LIGUE INTERNATIONALE DU DROIT DE LA CONCURRENCE
INTERNATIONAL LEAGUE OF COMPETITION LAW
INTERNATIONALE LIGA FÜR WETTBEWERBSRECHT

Question B – National Report

Comparative Advertising and Intellectual Property Rights

Prof. JUDr. Petr Hajn,DrSc., Masarykova univerzita Brno

The agenda of this year's LIDC Congress in Bordeaux should include the question to what degree might various intellectual property rights restrict comparative advertising. The international rapporteur for this issue, Professor Jochen Glöckner of the Konstanz University, has sent a number of questions to the national rapporteurs; the newer decisions of the European Court of Justice on this issue, namely decisions nos. C -59/05; C – 381/05; C 356/04; C 533/06; C 487/07, are referred to in the introduction.

As the designated national rapporteur, I state these questions (written in bold and regular type) and my first comments on them (written in italics). The brevity of my opinions is, among other things due to the fact that I did not receive these questions before the second week of March. I will welcome all suggestions regarding the individual questions (opinions, references to court judgments, disagreements or clarifications) in the course of the seminar or by 5 April 2010 via e-mail at: petr.hajn@law.muni.cz; or petrhajn@volny.cz.

Issues relating to the legality of comparative advertising.

1.Legal framework for the applicable rules on comparative advertising

1.1 Does the Czech legal system provide for specific rules applicable to comparative advertising?
Yes.

1.2 If so, in which regime are these provisions placed (e.g. Unfair Competition Law, Intellectual Property Law, Consumer Law, Advertising Law, Media Law, General Private Law protecting privacy, other)?

Comparative advertising is expressly provided for in the Czech Commercial Code within its provisions against unfair competition. In some cases, violations of these provisions may also entail violations of other areas of the legal system (especially those mentioned in the question), and thus simultaneous applications of various legal provisions may be considered. For instance, unfair competitive advertising harms both the affected competitor but more often than not, it also damages the consumer. Comparative advertisements that violate the ban on misleading advertisements will also be illegal under the Act on the Regulation of Advertising. In addition, the provision of Section 19b of the Civil Code that protects the name and reputation of legal entities may be applicable, as well.

The provisions for comparative advertising contained in the Czech Commercial Code make reference to the Czech Act on Consumer Protection: Section 50a(2)(a) of the Commercial Code expressly stipulates that comparative advertisements are – provided that they meet other conditions – legal only if they are not unfair, ***or if they refrain from unfair practices under a separate regulation.*** *(This "introduces" the public law regulation of unfair business practices vis-a-vis the consumers under Act No. 634/1992 Coll., on the Protection of*

Consumers, and thus the regime of Directive 2005/29/EC concerning unfair business-to-consumer commercial practices in the internal market, into the provisions for comparative advertisement contained in the Czech Commercial Register.).

The public law provisions of Act No. 40/1995 Coll. stipulate that comparative advertisements are legal under the terms and conditions set forth by that Act and by a separate regulation, meaning the provisions for comparative advertising contained in the Czech Commercial Code.

1.3 What is the relation between the provisions on comparative advertising and the provisions on the protection of identifying signs, Trade Mark Law, in particular?

In general, these two provisions are mutually independent. The provisions of the Commercial Code on comparative advertising do not include a specific provision on their relation to the titles to identifying signs, as is the case, e.g., for the body of the crime of misleading identification of goods and services in Section 46(4) of the Commercial Code - under this provision, the provision for misleading identification of goods and services "does not affect the rights and obligations for a registered identification of the goods' origin, trade marks, protected cultivars and animal breeds, as set forth in separate laws." The relationship between the provisions for comparative advertising and the provisions that govern titles to signs must be assessed in light of the circumstances of each case.

Specific reference to the relationship of the provisions for unfair competition and trade mark provisions is made in Section 31(2) of Act No. 441/2003 Coll. on Trade Marks („Trade Mark Act"). This provision stipulates that "in proceedings initiated on a petition filed within 6 months of the effective date of a judgment stating that the use of a trade mark constitutes a banned competitive activity, the Office shall cancel this trade mark. The time for filing the petition for cancellation cannot be extended, and the failure to meet this deadline cannot be waived."

1.4 Are the provisions on comparative advertising very specific as to the requirements of legal comparative advertising?

Yes, the rules contained in the provision of Section 50a of the Commercial Code are specific to the extent of the detailed requirements now contained in Article 2(c) and Article 4 of Directive 2006/114/EC concerning misleading and comparative advertising.

