

Neutral Citation Number: [2010] EWCA Civ 535

IN THE HIGH COURT OF JUSTICE
COURT OF APPEAL (CIVIL DIVISION)
ON APPEAL FROM THE HIGH COURT OF JUSTICE
CHANCERY DIVISION INTELLECTUAL PROPERTY
THE HON MR JUSTICE LEWISON
HC03 C04344

Royal Courts of Justice
Strand, London, WC2A 2LL

Date: 21/05/2010

Before:

THE RT HON LORD JUSTICE JACOB
THE RT HON LORD JUSTICE WALL
and
THE RT HON LORD JUSTICE RIMER

Between:

(1) L'Oréal SA	<u>Claimants/</u>
(2) Lancome Parfums et Beaute & CIE	<u>Respond-</u>
(3) Laboratoire Garnier & CIE	<u>ents</u>
- and -	
(1) Bellure NV	<u>Defendants/</u>
(4) Malaika Investments Ltd (t/a Honey-pot Cosmetic & Perfumery Sales)	<u>Appellants</u>
(7) Starion International Ltd	

Henry Carr QC and Jacqueline Reid (instructed by Baker & McKenzie LLP)
for the Claimants/Respondents
Roger Wyand QC and Tom Moody-Stuart (instructed by Field Fisher Waterhouse)
for the Defendants/Appellants

Hearing date: 2 March 2010

Judgment

Jacob LJ:

Introduction

1. This judgment follows the resumption of the hearing of an appeal from a judgment of Lewison J given in 2006. This Court (then consisting of Keene LJ (now retired), myself and Blackburne J (also now retired)) commenced the hearing of the appeal in July 2007. We gave judgment in October of that year, [2007] EWCA Civ 968, [2008] RPC 196. We resolved some issues (whether passing off should be extended to some sort of nebulous tort of “unfair competition” and whether items of the defendants’ “current packaging” infringed). But other issues of trade mark law were unclear. So we referred some questions to the ECJ. The Court replied by a Judgment of 18th June 2009 (Case C-487/07).
2. Not for the first time in intellectual property cases (e.g. *British Horseracing Board v William Hill* [2005] EWCA (Civ) 863, [2005] RPC 883, *Arsenal v Reed* [2003] RPC 696, [2003] EWCA Civ 696 and *Boehringer Ingelheim v Swingward* [2004] EWCA Civ 129, [2004] ETMR 90) the Court’s judgment has left enough room for the parties to disagree about what it means. It is such a disagreement which comes before us now.
3. I set the facts out in detail in the earlier judgment; there is no need to do it all again. In summary the defendants have three ranges of products called Stitch, Création Lamis and Dorrall. Each member of the range smells like a famous, luxury branded perfume known by a well-known registered trade mark. L’Oréal alleges that the defendants’ use of comparison lists for each of the defendants’ ranges of product, showing which products correspond to which L’Oréal perfume, infringed its registered trade marks for those perfumes. Originally it also contended that some of the packaging used for the Création Lamis and Dorrall ranges also infringed other registered trade marks. No complaint was made about the packaging of the Stitch range.
4. So far as the packaging was concerned, by the time we sent questions to the ECJ only two items remained in dispute. They were called “historic” because the defendants had abandoned use of them in the UK before trial. The Judge held and we affirmed that the defendants’ current packaging gave no cause for legitimate complaint. Following the ruling of the ECJ, the defendants now accept that the two “historic” packages infringed. Only a dispute about the costs relating to these remains. We have yet to consider that.
5. Thus we are left only with the comparison lists. As to the impact of these in the market I set the factual findings out in the earlier judgment:

[55] So the factual position can be summarised thus:

- (i) It is lawful to make and sell a smell-alike product.
- (ii) The best and only practical way to describe its smell is to inform people that it smells like X.
- (iii) That is done by the use of the comparison lists.

(iv) The Defendants get a major promotional advantage from using such lists.

(v) Neither customers nor ultimate consumers are deceived as a result of the use of the lists.

(vi) Neither the image nor the distinctiveness of the trade mark for the comparable fine fragrance is impaired by the use of the lists – there is no tarnishment or blurring.

(vii) Sales of the corresponding fine fragrance are not affected by the use of the lists.

And:

[63] I would add that a touch of reality is called for here. Consumers are not stupid. They will not see the cheap copy as being the same in quality as the original. They will see it for what it is and no more.

