property rights (object: personal immaterial property, e.g. intangible products of the human mind and endeavour, connected with the personality);
6. there does not exist a *numerus clauses* of rights or categories;
7. whenever a subjective right is infringed,[26] in a legally reprehensible manner,[27] such an infringement is unlawful.[28]

The courts use this doctrine to identify the legally recognised interests of competitors (legal objects) in order to determine the nature of the subjective right. When this is determined it is possible to delimit the subjective rights in relation to one another, ascertain whether or not they belong to the competitive sphere and determine in which circumstances the rights will be infringed (thus classifying the conduct as unlawful).[29]

Kohler[30] discovered a new category of legal objects, namely immaterial property,

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23 Subject-object relationship.

24 Subject-subject relationship.

25 In *Lorimar Productions Inc supra* the court ruled that character merchandising was not sufficiently well known in South Africa to grant the protection the plaintiff sought. But because *consumers have become more sophisticated and knowledgeable during the past years,* the law had to alter the aforementioned position and did so in the decision in *Federation Internationale De Football and Others v Bartlett and Others* 1994 (4) SA 722 (T). Morley 1998: 62. [My emphasis]

26 I.e. the factual disturbance of the subject-object relationship.

27 Consisting in the violation of a legal norm.

28 Van Heerden and Neethling 1995: 80.

29 Van Heerden and Neethling 1995: 81.

30 Van Heerden and Neethling 1995: 93.

in the previous century. He opposed Gierke and his predecessors' views that the intangible creations or products of the human mind, as far as culture and technology are concerned, form part of the human personality. He persisted in his argument that a creator's mental product can be separated from his personality and is therefore capable of an independent existence. He regarded the object of the immaterial property right as the idea embodied in the work of the creator. He was further of the opinion that the trade name and trade mark formed part of the human personality and classified them as objects of the rights of personality. Van Heerden and Neethling[31] criticize this and state that these should also be classified as immaterial property.

The legal object of the immaterial property right, as far as unfair competition is concerned, is goodwill. Neethling and Van Heerden[32] define it as follows:

> "The entrepreneur's aim is therefore to create an immaterial attracting force through the composition of heterogeneous components of the undertaking."

Thus it may be comprised of the reputation of the business, if it is well-known or not, its creditworthiness, the locality of the business, the personality of the entrepreneur, and the way all the aforementioned interact within the business.[33]

In *Geary and Son (Pty) Ltd v Gove*[34] Judge Steyn defined the right which is infringed by an unlawful competitive act as

> "the right to attract custom."

And this right was expressly recognised in the decision of Judge Mostert in *Universiteit van Pretoria v Tommie Meyer Films (Edms) Bpk.*[35]

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[31] Van Heerden and Neethling 1995: 93.
[32] Van Heerden and Neethling 1995: 95.
[33] Van Heerden and Neethling 1995: 96.
[34] 1964 1 SA 434 (A) 440.
[35] *Supra.* He stated: "[E]k erken die reg op die werfkrag van so 'n onderneming ... Die werfkrag behels ondermeer daardie element waardeur die ondersteuning waarop die onderneming gemik is, gewerf word. In die geslaagde onderneming kan dit 'n komponent van groot waarde wees wat tesame met die onderneming se ander komponente op regsbeskerming geregtig is."

Unlawful competition may attract common law delictual liability of an essential Aquilian nature[36] and in order to succeed the plaintiff has to prove the following:

a) a wrongful act or omission;

b) fault (negligence[37] or intention);[38]

c) causation; and

d) patrimonial loss.[39]

The initial crucial question that has to be answered thus concerns unlawfulness, and more specifically with regard to comparative advertising, as to whether such comprises unlawfulness.

2.2.2 THE CRITERIA FOR UNLAWFULNESS

To determine whether conduct qualifies as unlawful the courts may use the following norms,[40] namely fairness and honesty in competition, *boni mores* (legal convictions of the community) and the competition principle.

2.2.2.1 Fairness and Honesty in competition

This test was first used in *Gous v De Kock, Combrinck v De Kock.*[41] The courts continued to apply it in the *Geary and Son* case,[42] in *Stellenbosch Wine Trust Ltd*

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36 In the case of *William Grant & Sons Ltd v Cape Wine & Distillers Ltd* 1990 3 SA 897 (K) 915, Judge Bergman held that: "In South Africa unlawful competition is recognised as an actionable wrong fitting comfortably under the umbrella provided by the Lex Aquilia ...".

37 Negligence will suffice the fault requirement of the Aquilian action. See discussion by Neethling 1994: 4 - 8.

Motive may in some circumstances be a factor when determining the reasonableness and lawfulness of an action, e.g. *Bress Designs (Pty) Ltd v G.Y. Lounge Suite Manufacturers (Pty) Ltd* 1991 2 SA 455 (W).

39 Dean 1996: 29 at fn 7.

40 Criteria or yardsticks.

41 (1887) 5 SC 405 409.

42 *Supra.* "It must be conceded that these phrases, fairness in competition and honesty in trade, have an old-fashioned ring about them which may cause the cynic in business to smile, but it is right that the Courts should have regard to and emphasise these virtues. Moreover, the phrases are somewhat elastic, as difficult to apply in some cases as the concept of the reasonable man is difficult to apply. Nevertheless, if our law is to develop and is to offer the commercial man protection from unlawful interference in his business,

v Oude Meester Group Ltd, Oude Meester Group Ltd v Stellenbosch Wine Trust[43] and in *Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd.*[44]

Thereafter the *boni mores* test gained prominence.

2.2.2.2 Boni mores

This test implies that the courts must have regard to the legal convictions of the community. It is an objective test based on reasonableness. The court takes into account the reasonableness of a person's conduct in the light of the harm done by this conduct to another person. This entails an ex post facto weighing-up of the interests that the person actually promoted with his conduct and those which were prejudiced. Judge Van Dijkhorst endorsed the use of this test in his judgement in *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd.*.[45] This approach was generally accepted in our courts.[46]

The courts in time reconciled the 'fairness and honesty in competition' norm[47]

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the Courts will not disregard the words fairness and honesty."

43 1972 3 SA 152 (C) 161-162.

44 1968 1 SA 209 (C) 218-219. "[C]riteria such as fairness and honesty in competition ... Fairness and honesty are themselves somewhat vague and elastic terms but, while they may not provide a scientific or indeed infallible guide in all cases to the limits of lawful competition, they are relevant criteria which have been used in the past and which ... may be used in the future in the development of the law relating to competition in trade."

45 1981 2 SA 173 (T) 188-189. "I have come to the conclusion that the norm to be applied is the objective one of public policy. This is the general sense of justice of the community, the *boni mores*, manifested in public opinion ... In determining and applying this norm in a particular case, the interests of the competing parties have to be weighed, bearing in mind also the interests of society, the public weal. As this norm cannot exist *in vacuo*, the morals of the market place, the business ethics of that section of the community where the norm is to be applied, are of major importance in its determination."

46 Van Heerden and Neethling 1995: 124 fn 54.

47 This is an ethical rule and as Shell (1998: 1242) puts it in his article such rules create uncertainty and risk in business planning, and "tend to delineate specifically what conduct will violate the standard". His criticism also includes a reference to the fact that "vague ethical principles carries a high risk of error in the adjudication of individual cases". In the words of George Stigler, an economist, on the concept of fairness: "[It] is a suitcase full of bottled ethics from which one freely chooses to blend his own type of justice", as quoted by Shell 1988: 1243. The danger of employing these vague ethical standards in

with the *boni mores*. In *Schultz v Butt*[48] it was held that:

> "In judging of fairness and honesty, regard is had to boni mores and the general sense of justice of the community ... Van der Merwe and Olivier ... rightly emphasise that 'die regsgevoel van die gemeenskap opgevat moet word as die regsgevoel van die gemeenskap se regsbeleidmakers, soos Wetgewer en Regter'." [49]

Compare Judge Van Schalkwyk's opinion in *Elida Gibbs (Pty) Ltd v Colgate Palmolive (Pty) Ltd (1)*.[50]

2.2.2.3 Competition principle

Van Heerden and Neethling favour this principle as a yardstick for unlawfulness. When a person makes use of his own goodwill to further the interests of his business and in the process infringes his competitor's goodwill, it is referred to as indirect infringement, whereas competitive conduct which is aimed directly at a competitor's goodwill may constitute direct infringement of a competitor's goodwill.

In the case of indirect infringement there exists a rebuttable presumption that the person acted in the exercise of his right to the goodwill of his business. If the person exceeds his right he infringes his competitor's goodwill and consequently acts unlawfully. Whenever there was a direct infringement, it is presumed that the

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commercial cases is that the courts "may reach arbitrary results, punish productive, nonopportunistic conduct, and completely discourage certain types of useful market transactions". Shell 1988: 1243.

48 1986 3 SA 667 (A).

49 Cf. Visser 1989: 120.

50 1988 2 SA 350 (W) 358: "[T]here is no doubt that there exists in South African law a 'natural standard of fairness and reasonableness' beyond which competition must not go. What that is must depend upon the facts of each individual case ... Commercial warfare is not prescribed by our law. So long as the combatants confine themselves to those legitimate methods of competition which the business community recognise as inevitable consequences of participation in commercial enterprise the Courts will refuse to interfere. However, there are certain forms of conduct which, when tested against the *boni mores* of the market place, remain untenable." In *Manousakis an Another v Renpal Entertainment CC* 1997 (4) SA 552 (C), the court held that fairness and honesty are relevant in the determination of the lawfulness of conduct, but it is not the only criteria. When considering the fairness and honesty of the conduct, the court must also have

competitive act was unlawful.[51]

In a nutshell the competition principle thus entails that

> "the competitor who delivers the best or fairest (most reasonable) performance, must achieve victory, while the one rendering the weakest (worst) performance, must suffer defeat".[52]

This principle requires a competitor to compete on the basis of the merits of his own performance. When this is done the other party who suffers prejudice normally has no legal remedy, because this conduct is in accordance with the competition principle and is thus lawful. The court recently applied said principle in the case of *Van der Westhuizen v Scholtz*.[53]

Van Heerden and Neethling[54] have also attempted to ascertain the position of advertisement or promotion competition.[55] They are in favour of advertisement competition as long as it provides the consumer with a true picture of the advertiser's own performance and retains the nature of performance competition.

To determine whether comparative advertising is wrongful or not it follows that the courts will essentially apply the *boni mores* criteria. In this regard the question can be asked if the *boni mores* of the community does not justify a change in the present (more conservative) stance of the South African law with regard to comparative advertising. The Judge in *Fedgen Insurance Ltd v Bankorp Ltd*[56] worded this concern as follows:

> "[T]he policy decisions of our Courts which shape and, at times, refashion the common law must also reflect the wishes, often unspoken, and the perceptions, often but dimly discerned, of the people. A community has certain common values and norms. These are in part a heritage from the past. To some extent too

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regard to the morals and general sense of justice of the community.

51 Van Heerden and Neethling 1995: 129.
52 Van Heerden and Neethling 1995: 130.
53 1992 4 SA 866 (O) 873-874.
54 1995: 134.
55 I.e. the advertising of their performances by competitors.
56 1994 (2) SA 408G-409A.

they are the product of the influence of other communities; of the interaction that takes place between people in all spheres of human activity; of the sayings and writings of the philosophers, the thinkers, the leaders, which have universal human appeal; of the living example which other societies provide. It is these values and norms that the Judge must apply in making his decision. And in doing so he must become 'the living voice of the people'; he must 'know us better than we know ourselves'; he must interpret society to itself.

In this process the Judge would no doubt be influenced by concepts of natural law, by international law norms and by the way in which the particular problem is handled in other comparable systems of jurisprudence. He would draw upon his knowledge and experience gained as an educated, responsible and enlightened member of society, upon the contact with and insight into his fellow humans which his professional career has given him; and he would draw upon his continuing perceptions of the attitudes of the community around him. And here it is of paramount importance that society should be free; that there should be freedom of expression and the communications of ideas; an uninhibited press. For otherwise how is the Judge to know what society is thinking."[57] [My emphasis]

With reference to unlawful competition, a discussion of related grounds of justification follows, preceding a consideration of various concrete examples of unlawful competition.

2.2.3 GROUNDS OF JUSTIFICATION

Grounds of justification have a bearing on the *boni mores* criteria as referred to supra. A certain act, which may in the absence of a ground of justification be wrongful, may on the other hand be justified and lawful due to a ground of justification.

In the South African law some traditional grounds of justification have

[57] Quoting Chief Justice Corbett.

crystallised, but these must not be seen as a *numerus clausus*.[58]

The traditional grounds of private defence, necessity and public interest will now be discussed to determine in which circumstances these grounds of justification will be available to an advertiser in the course of comparative advertising.

2.2.3.1 Private defence

A competitor will be allowed to rely on this defence -

> "if he defends himself - through direct infringement of another's (plaintiff's) goodwill - against the plaintiff's actual or imminently threatening direct or indirect wrongful infringement of (attack on) his (defendant's) goodwill."[59]

If an entrepreneur's (A) goodwill is accordingly infringed by falsehoods on the part of competitor (B), A may justifiably retaliate against B in order to reasonably expose such falsehoods. A may not, however, exceed the boundaries of reasonableness and thus of private defence, lest A's conduct constitutes an infringement of B's goodwill.

Van Heerden and Neethling[60] furnish examples of certain circumstances where a counter-attack will qualify as private defence, one of these being comparative advertising. The prerequisites for the use of this defence, in the case of a comparative advertisement, are that the comparison must be reasonably necessary and true in all respects.[61]

2.2.3.2 Necessity

This defence is available to a person who is placed in such a position by superior force (*vis maior*), that he can only reasonably protect his own legitimate interests

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58 Van Heerden and Neethling 1995: 325.
59 *Id*. at 328.
60 1995: 329.

(or that of another) by violating those of the plaintiff.[62]

Within the competitive field, and in view of the competition principle, Van Heerden and Neethling[63] suggest that the defence in question be adapted. The competition principle provides that a person must rely on the merits of his own performance to attract potential customers. The entrepreneur must thus find a way to bring these merits to the attention of the customers, and if the only way available to him constitutes an infringement of the goodwill of a competitor, this method may be justified as one of necessity. Consequently this means that the requirement that the person must act on a situation brought about by *vis maior* falls away. Thus, where a comparative advertisement disparages a rival's performance, it may appear to be *prima facie* wrongful in that it infringes that rival's goodwill. However, if this comparison is necessary to relate the merit of the advertiser's product or service to the public, and is true in all respects and not otherwise unlawful, such an advertiser may be entitled to rely on the defence of necessity.

But, once again the true image of the performances must be conveyed to the audience and an advertiser must accordingly be very careful to ensure that the contents of his comparisons are comprehensive and true in all respects.[64]

2.2.3.3 Public interest

An advertiser may in certain circumstances make use of the defence of public interest, the *ratio* being that such a comparative advertisement will furnish the customers with more information and will consequently allow them to make a

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[61] If this is not the case the advertisement may be unlawful.
[62] Van Heerden and Neethling 1995: 331.
[63] *Id.*
[64] *Id.* at 332-333. See also the example supplied by the authors on 332, with regards to the entrepreneur who, through research, improved the life-span of dry-cell batteries. Because of the dynamic nature of competition, which means that a product is compared to the other products in the market, the entrepreneur has no choice but to compare this 'new' battery with that of his competitors.

better informed choice. The trend in South Africa is towards openness and businesses must realise their responsibility towards the community. Furthermore, products are becoming more hi-tec, which makes it difficult for the man in the street to choose between different brands if he does not receive some guidance in this respect.

This entails that the advertisement must be completely true and furthermore it must inform the consumers about the merits of the performances in a

> "relevant, useful and meaningful"

manner.[65] An advertiser may exceed the limits of the defence if he includes in his comparative advertisement well-known differences, or other information that is irrelevant to the economic merits of the performances (e.g. personal facts about his competitor).

In the light of the above discussion the witty advertisement of BMW, where they state that "we beat the bendz"[66] does unfortunately not convey any relevant, useful or meaningful information and the defence of public interest will consequently not be available to BMW.

2.2.4 DECEPTION OR MISREPRESENTATION AS TO COMPETITOR'S OWN PERFORMANCE[67]

Van Heerden and Neethling[68] describe this form of unlawful competition as:

> "misleading the public as to the quality, price, geographical origin, nature, composition, etc. of a rival's own performance (undertaking, goods or services)."

While providing a few examples[69] of different forms of misrepresentation, the

65 See also the European Directive's guidelines.
66 See discussion *infra*.
67 Neethling 1994: 1.
68 1995: 149.
69 E.g. where an entrepreneur advertises that he sells copper trays, but in actual fact the trays are only copper-coloured and the alloy of which they are manufactured is of an inferior quality to copper. Van Heerden and Neethling 1995: 150.

authors[70] stress the fact that it is impossible to provide the reader with a complete list of all the forms that this type of competitive act may materialise in.

These type of acts do not adhere to the competition principle because, instead of relying on the merits of their own performances, competitors mislead the public into believing that their performances are better than they actually are. By doing so the advertisers infringe their competitors' goodwill because they prevent the public, through their misrepresentations, to compare the respective performances fairly.[71]

As far as wrongfulness is concerned, the courts will enquire whether the competitive act was *contra bonos mores*. If the advertiser's conduct does fall foul of the *boni mores* yardstick and also infringes (or threatens to infringe) a competitor's goodwill, the said act may not only be wrongful, but also constitutes unlawful competition.

Although it has been held that a certain degree of "puffing" is apparently not unlawful,[72] it is submitted that such a view must be considered cautiously.

The question remains as to when the courts will regard an act as mere "puffing" and when an act will amount to a wrongful misrepresentation. Van Heerden and Neethling[73] suggest that an act must be judged according to the following three steps:

1. A misrepresentation must have taken place.[74] In *Elida Gibbs (Pty) Ltd v*

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70 Van Heerden and Neethling 1995: 149.

71 Van Heerden and Neethling 1995: 151.

72 See *Post Newspapers (Pty) Ltd v World Printing and Publishing Co Ltd* 1970 1 SA 454 (W) 461, as well as *Elida Gibbs (Pty) Ltd v Colgate Palmolive (Pty) Ltd* (1) 1988 2 SA 350 (W) 359: "[i]t is commonly accepted that an advertiser frequently paints what he has to offer in glowing and exaggerated colours and with extravagantly laudatory phraseology", and continues that "it cannot be the law that it constitutes 'unlawful competition' merely for a seller to express opinions in advertising which he does not honestly hold".

73 1995: 157.

74 I.e. "[A] *factual* representation by word, or conduct (or both), that is untrue." Van Heerden and Neethling 1995: 157.

Colgate Palmolive (Pty) Ltd[75] Van Schalkwyk J held that the courts must distinguish between mere "puffing" and "statements of fact". Where a false statement of fact is thus incorporated into a puffing advertisement, that advertisement will be *prima facie* wrongful.[76]

2. The second step involves the consideration whether a false statement of fact will indeed amount to a wrongful act. The authors[77] suggest that Naude's proposal,[78] in that the courts must look at whether

   > "... the ordinary purchaser or the ordinary person of the class of persons who are likely to be the purchasers of the goods"

   will be deceived or be likely to be deceived, must be extended so as to be applied in the whole field of misrepresentation as to own performance. The courts apply an objective test to determine whether an act was wrongful, and thus

   > "whether there was a (reasonable) possibility or likelihood"[79]

   that the public will be misled. [My emphasis]

3. The last step requires of the plaintiff to prove

   > "that there was a wrongful act *vis-à -vis* himself",

   and accordingly that the misrepresentation had infringed his goodwill or that the misrepresentation threatens to infringe it. The authors[80] propose that a plaintiff should only be required to prove

   > "damage or loss on a balance of probability".

2.2.5 PASSING-OFF

Although the SA common law recognised passing-off, the greater part of the South African law of passing-off was derived from the English law.[81]

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75 See *supra* at 359.
76 Van Heerden and Neethling 1995: 157.
77 1995: 158.
78 Van Heerden and Neethling 1995: 158 fn 51.
79 Van Heerden and Neethling 1995: 158.
80 1995: 160.
81 Van Heerden and Neethling 1995: 167.

Passing-off is a specific form of misrepresentation as to own performance, in that the entrepreneur presents his own performance to the public as that of a competitor, or that it is connected with that of a competitor.[82]

The unlawfulness of conduct is based on the infringement of the distinguishing value of the trade name, trade mark or service mark, etcetera.[83] But the crux of the matter remains that any advertisement which may mislead consumers may constitute "passing-off", thus being unlawful.

Even though a comparative advertisement may attempt to differentiate between goods or services of the advertiser and those of a competitor, it is submitted that such an advertisement may not have that effect. This may be due to the fact, for example, that consumers are illiterate or unsophisticated or have a related language problem, the result being that the advertisement concerned may constitute unlawful passing-off.

To prove passing-off the plaintiff must show firstly that

> "his name, mark, sign or get-up has become distinctive, that is, that in the eyes of the public it has acquired a significance or meaning as indicating a particular origin of the goods (business, services) in respect of which that feature is used. This is called 'reputation'".[84]

Secondly, it must be shown that

> "the use of the feature concerned was likely, or calculated, to deceive, and thus cause confusion and injury, actually or probable, to the goodwill of the plaintiff's business, as for example, by depriving him of the profit that he might have had by selling the goods which, *ex hypothesi*, the purchaser intended to buy".[85]

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[82] Van Heerden and Neethling 1995: 163.

[83] The accessory right to the distinctive mark. Van Heerden and Neethling 1995: 166.