1.5 Is the specific legal framework of comparative advertising enshrined in acts of positive legislation or judge made law?

Taking the legal system of the Czech Republic into account, the provisions are contained in the applicable laws mentioned above. However, in light of the nature of the issue, the legislation is supplemented by judge made law. The more general finding that unfair competition law is, to a considerable degree, judge-made in the continental legal system, applies here, as well.

1.6 Is the general approach of the rules governed by the interest of protecting competitors

(" the competitor is entitled to not have people talking about him") with exceptions for legal comparative advertising or to the contrary governed by a primacy of free commercial speech limited for illegal comparative advertising?

The express wording of the law indicates that comparative advertising is, in principle, prohibited – see the last sentence of Section 44(1) of the Commercial Code that reads: "Unfair competition is prohibited", and the subsequent illustrative list of unfair competitive actions in Section 44 of the Commercial Code, introduced with "Unfair competition under paragraph (1) includes, without limitation", followed by comparative advertising in letter (g) of the subsequent list. In addition, Section 50a(2) of the Commercial Code states that "comparative advertising is legal only if…."

The current case law does not show a clear preference of one model over the other. Instead, the rule arising from the case law of the European Court of Justice, stating on several occasions that the Directive on Comparative Advertising must be construed in a manner as favorable for this type of advertisements as possible, will rather apply.

It should also be noted that the provisions on comparative advertising does not have to aim to protect competitors only but, to a significant degree, to protect the consumer, as well (cf. especially Decision ECD C- 356/04 Lidl Belgium v. Etablissement Franz Colruyt).

1.7 Is the scope of the specific provisions on comparative advertising limited to archetypical forms of comparative advertising (as described in the introduction) or does it also cover
(a) Comparative product tests and publications by consumer associations or media?
(b) Non-informative, but rather funny or playful comparisons?
(c) Comparisons without individually recognizable competitors (esp. geographical indications, assertions of superiority)?
(d) Imitation of a product design suggesting that (a) the product has been marketed by the producer of the "original" product thus creating a risk of confusion (b) though excluding a risk of confusion for direct purchasers (e.g. by clear indications of commercial origin, distribution channel or price tag) suggesting to the general public that the product has been marketed by the producer of the original product ("post sale confusion") or (c) though without creating a risk of confusion suggesting by the approximation of design that the product is a direct replacement of the original product and fit for the same purpose?
(e) Comparisons outside a competitive relationship?

In general, answers to these questions will vary according to the circumstances of the specific case, in line with the golden rule of the unfair competition law. Nevertheless, some comments can be made on the individual questions:

Question (a)
So far, the traditional rule has applied stating that comparative tests are legal from the perspective of the unfair competition law if they aim to convey objective information to the public, and their authors charged with pursuing competitive aims. However, the existence or absence of competitive aims cannot be examined solely on the basis of the declared "objective" (intention) of the authors or disseminators of these tests, but on the basis of an

unbiased evaluation of the circumstances of the case. In any case, incorrect (professionally erroneous) comparisons, although their competitive orientation cannot be proved, can be deemed to constitute "damage through negligence" under the general private law provisions or, as the case may be, damage to reputation of legal entities (objective liability under Section 19b of the Civil Code), or infringement of personal rights of individuals (Section 11 et seq. of the Civil Code).

Question (b)
In general, the type of humor used will be the decisive factor. The Czech case law has tackled a case that can be marked as guerilla marketing or, as the case may be, "buzzy marketing". A major competitor has used a symbol from its Christmas advertisements (antlers put on the head of a chiwawa dog) and installed these antlers on the advertisements and on the operating building of its competitor, thus indicating, among other things, the honesty of its actions compared to the actions of the competitor. When the client of this advertisement was blamed of unfair competitive actions, it defended itself stating that it was a mere "holiday practical joke". The court of first instance qualified these actions as unfair competition, and the appellate court has confirmed this qualification.

Question (c)
In line with the case law of the ECJ, comparative advertising includes cases where the advertisement targets a limited circle of unnamed competitors if it is possible to identify the entities that belong to this circle (e.g. insurers that provide mandatory car insurance, mobile phone operators).

Question (d)
All the cases mentioned in this question are governed by the provision of Section 47 of the Commercial Code on the risk of confusion, or, as the case may be, by the general provision for unfair competition. This legal qualification is likely to be easier than a qualification under the provisions on comparative advertising.