6. The problem, stated at its most general, is simple. Does trade mark law prevent the defendants from telling the truth? Even though their perfumes are lawful and do smell like the corresponding famous brands, does trade mark law nonetheless muzzle the defendants so that they cannot say so?
7. I have come to the conclusion that the ECJ's ruling is that the defendants are indeed muzzled. My duty as a national judge is to follow EU law as interpreted by the ECJ. I think, with regret, that the answers we have received from the ECJ require us so to hold. Before I consider why in detail – and both because EU trade mark law is currently being reviewed by the Max Planck Institute at the request of the Commission and the Commission itself considers that the Court should reconsider its opinion in the instant very case (see [18] of *Interflora v Marks & Spencers No. 2*, [2010] EWHC 925 (Ch) *per* Arnold J – I wish to say why I regret those answers.
8. My own strong predilection, free from the opinion of the ECJ, would be to hold that trade mark law did not prevent traders from making honest statements about their products where those products are themselves lawful.
9. I have a number of reasons for that predilection. First and most generally is that I am in favour of free speech – and most particularly where someone wishes to tell the truth. There is no good reason to dilute the predilection in cases where the speaker's motive for telling the truth is his own commercial gain. Truth in the market place matters – even if it does not attract quite the strong emotions as the right of a journalist or politician to speak the truth.
10. The right to tell – and to hear - the truth has high international recognition. Art. 19 of the Universal Declaration of Human Rights says “Everyone has the right to freedom of opinion and expression; this right includes freedom to ... receive and impart information” Art. 19(2) of the International Covenant on Civil and Political Rights says: “Everyone shall have the right to freedom of expression; this right shall include freedom to ... receive and impart information ...” Art 10(1) of the European

Convention on Human Rights says: “Everyone has the right to freedom of expression. This right shall include freedom to hold opinions and to receive and impart information ...”. Art. 11(1) of the Charter of the Fundamental Rights of the European Union says: “Everyone has the right to freedom of expression. This right shall include freedom to hold opinions and to receive and impart information and ideas ...”

11. Of course the right of free expression (which clearly applies in principle to expression for commercial purposes, see Para. 4.10.16 of *Human Rights Law and Practice*, Lester, Pannick and Herberg, 3rd Edn, and the Strasbourg court cases there cited) cannot be and is not unqualified. But any suggested rule of law which stands in the way of people telling the truth, whether the context be political, commercial or otherwise, ought to be scrutinised with care and justified only on the grounds of strict necessity.
12. Any such scrutiny should consider not only the right of the speaker but also of his hearer. For the right of free speech extends not only to those who wish to tell the truth, but also those who would wish to hear it – the words are “*receive and impart.*” In terms of the market place the hearer’s right to receive information translates into the right of the consumer to make an informed choice about products on the market.
13. That the right to free speech may trump trade mark rights was recognised by the Constitutional Court of South Africa in *Laugh It Off Promotions v South African Breweries etc.*, 27th May 2005, Case CCT 42/04. The question was whether a variant of the well-known Carling Black label logo which was disparaging of the trade mark owner (“Black Labour” and other alterations conveying the message that it had exploited and still is exploiting black labour and should have a feeling of guilt) was an infringement. The legislation was much the same as the EU Directive (at [36] Moseneke J said they were “virtually identical”). Clearly the attacked use was likely to be much more damaging than anything even suggested in the present case, but the right of free speech prevailed. At [44] Moseneke J, in a sensitive and elegant judgment said:

A finding of unfair use or likelihood of detriment to the repute of the marks hinges on whether the offending expression is protected under section 16(1) of the Constitution or not. If the expression is constitutionally protected, what is unfair or detrimental, or not, in the context of section 34(1) [the provision defining infringement, corresponding closely to Art. 5(2) of the Directive] must then be mediated against the competing claim for free expression.

And at [48]:

That in turn impels us to a construction of section 34(1)(c) most compatible with the right of free expression Courts must be astute not to convert the anti-dilution safeguard of renowned trade marks usually controlled by powerful financial interests into a monopoly adverse to other claims of expressive conduct of at least equal cogency and worth in our broader society.”