[84] *Bress Designs (Pty) Ltd v GY Lounge Suite Manufacturers (Pty) Ltd* 1991 2 SA 455 (W) 471. For a detailed discussion of this requirement see Van Heerden and Neethling 1995: 169-185.

[85] *Adcock-Ingram Products Ltd v Beecham SA (Pty) Ltd* 1977 4 SA 434 (W) 437-438. The 'ordinary customer' who must be deceived was described in *Pasquali Cigarette Co Ltd v*

Remedies related to passing-off, are an interdict (fault not being a requirement) and/or the *actio legis Aquiliae*.[86]

2.2.6 LEANING-ON[87]

Passing-off is concerned with the infringement of the distinguishing value of trade marks, trade names and service marks, whereas leaning-on is concerned with the advertising value of the aforementioned as advertising marks. An advertiser who utilises leaning-on, normally does so with the intention to lean on the reputation or good name of the other product or service in order to increase his own profit or financial gain. He may do so openly or in a concealed manner.

- Open leaning-on:

This happens when an advertiser misappropriates the advertising value of a competitor (with regard to his trade mark or product) in order to use it as a 'springboard' for his own similar goods/services. The result is that it

> "diverts the positive association which the trade mark enjoys in relation to the proprietor's own product."[88]

Whenever a commercial states that the advertiser's undertaking, goods or services are "as good (efficient) as", or "similar to", or "a substitute for", or "manufactured like" a competitor's undertaking, goods or services, it can

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Diaconicolas and Capsopolus 1905 TS 472 475 as: "The ordinary purchaser does not mean either the very careful or the very careless and ignorant man. I think it must be someone between the two. I take it the ordinary purchaser is a man who knows more or less the peculiar characteristics of the article he wants; he has in his mind's eye a general idea of the appearance of the article, and he looks at the article not closely, but sufficiently to take in its general appearance." The court in *Reckitt & Colman SA (Pty) Ltd v SC Johnson & Son SA (Pty) Ltd* 1993 2 SA 307 (A) 315 qualifies the concept even further in that he/she must belong to "the class of persons who are likely to be purchasers of the goods in question." See also Van Heerden and Neethling 1995: 186-193 for a comprehensive discussion of these requirements.

86 Van Heerden and Neethling 1995: 194.

87 "Aanleuning of aanhaking." Van Heerden and Neethling 1995: 201. See also Mostert 1986: 173.

88 Van Heerden and Neethling 1995: 202 fn 9.

constitute leaning-on, the danger being that a prejudiced competitor may take legal action as a result of such a comparative advertisement.

Leaning-on contravenes the competition principle, because the advertiser does not attempt to draw customers through the merits of his own performance, but relies on the merits of his rival's performance. On the other hand it seems fair to conclude that when an advertiser, in the course of comparative advertising, draws customers fairly and reasonably, by relying on the merits of his own performance, such comparative advertising would not contravene the competition principle and would be in the public interest and lawful.

Dean[89] concludes and submits 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 and Neethling[90] argue that open leaning-on should in principle be regarded as unlawful competition where a factual interference with the goodwill of a competitor is foreseen. They do however grant that there may be one exception, namely where it is impossible for an entrepreneur to inform the public about the attributes of his product/service in any other way than referring to his competitor's product/service. This will amount to necessity and will constitute a lawful ground of justification.[91]

- Concealed leaning-on:

Concealed leaning on between rivals is very similar to the traditional passing-off situation and plaintiffs, where appropriate, rely mainly on actions related to

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89 1996: 32.
90 1995: 203.
91 1995: 204. E.g. where a person manufactures or markets spare parts for his

passing-off. Consequently, few plaintiffs need to rely on leaning-on as a separate cause of action, because the passing-off action provides the necessary protection.[92]

Concealed leaning-on between non-competitors (thus in the absence of a common field of activity),[93] does not comply to the competition principle and is accordingly branded as unlawful competition, where it constitutes a

> "misrepresentation as to the source, origin or business connection of a non-competitive performance".[94]

Whenever an advertiser uses this form of advertising the danger exists that the advertising value of a competitor's trade name, trade mark or service mark may be diluted, and a further danger also exists in that the use may possibly tarnish the competitor's goods or services.[95]

Van Heerden and Neethling[96] analyse the findings of *Capital Estate and General Agencies (Pty) Ltd v Holiday Inns Inc*,[97] *Philip Morris Inc v Marlboro Shirt Co SA Ltd*[98] and *Royal Beech-Nut (Pty) Ltd t/a Manhattan Confectioners v United Tobacco Co Ltd t/a Willards Foods*[99] and conclude that there seem to be three requirements to be proved by the plaintiff in order to successfully rely on leaning-on, these are:

1. "that his trade mark, trade name or service mark has acquired a reputation or advertising value in regard to his performance";
2. "that the use of his trade mark (etcetera) by the defendant creates the misrepresentation that the defendant's performance has the same origin or source as that of the plaintiff, and that deception or confusion of the public is

competitor's products. *Cf. supra* 2.2.3.2.

92 Van Heerden and Neethling 1995: 204. See also *Federation Internationale de Football v Bartlett* 1994 4 SA 722 (T).

93 Mostert (1986: 173) defines it as the "[P]arasitiese gebruik van 'n handelsmerk op nie-mededingende ware of dienste".

94 Van Heerden and Neethling 1995: 209.

95 Mostert 1986: 181-185.

96 1995: 210.

97 1977 2 SA 916 (A).

98 1991 2 SA 720 (A).

99 1992 4 SA 118 (A).

therefore likely";

3. "that his goodwill is or will be infringed as a result of the disparagement or dilution of the said reputation or advertising value".

A party who is likely to be prejudiced due to the dilution of his trade mark, trade name or service mark is entitled to legal protection because his goodwill is infringed, where the advertising value of his aforementioned name or mark in respect to his performance is diluted and the name or mark does not only evoke the entrepreneur's performance in the minds of consumers any more.[100] Dilution thus poses a very real danger to the goodwill of a business,[101] and thus Van Heerden and Neethling are of the opinion that

> "our courts should recognise that the (threatened) infringement of the goodwill of an undertaking (even if it is non-competitive) as a result of the (danger of) dilution is in itself contra bonos mores and therefore unlawful."[102]

Two opposing viewpoints exist regarding the right of an entrepreneur to his advertising mark.

One group argues that because an entrepreneur has invested his time, skill, money, initiative and effort in his advertising mark he is entitled to the exclusive use of that mark and thus that the South African law must recognise an advertising mark as the object of an independent immaterial property right.[103]

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100 Van Heerden and Neethling 1995: 214. Cf American and German law where dilution is an independant cause of action.

101 See *Cambridge Plan AG v Moore* 1987 4 SA 821 (D) 847-848: "The rights which the applicants are seeking to protect are rights which will be irreparably damaged or totally destroyed if the respondents are infringing them and are permitted to continue doing so. The distinctiveness of their marks and trading style will be diluted in such a manner that it cannot ever be restored. It is for this reason that the courts lean in such cases towards granting interim relief as soon as possible in order to preserve those rights undamaged pending the decision of the action ... An award of damages will almost certainly be a poor substitute for such an order. Damages resulting from loss of sales by reason of use of the offending marks and names are notoriously difficult to prove, whilst those resulting from dilution of the distinctiveness of the applicant's marks or names will be well-nigh impossible to establish."

102 1995: 215.

The second group, however, is of the opinion that such recognition will lead to a monopoly situation. In view of the free competition policy that exists in South Africa, such a situation must be avoided at all cost.[104]

Van Heerden and Neethling[105] disagree with the second group's argument on the basis that it appears that the legal convictions of the community are in favour of a position where an entrepreneur is protected against the misappropriation of the advertising value of his trade name, trade mark or service mark, even if it does create a monopoly.

Up to the present moment in time the South African courts have not yet recognised the advertising mark as the object of an independent immaterial property right. Consequently it is only protected in an indirect manner by the courts (such as by way of passing-off).[106]

2.2.7 APPROPRIATION OF COMPETITOR'S BUSINESS IDEAS:[107] ACQUISITION AND USE OF COMPETITOR'S TRADE SECRET OR CONFIDENTIAL INFORMATION

A trade secret is defined in Van Heerden and Neethling[108] as business information of economic value and which is not generally known to others. It is accordingly a valuable economic interest of a business and the aforementioned authors are of the opinion that such a trade secret is the object of an immaterial property right. Even the addresslist of customers or potential customers may qualify as confidential information[109] and also an unpublished trade mark.[110]
The two prerequisites are that:

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103 Van Heerden and Neethling 1995: 216, citing Mostert in fn 121.
104 See *Union Wine Ltd v Snell & Co Ltd* 1990 2 SA 189 (C) 203.
105 1995: 217.
106 Van Heerden and Neethling 1995: 219.
107 See Rutherford 1990: 151.
108 1995: 223.
109 *Atlas Organics supra* at 195-196.
110 *Stellenbosch Wine Trust Ltd and Another v Oude Meester Group Ltd* 1972 (3) SA

1. The information must be of a confidential nature or a secret, which in the *Atlas Organic* case[111] entailed that the production process must have been kept a secret or limited to certain employees only;
2. The information must, objectively seen, have economic value.[112] Whether the confidential information has economic value, will be a question of fact. An important consideration may be whether the specific information has a potential or actual usefulness for the rivals of the business.[113]

The *locus classicus* in this field of the law is the decision in *Dun & Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) Pty Ltd*,[114] where Corbett J concluded that

> "where...a trader has by the exercise of his skill and labour compiled information which he distributes to his clients upon a confidential basis (i.e. upon the basis that the information should not be disclosed to others), a rival trader who is not a client...uses it in his competing business and thereby injures the first mentioned trader in his business, commits a wrongful act vis-à-vis the latter and will be liable to him in damages."[115]

The position can be summarised as follows: An advertiser may not use the confidential information or trade secrets of a rival trader in his advertisements, such use being unlawful with a view to unlawful competition.[116]

This form of unlawful competition may also manifest itself where an advertiser obtains a rival's confidential customers- (or potential customers-) addresslist and sends comparative advertisements to them, or where such advertiser unlawfully acquires and utilises a competitor's confidential information in the course of

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152(K).

111 *Supra* at 194.

112 *Id.*

113 See the decision in *Coolair Ventilator Co (SA) Pty Ltd v Liebenberg and Another* 1967 (1) SA 686 (W) 691 and Van Heerden and Neethling 1995: 225.

114 1968 (1) SA 209 (K).

115 *Id.* at 221-222.

116 This form of unlawful competition may also manifest itself where an advertiser obtains a rival's customers- (or potential customers-) addresslist and sends comparative

comparative advertising.

2.2.8 DISPARAGEMENT OF A COMPETITOR'S UNDERTAKING,[117] GOODS OR SERVICES

If an advertiser should publish any disparaging advertisements which have reference to a competitor's undertaking , goods or services, and the allegations contained therein are untruthful, that advertisement may amount to unlawful competition.[118] Even where the comparative advertisement refers to the person of the entrepreneur himself or to that of an employee, and this referral contains an untruthful disparagement, such may also constitute unlawful competition.[119]

The courts are however in a uncertain state of mind regarding the delictual principles which must be applied. According to Van Heerden and Neethling[120] this is the case because they (the courts) do not always draw a definite distinction between the field of application of the *actio legis Aquiliae* and that of the *actio iniuriarum*.[121]

Where the *actio iniuriarum* is used, the plaintiff has to prove fault in the form of *animus iniuriandi*, but if the *actio legis Aquiliae* is instituted negligence will suffice. The aforementioned authors[122] also discuss the requirement relating to damages.

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advertisements to them.

117 See also necessity, under grounds of justification.

118 Van Heerden and Neethling 1995: 283. In most cases these untrue disparagements are directed at a competitor's undertaking as a whole. For example in *Lewin v Kennedy* 1923 NPD 380, a trader published in circulars, as well as in a newspaper, a statement that his rival's business was "closed down". But, it may also be directed at the performance of the business, which includes "statement[s] that its products are of an inferior quality or have a harmful effect on consumers" (*Id.*).

119 *Id.* at 284.

120 *Id.*

121 A result of the decision in *GA Fichardt Ltd v The Friend Newspaper Ltd* 1916 AA 1, where three of the judges in their *obiter dictum* discussed the legal question whether the plaintiff would have been able to succeed with another action, other than an action based on defamation.

122 1995: 291-294.

But, what are the consequences of truthful disparaging allegations used in comparative advertisements? In *Post Newspapers (Pty) Ltd v World Printing and Publishing Co Ltd*[123] the applicant was the publisher of the "Post" newspaper and the respondent compiled a report, in the form of a comparative advertisement, in which its newspaper "The World" was shown to have a larger circulation. They distributed this advertisement to potential advertisers. The applicant applied for an interdict, but Nicholas J refused the relief and based his decision on various decisions in the English law. He stated that

> "[I]f these statements were shown prima facie to be untrue, the applicant would be entitled to relief."[124]

Because the applicant did not dispute the truthfulness of the allegations and there was no evidence before the court as to their untruthfulness, relief was not granted.

The authors are not satisfied with this decision, their opinion being that the position in the South African law is different from that in England. They are of the opinion that even non-defamatory, disparaging statements can in certain circumstances be unlawful, because these allegations will have a negative influence on the goodwill of the competitor. As far as comparative advertising is concerned the problem manifests itself where these advertisements do not provide the consumers with the whole and fair picture, because advertisers are biased and do not always reveal all the negative aspects of their own products, while at the same time they try to expose all those of their rivals' products.[125]

Tanya Woker discusses the question of the wrongfulness of truthful comparisons in the light of the *boni mores* and the general sense of justice of the community.[126] The ASA's Code which is a 'codification of the business ethics of

123 1970 1 SA 454 (W).
124 *Id*. at 459.
125 Van Heerden and Neethling 1995: 304-306. See also Woker 1999: 197.
126 With regard to these two criteria also see *Atlas Organic Fertilizers supra* at 188-189. See also *Schultz v Butt* 1986 (3) SA 667 (A).

the section of the community engaged in marketing and advertising consumer goods',[127] still prohibits comparative advertising in effect, despite the changes which were made to apparently accommodate comparative advertising. And furthermore the advertising industry, as well as related industries cannot reach consensus on this subject. Woker[128] relates Derrick Dickinson's (of the Association of Marketing Managers) argument in detail. He argues that the use of comparative advertising 'amounts to legalised theft',[129] because in using another person's brand you are stealing his property, the property in which he invested a significant amount of time and money. Another disadvantage of comparative advertising is according to him the resultant litigation that will most certainly follow such an advertisement. This will entail that the costs for consumers will increase, because the competitors will now spend more time in court and consequently less time trying to improve their products. This concern was also voiced by the consumer council,[130] where the spokesperson reasoned in the same way as Van Heerden and Neethling[131] in that advertisers are biased and thus reluctant to portray the negative aspects of their own products in a comparative advertisement. Woker[132] concludes that, based on the *boni mores*, 'true comparative advertising' would at present be regarded as a form of unlawful competition under the common law.

It is submitted that although disparaging comparative advertising of a truthful nature may in certain circumstances be unlawful, bearing in mind especially the *boni mores* criteria but also the competition principle as enunciated,[133] such advertising may, however, in appropriate circumstances for instance similar to those related to the *Post Newspapers*-case,[134] be lawful.

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127 Woker 1999: 196, fn 47.
128 1999: 196.
129 *Id.*
130 Woker 1999: 197.
131 1995: 304-306.
132 1999: 197.
133 *Supra.*
134 *Supra.* And also especially in the case of indirect comparative advertising where neither the names of competitors nor the brands or distinctive marks of competing goods are disclosed (*indirect* comparative advertising not having been the state of affairs in respect

3. *STATUTORY LAW*[135]

3.1 TRADE MARKS ACT

The date of commencement of the current *Trade Marks Act* [136] was 1 May 1995, this Act having repealed the *Trade Marks Act* No. 62 of 1963.

In terms of the current *Trade Marks Act*, "mark" is defined as

> "any sign capable of being represented graphically, including a device, name, signature, word, letter, numeral, shape, configuration, pattern, ornamentation, colour or container for goods or any combination of the aforementioned."

The definition of "trade mark" is –

> "'trade mark', other than a certification trade mark or a collective trade mark, means a mark used or proposed to be used by a person in relation to goods or services for the purpose of distinguishing, the goods or services in relation to which the mark is used or proposed to be used from the same kind of goods or services connected in the course of trade with any other person."

Section 42 concerns 'certification trade marks' and provides as follows:

> "A mark capable of distinguishing, in the course of trade, goods or services certified by any person in respect of kind, quality, quantity, intended purpose, value, geographical origin or other characteristics of the goods or services, or the mode or time of production of the goods or of rendering of the services, as the

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of the case in question, however).

135 These may supplement or even overlap with some of the common law remedies. See for example, section 33 of the current *Trade Marks Act*, section 41(3) of the current *Copyright Act* and Van Heerden & Neethling: 1995:266 *et sqq*. But it is generally accepted that protection is not extended to cases which do not fall within the boundaries of the common law or statutory protection (e.g. designs registered as aesthetic or functional designs). This principle was accepted by the Appellate Division in *Taylor and Horne (Pty) Ltd v Dentall (Pty) Ltd* 1991 1 SA 412 (A) 422 and confirmed in the cases of *Payen Components SA Ltd v Bovic Gaskets CC* 1994 2 SA 464 (W) and *The Concept Factory v Heyl* 1994 2 SA 105 (T). According to Sinclair (1997: 66) the only direct references to general advertising practise in the South African law can be found in the *Trade Practices Act* No. 76 of 1976 (as amended by Act 49 of 1985) and the *Harmful Business Practices Act* No. 71 of 1988.

case may be, from goods or services not so certified, shall, on application in the prescribed manner, be registrable as a certification trade mark in respect of such first-mentioned goods or services in the name, as proprietor thereof, of that person: Provided that a mark may not be so registered in the name of a person who carries on a trade in the goods or services in respect of which registration is sought."

The provisions of section 42(2) are:-

"Subject to the provisions of this section, the provisions of this Act shall except in so far as is otherwise provided, and in so far as they can be applied, apply, to a certification trade mark."

Section 43 concerns 'collective trade marks' and provides as follows:-

"(1) A mark capable of distinguishing, in the course of trade, goods or services of persons who are members of any association from goods or services of persons who are not members thereof, shall on application in the manner prescribed and subject to the provisions of this section, be registrable as a collective trade mark in respect of such first-mentioned goods or services in the name of such association as the proprietor thereof.

(2) Geographical names or other indication of geographical origin may be registered as collective trade marks.

(3) Subject to the provisions of this section, the provisions of this Act shall, except in so far as is otherwise provided , and in so far as they can be applied, apply to a collective trade mark."

'Device' is defined as

"... any visual representation or illustration capable of being reproduced upon a service, whether by printing, embossing or by any other means."

Subsection (2) of section 2 provides as follows:

"References in this Act to the use of a mark shall be construed as references to-

the use of a visual representation of the mark;

in the case of a container, the use of such container;

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[136] No. 194 of 1993.

in the case of a mark which is capable of being audibly reproduced, the use of an audible reproduction of the mark."

Subsections 3(a) and (b) concern the 'use of a mark in relation to' goods or services as being construed (a) in the case of goods as

"the use thereof upon, or in physical or other relation to, such goods,"

and (b) in the case of services as

"the use thereof in any relation to the performance of such services."

Section 34 concerns the infringement of registered trade marks, subsection 1 thereof providing as follows:-

"(a) the unauthorised use in the course of trade in relation to goods or services in respect of which the trade mark is registered, of an identical mark or of a mark so nearly resembling it as to be likely to deceive or cause confusion;

(b) the unauthorised use of a mark which is identical or similar to the trade mark registered, in the course of trade in relation to goods or services which are so similar to the goods or services in respect of which the trade mark is registered, that in such use there exists the likelihood of deception or confusion;

(c) the unauthorised use in the course of trade in relation to any goods or services of a mark which is identical or similar to a trade mark registered, if such trade mark is well known in the Republic and the use of the said mark would be likely to take unfair advantage of, or be detrimental to, the distinctive character or the repute of the registered trade mark, notwithstanding, the absence of confusion or deception: ..."

Section 35 concerns the protection of well-known marks under the Paris Convention, providing as follows:-

"(1) References in this Act to a trade mark which is entitled to protection under the Paris Convention as a well-known trade mark, are to a mark which is well-known in the Republic as being the mark of -

(a) a person who is a national of a convention country; or

(b) a person who is domiciled in, or has a real and effective industrial or commercial establishment in a convention country, whether or not such person

carries on business, or has any goodwill, in the Republic.

(1A) In determining for the purposes of subsection (1) whether a trade mark is well-known in the Republic, due regard shall be given to the knowledge of the trade mark in the relevant sector of the public, including, knowledge which has been obtained as result of the promotion of the trade mark.

(2) ....

(3) The proprietor of a trade mark which is entitled to protection under the Paris Convention as a well-known trade mark is entitled to restrain the use in the Republic of a trade mark which constitutes, or the essential part of which constitutes, a reproduction, imitation or translation of the well-known trade mark in relation to goods or services in respect of which the trade mark is well-known and where the use is likely to cause deception or confusion.

(4) Where by virtue of section 10(8), the authorisation of the competent authority of a convention country, or an international organisation is required for the registration of a mark as a trade mark, such authority or organisation is entitled to restrain the use in the Republic of such a mark without such authorisation."

