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A Comparative Study of Comparative Brand Advertising

by

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I dedicate this dissertation to you two.

Declaration of originality

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Declaration:

1. I	I understand what plagiarism is and am aware of the University's policy in this regard.

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1 INTRODUCTION

Perhaps one of the most interesting and topical discussions to emerge quite contentiously within the legal purview in recent decades is the subject of comparative brand advertising. Comparative brand advertisements explicitly name the brand of another proprietor, and in doing so, use trademarks of that other proprietor. One such advertisement which possibly epitomises this definition, and which will henceforth be referenced in respect of each section of this dissertation for clarification and qualification of concepts pertinent to this legal discussion, is a comparative advertisement released by PepsiCo ("Pepsi"). In the advertisement, which aired in the United States of America (the "US"), the Coca-Cola Company's ("Coca-Cola") registered trademarks were explicitly featured. In the advertisement, two drivers working for Pepsi and Coca-Cola respectively, as referenced by their branded accoutrements, are depicted sitting at a diner. Each driver may be seen drinking the soft drink sold by their respective company. However, in the spirit of camaraderie between the two, when given the chance to try their competitor's soft drink, the Coca-Cola driver surprisingly chooses to retain the Pepsi soft drink. The Pepsi driver may be seen willing to return the Coca-Cola soft drink and vehemently wanting his Pepsi back to the stern reluctance of the Coca-Cola driver.[1]

In the Advertisement, no factual information is conveyed to the consumer; no information regarding any objective differences between Pepsi and Coca-Cola drinks are contained in the Advertisement. The message conveyed by Pepsi is based on the perceived subjective view of a person, the Coca Cola driver; that, even Coca-Cola employees enjoy Pepsi drinks more than Coca-Cola. The main message is that the Pepsi product is better than the Coca-Cola product. Whether this message is factually correct depends on the consumer viewing the Advertisement.

[1] This advertisement will be referenced throughout this dissertation and shall hereafter be referred to as the "Pepsi Advertisement" or "Advertisement". In Chapter 7, the Pepsi Advertisement will be used as an example of comparative brand advertisement to assist in reviewing the legislation and directives in South Africa, the EU and the US.

This paper will seek to expound on the subject of comparative advertising. This paper will further consider how comparative brand advertisements are regulated within South Africa, the US and the European Union (the "EU"). To furnish the reader with a holistic view of how comparative brand advertising is regulated in South Africa, the EU and the US, I will review the Pepsi Advertisement from the perspective of each jurisdiction's trade mark legislative framework, and then ultimately deliberate the similarities and differences, if any, between the law and regulations relating to comparative brand advertising in each jurisdiction.

2 COMPARATIVE BRAND ADVERTISING

Comparative advertising is advertising where a party advertises its goods or services by comparing them with the goods or services of another party and either mentions, if verbal, or represents, if graphical, the intellectual property belonging to another proprietor in its advertisement. Such other party is usually a competitor of the advertiser. As with any other advertisement, the purpose of including the comparison in the advertisement is to increase the sales of the advertiser. This is typically done by either suggesting that the advertiser's goods are of the same or superior quality to that of the product compared or by denigrating the quality of the compared product. Comparative brand advertising is a form of comparative advertising in which the comparative advert refers to the product by name.[2]

OH Dean describes comparative advertising as a practice whereby a trader in extolling the virtues of its wares in advertising draws comparisons between its goods and the goods of another, which goods are usually well-known and held in high regard by the consumer, with a view of stimulating the demand for its own goods in preference to those with which the comparison is made.[3]

In the EU, comparative advertising is defined as "*any advertising, which explicitly or by implication identifies a competitor or goods or services offered by a competitor.*"[4] In the US, 'comparative advertising' is defined as "*advertising that compares alternative brands on objectively measurable attributes or price, and identifies the alternative brand by name, illustration or other distinctive information.*"[5] The Federal Trade Commission (the "FTC") further separates comparative brand advertisements into two categories:

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[2] CE Webster & GE Morley, *Webster & Page South African Law of trade marks,* (4ed 2012) at par 12.18.2. See also L Bentley & B Sherman *Intellectual property law* (3ed 2009) at 937.
[3] Dr. OH Dean, *Comparative advertising as unlawful competition*, (1990) 2 SA Mercantile Law Journal 40.
[4] Directive 2006/114, of the European Parliament and of the Council of 12 December 2006 Concerning Misleading and Comparative Advertising, art. 2(c), 2006 O.J (L 376), 21-27 (EC).
[5] FTC Statement of Policy Regarding Comparative Advertising, 16 C.F.R. 14.15(b) (2014).

"Superiority claims" which assert, explicitly or implicitly, that the product advertised is better than all others in the marketplace, or better than the product sold by a competitor;

"Parity claims" which compare the product to others in the market place and assert that their product is as good as the competitor's.

The term 'comparative brand advertising', as interpreted and understood in South Africa is closely aligned with the definitions of 'comparative advertising' in the EU (as defined in the European Directive) and the US (as defined in the FTC). The definitions in the EU and the US make reference to an advertisement in which an advertiser compares its own goods with the goods or services of another brand, usually the advertiser's competitor. In the advertisement, the brand name of the proprietor is specifically mentioned.

Comparative brand advertising, as the name suggests, deals with the inclusion of brands of different proprietors in the same advertisement. It is important to then understand what exactly a brand is, what a brand consists of, and to also identify and understand a brand's importance to its proprietor in the context of comparative brand advertising. Brands are composed of real (or tangible) and incorporeal (or intangible) elements. The real components of the brand are those components which have a recognisable representation, in other words, items which a consumer can see, touch and taste, including the trademarks, goods and services marketed by the proprietor which promote invention, protect investment and enhance market-share by securely identifying a product or service.[6] The incorporeal elements of a brand are the components of the brand that provide promise and personality of what a proprietor will

[6] *Laugh it Off Productions CC v South African Breweries International (Finance) BV t/a Sabmark International (Freedom of Expression Institute as Amicus Curiae)* 2006 (1) SA 144 (CC); (2005) 8 BCLR 743 (CC), at para 80.

provide to the consumers who interact with it.[7] A brand that is maintained and nurtured by its proprietor will grow old with the consumers who use the goods of the brand as a result of strong relationships having been built between the brand and consumers over years of consumers' repetitive consumption of the goods and services of the brand.

In 1927, Herbert Johnson Sr. stated the following:

> *the goodwill of people is the only enduring thing in any business… The rest is shadow.*[8]

Although the goodwill of people is an important component of any business, it is not the only component. The relationship between the brand and the consumer is what gives the brand value, providing the proprietor with revenue as a result of maintaining, nurturing and supporting its brand to ultimately maintain and create relationships with consumers and the brand. In a comparative brand advertisement, the effect which the advertiser aims to convey to consumers is either to associate or to disassociate the advertiser's goods with or from the brand of a competitor. It is in the use of the competitor’s brand that the message is conveyed. In a comparative brand advertisement, the advertiser conveys a message to consumers that its goods are either on par with the quality of a competitor’s goods (association), or that the advertiser’s goods are very much dissimilar to the quality of the goods of a competitor (disassociation).

As early as 1842, the Court of Chancery in the United Kingdom held that:[9]

> “… *a man is not to sell his own goods under the pretence that they are the goods of another man; he cannot be permitted to practise such deception, nor to use the means which contribute to that end. He cannot therefore be allowed to use names,*

[7] www.courses.lumenlearning.com/clinton-marketing/chapter/reading-elements-of-brand/ - accessed on 24 August 2020.
[8] Quotation by Herbert F Johnson Sr in 1927, found at https://www.scjohnson.com/en/a-family-company/the-johnson-family/herbert-fisk-johnson-sr/second-in-line-but-second-to-none - Accessed on 15 November 2018 - Actual reference unavailable.
[9] *Petty v Treufit* (1842) 49 ER 749.

> *marks, letters or other indicia, by which he may induce purchasers to believe, that the goods which he is selling are the manufacture of another person.*"

Comparative brand advertisements involve an association made between the advertiser's own goods and the quality of the goods marketed under the banner of another proprietor's brand. Even though the advertiser does not necessarily disparage the proprietor's brand in drawing the association in the comparative brand advertisement, the advertiser effectively utilises the goodwill and advertising power of another proprietor to promote the advertiser's own goods. This issue will be discussed further below and in relation to each of the three jurisdictions included in this study.

3 A BRIEF OVERVIEW OF THE FUNCTIONS OF A TRADE MARK

Comparative brand advertisements use the functions of another proprietor's trade mark or marks, and where those functions are adversely affected, trade mark infringement may occur. It is important to first consider the functions of a trade mark in a comparative brand advertising context before examining trade mark infringement and the effect of comparative brand advertisements on the functions of trade marks. Trade mark infringement occurs when the functions of a trade mark are affected, primarily the origin function of a trade mark.[10] As will be expanded upon in this dissertation, the secondary functions of a trade mark, as valuable parts of a brand, lie in the trade mark's additional functions of communication, investment and advertising, as well as a trade mark's selling power and advertising value.[11]

In *Arsenal v Reed,*[12] the European Court of Justice (ECJ) held that:

> *… it follows that the exclusive right under Art. 5(1)(a) of the Directive 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. The exercise of that right must therefore 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, in particular its essential function of guaranteeing to consumers the origin of the goods.*

Although the ECJ referred to the functions of a trade mark, explicitly mentioning the guarantee of origin function, it failed to describe exactly what the other functions are.

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[10] *Verimark (Pty) Ltd v BMW AG* 2007 6 SA 263 (SCA), at para 5.
[11] *L'Oreal SA & others v Belure NV & others* ECJ C-488/07.
[12] *Arsenal v Reed* (2002) ECJ C-206/01.

Rutherford submits that the decision in *Arsenal v Reed* is open to both broad and narrow interpretations.[13]

Rutherford goes on to submit that interpreting the decision narrowly would lead to the protection of the guarantee of origin function only. The proprietor will be able to prohibit unauthorised use of a mark that is likely to create the impression of a material link in the course of trade between the goods concerned and the proprietor, and such use would be likely to cause confusion. Rutherford further submits that a broad interpretation of the decision in *Arsenal v Reed* leads to the protection of the guarantee of origin function, as well as the other functions of a trade mark.[14] The proprietor will be able to prohibit the use that impairs the trade mark's guarantee of origin, as well as its distinguishing function, guarantee (of quality) function and advertising function. This interpretation would allow a proprietor to be able to protect its trade mark even in the absence of a likelihood of confusion.

A trade mark is a badge, used upon or in relation to goods to indicate the source of the goods, indicating that the goods are goods of a specific proprietor.[15] The primary function of a trade mark is to guarantee the identity of the origin of the marked product to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the product or service from others which have another origin.[16] For the trade mark to be able to fulfil its valuable role in building the brand of a proprietor, the trade mark must offer a guarantee that all the goods bearing it have originated under the control of a single undertaking, which is responsible for their quality.

After the mention of secondary functions of a trade mark in *Arsenal v* Reed, in 2009, the ECJ in *L'Oréal SA v Bellure*[17] highlighted a number of them:

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[13] BR Rutherford, *Trade Marks and Comparative Advertising*, 43 Comp. & International L.J SA (2010), at page 179.
[14] BR Rutherford, *Trade Marks and Comparative Advertising*, 43 Comp. & International L.J SA (2010), at page 179.
[15] *Glaxo Group Ltd v Dowelhurst Ltd* (2000) EWHC Ch 134 [UK].
[16] *In re: Duckers Trade Mark.*
[17] *L'Oréal Sa V Bellure NV ECJ*, C-487/07, I-5185.

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. 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 <u>guaranteeing the quality</u> of the goods or services in question and those of <u>communication, investment or advertising</u>.

[Own underlining]

The ECJ highlighted the fact that a trade mark does not only serve the function of guaranteeing the origin of the goods upon or in relation to which it is used, but that a trade mark also assures consumers that all goods bearing the same trade mark have the same (presumed) quality.[18] In doing so, a trade mark also ensures that goods marketed under its brand are of a quality that the proprietor of that trade mark is satisfied to be associated with.

The effect of a trade mark is that consumers would therefore be led to believe that goods or services carrying that trade mark would be of the same quality as the goods or services first purchased or used. In this respect, a trade mark acts as a 'silent salesman'.[19] The trade mark not only constitutes a symbol of the goodwill of the proprietor's business but is an important agent in the creation and perpetuation of that goodwill.[20]

Consumers who have had a positive experience with goods in respect of which a trade mark is used will remember that trade mark, and would be more likely to look for that

[18] *Arsenal Football Club Plc v Matthew Reed*, ECJ, C-206/01, ECR 2002, I-10273.
[19] Tony Martino, *Trademark Dilution*, (OUP 1996).
[20] Frank I Schechter, *The Rational Basis of Trademark Protection*, (1926-1927) 40 Harvard Law Review.

trade mark again when making future purchase of those specific goods, or any other goods upon which that trade mark is used.[21]

In *Yale Electric Corporation v Robertson*,[22] the court stated the following:

> *A trade mark proprietor uses his trade mark as his authentic seal; he vouches for the goods which bear it; it carries his name for good or ill. If another uses it, he borrows the owner's reputation, whose quality no longer lies within his own control.*

In *Scandecor Developments AB v Scandecor Marketing AB*[23] the court went into some detail with regard to the purpose of protecting the primary function of a trade mark:

> *A trade mark is a badge of origin or source. The function of a trade mark is to distinguish goods having one business source from goods having a different business source. It must be 'distinctive'. That is to say, it must be recognizable by a buyer of goods to which it has been affixed as indicating that they are of the same origin as other goods which bear the mark and whose quality has engendered goodwill.*
>
> *… The ECJ described the essential function of a trade mark as giving to the consumer or ultimate user a guarantee of the identity of the origin of the marked product by enabling him to distinguish, without any possible confusion, that product from others of a different provenance'.*
>
> *… A maker of goods seeks to acquire and maintain a reputation for the quality of his goods, thereby encouraging customers to prefer his goods to those of his competitors. So he places a recognizable mark on his goods to distinguish them from the goods of others.*

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[21] Frank I Schechter, *The Rational Basis of Trademark Protection*, (1926-1927) 40 Harvard Law Review 813.
[22] *Yale Electric Corporation v Robertson* 26 F 2d 972 (1928) [USA].
[23] *Scandecor Developments AB v Scandecor Marketing AB* 2001 UKHL 21 [UK].