Question (e) Based on the wording of the law, comparisons outside a competitive relationship may be qualified as illegal comparative advertisements, too. Under Section 41 of the Commercial Code, competitors are deemed "participants of competition", i.e. not only direct competitors. The existence of the comparative advertising is given merely by a direct or indirect identification of a competitor (see Section 50a(1) of the Commercial Code). Legality of these comparative advertisements would thus be subject to the general conditions set forth in Section 50a(2) of the Czech Commercial Code.

In the cases mirrored in the question, the qualification under Section 48 of the Czech Commercial Code ("parasitism on reputation") or, as the case may be, under Section 44(1) of the Czech Commercial Code (i.e. the general provision against unfair competition and a legal evaluation of the case as "actions contradicting competitive good morals") will mostly be more practical (easier).

Quite a long time ago, the advertising message of "Spend money on our furniture, not on cigarettes" and the like caused some protests. The case was not brought to court. However, the question is whether this advertisement could not be deemed to contribute to raising health

awareness in a potential court dispute and be deemed legal on the basis of the constitutional right to free dissemination of socially significant opinions. However, if this type of attacks on other participants of competition was permitted more generally, it would be difficult to set the boundaries for these actions, and we could see a phenomenon marked by the traditional case law as "competitive morals going wild".

Another case: an agency that mediated work trips abroad advertised the following offer to its potential customers: "Pay a little to us for legal mediation so that you do not have to pay much more to greedy lawyers." In this case, the identification of the individual lawyers would be difficult; perhaps an intervention by the Bar (as the organisation that associates the competitors) could be considered in this case. However, as a judge, I would not admit the degrading adjective "greedy"; otherwise, I would find the advertisement unobjectionable.

Metaphorical comparisons like "Pilsen – the Beer Capital"; "gut, besser, Paulaner"; "Heineken – refreshes the parts other beers cannot reach" will probably be legal and can be deemed to constitute "common overstatement in advertising".

1.8 General remarks or relevant aspects not mirrored in the questions.

I must repeat that it is difficult to make imperative and general conclusions on the individual questions. The creativity of copywriters (including "perverse creativity") takes many forms that can hardly be foreseen in the text of the law.

2. Conditions for lawful comparative advertising in relation with IP rights.

2.1 Which IP rights protecting identifying signs besides trade marks may collide with the provisions on comparative advertising in your legal system?

These are IP rights that relate to the identification of entities in legal and especially business relations; the identification of the results of their activities, including, without limitation, their goods or services; this identification may take various forms (words and other symbols, drawings, photographs, spatial shapes etc.). Therefore, the applicable provisions will include, without limitation, legal provisions on industrial designs, protection of semiconductor product topographies, protection of titles to plants cultivars, protection of denominations of origin and geographical identifications, and protection of copyrights.

The Czech competition practice has witnessed a curious case where the title of a work of literature (namely a collection of short stories) contained a comparison of two pharmaceutical products, when a regional publisher published a book with the title "Viagře již odzvonilo, teď je na řadě Cialis" ("Viagra is dead, the time has come for Cialis"). The book's publisher was undoubtedly a competitor in the sense of a participant of competition (see Section 44(1) of the Commercial Code) although not a direct competitor of pharmaceutical companies. Book titles sometimes pursue advertising aims and constitute competitive actions, although in the competition between authors and publishers. A general comparison of products by other competitors was an action that collided with the good morals of competition and that might have caused damage to one of the competitors – the

manufacturer of Viagra, as it may have, at least on the subconscious level, influenced the preferences of the consumers; the possibility of damage was given especially due to the fact that the whole matter received "secondary" publicity in the daily press. Therefore, all the aspects of the general provision against unfair competition under Section 44(1) of the Commercial Code were fulfilled. The book title identified the competitors and compared them (and the comparison was clearly incorrect and did not meet the principles for legality of comparative advertisements). The representative of Viagra's manufacturer contested the book title and achieved the withdrawal of the book from distribution out of court.

