

## Question A: Comparative Advertising

### Which framework for the regulation of comparative advertising?

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## I. Introduction

- A. Comparative advertising, as a special form of advertising, is a sales promotion device that compares the products or services of one undertaking with those of another, or with those of others.

Objective comparative advertising improves the quality of information available to consumers enabling them to make well-founded and more informed decisions relating to the choice between competing products/services by demonstrating the merits of various comparable products. In this way, comparative advertising can also stimulate competition between suppliers of goods and services to the consumer's advantage.

All comparative advertising is designed to highlight the advantages of the goods or services offered by the advertiser as compared to those of a competitor. In order to achieve this objective, the message of the advertisement must necessarily underline the differences between the goods or services compared by describing their main characteristics. The comparison made by the advertiser will necessarily flow from such a description. In business, the constitutional principle regarding freedom of speech is inextricably intertwined with the freedom of advertising.

However, comparisons between goods and services of different undertakings carry with them some significant risks. There is a danger that once undertakings address the merits and inadequacies of competing goods or services, they may be tempted to denigrate them or derive unfair advantages from them. Just like traditional forms of advertising, comparative advertising seeks to both assist the development of the undertaking concerned and to inform consumers. Although both forms of advertising seek to attract customers, in case of comparative advertising, commercial relationships may be exposed to the constant threat of unfair practices. It is therefore difficult to dispute the necessity for all comparative advertising to be subject to

comprehensive and straightforward legal rules, laying down strict requirements based on considerations of good faith and fair practices in commercial relationships.

Indeed, the very nature of comparative advertising affects the interests of consumers as well as the interests of competitors and, in this way, those of the general public.

B. While in the United States comparative advertising has been a well recognized and acceptable form of advertising, the majority of European countries have been hostile to such advertising for a long time. Only recently, following the adoption of *Directive 97/55/EC* of the European Parliament and of the Council of 6 October 1997 was the introduction of comparative advertising into the national legal systems of all EU member states accepted as a matter of principle, but only subject to very strict conditions as to the circumstances in which it is permitted. To this end, *Directive 97/55/EC* amended *Directive 84/450/EEC* concerning misleading advertising so as to include comparative advertising (hereinafter: the "*Directive*") on the basis of the consideration that the acceptance or non-acceptance of comparative advertising, in the various national laws, may constitute an obstacle to the free movement of goods and services and create distortions of competition; therefore, the freedom to provide comparative advertising should be assured.

The ECJ has interpreted the meaning of certain provisions of the Directive in two cases: (i) Case C-112/99, *Toshiba Europe GmbH v. Katun Germany GmbH*, 25 October 2001; and (ii) Case C-44/01, *Pippig Augenoptik GmbH & Co. KG v. Hartlauer Handelsgesellschaft mbH*, 8 April 2003.

On June 18, 2003, the EU Commission presented a *Proposal for a Directive concerning unfair business-to-consumer commercial practices in the Internal Market and amending directives 84/450/EEC, 97/7/EC and 98/27/EC* (the Unfair Commercial Practices Directive) (COM (2003) 356 final, 2003/0134 (COD) (hereinafter: the "*Proposed Directive*"). Recital (5) of this Proposed Directive indicates that it approximates the laws of the Member States on unfair commercial practices (including unfair advertising) **which harm consumers' economic interests**. In line with this, the Proposed Directive sets forth that it neither covers nor affects the national laws on unfair commercial practices which harm only competitors' economic interests or which relate to a transaction between traders. Further, it does not address the provisions of *Directive 84/450/EEC* on advertising (including comparative advertising) which is misleading to businesses, but not misleading for consumers.

LIDC has already set up a special committee for reviewing and commenting upon the draft and the new structure for regulating misleading and certain other unfair trade practices under EU law (Head of the Committee: Dr. Reiner Munker).

It shall be noted that the present survey is not limited to the assessment of the Community law; therefore national reports are also highly welcomed and expected from countries which are neither EU member states nor accession countries.