Section 10(8) referred to in section 35(4) *supra*, has a bearing on marks which consist of or contain the national flag, or the armorial bearings or any other state emblems or an official sign or hallmark (or imitations of the aforementioned) related to convention countries. Section 10(8) in question also has a bearing on marks which consist of or contain the flag, the armorial bearings or any other emblem, or an imitation from a heraldic point of view, or the name, or the abbreviation of the name, of any international organisation of which one or more convention countries are members.

It is obvious that comparative advertising which constitutes an infringement of section 34 (see *supra*), constitutes unlawful conduct.

In view of the exclusion of 'a certification trade mark' and 'a collective trade mark' from the definition of a 'trade mark' in the Act in question and the reference only to a registered 'trade mark' in section 34 and to 'trade mark' in section 35(3),

it is submitted that infringements of registered 'certification trade marks' and registered 'collective trade marks' in terms of section 34 will not be possible and that the restraint envisaged in terms of section 35, pertaining to these two categories of trade marks, will also not be possible.

It is submitted, however, that comparative advertising, involving certification trade marks or collective trade marks, could in appropriate circumstances, for example, where such advertising results in misrepresentation or deception as to a competitor's own performance, be unlawful resulting in unlawful competition[137] and furthermore such advertising could run foul of requirement(s) or precept(s) related to self-regulation.[138]

It is also obvious that comparative advertising, which constitutes conduct as envisaged or contemplated in subsections 35(3) and (4), is subject to restraint (see *supra*).

With further reference to section 10 of the current *Trade Marks Act*, such section concerning "unregistrable trade marks", and with special reference to subsections (7), (8), (12) and (13), for example, it is submitted that analogous comparative advertising could, in appropriate circumstances, also constitute unlawful competition and/or fall foul of precept(s) related to self-regulation. Subsection (7) involves *mala fide* conduct. Subsection (12) involves conduct which is inherently deceptive or conduct which would be likely to deceive or cause confusion, be contrary to law, be *contra bonos mores*, or be likely to give offence to any class of persons. Subsection (13) also relates to conduct which would be likely to cause deception or confusion. Subsection (8) involves the national flag, armorial bearings or any other state emblem, an official sign or hallmark, etc., such relating not only to convention countries and certain international organisations (see supra) but also to the Republic of South Africa.

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137 Cf. *supra*.
138 Cf. *infra*.

- The Trade Marks Act No. 62 of 1963[139]

Section 44(1), as amended, reads as follows:

> "Subject to the provisions of subsections (2) and (3) of the section and of sections 45 and 46, the rights acquired by registration of a trade mark shall be infringed by -
>
> (a) unauthorised use as a trade mark in relation to goods or services in respect of which the trade mark is registered, of a mark so nearly resembling it as to be likely as to deceive or cause confusion; or
>
> (b) unauthorised use in the cause of trade, otherwise than as a trade mark, of a mark so nearly resembling it as to be likely to deceive or cause confusion, if such use is in relation to or in connection with goods or services for which the trade mark is registered and is likely to cause injury or prejudice to the proprietor of the trade mark:
>
> Provided that in the case of a trade mark registered in part B of the register, no interdict, or other relieve shall, for purposes of paragraph (a) of this subsection, be granted if the defendant establishes to the satisfaction of the court that the use of which the proprietor of the registered trade mark complains is not likely to be taken as indicating a connection in the course of trade between the goods or services and some person having the right either as proprietor or as registered user to use the trade mark".

According to Dean[140] the section 44(1)(a) infringement amounts to a statutory adaptation of the Common Law wrong of passing-off. Because the trade mark is reproduced in the advertisement, the advertised goods or services can be understood to be those of the plaintiff.

An excellent example of the application of section 44(1)(b) can be found in the *Miele* case[141] where Judge Corbett stated -

> "...where the mark is used for other purposes such as, for example, in order to compare the user's goods or services with those of the proprietor of the mark...

139 Which had been in force for nearly 30 years before it was repealed by the current *Trade Marks Act* – cf. *supra*.

140 1990: 108.

141 *Miele et Cie GmbH & co. v Euro Electrical (Pty) Ltd* 1971(1) SA 598(A) H-I.

or to indicate that the goods or services may be utilised in substitution for those of the proprietor of the mark...".

According to Dean's[142] summary of the relevant findings in the *Miele* case, the proprietor who claims infringement under section 44(1)(b) is required to prove that:

1. There has been use of the trade mark by the alleged infringer.
2. The use occurred in the course of the trade.
3. The use was unauthorised .
4. The use took place in relation to or in connection with goods or services for which the trade mark is registered.
5. The use was otherwise than as a trade mark.
6. The use is likely to cause injury or prejudice to the proprietor of the trade mark.

According to the interpretation of section 44(1)(b) in question, it thus seems clear that this subsection would also involve the use of a registered trade mark in comparative advertising. [143]

- Trade Marks Act No 194 of 1993

Section 34(1)(a)[144] of the Act requires the plaintiff to prove:

a) use[145] of the registered trade mark or of a mark so nearly resembling it as to be likely to deceive or cause confusion,
b) that the trade mark is registered,
c) that the use is in the course of trade, and

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142 1990:108.

143 Also cf. *John Craig (Pty) Ltd v Dupa Clothing Industries (Pty) Ltd* 1977 (3) SA 144 (T) 150, where it was found that 'deception' in terms of this section must be interpreted as "... to cause someone to believe something which is false" and 'confusion' "...to cause bewilderment, doubt or uncertainty".

144 A combination of sections 44(1)(a) and (b) of the 1963 Act.

145 The 1963 Act distinguished between 'use as a trade mark' and 'use otherwise than as a trade mark', but although the 1993 Act makes no mention of it, Webster and Page submit

d) that the use is unauthorised.

An old favourite of advertisers is innuendo and they frequently make use of this technique to side-step the possible consequences of direct comparative advertising. The legislature had however foreseen this loophole and enacted section 34(1)(a) which now also covers use of a trade mark so nearly resembling the registered trade mark as to be likely to deceive or cause confusion [My emphasis].[146]

Section 34(1)(b)[147] is applicable when the use is in relation to similar[148] goods. For example where an advertisement reads: "CHEAP soap, it is the OMO of soaps", and OMO is registered as a trade mark for washing powders. Because soap is similar to washing powder, the aforementioned advertisement will constitute infringement in terms of section 34(1)(b).[149] The courts have to consider the degree of similarity between the goods,[150] but Webster and Page submit that the degree of similarity between the marks and the degree of similarity between the goods cannot be viewed in isolation. According to them the courts must consider whether the

> "combined effect [of the aforementioned similarities] will be to produce a likelihood of deception or confusion when that mark is used on those goods or

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that 'unauthorised use' includes both the aforementioned. See discussion *infra*.

146 Cf. *Smithkline Beecham Consumer Brands (Pty) Ltd (formerly known as Beecham South Africa (Pty) Ltd v Unilever plc* 1995(2) SA 903, where the court considered the degree of similarity between the marks with regard to section 17(1) of the *Trade Marks Act* 62 of 1963.

147 This section provides that the registered trade mark will be infringed by: "The unauthorised use of a mark which is identical or similar to the trade mark registered, in the course of trade in relation to goods or services *which are so similar to the goods or services in respect of which the trade mark is registered*, that in such use there exists the likelihood of deception or confusion". [My emphasis] It is thus an enactment of the common law principle, that a common field of activity is not a prerequisite for a passing-off action. *Capital Estate & General Agencies (Pty) Ltd v Holiday Inns Inc* 1977 2 SA 916 (A). See also *Danco Clothing (Pty) Ltd v Nu-care Marketing Sales and Promotions (Pty) Ltd* 1991 4 SA 850 (A) 860-861 for what the plaintiff must prove in the absence of a common field of activity, as well as *British Sugar plc v James Robertson & Sons Ltd* [1996] RPC 281.

148 I.e. the average consumer's perception or the likelihood of the average consumer to become confused. Mostert 1995: 447

149 Webster and Page 1997: 12.18.2.

services."

There exists a further possibility that a comparative advertisement may constitute trade mark infringement in terms of section 34(1)(c).[151] This will be the case when the commercial makes

> "unauthorised use in the course of trade in relation to any goods or services of a mark which is identical or similar to a trade mark registered,[152] if such trade mark is well known in the Republic and the use of the said mark would be likely to take unfair advantage of, or be detrimental to, the distinctive character or the repute of the registered trade mark, notwithstanding the absence of confusion or deception."[153]

The prejudiced proprietor of the registered trade mark may thus institute an action against an advertiser where his trade mark is diluted,[154] for example by an

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150 Webster and Page 1997: par 12.18.2.

151 Both Ginsburg (Visser 1995: 43) and Webster and Page (1997: par 12.24, 12.27) however caution the courts not to, while protecting the rights of trade mark proprietors, create an absolute monopoly or a form of copyright in a trade mark. Ginsburg (Visser 1995: 42) proposes that the courts may take note of the two United States decisions, namely *Bi-Rite Enterprises, Inc v Button Master* 555 F Supp 1188, 217 USPQ 910 (SD NY 1983) and *Mead Data Central Inc v Toyota Motor Sales USA Inc* 875 F 2d 1026, 10 USPQ 2d 1961 (2nd Circuit 1989), to limit the application of the dilution provision.

152 Webster and Page (1997: par 12.26) submit that this phrase must be interpreted as 'having a marked resemblance or likeness' and that the offending mark should immediately bring to mind the well-known trade mark. Well-known may be interpreted as that the reputation must extend to a substantial number of members of the public or persons in the trade in question. When determining whether a mark is well-known or not, our courts may also have regard to the factors listed in the United States *Federal Trade Mark Dilution Act* of 1995, namely: a) the degree of inherent or acquired distinctiveness of the mark, b) the duration and extent of use of the mark in connection with the goods or services, c) the duration and extent of advertising and publicity of the mark, d) the geographical extent of the trading area in which the mark is used, e) the channels of trade for the goods or services with which the proprietor's mark is used, f) the degree of recognition of the proprietor's mark in its and the defendant's trading areas and channels of trade, g) the nature and extent of use of the same or similar sign by third parties. Section 16(2) (read in conjunction with section 16(3)) of the *GATT Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS)* contains similar provisions. See *Safari Surf Shop CC v Heavywater* [1996] 4 All SA 316 (D);*McDonald's Corporation v Joburgers Drive-Inn Restaurant (Pty) Ltd* 1997 1 SA 1 (A); *Mead Data Central Inc v Toyota Motor Sales USA Inc* 875 F2d 1026, 10 USPQ 2d 1961 (2nd Circuit 1989).

153 See *Cambridge Plan AG v Moore* 1987 4 SA 821 (D) 847-848.

154 In the words of Professor Rutherford: "The more the trade mark is used in relation to the products of others, the less likely it is to focus attention on the proprietor's product. The reputation and unique identity of the trade mark will become blurred. The selling power

other similar interpretation.

Wheeldon argues that this interpretation is not justified in the light of the interpretation of statutes where the *Constitution* is supreme (Act 108 of 1996).[159] He bases his argument on the fact that the purpose of the right conferred by registration, is to indicate a connection in the course of trade between the proprietor and the product and that the provision contained in section 34(1) is to prevent third parties from interfering with that exclusive use.[160] Consequently, according to him, this right cannot be used to prevent any reference to the trade mark that identifies the goods of the registered proprietor. If this position was not the intention of the legislature, it would have used explicit language to state the opposite.[161]

He specifically refers to section 35[162] of the 1993 *Constitution* where the legislature specifies that when interpreting a statute, regard must be given to public international law and regard may be taken of comparable foreign case law, if such law is applicable.

According to Wheeldon[163] the position in foreign law (e.g. the USA) is that the *First Amendment* to the *Constitution* of the USA guarantees freedom of speech and therefore the parody 'use' of trade marks has been permitted, so long as there is no confusion. He (Wheeldon) is of the opinion that where the public is not confused, and there is no likelihood of confusion the trade mark law must not be stretched to render the use of the trade mark an infringement. This view is based on the finding that in the UK and the USA the primary concern of public policy is the protection of the public from confusion.

Section 242(3) of the South African *Constitution* of 1993 requires that the words

159 Wheeldon 1996: 585.
160 Wheeldon 1996: 586.
161 1996: 587.
162 Section 39 of Act 108 of 1996.

in an Act that would apparently limit a fundamental right must be interpreted, if possible, in such a way as not to limit that right. This provision negates the argument that the language of section 34 implies a strict liability for infringement for anybody whom 'uses' a registered trade mark for any purpose whatsoever.

He concludes that brand comparative advertising appears to be lawful in terms of the *Trade Mark Act* of 1993, but that there can be no certainty until the Appellate Division or the Constitutional Court rules on the point.[164]

However, Laing[165] counters the aforegoing argument of Wheeldon. She reasons that a trade mark's historical function was that of 'a badge of origin', with the purpose to indicate the connection between the owner of the trade mark and his goods or services.[166] The effect being that a trade mark could only be infringed if a confusingly similar mark was used in relation to identical goods or services. Thus the proprietor of a trade mark had to prove under the 1963 Act that his trade mark had the dual function of distinguishing his goods or services and of indicating a connection in trade with the said proprietor. Accordingly comparative brand advertising constituted use otherwise than as a trade mark and was not actionable under section 44(1)(a), but well under section 44(1)(b) of the Act.[167] Section 44(1)(b) also made provision for the infringement of a registered trade mark where an advertiser used it in a generic sense. As far as the 1993 Act is concerned Laing mentions that the definition of a trade mark has changed from that in the previous Act. A trade mark is no longer defined in terms of its origin function, but rather in terms of its distinguishing function.
She interprets the phrase 'unauthorised use' to mean use as a trade mark, as well as use otherwise than as a trade mark. She counters Wheeldon's argument by saying that he expects the court to read words into section 34(1)(a) and that Parliament clearly intended to omit the two phrases and to combine it in the

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163 Wheeldon 1996: 588.
164 Wheeldon 1996: 588.
165 1998: 55.
166 Laing 1998: 55.

words 'unauthorised use in the course of trade'. In further support of this argument she mentions the fact that if Parliament intended the use to be only use as a trade mark, it would successfully remove the protection granted to proprietors where their trade marks are used in the generic sense. As this is definitely not the case, Wheeldon's whole argument based on the word 'use' is not as sound as he would like it to be.[168]

As mentioned above the traditional function of the trade mark was that of a 'badge of origin' and Wheeldon based the rest of his argument on this historical function. Since comparative brand advertising does not use the other proprietor's registered trade mark as a 'badge of origin' it does not infringe the trade mark, according to Wheeldon. As said above, the definition of a trade mark has however changed and the distinguishing function is now of importance. As comparative advertisements strive towards distinguishing the goods or services of the advertiser from that of the competitor the second leg of Wheeldon's argument does not hold water. According to Laing, the correct interpretation of section 34 is thus that comparative brand advertising, where a registered trade mark is used, is unlawful.[169]

Another worthwhile section to take note of is section 34(2) of the 1993 Act. It lists a *numerus clausus* of defences to a claim of trade mark infringement. During the second draft of the *Trade Marks Bill*, Parliament worded section 34(2)(d) as follows:

> "[A] registered trade mark is not infringed by ... bona fide use of the trade mark by any person for the purpose of identifying goods or services as those of the proprietor of the trade mark; provided that the use contemplated is consistent with fair practice or not such as to take unfair advantage or be detrimental to the distinctive character or repute of the trade mark."

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167 Of 1963.
168 Laing 1998: 56.
169 Laing 1998: 57.

If Parliament subsequently did enact this section, it would have meant that comparative brand advertising (even where a proprietor's registered trade mark is employed) would be permissible in some instances. But, this was not the end result, and after a debate before the relevant Parliamentary Committee on Trade and Industry, Parliament removed it from the final Bill. Laing[170] thus argues that by reason of this omission it is clear that Parliament intended to forbid comparative brand advertising that employs registered trade marks.

Most of the works which were consulted during the research[171] seem to support Laing's arguments presented above, and in accordance with her argument they are even of the opinion that the 1993 Act appears to be more stringent in forbidding comparative brand advertising.[172] This is the case, because a proprietor had to prove, under the 1963 Act, that there was a likelihood of harm, and now in terms of section 34(1)(a) of the 1993 Act the proprietor only has to show that there was unauthorised use in the course of trade, of an identical or confusingly or deceptively similar mark in relation to the goods or services for which his trade mark is registered. The burden of proof on the trade mark proprietor is thus at present slightly lighter than previously.

Many are in favour of the new Act and the rationale behind most of the approvals is that the trade mark (and the reputation of it) is the greatest asset of a business and it must be protected by law.

The advocates of this more strict interpretation of the *Trade Marks Act* will find great satisfaction in the judgement of Judge Cleaver in *Abott Laboratories and Others v UAP Crop Care (Pty) Ltd and Others.*[173] In this case the proprietors of

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170 Laing 1998: 57.

171 E.g. Webster and Page 1997: par 12.18.2, fn 2. See also Job's comment in this regard: "...it is submitted that even innocuous, unprejudicial brand comparison is now prohibited". Visser 1995: 23; Sinclair 1997: 68.

172 See also Woker (1995: 224) who submits that although the new Act did extend the protection of trade mark proprietors, it does not prohibit the indirect referral to other products or services.

173 1999(3) SA 624 CPD.

the trade mark 'Promalin'[174] turned to the court for relief in the form of an interdict, because the proprietors of the trade mark 'Perlan' distributed a 20-page colour brochure in which they (Perlan) compared these two products (that are competing within the apple farming sector) and reached the conclusion that Perlan was the 'better product' of the two. Although there was no passing-off or any attempt to indicate that Perlan is identical to Promalin, the applicants contended that the mere use of their trade mark in the defendants' brochure constituted trade mark infringement in terms of section 34(1)(a) of the Act. Council for the Respondents argued that section 34(1)(a) did not apply because:

> "a) there were no goods of the respondents upon which or in relation to which the applicants' trade mark had been used;
> b) even if it could be argued that the use of the applicants' mark in the brochure had been use in relation to goods, then that use had been in relation to the applicants' own goods; and
> c) if it was the applicants' case that the use of the mark had resulted in a dilution of their trade mark rights, their remedy was to be found in section 34(1)(c) and not in section 34(1)(a)."

In accordance with the argument of Laing, the Judge explains that the South African law has

> "moved away from the 'badge of origin approach' to a trade mark, for the purpose of a trade mark is defined as being that of *distinguishing* the goods or services from the same kind of goods or services connected in the course of trade with any other person."[175] [My emphasis]

He continues to discuss[176] the differences between section 34(1)(a) of the 1993 Act and section 44(1)(a) and (b) of the 1963 Act. Although section 34(1)(a) incorporates all the provisions of section 44(1)(a) and (b), the 1993 Act no longer

174 The first applicant registered two trade marks in terms of the *Trade Marks Act* 194 of 1993 and the second applicant was the registered user of one of these trade marks, namely 'Promalin'. The second respondent was a British producer of agrochemicals and was also the proprietor in the United Kingdom of the trade mark 'Perlan'. The first and third respondents were the South African distributors of these products.

175 At 631 F-G.

refers to use of a mark 'as a trade mark' or 'otherwise than a trade mark'. Furthermore it also makes no mention that the use of the mark must 'be likely to cause injury or prejudice'. He concludes that section 34(1)(a) of the 1993 Act

> "has greatly increased the ambit of trade mark infringement".

Consequently, as all the requirements of section 34(1)(a) were met, the comparative advertisement was found to be in contravention of the *Trade Marks Act*.

The common law principle that

> "liability for a delict attaches not only to the person actually committing it, but also to anyone who instigated, aided or abetted its commission or authorised another to commit it on his behalf",

was applied in the *Dan River* case[177] to the statutory wrong of trade mark infringement. The applicability of this principle to trade mark infringement was approved of in the Appellate Division's decision in *Esquire Electronics Ltd v Executive Video*.[178] The implication of the approval for comparative advertisements is that a person who is connected with an unlawful or illegal comparative advertisement, for example the scriptwriter, may incur appropriate legal liability.

It must be noted that the South African law now also protects the trade mark of a proprietor even though he has not registered his trade mark in the Republic and where no goodwill exists here.[179] Section 35[180] of the *Trade Marks Act* affords

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176 At 632 A-C.

177 *Dan River Mills Inc v Shalom Investments (Pty) Ltd* (unreported decision WLD 7 November 1969).

178 1986 2 SA 576 (A) 590D.

179 Thus overthrowing the conservative decision in *Tie Rack plc v Tie Rack Stores (Pty) Ltd and Another* 1989 (4) SA 427 (T), that required proof of a local business activity within the jurisdiction of the South African courts. Mostert 1995: 448.

180 Cf. *supra*. Southwood J in *Robert C Wian Enterprises Inc v Mady* (1965) 49 DLR 65, at 20, formulated the standard of knowledge required for a trade mark to be considered well known in terms of section 35 as follows: "A trade mark cannot be well known in the Republic of South Africa 'unless knowledge of it pervades the country to a substantial extent' and this means that the knowledge cannot be restricted to a local area in South

this protection to bring the South African legislation in line with the country's obligation under the Paris Convention.[181] This amendment can be applauded since South Africa is now part of the world's commercial community.[182]

3.2 THE COPYRIGHT ACT[183]

Section 1: Definitions:

'adaptations':

"in relation to -

(a) a literary work, includes -

(i) in the case of a non-dramatic work, a version of the work in which it is converted into a dramatic work;

(ii) in the case of a dramatic work, a version of the work in which it is converted into a non-dramatic work;

(iii) a translation of the work; or

(iv) a version of the work in which the story or action is conveyed wholly or mainly by means of pictures in a form suitable for reproduction in a book or in a newspaper, magazine or similar periodical;

(b) a musical work, includes any arrangement or transcription of the work, if such arrangement or transcription has an original creative character;

(c) an artistic work, includes a transformation of the work in such a manner that the original or substantial features thereof remain recognizable;

(d) a computer program includes -

(i) a version of the program in a programming language, code or notation

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Africa. It must be well known across South Africa 'among potential dealers in or users of the wares or services with which it is associated'. In South Africa this would cover all ethnic groups at all levels of society." See critique of Visser (1996: 17) on this judgement, as well as the 'likely consumer' test as formulated in *McDonald's Corporation v Joburgers Drive-Inn Restaurant (Pty) Ltd & Another* 1997 (1) SA 1 (A).