A trade mark identifies the proprietor who is responsible for the quality of the goods and services of the proprietor.[24] In doing so, the trade mark performs both the badge of origin function as well guaranteeing the quality of the goods and services in relation to which the trade mark is used. The aim is to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the proprietor has something of value.[25] A trade mark serves as an indication that the goods marketed by a proprietor are of a standard with which the proprietor is satisfied. Marketing goods of a low standard would be contrary to the proprietor's self-interest.[26]

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[24] *A M Moolla Group Ltd v The Gap Inc.* (2005) SCA 4 All SA 245.
[25] *Mishawaka Rubber & Woolen Manufacturing Co v SS Kresge Co* 316 US 203 (1942) [USA].
[26] *Scandecor Developments AB v Scandecor Marketing AB* 2001 UKHL 21 [UK].

4 TRADE MARK INFRINGEMENT AND COMPARATIVE BRAND ADVERTISING IN SOUTH AFRICA

4.1 Legislation

A trade mark is defined in the Trade Marks Act, 194 of 1993 (the “South African Act”) as follows:[27]

> *… a 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 purposes of distinguishing the goods or services in relation to which the mark is to be used or proposed to be used from the same kind of goods or services connected in the course of trade with any other person*.[28]

Registration of a trade mark in South Africa is a prerequisite for bringing any infringement proceedings against an alleged infringer.[29] Webster and Page submit that, because Section 34 of the South African Act defines the ways in which the rights acquired by the registration of a trade mark may be infringed, the proprietor is conferred with the exclusive right to use a trade mark in relation to the goods in respect of which it is registered.[30] It is in the exercise of the exclusive right that the proprietor is enabled to ensure the trade mark can fulfil its functions.

However, it must be noted that a defence to trade mark infringement exists in Section 34(2)(g) of the South African Act in respect to the use of a proprietor’s own trade mark that is registered and which is similar to another registered trade mark. Section 34(2)(g) provides that a registered trade mark shall not be infringed by “*the use of any identical*

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[27] Section 2 of the South African Act.
[28] The term “mark” is defined in section 2 of the Act and means 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.
[29] Section 33 of the South African Act.
[30] CE Webster & GE Morley, *Webster & Page South African Law of trade marks,* (4ed 2012) referring to *Shalom Investments (Pty) Ltd v Dan River Mills Incorporated* 1971 1 SA 689 (A) 706D and *John Craig (Pty) Ltd v Dupa Clothing Industries (Pty) Ltd* 1977 3 SA 144 (T) 150B.

or confusingly similar or deceptively similar trade mark which is registered". The provisions of Section 34(2)(g) only afford a defence if the defendant uses its trade mark in the form in which it is registered, and do not justify the use of variations to the trade mark.[31]

The infringement provisions contained in Section 34 of the South African Act do not refer to 'use whether as a trade mark or otherwise than as a trade mark', as was the case under the Trade Marks Act, 62 of 1963 (hereinafter referred to as the "1963 Act"), but merely to the use of a mark in the course of trade.

Section 44(1) of the 1963 Act created two different and distinct forms of infringement. Infringement as defined in subsection 1(a) involved unauthorised use "*as a trade mark*" while subsection (1)(b) related only to use "*otherwise as a trade mark*", expressly excluding use as a trade mark. Subsection 2(b) also contained the requirements that the use complained of should be "*in the course of trade*" and should be "*likely to cause injury or prejudice to the proprietor of the trade mark*".[32] Under the South African Act, infringement of a registered trade mark will occur where an identical or similar mark is used by an infringer, without the authorisation of the proprietor of that trade mark, and where such use is in the course of trade, provided that there is a likelihood of deception or confusion.

[31] CE Webster & GE Morley Webster & Page South African Law of trade marks (4ed 2012) at para 12.44., in re: *Eli Lilly & Co Ltd v Chelsea Co Ltd 1966) RPC 14 18; Royal Salt Company (Pty) Ltd v Swartkops Sea Salt (Pty) Ltd and Another* 2011 BP 260 (ECG) paras 26-29.

[32] CE Webster & GE Morley Webster & Page South African Law of trade marks (4ed 2012) at para 12.6.

4.1.1 **Section 34(1)(a) of the South African Act**

Section 34(1)(a) of the South African Act provides that the rights acquired by the registration of a trade mark are infringed by:

> *… 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 so as to be likely to deceive or cause confusion.*

The use of the alleged infringing mark must be in the course of trade; the use must be unauthorised; the use must be of a mark so nearly resembling the registered trade mark as to be likely to deceive or cause confusion; and the use must be in relation to goods or services in respect of which the trade mark is registered, that is identical goods or services.

The requirements in Section 34(1)(a) of the South African Act ("primary infringement") are cumulative and therefore each requirement must be met for a claimant to prove a case of trade mark infringement.

Comparative brand advertising as primary infringement was first considered in *Abbott Laboratories v UAP Crop Care (Pty) Ltd*.[33] UAP had produced and distributed a brochure in which it had compared its goods with Abbott Laboratories' identical goods. In the brochure, UAP indicated that its goods were better than Abbott's goods while clearly making reference to Abbott's trade mark. In the brochure, it was further made clear that the Abbott Laboratories goods were goods of Abbott Laboratories and not UAP.

The court was of the view that Section 34(1)(a) of the South African Act covers not only use of the infringing mark as a trade mark but also use of the infringing mark otherwise than as a trade mark. The court held that the ambit of Section 34(1)(a) of the South African Act was wide enough to encompass comparative brand

[33] *Abbott Laboratories v UAP Crop Care (Pty) Ltd* (1999) 3 SA 624 (C).

advertising. It held that, as a result of the brochure clearly identifying Abbott's goods together with the trade mark, the use of the trade mark in the brochure amounted to infringement in terms of Section 34(l)(a) of the South African Act.

In a later in decision, the South African Supreme Court of Appeal (the "SCA") had to consider a case where a well-known trade mark had been used on the label of a motor vehicle polish. In *Verimark (Pty) Ltd v BMW AG,*[34] (the "*Verimark* Case") Verimark used a depiction of a BMW motor vehicle on the label of its motor vehicle polish, Diamond Guard, in a television advertisement. The front of a BMW motor vehicle, together with the blue and white circular BMW device trade mark, were both clearly visible on the motor vehicle polish label and in a related televised advertisement.

In referring to the functions of a trade mark the SCA quoted the ECJ as follows:[35]

> *… the exclusive right conferred by a trade mark was intended 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 function of the trade mark, in particular its essential function of guaranteeing to consumers the origin of goods.'*
>
> *That is the case, the ECJ said, where the use of the mark is such that it creates the impression that there is a <u>'material link in trade between the third party's goods and the undertaking from which those goods originate'</u>. There can only be primary trade mark infringement if it is established that consumers are likely to interpret the mark, as it is used by the third party, as designating or*

[34] *Verimark (Pty) Ltd v BMW AG* 2007 6 SA 263 (SCA).
[35] *Verimark (Pty) Ltd v BMW AG* 2007 6 SA 263 (SCA), at para 5

tending to designate the undertaking from which the third party's goods originate.

[Own underlining]

The court held that the identical use of the BMW device trade mark in the advertisement did not create the impression of a material link between the Verimark goods and BMW. The court therefore held that the use of the BMW trade mark in the Verimark did not constitute trade mark infringement in terms of Section 34(1)(a) of the South African Act.

In the *Verimark* Case, the SCA seemed to confine the material link requirement to a connection regarding the origin function of a trade mark only. However, as demonstrated above, an impression of a material link is also created in respect of the guarantee of the quality function of a trade mark. Had the court taken a broader approach, and included the secondary functions of a trade mark in the material link requirement, the impression of a material link relating to a trade mark's secondary functions would amount to trade mark infringement under 34(1)(a) of the South African Act. Currently, this seems not to be the case, and a proprietor can only rely on proving an impression of a material link with regards to the origin function of a trade mark.

Following the decision in *Verimark (Pty) Ltd v BMW AG*, to be successful with a claim of infringement under Section 34(1)(a) of the South African Act, it seems that the unauthorised use of the infringing mark must infringe the primary function of the trade mark, namely the origin function. The material link only relates to the primary function of a trade mark; it does not extend to the secondary functions. In terms of *Verimark (Pty) Ltd v BMW AG*, trade mark infringement under Section 34(1)(a) does not occur where the unauthorised use of a trade mark creates an impression of a material link which relates to the quality of the goods and services of the proprietor. Thus, to prove a claim of infringement under Section 34(1)(a) of the South African

Act, a proprietor whose brand has been used in a comparative brand advertisement must seemingly prove that the advertisement creates an impression of a material link, that is, a direct connection as to origin, in the minds of consumers between the advertiser's goods and the proprietor.

The decision in *Abbott Laboratories v UAP Crop Care (Pty) Ltd* now seems not to be correct in light of the *Verimark* Case. In *Abbott Laboratories,* in the brochure in which the comparison was made, Abbott's goods were clearly identified as originating from Abbott and not UAP. An impression of a material link between Abbott's goods and UAP had not been established. Although it is unlikely that an impression of a material link would be created as far as the origin of the goods is concerned, a comparative brand advertisement may create an impression of a material link with regards to one of the secondary functions of a trade mark. When an advertiser attempts to place its goods on the same level or in the same light as a proprietor, the advertiser relies on the quality of the brand of the proprietor to promote the advertiser's own goods. In associating the advertiser's goods with the brand of the proprietor, the comparative brand advertisement creates the impression a material link with, among other secondary functions of a trade mark, the guarantee of the quality of the goods of the competitor.

4.1.2 **Section 34(1)(b) of the South African Act**

Section 34(1)(b) provides that the rights acquired by the registration of a trade mark are 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 a likelihood of deception or confusion.*

Section 34(1)(b) of the South African Act ("secondary infringement") is an extension of trade mark infringement under Section 34(1)(a), and therefore the above discussion on Section 34(1)(a) of the South African Act applies and need not be repeated. The distinction between Sections 34(1)(a) and (b) of the South African Act is that, under Section 34(1)(b), trade mark infringement is extended to include goods which are so similar to the goods or services in respect of which the trade mark is registered that in such use there exists a likelihood of deception or confusion. Section 34(1)(b) of the South African Act would therefore cover instances where the goods compared in the comparative brand advertisement are not identical, but similar.

4.1.3 Section 34(1)(c) of the South African Act

Section 34(1)(c) provides that the rights acquired by the registration of a trade mark are infringed by:

> *the unauthorised use as a trade mark 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 repute of the registered trade mark, notwithstanding the absence of confusion or deception…*

Section 34(1)(c) of the South African Act (which prohibits "dilution") expressly excludes the primary trade mark infringement requirement of deception or confusion as a result of the unauthorised use of the infringing mark. For purposes of Section 34(1)(c), it is not necessary to prove the existence the 'material link' impressed in the minds of consumers. Section 34(1)(c) of the South African Act recognises a function of a trade mark which goes beyond the traditional origin or distinguishing function of a trade mark, namely, the selling power, advertising function and commercial value that attaches to the reputation of a trade mark rather than rather than its capacity to distinguish the goods or services of its proprietor from those of others.[36]

In *Verimark (Pty) Ltd v BMW AG*, in referring to Section 34(1)(c) of the South African Act and infringement by dilution, the court stated the following:

> *… the provision 'aims at more than safe-guarding a product's "badge of origin" or its "source-denoting function"'. It also protects the reputation, advertising value or selling power of a well-known mark. But that does not mean that the fact that the mark has been used in a non-trade mark sense is irrelevant; to the contrary, it may be very relevant to determine whether unfair advantage has been taken of or whether the use was detrimental to the mark.*[37]

The SCA in *Verimark (Pty) Ltd v BMW AG* went further to highlight that the use of the registered well-known trade mark must result in actual detriment or of unfair advantage:

> … *that the unfair advantage or the detriment must be properly substantiated or established to the satisfaction of the court; the court must be satisfied by evidence of actual detriment, or of unfair advantage*.[38]

In *Societe Des Produits Nestle SA and Another v International Foodstuffs Co and Others*,[39] the SCA expressed itself as follows: [40]

> *The protection of Section 34(1)(c) extends beyond the primary function of a trade mark which is to signify the origin of the goods or services. It strives to*

[36] *National Brands Ltd v Blue Lion Manufacturing (Pty) Ltd* 2001 3 SA 563 (SCA) at para 11 referring to CE Webster & GE Morley, *Webster & Page South African Law of trade marks,* (4ed 2012) at para 12.24.
[37] *Verimark (Pty) Ltd v BMW AG* [2007] SCA 53 (RSA) at para 13.
[38] *Verimark (Pty) Ltd v BMW AG* [2007] SCA 53 (RSA) at para 14.
[39] *Societe Des Produits Nestle SA and Another v International Foodstuffs Co and Others* (100/2014) [2014] ZASCA 187; [2015] All SA 492 (SCA).
[40] *Societe Des Produits Nestle SA and Another v International Foodstuffs Co and Others* (100/2014) [2014] ZASCA 187; [2015] All SA 492 (SCA) at paras 51-52.

> *protect the unique identity and reputation of a registered trade mark which sells the goods.*
>
> *… I agree with the submission that as the sales of Iffco's Break chocolate bars increase consumers will associate Nestlé's registered finger wafer shape with the product of Iffco…*
>
> *The loss of the unique shape of Nestlé's Kit Kat bar as a distinctive attribute will inevitably result in a loss of advertising or selling power of Nestle.*

Dilution of a trade mark in terms of Section 34(1)(c) of the South African Act may take place through the blurring or tarnishment of a well-known registered trade mark.[41] Blurring occurs where the trade mark's ability to identify the goods for which it is registered is weakened. The trade mark's ability to denote origin is reduced. Tarnishment of a trade mark occurs when the unauthorised use of an infringing mark leads to the detriment of the repute of the trade mark. The ultimate effect of tarnishment is that a negative impact is placed on the image of the mark.

Comparative brand advertisements involve an association made between the advertiser's own goods and the quality of the goods marketed under the banner of another proprietor's brand. Even though the advertiser does not necessarily disparage the proprietor's brand in drawing the association in the comparative brand advertisement, the advertiser effectively utilises the goodwill and advertising power of another proprietor to promote the advertiser's own goods.