- C. LIDC has already dealt with the issue of comparative advertising: in 1980, LIDC adopted a resolution on comparative advertising, and in 1994, at the Congress of Berlin, LIDC adopted the resolution on the harmonization of the laws relating to unfair competition including the principles to be taken into account in the course of using a third party's trademark in comparative advertising.
- D. The harmonization of advertising standards is important because companies make large expenditures for their advertising, and, in particular, multinational companies may desire to use identical advertisements (except with respect to the language) in all the countries where they do business. Comparative advertising, when truthful and non-deceptive, is a source of important information to consumers and may assist them in making rational purchase decisions. Thus, comparative advertising may encourage product improvement and innovation, and can lead to lower prices in the marketplace.

Therefore, carrying out a detailed survey regarding the national laws relating to comparative advertising and adopting a resolution relating to harmonization requirements is both justified and timely.

A further reason for carrying out such survey is that the previous surveys in this field were carried out before the adoption of the Directive or shortly after its adoption. As the result of such research, the WIPO issued its comparative law publication entitled - *Protection Against Unfair Competition* (Geneva 1994). Within the framework of LIDC's work, the study of Michael Golding and David Latham shall be referred to (Revue 1./1997). In 1998, at the Congress in Rio, the AIPPI dealt with the question of comparative advertising, and in particular, with the issue of impairment of goodwill or disparagement resulting from same (Question 140).

It is time to analyze the experiences which have emerged in recent years under the new rules and the new interpretation of the requirements for comparative advertisements. The proposed amendment of the Directive may provide an opportunity for proposals to fine-tune the present rules. With respect to the goal of further harmonization on a worldwide level, it should be stated that the *WIPO Model Provisions on Protection Against Unfair Competition* (1996) does not deal with the issue of comparative advertising, although its inclusion would have been appropriate.

It is in this context that LIDC decided to place the Question of comparative advertising onto the agenda for the Budapest Congress of 2004.

## **II. Issues relating to the legality of comparative advertising**

All Groups are invited to answer the following questions under their national laws, with reference to the relevant court practice relating to comparative advertising.

Although the preliminary remarks below are mostly based on current EU law, in view of the fact that, as of May 1, 2004, it will be the harmonized legal basis for the law of 25 member states, and that the EU law can be considered as a synthesis of European national laws, the review of the applicable law of non-EU countries is also essential and indispensable in order to assess the problems of further harmonization on a worldwide level. With respect to EU Member States and accession countries, please also indicate any specific differences from the Community law. Questions are printed in *italics*.

### **1. Legal framework for the applicable rules on comparative advertising**

#### **Questions:**

- 1.1 *Please indicate whether the rules on comparative advertising are based on statutory law or on case-law? Are there specific provisions applicable to comparative advertising in addition to the general rules of unfair competition?*
- 1.2 *Which area of law (i.e., unfair competition law, consumer protection law, advertising law) do such rules belong to? What are the aims of the system: on which principles do the rules or practice lie (what are the interests to be protected)?*
- 1.3 *In addition to the applicable statutory law and/or case law, are there professional codes, or industry self regulation rules relating to comparative advertising? What is the relevance of such rules, and to which market participants are they binding?*

### **2. Definition of comparative advertising**

Pursuant to Article 2a. of the Directive, “comparative advertising” means any advertising which explicitly or by implication identifies a competitor, or goods or services offered by a competitor. Recital (6) of the Directive sets forth that it is desirable to provide a broad concept of comparative advertising in order to cover all modes of comparative advertising. To this end, the ECJ held that in order for there to be comparative advertising within the meaning of Article 2a. of Directive 84/450, it is sufficient for a representation to be made in any form which refers, even by implication, to a competitor or to the goods or services which he offers. Therefore, if the competing products are merely referred to within the advertising, it in itself constitutes an instance of comparative advertising and it is irrelevant whether an actual comparison is made between the goods and services offered by the advertiser and those of a competitor. (see C-112/99, *Toshiba*, para 31.)

There are several different ways to identify the competitor in the comparative advertisement or, even if the competitor's name is not mentioned, its product. Such reference can be made directly or indirectly, by implication or insinuation.