14. The ECJ's decision in this case means that poor consumers are the losers. Only the poor would dream of buying the defendants' products. The real thing is beyond their wildest dreams. Yet they are denied their right to receive information which would give them a little bit of pleasure; the ability to buy a product for a euro or so which they know smells like a famous perfume.
15. Moreover there is no harm to the trade mark owner – other than possibly a “harm” which, to be fair, L'Oréal has never asserted. That “harm” would be letting the truth out – that it is possible to produce cheap perfumes which smell somewhat like a famous original. I can understand that a purveyor of a product sold at a very high price as an exclusive luxury item would not like the public to know that it can be imitated, albeit not to the same quality, cheaply – there is a bit of a message that the price of the real thing may be excessive and that the “luxury image” may be a bit of a delusion. But an uncomfortable (from the point of view of the trade mark owner) truth is still the truth: it surely needs a strong reason to suppress it.
16. My second reason is more specific. It is about freedom to trade – indeed, potentially in other cases, to compete honestly. (This case is *a fortiori* for the parties' respective products are not in competition with each other). If a trader cannot (when it is truly the case) say: “my goods are the same as Brand X (a famous registered mark) but half the price”, I think there is a real danger that important areas of trade will not be open to proper competition. That is why I pointed out in the first judgment that this case was important. I said then:

[26] This raises a very important topic indeed. I observed at the outset of my judgment in *O2* that, deep down, the question in that case involved the philosophy of how competitive the law allows European industry to be. The allowability or otherwise of comparison lists is another aspect of this. For it is not only smell-alike merchants who use that sort of list. One can think of many others who do the same sort of thing: a generic drug merchant for instance will need to tell his customers (and perhaps patients and doctors) that he is selling the generic (or perhaps his own brand) version of a drug well-known under a trade mark. For that purpose he will want and need to have a list of comparisons of well-known trade mark, generic name and (if any) his own brand name. And he will want to supply that list to his customers or at the very least use the information on it to say “this product is the generic version of X”, X being the well-known brand. Or a dealer in print cartridges will maintain a list using the trade marks of the leading brands of printer, the various numbers used by those brands for cartridges for various models and his equivalent number – rather like the *Stitch* comparison lists here. Dealers in generic spare parts will maintain similar sorts of list. And so on.

[27] It is important to accept and appreciate that in all these cases the merchant who uses such a list does so to promote his product. So there is a kind of “free riding”. Although that expression has crept into European Trade Mark law (see also *Mango v Diknak* [2005] ETMR 5 at [19]) it is, to me at least,

subtly and dangerously emotive: it carries the unwritten message that it ought to be stopped. That is far from being necessarily so. The needs of proper competition and lawful free trade will involve an element at least of “free riding.” The problem for trade mark law is where to draw the line between permissible and impermissible “free riding.” Using the epithet does not solve the problem.

[28] It is also important to note here that there are different sorts of “free riding”. There are cases of out-and-out counterfeiting. At the other extreme there are cases where, without deceiving or confusing anyone, the defendant is in competition with the trade mark owner and advertises fairly but comparatively. Then there are cases where although he gets some benefit from the fame of the trade mark, his actual activity is such that he is not in competition with the trade mark owner and does not impinge on his trade. This sort of case may, or may not, involve some adverse effect on the fame, distinctiveness or repute of the trade mark. To lump them altogether under the same name “free riding” confuses the debate.

17. I do not resile from any of that. I regret that the ECJ in this case has not addressed the competition aspects of what it calls “riding on the coattails”. The trouble with deprecatory metaphorical expressions such as this (“free-riding” is another), containing as they do clear disapproval of the defendants’ trade as such, is that they do not provide clear rules by which a trader can know clearly what he can and cannot do.
18. I do not stand alone. For instance Meale and Smith wrote this in the *Journal of Intellectual Property Law Practice* (2010) Vol 5, 96 at 103:

While the ECJ’s conclusion largely condemns the practices of the defendants in *L’Oréal*, it does so without providing clear guidance as to where the line is drawn between unfair and fair advantage. It might be read to suggest that all advantage is unfair. This would render the word ‘unfair’ in the article redundant, as was Jacob LJ’s concern when he reviewed the previous free-riding authorities in the Court of Appeal.

Gangee and Burrell say this in the *Modern Law Review* [2010] 282:

In *L’Oréal v Bellure* the European Court of Justice decided that free riding, or taking advantage of the reputation enjoyed by an earlier mark, is actionable *per se*. In reaching this conclusion, the ECJ significantly expanded the scope of trade mark protection but provided little justification for doing so. Referencing activity and building on the efforts of others are fundamental to creative and competitive processes. This comment argues that *L’Oréal’s* broad prohibition on free riding is theoretically unsound, runs counter to the thrust of European

trade mark law and could negatively impact on the competitiveness of the European marketplace.