181 Section 6*bis* of the Paris Convention for the Protection of Industrial Property of 20 March 1983 (as revised).

182 Derrick Dickens, executive director of the Association of Marketers, as quoted by Addison (1996: 48), stated it as follows: "We're living in a big world where global business has to be conducted, so the laws must harmonise".

183 No. 98 of 1978, as amended.

different from that of the program; or

(ii) a fixation of the program in or on a medium different from the medium of fixation of the program."

'artistic work':

"means, irrespective of the artistic quality thereof -

(a) paintings, sculptures, drawings, engravings and photographs;

(b) works of architecture, being either buildings or models of buildings; or

(c) works of craftmanship not falling within either paragraph (a) or (b)."

'drawing':

"includes any drawing of a technical nature or any diagram, map, chart or plan."

'literary work':

"includes, irrespective of literary quality and in whatever mode or form expressed-

(a) novels, stories and poetical works;

(b) dramatic works, stage directions, cinematograph film scenarios and broadcasting scripts;

(c) textbooks, treatises, histories, biographies, essays and articles;

(d) encyclopaedias and dictionaries;

(e) letters, reports and memoranda;

(f) lectures, speeches and sermons; and

(g) tables and compilations, including tables and compilations of data stored or embodied in a computer or a medium used in conjunction with a computer,

but shall not include a computer program."

'reproduction':

"in relation to -

(a) a literary or musical work or a broadcast, includes a reproduction in the form of a record or a cinematograph film;

(b) an artistic work, includes a version produced by converting the work into a three-dimensional form or, if it is in three dimensions, by converting it into a two-

dimensional form;

(c) any work, includes a reproduction made from a reproduction of that work;

and references to 'reproduce' and 'reproducing' shall be construed accordingly."

Section 2:

"Works eligible for copyright -:

(1) Subject to the provisions of this Act, the following works, if they are original, shall be eligible for copyright -

(a) literary works;

(b) musical works;

(c) artistic works;

(d) cinematograph films;

(e) sound recordings;

(f) broadcasts;

(g) programme-carrying signals;

(h) published editions;

(i) computer programs.

(2) A work, except a broadcast or programme-carrying signal, shall not be eligible for copyright unless the work has been written down, recorded, represented in digital data or signals or otherwise reduced to a material form.

(2A) A broadcast or a programme-carrying signal shall not be eligible for copyright until, in the case of a broadcast, it has been broadcast and, in the case of a programme-carrying signal, it has been transmitted by a satellite.

(3) A work shall not be ineligible for copyright by reason only that the making of the work, or the doing of any act in relation to the work, involved an infringement of copyright in some other work."

Sections 6:

"Nature of copyright in literary or musical works:-

Copyright in a literary or musical work vests the exclusive right to do or to authorise the doing of any of the following acts in the Republic:

(a) Reproducing the work in any manner or form;

(b) publishing the work if it was hitherto unpublished;

(c) performing the work in public;

(d) broadcasting the work;

(e) causing the work to be transmitted in a diffusion service, unless such service transmits a lawful broadcast, including the work, and is operated by the original broadcaster;

(f) making an adaptation of the work;

(g) doing, in relation to an adaptation of the work, any of the acts specified in relation to the work in paragraphs (a) to (e) inclusive."

Section 7:

"Nature of copyright in artistic works:-

Copyright in an artistic work vests the exclusive right to do or to authorise the doing of any of the following acts in the Republic:

(a) Reproducing the work in any manner or form;

(b) publishing the work if it was hitherto unpublished;

(c) including the work in a cinematograph film or a television broadcast;

(d) causing a television or other programme, which includes the work, to be transmitted in a diffusion service, unless such service transmits a lawful television broadcast, including the work, and is operated by the original broadcaster;

(e) making an adaptation of the work;

(f) doing, in relation to an adaptation of the work, any of the acts specified in relation to the work in paragraphs (a) to (d) inclusive."

Section 8:

"Nature of copyright in cinematograph films:-

(1) Copyright in a cinematograph film vests the exclusive right to do or to authorize the doing of any of the following acts in the Republic:

(a) Reproducing the film in any manner or form, including making a still photograph therefrom;

(b) causing the film, in so far as it consists of images, to be seen in public, or, in so far as it consists of sounds, to be heard in public;

(c) broadcasting the film;

(d) causing the film to be transmitted in a diffusion service, unless such service transmits a lawful television broadcast, including the film, and is operated by the

original broadcaster;

(e) making an adaptation of the film;

(f) doing, in relation to an adaptation of the film, any of the acts specified in relation to the film in paragraphs (a) to (d) inclusive;

(g) letting, or offering or exposing for hire by way of trade, directly or indirectly, a copy of the film."

Section 9:

"Nature of copyright in sound recordings:-

Copyright in sound recording vests the exclusive right to do or to authorise the doing of any of the following acts in the Republic:

(a) Making, directly or indirectly, a record embodying the sound recording;

(b) Letting, or offering or exposing for hire by way of trade, directly or indirectly, a reproduction of the sound recording."

Section 10:

"Nature of copyright in broadcasts:-

Copyright in a broadcast vests the exclusive right to do or to authorise the doing of any of the following acts in the Republic:

(a) Reproducing, directly or indirectly, the broadcast in any manner or form, including, in the case of a television broadcast, making a still photograph therefrom;

(b) rebroadcasting the broadcast;

(c) causing the broadcast to be transmitted in a diffusion service, unless such service is operated by the original broadcaster."

Section 11:

"Nature of copyright in programme-carrying signals:-

Copyright in programme-carrying signals vest the exclusive right to undertake, or to authorise the direct or indirect distribution of such signals by any distributor to the general public or any section thereof in the Republic, or from the Republic."

Section 11A:

"Nature of copyright in published editions:-

Copyright in a published edition vests the exclusive right to make or to authorise the making of a reproduction of the edition in any manner."

Section 11B:

"Nature of copyright in computer programs:-

Copyright in a computer program vests the exclusive right to do or authorise the doing of any of the following acts in the Republic:

(a) Reproducing the computer program in any manner or form;

(b) publishing the computer program if it was hitherto unpublished;

(c) performing the computer program in public;

(d) broadcasting the computer program;

(e) causing the computer program to be transmitted in a diffusion service, unless such service transmits a lawful broadcast, including the computer program, and is operated by the original broadcaster;

(f) making an adaptation of the computer program;

(g) doing, in relation to an adaptation of the computer program, any of the acts specified in relation to the computer program in paragraphs (a) to (e) inclusive;

(h) letting, or offering or exposing for hire by way of trade, directly or indirectly, a copy of the computer program."

Section 20: In terms of this section any distortion, mutilation or other modification of the works enjoying copyright protection in terms of the Act may constitute an infringement should such be prejudicial to the honour or reputation of the author.

Section 23: This section reads as follows:

"Copyright shall be infringed by any person, not being the owner of the copyright, who, without the licence of such owner, does or causes any other person to do, in the Republic, any act which the owner has the exclusive rights to do or authorise."

It thus seems clear that in the event of comparative advertising constituting

"any act which the owner has the exclusive rights to do or to authorise"[184] such advertisement may also constitute a related infringement.

In *Galago Publishers (Pty) Ltd v Erasmus*,[185] it was held that it is not necessary for a plaintiff in copyright infringement proceedings to prove a reproduction of the whole work, it being sufficient if a substantial part of the work is reproduced. The plaintiff must show (i) that there is sufficient objective similarity between the alleged infringing work and the original work (or a substantial part thereof) for the former to be properly described not necessarily as identical to, but a reproduction or copy of the latter and (ii) that the original work was the source from which the alleged infringing work was derived. Although as a general rule, there is no copyright in ideas, thoughts or facts, the copying of an author's selection and compilation of facts and the manner in which he presents them may well amount to an infringement of copyright; it is generally a matter of degree.

Section 41(3):

> "The provisions of this Act shall not derogate from any rule of law relating to confidential or privileged information, unlawful competition or personality rights."

The Act thus protects written texts, including advertising copy,[186] literary works and drawings, photographs and artworks in general as artistic works. Any action that constitutes an unauthorised reproduction or adaptation, or broadcasting, of any of the aforementioned or a substantial part thereof may therefore infringe copyright.[187] In the case of an advertisement it means that the original text of the advertisement and artwork used therein will be protected by copyright and consequently that another advertiser who uses this text or artwork or any substantial part thereof in his advertisement will infringe the copyright of the other

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184 Cf. sections 6-11B and 23 *supra*.

185 1989 (1) SA 276 (A).

186 E.g. a novel idea such as an elephant being hatched from an egg or the Sanlam advertisement where the babies are dressed as adults. Woker 1999: 176.

187 See discussion by Sinclair 1997: 67.

advertiser. [188]

If an advertiser should thus utilise an etiquette of another product in his advertisement and the owner of that product has copyright in that etiquette, such may constitute an infringement of copyright. This entails that an advertiser has to obtain the permission of the copyright owner before he can use a picture, song, tune or film clip from a work over which that owner has copyright.[189]

The legal question whether copyright exists in short phrases and single words arose in the English case of *Exxon Corp v Exxon Insurance Consultants International Ltd*.[190] Graham J held that:

> "[T]he mere fact, however, that a single word is invented and that research or labour was involved in its invention does not in itself necessarily enable it in my judgement, to qualify as an original literary work within Section 2 of the Act."

This decision is criticised by Woker[191] in the light of the fact that the judge refers to certain requirements that are not set out in the *Copyright Act*. She is of the opinion that an invented word should be regarded as a literary work, and thus protected by copyright, provided that

> "sufficient selection, labour, skill, effort and the like are involved in its creation."[192]

With regard to copyright in ideas, an advertiser must be cautious not to lean too heavily on the viewpoint that there is no copyright in ideas, because although the actual information may not be protected by copyright, the way in which it is presented may well be.[193]

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188 Dean 1996: 33.
189 Woker 1999: 169. See further the discussion in Woker (1999: 171) of the case of *Cotton v Frost* (1936) 56 NZLR 6277.
190 1982 RPC 69.
191 1999: 173.
192 *Id.* at 174.
193 Woker 1999: 176. Cf *Galago Publishers (Pty) Ltd v Erasmus*, *supra*.

3.3. THE DESIGNS ACT[194]

In section 1 the legislature defined an 'aesthetic design' and a 'functional design'.

Aesthetic design':[195]

> "means any design applied to any article, whether for the pattern or the shape or the configuration or the ornamentation thereof, or for any two or more of those purposes, and by whatever means it is applied, having features which appeal to and are judged solely by the eye, irrespective of the aesthetic quality thereof."

'Functional design':[196]

> "means any design applied to any article, whether for pattem or the shape or the configuration thereof, or for any two or more of those purposes, and by whatever means it is applied, having features which are necessitated by the function which the article to which the design is applied, is to perform, and includes an integrated circuit topography, a mask work and a series of mask works."

Section 20(1):

> "The effect of the registration of a design shall be to grant to the registered proprietor in the Republic, subject to the provisions of this Act, for the duration of the registration the right to exclude other persons from the making, importing, using or disposing of any article included in the class in which the design is registered and embodying the registered design or a design not substantially different from the registered design, so that he shall have and enjoy the whole profit and advantage accruing by reason of the registration."[197]

In so far as comparative advertising constitutes the "using" or "disposing" of articles as contemplated in the aforementioned section, such advertising may

194 195 of 1993, as amended by Intellectual Property Laws Amendment Act 38 of 1997.

195 Section 14(1) requires this kind of design to be a) new; and b) original for registration thereof. Section 14(2) defines the word 'new' as "different from or if it [the design] does not form part of the state of the art immediately before the date of application for registration thereof or the release date thereof, whichever is the earlier."

196 Section 14(1) provides that the proprietor of such a design can apply for registration thereof if it is a) new; and b) not commonplace in the art in question.

constitute an infringement in terms of the Act in question. It is also submitted that in so far as comparative advertising implies the "making, importing, using or disposing" of articles as contemplated *supra*, such advertising may be unlawful and constitute unlawful competition in that a rival's goodwill is infringed.

3.4 BUSINESS NAMES ACT[198]

Section 1 of the Act defines a business as:

> "any business of trade established for the acquisition of gain and carried on by any person, company, association, syndicate or partnership, or by the individual members of any company, association, syndicate or partnership."

Section 3 requires of persons who carry on such a business to disclose certain particulars[199] if they issue or send to any person in the Republic any trade catalogue, trade circular, business letter, order for goods or statement of account. Any person who contravenes the provisions of this section will be committing an offence.

To stay within the boundaries of the law an advertiser should thus be sure to comply with the aforementioned requirements if he is planning to distribute a comparative advertisement in which any one of these documents is incorporated.

Another section that is worth taking note of is section 5, which entitles any aggrieved person to apply in writing to the Registrar to forbid any person who

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197 Section 20(1). See also Michau 1996: 102-103.

198 No. 27 of 1960, as amended.

199 Such as: a) the name, title or description under which the business is carried on; b) a statement of the place where the business is carried on; c) if the business is carried on by a corporate body under a name other than the name by which it is established or registered, the name under which it is established or registered; d) if the business is carried on in partnership, the name of every partner (whether or not a natural person) other than a special partner; and e) in respect of every natural person, except a special partner, carrying on the business - i) his present christian names or the initials thereof and his present surname; ii) subject to the provisions of subsection (2), every former christian name and surname which he may have borne previously; and iii) his nationality, if he is not a South African citizen.

carries on any business under any name, title or description which is in the opinion of the Registrar calculated to deceive or mislead the public or to cause annoyance or offence to any person or class of persons or is suggestive of blasphemy or indecency, to cease to carry on the business under that name, title or description. If the Registrar should be of the opinion that the name, title or description that the advertiser uses in his advertisement is calculated to deceive or mislead the public, he will have the authority to prohibit that advertiser from using that name, title or description again. [My emphasis]

3.5 MERCHANDISE MARKS ACT[200]

Section 1 provides the following applicable definitions:

apply to:

> "means emboss, impress, engrave, etch or print upon or weave into or otherwise-
> a) work into or onto;
> b) annex or affix to; or
> c) incorporate in."

false trade description:

> "means any trade description which is false in a material respect as regards the goods to which it is applied, and includes every alteration of a trade description, whether by way of addition, effacement or otherwise, if that alteration makes the description false in a material respect."

mark:

> "includes a trade mark and, for the purposes of sub-section (1) of section 8 and section 9, a mark used upon or in connection with goods for the purpose of indicating that they are the goods of the proprietor of the mark by virtue of manufacture, production, selection, dealing with or offering for sale."

200 No. 17 of 1941, as amended. This statute was enacted to prohibit the use of deceptive trade marks and also deals with false trade descriptions. Woker 1999: 162.

trade description:

> "means any description, statement or other indication, direct or indirect, as to the number, quantity, measure, gauge or weight of any goods, or as to the name of the manufacturer or producer or as to the place or country in which any goods were made or produced, or as to the mode of manufacturing or producing any goods, or as to the material of which any goods consist, or as to any goods being the subject of any existing patent, privilege, or copyright, and includes any figure, word or mark which, according to the custom of the trade, is commonly taken to be an indication of any of the aforementioned matters."

Section 2 describes the acts that amount to applying a trade description, and for this study subsection (1)(d) appears to be especially relevant since it states that

> "a person shall be deemed to apply a trade description to goods who ... uses in connection with the goods a trade description in such manner as to be likely to lead to the belief that the goods are designated or described by that description."

Whenever an advertiser uses a trade description, in connection with his own or the competitor's product, in his/ her advertisement, he/she must ensure that such use will not be likely to lead any person who sees the advertisement to believe that the goods are designated or described by that description if it is not the true situation.

Subsection 2 clarifies the position even further by determining that goods delivered in pursuance of an offer or request in which reference is made to a trade description contained in any sign, *advertisement*, invoice, wine list, business letter, business paper or other commercial communication, shall for the purposes of paragraph (d) of subsection 1, be deemed to be goods in connection with which that trade description is used. [My emphasis]

Section 7 provides for the commission of an offence in certain circumstances related to persons who sell, let or offer for sale, or hire, goods to which any false trade description is applied.

Another section that is relevant to the present study is section 8, concerning imported goods bearing a name or mark of a South African manufacturer or trader, and which goods are furthermore unaccompanied by an indication of origin. The section reads as follows:

> "(1) Any person who sells or, for the purpose of *advertising* goods, distributes in the Republic any goods which were not made or produced in the Republic, and to which there is applied any name or mark being or purporting to be the name or mark of any manufacturer, producer or trader in the Republic or the name of any place or district in the Republic, shall be guilty of an offence, unless there is added to that name or mark, in a conspicuous manner the name of the country in which the goods were made or produced, with a statement that they were made or produced there." [My emphasis]

Section 9 provides, in much the same way as section 8, that any person who sells or, for the purpose of *advertising* goods, distributes in the Republic any goods which were not made or produced in the Republic, and to which there is applied any trade mark, mark or trade description in any official language of the Republic, shall be guilty of an offence, unless there is added to that mark or description, in a conspicuous manner, the name of the country in which the goods were made or produced, with a statement that they were made or produced there. [My emphasis]

The legislature thus compels an advertiser to disclose the name of the country where related goods were made or produced.
This statute has a penal nature since it classifies certain acts as offences coupled with penalty provisions in the case of any contravention thereof.

3.6 COUNTERFEIT GOODS ACT[201]

In the preamble the legislature declares that the purpose of this Act is to introduce measures aimed against the trade in counterfeit goods so as to further protect owners of trade marks, copyright and certain marks under the *Merchandise Marks Act*, 1941, against the unlawful application, to goods, of the subject matter of their respective intellectual property rights and against the release of goods of that nature (called 'counterfeit goods') into the channels of commerce.[202]

Section 1 defines the following terms as follows:

apply to:

> "with reference to any goods, means used upon or in physical or other relation to any goods, and unless clearly inappropriate, includes to embody or incorporate in any goods."

counterfeiting:

> "a) means, without the authority of the owner of any intellectual property right subsisting in the Republic in respect of protected goods, the manufacturing, producing or making, whether in the Republic or elsewhere, of any goods whereby those protected goods are imitated in such manner and to such a degree that those other goods are substantially identical copies of the protected goods;
>
> b) means, without the authority of the owner of any intellectual property right subsisting in the Republic in respect of protected goods, manufacturing, producing or making, or applying to goods, whether in the Republic or elsewhere, the subject matter of that intellectual property right, or a colourable imitation thereof so that the other goods are calculated to be confused with or to be taken

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201 No. 37 of 1997.

202 The statute is thus aimed at business practices and not private use.

as being the protected goods of the said owner or any goods manufactured, produced or made under his or her licence; or

c) where, by a notice under section 15 of the Merchandise Marks Act, 1941, the use of a particular mark in relation to goods, except such use by a person specified in the notice, has been prohibited, means, without the authority of the specified person, making or applying that mark to goods, whether in the Republic or elsewhere."

However, the relevant act of counterfeiting must also have infringed the intellectual property right in question.

counterfeit goods:

"means goods that are the result of counterfeiting, and includes any means used for purposes of counterfeiting."

Section 2 of the Act concerns certain acts which are prohibited and may constitute an offence with regard to "dealing" in counterfeit goods. Special notice should be taken of subsection (1)(c), the legislature providing that goods that are counterfeit may not be sold, hired out, bartered or exchanged, or be *offered* or exposed for *sale*, hiring out, barter or exchange. [My emphasis]

With this enactment the legislature sounds a clear warning to all advertisers who consider using advertisements to sell their counterfeit goods.

3.7. THE HARMFUL BUSINESS PRACTICES ACT[203]

Section 9 of the *Trade Practices Act*[204] is still enforceable, although this Act has been repealed by the *Harmful Business Practices Act*.

This section prohibits any person from:

1) publishing or displaying any advertisement which is false or misleading in

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[203] No. 71 of 1988.

material respects; or

2) making, in connection with the sale or lease of goods or the provisions of
a service any false or misleading statement or representation in regard to
the nature, properties advantages or uses of the goods or services being offered or the manner in which, the conditions upon which, or the prices at which the good or services may be obtained.

False, misleading or deceptive comparative advertisements may obviously contravene the provisions of the aforementioned section.

The *Harmful Business Practices Act* was enacted essentially to provide for the prohibition or control of certain business practices. It came into operation on 1 July 1988.

Section 1 of the *Harmful Business Practices Act* defines a 'business practice' as including:

> "(a) any agreement, arrangement or understanding, whether legally enforceable or not, between two or more persons;
>
> (b) any scheme, practice or method of trading, including any method of marketing or distribution;
>
> (c) any advertising or type of advertising:
>
> (d) any act or omission on the part of any person, whether acting independently or in concert with any other person;
>
> (e) any situation arising out of the activities of any person or class or group of persons,..."