The South African Constitutional Court held in Laugh it Off Productions CC v South African Breweries International (Finance) BV t/a Sabmark International (Freedom of Expression Institute as Amicus Curiae),[42] (the "*Laugh It Off* Case") that Section 34(1)(c) of the South African Act does not limit the use of a well-known trade mark,

[41] CE Webster & GE Morley Webster & Page South African Law of trade marks (4ed 2012) at par 12.44.
[42] *Laugh it Off Productions CC v South African Breweries International (Finance) BV t/a Sabmark International (Freedom of Expression Institute as Amicus Curiae)* 2006 (1) SA 144 (CC); (2005) 8 BCLR 743 (CC).

which takes fair advantage of a trade mark or use that does not threaten substantial harm to the reputation of the well-known trade mark:

> *The exercise calls for an evaluation of the importance of the purpose, nature, extent, and impact of the limitation of free expression invoked against claims of unfair advantage or of likelihood of material detriment to a registered trade mark. In sum, in order to succeed the owner of the mark bears the onus to demonstrate likelihood of substantial harm or detriment which, seen within the context of the case, amounts to unfairness.*[43]

Ultimately, in terms of Section 34(1)(c), a proprietor needs to adduce evidence to show that there is a likelihood of suffering substantial economic damage. To succeed, the proprietor must provide evidence that the use of its brand would be likely to affect the eagerness of present-day consumers to consume its product.

In a concurring judgement, the court considered the use of parody in relation to intellectual property. The court emphasised the need for, and importance of, humour in society. Humour may be achieved through the use of parody. The court mentioned that parody is paradoxical; good parody is both original and parasitic, simultaneously creative and derivative. The relationship between the trade mark and the parody which incorporates the trade mark is that, if the parody does not take enough from the original trade mark, the audience will not be able to recognise the trade mark and therefore may not be able to understand the humour. Conversely, if the parody takes too much from the trade mark, it may be considered infringing on account of there being too little originality, regardless of how funny the parody may be.[44]

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[43] *Laugh it Off Productions CC v South African Breweries International (Finance) BV t/a Sabmark International (Freedom of Expression Institute as Amicus Curiae)* 2006 (1) SA 144 (CC); (2005) 8 BCLR 743 (CC), at para 50.

[44] *Laugh it Off Productions CC v South African Breweries International (Finance) BV t/a Sabmark International (Freedom of Expression Institute as Amicus Curiae)* 2006 (1) SA 144 (CC); (2005) 8 BCLR 743 (CC), at para 76.

The court went on to state that, the fact that the trade mark is at the forefront of the parody, does not make the parody automatically an infringement of the trade mark, nor does the humour associated with the parody automatically or even presumptively render it immune from restraint. The court held that parody must be judged case by case, and a balance must be struck between the rights granted by trade mark law and the free speech values of the South African Constitution.[45]

On commenting on the future of litigation regarding intellectual property, in 2012, OH Dean submitted that:

> *It is probably true to say that the Laugh it Off case has opened a new dimension to intellectual property litigation. Many of the cornerstones of intellectual property law as settled by the Supreme Court of Appeal face the possible prospect of being loosened by the Constitutional Court and this in turn could question the very foundations of intellectual property law as known and practised in the* past.[46]

4.1.4 The Consumer Protection Act

Advertising in South Africa is further regulated under the Consumer Protection Act 68 of 2008 (the "CPA") and therefore a number of its provisions need mentioning under this heading. Under the CPA, consumers have the right to fair and responsible advertising,[47] as well as the right to disclosure and information. A number of sections of the CPA provide further advertising regulations in South Africa and therefore need mentioning. Sections 29 to 39 of the CPA provide for the rights of a consumer to fair and responsible marketing. Section 29 provides for the general standards for

[45] *Laugh it Off Productions CC v South African Breweries International (Finance) BV t/a Sabmark International (Freedom of Expression Institute as Amicus Curiae)* 2006 (1) SA 144 (CC); (2005) 8 BCLR 743 (CC) at para 81.
[46] Dr. OH Dean, *Trade-mark dilution laughed off*, 2012.
[47] The CPA does not specifically refer to the term 'advertising' but rather 'marketing'. For convenience and continuity, where the term 'advertising' is used in this discussion, it shall be used in the context and with the same meaning of 'marketing' as provided for in the CPA.

marketing of goods or services. Sections 40 to 47 of the CPA provide for the rights of a consumer to fair and honest dealing. Sections 29 and 41 are lengthy but relevant and important sections regarding advertising in South Africa, are therefore quoted verbatim and thereafter discussed.

Section 29 provides for the following:

> *A producer, importer, distributor, retailer or service provider must not market any goods or services:*
>
> *(a) In a manner that is reasonably likely to imply a false or misleading representation concerning those goods or services, as contemplated in section 41; or*
>
> *(b) In a manner that is misleading, fraudulent or deceptive in any way, including in respect of:*
>
> *(i) The nature, properties, advantages or uses of the goods or services;*
>
> *(ii) the manner in or conditions on which those goods or services may be supplied;*
>
> *(iii) the price at which the goods may be supplied, or the existence of, or relationship of the price to, any previous price or competitor's price for comparable or similar goods or services;*
>
> *(iv) the sponsoring of any event; or*
>
> (v) *any other material aspect of the goods or services.*

Section 41 provides for the following:

> *(1) In relation to the marketing of any goods or services, the supplier must not, by words or conduct:*

(a) directly or indirectly express or imply false, misleading or deceptive representation concerning a material fact to a consumer;

(b) use exaggeration, innuendo or ambiguity as to a material fact, or fail to disclose a material fact if that failure amounts to a deception; or

(c) fail to correct an apparent misapprehension on the part of a consumer, amounting to a false, misleading or deceptive representation,

or permit or require any other person to do so on behalf of the supplier.

…

(3) Without limiting the generality of subsections (1) and (2), it is a false, misleading or deceptive representation to falsely state or imply, or fail to correct an apparent misapprehension on the part of a consumer to the effect, that:

(a) the supplier of any goods or services has any particular status, affiliation, connection or sponsorship or approval that they do not have;

(b) any goods or services:

(i) have ingredients, performance characteristics, accessories, uses, benefits, qualities, sponsorship or approval that they do not have;

(ii) are of a particular standard, quality, grade, style or model;

(iii) are new or unused, if they are not or if they are reconditioned or reclaimed, subject to subsection (4);

(iv) have been used for a period to an extent or in a manner that is materially different from the facts;

(v) have been supplied in accordance with a previous representation

(vi) are available or can be delivered or performed within a specified time…

Section 2 of the CPA provides that the interpretation of the CPA must be effected in a manner that gives effect to the purpose of the CPA as set out in Section 3. The purpose of the CPA, as detailed in Section 3, is, among other things, to promote fair business practices; protect consumers from unfair, unreasonable or other improper trade practices and also to protect the consumer from deceptive, misleading or other fraudulent conduct; to improve consumer awareness and information and to encourage responsible and informed consumer choice and behaviour. The CPA applies to every transaction, agreement, advertisement, production, distribution, promotion, sale or supply of goods or services. This means that the CPA, and the purpose for which it was enacted, applies to every advertisement as defined by the CPA.[48] The provisions of Sections 29 and 41, read with Section 3 of the CPA, can assist in forming a basis on which to decide whether a comparative brand advertisement has had an undesirable effect on a consumer. Notwithstanding the infringement provisions of the South African Act, the provisions of Sections 29 and 41 of the CPA provide appropriate guidelines for protecting the interests of consumers and in further determining whether a comparative brand advertisement should truly be prohibited.

[48] '*Advertisement'* is defined in section 1 of the CPA and means "any direct or indirect visual or oral communication transmitted by any medium, or any representation or reference written, inscribed, recorded, encoded upon or embedded within any medium, by means of which a person seeks to –

(a) Bring to the attention of all or part of the public-
    (i) the existence or identity of a supplier; or
    (ii) the existence, nature, availability, properties, advantages or uses of any goods or services that are available for supply, or the conditions on, or prices at, which any goods or services are available for supply;

(b) Promote the supply of any goods or services; or

(c) Promote any cause".

As the *Laugh It Off* and *Verimark* Cases were brought before the South African judicial system before the enactment of the CPA, the application of the CPA was not considered in either case. Further, following *Laugh It Off* and *Verimark*, the question that now remains to be seen, and what may have to be asked should a comparative brand advertisement be brought to South African courts is whether either piece of legislation would take precedence, and as such, would the rights of the proprietor (in terms of the South African Trade Marks Act) take precedence over the rights of the consumer (in terms of the CPA). However, as both pieces of legislation aim at achieving the same purpose of preventing the mischief associated with comparative brand advertisements, one would not necessarily take precedence over the other. Ultimately, both the South African Act and the CPA would apply in ensuring the protection of the trade mark rights of the proprietor and the rights of the consumer, against advertisements that take unfair advantage of the proprietor's brand and, at the same time, affect the purchasing decisions of the consumer.

4.2 Advertising Codes

The Advertising Standards Association Authority of South Africa (the "ASA") was an independent body which was set up by the marketing and communications industry in South Africa to ensure that its system of self-regulation worked in the public interest.

However, at the end of September 2018, the ASA was placed in liquidation, and a new advertising regulatory body, the Advertising Regulatory Body (the "ARB"), was established to regulate advertising in South Africa.[49]

The ARB has adopted the same principles and codes which the ASA administered. In the ARB's memorandum of incorporation, it expressly binds itself and adopts the principles of decision-making organs of the ASA as at the date the ASA went into

[49] www.arb.org.za – accessed on 24 August 2020

liquidation.[50] The Codes of Advertising Practice (the "Code") adopted and administered by the ASA are therefore still effective under the ARB.

An advertisement is defined in the Code as any visual or aural communication, representation, reference or notification of any kind, which is intended to promote the sale, leasing or use of any goods or services, or which appeals for or promotes the support of any cause.[51]

Section 2 of the Code contains rules of advertising specific to particular types of advertisements. Section 2, Clause 7 of the Code specifically deals with comparative advertising. This clause permits factual comparisons between goods.[52] A number of other salient provisos are included in the Code, which are laid out below, paraphrased:

- All legal requirements must be adhered to (that is, the provisions of the South African Act);[53]
- An advertiser must hold in its possession documentary evidence to support all claims, whether direct or implied, that are capable of objective substantiation contained in their advertisement;[54]
- Advertisements should not contain any statement or visual representation which, directly or by implication, omission, ambiguity, inaccuracy, exaggerated claim or otherwise, is likely to mislead the consumer;[55]
- Comparisons highlighting a weakness in an industry or product will not necessarily be regarded as disparaging when the information is factual and in the public interest;[56]

[50] Clause 3.1.3 of the ARB Memorandum of Incorporation.
[51] Section 1, clause 4.1 of the Code.
[52] Section 2, clause 7.1 of the Code.
[53] Section 2, clause 7.1.1 of the Code.
[54] Section 2, clause 4.1.1 of the Code.
[55] Section 2, clause 4.2.1 of the Code.
[56] Section 2, clause 6.1 of the Code.

- Advertisements may not take advantage of the advertising goodwill relating to the trade name or symbol of the product or service of another, or advertising goodwill relating to another party's advertising campaign or advertising property, unless the prior written permission of the proprietor of the advertising goodwill has been obtained;[57] and
- Parodies, the intention of which is primarily to amuse and which are not likely to affect adversely the advertising goodwill of another advertiser to a material extent, will not be regarded as falling within the prohibition of paragraph 8.1.[58]

The Code specifically provides that comparisons between goods may be made in advertisements, provided that the advertisements comply with the abovementioned provisions.

Although the Code regulates advertising in South Africa, only members of the Advertising Regulatory Body are bound by the codes. Therefore, non-members who publish advertisements are only bound by the provisions of the South African Trade Marks Act, and cannot be sanctioned by the ARB for any contravention. However, there is room for argument that, if a non-member of the ARB breaches the Code, the non-member commits a delict on the basis of unlawful competition.

In *Coronation Brick (Pty) Ltd v Strachan Construction Co (Pty) Ltd*,[59] the court summed up the *Aquilian* action as follows:

> *The legal basis of the plaintiff's claim is lex Aquilia. In essence the Aquilian action lies for patrimonial loss caused wrongfully (or unlawfully) and culpably. Although the contrary view had long been held by many authorities, its seems clear that the fact that the patrimonial loss suffered did not result from physical*

[57] Section 3, clause 8.1 of the Code.
[58] Section 2, clause 8. 2 of the Code.
[59] *Coronation Brick (Pty) Ltd v Strachan Construction Co (Pty) Ltd* 1982 (4) SA 371 (D).

> *injury to the corporeal property or person of the plaintiff, but was purely economic, is not a bar to the Aquilian action.* [60]

The general norm or criterion to be employed in determining whether a particular infringement of interests is unlawful is the legal convictions of the community: the *boni* mores.[61] In *Coronation Brick (Pty) Ltd v Strachan Construction Co (Pty) Ltd* the court went on to state that the basic question is whether, according to the legal convictions of the community and in light of all the circumstances of the case, the defendant infringed the interests of the plaintiff in a reasonable or an unreasonable manner:

> *In any given situation the question is asked whether the defendant's conduct was reasonable according to the legal convictions or feelings of the community*[62]

In *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd and Others*,[63] the court reiterated that the *boni mores* test is the test for wrongfulness or unlawfulness of competition was the *boni mores.* The court stated the following

> *What is needed is a legal standard firm enough to form guidance to the court, yet flexible enough to permit the influence of an inherent sense of fairplay… I have come to the conclusion that the norm to be applied is <u>the objective one of public policy. This is the general sense of justice of the community, the boni mores, manifested in public opinion</u>… in determining and applying this norm in a particular case, the interests of the competing parties have to be weighed,*

[60] *Coronation Brick (Pty) Ltd v Strachan Construction Co (Pty) Ltd* 1982 (4) SA 371 (D) at para 377.
[61] *The Law of Delict* Neethling, Potgieter, Visser.(6ed), page 36.
[62] *Coronation Brick (Pty) Ltd v Strachan Construction Co (Pty) Ltd* 1982 (4) SA 371 (D) at para 380.
[63] *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd and Others* 1981 (2) SA 173 (T).