And Jonathan D C Turner says this in *Intellectual Property and EU Competition Law* (Oxford, 2010):

However, it remains to be seen whether the trend towards enlarging the functions and justified scope of rights in branding will progress further, or whether there may be consolidation or retrenchment. For example, as matters stand, it appears that the owner of a trademark which has a reputation may oppose advertising which identifies a competing product as an imitation of the product sold under the mark, even though the statement is accurate and the imitation itself is lawful, in that the competing product is not within the scope of any intellectual property right protecting innovation or creativity. This restriction on competition has been justified on the ground that such advertising takes unfair advantage of the reputation of the mark; but future scrutiny may lead to a qualification or even a reversal of this view, with consequential implications for the application of EU competition rules to conduct justified on the basis of this scope of protection [footnotes omitted].

19. Mr Turner adds, in footnote 45:

It [i.e. the restriction on competition he refers to] also appears to conflict with recital 14 to Directive 2005/29 concerning unfair business-to-consumer practices ...]

That recital reads:

(14) It is desirable that misleading commercial practices cover those practices, including misleading advertising, which by deceiving the consumer prevent him from making an informed and thus efficient choice. In conformity with the laws and practices of Member States on misleading advertising, this Directive classifies misleading practices into misleading actions and misleading omissions. In respect of omissions, this Directive sets out a limited number of key items of information which the consumer needs to make an informed transactional decision. Such information will not have to be disclosed in all advertisements, but only where the trader makes an invitation to purchase, which is a concept clearly defined in this Directive. The full harmonisation approach adopted in this Directive does not preclude the Member States from specifying in national law the main characteristics of particular products such as, for example, collectors' items or electrical goods, the omission of which would be material when an invitation to purchase is made. It is not the intention of this Directive to reduce consumer choice by prohibiting the promotion of products which look similar to other products unless this

similarity confuses consumers as to the commercial origin of the product and is therefore misleading. This Directive should be without prejudice to existing Community law which expressly affords Member States the choice between several regulatory options for the protection of consumers in the field of commercial practices. In particular, this Directive should be without prejudice to Article 13(3) of Directive 2002/58/EC of the European Parliament and of the Council of 12 July 2002 concerning the processing of personal data and the protection of privacy in the electronic communications sector [7].

Clearly the suppression of truthful information for the consumer does prevent him from making “an informed and thus efficient choice.”

20. My final general comment is this. I believe the consequence of the ECJ decision is that the EU has a more “protective” approach to trade mark law than other major trading areas or blocs. I have not of course studied in detail the laws of other countries, but my general understanding is, for instance, that countries with a healthy attitude to competition law, such as the US, would not keep a perfectly lawful product off the market by the use of trade mark law to suppress truthful advertising.
21. With that I turn to the arguments before us. The parties were agreed as to the issues to be decided:
 - (a) Does the use of the registered marks on and in relation to the comparison lists fall within Art. 5(1)(a)?
 - (b) If so does that use comply with the Comparative Advertising Directive?
 - (c) Should L’Oréal be permitted to include a claim under Art. 5(2) (and its equivalent Art 9(1)(c) of the Regulation?)
 - (d) If so, does that use infringe those Arts.?

Issue (a) – within Art. 5(1)(a)?

22. I do not set it out yet again. I set out the legislation at [22-23] of the referring judgment and the ECJ sets it out at [4-6]. The Art. 5(1)(a) provision often goes by the shorthand “identical mark/identical goods”.
23. The comparison lists use L’Oréal’s trade marks in the course of trade. Of that there is no doubt. The use has two aspects, as is best explained by way of example. In context, the message is “Stitch No 7 smells like *Trésor*.” *Trésor* is being used to refer to L’Oréal’s product. But it is also used in relation to Stitch No. 7 by way of comparison.
24. Does either aspect of that use bring the use within Art. 5(1)(a)? The mark is the same and the goods are the same so at first sight the answer is obviously yes.
25. It cannot be, and it is not, argued that so far as the first aspect of the use – mere reference by the use of the trade mark to the genuine goods – there is any infringement. That is not because the use of the registered mark to refer to the

genuine goods is not within Art. 5(1)(a), see [293-299] of *L'Oréal v eBay*, [2009] EWHC 1094, [2009] RPC 693 *per* Arnold J. Such use is legitimate for other reasons which it is not necessary to examine here.