Section 1 of this Act contains a wide definition of a "harmful business practice":

> "any business practice which, directly or indirectly, has or is likely to have the effect of
>
> a) harming the relations between businesses and consumers,
>
> b) unreasonably prejudicing any consumer, or

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[204] No. 76 of 1976.

c) deceiving any consumer."

The above definitions obviously include comparative advertising.[205]

A committee, known as the "Business Practices Committee", is established in terms of section 2 of the Act. In terms of section 4, such committee has a variety of functions including – the receiving and disposing of representations in relation to any matter with which it may deal in terms of this Act – and the making of such preliminary investigation as it may deem necessary into, or the conferring with any interested party in connection with, any harmful business practice which allegedly exists or may come into existence. In terms of section 3, a subcommittee may be appointed with a view to the delegation of powers and the performance of duties, and in terms of section 3A, one or more liaison committees may be appointed with a view to advice. Suitable investigating officers may also be appointed in terms of section 7.

Section 12 of the Act in question concerns the powers of the related Minister pursuant to a report by the Business Practices Committee in terms of section 10(1) in relation to an investigation in terms of section 8(1)(a). When the Minister is of the opinion that a harmful business practice exists or may come into existence, and is not satisfied that the harmful business practice is justified in the public interest (and when he has not confirmed an arrangement which may have been made in terms of section 9(1) or 11(a) in respect of the harmful business practice), the Minister is empowered in terms of section 12 to, by notice in the *Gazette*, declare the harmful business practice to be unlawful and to take certain appropriate steps which he may consider necessary in order to ensure the discontinuance or prevention of the harmful business practice, including the prohibition from

"... using that advertising or type of advertising"[206]

or from

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[205] Cf. Sinclair 1997: 66.

"at any time... using any type of advertising."[207]

Criticism exists which pertains to the *Harmful Business Practices Act* of 1988. One of the critics, Dandy,[208] is of the opinion that the result of the *Harmful Business Practices Act* is that

> " any exploitive or deceptive act whatever runs the risk of being acted against in terms of the Act."

Further criticism, on the other hand, appears to be that the Business Practices Committee does not really serve its purpose because it does not have any real effect on the consumer abuse that takes place on a large scale in South Africa.[209]

3.8 FREE STATE CONSUMER AFFAIRS (UNFAIR BUSINESS PRACTICES)[210]

The preamble discloses that this Act was enacted to provide for the investigation, prohibition and control of unfair business practices in the interest of the protection of consumers.

Section 1(c) states that a 'business practice' includes any advertising, type of advertising or any other manner of soliciting business. And an 'unfair business practice' means any business practice which, directly or indirectly, has or is likely to have the effect of *prejudicing unreasonably* or *deceiving* any consumer. [My emphasis]

Section 22(1)(b) is of relevance where it provides that if a court is satisfied that an unfair business practice exists or may come into existence, and has not

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206 Section 12(1)(c)(ii).
207 Section 12(1)(c)(vi)(bb).
208 1989: 106.
209 Woker 1999: 45.
210 Act No. 14 of 1998.

confirmed an arrangement as contemplated in section 19(2)(a), the court may issue such order as may be necessary to ensure the discontinuance or prevention of the unfair business practice in question, and such order may, without prejudice to the generality of the foregoing, direct any person who is or was party to an agreement, understanding or omission, or who uses or has used any advertising or type of advertising, or applies or has applied a scheme, practice or method of trading, including any method of marketing or distribution, or commits or has committed an act, or brings or has brought out a situation, or has or had any interest in a business or type of business or derives or derived any income from a business or type of business which is connected with the said unfair business practice and which may be specified in the order, to-...(ii) refrain from using that *advertising* or *type of advertising*...(vi)(bb) refrain from at any time - using *any type* of *advertising*, of a nature specified in the order, and which the court is satisfied is likely to be applied for the purposes of or in connection with the creation or maintenance of any unfair business practice. [My emphasis]

Subsections 22(2) and (3) provide for those instances where *money* was *received* from consumers in the course of an unfair business practice and set out the orders which a court may grant in such circumstances. [My emphasis]

This Act thus expects an advertiser to ensure that his/her advertisement does not have or is not likely to have the effect of prejudicing unreasonably or deceiving any consumer. If it is likely to have such an effect or does in actual fact have that effect, the advertisement or type of advertising may qualify as an unfair business practice and the advertiser concerned may be ordered to refrain from using that advertisement or type of advertising.

4. SELF-REGULATORY BODIES

4.1 INTRODUCTION

It is difficult to ascertain what constitutes inappropriate or unacceptable conduct in the advertising world.

In an effort to supply the agencies with such a standard, the Media Union[211] formulated the following principles, namely that advertisements

- must supply the consumers with the necessary information, so that they are able to make their purchases on a basis of merit,
- must not confuse or mislead consumers through innuendo's or insufficient information,
- may not raise expectations that they cannot fulfil and
- must accord to general acceptable standards of good taste.[212]

At present there are three bodies regulating this industry and each has its own set of rules which must be adhered to. These bodies are the Advertising Standards Authority,[213] the Association of Marketers and the Association of Advertising Agencies Ltd.

The advantages of a self-regulatory system are:[214]

1. It is better equipped than legal controls to eliminate dishonest and fraudulent

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211 Founded in 1882.

212 Lubbe 1997: 20 (Unpublished LLB-paper, Department of Mercantile Law, University of the Free State).

213 ASA.

214 De Jager 1992: 46.

practices which do not meet the voluntary standards of the advertising community.

2. Processing is quick, inexpensive[215] and generally effective.
3. The Code contains an inherent flexibility not given to legal controls as those who adhere to it agree to observe it in spirit, as well as in letter [clause 3.1 Section 1 ASA Code].
4. The Code assists in the maintenance of good manners and taste,[216] in both general and specific terms, that often defy legal definition.

4.2 ADVERTISING STANDARDS AUTHORITY[217]

This is an independent body that was set up and financed by the advertising industry to protect the public interest within the system of advertising self-regulation. This body formulated a Code and its purpose was stated in the preface:

> "The protection of the consumer and to ensure fair play among advertisers.[218] 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."[219]

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215 Sinclair (1997: 69) states that it is cost effective for both the state and the marketing industry. The government need not supply funds for the monitoring of advertisements and also saves money because it does not have to issue summonses.

216 ASA Code (1996): "...code of practice can maintain standards in an area of communication that defies legal definition – that of good manners and taste... Advertising people believe that professional regulations, voluntarily applied, can ensure the elimination of dubious practices more speedily and less costly than government legislation; and are also more easily adaptable to changing economic and social conditions."

217 The ASA performs five main functions: 1) public affairs; 2) standards development and promotions; 3) adjudication (the four main areas being: consumers, competitors, agencies and technical arbitration); 4) information and guidance; and 5) monitoring of trends and standards.

218 For a more detailed discussion see Woker (1999: 29-31).

219 Preface to the Code of Advertising Practice published by the ASA. Sinclair 1997: 70.

The preamble provides further that advertisements must be legal, honest and truthful,[220] and that it must also conform to the principles of fair competition.[221] Dean[222] submits that it is

> "a codification of the business ethics of the section of the community engaged in marketing and advertising consumer goods."

And this really seems to be the case if you take into account that the South African Media Council and the Newspaper Press Union adopted it as their code of conduct as well. The Independent Broadcasting Authority also gave it official recognition.[223]

Prior to 1994 the ASA was not in favour of any form of comparative advertising, based on the guiding principle[224] of the ASA that products or services should be promoted on their own merits and not on the demerits of competitive services.[225] Exception was made however in certain limited instances.[226]

The Code deals with comparative advertising in clauses 6[227] to 8, where it is ruled that comparisons may only be made if it is necessary to illustrate the benefits of a product by comparing it to a group of products in the same field. It restricts the comparison to statements of fact and requires that such

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220 Section 1.1.
221 Clause 1.3.
222 1990: 46.
223 Dean 1996: 31.
224 Clause 7.5.
225 The so-called "mededingingsprinsiep" discussed above. *Van der Westhuizen v Scholtz en Andere* 1992 2 SA 886 (O) 873I. See also Martins (1972: 50): "Be positive and sell on the merits of your product and not on the supposed disadvantages of a competitive product. The prospective buyer should be told why he should buy your product, not why he shouldn't buy the other product".
226 Dean 1990: 46.
227 Clause 6: Denigration and disparagement:

1. Advertisers should not attack or discredit other products, advertisers or advertisements directly or by implication;
2. Advertisers should not disparage the products and/or services of other advertisers directly or by innuendo. In particular, advertisements should not single out a specific product or service for unfavourable comparison.
3. Substantiated competitive claims inviting comparison with a group of products in the same field shall not necessarily be regarded as disparaging.
4. When considering complaints in terms of the Code, the Advertising Standards Authority's Copy and Advertising Properties Committees shall take cognisance of

comparisons should not emphasise the shortcomings of the competing product. Furthermore the direct or indirect referral to any brand within the product group is also banned.[228]

But in addition, the ASA also stated that when they scrutinise an advertisement to ascertain if it fulfils the requirements set in the Code, it is part of the policy of the ASA to look at the spirit, rather than the letter. This implies that they would thus have regard for the intention of the advertiser.[229]

The Code still prohibits an advertiser to use the goodwill relating to the trade name or symbol of the product or service of another, or of the goodwill relating to another party's advertising campaign or advertising property to his own advantage (and not to the detriment of such a party), unless he or she has obtained the written permission of the proprietor of the goodwill.[230]

Clause 7 of the Code lists a number of prerequisites which must be met before an advertisement will be regarded as acceptable:

"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

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what they consider to be the intention of the advertiser.

228 Clause 8.2: "Advertisements should not take advantage of the goodwill attached to the trade name or symbol of another product or the goodwill acquired by its advertising campaign..." This clause was applied in the controversial BMW advertisement. BMW broadcast an advertisement in reply to a commercial of Mercedes Benz. In the Mercedes advertisement the Benz left the road on the Chapman's Peak pass and the driver only suffered minor injuries, thus emphasising the safety features and engineering of the Mercedes Benz car. In the BMW advertisement the BMW car drove along the same pass, but in contrast to the Benz was able to keep to the road despite all the obstacles and the voice of the narrator exclaims that a BMW "beats the bends" [Benz], because of its superior road-holding qualities.

229 Clause 6 and Clause 7.4 of the ASA Code. In line with the trend of the courts to examine the motive of the competitor. See *Bress Designs (Pty) Ltd v GY Lounge Suite Manufacturers (Pty) Ltd and Another* 1991 2 SA 455 (W) 475F, where the court quoted Christine Fellner: "He [the judge] can also scrutinise the behaviour of the parties, taking account, for example, of any unfairness in the way the information was obtained, impropriety of *motive*, and dubious marketing practices, including public deception. [My emphasis] This decision was approved by the Appellate Division in *Shultz v Butt* 1986 3 SA 667 (A).

of the Trade Marks Act 194 of 1993, in terms of which the unauthorised use of a competitor's trade mark in an advertisement constitutes trade mark infringement;

7.1.2 only facts capable of substantiation are used;[231]

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."[232]

Clauses 7.1.5 and 7.1.6 might prove to be the most problematic, because comparative advertising usually contains an element of disparagement. Even though a statement in an advertisement might be true, but if it seeks to discredit the other product, it will still contravene the Code. And furthermore, the advertiser

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230 Woker 1995: 245.

231 BMW's television advertisement was banned by the ASA, because it did not adhere to this requirement. Two cars are shown in the advertisement going around in small circles on a skid pan. The one car is a BMW 3 series and it completes the test without once breaking away or understeering. The other car however, which can be easily recognised as an Audi, keeps breaking away and understeering. A photoshot from above shows that the "unknown" car has been going around in a series of three interlocked circles, creating a pattern not too different from the Audi symbol. The ASA found that: "[T]he technical information submitted by BMW does not meet these criteria", i.e. an independant verification or authentication of their (BMW's) claim. Although Audis, being front-wheel drive, do understeer, the pattern in such a case would be a spiral form and not a series of perfect circles. According to the MD of the Audi agency O&M Rightford, Mike Welsford, "[T]he commercial fails on two counts, infringing the law (the *Copyright Act* and the *Trade Mark Act*), and the ASA Code. Koenderman 1997: 63.

232 Apparently the advertisements are now submitted to the Association of Advertising Agencies (Ltd) for evaluation. Telephone conversation on 28 October 1998 with Mrs

will usually also interfere with the goodwill of the competitor when trying to attract customers through the direct or indirect referral to the competitor's product.
It must now be determined what lies within the boundaries of wrongful conduct, because of the fact that most competitive acts will interfere with someone else's right to attract goodwill or custom and that this interference will only amount to an infringement if it is accompanied by the violation of a legal norm.

Clause 7.1.4 requires that the claims must not be misleading or confusing. It is submitted that this clause may prove to be more problematic than it might seem. SA has a great number of unsophisticated and uneducated people [see ADDENDUM A] and this may result in a certain group of consumers being confused or misled by an advertisement, even if the reasonable, average consumer is not misled or confused.[233]

Woker[234] criticises the revisions in the ASA Code as not being the 'major breakthrough' that everybody thought it was. According to her the amendments are not very significant, because those portions of the Code that are still relevant largely preclude any meaningful form of comparative advertising.

Judin[235] agrees and he airs his opinion that these limitations implemented by the ASA ignore the communities' right to freedom of expression as well as a free competitive market.

Dean[236] is not very comfortable with the current situation either. He says in his article that it is unacceptable that while the ASA Code, although somewhat negative, takes a more positive stance towards comparative advertising than in the past, the *Trade Marks Act* is now even more stringent in this regard than

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Pistana of the ASA. See also Sinclair 1997: 71.
See also John Sinclair of Lindsay Smithers, as referred to by Woker (1995: 242), where he states that "in a country where so many people are functionally illiterate, it would be an injustice to bombard them with comparative advertising. See also Devenish 1995: 456.
234 1995: 246.
235 1996: 49.

before.[237] He questions a position where two expressions of principle are developing in two opposite directions. He argues furthermore that in the light of the fact that the *Trade Marks Act* unequivocally prohibits comparative advertising and the ASA Code in effect does the same, it must be *contra bonos mores* to use comparative advertisements, thus constituting unlawful competition. He arrives at this conclusion, because the *boni mores* must be determined having regard to the community's 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.[238] At the end of his article he submits that comparative advertising, in general, constitutes unlawful competition whether it is of a direct or indirect nature and despite the 'approval' provided in the ASA Code.

Van Heerden and Neethling[239] also disapprove of comparative advertising. Their *ratio* is that

> "as with passing-off, the perpetrator attempts to draw customers, not through the merits of his own performance, but through the merits of his competitor's performance."

It does seem as if the ASA Code correctly reflects the feeling most prominent in the advertising industry, namely that most of the industries are not in favour of comparative advertising.[240] This is also clear from the policies of the Association of Marketers (ASOM) and that of the Association of Advertising Agencies.[241]

4.3. ASSOCIATION OF MARKETERS

The ASOM is dead against comparative advertising. Derrick Dickens,[242] the Executive Director, is very adamant in his belief that comparative advertising will

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236 1996: 32.
237 *Id.*
238 *Atlas Organic Fertilizers supra,* as well as *Shultz v Butt supra.*
239 1995: 202.
240 See MMR survey results on comparative advertising in Sinclair 1997: 73.
241 See *infra*.

not result in a better-informed consumer,[243] but rather in eroding the ethical principles[244] of the industry.

The Association of Marketers's Perspective on brand comparative advertising reads as follows:[245]

> "We believe that we as an industry, should not pursue the use of brand comparative advertising but to argue the case for retaining the current constraints on comparative advertising as contained in the ASA Code. We uphold the principle of selling products on their merits and not the demerits of others – this is pure business ethics.
>
> Comparative advertising in its fullest form, is not in the long term in the best interests of either the advertiser, the advertising industry in general or the consumer."

From the Association's viewpoint comparative advertising is always "biased, selective and incomplete" the implication being that it is inherently misleading, and thus in conflict with the requirements of the ASA Code.[246] It furthermore usurps the role of the consumer when it makes comparisons between competing products.[247] The worst is that this usurpation does not even have any advantages, because, in the process, the consumers become

> "disillusioned and distrustful of advertising in general[248] as a source of information for product choice".[249]

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242 Telephone conversation on 28 October 1998. See also Judin et al. 1996: 50.

243 In the Presentation to Consumer Council on Comparative Advertising, Paragraph 3.4, the Association provides its reason for this stance: "...because within the brevity of advertising it is seldom possible, or desirable for the advertiser, to provide a comprehensive and balanced portrayal of all the relevant information for a considered consumer choice between two competing brands".

244 Presentation to Consumer Council on Comparative Advertising, Paragraph 3.4 states: "No matter how virtuously argued by its advocates, the main, if not the sole purpose of comparative advertising, is to gain competitive advantage by, either directly, or through innuendo, disparaging one competitor's products through the selective and biased use of facts. Were this not the case there would be very little point to comparative advertising ('no one names his competitor with any good in mind')".

245 Presentation to Consumer Council on Comparative Advertising, paragraph 2.

246 Presentation to Consumer Council on Comparative Advertising, paragraph 4.2.

247 Presentation to Consumer Council on Comparative Advertising, paragraph 4.2.

248 See article of Rose et al. 1993: 321.

249 Presentation to Consumer Council on Comparative Advertising, paragraph 4.3.

The Association of Marketers continues its argument based on the finding that the consumers' attitudes towards the products involved in the comparative advertisements have the tendency to turn very negative. This contains the inherent danger that a brand leader with an enormous advertising budget can ruin the reputation of his competitor and consequently establishes a monopolistic marketing position. This means that the market leader will be able to overcharge his products or services and there will be no need for him to improve his products or services or maintain the quality thereof. This argument thus negates the arguments of the advocates for comparative advertising who propagate that comparative advertising stimulates competition, because it supplies the consumers with more information.[250]

Another disadvantage of comparative advertising appears to be its high costs. This is the case, because one comparative advertisement forces the competitor to respond with a comparative advertisement of his own and consequently both the production and the media costs escalate. The higher cost lead to lower profit margins for the producers and the consumers may be hit by higher product prices in consequence. High litigation costs must also be taken into account, because the producers build this into the product prices, and having regard to the small size of the South African market, this can

> "have a major impact on the end product price".[251]

The Association's list of the disadvantages of comparative advertising comprises quite a few pages, and it is clear that this Association will always oppose this technique of advertising.

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250 Presentation to Consumer Council on Comparative Advertising, paragraph 4.3.

251 Presentation to Consumer Council on Comparative Advertising, paragraph 5.1.

4.3 ASSOCIATION OF ADVERTISING AGENCIES LTD

This association is not so harsh in its critique of comparative advertising, but it does however raise the following objections against the technique -

- abuse of advertising can create a serious danger for a free market economy;
- comparative advertising can diminish the consumers' confidence in advertising even further;
- the effectiveness of advertising can be reduced as a result;
- lawyers may derive financial benefit from it at the cost of the consumers.[252]

[252] Peter de Klerk, Executive Vice President, as referred to by Bloom 1990: 82.

CHAPTER 10

THE CONSTITUTION

1. Freedom of expression as a fundamental right and the value attached thereto
2. Who is entitled to the rights granted in section 16
3. Restrictions on the right to advertise
4. Freedom of speech in the United States of America
5. Freedom of speech as a fundamental right in the Canadian Charter
6. Freedom of speech in South Africa
7. Conclusion

1. FREEDOM OF EXPRESSION AS A FUNDAMENTAL RIGHT AND THE VALUE ATTACHED THERETO

The *Constitution* of South Africa[1] plays a dominant role in all legal spheres, because it is the supreme law of this country. Therefore this paper will not be complete without reference thereto.

Section 16 of the *Constitution* provides for the freedom of expression.[2] The courts, however, can interpret the term "expression" as encompassing any verbal articulation of ideas, as well as any symbolic speech, for example the burning of flags, etc.[3] The *Constitution* is accordingly applicable to advertisements and commercial speech,[4] specifically so in the light of the "freedom of the press and other media".

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1 Act 108 of 1996.

2 Act 200 of 1993 provided for the right to freedom of speech, as well as freedom of expression.

3 *Tinker v Des Moines Independent Community School District* 393 US 503.

Section 16 reads as follows:

"(1) Everyone has the right to freedom of expression, which includes-

(a) freedom of the press and other media;

(b) freedom to receive and impart information or ideas;

(c) freedom of artistic creativity; and

(d) academic freedom and freedom of scientific research.

(2) The right in subsection (1) does not extend to-

(a) propaganda for war;

(b) incitement of imminent violence; or

(c) advocacy of hatred that is based on race, ethnicity, gender or religion,

and that constitutes incitement to cause harm."

The fundamental right to freedom of speech is considered to be very important in most countries.[5] Woker[6] states that the reason for this may be that people have a right to be heard - they have a right to participate in the 'market place of ideas'. In this regard the dissenting judgement of Judge Holmes in *Abrams v United States*[7] can be quoted:

"[i]f you have no doubt of your premises or your power and want a certain result with all your heart you naturally express your wishes in law and sweep away all opposition ... But when men have realised that time has upset many fighting

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4 Woker 1997: 292, at fn 8.

