Does the trade mark concept of unfair advantage guard against justifiably harmful free riding or do brands free ride on the protection of the law to avoid legitimate competition?
I. Introduction

This paper will attempt to examine the role and scope of a particular strand of trade mark law, that of ‘unfair advantage’ placed within the broader law of EU trade mark ‘dilution’.

The paper will consider whether the protections currently offered by trade mark law in this area are justified with reference to theories including natural rights as well as to economic theories relevant to the area.

It will be argued that as it stands now, especially following the decision of the ECJ in L’Oréal v Bellure, the balance of trade mark law has tipped too far in favour of trade mark owners or in non-trade mark language – brand owners. Having established that recent expansion of protection is undesirable and unjustified, it will be argued that it is necessary to find some limiting factors to hold back the expansion of trade mark law.

Finally, some potential ways forward will be offered and critiqued. The view will also be advanced that a recognition of the importance of some of these limiting factors can be found in at least two recent decisions.

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1 The author is grateful for thought-provoking exchanges with Dr Dev Gangjee of the LSE, Mr Dimitris Botis of OHIM and Susie Middlemiss of Slaughter and May. All errors remain the author’s own.

II. Brief outline of trade mark ‘dilution’ and unfair advantage

This section begins with a discussion of the main legislation and case law that shapes the area in brief outline in order that it can be critiqued and assessed.

a. The EU legislative framework on trade marks generally

In the European Union the legislation primarily dealing with protection of trade marks is the Trade Marks Directive\(^3\) and the Community Trade Mark Regulation\(^4\). It will suffice for the purposes of this paper to state that the TMD is the Directive that is implemented across the EU, harmonising the provisions of national trade mark law within the 27 Member States. By way of contrast, the CTMR is the Regulation which provides, *inter alia*, for a system of EU-wide trade mark; known as the ‘Community Trade Mark’.

The provisions dealing with substantive trade mark law are functionally equivalent and do not differ materially for the purposes of this analysis. In addition there exists within the two pieces of EU legislation two different sets of substantive provisions relating to trade mark ‘dilution’. One relates to what is referred to as the relative grounds for opposition to an application for registration and the other relates to grounds to challenge unauthorised use of a registered mark through a claim of trade mark infringement.\(^5\) In the language of the EU these provisions refer to marks ‘with a reputation’. An example of the provisions is e.g. Article 8(5) CTMR which allows a proprietor of a mark with reputation to oppose registration of a trade mark ‘…where the use without due cause of the trade mark applied for would take unfair advantage of, or be detrimental to, the distinctive character or the repute of the earlier trade mark.’\(^6\)

In general these provisions have been seen to cover three types of grounds for opposition, or in their infringement guise three bases for attacking an otherwise valid trade mark. The three types of opposition/infringement are commonly taken to be: a) taking unfair advantage of the distinctive character or the repute of an earlier trade mark, b) detriment to distinctive character (‘blurring’) and c) detriment to the repute of an earlier trade mark.

\(^5\) Putting minor differences aside.
\(^6\) Article 8(5) of the CTMR.
(`tarnishment`). In the *Davidoff* case the ECJ decided that the provisions should also apply to use not only on dissimilar goods and services but also on similar goods and services. Further it should be noted, as Davis has done, that:

> [As] a trade mark with a reputation will be infringed by use of an identical or similar mark on dissimilar goods, [this] suggest[s] that, despite the requirements of the Registry to identify the goods and services against which a mark is registered, the law has recognized the `transferability` of trade marks as brands.\(^8\)

The ECJ has also defined what is to be considered as a mark with a reputation quite broadly allowing marks with even a niche reputation to qualify for the enhanced protection.\(^9\) The relevant decision is that of the ECJ in *General Motors v. Yplon*\(^10\) where the ECJ answered that a mark has a reputation where it is `known by a significant part of the public concerned by the products or services which it covers.`\(^11\) In addition the court held that the relevant public is `either the public at large or a more specialised public, for example traders in a specific sector.`\(^12\)