26. It is the second aspect of the use – use by way of comparison, which matters here. The argument of the defendants is that such use is merely descriptive – just as the use by way of comparison was merely descriptive in C-2/00 *Hölterhoff* [2002] ECR I-4187. In that case the ECJ held that the use was not within Art. 5(1)(a) because it did not affect any of the functions of a trade mark. I cannot understand why it did not get to the same result by the use of Art. 6(1) – what is Art. 6(1)(b) for otherwise? I note that Arnold J is of the same view, see [306] of *eBay*. However, there is no doubt, following *Hölterhoff*, that some cases of same mark/goods are not within Art.5(1)(a) at all.
27. The ECJ has pronounced on the comparative use in its response to our questions:

55 It should also be pointed out that it is not in dispute that, in the comparison lists relating to perfumes, [the defendants] have used the word marks Trésor, Miracle, Anaïs-Anaïs and Noa, as registered by L'Oréal and Others, and not signs which are merely similar to those marks. Furthermore, that use was made in respect of products which are identical with those in respect of which those marks were registered, that is to say, perfumes.

56 Such use falls within the scope of application of Article 5(1)(a) of Directive 89/104 and not that of Article 5(1)(b).

57 The first sentence of Article 5(1) of Directive 89/104 provides that the registered trade mark is to confer on the proprietor exclusive rights therein. By virtue of Article 5(1)(a) of that directive, those exclusive rights entitle the proprietor to prevent all third parties not having his consent from using, in the course of trade, any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered.

58 The Court has already held that the exclusive right under Article 5(1)(a) of Directive 89/104 was conferred in order to enable the trade mark proprietor to protect his specific interests as proprietor, that is, to ensure that the trade mark can fulfil its functions and that, therefore, the exercise of that right must be reserved to cases in which a third party's use of the sign affects or is liable to affect the functions of the trade mark (Case C-206/01 *Arsenal Football Club* [2002] ECR I-10273, paragraph 51; Case C-245/02 *Anheuser-Busch* [2004] ECR I-10989, paragraph 59; and Case C-48/05 *Adam Opel* [2007] ECR I-1017, paragraph 21). These functions include not only the essential function of the trade mark, which is to guarantee to consumers the origin of the goods or services, but also its other functions, in particular that of guaranteeing the quality of the

goods or services in question and those of communication, investment or advertising.

59 The protection conferred by Article 5(1)(a) of Directive 89/104 is thus broader than that provided by Article 5(1)(b), the application of which requires that there be a likelihood of confusion and accordingly the possibility that the essential function of the mark may be affected (see, to that effect, *Davidoff*, paragraph 28, and *O2 Holdings and O2 (UK)*, paragraph 57). By virtue of the 10th recital in the preamble to Directive 89/104, the protection afforded by the registered trade mark is absolute in the case of identity between the mark and the sign and also between the goods or services, whereas, in case of similarity between the mark and the sign and between the goods or services, the likelihood of confusion constitutes the specific condition for such protection.

60 It is apparent from the case-law cited in paragraph 58 of this judgment that the proprietor of the mark cannot oppose the use of a sign identical with the mark on the basis of Article 5(1)(a) of Directive 89/104 if that use is not liable to cause detriment to any of the functions of that mark (see also *Arsenal Football Club*, paragraph 54, and *Adam Opel*, paragraph 22).

61 Thus, the Court has already held that certain uses for purely descriptive purposes are excluded from the scope of application of Article 5(1) of Directive 89/104, because they do not affect any of the interests which that provision is intended to protect and accordingly do not constitute ‘use’ within the meaning of that provision (see, to that effect, Case C-2/00 *Hölterhoff* [2002] ECR I-4187, paragraph 16).

62 It must, however, be made clear that the situation described in the main proceedings is fundamentally different from that which gave rise to the judgment in *Hölterhoff*, in that the word marks belonging to L’Oréal and Others are used in the comparison lists distributed by Malaika and Starion not for purely descriptive purposes, but for the purpose of advertising.

63 It is for the referring court to determine whether, in a situation such as that which arises in the main proceedings, the use which is made of the marks belonging to L’Oréal and Others is liable to affect one of the functions of those marks, such as, in particular, their functions of communication, investment or advertising.