5 Woker 1997: 292. The United Nations General Assembly declared that "[f]reedom of information is a fundamental human right and ... the touchstone of all the freedoms to which the United Nations is consecrated". GA Resolution 59(1), 14 December 1946. Article 19 of the Universal Declaration of Human Rights (1948) provides for the right of freedom of expression, which includes freedom "to seek, receive, and impart information and ideas through any media regardless of frontiers". See also the European Court of Human Rights' decisions in *Handyside v United Kingdom* (judgement of 7 December 1976, Series A no 24); *The Sunday Times v United Kingdom* (judgement of 26 April 1979, Series A no 30), quoted in The Article 19 Freedom of Expression Manual International and Comparative Law, Standards and Procedures (August 1993): "Freedom of expression constitutes one of the essential foundations of such [a democratic] society, one of the basic conditions for its progress and for the development of every man. Subject to Article 10(2), it is applicable not only to 'information' or 'ideas' that are favourably received or regarded as inoffensive or as a matter of indifference, but also to those that offend, shock or disturb the State or any section of the population. Such are the demands of that pluralism, tolerance and broad-mindedness without which there is no democratic society".

6 Woker 1997: 292.

faiths, they may come to believe even more than they believe the very foundations of their own conduct that *the ultimate good desired is better reached by free trade in ideas - that the best test of truth is the power of the thought to get itself accepted in the competition of the market, and that truth is the only ground upon which their wishes safely can be carried out.*" [My emphasis]

The case law of the USA gives a clear indication of the importance of this right, for example the *Irwin Toy v Quebec* case.[8] In this case the judge expostulated that

> "... participation in social and political decision-making is to be fostered and encouraged and the diversity in forms of individual self-fulfilment and human flourishing ought to be cultivated".

Another case in which this fact was stressed, was that of *Palko v Conneticut*,[9] where it was stated that

> "freedom of thought and speech ... is the matrix, the indispensable condition, of nearly every other form of freedom."

Also in South Africa the courts acknowledged it in *Mandela v Felati*[10] and in *In re Munumese & Others.*[11] As in the *Abrams* case[12] the court mentions in the *Gardener* case[13] that

> "... the advancement of knowledge and truth is a fundamental value underlying freedom of expression".

The need for truthfulness is thus heavily emphasised in the context of freedom of

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7 250 US 616 (1919) at 630.

8 1989 58 DLR (4th) 577 (SCC).

9 302 US 319, on 327.

10 1995 (1) SA 251 (W). In this case the court stated that: "It [freedom of expression] is the freedom upon which all others depend; it is the freedom without which the others would no longer endure."

11 1995 (1) SA 551 (ZS). The judge expressed it as follows: "[Freedom of expression and freedom of assembly] lie at the foundation of a democratic society and are one of the basic conditions for its progress and the development of every man." See also *Government of the Republic of South Africa v The Sunday Times Newspaper* 1995 (2) BCLR 182 (T).

12 *Supra.*

13 *Gardener v Whitaker* 1995 (2) SA 672 (E).

expression, and in this regard the question can be asked: Does comparative advertising really adhere to this qualification. If it does serve the cause of truth, should it be restricted in such a manner as is currently the case? If one producer points out the disadvantages of another's product (even if it is for the producer's own good) does it not encourage truthfulness in the process?[14]

Also in the light of the fact that the results of a study conducted in America and Germany indicated that advertising is the most important source of product information, and consequently of purchasing information available to consumers in industrial societies with market economies. Based on these facts other countries decided that advertising, as a form of commercial speech, is entitled to constitutional protection.[15]

2. WHO IS ENTITLED TO THE RIGHTS GRANTED IN SECTION 16

As to the question of who is bound by section 16, it is not clearly stated , because the Act now provides that

> "everyone has the right..."

and not that

> "every person has the right"

as was the provision in the *Constitution* 200 of 1993. The media possesses legal personality in most cases and the question arose if legal persons are entitled to these rights. If section 16 is however read together with section 8 of the Act, it does seem that legal persons are entitled to these rights. In terms of section 8(4) legal *persona* are entitled to the rights enacted in the *Constitution*, but this will depend on the nature of the rights involved as well as the nature of the legal person.[16]

When interpreting the *Constitution* according to the purposive approach the

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[14] Strydom 1997: 27.
[15] Woker 1997: 293.

question must not be who is speaking, or expressing himself, but rather what is the nature and value of the speech itself.[17] Tribe[18] is adamant in his opinion that 'speaker-based' limitations on freedom of speech will lead to a kind of censorship which cannot be allowed, because it will only apply to the ideas of and information supplied by certain groups and this will accordingly constitute discrimination.

In *Government of the Republic of South Africa v Sunday Times Newspaper*[19] the court stressed the importance of the media for a democratic country and in the view of this, the purposive approach when interpreting the *Constitution* will mean that the courts must recognise Constitutional protection for this sphere as well.[20]

3. RESTRICTIONS ON THE RIGHT TO ADVERTISE

In South Africa the advertising industry is regulated by a number of laws[21] as well as the ASA. Currently the ASA is having a hard time controlling leading advertisers, agencies and print media who feel that they are entitled to more advertising freedom in view of the Bill of Rights. The Print Media Association[22] also founded the Media Industry Committee on Freedom of Speech and this committee will work towards obtaining greater freedom of speech for the media.[23]

Although no one can dispute the desirability of restrictions to prevent misleading and false advertising,[24] it is also important to test the existing laws and Codes to the principles as set out in the *Constitution*. Section 36, the general limitation clause, is important in this regard, because the State will be required to show that

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16 Strydom 1997: 28.
17 Marcus and Spitz, *"Expression" in Constitutional Law* (Chaskalson et al) on 15.
18 1979: 795.
19 1995 (2) BCLR 182 (T) on 188-189.
20 Strydom 1997: 28.
21 E.g. Section 6 of the *Merchandise Marks Act* and section 34 of the *Trade Marks Act*.
22 Consisting of magazine and newspaper affiliates.
23 Woker 1997: 293.
24 These restrictions are implemented to protect the public and honest business people

any restrictions on free speech is justifiable in an open and democratic society.

When the court has to decide whether a limitation of rights is allowed, it must also take note of section 39 that provides that a court, tribunal or forum must

> "promote the values that underlie a democratic society, must consider international law and may consider foreign law".

The courts will thus take note of the approach of foreign courts, such as those of the USA and Canada, towards restricting advertising.

4. FREEDOM OF SPEECH IN THE UNITED STATES OF AMERICA

The importance of the right to freedom of speech was stressed in *Palko v Conneticut*[25] and in *Terminiello v City of Chicago.*[26] But because this right cannot exist without qualifications, the courts[27] developed the 'clear and present danger' test to determine the limits of the right.[28]

The American courts now recognise that 'commercial speech'[29] (thus advertising) is entitled to *Constitution*al protection. The decision in *Virginia State Board of Pharmacy v Virginia Citizens Consumer Council Inc.*[30] was the first[31] to grant

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and to encourage legitimate entrepreneurs.

25 *Supra.*

26 337 US 1 (1949). The Judge said that a function of free speech is to invite dispute and that it may indeed best serve its high purpose when it induces a condition of unrest, creates dissatisfaction with conditions as they are, or even stirs people to anger. *Id.* at 4.

27 Judge Holmes formulated the test in *Schenk v United State* 249 US 47 (1919): "[t]he question in every case is whether the words used are used in circumstances and are of such a nature as to create a clear and present danger that they will bring about the substantive evils that Congress has a right to prevent".

28 Woker 1997: 296.

29 Defined in *Central Hudson Gas & Electric v Public Service Commission of New York* 447 US 557 on 562, Sct 2343 (1980) as: "speech which proposes a commercial transaction" and Novak, Rotanda & Young (1991: 904) defines it as "speech of any form that advertises a product or service for profit or for business purposes".

30 425 US 748 (1976). For critique on this decision see Rehnquist, J.'s dissenting judgement in *Central Hudson Gas supra*: "[there would be no need to restrict commercial speech because if the speech] is in fact misleading, the 'market place of ideas' will in time reveal that fact, [although] not sufficiently soon to avoid harm to

Constitutional protection to commercial speech.[32] In its interpretation of the *First Amendment* the court found that the general rule is that the American Government may not foster public ignorance in order to obtain its objectives.[33]

There are however some kinds of commercial speech that are not entitled to Constitutional protection. One is the advertising of illegal activities[34] and another is false, deceptive and misleading commercial speech.[35] The court ruled in *Central Hudson Gas*[36] that commercial speech is only entitled to protection

> "where it at least concerns lawful activity and [is] not misleading".[37]

The test that the court formulated to determine the instances when commercial speech is legally subject to restrictions was the following:

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numerous people." He continues: "although the 'market place of ideas' has a historically and sensibly defined context in the world of political speech, it has virtually none in the realm of business transactions." *Id.* at 597. He concluded: "I remain of the view that the Court unlocked a Pandora's Box when it 'elevated' commercial speech to the level of traditional political speech by according it *First Amendment* protection in *Virginia State Board v Virginia Citizens Consumer Council* ... . The line between 'commercial speech' and the kind of speech that those who drafted the *First Amendment* had in mind, may not be a technically or intellectually easy one to draw, but it surely produced far fewer problems than has the development of judicial doctrine in this area since Virginia Pharmacy Board. For in the world of political advocacy and *its* marketplace of ideas, there is no such thing as a 'fraudulent' idea ... The notion that more speech is the remedy to expose falsehood and fallacies is wholly out of place in the commercial bazaar." *Id.* at 598.

31 The decision in *Bigelow v Virginia* 421 US 809, 825 (1975) did however prepare the way for this judgement. Previous to these cases the stance of the courts was similar to that stated in *Valentine v Chrestensen* 316 US 52 (1942), namely that 'purely commercial speech' was wholly unprotected by the *First Amendment*. See also *Breard v Alexandria* 341 US 622 (1951).

32 The United States Supreme Court made the following statement: "Advertising, however tasteless and excessive it sometimes may seem, is nonetheless dissemination of information as to who is producing and selling what product, for what reason, and at what price. So long as we preserve a predominantly free enterprise economy, the allocation of our resources in large measure will be made through numerous private economic decisions. It is a matter of public interest that those decisions ... be intelligent and well informed. To this end, the free flow of commercial information is indispensable."

33 *Ibid* at 769-770. Judge Blackmun stated in the case of *Central Hudson Gas & Electric Corporation v Public Service Commission of New York* 447 US 557 (1980) at 574-575: "[t]his is because it is a covert attempt by the State to manipulate the choices of its citizens, not by persuasion or direct regulation, but by depriving the public of the information needed to make free choice".

34 *Pittsburgh Press v Pittsburgh Commission on Human Relations* 413 US 376 (1973) at 388-389.

35 *Friedman v Rogers* 440 US 1 (1979)at 9.

36 *Supra.*

37 Reaffirmed in *Board of Trustees v Fox* 109 S. Ct. 3028 (1989).

a) the state must show that the restriction serves a substantial interest;

b) that the regulatory measure directly advances that interest;

c) that the restriction is no broader than necessary to advance that interest.[38]

The court, in *Edenfield v Fane*,[39] made it easier for the State to regulate commercial speech by substituting the last requirement with the requirement that the State must prove that the means chosen are 'tailored in a reasonable manner' to serve the Government interest.[40]

The last requirement, as stated in *Central Hudson Gas*, was also under scrutiny in the *Florida Bar* case[41] and the judge ruled that the least-restrictive-means test is only to be applied in non-commercial speech cases. According to the Judge the courts rather require a 'fit' between the objectives of the legislature and the means chosen to reach these objectives, thus

> "a fit that is not necessarily perfect, but reasonable; that represents not necessarily the single best disposition but one whose scope is in proportion to the interest served, that employs not necessarily the least restrictive means but ... a means narrowly tailored to achieve the desired objective".[42]

Comparative advertising is thus, in principle, protected by the *First Amendment,* the reason being essentially economic gain, on a basis of reasonableness with a view to substantial interests involved, obviously including the public interest. Entrepreneurs should accordingly not unreasonably be prevented from participating in the 'market place' of ideas.[43] The legislator may thus enact restrictions to protect the public interest or any other interest, as long as the requirements, as set out in the *Central Hudson Gas* case, are adhered to.

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38 *Central Hudson Gas supra* at 574-575. See also *Florida Bar v Went for It Inc.* 515 US-, 132 L Ed 2d 541 (1995).

39 507 US - ; 123 L Ed 2d 543 (1993).

40 Spitz 1994: 328. He also explains that this will mean that the State can now enact legislation that is reasonably tailored to protect the public interest more freely.

41 *Supra*.

42 Section IIB of the judgement.

43 Theory of Thomas Jefferson-Oliver Wendell Holmes as articulated in the dissenting judgement in *Abrams v United States*, 250 US 616, 630 (1919) (Holmes J., dissenting).

5. FREEDOM OF SPEECH AS A FUNDAMENTAL RIGHT IN THE CANADIAN CHARTER

The Canadian Charter provides for the protection of free speech and the Supreme Court of the country has recognised that commercial speech is also entitled to this protection.[44] But the courts are also aware of the fact that not all forms of speech are equally worthy of protection and subsequently that not all restrictions placed on this right are equally grave.[45]

To provide for these kind of cases the Canadian Charter, unlike the American *Constitution*, contains a limitation clause. To determine whether certain rights are entitled to protection the court will weigh up the two competing values, e.g. the value of free speech against the value of limitation.[46]

In *Rocket v Royal College of Dental Surgeons of Ontario*[47] the court formulated two criteria that must be satisfied before a right may be limited, namely:

a) the objective which the limit is designed to achieve must be of sufficient importance to warrant overriding a Constitutionally protected right;

b) if the above requirement is fulfilled, the party who wants to rely on the limitation clause must prove that the means chosen to achieve the objective are reasonable and demonstrably justifiable.[48]

As far as the second part of the test is concerned the Court takes the following into account:

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44 E.g. *Ford v Quebec (Attorney General)* [1988] 2 SCR 712 (SC Can), where the court had to rule on the constutionality of a provincial law that restricted the language used in advertisements. It was found that advertising is a valuable source of information and must thus be protected by the Canadian Charter. See also Spitz 1994: 329.

45 See *ratio decidendi* of Wilson J in *Edmonton Journal v Alberta (Attorney General)* [1989] 2 SCR 1326 (SC Can).

46 Woker 1997: 299.

47 [1990] 2 SCR 232 (SC Can).

48 Woker 1997: 299. See also Devenish 1995: 457.

- the measures designed to meet the legislative objective must be rationally connected to the objective;
- the means used should impair as little as possible the right in question; and
- there must be proportionality between the effect of the measures which are responsible for limiting the right and the legislative objective of the limit on those rights.[49]

In addition the court adopted a sensitive case-orientated approach in order to place the conflicting values in their factual and social context. To demonstrate this the court referred to the decision in the *Irwin Toy* case,[50] where the advertisement was aimed at children. In this case the majority of the bench was of the opinion that the emphasis must not fall on sufficient information to make informed consumer choices, but rather on the protection of children from commercial exploitation. Another factor that has to be taken into account is that the legislature must have enough scope to enact legislation to protect vulnerable groups, or to mediate between competing groups.[51] [See ADDENDUM A]

The court thus recognised the limitation of rights where it was in the public interest.

6. FREEDOM OF SPEECH IN SOUTH AFRICA

Spitz[52] defines 'commercial speech' in the South African context as

> "speech which proposes a commercial transaction".

As seen in the above discussion both the American and Canadian Courts had distinguished between commercial speech and other kinds of speech and reached the conclusion that commercial speech cannot be accorded the same

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49 Woker 1997: 300. This test is similar to the one formulated in the American Supreme Court, e.g. *Central Hudson Gas supra*.

50 *Irwin Toy Ltd v Quebec (Attorney General)* [1989] 1 SCR 927 (SC Can).

51 Woker 1997: 300.

52 1994: 330.

protection as the other kinds of speech. In South Africa the position is not quite clear. Some argue that in light of the fact that section 33 of the Interim *Constitution* distinguished between different kinds of speech and accorded different levels of protection to each, and section 16 of the new *Constitution* does not do that, it must of necessity mean that all kinds of speech enjoy the same level of protection.[53] But the position will remain uncertain until the Constitutional Court has ruled upon it.[54]

In this regard it is important to take notice of section 36 of the *Constitution*, the general limitation clause,[55] which reads as follows:[56]

> "(1) The rights in the Bill of Rights may be limited only in terms of law of general application to the extent that the limitation is reasonable and justifiable in an open and democratic society based on human dignity, equality and freedom, taking into account all relevant factors, including-
>
> (a) the nature of the right;
>
> (b) the importance of the purpose of the limitation;
>
> (c) the nature and extent of the limitation;
>
> (d) the relation between the limitation and its purpose; and
>
> (e) less restrictive means to achieve the purpose.[57]
>
> (2) Except as provided in subsection (1) or in any other provision of the *Constitution*, no law may limit any right entrenched in the Bill of Rights."

According to Cachalia et al.[58] the limitation of any right can be analysed with reference to the nature of the right and secondly to the question whether the limitation is justifiable.

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53 Strydom 1997: 30.

54 Woker 1997: 307-308.

55 Cachalia et al (1994: 53) makes the reader aware of the fact that although freedom of speech is the founding principle of any democratic society, no country in the world views it as an absolute right and it will thus always be subject to certain limitations.

56 Act 108 of 1996.

57 These requirements are very similar to that stated by the court in *S v Makwanyane* 1995 (6) BCLR 665 (C) at 708, namely a) the nature of the right being limited; b) its importance to an open and democratic society based on freedom and equality; c) the purpose for which the right is limited; d) the importance of that purpose to such a society; and e) the extent of the limitation and its efficacy.

58 1994: 107.

In the first phase the court must also investigate the importance of the purpose of the limitation. In the context of this paper it will thus mean that the court will determine whether comparative advertising is worthy of Constitutional protection in terms of section 16. As mentioned previously, it is not quite clear if commercial speech will qualify as such, since the Constitutional Court has not yet ruled on the issue. If it is not protected it will imply that there has been no infringement of a fundamental right and that will be the end of it. If however it is decided that freedom of expression covers advertisements as well, the court will carry on to the second phase of the enquiry.[59]

The second phase involves three criteria, namely

a) that the limitation must be reasonable,

b) that the means must be proportionate to the purpose of the limitation, and

c) it must be justifiable in an open and democratic society.

- With regard to a) that the limitation must be reasonable:[60]

Woolman[61] is of the opinion that this requires that the limitation must protect a substantial interest and this interest must thus weigh heavier than the protected right. In *R v Oakes*[62](a Canadian case) this requirement was interpreted to signify that the means used must be reasonable with regard to the weight of the interest.

- With regard to b) that the means must be proportionate to the purpose of the limitation:

In another Canadian case, *R v Edward Books & Art Ltd,*[63] the court ruled that this

59 Strydom 1997: 33.

60 Section 36(1)(c) requires the court to take the nature and extent of the limitation into account.

61 1997: 123.

62 26 DLR (4th) 200.

63 35 DLR (4th) 1.

criteria implies that the

> "means chosen to attain those objectives should be proportional to the ends".

In *R v Oakes*[64] the court formulated a test consisting of three criteria:

a) the limitation must be *rationally connected* with the *purpose* or the underlying interest that is promoted;

b) the limitation must be tailored in such a manner that it *infringes* the protected right as *little as possible*; and

c) there must exist *proportionality* between the negative impact of the limitation and the extent to which the purpose is served.[65]

The *purpose* of legislation that restricts comparative advertising is to protect consumers as well as competitors of the advertiser. Consumers must be protected against misleading advertising or advertising that is likely to cause confusion. Now the question arises as to when or in which cases will consumers be confused or misled. This question can only be answered with regard to the target market of the advertisement. As the court stated in the *Barclays Card* case[66] it is important to take into account the kind of person that forms the target group. The aim of this advertisement was to persuade existing users of Barclay card to switch to the new credit card. The court found that the persons in this target group were fairly sophisticated in the use of credit cards and would be able to differentiate between advantages belonging exclusively to the new credit card and advantages common to all credit cards.[67] In the same sense the court must analyse each individual case that serves before it in terms of the target group the advertisement is aimed at. Devenish[68] warns that this might prove to be a problem in the South African society, because a large group of the population is illiterate. [See ADDENDUM A] But as the court in *Bolger v Young Drug Products*

64 *Supra*.
65 Strydom 1997: 34.
66 *Supra*.
67 Quinn 1996: 370.
68 1995: 456.

Corp.[69] stated:

> "the government may not reduce the adult population ... to reading only what is fit for children".

It is also true that in South Africa, the entire population cannot be subjected to limitations on the imparting of information because a part of the population may be misled or confused by such information. The court in *Central Hudson Gas* held that:

> "In applying the *First Amendment* to this area, we have rejected the 'highly paternalistic' view that government has complete power to suppress or regulate commercial speech. '[P]eople will perceive their own best interests if only they are well enough informed, and ... the best means to that end is to open the channels of communication rather than to close them...' Even when advertising communicates only an incomplete version of the relevant facts, the *First Amendment* presumes that some accurate information is better than no information at all."[70]

The solution may be to implement the Canadian approach in the South African courts, which entails that each case must be assessed on its own merits and consequently to avoid a standardised test for acceptable restrictions of commercial speech.[71]

Is the purpose of the limitation *rationally connected* to the interest the legislator seeks to protect? The argument goes that it is not true in this instance, because many magazines publish comparative tables or statistics about certain products and/or services and the legislator does not forbid them to do so or place strict limitations on these publications. Why should the position differ in the case of a

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69 463 US 60 (1983).

70 Woker 1997: 303.

71 Woker 1997: 308. See also the comments in the decision of *S v Makwanyane* 1995 (6) BCLR 665 (C) at 708, namely that competing values must be weighed up against each other and it must ultimately be an assessment based on proportionality. The court also ruled that the principles must be applied on a case-by-case basis.

comparative *advertisement*?[72]

Apparently the requirement that the *limitation must infringe the protected right as little as possible* is not adhered to either. The current legislation and the common law, although not altogether banning comparative advertising, do subject it to stringent requirements.