**b. Intel – proving detriment to distinctive character**

In *Intel v. CPM UK Ltd*\(^13\) the ECJ dealt with an a reference from the UK Court of Appeal around an objection by Intel who owned the trade mark INTEL to the registration by CPM of the trade mark INTELMARK. The ECJ decided that in order that there be any risk of dilution by blurring as between two marks there needed to be a the relevant public would need to make a link between them – to be assessed globally. Most relevantly here *Intel* also required the claimant to provide in the context of blurring, `evidence of a change in the economic behaviour` of the average consumer of the goods or services for which the earlier mark was registered consequent on the use of the later mark, or a serious likelihood that such a change will occur in the future.\(^14\)

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\(^7\) *Davidoff & Cie SA v. Gofkid Ltd.* (C-292/00) [2003] ECR 1-389 (hereafter *Davidoff*). See also *Adidas-Saloman v. Fitnessworld Trading Ltd* (C-408/01) [2003] ECR 1-12537 (hereafter *Adidas*).

\(^8\) Davis, ‘Between A Sign And Brand: Mapping The Boundaries Of A Registered Trade Mark In European Union Trade Mark Law’ in Bently, Davis and Ginsburg (eds.), *Trade Marks and Brands: An Interdisciplinary Critique*, Cambridge, 2008 at 90.

\(^9\) This acceptance of niche reputation is to be contrasted with the position under US law which does not accept niche reputation for famous marks. See Simon, ‘The Fame Standard For Dilution In The United States And European Union Compared’, (2008) 17 *Transnational & Contemporary Problems* 631-666.

\(^10\) *General Motors Corporation v. Yplon SA* (C-375/97) [1999] ECR 1-5421 (hereafter *General Motors*).

\(^11\) *General Motors* at [31].

\(^12\) *General Motors* at [24].

\(^13\) *Intel Corporation Inc v. CPM UK Ltd* (C-252/07) [2009] ETMR 13 (hereafter *Intel ECJ*).

\(^14\) *Intel ECJ* at [77].
This requirement is a tough hurdle to surmount. The ECJ also emphasised the irrelevance of commercial benefit.\textsuperscript{15} Further it was enough that there be a ‘serious risk’ of dilutive injury.\textsuperscript{16} Middlemiss and Warner have explained that a change to economic behaviour in the context of blurring might mean a ‘reduced willingness to buy the trade mark owner’s goods’\textsuperscript{17} and therefore if applied in the unfair advantage context, the test might require proof of an ‘increased willingness’ to buy the allegedly infringing producer’s goods.\textsuperscript{18} The question arose as to whether \textit{Intel}’s evidential standard was relevant only to blurring.

c. \textit{L’Oréal} – defining unfair advantage

In \textit{L’Oréal}\textsuperscript{19} the European Court was presented with claims of trade mark infringement by the claimant perfume manufacturers through the defendants’ use of lookalike packaging and the production of comparison lists for retailers which attempted to show that the smell of the ranges of \textit{L’Oréal} and the ranges of the defendants were comparable.\textsuperscript{20} It is, though, important to bear in mind that the smell of the perfume itself was unprotected. \textit{L’Oréal} alleged trade mark double identity infringement under, Article 5(1)(a) TMD, in relation to the comparison lists and the taking of unfair advantage, under Article 5(2) TMD, of its marks through the use of similar marks and similar packaging.

\textbf{Infringement under Article 5(1)(a) TMD – double identity}

One of the most surprising aspects of the decision here is that the ECJ stated categorically that liability under the double identity provision could be found \textit{not only} where there was an effect on the essential function of the trade mark in guaranteeing source or origin but \textit{also} when there was an effect on any of the other functions of a trade mark ‘in particular that of guaranteeing the quality of the goods or services in question and those [functions] of communication, investment or advertising.’\textsuperscript{21} In doing so the court expressly confirmed the existence of these other functions. More importantly, this means that where the same mark had been used on the same goods but no confusion as to source or origin had been engendered, trade mark infringement can still be found.