Further, certain advertisements claim the superiority or uniqueness of the product (like "*the best*" and use of other superlatives) which involves - without indicating any specific competitor - *per se* a comparison with all other products of the same nature available on the market (abstract comparative advertising).

### Questions:

- 2.1 *What is the definition of comparative advertising in the national law?*
- 2.2 *What are the criteria for identifying the competitor or its product?*
- 2.3 *Is there any differentiation with respect to direct and indirect comparison?*
- 2.4 Do advertisements claiming superiority or uniqueness of the product (like "the best") fall under the scope of comparative advertising, or are such advertisements subject to general rules (i.e., the prohibition of misleading advertising)?

### **3. Admissibility of comparative advertising in general**

Please indicate as to whether comparative advertising is either (i) totally prohibited, (ii) generally permitted, or (iii) permitted under certain circumstances in the national law?

### **4. Conditions for lawful comparative advertising**

Comparative advertising is not expressly mentioned in Article 10*bis* of the Paris Convention. However, it seems to be clear that comparative advertising should comply with restrictions applicable to all advertisements: that is, it shall not cause confusion, mislead, or discredit a competitor. Due to the special nature of comparative advertising, however, certain additional requirements should be applied to this type of advertising.

Pursuant to Article 3(a)(1) of the Directive, comparative advertising shall, as far as the comparison is concerned, be permitted when the following conditions are met:

- (a) it is not misleading according to Articles 2 (2), 3 and 7 (1);
- (b) it compares goods or services meeting the same needs or intended for the same purpose;
- (c) it objectively compares one or more material, relevant, verifiable and representative features of those goods and services, which may include price;

- (d) it does not create confusion in the market place between the advertiser and a competitor or between the advertiser's trade marks, trade names, other distinguishing marks, goods or services and those of a competitor;
- (e) it does not discredit or denigrate the trade marks, trade names, other distinguishing marks, goods, services, activities, or circumstances of a competitor;
- (f) for products with a designation of origin, it relates in each case to products with the same designation;
- (g) it does not take unfair advantage of the reputation of a trade mark, trade name or other distinguishing marks of a competitor or of the designation of origin of competing products;
- (h) it does not present goods or services as imitations or replicas of goods or services bearing a protected trade mark or trade name.

Recital (11) of the Directive provides that the above listed conditions for comparative advertising should be cumulative and should be respected in their entirety. Further, the ECJ held that the Directive carried out an exhaustive harmonization of the conditions under which comparative advertising in Member States might be lawful. Such a harmonization implies by its nature that the lawfulness of comparative advertising throughout the Community is to be assessed solely by the criteria laid down by the Community legislation. Therefore, stricter national provisions on the protection against misleading advertising cannot be applied to comparative advertising with regard to the form and content of the comparison (Case C-44/01, *Pippig*, para 44).

It shall be noted that pursuant to Article 14 (4) of the Proposed Directive, Article 3a of the Directive shall be replaced by a partially new list of conditions which each instance of comparative advertisement shall comply with. The Commission's rationale for the new proposal states that, for the sake of clarity and simplicity, the Proposed Directive incorporates the misleading advertising directive's B2C provisions (i.e., provisions dealing with advertising reaching or directed at consumers) and limits the scope of the existing Directive to business-to-business advertising (i.e., provisions dealing with advertising reaching or directed at businesses) and comparative advertising which may *harm a competitor* (by denigration, for example) but where there is no consumer detriment (page 8). Thus, as a result of the amendment, subsections (a) and (d) will be deleted from the Directive.

The aim of the questions below, relating to both the B2B and B2C aspects of comparative advertising, is **(i)** to analyze how the courts in the EU Member States interpret the criteria set forth in the Directive relating to comparative advertising, and **(ii)** to explore same and/or different requirements for comparative advertisements to be permitted in other jurisdictions. (Please note that, although included within the above requirements, the criteria relating to the use of a third party's trademark and to the issue of the same designation of origin will be examined under separate questions.)