2.2 As for the rules protecting identifiers, esp. Trade Mark Law

a) Does your Trade Mark Law require for infringement that the protected trade mark be used in a particular manner, in particular as indicator of commercial origin, in other *words does trade mark protection require the use of the protected sign "as a trade mark"? If* not, are there any other specific requirements for an infringing use?

b) If the use of an identifying sign in comparative advertising is covered by Trade Mark Law or specific rules protecting firms, liability under Trade Mark Law or specific rules protecting firms may be excluded with the lack of a risk of confusion. Problems arise, however, where identical trade marks are used for identical products, which is very likely in the case of word marks. Is such use always considered an infringement or can the assumption *of a risk of confusion be rebutted, if another owner's trade mark is obviously used to identify this owner's products*?

c) If not, is there an exemption for the indicating use of the protected sign and is comparative advertising an accepted case of such indicating use? If so, is it required that the comparative advertising be legal under the requirements for comparative advertising?

d) Does legal comparative advertising provide for a justification for a trade mark infringement?

e) Does your legal system contain specific provisions governing the relationship of Trade Mark Law and the rules on comparative advertising?

f) Does your legal system contain provisions limiting legal comparative advertising to a principle of indispensability with regar*d to the use of the compared party's* IP rights?

Question (a)
In general, these provisions of the Czech trade mark law have been transposed from Directive 89/104/EEC, now replaced by Directive 2008/96/EC of the European parliament and Council to approximate the laws of the Member States relating to trade marks (codified version). In compliance with this Directive, there are provisions that prohibit substantially different entities from using signs identical or similar to trade marks ***in business relations*** *without the consent of the trade mark owner (Section 8(2) of the Trade Mark Act).*

In the context of this question, the provision of Section 8(3) is quite interesting. Under this provision, "use in business relations" for the purposes of Section 8(2) of the Trade Mark Act includes, without limitation, the placement of signs on products or their packages;
- offer of products under these signs, marketing or warehousing of these products for this purpose and/or offers or the provision of services under these signs;
- imports or exports of goods under these signs;
- use of the signs in business documents and in advertising.

The aforementioned provisions do not expressly stipulate; it states that trade marks are infringed if they are – contrary to the actual state of affairs – used as indicators of commercial origin. However, this conclusion can be drawn from the general provision of Section 1 of the Trade Mark Act that stipulates the "differentiation of the goods and services of one person from the goods as services of another person" as the purpose of the Trade Mark (and a precondition for their its registration).

Question (b) In the life of law, we often see aims pursued by various parts of the legal order collide; in this case, the aim pursued by the provisions for comparative advertising and the aim pursued by trade mark provisions may collide. If this happens, the more general decision-making procedures must be applied to these collisions – i.e. the proportionality principle and the interest weighting method. When another person's trade mark (or another protected sign of another person) is used in a comparative advertising, the use can be found legal in the specific case using the aforementioned decision-making procedures, provided that the use only or predominantly aims to simply and quickly identify the owner of the trade mark and does not cause a risk of confusion. The Czech case law will follow the case law of the European Court of Justice in this respect (see e.g. the Toshiba v. Katun decision).

Questions (c) Exemptions from the ban on the use of third party signs do exist (and are again derived from Directive 2008/95/EC) but they do not include comparative advertising (Sections 10 and 11 of the Czech Trade Mark Act).

Question (d) – see the answer to question (b). For a comparative advertisement to be able to use another person's protected sign and for this collision to be resolved in favor of the aim pursued by the comparative advertisement, the advertisement would have to meet the general statutory requirements. In particular, the advertisement could not lead to unfair benefits drawn from the good name associated with the trade mark or business name of the competitor or other special signs that have become characteristic of the competitor…(Section 50a(2)(g) of the Trade Mark Act).

Question (e) The provision of Section 50a(2)(g) of the Trade Mark Act, referred to in the previous point, can be deemed to constitute this specific provision, as it implies that the use of another person's trade mark in a comparative advertisement can be legal (if other conditions are met), unless it leads to unfair benefits from the good name associated with this trade mark and other protected signs of the competitors.

Question (f) According to information obtained from the Czech Industrial Property Office, no such provisions are currently being drafted.

2.3 (a) *In general, creative designs can enjoy protection within the realms of unfair competition law under the general provision against unfair competition (Section 44(1) of the Commercial Code) and also under Section 47(c) of the Commercial Code that provides for, among other things,* ***protection against imitations of other persons' performances if there is a risk of confusion*** *("performances" has a broader meaning than "work" under the Copyright Act.) As for special acts, Act No. 207/2000 Coll., on the Protection of Industrial Models, deserves a special mention.*

2.3 (b) Provisions for comparative advertising are also contained in the provisions against unfair competition, and these provisions must be taken into account as a whole in the specific disputed cases. When the aims pursued by the various parts of these provisions (e.g. the aim mentioned in Section 47(c) and Section 50a on comparative advertising) collide, an assessment under the general provision against unfair competition shall prevail, along with the aspect of good morals. The "interest weighting" principle will apply.
This principle will also apply when the aims pursued by special provisions on, e.g., industrial designs, and the law against unfair competition collide.