\textsuperscript{15} \textit{Intel} ECJ at [78].
\textsuperscript{16} \textit{Intel} ECJ at [38].
\textsuperscript{18} \textit{Id.}
\textsuperscript{19} \textit{L’Oréal SA v Bellure NV} [2007] EWCA Civ 968 (hereafter \textit{L’Oréal} CoA I).
\textsuperscript{20} A challenge based on the tort of passing off was rejected by the Court of Appeal. See \textit{L’Oréal} CoA I at [134].
\textsuperscript{21} \textit{L’Oréal} ECJ at [58].
Infringement under Article 5(2) TMD – unfair advantage

At the Court of Appeal Jacob LJ had struggled to see the application of Article 5(2) in the instance case and had indicated a preference for some kind of requirement of harm to the mark or its reputation.\(^{22}\) The challenge for the ECJ was to identify what the unfair advantage provision should cover if it is not to respond to the clear harm that Jacob LJ was unable to locate in the case. The ECJ was therefore asked by the Court of Appeal, in its fifth question, to define the scope of unfair advantage where no there was no effect on essential function, no blurring, no lost sales, but where the trader received a commercial advantage.\(^{23}\) The opinion of Advocate General Mengozzi focused on the benefit to the defendant ‘rather than on harm.’\(^{24}\) The European Court, for its own part, responded to the fifth question as follows:

The advantage arising from the use … is an advantage taken unfairly by that third party of the distinctive character or the repute of the mark where that party seeks by that use to ride on the coat-tails of the mark with a reputation in order to benefit from the power of attraction, the reputation and the prestige of that mark and to exploit, without paying any financial compensation, the marketing effort expended by the proprietor…\(^{25}\) (emphasis added)

In essence the ECJ have given trade mark protection to, and on the basis of, this marketing effort expended by the proprietor of the mark with a reputation. In doing so the court has given protection to the reputation of a brand as a thing in itself. The assessment of that unfair advantage is to be done by way of the global assessment mentioned in Adidas and Intel and, thus, there seems to be no place in unfair advantage for any examination of any change in economic behaviour as Intel had required for blurring.\(^{26}\)

Gangjee and Burrell were quick to point out the wide potential of the free riding issue in the case as the ECJ had stated that ‘the free riding prohibition remained an option, not just for the look-alike packaging, but even for comparison lists.’\(^{27}\) (emphasis in original) This indeed is a surprising turn by the court as it was by no means obvious that the comparison lists should be examined in this way.\(^{28}\)

\(^{22}\) L’Oréal CoA I at [93].
\(^{23}\) L’Oréal ECJ at [30].
\(^{24}\) L’Oréal SA v. Bellure NV (C-487/07) Opinion of Advocate General Mengozzi, (delivered on 10 February 2009) (hereafter L’Oréal AG ) at [96].
\(^{25}\) L’Oréal ECJ at [50]
\(^{26}\) L’Oréal ECJ at [44].
\(^{27}\) Gangjee and Burrell, note 2 at 286.
\(^{28}\) Allowing the plaintiff two bites at an ever-sweetening cherry.
As an aside, one of the notable things about the fifth question is that the way the question was worded appeared to accept that there was some kind of commercial advantage to Bellure. In retrospect, it might be wondered whether the definition of the provision given by the ECJ might have been different if advantage was not already accepted by the referring court.29

29 The author is grateful to Mr Dimitris Botis for drawing attention to this point.
III. Justifying the protection from unfair advantage

One of the reasons law as a system exists is to offer a remedy where harm has taken place. Given that the prohibition on the taking of unfair advantage is currently not based on any direct protection of harm caused to the well known mark, or even to consumers, it is clear that we need to search for an alternative basis which justifies this protection. Ohly echoes our concern, in the section that follows, for the importance of the influence of the competition in the market. ‘If […] imitation is a necessary and welcome process in a market economy, the argumentative threshold for justifying intellectual property rights is significantly high’. It is only if we can overcome this high ‘argumentative threshold’ that protection for trade marks cast in this free riding mould can be accepted. We turn first to moral justifications, then to economics and finally to a justification based on expressive autonomy.

a. Do theories of morality provide justifications?