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.[64]

The *boni mores* as the test for wrongfulness or unlawfulness of competition was later confirmed by the South African Appellate Division of the Supreme Court (now the SCA) which stated the following in *Schultz v Butt*:[65]

… regard is to be had to boni mores and to the general sense of justice of the community…

The Code may be regarded as widely accepted moral and ethical standards for advertising as expected by the public, that is, the *boni mores*. As surmised by OH Dean, any conduct that meets the requirements of the general remedy for unlawful competition will be actionable, no matter what the nature or the form of the business practice objected to.[66] To that extent, a breach of the Code would potentially be *contra bonos mores*, and would result in a person having a delictual action against the person breaching the Code. Therefore, where a non-member who releases an advertisement which breaches the Code, an interested party may have a case against the non-member of under unlawful competition (although the interested party may have a case of trade mark infringement within the provisions of the South African Act). Provided that the general requirements for a delict exist and are proven, an interested party may potentially circumvent any issue of the jurisdiction of ARB

[64] *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd and Others* 1981 (2) SA 173 (T) at para 188H.
[65] *Schultz v Butt* 1986 (3) SA 667 (A) at para 679C
[66] Dr. OH Dean, *Unlawful Competition: The roles of wrongfulness and dishonesty* 1990 20 Businessman's Law, at page 17.

and may claim damages as a result of a comparative brand advertisement produced by a non-member.

Notwithstanding any breach of the Code, misrepresenting facts in an advertisement, including the quality of one's goods, would normally constitute unlawful competition, despite the absence of a misrepresentation as to the origin of the goods. A form of unlawful competition in South Africa includes the misleading of the public about the quality, extent, character or price of a person's own performance.[67] However, proving damages in the instance of comparative brand advertising is practically difficult. The difficulty lies in being able to prove that a consumer witnessed a comparative brand advertisement incorporating another proprietor's brand, and thereafter no longer purchased goods marketed by the proprietor.

To properly summarise, consider and review comparative brand advertising in terms of the South African Act, the ARB and the CPA, the Pepsi Advertisement will now be reviewed in Chapter 5.

[67] *Grobbelaar v Du Toit* 1917 TPD 433.

5 A BRIEF REVIEW OF THE PEPSI ADVERTISEMENT IN SOUTH AFRICA

5.1 The South African Act

The Pepsi Advertisement identifies two different brands; Pepsi and Coca-Cola. In the Pepsi Advertisement, the Pepsi driver rejects the Coca-Cola product. It is difficult to imagine that a consumer would be confused, or would draw a material connection between the Coca-Cola product and the Pepsi brand, where a scenario is displayed in which one brand is clearly rejected over another.

Following the judgement in the *Verimark* Case, the question that must be asked in order to determine if the Pepsi Advertisement would be considered trade mark infringement, is the following: did the Pepsi Advertisement create an impression of a material link between the Coca Cola goods and Pepsi goods? The answer must be in the negative; it is unlikely that a consumer would draw any connection between a proprietor and a product which that proprietor rejects. Rather, the impression that would be left in the minds of consumers after seeing the advertisement is that these two brands are in competition with one another, and are not associated with one another. I would submit that, as a result of no impression of a material link being created between the origins of the Coca Cola and Pepsi goods, the Pepsi Advertisement would not be considered trade mark infringement for purposes of Sections 34(1)(a) and (b) of the South African Act.

To consider the possibility of infringement under Section 34(1)(c), one would have to question the inclusion of the Coca-Cola brand in the Pepsi Advertisement. If the Coca-Cola brand being included in the Pepsi Advertisement has taken unfair advantage of, or would be detrimental to the distinctive character and/or repute of the Coca-Cola brand. To answer this, one would first have to consider the purpose for the inclusion of the Coca-Cola brand in the Pepsi Advertisement. The Pepsi Advertisement portrays one brand, Pepsi, comparing its own brand to a rival brand, Coca-Cola. The message conveyed by Pepsi in the advertisement is that the Pepsi product is more congenial than the Coca-Cola product; a message which can never truly be objectively or factually determined. This message, whether believable or not, is made as a result of the use of Coca-Cola's brand to promote the Pepsi product.

Following the Constitutional Court's decision in the *Laugh It Off* Case, the use of the Coca-Cola brand must be likely to cause substantial harm to the uniqueness and repute of the Coca-Cola brand (which would include any detriment to the brand's reputation or selling magnetism). There must be a real possibility of a reduction of the Coca Cola market dominance or compromised product sales. It is, in my view, unlikely that the Pepsi Advertisement would have such an impact that would result in any reduction in Coca-Cola's reputation or dominance, or result in a consumer electing not to purchase a Coca-Cola product. In terms of *Laugh It Off* Case, it would seem that Coca-Cola would have a difficult time proving the likelihood of substantial harm to the uniqueness and repute of the Coca-Cola brand, making the burden of proving infringement under Section 34(1)(c) difficult.

In the Pepsi Advertisement, the Coca-Cola brand forms a major basis upon which the humour of the Advertisement lies, and is included for parody. As mentioned by the Constitutional Court in the *Laugh It Off* Case, parody is paradoxical: it is both original and parasitic; if the parody does not take enough from the original trade mark, the audience will not be able to recognise the trade mark and therefore may not be able to understand the humour. Conversely, if the parody takes too much from the trade mark, it may be considered infringing on account of there being too little originality, regardless of how funny the parody may be.[68]

Although the court emphasised the need for, and importance of, humour in society it also stated that there is nothing in South African legislation that suggests parody as a

[68] *Laugh it Off Productions CC v South African Breweries International (Finance) BV t/a Sabmark International (Freedom of Expression Institute as Amicus Curiae)* 2006 (1) SA 144 (CC); (2005) 8 BCLR 743 (CC), at para 76

separate defence but rather that parody should be considered in as an element in the overall analysis. The Constitutional Court then went on to state that the question to be asked is whether, looking at the facts as a whole, and analysing them in their specific context, an independent observer who is sensitive to both free speech values of the Constitution of the Republic of South Africa and the property objectives of trade mark law, would say that the harm done by the parody to the property interests of the proprietor outweigh the free speech interests involved.[69] The Constitutional Court held that, on the detriment to the proprietor's interests side, there was virtually no harm to the marketability of the Carling Black Label beer (the product upon which the SAB trade mark is used) and ultimately held that the use of the SAB trade mark was not infringing.

I would submit that a similar decision would be followed if the Pepsi Advertisement was disputed today. It would be difficult for Coca-Cola to show that an independent viewer of the Pepsi Advertisement chose not to purchase a Coca-Cola product directly as a result of viewing the Pepsi Advertisement. I do not think that the Pepsi Advertisement would infringe the trade mark rights of Coca-Cola protected by Section 34(1)(c) of the South African Act, as the Pepsi Advertisement would not harm the marketability of the Coca-Cola product.

5.2 The Consumer Protection Act

The Pepsi Advertisement would not fit the description of a false, misleading or deceptive representation in terms of Section 41(3)(b) of the CPA because the Pepsi Advertisement does not represent either product having ingredients, performance characteristics, accessories, uses, benefits, qualities sponsorship or approval that they do not have; nor does the Advertisement represent that the products are of a particular standard, quality, grade, style or model. The representation made in the Advertisement

[69] *Laugh it Off Productions CC v South African Breweries International (Finance) BV t/a Sabmark International (Freedom of Expression Institute as Amicus Curiae)* 2006 (1) SA 144 (CC); (2005) 8 BCLR 743 (CC), at para 82.

is that after the Coca-Cola driver consumes the Pepsi product, he now prefers the Pepsi product over the Coca-Cola product. The representation made is not that the Pepsi product has any qualities or features that it in fact does not. The representation shows a person enjoying a Pepsi product after consuming it, and now seemingly preferring one product over another. In my view, and taking into account the purpose of the CPA, specifically in terms of Section 3, by viewing the Pepsi Advertisement, a consumer would not have been exposed to misleading, false or deceptive information.

5.3 The Advertising Regulatory Body

Section 2, clause 7.1.1 of the Code requires that all legal requirements must be adhered to (that is the provisions of the South African Act). The Pepsi Advertisement would first be scrutinised under the same provisions under Section 34 as discussed above. The same discussion on infringement in terms of Sections 34(1)(a) and (c) need not be repeated under this section.

The claims contained in the Pepsi Advertisement are not capable of objective substantiation and therefore it would be doubtful whether Pepsi would have to apply with Section 2, clause 4.1.1 of the Code by holding in its possession documentary evidence to support the claims in the Pepsi Advertisement.

The Pepsi Advertisement does not contain any claim that directly or by implicitly is likely to mislead the consumer in terms of the function of guaranteeing the origin of the product upon which a trade mark is used and would therefore not contravene Section 2, clause 4.2.1 of the Code.

Parodies, that amuse and which are not likely to adversely affect the advertising goodwill of another advertiser in a material extent, do not fall within clause 8.1's prohibition of taking advantage of the advertising goodwill relating to the trade mark of another proprietor.[70] As the Pepsi Advertisement is parody, and, as discussed above, does not adversely affect the advertising goodwill of Coca-Cola, the Pepsi Advertisement would not contravene Section 3, clause 8.1 (prohibited on the bases of taking advantage of the advertising goodwill of another).

Section 2, clause 6.1 of the Code states that advertisements should not attack, discredit or disparage other products or services. Section 2, clause 6.2 further states that comparisons highlighting a weakness in a product will not necessarily be regarded as disparaging when the information is factual and in the public interest. The comparison made in the Pepsi Advertisement is not factual but purely subjective. The Advertisement portrays a parody in which a consumer favours the Pepsi product instead of the Coca-Cola product.

The interpretation of "public interest" would vary from case to case. If the Pepsi Advertisement highlighted a weakness in the Coca-Cola product unknown to the public, then, following clause 1 of the Code, "public interest" would need to be interpreted through the lens of the CPA. The CPA protects the interests of consumers and ensures that the information contained in advertisements is accurate and enable consumers to make informed purchasing decisions. The benefit gained by the public would be the provision of a weakness previously unknown. However, the Pepsi Advertisement does not provide any factual information that can be deemed as being necessary to, nor in the interest of, the South African public.

In this instance, and in my view, "public interest" should be interpreted with reference to the *Laugh It Off* Case where the Constitutional Court emphasised the need for, and importance of, humour in society.[71] In doing so, the Constitutional Court recognised "humour" as an important part of the territory of freedom of expression, and consequently, an interest to the South African public. The benefit of humour gained

[70] Section 2, clause 8. 2 of the Code.

[71] *Laugh it Off Productions CC v South African Breweries International (Finance) BV t/a Sabmark International (Freedom of Expression Institute as Amicus Curiae)* 2006 (1) SA 144 (CC); (2005) 8 BCLR 743 (CC), at para 76.

from the Pepsi Advertisement would outweigh the lack of any benefit to the public from the absence of factual information in the Advertisement.

Section 2, clause 6.3 of the Code provides that the ARB shall take cognisance of what it considers to be the intention of the advertiser. The Pepsi Advertisement provides a subjective comparison between the Pepsi and Coca-Cola products, the result of the comparison being that a consumer favours the Pepsi product; the humour is based on the fact that the particular consumer who favours the Pepsi product is a Coca-Cola employee. Although the Advertisement does not provide any objective facts upon which the comparison is made, it is clear that the Advertisement attempts to make light of the fact that even a Coca-Cola employee desires the Pepsi product. The intention of Pepsi in constructing the comparison made in the Advertisement is intended to provide humour and not to attack or disparage the Coca-Cola product by highlighting any objective facts.

Based on the discussion above in relation to Section 2, clause 6, the Pepsi Advertisement would not be considered 'disparaging' and would contravene Section 2, clause 6.1 of the Code.

6 TRADE MARK INFRINGEMENT AND COMPARATIVE BRAND ADVERTISING IN THE EUROPEAN UNION

6.1 Legislation

Trade mark registration in the EU is governed by Directive 2015/2436[72] (the "European Directive"). The European Directive is the primary statute that protects trade marks registered in the EU. The European Directive provides for the scope and protection afforded by the registration of a trade mark to the proprietor. The essential purpose of trade mark registration in the EU is to protect the origin function of the trade mark. The European Directive also protects traders against misleading advertising and any unfair consequences that follow, however, advertising is primarily governed by Directive 2006/114/EC (the "Advertising Directive").

The European and Advertising Directives apply to member states of the EU. The Directives work in parallel; the provisions of both Directives need to be considered to adequately deal with complaints of comparative brand advertising in the EU. The European Directive provides rights to trade mark proprietors in the EU, and, in addition, the Advertising Directive provides protection of those rights in instances where a competitors or its goods have been mentioned in an advertiser's advertisement. The Advertising Directive refers to the European Directive, emphasising that it confers exclusive rights on the proprietor of a registered trade mark, including the right to prevent all third parties from using, in the course of trade, any sign which is identical to, or similar to, the trade mark in relation to identical goods or services.

[72] Directive 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States Relating to Trade Marks, O.J. (L 336), 23.12.2015.

6.1.1 **Directive 2015/2436**

Article 10 of the European Directive provides for primary and secondary infringement of a trademark. It reads as follows:

1. The registration of a trade mark shall confer on the proprietor exclusive rights therein.

2. … the proprietor of the registered trade mark shall be entitled to prevent all third parties not having his consent from using in the course of trade, in relation to goods or services, any sign where:

(a) the sign is identical with the trade mark and is used in relation to goods or services which are identical with, or similar to, the goods or services for which the trade mark is registered, if there exists a likelihood of confusion on the part of the public; the likelihood of confusion includes the likelihood of association between the sign and the trade mark.

(b) the sign is identical with, or similar to, the trade mark and is used in relation to goods or services which are identical with, or similar to, the goods or services for which the trade mark is registered, if there exists a likelihood of confusion on the part of the public; the likelihood of confusion includes the likelihood of association between the sign and the trade mark

Article 10(2)(c) of the European Directive provides protection of a trade mark which has a reputation in a Member State of the EU. Article 10(2)(c) reads as follows:

(c) the sign is identical with, or similar to, the trade mark, irrespective of whether it is used in relation to goods or services which are identical with, similar to, or not similar to, those for which the trade mark is registered, where the latter has a reputation in the Member State and where use of the sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or repute of the trade mark.