Questions:

- 4.1 Do you agree that specific conditions should be set forth for comparative advertisement in addition to the general rules of unfair competition?
- 4.2 *What are the conditions, in general, set forth in the statutory law or, in lack of statutory law, in the case-law which the comparative advertisement shall comply with (i.e., it shall not be misleading, it must be objective, must compare relevant, essential and verifiable features, it must not denigrate the competitor, etc.) In case of EU and accession countries, please indicate if there is any difference from the Directive.*

In particular:

- 4.3 *What are the criteria for objective comparison? Is it allowed to make comparison on the basis of subjective factors?*
- 4.4 *How is the criteria for the same need/same purpose of goods interpreted in the court practice?*
- 4.5 Under which circumstances is an advertising considered as misleading under the national law? Do the same rules apply to comparative advertisements as well?
- 4.6 Do you agree with the concept of the Proposed Directive that the misleading nature of the comparative advertisement shall be assessed in a different way depending on whether it harms the consumers or competitors? Do you see any potential pitfall in introducing the new rules of the Proposed Directive relating to the assessment of a comparative advertising, in particular, with respect to its misleading nature?
- 4.7 *Under which circumstances can it be established that the comparative advertising creates confusion in the market with the competitor and/or its product?*
- 4.8 *Under which circumstances can it be established that the comparative advertising discredits or denigrates the competitor, its trade name or its product? Can even the presentation of real facts in the comparative advertising amount to discreditation or denigration?*
- 4.9 Is it permitted to compare, exclusively, the prices of the competing products/services? Is it required to also indicate other characteristics of the products/services subject to the comparison? Even if comparing prices cannot in itself discredite or denigrate a competitor who charges higher prices, under which circumstances might such price comparison render the comparison still unpermissible? Is it allowed to compare list prices to discounted prices?

- 4.9 *Are there any further criteria set forth in the national law or professional codes / industry self regulation rules relating to comparative advertising?*
- 4.10 *Would you propose any additional criteria which comparative advertisement, in general, should comply with?*

## **5. Use of competitor's trademarks or trade names**

In order to make comparative advertising effective, it is necessary to identify the goods or services of a competitor, making reference to a trade mark or trade name of which the latter is the proprietor. Thus, in order to prevent trade mark infringement, such identification should be permitted only if there is an exception to the proprietor's exclusive right for use.

In 1994, at the Congress of Berlin, LIDC adopted a resolution on the harmonization of the law relating to unfair competition and declared that, with respect to comparative advertising, a reference to another's mark or name should be permitted only to the extent that such reference does not take unfair advantage of, and is not detrimental, to the distinctive character or reputation of the mark or name.

Recital (15) of the Directive provides that the use of another's trade mark, trade name or other distinguishing marks does not breach the proprietor's exclusive right in cases where it complies with the conditions laid down by the Directive, the intended objective being solely to distinguish between the goods/services and, thus, to highlight their differences objectively. Thus, the Directive permits the use of a competitor's registered mark to this limited extent.

However, nothing is said about the competitor's or third party's design right or copyright. The reproduction of third parties' work under copyright protection, if it does not fall within the scope of free-use (fair dealing), constitutes *per se* copyright infringement. The same consideration applies to design as well. Further, a situation may also occur that the competitor - who is referred to in the comparative advertisement - has obtained a license from the copyright owner limited to the use within its business activity only, and the use of the work under copyright protection by the competitor in the comparative advertising might fall beyond this scope.

In view of the notable omission of regulations or comments regarding copyright and other intellectual property rights in the Directive, it seemed to be unclear as to whether the advertiser is free to refer to his competitor's trade marks in his advertisement, but not to any logo, product shape or package in which copyright or design right may subsist. However, in Case C-44/01, *Pippig*, the ECJ held that Article 3a(1)(e) of *Directive 84/450*, does not prevent comparative advertising, in addition to citing the competitor's name, from reproducing its logo and a picture of its shop front, if that advertising complies with the conditions for lawfulness laid down by Community law.

It shall be noted that the AIPPI's resolution found that when a competitor's logo or device is used in a comparative advertising, and there is no apparent need for such use, there is a greater risk of taking unfair advantage than when reference is made only to a competitor's

word mark. Therefore, while using a competitor's device mark or logo need not be prohibited *per se*, stricter scrutiny should be applied to ensure that such use is necessary for the purpose and that such use does not take unfair advantage of the competitor's goodwill.