28. So the Court is saying that in same mark/goods cases where the defendant claims that his use is descriptive so as to take him outside Art. 5(1)(a) he will only succeed if his use is “for purely descriptive purposes.”

29. In [56] it appears to be explicitly saying that the use we have to consider is indeed within Art.5(1)(a); “Such use falls within the scope of application of Art. 5(1)(a).” One might have thought that was an end of the point. But then the Court then goes on to refer back to us, the question in [63]. We are to consider whether the functions of communication, investment or advertising are liable to be affected, even though the use “is not capable of jeopardising the essential function of the mark which is to indicate the origin of the goods” [65].
30. I am bound to say that I have real difficulty with these functions when divorced from the origin function. There is nothing in the legislation about them. Conceptually they are vague and ill-defined. Take for instance the advertising and investment functions. Trade mark owners of famous marks will have spent a lot of money creating them and need to continue to spend to maintain them. But all advertisements for rival products will impinge on the owner’s efforts and affect the advertising and investment function of the brand in question. No-one would say such jostling for fame and image in the market should be stopped. Similarly all comparative advertising (for instance that in *O2 v Hutchinson* [2008] ECR I-04231, said to be acceptable by the Court) is likely to affect the value of the trade mark owner’s investment.
31. So far as this case is concerned, however, it seems that the Court has indicated the answer as to whether the use is within Art. 5(1)(a). According to the Court the use goes beyond “purely descriptive” use because it is used for advertising. A line is apparently to be drawn between something like a discussion between a would-be seller and his potential customer (“I can supply a diamond cut in the same shape as Spirit Sun”), which is apparently not “advertising” even though “Spirit Sun” is being used to gain a sale, and an out-and-out general purpose advertising aid such as a comparison list. I confess I do not know where that line is, but this case falls the wrong side of it. Why? Because the Court has said so. It regards the use as affecting the communication, advertising and investment functions of the mark.
32. I confess I regret that the same result was not achieved by a clearer direct route, namely to say simply that it was a case of same mark/same goods and that there is only an escape if Art. 6(1)(b) applies. I note that Arnold J is of the same view, see *eBay* at [292] and [306].

Issue (b) – Comparative Advertising Directive

33. Even though the use falls within Art.5(1)(a) it is common ground that it will escape infringement (i.e. be within Art. 6(1)(b)) if it complies with all the conditions set forth in Art.3a(1) of the CAD. Again I do not set the provision out in full detail, having done so at [58] of the referring judgment. At paragraphs [60-63] I held there was compliance with a number of the conditions of Art.3a(1) and they are no longer in issue.
34. The only conditions remaining in issue and the subject of the reference were (g) and (h) which I will, for convenience, set out again:
 - (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;

(h) It does not present goods or services as imitations or replicas of goods or services bearing a protected trade mark or trade name.

35. Although these are two distinct conditions which one might have thought required distinct consideration, the ECJ chose to provide a composite answer:

3. Article 3a(1) of Directive 84/450, as amended by Directive 97/55, must be interpreted as meaning that an advertiser who states explicitly or implicitly in comparative advertising that the product marketed by him is an imitation of a product bearing a well-known trade mark presents 'goods or services as imitations or replicas' within the meaning of Article 3a(1)(h). The advantage gained by the advertiser as a result of such unlawful comparative advertising must be considered to be an advantage taken unfairly of the reputation of that mark within the meaning of Article 3a(1)(g).

In short, if in a comparative advertisement you do not comply with (h) you are taking unfair advantage within the meaning of (g). Actually, of course, if you fail to comply with (h) it does not matter whether or not you comply with (g) – you will not have complied with all the conditions anyway.

36. Thus it is upon (h) which the Court concentrated – and so we must do likewise. One might have thought that the Court would have given this a narrow construction in accordance with its own principle laid down in *Toshiba*, Case C-112/99 [2001] ECR I-7945, and *Pippig*, Case C-44/01 [2003] ECR I-3095), that “the conditions required of comparative advertising must be interpreted in the sense most favourable to it” (*Toshiba* [37], *Pippig* [42]).
37. However the court departed from its own “most favoured” principle. It gave condition (h) a wide meaning. The defendants argued that (h) was confined to counterfeits – that that is what “imitations or replicas” means. But the court said:

[75] The particular object of the condition laid down in Article 3a(1)(h) of Directive 84/450 is to prohibit an advertiser from stating in comparative advertising that the product or service marketed by him constitutes an imitation or replica of the product or the service covered by the trade mark. In that regard, as the Advocate General stated in point 84 of his Opinion, it is not only advertisements which explicitly evoke the idea of imitation or reproduction which are prohibited, but also those which, having regard to their overall presentation and economic context, are capable of implicitly communicating such an idea to the public at whom they are directed.