6.1.2 **Directive 2006/114/EC**

The purpose of the Advertising Directive is "*to protect traders against misleading advertising and the unfair consequences thereof and to lay down the conditions under which comparative advertising is permitted."*[73]

Article 10(3)(f) specifically refers to the Advertising Directive as follows:

> … *(f) using the sign in comparative advertising in a manner that is contrary to Directive 2006/114/EC.*

The Advertising Directive defines "advertising" as:

> … *the making of a representation in any form in connection with a trade, business, craft or profession in order to promote the supply of goods or services, including immovable property, rights and obligations*.[74]

The Advertising Directive defines "comparative advertising" as:

> … *any advertising which explicitly or by implication identifies a competitor or goods or services offered by a competitor.*[75]

Notwithstanding the above, advertisements do not breach the exclusive right provided in Article 5 where such advertisement complies with the conditions laid down in Article 4 of the Advertising Directive. Article 4 of provides for the following:

> *Comparative advertising shall, as far as the comparison is concerned, be permitted when the following conditions are met:*
>
> > *(a) it is not misleading within the meaning of Articles 2(b), 3 and 8(1) of this Directive*[76] *or Articles 6 and 7 of Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning*

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[73] Article 1 of the Advertising Directive.
[74] Article 2(a) of the Advertising Directive.
[75] Article 2(c) of the Advertising Directive
[76] "Misleading advertising" is defined and discussed further below.

unfair business-to-consumer commercial practices in the internal market ("Unfair Commercial Practices Directive");

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

(c) it objectively compares one or more material, relevant, verifiable and representative features of those goods and services, which may include price;

(d) it does not discredit or denigrate the trademarks, trade names, other distinguishing marks, goods, services, activities or circumstances of a competitor;

(e) for products with designation of origin, it relates in each case to products with the same designation;

(f) 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;

(g) it does not present goods or services as imitations or replicas of goods or services bearing a protected trademark or trade name;

(h) it does not create confusion among traders, between the advertiser and a competitor or between the advertiser's trademarks, trade names, other distinguishing marks, goods or services and those of a competitor.

"Misleading advertising*"* is defined *as:*

… any advertising which in any way, including its presentation, deceives or is likely to deceive the person to whom it is addressed or whom it reaches and which, by reason of its deceptive nature, is likely to affect their economic

behaviour or which, for those reasons, injures or is likely to injure a competitor.[77]

Article 3 provides factors which must be taken into account when determining whether an advertisement is misleading.[78] The factors which Article 3 provides are the following:

(a) the characteristics of goods or services, such as their availability, nature execution, composition, method and date of manufacture or provision, fitness for purpose, uses, quantity, specification, geographical or commercial origin or the results and material features of tests or checks carried out on the goods or services;

(b) the price or manner in which the price is calculated, and the conditions on which the goods are supplied or the services provided;

(c) the nature, attributes and rights of the advertiser, such as his identity and assets, his qualifications and ownership of industrial, commercial or intellectual property rights or his awards or distinctions.

In *O2 Holdings Limited and O2 (UK) Limited v Hutchison 3G UK Limited*[79] (*O2 Holdings v Hutchison*),[80] 3G launched an advertising campaign comparing 3G's services with those of O2. 3G referred to O2 by using images of bubbles. O2 claimed that the use of the bubbles by 3G infringed O2's registered trademarks.

The ECJ held that:

[77] Article 2(b) of the Advertising Directive.
[78] "*Misleading advertising*" is defined in Article 2(b) as "*any advertising which in any way, including its presentation, deceives or is likely to deceive the persons to whom it is addressed or whom it reaches and which, by reason of its deceptive nature, is likely to affect their economic behaviour or which, for those reasons, injures or is likely to injure a competitor*".
[79] *O2 Holdings Limited and O2 (UK) Limited v Hutchison 3G UK Limited* (2008) ECR.
[80] It is noted that the UK has officially been removed as a member of the European Union. However, the UK was a member of the EU at the time of the judgment was made and therefore the case has been mentioned.

> *The use by an advertiser, in a comparative advertisement, of a sign identical with, or similar to, the mark of a competitor for the purposes of identifying goods and services offered by the latter can be regarded use for the advertiser's own goods and services for purposes of Article 5(1) and (2).*[81]

The court went on to hold that:

> *Consequently, the answer to the… question must be that… the proprietor of a registered trade mark is not entitled to prevent the use, by a third party, in a comparative advertisement, of a sign similar to that mark in relation to goods or services identical with, or similar to, those for which that mark is registered where such use does not give rise to a likelihood of confusion on the part of the public… irrespective of whether or not the comparative advertisement satisfies all the conditions laid down in Article 31 of the Directive 84/450 under which comparative brand advertising is permitted.*[82]

Consequently, where an advertiser makes use of a registered trade mark in a comparative brand advertisement, the use will amount to trade mark infringement where the advertiser presents the registered trade mark as their own and where that use would result in a likelihood of confusion on the part of the public.

In *L'Oréal SA v Bellure NV and Others*,[83] Bellure marketed imitations of well-known fragrances, including imitations of L'Oréal perfumes. Although Bellure did not use any of the names of the imitated goods, the packaging used by Bellure was identical to the L'Oréal equivalent. The imitated goods were further sold using a comparison list, in which the imitated goods were equated to their well-known equivalent. L'Oréal claimed that Bellure's packaging and comparison lists infringed L'Oréal's registered trademarks, and further that the imitations harmed the well know reputation of luxury perfumes.

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81 *O2 Holdings Limited and O2 (UK) Limited v Hutchison 3G UK Limited* (2008) ECR 36.
82 *O2 Holdings Limited and O2 (UK) Limited v Hutchison 3G UK Limited* (2008) ECR, 69.
83 *L'Oreal SA v Bellure NV and Others* [2007] EWCA Civ 968 ECJ.

The ECJ held that taking unfair advantage of the distinctive character or the reputation of a well-known trade mark occurs:

> … *where a third party attempts, through the use of a sign similar to the mark, 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*.[84]

The ECJ accepted that any use of a registered trade mark for purely descriptive purposes is excluded from the protection provided by Article 5(1) of Directive 2008/95/EC[85], as such use does not affect any of the interests of the proprietor protected by the provision. However, the court accepted that the use of the L'Oreal trade marks was not for purely descriptive purposes but for the purpose of advertising which would affect the interests protected by Article 5(1).[86] Consequently, as Bellure was unlawfully advertising the goods as imitations, the court held that any advantage gained through such advertising must be regarded as taking unfair advantage of the reputation of L'Oreal's trade marks.

In *Specsavers International Healthcare Ltd v Asda Stores Ltd*,[87] the United Kingdom Court of Appeal considered comparative advertising in the context of Article 9(1)(c) of Council Regulation 207/2009/EC:

> *I accept that the community legislature did not intend to prohibit comparative advertisements which comply with the conditions set out in the Comparative Advertising Directive. Indeed it is clear that comparative advertising which helps to demonstrate objectively the merits of comparable products and*

[84] *L'Oreal SA v Bellure NV and Others* [2007] EWCA Civ 968 ECJ 49.
[85] Directive 2008/95 of the European Parliament and of the Council of 22 October 2008 to Approximate the Laws of the Member States Relating to Trade Marks, 2008 O.J. (L 299), 25-33 (EC).
[86] *L'Oreal SA v Bellure NV and Others* [2007] EWCA Civ 968 ECJ 62.
[87] Spec Savers International Healthcare Ltd v Asda Stores Ltd (2012) FSR 19 555.

services may stimulate competition between suppliers to the advantage of the consumer. As recital (8) of that Directive says: comparative advertising, when it compares material, relevant, verifiable and representative features and is not misleading, may be a legitimate means of informing consumers of their advantage. I also accept that this is a case in which Asda has sought to promote itself advantageously against Specsavers. Such is apparent from the history of the development of the complaint which I have summarised and to which I must return in considering Specsavers' appeal. But the fallacy in the argument advanced by Mr Purvis is that this is a case of legitimate comparative advertising. Asda has made no attempt to establish that its campaign meets the conditions of the comparative advertising directive. Indeed, a strap line which suggested that Asda prices were lower than those of Specsavers was not approved because it was thought to be too difficult to substantiate. Instead, Asda adopted the strategy of using a strap line which was intended to bring Specsavers to mind and to convey superiority in terms of value and superiority or parity in the areas of range and professionalism, and it is done so in a manner which does not involve an objective comparison of verifiable and representative features of the party's goods or services. In my judgment the judge was right to find that this constituted an infringement of the word marks under art 9(1)(c).[88]

[Own underlining]

[88] Article 9(1)(c) provides that: *any sign which is identical with, or similar to, the Community trademark in relation to goods or services which are not similar to those for which the Community trademark is registered, where the latter has a reputation in the Community and where use of that sign without due cause takes unfair advantage, or is detrimental to, the distinctive character or the repute of the Community trademark.*

6.2 **Advertising Legislation and Regulations**

The European Advertising Standards Alliance ("EASA") is the single body that promotes and regulates advertising self-regulation in the EU. EASA was set up in 1992 to support and promote self-regulation, coordinate the handling of cross border complaints and to provide information and research on advertising self-regulation.[89]

The EASA's advertising codes are based on the International Chamber of Commerce's Advertising and Marketing Communications Code ("ICC Code")[90] which is a globally-applicable self-regulatory framework that seeks to protect consumers by clearly setting out the 'do's and don'ts' for responsible marketing to ensure legal, honest, decent and truthful communications and practices.[91]

The ICC states that the ICC Codes are "*intended as an instrument of self-regulation for marketing communications; however, its provisions may also be useful for non-commercial forms of advertising and communication and it may be used by the Courts as a reference document within the framework of applicable legislation. ICC recommends its adoptions worldwide*". Both the ICC Code and the EASA codes are advisory, and are therefore not required to be adopted by any nation in the world (in terms of the ICC Code) or any member state of the EASA.

A number of salient provisions included in the ICC Code are set out below, paraphrased:

[89] The EASA Statement of Common Principles and Operating Standards of Best Practice (May 2002).
[90] Clause 1 of the EASA Statement of Common Principles and Operating Standards of Best Practice (May 2002).
[91] www.iccwbo,org/publication/icc-advertising-and-marketing-communications-code/ - Accessed on 10 August 2020.

- All advertisements[92] should be legal, decent, honest and truthful and should not impair public confidence in marketing.[93]
- Advertisements should be so depicted as not to abuse the trust of consumers or exploit their lack of experience or knowledge.[94]
- Advertisements should be truthful and not misleading and should not contain any communication which, directly or by implication, omission, ambiguity or exaggeration, is likely to mislead the consumer, in particular with regard to the characteristics of the product which are material and are likely to influence the consumer's purchasing choice.[95]
- Advertisements should be capable of substantiation.[96]
- The identity of the marketer[97] should be transparent and their contact information should be included to enable the consumer to get in touch with them without difficulty.[98]
- Advertisements which contain comparisons should be so designed that the comparison is not likely to mislead", and that points of comparison should be based on facts which can be substantiated and should not be unfairly selected.[99]

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[92] The ICC Code refers to 'marketing communications'. "Marketing communications" is defined in the ICC Code as "advertising as well as other techniques, such as promotions, sponsorships as well as direct marketing and digital marketing communications, and should be interpreted broadly to mean any communications produced directly by or on behalf of marketers intended primarily to promote products or to influence consumer behaviour".
The ICC does not specifically refer to the term 'advertising' or 'advertisements' but rather 'marketing'. For convenience and continuity, where the terms 'advertising' or 'advertisements' are used in this discussion, they shall be used in the context and with the same meaning of 'marketing communications' as provided for in the ICC Code.
[93] Article 1 of the ICC Code.
[94] Article 4 of the ICC Code.
[95] Article 5 of the ICC Code.
[96] Article 6 of the ICC Code.
[97] "Marketer" is defined in the ICC Code to mean "persons or companies, including advertisers, sales promoters and direct marketers, who or on whose behalf marketing communications are published or disseminated for the purpose of promoting their products or influencing consumer behaviour".
[98] Article 8 of the ICC Code.
[99] Article 11 of the ICC Code.

- Advertisements should not denigrate any person or group of persons or seek to bring it or them into public contempt of ridicule.[100]

- Advertisements should not make unjustifiable use of the name, initials, logo and/or trademarks of another firm, company or institution, and should not in any way take undue advantage of another firm or individual's goodwill in its name, brand or other intellectual property, or take advantage of the goodwill earned by other marketing campaigns without prior consent. [101]

From the Articles summarised above, it is clear that there is an overlap in the codes of ethical advertising provided by the ICC, as well as the provisions of the European and Advertising Directives discussed further above. The ICC addresses this in the following extract of the ICC Code:

> *Codes of conduct and legislation pursue different objectives and may not share the same scope. There is, however, usually a fairly large interface and their respective fields of application may coincide to a larger or smaller extent. <u>This Code sets standards of ethical conduct</u> and hence cannot, and indeed should not, reflect specific legal requirements, nor is it intended as an instrument of law enforcement <u>but rather a mark of professional diligence</u>. However, the Code embraces the principle of legality in Article 1 of the Code in that all marketing communications should be legal, decent, honest and truthful. It <u>follows that it can never be in accordance with good business standards to break the law. But the fact that a communication is legal does not necessarily mean it is also ethically acceptable or appropriate</u>. Therefore marketers and other parties need to make sure their marketing*

[100] Article 12 of the ICC Code.
[101] Article 15 of the ICC Code.

communications activities observe applicable laws and regulations in a market, as well as relevant provisions of the Code.[102]

The above ultimately describes that advisory codes of conduct cannot trump legislation. As such, the ICC Codes provide for various relevant factors to be taken into account in the context of comparative brand advertising.

To properly summarise, consider and review comparative brand advertising in terms of the European Directive, the Advertising Directive and the ICC Code, the Pepsi Advertisement will be reviewed below under Chapter 7.

[102] ICC Advertising and Marketing Communications Code, page 3.