Are the advantages of these limitations on comparative advertising really justified and is the effect thus proportional to the means? It does not seem to be the case, because although consumers and other entrepreneurs are now protected to a great extent, it may stifle competition in the process and also keep information from consumers that are important for purchasing decisions. Laing[73] feels that this is not the case. She evaluates section 34(1)[74] and reaches the conclusion that it is not unconstitutional. She acknowledges that, at first glance, this section that by implication prohibits comparative brand advertising may seem to be out of line with the right to freedom of expression. But, according to her,[75] it is justified in the light of section 36.[76] The right that is protected by the limitation is the trade mark right that constitutes

> "a real and effective commercial interest, goodwill, and reputation",

and it is protected because it

> "promote[s] and stimulate[s] commercial and industrial development, market forces, and competition."

She continues, in defence of this section, and says that the rights awarded by this section to the proprietor

> "reward creativity and business acumen and are acknowledged and protected in all democratic societies throughout the world".

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72 Strydom 1997: 34 fn 110.
73 1998: 57.
74 Act 194 of 1993, current *Trade Marks Act.*
75 1998: 58.
76 Of the *Constitution*.

It is accordingly a right worthy of legal protection and when it is weighed up against the right to freedom of expression it carries enough weight to justify the limitation on the last mentioned right.[77] Thus, according to her, the limitation does not infringe the fundamental right more than is necessary.

- With regard to c) that the limitation must be justifiable in an open and democratic society:

In *Handyside v United Kingdom*[78] the court pointed out that a democratic society possesses the qualities of free propaganda, the protection of the different liberty spheres, supremacy of the law, respect for human dignity and allows a difference of opinion.

Can the law now in the light of the above place comparative advertising under such strict scrutiny? Does comparative advertising not fall under the category of difference of opinion or free propaganda? In doing so does the law protect the different spheres of liberty?[79]

Once again we can take note of Laing's argument. The fact that the South African trade mark law conforms closely to all international treaties and conventions goes to show that section 34, that limits the freedom of expression, is in accordance with the requirements of section 36 and is thus not unreasonable or unjustifiable in an open and democratic society.[80] She refers to the American trade mark laws and differentiates between these and those of South Africa. Whereas the American system protects trade marks primarily in the interest of the *consumer*, to prevent confusion and deception, the South African trade mark law focuses on the *trader*. This is the case because in SA the law

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77 In the article compiled by the legal firm of Goldman, Judin & Werner (1995:22) the authors explain that "[I]n today's world the value of intellectual property far exceeds the value of the assets that appear on the balance sheet. Its trade-in potential is unlimited and it is a constant source of innovation and renewal." In the United Kingdom's economy intellectual property was the second largest foreign exchange earner in 1995.

78 1 EHRR 737.

79 Strydom 1997: 35.

80 Laing 1998: 58. See the first leg of her argument above.

recognises the fact that "trade mark rights are proprietary and render a real and protectable interest to traders", which is in keeping with the common law.

An evaluation of section 34(1)(a), in this context, reveals that the legislator referred to deception or confusion, but this is with regard to the '*trade mark so nearly resembling*' the registered trade mark and *not* to the 'use' of the mark. In the view of the aforementioned it is according to Laing[81] clear that the American argument cannot apply in the South African context.

Another interesting remark is that in Germany comparative brand advertising is in effect unlawful and this in a country that is highly progressive as far as its Bill of Rights is concerned.[82]

She concludes that on the grounds of these arguments presented above, a prohibition of comparative brand advertising in certain circumstances is not unconstitutional.

Whether comparative advertising is unconstitutional or not remains to be ruled upon by the courts. Until that time one can only speculate (and debate) on the possible outcome. On the one hand there is the fundamental right of freedom of expression and the public interest, related to consumers being entitled to sufficient information to make the best possible purchasing choices (also a very important right in the light of our new Government's policy of transparency and truthfulness), and on the other hand it is obvious that such right of expression cannot be unlimited.

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81 *Id.*
82 *Id.*

7. CONCLUSION

From a legal point of view it is submitted that in the light of the *Constitution* comparative advertising must be allowed but subject to limitation in terms of section 36 of the *Constitution*. It is submitted furthermore that the legal limitations (restrictions or restraints) as set forth and discussed *supra*, constitute terms of law of general application to the extent that the limitation is reasonable and justifiable in an open and democratic society... (see section 36 *supra*) and thus in general comply with the requirements of the said section 36.

CHAPTER 11

CONCLUSION AND SUMMARY

It appears that the definition of *comparative advertising* by De Jager and Smith,[1] embraces most of the forms of such concept encountered in South Africa and elsewhere. In essence such definition seems to reflect *comparative advertising* as being a technique of advertising involving direct or indirect comparisons between goods or services (whether well-known or not) of competitors (whether identifiable or not) or of other business enterprises (whether identifiable or not) in the course of trade or industry. The term *advertising*, which appears in the aforegoing definition, seems to naturally refer to a process whereby consumers are acquainted with particular goods or services with a view to attracting custom.[2]

It also appears that the related definition of Webster and Page[3] either specifically or by implication, includes direct or indirect comparisons between goods or services (whether well-known or not) of non-competitors and competitors (whether identifiable or not). It is submitted furthermore that, should the last two words appearing in the said definition of Webster and Page, viz. "of another", be deleted together with the word "the" (being the last "the" in the definition and appearing immediately in front of "goods") and "the" be substituted by the word, "other", such definition could then be extended to include not only comparisons between the goods or services of non-competitors or competitors, but also comparisons between similar goods or services or other goods or services belonging solely to the advertiser.[4]

With regard to the position in the USA, since the first court case in 1910 concerning comparative advertising, the subject in question became hotly

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1 See *supra*.
2 Cf. *supra*.
3 See *supra*.
4 Cf. position in Germany under the heading "Critical comparative advertising".

debated and was followed by various developments in that sphere of the law. The common law pertaining to unfair competition could be relied upon in the event of an advertisement defaming a business or disparaging the goods of a business falsely, the action in tort pertaining to injurious falsehood, apparently having been applied most frequently of all the common law actions for the last one and a half centuries.

A consideration of the court case *Smith v Chanel Inc.* (1968) brings to light that the courts have also generally confined legal protection to the trademark's source identification function for reasons grounded in the public policy favouring a free, competitive economy. Another case in 1959 reflects the opinion to the effect that

> "imitation is the lifeblood of competition"

and that it is the unimpeded availability of substantially equivalent units that permit the normal operation of supply and demand to yield the fair price society must pay for a given commodity.

It appears that the Restatement concerning injurious falsehood presented a number of problems, but that persistent expansion of the common law tort of unfair competition has remedied the position to some extent despite the fact that the boundaries of this tort seem to be imprecise. According to Haydon a commercial could be typified and banned as unfair competition whenever a competitor publishes a disparaging representation about the plaintiff's goods or services which is likely to deceive or mislead prospective purchasers to the plaintiff's likely commercial detriment.

It is interesting to note that at the time of the amendment of the *Lanham Act* in 1988, between 35% and 40% of all advertising in the United States was comparative, between 25% and 30% of these advertisements having identified competitors. Section 43(a) of this Act is not all that clear but seems to be directed at conduct, including *inter alia* false or misleading descriptions of fact or false or misleading representation of fact, which would be likely to cause confusion or

mistake etc. or would, in the case of commercial advertising, misrepresent the nature, characteristics, qualities or geographic origin of

> "his or her or another person's goods, services, or commercial activities".

Civil liability may be incurred in terms of this section. It seems as though a heavy burden of proof rests on the plaintiff who wishes to rely on the aforementioned provisions, however.

Although it appears that comparative advertising was seldom used in the USA before 1971, article 14.15(c) related to commercial practices of the Federal Trade Commission (and which article appeared during the same year) expresses the opinion to the effect that comparative advertising, when truthful and nondeceptive, is a source of important information to consumers, assisting them in making rational purchasing decisions, and encourages product improvement and innovation, leading to lower prices. A commercial is considered to be deceptive when consumers are likely to be misled by a representation, practice or omission in the commercial, and if the aforementioned is likely to play a material role in the consumer's purchasing choice. The FTC acts only in the public interest however, in circumstances where

> "a reasonable consumer is likely to be misled and that the advertisement played a material role in the consumer's purchasing choice".

A cease and desist order may follow and the advertiser may be compelled to disclose further information in order to prevent confusion or deception. It appears that the FTC seldom takes action against comparative advertisers, because of its policy to encourage this kind of advertising.

If a person's goods or services are denigrated by a foreign competitor in the USA, the aggrieved party can file a complaint with the USA International Trade Commission. Although the rules of the ITC and FTC are similar, the ITC, other than the FTC, does not encourage comparative advertising. It does however, permit an advertiser to refer to the goods or services of another person, as long as the comparison is honest and the public is not misled as to whom the

producer of the goods is. Complaints of this nature are apparently seldom lodged with the ITC.

Comparative advertising is also, in principle, protected by the Constitution. On a basis of reasonableness with a view to substantial interests involved, obviously including the public interest and more specifically and importantly - economic gain. Entrepreneurs should therefore not unreasonably be prevented from participation in the market place of ideas, restrictions, especially of a legislative nature, thus required to be reasonable, to serve a substantial interest, to be no broader than necessary to advance that interest, and the regulatory measure(s) required to directly advance that interest.

In conclusion, comparative advertising of a truthful and honest nature seems to be favoured in the USA as being in the public interest with a view to the promotion of fair competition and the benefits which may be derived by consumers, such advertising, being restricted, however, on a basis of reasonableness bearing in mind the interests involved. The restriction in question seems to be directed at false or misleading advertising or related misrepresentation which has or have certain undesired results. Cf. the comment of Andre Oulette as quoted *supra*:

> "False and misleading advertising and unethical promotional practices distort our free economic system which is built on honesty and fair play. They deny the consumer the information required to make wise and effective buying decisions, and they deprive ethical promoters and honest advertisers of the deserved awards for offering better quality, more competitive prices, or simply the undoctored facts."

It seems as though the European countries can be divided according to their attitudes towards comparative advertising as follows:

1. Liberal policies towards comparative advertising:

   United Kingdom and Portugal

2. Allow comparative advertising subject to restrictions:

France, Spain and Denmark

3. Explicitly ban comparative advertising:

   Belgium and Luxembourg

4. Enacted legislation which make comparative advertising nearly impossible:

   Italy and Switzerland

5. No clear legal provisions:

   The Netherlands and Greece.

Although comparative advertising is not novel in the United Kingdom, direct comparative advertising was viewed as of a negative nature, and also as being impolite. This negative attitude towards comparative advertising was reflected in legislation concerning trade marks, especially in 1938 and 1974, and seems to have continued until 1994, although certain related court decisions reflect a more positive attitude in favour of comparative advertising, certain decisions apparently having taken a robust view of direct comparative advertising that sought to positively differentiate products, whilst having taken a negative view of advertising that sought to associate an unknown brand with a well-known brand. It is interesting to note that despite the aforementioned trade mark legislation, certain industries, such as the motor industry, utilized comparative advertising, the parties concerned having considered the benefits of such advertising to have been greater than the disadvantages, and having agreed and decided not to take legal action in respect of registered trade mark infringement.

With reference to section 10(6) of the *Trade Marks Act* of 1994 and the related *Barclay Bank*-case referred to, Judge Laddie was of the opinion that the primary objective of the subsection in question was to legalize comparative advertising. The judge was obviously referring to such advertising which constituted the

> "*use of a registered trade mark in accordance with honest practice in industrial or commercial matters*",

the test being *what is to be reasonably expected by the relevant public of advertisements for such goods or services, omissions not to be significantly misleading*. Such a test is obviously extremely wide, flexible and uncertain, and it

appears that notice will also not be taken of mere "puffing" of advertised goods or services, if the reasonable observer will not regard this use as dishonest. In the *Vodafone Group*-case, it was confirmed that the test for "honest use" was objective, the plaintiff having to show that

> "the comparison is significantly misleading on an objective basis to a substantial portion of the reasonable audience".

In another case referred to, relief was refused on the grounds

> "that overall, there was nothing seriously misleading or dishonest about the statements made...".

The aforementioned approach by the courts has prompted comment to the effect that such is confirmation of the traditional liberal British approach and serves as a reinforcement of the view of the Government to the effect that comparative advertising is

> "a legitimate, useful and effective marketing tool"

in the sense that such advertising

> "stimulates competition and informs the consumer in a way that the man and the woman in the street find easy to understand".

Comparative advertising in the United Kingdom may, however, be subject to restrictions or liability in terms of the common law, for example in the case of injurious falsehood, passing-off and defamation.

Criminal law seems to have a minor influence on comparative advertising in the United Kingdom. Examples of statutory provisions which may incur criminal liability are related provisions of the *Trade Descriptions Act* which prohibit false trade descriptions and false statements as to services; section 20 of the *Consumer Protection Act* which has a bearing on misleading indications as to the price of goods or services; and section 15 of the *Theft Act* which prohibits the deliberate or reckless false disparagement of another's goods or services.

Other than the relevant provisions of the statutory law pertaining to trade marks, it also seems as though certain statutory provisions pertaining to copyright law

may be of relevance to comparative advertising in the United Kingdom.

Research has shown that comparative advertising issues in the United Kingdom are mainly dealt with through self-regulation in the industry. As the different industries have extensive codes dealing with the said subject, these codes in fact complement the existing law. Advertisers are also very careful not to contravene these Codes, for if they do, the self-regulatory bodies, i.e. CAP and ASA, will issue case reports which reflect very negatively on them. Injured parties consequently make frequent use of this form of recourse, because these bodies, as can be seen from the aforesaid, are able to penalize the wrongdoer. Another form of penalization being the exclusion of such an advertiser from membership of the advertising bodies.

Although the self-regulatory system requires substantiation of factual claims, and thus lays down more stringent requirements than at law, it has the ability to be more flexible. This is why these bodies emphasize the ability of consumers to critically assess an advertisement and to differentiate between puffing and serious statements. Research has also shown that advertisers adhere to these voluntary codes and that they comply with the directions of the supervisory bodies.

The British Code of Advertising (the CAP Code) features three general rules at the head of this Code, viz.:-

> "All advertisements should be legal, decent, honest and truthful.
> All advertisements should be prepared with a sense of responsibility to consumers and to society.
> All advertisements should respect the principles of fair competition generally accepted in business."

In addition to these general rules, the provisions of the Code in question require of the advertisers to retain all documentary evidence in order to prove their claims. At the request of the Committee concerned, the advertiser must produce

such evidence without delay and when judged, the supplied evidence must be capable of substantiating both the detailed claims, as well as the overall impression. Related to these provisions, are the provisions of regulation 7.1, which require advertisements not to mislead by inaccuracy, ambiguity, exaggerations, omissions or otherwise.

Regulations 19 to 21 make specific provision for comparative advertising. It is allowed in the interests of competition and public information, provided that it is clear and fair and that the features of the goods or services which are compared, should not be selected in such a way that the advertiser is given an artificial advantage. Furthermore, the advertisement must not unfairly attack or discredit a competitor's product or service, or make unfair use of the goodwill attached to the competitor's trade mark.

The related European Union Directive on comparative advertising requires of the countries within the European Union to adopt legislation that implements its provisions before May 2000. The aim of this Directive is to harmonize the provisions related to comparative advertising in respect of the different countries in question, in order to streamline the common market.

The European Directive requires that comparative advertising must:

1) not be misleading;
2) compare goods or services meeting the same needs or are intended for the same purpose;
3) objectively compare one or more material, relevant and representative features of those goods or services, including prices;
4) not create confusion in the market place between an advertiser and a competitor or between their respective marks or names;
5) relate to products with the same designation of origin;
6) take unfair advantage of the reputation of a trade mark or name or other

distinguishing marks of a competitor or of the designation of origin of competing products;

7) not discredit or denigrate the trade marks, trade names or other distinguishing marks, goods or services or activities of a competitor.

The general viewpoint however seems to be that these requirements will put further restrictions on comparative advertising, since the Member States may interpret the aforementioned requirements in a strict sense, and consequently restrict comparative advertising 'to protect' consumers. The attitudes towards comparative advertising in the European Union are also very negative (apparently due to conservative cultural bias) and this will encourage the above mentioned approach. The denigration provision (7) is a further negative feature which detracts from the promotion of comparative advertising as this provision is expected to prevent advertisers from illustrating the differences in quality and effectiveness of their products or services, and those of competitors.

Compliance with the aforementioned Directive of the European Union, would seem inevitably to effect a more conservative and restrictive approach to comparative advertising in the United Kingdom, thus thwarting the more liberal attitude which has prevailed during the last few years.

At the core of the German law pertaining to advertising, seems to be the requirement that an advertisement must not be misleading, the general impression created by advertising also required to be truthful. The interests of advertisers in selling their products, the interests of consumers to receive truthful and factual educational information, those of competitors not to be unfairly damaged as far as their products and subsequently their market position are concerned, and also the interests of the general public in a functional competitive economy are all weighed in order to strike a fine balance with a view to the

related law which seems to be governed by the law of unfair competition. This "balance of interest" test, though flexible, obviously leads to legal uncertainty.

German law distinguishes between personal, imitative and critical comparative advertising. Personal comparative advertising whereby the image of the person of a competitor is degraded in the absence of

> "a sufficiently substantial interest"

or appropriate justification, is unlawful. Imitative comparative advertising, is typified as a

> "parasitic free ride"

and as a

> "form of unfair exploitation",

the tendency being to confuse consumers and to give advertisers an undeserved advantage. Such advertising is generally unlawful, in the absence of a

> "sufficiently substantiated reason for comparison",

as such advertisers do not base their claims or rely on the merits of their own products, but rather exploit the good reputation of a rival's products and in effect the goodwill of a rival's business. Critical comparative advertising, whereby competitors are identified, is prohibited if misleading, and even if such advertising reflects true statements such advertisements will be prohibited should the statements be presented in an "unfactual" manner. On the other hand, it seems as though direct comparative advertising (presupposing identifiable competitors) is lawful should such advertisements constitute a truthful comparison of product categories, relying on related and substantiated merits that are not misleading. Other forms of comparative advertising whereby competitors are not identified or identifiable or involved at all seems to be lawful, however, on condition that such advertisements be truthful, factual and not misleading.

The Japanese culture has not taken kindly to comparative advertising, although it has been recognized as a legal activity since 1986 on condition that the contents are

> "impartial and objectively verifiable, and that the competing product is not subject to slander or libel".

Generally, explicit comparative advertising seems to be regarded as

> "ill-mannered, crass and generally disruptive to civilized relations between competitors".

Despite this apparent hostility, comparative advertising does occur in Japan, the younger generation being apparently more favourably disposed thereto and consumers increasingly requiring value for money and believing that comparative advertising will furnish more relevant and material information.

With regard to the position in South Africa, the research in question confirms the statement, which appears *supra* in Chapter 1 and pertains to the subject of this research, to the effect that the concept of unlawful - or illegal comparative advertising embraces advertising contrary to the law in a wide sense, including related provisions of statutory - and/or common law, and that the related legal liability which may be incurred includes civil - and/or criminal liability, thus limiting or restricting the scope of comparative advertising. Unlawful comparative advertising appears to be more comprehensive in South Africa than in the United States of America or the United Kingdom, for example, possibly being similar to the position in Germany. Consequently the implication is that the scope of legal comparative advertising in South Africa accords in essence with that in Germany, also bearing in mind the provisions in Germany related to imitative - and critical comparative advertising and the position in South Africa related to leaning-on and to section 34(1)(c) of the *Trade Marks Act*, the submission being that the aforesaid section 34(1)(c) should be interpreted as to include the word "unfairly"

between "be" and "detrimental" (thus reading "be unfairly detrimental to"). Furthermore it is submitted that comparative advertising which complies with the rules and regulations appearing in the British Code of Advertising (the CAP Code) and also set forth *supra*, would constitute *legal* comparative advertising in South Africa, the only problem being the interpretation of the concepts of "fairness" used in the Code in question. It is also submitted that the amendment of subclause 7.1.6 of the ASA Code in South Africa to the effect that the word "unfair" is included, thus reading "no unfair disparagement takes place", would have the effect of removing a substantial obstacle or restriction with a view to the promotion of legal and fair comparative advertising.

There are strong and significant arguments in the United States of America and the United Kingdom in favour of comparative advertising and such arguments obviously cannot be ignored in South Africa. The results of a study in America and Germany are also indicative of the fact that advertising is the most important source of product information, and consequently of purchasing information available to consumers in industrial societies with market economies. In the light of such facts, it is not surprising that constitutional protection is granted to advertising as a form of commercial speech in various countries, including the United States of America and Canada. Although uncertain, related constitutional protection in South Africa seems probable.

Sight should also not be lost of the new *Competition Act* of 1998, the purpose of which in terms of section 2

> "is to promote and maintain competition in the Republic in order -
>
> a) to promote the efficiency, adaptability and development of the economy;
>
> b) to provide consumers with competitive prices and product choices;
>
> c) to promote employment and advance the social and economic welfare of South Africans;

d) to expand opportunities for South African participation in the world markets and recognize the role of foreign competition in the Republic;

e) to ensure that small and medium-sized enterprises have an equitable opportunity to participate in the economy;

f)..."

Although comparative advertising obviously lends itself to abuse, it is submitted that there are adequate legal provisions in South Africa with a view to combating any related abuse despite the fact that implementation generally needs to be improved.