Questions:

- 5.1 Is it permitted in the national law to use a third party's trademark – without the trademark holder's express consent - in comparative advertising? If yes, in which way is the reference to the competitors trademark allowed under the national law?
- 5.2 *In which cases can the trademark holder object to the use of its trademark in the comparative advertising? Are there special rules applicable to well-known trademarks or trademarks with a high reputation?*
- 5.3 *What are the criteria for establishing that the comparative advertisement does not take unfair advantage of the reputation of a trade mark, trade name or other distinguishing marks of a competitor?*
- 5.4 *Is it desirable to limit the reference to the competitor by using only the word format of its trademark?*
- 5.5 Do you consider it necessary to establish express rules relating to the requirements for the use of a third party's other intellectual property rights (i.e., design, copyright) in the comparative advertising? If yes, under which circumstance should the use of third party's other intellectual property rights (i.e., design, copyright) be permitted in the comparative advertising?

**6. Designation of origin**

The Directive provides that for products with a designation of origin, the comparative advertisement shall relate in each case to products with the same designation and it shall not take unfair advantage of the reputation of the designation of origin of the competing products.

Questions:

- 6.1 *If your jurisdiction is outside the EU, please indicate whether the applicable rules contain a similar restriction on comparative advertising of goods with designation of origin.*
- 6.2 *Please indicate as to whether you consider it justified to limit the possibility of comparison to goods with the same designation of origin.*
- 6.3 What are the criteria to assess that the comparative advertising does not take unfair advantage of the reputation of the designation of origin of competing products?

## **7. Special rules applicable to comparative advertising relating to certain goods or services**

With respect to certain goods or services there might be certain restrictions or bans on advertising due to the specific nature of the goods or services (i.e., pharmaceuticals, professions).

Further, Article 7(5) of the Directive provides that nothing in this Directive shall prevent Member States from, in compliance with the provisions of the Treaty[1], maintaining or introducing bans or limitations on the use of comparisons in the advertising of professional services, whether imposed directly or by a body or organization responsible, under the law of the Member States, for regulating the exercise of a professional activity.

### Questions:

*7.1 Please indicate as to whether in the national law or in self-regulatory code of conducts there are special rules applicable to comparative advertising in certain fields of industry/business (i.e., pharmaceuticals, professional services) in addition to the general rules on advertising restrictions? If yes, please specify these rules in details.*

*7.2 Do you consider that it is justified to have such special rules?*

*7.3 Do you propose to have special rules relating to other businesses?*

## **8. Burden of proof**

There are positive requirements (i.e., the objective comparison of material, relevant and verifiable features of the goods) and negative requirements (i.e., not to be misleading, not causing confusion) which comparative advertising should comply with.

Article 6 (a) of the Directive sets forth that the advertiser shall furnish evidence as to the accuracy of factual claims in advertising if, taking into account the legitimate interest of the advertiser and any other party to the proceedings, such a requirement appears appropriate on the basis of the circumstances of the particular case and, in the case of comparative advertising to require the advertiser to furnish such evidence in a short period of time. Pursuant to the Proposed Directive, the words “furnish evidence as to the accuracy of factual claims” shall be replaced by the words “substantiate factual claims”.

### Questions:

*8.1 Please indicate the rules on burden of proof in the course of assessing the lawfulness of the comparative advertising.*

8.2 *Are there special rules applicable for comparative advertising in addition to the general rules on burden of proof?*

8.3 *What kind of evidence (i.e., test results, expert opinion) shall the advertiser provide with regard to the accuracy of factual claims of the advertisement?*

8.4 *Is there any timeframe for the advertiser to provide evidence?*

## **9. Comparisons made by third parties**

In view of its importance, the present survey covers not only comparisons made by competitors, but also those comparison tests prepared by third parties (who are not competitors).

In many countries, product testing is done by consumer organizations and/or private or public institutions like the press, television and other media. It shall be examined as to (i) whether these organizations are liable under unfair competition law, and (ii) whether the results of their testing may be used in advertising.