7 A BRIEF REVIEW OF THE PEPSI ADVERTISEMENT IN THE EUROPEAN UNION

7.1 The European Directive

The Coca-Cola brand (which includes its trade marks, trade name and goods), are specifically named in the Pepsi Advertisement. The Pepsi Advertisement is therefore a comparative [brand] advertisement for purposes of Article 1(b) of the Advertising Directive. To be permitted in the EU, the Pepsi Advertisement would have to satisfy both the provisions of the European and Advertising Directives (discussed further below).

The Advertisement depicts a scripted scenario that does not represent any facts or information on which a consumer would consider either product being better than the other. There is therefore no true basis upon which the public might be deceived. Due to the nature of the benefit shown in the advertisement,[103] there is a possibility that a consumer might proceed to purchase the Pepsi product to test the Advertisement's theory; that the Pepsi product is better than the Coca-Cola product. Resultantly, the Advertisement may possibly affect a consumer's economic behaviour, but not as a result of any deception.

As there is no way of telling whether a consumer is guaranteed to like the product, there can be no deception – the Pepsi product may be enjoyed by some consumers but disliked by others. Any deception, or the likelihood of deception, would only be apparent if there was absolutely no possibility of any consumer ever enjoying or even merely consuming the Pepsi product, and as a result of seeing the Advertisement, a consumer believed that the Pepsi product was consumable. The basis upon which the comparison is made is the opinion of the consumer viewing the Advertisement, a subjective opinion of the viewer and not a material or verifiable fact portrayed in the Advertisement.

[103] That the Pepsi is a favourable product, which is as a direct result of the Pepsi product being shown in a more favourable light than the Coca-Cola product.

However, the Pepsi Advertisement arguably falls foul of Articles 4(c), (d) and (f) of the Advertising Directive: it does not objectively compare material, relevant, verifiable and representative features of the products (Article 4(c)); it possibly discredits the Coca-Cola product (Article 4(d)) and; it may take unfair advantage of the reputation of the Coca-Cola brand (Article 4(f)).

For the same reason that the Pepsi Advertisement fails on the basis of Article 4(f), the Advertisement would contravene Article 10(2) of the European Directive. The use of the Coca-Cola brand in the Pepsi Advertisement is for advertising purposes. Although there would not be any likelihood of confusion on the part of the public Pepsi would gain an advantage by using the Coca-Cola brand in the Advertisement, and, as was the case in *L'Oreal v Bellure*, such an advantage would most likely be considered taking unfair advantage of the reputation of the Coca-Cola brand.

7.2 The Advertising Directive

In the EU, advertisements do not breach the exclusive right provided in Article 10 of the European Directive where such advertisements comply with the conditions laid down in Article 4 of the Advertising Directive. Article 4 provides provisions which, if met, allow for the distribution of comparative advertisements. Comparative advertising shall, as far as the comparison is concerned, be permitted it is not misleading within the meaning of Articles 2(b), 3 and 8(1) of the Advertising Directive. Article 2(b) provides a definition for misleading advertising, therefore, to ultimately determining whether the Pepsi Advertisement is permitted under Article 4 (as a comparative advertisement), the Advertisement must first be reviewed in terms of Article 3 to determine if it is misleading.

The definition of "misleading advertising" provides two separate hurdles that an advertisement must clear to be not be considered misleading: either the advertisement is misleading because it affects the economic behaviour of the consumer, or it injures or is likely to injure a competitor by reason of the advertisement's deceptive nature. The factors which must be taken into account when determining whether an advertisement is misleading are included in Article 3, such as the characteristics of goods or services, (their fitness for purpose, uses, commercial origin or the results) as well as the nature, attributes and rights of the advertiser, such as his identity and assets, his qualifications and ownership of industrial, commercial or intellectual property rights or his awards or distinctions.

As discussed above, a consumer would probably not forgo purchasing a Coca-Cola product as a direct result of the Pepsi Advertisement. Pepsi itself is a well-known brand and the Advertisement itself clearly distinguishes between the two origins of each product in the Advertisement. The humour in the parody of the Advertisement would not be achieved as effectively without the use of the Coca-Cola brand; a consumer would realise this and, because the Advertisement does not attack the Coca-Cola brand untruthfully or maliciously, the Pepsi Advertisement would not injure the Coca-Cola brand either in terms of actual loss of sales, nor in the overall reputation of the Coca-Cola brand. In my view, the Pepsi Advertisement is not "misleading" in terms of Article 2(b).

For the most part, in terms of Article 4, the Pepsi Advertisement meets the requirements to be permitted in the EU. The Pepsi Advertisement:

- compares goods that meet the same needs of consumer and are intended for the same purposes (Article 4 (b));
- does not discredit or denigrate the trademarks, trade names, other distinguishing marks, goods, services, activities or circumstances of a competitor (Article 4(d));
- clearly designates the origin of each product (Article 4(e));
- does not present either the Pepsi product or the Coca-Cola product as imitations or replicas (Article 4(g)); and

- does not create confusion among traders, between the advertiser and a competitor or between the advertiser's trademarks, trade names, other distinguishing marks, goods or services and those of a competitor (Article 4(h)).

However, the Pepsi Advertisement does not objectively compare material, relevant, verifiable and representative of the features of the two products, contravening Article 4(c) of the Advertising Directive). The Pepsi Advertisement also takes advantage of the reputation of the Coca-Cola brand, by using its trade mark. The question is whether such use is unfair (Article 4(f) of the Advertising Directive).

In determining whether an advertisement is misleading, a proprietor must prove that a competitor's unauthorised use of its trade mark results in, or is likely to result in, injury to the proprietor (which would include injury to its brand). However, this is a separate consideration and, if the result is in the positive, it does not automatically follow that an advertisement takes advantage of a brand's reputation. As was the case in South Africa before the *Laugh It Off* Case, the unauthorised use of the Coca-Cola brand would undoubtedly be considered as taking unfair advantage of the reputation and goodwill of the Coca-Cola brand. However, a similar case has not been dealt in the EU and therefore the Pepsi Advertisement would not be permitted as a result of contravening Article 4(f) of the Advertising Directive and.

7.3 The ICC Code

Under the ICC Code, there are a few relevant Articles of the ICC Code that need to be discussed and considered in relation to the Pepsi Advertisement.

Under Article 5, marketing communications should be truthful and not misleading. Article 5 provides that "*marketing communications should be <u>truthful and not misleading</u> with regard to: characteristics of the product which are material, i.e. likely to influence the consumer's choice, such as: nature, composition, method and date of manufacture,* *range of use, efficiency and performance, quantity, commercial or geographical origin or environmental impact; or copyright and industrial property rights such as patents, trade-marks, designs and models and trade names*"

The comparison made in the Pepsi Advertisement is portrayed based on subjective facts unrelated to any characteristics of the product which are material (as listed in Article 5) and therefore cannot be objectively substantiated.

The perspective of the Pepsi Advertisement is clearly from the point of view, and for the benefit of, Pepsi. The identity and differentiation of the marketer and the brands portrayed in the Pepsi Advertisement is evident and therefore the Pepsi Advertisement complies with Article 8 of the ICC Code in that the identity of Pepsi as the marketer of the advertisement is transparent.

Arguably, the Pepsi Advertisement does not wholeheartedly "denigrate" the Coca-Cola product or brand. Denigrate is not defined in the ICC Code. From the wording of Article 12, it would seem that a high burden or a high result of denigration is required. It is entirely possible for various actions to take place in real life as a result of the exchange portrayed in the Pepsi Advertisement, and therefore, it is arguable as too whether the Pepsi Advertisement achieves the possible extent of "denigration" required by Article 12. Further, Coca-Cola is a well-known brand, and so too is the quality of the product supplied by Coca-Cola. Against this background, a consumer would be unlikely to completely change their opinion of the likeability of the selling power of the Coca-Cola product based on their own knowledge and understanding of the power of the product itself.

Article 15 provides that marketing communications should not make unjustifiable use of the name, initials, logo and/or trademarks of another firm, company or institution. The Coca-Cola name, logo and trade marks have been used in the Pepsi Advertisement. The question that would need to be considered is whether or not such use is unjustifiable. From Coca-Cola's point of view, any unauthorised use of its name, logos, and/or trade marks would be unjustified. However, the wording of Article 15 suggests that in certain depictions of another's name, logo or trade mark may be justified. It would be upon this test that would be applied and in that way one would be able to determine whether or not the use of the Coca-Cola brand is justifiable. This may be weighed up alongside Article 1 of the ICC Code in that marketing communications should be lawful. In that event, the term justifiable should be weighed up in the context of the European and Advertising Directives and where certain comparative advertisements are justifiable provided that they align with certain requirements. In that case, the Pepsi Advertisement would fall foul of Article 15 on the same basis that it falls foul of Articles 4(c), (d) and (f) (of the Advertising Directive).

8 **TRADE MARK INFRINGEMENT AND COMPARATIVE BRAND ADVERTISING IN THE UNITED STATES OF AMERICA**

8.1 Legislation

In the US, trade mark legislation operates on either a federal (national level, throughout the US) or state level. This means that specific legislation may either have effect in the US on a national (that is, federal) level and a state level (provincial/state level, only within each specific state in the US). The Trademark Act of 1946, as amended[104] (the "Lanham Act") is the predominant piece of legislation which contains the rules and regulations relating to trade marks in the US on a federal level. At state level, comparative brand advertising disputes are governed by various statutes for false advertising and deceptive business practices which vary from state to state.

8.1.1 The Lanham Act of 1946 Act

The Lanham Act is the exclusive federal law that governs litigation between competitors over comparative brand advertising. This federal law gives private individuals and companies a claim against competitors for false and/or misleading advertising.

Section 43(a) of the Lanham Act specifically prohibits any misrepresentation of the nature, characteristics, qualities or geographic origin of a proprietor's goods through the use of any word, term, name, symbol or device; or through the use of a false designation of origin, description of fact or representation of fact.

A plaintiff must prove that the alleged infringer's advertisement is actually false or misleading by proving a lack of substantiation to back up the proprietor's claim. The proprietor must further prove that the false statements must either have deceived or

[104] The Trademark Act of 1946, 60 Stat. 427, as amended, codified in 15 U.S.C 1051.

have the capacity to deceive a substantial segment of the audience; the deception is material to the purchasing decision, and the proprietor is injured by the statement.[105]

Section 32(1) of the Lanham Act protects registered trademarks and Section 43 protects unregistered trademarks. Section 32(1) of the Lanham Act reads as follows:

> *Any person who shall, in commerce,*
>
> *(a) use, without the consent of the registrant, any reproduction, counterfeit, copy, or colorable imitation of any registered mark in connection with the sale, offering for sale, or advertising of any goods or services on or in connection with which such use is likely to cause confusion or mistake or to deceive purchasers as to the source of origin of such goods or services; or*
>
> *reproduce, counterfeit, copy, or colorably imitate any such mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles, or advertisements intended to be used upon or in connection with the sale in commerce of such goods or services, shall be liable to a civil action by the registrant for any or all of the remedies hereinafter provided, except that under subsection (b) hereof the registrant shall not be entitled to recover profits or damages unless the acts have been committed with knowledge that such mark is intended to be used to cause confusion or mistake or to deceive purchasers.*

8.1.2 A likelihood of confusion exists when consumers viewing the mark would probably assume that the product or service it represents is associated with the source of a different product or service identified by a similar mark.[106] In *Interpace Corp. v Lapp, Inc.,*[107] the US Court of Appeals established a ten-factor test to determine the

[105] www.lexology.com/library - Accessed on 18 May 2020.
[106] *A&H Sportswear, Inc.; Mainstream Swimsuits, Inc. v Victoria's Secret Stores, Inc; Victoria's Secret Catalogue, Inc*, 237 F.3d 198 (3d Cir. 2000) where the US Court of Appeals quoted *Dranoff-Perlstein Assocs. V Sklar.,* 967 F.2d 852, 862 (3d Cir. 1992).
[107] 721 F.2d 460 (3d Cir. 1983).

likelihood of confusion (the "Lapp Test"). The Lapp Test was initially established to determine the likelihood of confusion claims between foods that did not directly compete in the same market. However, the US Court of Appeals later confirmed that the Lapp factors may be used to determine the likelihood of confusion in cases of directly competing goods.[108] The Lapp Test includes a number of factors to be used to establish the existence of a likelihood of confusion, including the similarity of the marks; strength of the plaintiff's mark; sophistication of consumers when making a purchase; intent of the defendant in adopting the mark; evidence of actual confusion (or lack thereof); similarity of marketing and advertising channels; extent to which the targets of the parties' sales efforts are the same; product similarity; and any other factors suggesting that consumers might expect the prior owner to manufacture both products, or expect the prior owner to manufacture a product in the defendant's market or expect that the prior owner is likely to expand into the defendant's market.[109]

8.1.3 The Federal Trade Mark Dilution Revision Act

The Federal Trademark Dilution Act of 1995[110] (the "FTDA") provides for the enforcement and protection of the rights of proprietors in respect of well-known trade marks in the US. Section 2 of the FTDA provides a definition for a well-known trade mark that is:

> *… a mark is famous if it is widely recognised by the general consuming public of the United States as a designation of source of the goods or services of the mark's owner.*

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108 *A&H Sportswear, Inc.; Mainstream Swimsuits, Inc. v Victoria's Secret Stores, Inc; Victoria's Secret Catalogue, Inc*, 237 F.3d 198 (3d Cir. 2000).

109 *Interpace Corp. v Lapp, Inc.* 721 F.2d 460 (3d Cir. 1983).

110 Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, § 3, 109 Stat. 985 (1995) (codified at 15 U.S.C §1125(c) (2000)).

In determining whether a mark possesses the requisite degree of recognition, the court may consider all relevant factors including the *duration, extent and geographic reach of advertising and publicity of the mark, as well as the extent of the sales of goods or services offered under the mark and the extent of actual recognition of the mark.*

Section 2(1)(B) provides the following definitions for dilution by blurring and dilution by tarnishment:

> '*dilution by blurring' is association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark …*
>
> *'dilution by tarnishment' is association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark.*

In determining whether a mark or trade name is likely to cause dilution by blurring, courts may consider the following:

- *the degree of similarity between the mark or trade name and the famous mark*;[111]
- *the degree of inherent or acquired distinctiveness of the famous mark*;[112]
- *the extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark*;[113]
- *the degree of recognition of the famous mark*;[114]

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[111] 15 U.S.C § 1125(c)(2)(i).
[112] 15 U.S.C § 1125(c)(2)(ii).
[113] 15 U.S.C § 1125(c)(2) (iii).
[114] 15 U.S.C § 1125(c)(2) (iv).