[76] It is not in dispute that the object and effect of the comparison lists at issue in the main proceedings are to draw

the attention of the relevant public to the original fragrance of which the perfumes marketed by Malaika and Starion are purportedly an imitation. Those lists thus attest to the fact that those perfumes are imitations of the fragrances marketed under certain marks belonging to L'Oréal and Others, and they consequently present the goods marketed by the advertiser as being imitations of goods bearing a protected trade mark within the meaning of Article 3a(1)(h) of Directive 84/450. As the Advocate General stated in point 88 of his Opinion, it is irrelevant in that regard whether the advertisement indicates that it relates to an imitation of the product bearing a protected mark as a whole or merely the imitation of an essential characteristic of that product such as, in the present case, the smell of the goods in question.

38. So even saying, truthfully, that the defendant's product has an essential characteristic (in the instant case the smell) of the trade mark owner's product amounts to saying the product is an "imitation or replica" and so outside the protection of the CAD. I am forced so to conclude.
39. I can actually see no rational basis for such a rule. Indeed I can see no rational commercial or economic basis for Art. 3a(1)(h) at all – on any construction. If a man trades in *lawful* replicas or in *lawful* copies, why should he not be able to inform the public what they are? And why should the truth be kept from the public? If, as I think there should be, there is to be reform of the law, this aspect of the CAD should be reconsidered. And in my view it should be made explicit that telling the truth about a lawful product does not involve any "unfair advantage" (the phrase used in Art. 3a(1)(g)).
40. Mr Wyand had one more shot in his locker. He suggested that even if the comparison lists were not "permitted" in the sense of complying with all the Art.3a conditions, they were nonetheless not actually rendered unlawful by the CAD. It was "unpermitted" but not "unlawful" use.
41. The argument ran as follows:
42. (a) Art. 4(1) of the CAD requires that:

Member States shall ensure that adequate and effective means exist to combat misleading advertising and for the compliance with the provisions on comparative advertising in the interests of consumers as well as competitors and the general public.
- (b) Art. 4(2) allows Member States to implement this either by conferring a direct power on the courts to order cessation of unpermitted comparative advertising (so creating a cause of action which could be pursued in the courts by a competitor and perhaps others, such as consumer organisations) or by order of an administrative authority (the UK has chosen the latter).

- (c) In either case the power to make a cessation order is subject to a qualification, namely that such an order is to be made where the court or administrative authority deems:

Such measures to be necessary taking into account all the interests involved and in particular the public interest.

- (d) Unless and until a cessation order is made, comparative advertising is not of itself rendered unlawful by the CAD. And whether such an order will be made involves the overall public interest.
- (e) In this case the overall public interest requires that the defendants be able to tell the truth, both in the interests of a trade in lawful product and of the public's right to be informed. So no cessation order should be made were the UK administrative authorities (the Office of Fair Trading) to apply for one.

43. Mr Wyand submitted that the result of this would be that the comparative advertising here, although "unpermitted" would not be banned. So, he said, the use of L'Oréal's trade marks would not be "without due cause" within the meaning of Art. 5(2) of the Trade Marks Directive and would be "in accordance with honest practices" within the meaning of Art. 6(1) of that Directive.

44. I do not accept this for several reasons:

(a) On any view if the Art. 3a conditions are not all complied with, the CAD regards a comparative use of a trade mark such as in the comparison list as "unpermitted". An activity is either permitted or not. The choice is binary. Just because an order actually banning an unpermitted activity has not been made does not make it an acceptable activity. It simply goes against the grain to say that an "unpermitted" activity can be carried on "with due cause" (I have removed the double negative) or is an honest practice.

(b) The ECJ clearly regards comparative advertising which does not comply with Art. 3a(1) of the CAD as unlawful. In [80] of its judgment in this case it said:

... an advertiser who states explicitly or implicitly in comparative advertising that the product marketed by him is an imitation of a product bearing a well-known trade mark presents 'goods or services as imitations or replicas' within the meaning of Art 3a(1)(h). The advantage gained by the advertiser as a result of such *unlawful* [my italics] advertising must be considered to be an advantage taken unfairly of the reputation of that mark within the meaning of Art.3a(1)(g).