2.3 (c) see the preceding paragraph.

2.4 *The issue is governed by a special act, Act No. 452/2001 Coll. on the Protection of Designations of Origin and Geographical Designations, and on Amendment to the Consumer Protection Act.*
Protection may also be granted by the provisions against unfair competition law under Section 46 of the Commercial Code (misleading designation of goods and services). Section 46(4) then stipulates, among other things, that the rights and obligations arising from other rules and regulations that govern signs remain unaffected by this provision.
Relations to the provisions for comparative advertising are not tackled separately, and the approaches specified in paragraph 2.3(b) above are likely to be adopted.

2.4(a) As for goods with protected designation of origin, competitive advertising can only apply to goods with the same protected designation of origin.*Otherwise, the general rules on competitive advertising that arise from the applicable Community Directive (currently 2006/114/EC) and from the associated case law of the European Court of Justice will apply.*

2.4 (b) see the answer in the preceding paragraph

2.5 Experts on copyright law hold the opinion that works protected by copyrights may not be used in comparative advertising in order to identify a competitor in comparative advertisements, either. They argue that no special license to use copyrighted works for advertising purposes (and thus for the purposes of comparative advertisements) exists.
The author of these answers believes that the principle of weighting interests and the principle of proportionality of protected values might apply in this case, too.
2.5a – The general conditions of copyright protection must be met, under which literary works and other works of art (among other things) as the unique results of their authors'

creative activity expressed in any objectively perceivable form, including the electronic form, are protected permanently or temporarily ***regardless of their scope, purpose or meaning.***

2.5 (b) the provisions for comparative advertising do not address separately the relation to designs and industrial designs. However, under Section 50a (d), comparative advertisements are legal only if they do not cause the risk of confusion of the entity whose goods and services are advertised and the competitor on the market.

2.5 (c) Again, the circumstances of the specific case will be evaluated, and the principle of weighting interests and their proportionality will apply.

2. 6 The provisions against unfair competition provide for the following sanction mechanisms (stricto sensu sanctions): adequate satisfaction (may be immaterial, e.g. in the form of an apology, or in money), damages, duty to surrender unjust enrichment. Detailed conditions of these sanctions have not been stipulated.
As for industrial property rights, EU Directive 2004/48/EC on the enforcement of intellectual property rights has been transposed into the Czech legal order in particular by Act No. 221/2006 Coll. of 25 April 2006, on the enforcement of industrial property rights and on amendments to acts protecting industrial property. The Act provides for more diverse rules on the enforcement and the amount of sanctions for industrial property right infringements (applying, in particular, the "license analogy principle"). More diverse sanctions for copyright infringements are also provided for in Act No. 121/2000 Coll., the Copyright Act.

Therefore, sanctions applicable to illegal comparative advertisements and to intellectual property right infringements thus may differ. It is generally believed that sanctions for unfair competition have been too "soft" and ineffective in the Czech Republic so far.

2. 7 An Advertising Committee has been established in the Czech Republic. The Committee has its ethical code that allows it to sanction undesirable advertisements using self-regulating (ethical) measures. Codes of conduct exist in various industrial fields (e.g. pharmaceutical companies) and in advertising (direct marketing, outdoor advertisements etc.).

2.8 The questions have mirrored the fundamental aspects of the issue at hand.

2.9 (a) In any case, the rules would have to be very general and basically stipulate that items subject to copyrights, IP rights etc. may be used in comparative advertising only if the general benefit of this use exceeds the damage to the author's rights (i.e. use the interest weighting and proportionality principle). The subsequent development of case law would be decisive, anyway. The question therefore is whether the resolution should not be left up to the case law from the very beginning.

2.9 (b) So far, opinions on this issue have not taken any specific shape in the Czech Republic. It seems that the representatives of the science of law against unfair competition believe that in some cases, legal comparative advertisements should justify copyright infringements. However, experts on copyright law will, of course, have the opposing opinion.

2.9 (c) Self-regulation codes in this area would surely be effective exactly in the fields indicated in the question and, for instance, in relation to nutritional supplements, cleaning and other sanitary preparations, where direct and indirect comparisons are very frequent.

Prof. JUDr. Petr Hajn, DrSc.