- *whether the user of the mark or trade name intended to create an association of the famous mark*;[115]
- *any actual association between the mark or trade name and the famous mark.*[116]

The owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner's mark has become a famous mark, uses the famous mark in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.[117] However, the FTDA provides a list of exclusions from infringement by dilution as follows:

(3) …

(A) Any fair use, including a nominative or descriptive fair use, or facilitation of such fair use, of a famous mark by another person other than as a designation of source for the person's own goods or services, including use in connection with:

(i) advertising or promotion that permits consumers to compare goods or services; or

(ii) identifying and parodying, criticising, or commenting upon the famous mark owner or the goods or services of the famous mark owner.

Smith v Chanel[118] remains the binding precedent for comparative advertising cases in the US. Smith created a fragrance called 'Second Chance' as a less expensive

[115] 15 U.S.C § 1125(c)(2)(iv).
[116] 15 U.S.C § 1125(c)(2)(vi).
[117] Code 15 (b) (1) of the FTDA.
[118] *Smith v Chanel Inc.* 402 F.2d 562 (9th Cir. 1969).

imitation of Chanel's 'Chanel No.5'. Smith advertised this and other 'smell-alike' perfumes claiming that the imitations perfumes perfectly imitated 'the exact scent of the world's finest and most expensive perfumes and colognes at prices that will zoom sales to volumes you have never before experienced'. The advertisement also contained a comparison list, presenting each imitation together with the name of the well-known fragrance which it purportedly imitated. The trial court held that Smith infringed Chanel's trademarks and irreparable harm would result if the infringement continued. The trial court further held that:

> … *without regard to the truth or falsity of the statements made in defendant's advertisement and although the plaintiff's toilet preparations are not protected by the patent laws, defendant's advertisements… appropriates from plaintiffs, the goodwill, reputation and commercial values inherent in [its] trademarks*.[119]

On appeal, the US appeal court reversed the trial court's decision. The court said that the principal issue was whether one who has copied an unpatented product sold under a trade mark may use the trade mark in their advertising to identify the product he has copied. The appellate court ultimately held that the packaging and labelling of 'Second Chance' was not misleading or confusing, and thus the use was permitted.

8.2 Advertising Legislation and Codes

8.2.1 The Federal Trade Commission Act

The Federal Trade Commission (the "FTC") is an independent agency of the US government, established by the Federal Trade Commission Act of 1914 (the "FTCA"). The FTC's principal mission, as envisaged and regulated in the FTCA, is

[119] *Chanel Inc. v Smith* 151 U.S.P.Q 685 (N.D Cal 1966).

the promotion of consumer protection and the elimination and prevention of anti-competitive business practices.[120] The FTCA prohibits unfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices.[121] Under the FTCA, advertising in the US must be truthful and non-deceptive, advertisers must have evidence to substantiate their claims, and advertisements must not be unfair.

"*Comparative advertising'* is defined by the FTC in a Statement of Policy Regarding Comparative Advertising (the "FTC Statement") as:

> *Advertising that compares alternative brands on objectively measurable attributes or price, and identifies the alternative brand by name, illustration or other distinctive information.*[122]

The FTC Statement further provides that truthful and non-deceptive comparative advertising is pro-competitive, in that it "*is a source of important information to consumers and assists them in making rational purchase decisions*."[123]

Section 5 grants the FTC the power to define and prohibit false and misleading advertising. A "*false advertisement*" is defined in Section 55 as:

> *An advertisement, other than labelling, which is misleading in a material respect: and in determining whether an advertisement is misleading, there shall be taken into account (among other things) not only representations made or suggested by statement, word, design, device, sound, or any combination thereof, but also the extent to which the advertisement fails to reveal facts material in light of such representations or material with respect to consequences which may result from the sue of the commodity to which*

[120] www.ftc.gov – accessed on 19 December 2018.
[121] 15 U.S.C Section 45.
[122] FTC Statement of Policy Regarding Comparative Advertising, 16 C.F.R. Section 14.15(b) (2014).
[123] 16. C.F.R. 14.15(c) (2012).

the advertisement relates under the conditions prescribed in said advertisement, or under such conditions as are customary or usual.

The FTC considers an advertisement to be deceptive if the advertisement contains a representation, practice, or omission likely to mislead reasonable consumers, and if the representation, practice, or omission is material to a consumer's purchasing choice. Further, to determine if an advertisement is deceptive, among other things:

- *The FTC looks at the ad from the point of view of the "reasonable consumer" – the typical person looking at the ad. Rather than focusing on certain words, the FTC looks at the ad in context – words, phrases, and pictures – to determine what it conveys to consumers;*
- *The FTC looks at both "express" and "implied" claim. An express claim is literally made in the ad;*
- *The FTC looks at whether the claim would be "material" – that is, important to a consumer's decision to buy or use the product.*[124]

The FTC's policy on comparative advertising is that comparative brand advertising encourages the naming of, or reference to, competitors in comparative brand advertisements, but requires clarification to avoid deception of the consumer with regards to the origin of the goods mentioned in the comparative brand advertisement.[125] Therefore, in order for a claim against a comparative brand advertisement to be successful, there must be a likelihood that a reasonable consumer is likely to be misled and that the advertisement played a material role in the consumer's purchasing choice.

[124] www.ftc.gov/tips-advice/business-center/guidance/advertising-faqs-guide-small-business - accessed on 17 August 2020.
[125] Clause (b) of the FTC Statement of Policy Regarding Comparative Advertising, 16 C.F.R.

8.2.2 Subsidiary Advertising Regulatory Bodies

The US has a self-regulatory body, the Advertising Self-Regulatory Council which has various units: The National Advertising Division of the Council of Better Business Bureaus; the Children's Advertising Review Unit; the Electronic Retailing Self-Regulation Program; the National Advertising Review Board; and the Online Interest-Based Accountability Program.

The National Advertising Division (the "NAD") monitors and evaluates complaints made regarding the truth and accuracy in nationally broadcast advertisements. The NAD will review advertisements involving product performance claims, superiority claims against competitive products. Comparative advertising claims and scientific and technical claims.[126] The NAD lacks the power to compel participation in its process or compliance with its decisions. Any further litigation on the dispute raised by the complainant would be brought before a court and started afresh.

The NAD provides a voluntary administrative process in which experienced attorneys review challenged advertising claims and the substantiation for the claims. The remedies available in a NAD proceeding, however, are limited and NAD decisions cannot be enforced by the courts. Therefore, most claimants, litigation is the preferred option.

[126] *Is the NAD the Right Forum for You? Arguing Advertising Disputes before the National Advertising Division of the Council of Better Business Bureas,* Sheldon H. Klein and Halle B. Markus, 2012.

9 A BRIEF REVIEW OF THE PEPSI ADVERTISEMENT IN THE UNITED STATES OF AMERICA

9.1 The Lanham Act

Section 32(1) of the Lanham Act protects registered trademarks and Section 43 protects unregistered trademarks. Any person who, in commerce, uses without the consent of the proprietor, any reproduction of any registered mark in connection with the advertising of any goods or services on or in connection with which such use is likely to cause confusion or mistake or to deceive purchasers as to the source of origin of such goods or services; reproduce any such mark and apply such reproduction advertisements intended to be used upon or in connection with the sale in commerce of such goods or services, shall be liable to a civil action by the registrant for any or all of the remedies hereinafter provided.

A likelihood of confusion exists when consumers viewing the mark would probably assume that the product or service it represents is associated with the source of a different product or service identified by a similar mark.[127] As discussed above, the Pepsi Advertisement clearly distinguishes between the two brands and it is unlikely that there would be any confusion as to the origin of either product as the trade marks used in the Pepsi Advertisement are not similar, and are used in such a way so as to clearly distinguish between the two origins of the products portrayed in the Advertisement.

In terms of Section 43(a) of the Lanham Act the Pepsi Advertisement does not contain any misrepresentation as to the nature, characteristics, qualities or geographic origin of Coca Cola's goods through the use of Coca-Cola's brand nor through the use of a false

[127] *A&H Sportswear, Inc.; Mainstream Swimsuits, Inc. v Victoria's Secret Stores, Inc; Victoria's Secret Catalogue, Inc*, 237 F.3d 198 (3d Cir. 2000): US Court of Appeals quoting *Dranoff-Perlstein Assocs. V Sklar.,* 967 F.2d 852, 862 (3d Cir. 1992).

designation of origin, description of fact or representation of fact. The Pepsi Act would therefore not infringe Coca-Cola's rights in terms of Section 32 nor 43(a) of the Lanham Act.

9.2 The Federal Trade Mark Dilution Act

Both the Coca-Cola and Pepsi brands would be considered "famous" in terms of Section 2 of the FTDA. Both brands are widely recognised by the general consuming public, not only in the US, but throughout the world. The owner of a famous mark that is distinctive, is entitled to an injunction against another person who uses the famous mark in commerce in a way that is likely to cause dilution by blurring or by tarnishment of the famous mark, regardless of confusion, of competition, or of actual economic injury.

Notwithstanding the above, the FTDA provides that any fair use of a famous mark by another person other than as a designation of source for the person's own goods or services is excluded from infringement by dilution. The exclusion provided by the FTDA includes use in connection with advertising or promotion that permits consumers to compare goods or services; or identifying and parodying, criticising, or commenting upon the famous mark owner or the goods or services of the famous mark owner. The Pepsi Advertisement humours the rivalry between the two leading soft drink brands. In doing so, the Pepsi Advertisement makes use of the Coca-Cola brand for purposes of identifying and parodying the famous mark owner and its product. As a result, for purposes of the FTDA, the Pepsi Advertisement would be arguably be exempt from infringement by dilution as "fair use".

9.3 The Federal Trade Commission

For purposes of the FTC Statement, the Pepsi Advertisement meets the definition of a comparative advertisement as it is an advertisement that compares alternative brands on objectively measurable attributes or price, and identifies the alternative brand by name, illustration or other distinctive information.

The FTC's policy on comparative advertising is that comparative brand advertising encourages the naming of, or reference to, competitors in comparative brand advertisements, but requires clarification to avoid deception of the consumer with regards to the origin of the goods mentioned in the comparative brand advertisement. Therefore, in order for a claim against a comparative brand advertisement to be successful, there must be a likelihood that a reasonable consumer is likely to be misled and that the advertisement played a material role in the consumer's purchasing choice.

The FTC considers an advertisement to be deceptive if the advertisement contains a representation, practice, or omission likely to mislead reasonable consumers, and if the representation, practice, or omission is material to a consumer's purchasing choice. As discussed, the Pepsi Advertisement, overall, would be unlikely to influence the reasonable consumer into either purchasing the Pepsi product instead of the Coca-Cola product and vice-versa. The Pepsi Advertisement clearly portrays a scene of jest and no comparison based on objectively verifiable facts. It is doubtful that the Pepsi Advertisement would be considered deceptive within the provisions of the FTC. From the point of view of the "reasonable consumer", the primary message conveyed in the Pepsi Advertisement is that the Pepsi product is preferable to the Coca-Cola product. The message is conveyed by showing that even a Coca-Cola employee prefers the Pepsi product to his own employer's product. The Advertisement does not imply or express anything other than what is shown in the Advertisement. And a consumer would realise that the comparison is made in jest as the comparison is made upon a completely subjective basis, and, given the extent to which the two products are distributed in the US, the consumer would have their own opinion on the products compared. As a result, the comparison made in the Pepsi Advertisement would not be considered "material" as it is unlikely that the Advertisement would alter a consumer's decision to buy or use either product.

10 COMPARING THE LEGISLATION AND ADVERTISING CODES IN SOUTH AFRICA, THE EUROPEAN UNION AND THE UNITED STATES OF AMERICA

10.1 Legislation

Trade mark legislation in South Africa, the EU and the US operates in a relatively similar fashion: they each provide legislation that protects trade marks against primary and secondary trade mark infringement. In each jurisdiction, protection is also given to trade marks that are distinctive, both inherent and acquired, as well as trade marks that are well-known. Proprietors in each jurisdiction are granted a substantial amount of protection in so far as the protection relates to the trade marks function as a guarantee of origin.

The major distinction, or rather where the US trade mark legal regime differs from that of South Africa and the EU, is the protection of a trade mark from infringement by dilution. A provision that is present in US legislation and absent in both South Africa and the EU is the provision in the FTDA that allows for the use of a trade mark by a third party, if that use is in connection with "*advertising or promotion that permits consumers to compare goods or services*" and "*identifying and parodying, criticising, or commenting upon the famous mark owner or the goods or services of the famous mark owner*". The US exclusion specifically exempts comparative brand advertisements from infringement by dilution in an attempt to prevent consumers being deprived of valuable and accurate information about either the similarities or differences of comparable products, or the defects of certain products and of the superior quality of others. A requirement or factor to be taken into account when determining whether a comparative brand advertisement is misleading is whether the deception established as a result of the advertisement is material to the purchasing decision of the consumer.