In the light of an apparently successful self-regulatory system in the United Kingdom and viewed together with associated benefits and advantages, serious and sustained effort in South Africa seems justified toward an effective and satisfactory system of self-regulation.

The self-regulatory system in the United Kingdom, if implemented correctly, is more time and cost effective, and allows the agencies more flexibility. The cultural background of the relevant target group may be considered and the advertisement analyzed according to these findings. In the South African context this may be of paramount importance since our country has a large number of uneducated and unsophisticated people, as discussed above, who may be easily influenced by certain advertisements.

Furthermore, a self-regulatory system may also be able to regulate the advertisers in a satisfactory way if these bodies (such as the ASA) impose similar penalties to those imposed by the United Kingdom's self-regulatory bodies. But, in order to have a satisfactory self-regulatory system it is of great importance that

these advertising regulatory bodies should change their attitudes towards comparative advertising, from prohibiting it in practice to allowing it in appropriate circumstances, and in the light of the above discussion related to freedom of speech, are these self-regulatory bodies not, in actual fact, under an obligation to change their conservative viewpoints?

ADDENDUMS

SUMMARY

The concept, comparative advertising, is defined as a technique of advertising involving direct/indirect comparisons between goods or services of competitors or of other business enterprises in the course of trade or industry. It is submitted that this concept should be extended to also include comparisons between goods or services belonging solely to the advertiser.

The research with regard to the USA included the common law, the trade commissions and section 43(a) of the *Lanham Act*. The common law pertaining to unfair competition could be relied upon in the case of injurious falsehoods. Haydon submits that a commercial could be typified and banned as unfair competition whenever a competitor publishes a disparaging representation about the Plaintiff's goods or services which is likely to deceive or mislead prospective purchasers to the plaintiff's likely commercial detriment. A plaintiff can also take recourse under section 43(a) of the *Lanham Act*, when *inter alia* a false or misleading description of fact or false or misleading representation of fact was made and which would be likely to cause confusion or mistake etc. A plaintiff who takes recourse under this section does, however, bears a heavy burden of proof. The Federal Trade Commission's Code encourages comparative advertising and the FTC only acts in the public interest where

> "a reasonable consumer is likely to be misled and that the advertisement played a material role in the consumer's purchasing choice."

The International Trade Commission does not encourage comparative advertising and this commission receives complaints from plaintiffs who were prejudiced by *foreign* competitors' advertisements. It thus seems that comparative advertising of a truthful and honest nature is favoured in the USA, as in the public interest, subject to reasonableness and after consideration of the respective interests involved.

It seems as though the European countries can be divided according to their

attitudes towards comparative advertising as follows:

1. Liberal policies towards comparative advertising:
   United Kingdom and Portugal
2. Allow comparative advertising subject to restrictions:
   France, Spain and Denmark
3. Explicitly ban comparative advertising:
   Belgium and Luxembourg
4. Enacted legislation which makes comparative advertising nearly impossible:
   Italy and Switzerland
5. No clear legal provisions:
   The Netherlands and Greece.

The United Kingdom has taken a more liberal stance towards comparative advertising during the last few years, as can be seen from the judgements given in the *Barclays Bank*-case, the *Vodafone* Group-case and the *British Telecommunications*-case. The courts used the objective test to determine if there was 'honest use' of the registered trade marks. The court found in the *Vodafone Group*-case that a plaintiff has to show that

> "the comparison is significantly misleading on an objective basis to a substantial portion of the reasonable audience."

The United Kingdom is, however, a member of the European Union and it is envisaged that this country will adopt a stricter approach towards comparative advertising in future due to the *European Directive on Comparative Advertising*. In the United Kingdom comparative advertising issues are mainly successfully dealt with by self-regulatory bodies.

The *European Directive on Comparative Advertising* sets out a few requirements to which a comparative advertisement must adhere before such will be allowed. The member states have to adopt legislation to accommodate these requirements. It is envisaged that most of these countries will interpret these requirements in a strict sense and will accordingly have a more conservative

approach towards comparative advertising.

The German law distinguishes between personal, imitative and critical comparative advertising. It seems as though direct comparative advertising (presupposing identifiable competitors) is lawful should such advertisements constitute a truthful comparison of product categories, relying on related and substantiated merits that are not misleading. Other forms of comparative advertising whereby competitors are not identified or identifiable or involved at all seems to be lawful, however, on condition that such advertisements are truthful, factual and not misleading.

The Japanese culture has not taken kindly to comparative advertising in the past. It does, however, appear as if the younger generation is more favourably disposed thereto. Thus, this negative attitude towards comparative advertising may change towards the better in the future.

Unlawful comparative advertising appears to be more comprehensive in SA than in the UK and the USA, but possibly similar to that in Germany.

The common law, obviously including unlawful competition, as well as statutory enactments of relevance are comprehensive to the extent that comparative advertising may be a perilous activity in South Africa as far as the unwary are concerned. It is submitted that section 34(1)(c) of the *Trade Marks Act* (the so called 'dilution section') should be amended to read: "... be *unfairly* detrimental to ..." with a view to the promotion of lawful and fair comparative advertising.

Although comparative advertising lends itself to abuse, it is submitted that there are adequate legal provisions with a view to combating any related abuse despite the fact that implementation generally needs to be improved. The self-regulatory system can be used with success if it is conducted in a similar way to that of the United Kingdom. Also in view of the Bill of Rights, and the right to freedom of

speech, comparative advertising should be allowed, subject to the restrictions as set out in section 36 of the *Constitution*. Consequently and also bearing in mind the benefits which may be derived from comparative advertising, it is finally submitted that the ASA's Code be amended in order to reflect a more positive attitude towards comparative advertising.

OPSOMMING

Die begrip, vergelykende reklame, word gedefinieer as 'n advertensietegniek waar gebruik gemaak word van direkte of indirekte vergelykings tussen goedere of dienste van mededingers, of ander besighede, in die gewone loop van besigheid. Daar word aan die hand gedoen dat hierdie begrip uitgebrei word om ook vergelykings tussen goedere of dienste wat uitsluitlik aan die adverteerder (derhalwe een besigheid) behoort in te sluit.

Tydens die studie is die gemenereg, die handelskommissies en die *Lanham* Wet van die Verenigde State van Amerika ondersoek. Haydon submiteer dat 'n advertensie geklassifiseer, en gevolglik verbied sal word, as dit 'n neerhalende voorstelling van die Eiser se goedere of dienste bevat, waar daar 'n moontlikheid bestaan dat sodanige voorstelling voornemende kliënte sal mislei of onder 'n wanindruk sal bring, en derhalwe moontlik sal lei daartoe dat die Eiser se besigheid benadeel word. 'n Eiser kan ook gebruik maak van artikel 43(a) van die *Lanham* Wet wanneer, *inter alia,* die Verweerder valse of misleidende voorstellings of valse of misleidende feite gebruik in 'n advertensie, wat tot gevolg kan hê dat kliënte verwar kan word. Daar rus egter 'n swaarder bewyslas op 'n Eiser wat wil steun op hierdie artikel. Die Federale Handelskommissie (Federal Trade Commission) is ten gunste van vergelykende reklame. Hierdie Kommissie sal slegs in die openbare belang optree en 'n vergelykende advertensie verbied, wanneer daar 'n moontlikheid bestaan dat 'n redelike verbruiker mislei kan word, en wanneer die advertensie 'n wesenlike rol gespeel het in die verbruiker se aankoopkeuse. Die Internasionale Handelskommissie (International Trade Commission) ontvang klagtes vanaf partye wat benadeel is as gevolg van advertensies van *buitelandse* mededingers. Gevolglik blyk dit dat vergelykende reklame wat eerlik is en gebaseer is op ware feite, toegelaat sal word in die VSA, synde in die openbare belang. Voormelde is egter onderworpe

aan 'n redelikheidsvereiste sowel as die inagneming van die onderskeie belange wat betrokke is.

Die Europese lande kan as volg geklassifiseer word:

1. Liberale beleid ten opsigte van vergelykende reklame:
   Verenigde Koninkryke, Portugal
2. Laat vergelykende reklame toe onderworpe aan sekere beperkings:
   Frankryk, Spanje en Denemarke
3. Verbied vergelykende reklame uitdruklik:
   België en Luxemburg
4. Wetgewing gepromulgeer wat dit bykans onmoontlik maak om van vergelykende reklame gebruik te maak:
   Italië en Switserland
5. Nie duidelike regsvoorskrifte:
   Die Nederlande en Griekeland

Die Verenigde Koninkryke het die afgelope paar jaar 'n meer liberale siening ten opsigte van vergelykende reklame. Dit word weerspieel in die uitsprake in die *Barclays Bank*-saak, die *Vodafone Group*-saak en die *British Telecommunications*-saak. Die howe het gebruik gemaak van 'n objektiewe toets ten einde te bepaal of daar eerlike gebruik gemaak is van geregistreerde handelsmerke. Aangesien die Verenigde Koninkryke egter 'n lid is van die Europese Unie word voorsien dat daar in die toekoms 'n strenger benadering gevolg sal word ten opsigte van vergelykende reklame, in toepassing van die "European Directive on Comparative Advertising".

Voormelde Direktief stel sekere vereistes waaraan vergelykende reklame moet voldoen voordat dit aanvaar sal word in die lidlande. Daar word voorsien dat meeste van die lidlande hierdie vereistes eng sal interpreteer en derhalwe 'n konserwatiewe benadering ten opsigte van vergelykende reklame sal volg.

Die Duitse reg onderskei tussen persoonlike, nabootsende en kritiese vergelykende reklame. Direkte vergelykende reklame (waar identifiseerbare mededingers voorveronderstel word) blyk toelaatbaar te wees indien dit 'n ware vergelyking is van die produkte kategorie en gebaseer word op verbandhoudende en bewese meriete, wat nie misleidend is nie. Indirekte vergelykende reklame blyk toelaatbaar te wees op voorwaarde dat die advertensies eerlik, feitlik en nie misleidend moet wees nie.

Die Japanese kultuur het in die verlede 'n negatiewe houding ten opsigte van vergelykende reklame ingeneem. Dit wil egter voorkom asof die jonger generasie meer ten guste daarvan is en derhalwe mag die posisie van vergelykende reklame in die land in die toekoms verbeter.

Onregmatige vergelykende reklame blyk meer omvattende te wees in Suid-Afrika as in die Verenigde Koninkryke en die VSA, maar moontlik soortgelyk aan die in Duitsland. Die gemenereg, sowel as die toepaslike wetgewing, is omvattend en 'n adverteerder moet deeglik kennis neem van die vereistes ten einde te verseker dat hy/sy binne die grense van die reg bly. Daar word voorts aan die hand gedoen dat artikel 34(1)(c) van die Handelsmerke Wet gewysig word ten einde te lees: "... of onbillik nadelig sal wees".

Alhoewel vergelykende reklame ditself leen tot misbruik, word aan die hand gedoen dat daar voldoende regsvoorskrifte in die verband bestaan om sodanige misbruik teen te staan. Die implementering daarvan moet egter verbeter word. Indien self-regulering sou toegepas word op 'n soortgelyke wyse as in die Verenigde Koninkryke kan dit 'n effektiewe stelsel vir die beheer van vergelykende reklame daarstel. In die lig van die Handves van Menseregte, en die reg op vryheid van spraak, moet vergelykende reklame toegelaat word, onderworpe aan die beperkings soos uiteengesit in artikel 36 van die Grondwet. Gevolglik word aan die hand gedoen dat, indien die voordele van vergelykende reklame in gedagte gehou word, dit gepas sal wees indien die Kode van die

Advertensie Standaarde Owerheid gewysig word ten einde 'n meer positiewe houding ten opsigte van vergelykende reklame te weerspieël.

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CENSUS IN BRIEF

REPORT NO.1: 03-01-11(1996)

2.24 Level of education amongst those aged 20 years or more by province (numbers)*

	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Mpumalanga	Northern Cape	Northern Province	North West	Western Cape	South Africa
No schooling	617 796	236 148	419 157	957 217	410 337	97 692	771 587	403 143	153 109	4 066 187
Some primary	635 475	328 076	516 624	747 586	211 217	94 571	252 286	364 297	362 285	3 512 415
Complete primary	264 236	130 308	295 643	278 435	95 783	39 578	124 377	139 004	204 411	1 571 774
Some secondary	966 341	493 148	1 780 368	1 328 708	403 474	139 233	556 667	560 987	901 196	7 130 121
Std 10/Grade 12	328 637	199 854	1 042 744	665 303	203 102	53 482	293 703	236 188	435 620	3 458 434
Higher	139 200	76 285	369 627	200 819	69 551	25 939	94 107	75 258	243 954	1 294 720
Unspecified/Other	88 987	49 453	402 764	217 428	58 967	18 027	95 312	61 774	119 855	1 112 568
Total	3 040 672	1 513 052	4 826 928	4 395 496	1 452 430	468 521	2 188 040	1 840 651	2 420 430	22 146 220

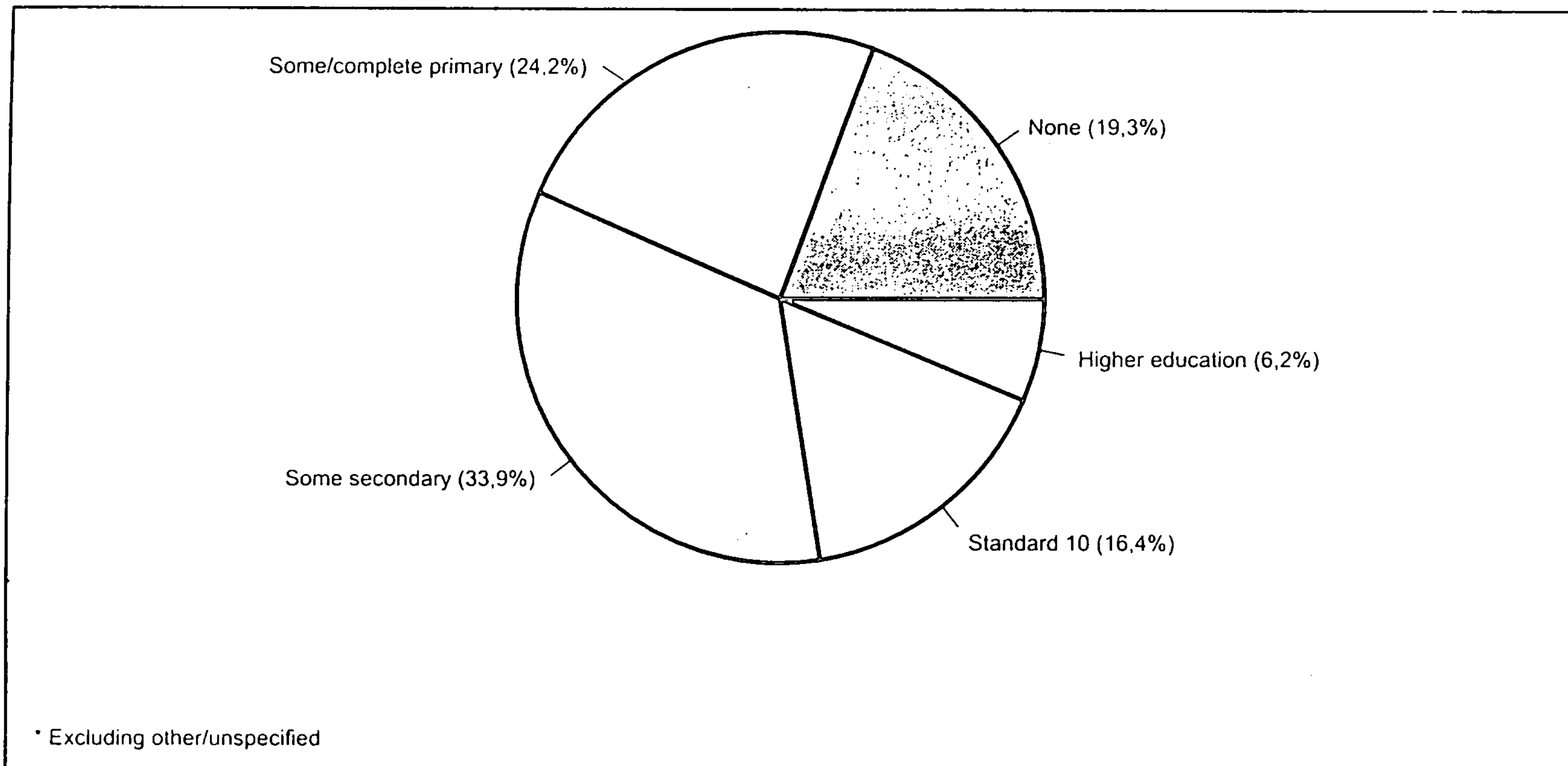
* Excluding unspecified/other

2.25 Level of education amongst aged 20 years or more by province (percenatges)*

	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Mpumalanga	Northern Cape	Northern Province	North West	Western Cape	South Africa
No schooling	20,9	16,1	9,5	22,9	29,4	21,7	36,9	22,7	6,7	19,3
Some primary	21,5	22,4	11,7	17,9	15,2	21,0	12,1	20,5	15,7	16,7
Complete primary	9,0	8,9	6,7	6,7	6,9	8,8	5,9	7,8	8,9	7,5
Some secondary	32,7	33,7	40,2	31,8	29,0	30,9	26,6	31,5	39,2	33,9
Std 10/Grade 12	11,1	13,6	23,6	15,9	14,6	11,9	14,0	13,3	18,9	16,4
Higher	4,7	5,2	8,4	4,8	5,0	5,8	4,5	4,2	10,6	6,2
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

* Excluding unspecified/other

Percentage of the population aged 20 years or more by highest level of education completed – October 1996*



- Almost 20% of South Africans aged 20 years or more have received no education, while only 6% have post-school qualifications.

5.5 USA

Abrams v United States 250 US 616

American Home Products v Johnson & Johnson, 577 F 2d 160 (2d Cir. May 1, 1978)

American Safety Table Co. Inc. v Schreiber 269 F2d 255, 272, 122 USPQ 29, 43 (CA 2 1959)

Bigelow v Virginia 421 US 809, 825 (1975)

Bi-Rite Enterprises, Inc v Button Master 555 F Supp 1188, 217 USPQ 910 (SD NY 1983)

Bismag Ltd. v Amblins (Chemists) Ltd., (1940) 57 RPC 209

Board of Trustees v Fox 109 S. Ct. 3028 (1989).

Breard v Alexandria 341 US 622 (1951).

Central Hudson Gas & Electric v Public Service Commission of New York 447 US 55

Charles of the Ritz Group Ltd. v Quality King Distributors Inc. 832 F2d 1317, 4 USPQ 2d 1778 (CA 2 1987)

Coca-Cola Co v Gemini Rising Inc. 346 F Supp 1183, 175 USPQ 56 (EDNY 1972)

Cosgrove Studio & Camera Shop v Pane 21 Pa. D. & C.2d 89, 91 (1960)

Diehl & Sons, Inc. v International Harvester Co. 445 F. Supp. 282, 292 (E.D.N.Y. 1978)

Edelfeld v Fane 113 Sct 1792 (1993) or 507 US - ; 123 L Ed 2d 543 (1993).

Florida Bar v Went for It Inc. 515 US-, 132 L Ed 2d 541 (1995)

Friedman v Rogers 440 US 1 (1979)

Gardener v Whitaker 1995 (2) SA 672 (E)

Goodwin v Agassiz, 283 Mass. 358, 363, 186 N.E. 659, 661 (1933)

Irwin Toy Ltd v Quebec 1989 58 DLR (4th) 577 (SCC)

Virginia State Board of Pharmacy v Virginia Citizens Consumer Council 425 US 748

Vulcan Metals Co. v Simmons Manufacturing Co. 248 F. 853, 856 (2d Circuit); 247 U.S. 507 (1918)

6. STATUTES

6.1 Canada

Competition Act RSC 1985, c C-34, as amended

Trade Marks Act RSC 1985, c T-13, as amended

6.2 European Union

European Directive on Comparative Advertising 97/55/EC of 6 October 1997

European Directive on Misleading Advertising 84/450/EEC

6.3 Germany

Unfair Competition Act ("UWG") 1900, as amended in 1909

6.4 Mexico

Industrial Property Law, 28 June 1991, as amended on 2 August 1994

Federal Consumer Protection Law, 24 December 1992.

6.5 South Africa

Business Names Act No. 27 of 1960, as amended

Constitution of South Africa Act 108 of 1996

Copyright Act No. 98 of 1978, as amended

Counterfeit Goods Act No. 37 of 1997

Designs Act No. 195 of 1993, as amended

Harmful Business Practices Act No. 71 of 1988, as amended

Merchandise Marks Act No. 17 of 1941, as amended

Trade Marks Act No. 194 of 1993

Trade Practices Act No. 76 of 1976, as amended by Act 49 of 1985

Free State Consumer Affairs (Unfair Business Practices) Act No. 14 of 1998

6.6 Spain

General Advertising Law of 1988

Law of Industrial Property of 1902

Statute of Advertising of 1964

6.7 United Kingdom

Broadcasting Act 1990

Consumer Protection Act 1987

Control of Misleading Advertising Regulations 1988 (CMA Regs.)

Copyright, Designs and Patents Act 1988

Trade Descriptions Act 1968

Trade Marks Act 1994

6.8 USA

Lanham Act as amended in 1988

7. CONVENTIONS

Paris Convention for the Protection of Industrial Property of 20 March 1984 (as revised)