### Questions:

9.1 *Is it permitted to carry out test comparisons, and if yes, under which legal requirements? Is there any restriction, in general, on publishing any test results?*

9.2 *Is the use of any test result in comparative advertising permitted? If yes, under which circumstances? Is it required to obtain the consent of the person/organization who carried out the test?*

9.3 *Can the organization preparing the test be held liable for its result even if it is not a competitor? If yes, under which rules (i.e., unfair competition law, general tort law.)?*

## **10. Cross-border advertising**

Pursuant to Article 2 of Directive 97/55, the Commission shall study the feasibility of establishing effective means to deal with cross-border complaints in respect of comparative advertising; within two years after the entry into force of this Directive the Commission shall submit a report to the European Parliament and the Council on the results of the studies, accompanied, if appropriate, by proposals.

Under the present survey, cross-border complaint, in general, means complaint by an individual or organization based in one country about an advertisement circulating in that country, but displayed on media based in another.

Pursuant to the Report from the Commission on consumer complaints in respect of distance selling and comparative advertising (COM(2000) 127, 10.03.2000), neither the national authorities nor European Advertising Standards Alliance (EASA) have reported any cross-border complaints on comparative advertising. However, as of the finalization of the report in 2000, it was difficult to analyze issues arising from comparative advertising as *Directive 97/55* was not implemented throughout the European Union.

10.1 *Do you have any statistical data relating to cross-border complaints on comparative advertising?*

10.2 *If yes, what was the subject of the legal dispute?*

10.3 *In case of a cross-border complaint, who is entitled to initiate any procedure, and before which forum?*

10.4 *In case of cross-border cases, what kind of conflict of law rules apply?*

## **11. Enforcement of complaints against unpermitted comparative advertising**

The issue of enforcement of claims arising from unfair competition law was on the agenda of the Barcelona Congress (International Rapporteur: Ms. Frauke Henning-Bodewig). With respect to such thorough examination of the enforcement procedure, the present survey is limited to the special issues relating to comparative advertisement.

Pursuant to Article 4 (2) of the Directive, Member States shall confer upon the courts, or administrative authorities powers enabling them, in cases where they deem such measures to be necessary, taking into account all the interests involved and in particular the public interest:

- to order the cessation of, or to institute appropriate legal proceedings for an order for the cessation of, misleading advertising or unpermitted comparative advertising, or
- if the misleading advertising or unpermitted comparative advertising has not yet been published but publication is imminent, to order the prohibition of, or to institute appropriate legal proceedings for an order for the prohibition of such publication,

even without proof of actual loss or damage or of intention or negligence on the part of the advertiser.

### Questions:

11.1 *Who is entitled to start proceedings in the case of unpermitted comparative advertisement?*

11.2 *What are the sanctions against using unpermitted comparative advertising?*

11.3 *What are the requirements for obtaining an interim measure?*

11.4 *Is it possible to prevent the publication of an unpermitted comparative advertising?*

11.5 *Do you have any statistical data relating to complaints (i) from consumers and (ii) from competitors on comparative advertising?*

## **12. Suggestions of improvements to the system, harmonization**

As well as stating the laws of their respective countries on the above-listed questions, Groups are invited to make any proposals for improvements to the system and the harmonization of national laws which they consider desirable and to offer any further comments or observations of interest on point.

### **Note:**

It will be both helpful and much appreciated if the Groups follow the above order of the questions in their Reports and cite the questions (indicated by italics in the questionnaire) and numbers for each answer.

Please kindly make sure that your Reports are sent before April 15, 2004.

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[1] It shall be noted that with respect to the requirement of "*in compliance with the provisions of the Treaty*", in Case T-144/99, *Institute of Professional Representatives before the European Patent Office v Commission of the European Communities*, the Court of First Instance of the European Communities held that the provisions of the code of conduct by prohibiting advertising comparing professional representatives, constitute restrictions of competition for the purposes of Article 81 EC, thus, Article 7 (5) of the Directive does not exempt in itself such rules from the provisions of the Treaty.