Although not a part of South African trade mark legislation, the SCA has taken into account the effect of the unauthorised use of a trade mark on the purchasing decision of the consumer. In the *Verimark* Case, the SCA held that in terms of Section 34(1)(a), the use of the BMW trade mark in did not create the impression of a material link between the Verimark goods and BMW:

> *What is, accordingly, required is an interpretation of the mark through the eyes of the consumer as used by the alleged infringer. If the use creates an impression of a material link between the product and the owner of the mark there is infringement; otherwise there is not.*[128]
>
> *… I am satisfied that any customer would regard the presence of the logo on the picture of the BMW car as identifying the car and being part and parcel of the car. It is use of the car to illustrate Diamond Guard's properties rather than use of the trade mark. No-one, in my judgment, would perceive that there exists a material link between BMW and Diamond Guard or that the logo on the car performs any guarantee of origin function in relation to Diamond Guard.*[129]
>
> [Own underlining]

In terms of Section 34(1)(c), the SCA went on to state that the use of the BMW logo was incidental and part of the car, and as a result did not lead to the blurring or tarnishing of the BMW trade mark:

> *The high court found that although Verimark may be taking advantage of the reputation of the BMW logo, this is not done in a manner that is unfair. It mentioned that Verimark's emphasis is on the effectiveness of its own product sold under established trade marks and found that one cannot expect Verimark to advertise car polish without using any make of car and it would be contrived to expect of Verimark to avoid showing vehicles in such a way that their logos are hidden or are removed. I agree. As before, the question*

[128] *Verimark (Pty) Ltd v BMW AG* [2007] SCA 53 (RSA), para 7.
[129] *Verimark (Pty) Ltd v BMW AG* [2007] SCA 53 (RSA), para 8.

has to be answered with reference to the consumer's perception about Verimark's use of the logo. Once again, in my judgment a consumer will consider the presence of the logo as incidental and part of the car and will accept that the choice of car was fortuitous. In short, I fail to see how the use of the logo can affect the advertising value of the logo detrimentally. A mental association does not necessarily lead either to blurring or tarnishing.[130]

[Own underlining]

The SCA's decision in the *Verimark* Case was based on the use of a third party's trade mark in an incidental manner and where such incidental use of the BMW logo would ultimately not influence the purchasing decision of a consumer. The SCA's decision demonstrates that the similarity between the US and South Africa exists in that consideration is given to the effect of an advertisement on the consumer's purchasing intention, albeit in an indirect manner. Judgments providing similar outcomes to the *Verimark* and *Laugh It Off* Cases have not yet been handed down in the EU. Therefore, the protection afforded to proprietors in the EU is the same protection granted to South African proprietors before the *Verimark* and *Laugh It Off* Cases: the unauthorised use of another's trade mark is ordinarily considered as taking unfair advantage of its reputation and goodwill.

Following the *Laugh It Off* Case, the SCA highlighted the importance of protecting the selling power of a brand in *Société des Produits Nestlé S.A. v International Foodstuffs CO and others*[131] (the "Kit Kat Case"):

The section[132] *aims to protect the commercial value that attaches to the reputation of a trade mark, rather than its capacity to distinguish the goods or services of the proprietor from those of others…*

[130] *Verimark (Pty) Ltd v BMW AG* [2007] SCA 53 (RSA), para 15.
[131] (2014) ZASCA A 214.
[132] Section 34(1)(c) of the South African Act.

> *The protection of s34(1)(c) extends beyond the primary function of a trade mark which is to signify the origin of goods or services.* *<u>It strives to protect the unique identity and reputation of a registered trade mark</u>* *which sells the goods. Its object is to avoid 'blurring' and 'tarnishment' of a trade mark.*[133]
>
> *… The court must be satisfied by evidence of actual detriment, or of unfair advantage, but depending on primary facts, these may be self-evident. I agree with the submission by Nestlé that* *<u>as sales of Iffco's Break chocolate bars increase consumers will associate Nestlé's registered finger shape with the product of Iffco</u>*, *or as the shape of a chocolate bar sold by a number of proprietors in South Africa.* *<u>The loss of the unique shape of Nestlé's Kit Kat bar as a distinctive attribute will inevitably result in a loss of advertising or selling power to Nestlé</u>*. *This will clearly result in 'blurring' of Nestlé's finger wafer shape trade mark. In addition, because Nestlé and Iffco are direct competitors, increased sales of Iffco's Break Chocolate bars will be at the expense of Nestlé's Kit Kat chocolate bar. Economic harm to Nestlé is consequently self-evident from the primary facts.*[134]
>
> [Own underlining]

Notwithstanding the above, in the scope of comparative brand advertising, the *Verimark and Laugh It Off* Cases provided interesting precedents that provided for the possibility of the unauthorised use of a trade mark, if such use does not result in the confusion as to the origin of a product Sections 34(1)(a) and (b) of the South African Act) and if the use does not damage the marketability of the trade mark (Section 34(1)(c) of the South African Act). However, as demonstrated in the *Laugh It Off* Case, providing enough

[133] *Société* des Produits *Nestlé* S.A. *v International Foodstuffs CO and others* (2014) ZASCA A 214 at para 51 referring to *Laugh it Off Promotions CC v SAB International (Finance) BV t/a SABMARK International Freedom of Expression Institute as Amicus Curiae)* 2006 (1) (SA) 144 (CC) at paras 40 and 41.

[134] *Société* des *Produits Nestlé* S.A. *v International Foodstuffs CO and others* (2014) ZASCA A 214 at para 52

evidence to establish any detriment to the selling power of a brand is extremely difficulty, and almost practically impossible.

10.2 Advertising Codes

The ICC Code provides the ground work upon which self-regulatory bodies throughout the world have based their own advertising codes of conduct. Both the EU and South Africa have based their advertising codes on the ICC Code, the EU having advised that their member states follow the ICC codes both in spirit and to the letter. A difference between the EU and South Africa is that the EASA is a body that promotes self-regulation of advertising and the ARB is a body of self-regulation. The EASA advises EU member states of the EU to adopt similar or even identical provisions, whereas South Africa's ARB has its own body of provisions which are, for the most part, consistent with the ICC Codes. Ultimately, in so far as an advertisement may constitute trade mark infringement, neither the EASA nor the ARB have authority to rule as such. Such decisions are left to the authority of the courts. In summary, and as stated by the ICC in its Code, the advertising codes described above set standards of ethical conduct and do not reflect specific legal requirements which are enforced by the courts in each jurisdiction.

Unlike the ARB in South Africa and the EASA in the EU, the FTC in the US is not based on the ICC Codes. The FTC's jurisdiction diverges from the ARB and the EASA in that it has jurisdiction to review all adverts broadcast within its jurisdiction (the US). The FTC therefore has a stronger arm in the enforcement of advertisements in its jurisdiction, as the ICC reiterated, codes of conduct and legislation pursue different objectives and may not share the same scope. In both South Africa and the EU, legislation does provide requirements within which advertising must adhere to. Advertising must adhere to requirements in the CPA and Advertising Directives in South Africa and the EU respectively. In South Africa, the CPA applies to every transaction, agreement, advertisement, production, distribution, promotion, sale or supply of goods or services which include every advertisement as defined by the CPA. It further reflects the intention of the FTC to protect the consumer's economic decisions in selecting quality goods and services which aim to promote fair business practices; protect consumers from unfair, unreasonable or other improper trade practices and also to protect the consumer from deceptive, misleading or other fraudulent conduct; to improve consumer awareness and information and to encourage responsible and informed consumer choice and behaviour.

11 CONCLUSION

On the importance of advertising and maintaining trust in consumers, the ICC has stated the following:

> *Advertising and other forms of marketing communications are vital means of communicating between marketers and customers. They help to create efficient markets, both nationally and internationally, promote economic development and bring significant benefits for both consumers and companies, as well as for society in general. Not only does advertising contribute to economic advancement but it is also essential for free markets, fair competition, media and trade. Advertising is an essential means to fund media. It promotes news, entertainment and sports, builds awareness of social issues, and thus advances access to information, consumer choice and fosters economic development.*
>
> *…*
>
> *Consumer trust is paramount for the sustainability of brand reputation and effective advertising. To ensure this trust, members of the advertising and marketing community – marketers, agencies, media providers and other actors of the commercial communication ecosystem – recognise that advertising and marketing practices must be responsible. Standards of responsible conduct shall apply to all forms of marketing communications through all media and platforms, including digital.*[135]

In this dissertation, I examined the subject of comparative advertising and then further considered how comparative brand advertisements are regulated within South Africa,

[135] ICC Report: *The Benefits of Advertising Self-Regulation in Ensuring Responsible and Compliant Advertising*, at page 2.

the EU and the US, and then finally deliberated similarities and differences between the law and regulations relating to comparative brand advertising in each jurisdiction.

The Pepsi Advertisement provided a neutral ground upon which to provide a holistic view of how comparative brand advertising is regulated in South Africa, the EU and the US. The review has highlighted the different ways in which a comparative brand advertisement would probably be considered against the trade mark provisions in each jurisdiction. The considerations of the Pepsi Advertisement in each jurisdiction resulted in varied outcomes in the US compared to the EU and South Africa because the scope of trade mark protection in the US is different to the scope of protection in the EU and South Africa.

Coca-Cola remains both a valuable and powerful brand in the US and throughout the rest of the world, and, at face value, it could not be said that the Pepsi Advertisement had, or has had, any immediate and/or lasting negative effect on the Coca-Cola brand. Stating that the Pepsi Advertisement caused, or failed to cause, any economic damage to the Coca-Cola brand can therefore not truly be substantiated.

The *Laugh it Off* and *Verimark* cases opened a new dimension to trade mark litigation, possibly opening the door into the South African world of comparative brand advertisements. However, confirmation by South African courts on whether or not that door is in fact open remains to be seen. To date, no reported cases involving comparative brand advertisements have been brought before the South African courts. More than 10 years have passed following the decisions in *Laugh It* Off and *Verimark*, and therefore, it is doubtful whether South African courts will again have the opportunity to consider an advertisement like the Pepsi Advertisement.

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12.3.7 *Chanel Inc. v Smith*, 151 U.S.P.Q 685 (N.D Cal 1966).

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12.3.9 *Coronation Brick (Pty) Ltd v Strachan Construction Co (Pty) Ltd*, 1982 (4) SA 371 (D).

12.3.10 *Dranoff-Perlstein Assocs. V Sklar.,* 967 F.2d 852, 862 (3d Cir. 1992).

12.3.11 *Glaxo Group Ltd v Dowelhurst Ltd*, 2000, EWHC Ch 134.

12.3.12 *Grobbelaar v Du Toit*, 1917 433 (TPD).

12.3.13 *Interpace Corp. v Lapp, Inc.*, 721 F.2d 460, 3d Cir. 1983.

12.3.14 *John Craig (Pty) Ltd v Dupa Clothing Industries (Pty) Ltd* 1977 3 SA 144 (T) 150B.

12.3.15 *Laugh it Off Productions CC v South African Breweries International (Finance) BV t/a Sabmark International (Freedom of Expression Institute as Amicus Curiae)* 2006 (1) SA 144 (CC); (2005) 8 BCLR 743 (CC).

12.3.16 *L'Oréal Sa v Bellure NV* ECJ, 18 June 2009, C-487/07, ECR 2009, I-5185.

12.3.17 *Mishawaka Rubber & Woolen Manufacturing Co v SS Kresge Co*, 316 US 203, 1942.

12.3.18 *National Brands Ltd v Blue Lion Manufacturing (Pty) Ltd*, 2001 3 SA 563 (SCA)***.***

12.3.19 *O2 Holdings Limited and another v Hutchison 3G UK Ltd*, RPC 29.

12.3.20 *Petty v Treufit*, (1842) 49 ER 749.

12.3.21 *Scandecor Developments AB v Scandecor Marketing AB*, 2001 UKHL 21.

12.3.22 *Schultz v Butt*, 1986 (3) 667 (A).

12.3.23 *Shalom Investments (Pty) Ltd v Dan River Mills Incorporated*, 1971 1 SA 689 (A) 706D.

12.3.24 *Smith v Chanel Inc*., 402 F.2d 562 (9th Cir. 1969).

12.3.25 *Société des Produits Nestlé S.A. v International Foodstuffs CO and others*, 2014 A 214 (SCA).

12.3.26 *Spec Savers International Healthcare Ltd v Asda Stores Ltd*, (2012) FSR 19 555.

12.3.27 *Verimark (Pty) Ltd v BMW AG*, 2007 6 SA 263 (SCA).

12.3.28 *Yale Electric Corporation v Robertson*, 26 F 2d 972 (1928).

12.4 Lecture Notes

12.4.1 Chris Job, with acknowledgements to Honourable Mr Justice LTC Harms, University of Pretoria, LLM Course, Module IGZ 803: Intellectual Property Law, Branding and Advertising, Chapter 1: Introduction to Trade Marks and Branding, History and Legal Framework, page 9.

12.5 Legislation

12.5.1 Consumer Protection Act 68 of 2008.

12.5.2 Directive 2006/114, of the European Parliament and of the Council of 12 December 2006 Concerning Misleading and Comparative Advertising, art. 2(c), 2006 O.J (L 376), 21-27 (EC).

12.5.3 Directive 2008/95 of the European Parliament and of the Council of 22 October 2008 to Approximate the Laws of the Member States Relating to Trade Marks, 2008 O.J. (L 299), 25-33 (EC).

12.5.4 Directive 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States Relating to Trade Marks, O.J. (L 336), 23.12.2015.

12.5.5 Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, § 3, 109 Stat. 985 (1995) (codified at 15 U.S.C §1125(c) (2000)).

12.5.6 FTC Statement of Policy Regarding Comparative Advertising, 16 C.F.R. Section 14.15(b) (2014).

12.5.7 Trade Marks Act 194 of 1993.

12.5.8 Trademark Act of 1946, 60 Stat. 427, as amended, codified in 15 U.S.C 1051.

12.6 **Textbooks**

12.6.1 Dean and Dyer (editors), *Introduction to Intellectual Property Law* (2016).

12.6.2 Du Plessis, Job and Tanziani (editors), *Adams & Adams Practioner's Guide to Intellectual Property Law*, (2011).

12.6.3 *Neethling, Potgieter, Visser, The Law of Delict,* (6ed).

12.6.4 Webster G C and Page NS, *South African Law of Trade Marks*, 2012.

12.7 **Web Pages**

12.7.1 www.arb.org.za.

12.7.2 www.asasa.org.za.

12.7.3 www.asasa.org/codes/advertising-codes-of-practice.

12.7.4 www.blogs.sun.ac.za/iplaw/files/2012/08/Intellectual-Property-and-Comparative-Advertising.

12.7.5 www.courses.lumenlearning.com/clinton-marketing/chapter/reading-elements-of-brand.

12.7.6 www.ftc.gov.

12.7.7 www.ftc.gov/tips-advice/business-center/guidance/advertising-faqs-guide-small-business.

12.7.8 www.hoboken realestatemonitor.com.

12.7.9 www.iccwbo,org/publication/icc-advertising-and-marketing-communications-code/.

12.7.10 www.lexology.com/library.

12.7.11 www.riversidemarketingstrategies.com/.

12.7.12 www.scjohnson.com/en/a-family-company/the-johnson-family/herbert-fisk-johnson-sr/second-in-line-but-second-to-none.

12.7.13 www.socialprscoops.com/.