And in *Pippig* it said at [44]:

Directive 84/450 carried out an exhaustive harmonisation of the conditions under which comparative advertising in Member States might be *lawful* [my italics].

Conclusion on Art. 5(1)(a) infringement

45. The upshot thus far is as follows:
- (1) The comparison lists fall within Art. 5(1)(a) – same mark/same goods and not “purely descriptive” because used in advertising.
 - (2) The use is not protected by the CAD because it does not comply with condition 3a(1)(h) and therefore also not condition 3a(1)(g).
 - (3) Failure to comply with the CAD conditions means the use is “without due cause” and so not within the exception to infringement of Art. 6(1)(b) because not “in accordance with honest practices”.

Art 5(2) infringement

46. It is accordingly not necessary to express any views about whether there is also Art. 5(2) infringement. Nonetheless I will state my views briefly.
47. Mr Wyand objected that breach of this provision was not pleaded in respect of the comparison lists. He said that the point could not be taken now. Mr Carr accepted that the objection had not been raised originally. He said he should be allowed to take it now for several reasons. First the ECJ had clearly raised the point (see [64]). Second there was no prejudice to the appellants – it was not a topic in respect of which the evidence below might have been different if the point had been pleaded. It was a pure point of law. Moreover, if the defendants had escaped Art. 5(1)(a) infringement by reason of their “descriptive use” point it would be particularly unfair not to allow Art. 5(2) to be raised since we had allowed that “descriptive use” point to be raised for the first time on the appeal.
48. I would have accepted Mr Carr’s arguments and allowed the point to be taken on appeal, if in the end it had mattered.
49. Turning to the substance of the point, the ECJ’s reasoning runs thus:
- (a) Art. 5(2) applies to same mark/same goods case, see cases cited at [35];
 - (b) If a “link” in the mind of the public is established between the sign complained of and the registered mark, then there may be Art.5(2) type infringement;
 - (c) For such infringement it is necessary to show one of the types of injury against which Art.5(2) is directed, namely detriment to distinctive character, detriment to the repute of the mark or unfair advantage taken of the distinctive character or repute of the mark – see [36-38].
 - (d) The court explains the first two types of injury a little more in [39-40]. It is not necessary to go into these here because of the factual findings of no blurring and no tarnishment. What matters is its explanation of the third type – unfair advantage. Here is what it says:

[41] As regards the concept of ‘taking unfair advantage of the distinctive character or the repute of the trade mark’, also referred to as ‘parasitism’ or ‘free-riding’, that concept relates not to the detriment caused to the mark but to the advantage

taken by the third party as a result of the use of the identical or similar sign. It covers, in particular, cases where, by reason of a transfer of the image of the mark or of the characteristics which it projects to the goods identified by the identical or similar sign, there is clear exploitation on the coat-tails of the mark with a reputation.

[49] ... where a third party attempts, through the use of a sign similar to a mark with a reputation, to ride on the coat-tails of that mark in order to benefit from its power of attraction, its reputation and its prestige, and to exploit, without paying any financial compensation and without being required to make efforts of his own in that regard, the marketing effort expended by the proprietor of that mark in order to create and maintain the image of that mark, the advantage resulting from such use must be considered to be an advantage that has been unfairly taken of the distinctive character or the repute of that mark.

So far as I can see this is saying if there is “clear exploitation on the coat-tails” that is ipso facto not only an advantage but an unfair one at that. In short, the provision should be read as though the word “unfair” was simply not there. No line between “permissible free riding” and “impermissible free riding” is to be drawn. All free-riding is “unfair.” It is a conclusion high in moral content (the thought is clearly that copyists, even of lawful products should be condemned) rather than on economic content.

50. As I have said I do not agree with or welcome this conclusion – it amounts to a pointless monopoly. But my duty is to apply it. For by the use of the comparison lists there is clearly free-riding of the sort condemned by the Court. So if it had been necessary I would have held that there was also Art. 5(2) infringement.

Disposition

51. There remains for argument the dispute about the costs below. It would save time and costs if the parties could agree that we deal with this by written submissions, failing which a short further hearing will have to be arranged. Subject to that I hope and expect that the parties can agree all other consequential matters.

Lord Justice Wall:

52. I agree.

Lord Justice Rimer:

53. I also agree.