It might be thought, at least at a casual glance, that trade mark law would have very little moral content. However it is the case that arguments have been put forward to justify increased intellectual property protection in moral terms for decades. In L’Oréal, it seems that the ECJ seems were heavily influenced by moral concerns so this section thus explores whether this moral intuition stands up to scrutiny.

Desert theory

Academics have sought to use the writings of Becker to justify the ‘grant[ing] of a proprietary right to the creator of intellectual property on the basis that the ‘effort’ in creating the thing ‘deserves’ to be recognised and rewarded such that the creator can prevent imitation of his work.’ This finds echo in the Biblical verse: ‘For the labourer is worthy of his hire’ This seems on its face to be unproblematic but there are many problems with the application of this apparently simple principle. Isaac points out that there is a problem of proportionality in that something which requires a little effort to create acquires a protection far outweighing that initial effort. Realising that this is problematic in terms of finding its logical scope, Isaac points out that Becker seeks to

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31 Isaac, Brand Protection Matters, Sweet & Maxwell, 2000 at 223.
justify the theory on the basis that it the protection is merited as it is deserved not through effort but through benefit to society.\textsuperscript{33} It should be pointed out that the benefit that brands bring to society is not easily quantifiable but is not as clear as the benefit from a work of art. It has been said that trademarks themselves have an artistic or aesthetic quality but this seems quite a small part of what makes up a trade mark; especially when compared to the fundamental importance of its economic function of indicating origin. This is so even if it is conceded that at some level the graphical representation of a sign is, in some cases, pleasing to the eye. Thus it can be said that, taken in the round, a theory attempting to justify broader trade mark protections based on desert seems lacking.

\textbf{Lockean natural law}

Next we examine the application of the writings or Locke. This has been examined elsewhere and the outline which follows here is accordingly brief.\textsuperscript{34} Locke gave one of the primary expositions of this theory in relation to the protection of rights in property.\textsuperscript{35} He said ‘every man has a property in his own person … [and thus the] labour of his body, and the works of his hands, […] are properly his.’\textsuperscript{36} He also took the view, then, that if the labour of a person was applied to an object that had no owner that person became the owner of that object subject to the Lockean proviso that there be ‘enough and as good left over’.\textsuperscript{37} Isaac is of the view that the theory can be used ‘to support an argument for the expansion of intellectual property rights and to provide a proprietary right.’\textsuperscript{38} She defines this proprietary right as being the right to exclude others.\textsuperscript{39} In the brand context Isaac proposes that a brand owner can be seen as the human labourer and by mixing his efforts with the raw materials used in the creation of a brand, the brand owner can therefore justifiably be said to own the brand and be able to exclude others from use or allusion to the brand. Isaac states that it is possible to satisfy the Lockean proviso in the trade mark

\begin{itemize}
\item \textsuperscript{33} Isaac, note 31, at 223.
\item \textsuperscript{35} Locke, Two Treatises of Government (1698).
\item \textsuperscript{36} Locke, ‘Of Property’ in Locke Political Writings, London, 1993 at 274.
\item \textsuperscript{37} \textit{Id.}, at 276.
\item \textsuperscript{38} Isaac, note 31 at 224.
\item \textsuperscript{39} \textit{Id.}, at FN 62.
\end{itemize}
context but does agree with Gordon who is of the view that there is a risk of there being, at one point in the future, not enough resources left over in the common pool.\textsuperscript{40}

Even if we accept the above as true, there is the problem that is chiefly highlighted by Spence that, as with a desert theory, what is acquired by the labourer or the brand owner, is in some sense disproportionate to the effort he expended in ‘creating’ it.\textsuperscript{41} The most difficult element of the application of this theory to broad protection of unfair advantage is that, while it is acceptable to most people for the creator to have some (property) claim over the created product, it is difficult to locate the limits on what this property right should cover. Isaac’s solution is to propose a threshold ‘below which a property right would not be granted’ but she really only limits this to ‘\textit{de minimis}’ effort and thus this seems, in reality, to be an insufficient check on the potential wide application of this theory.\textsuperscript{42} One gets the sense that the solution proposed by Isaac seems designed to leave a lot of brand creation well within her proportionality analysis. Thus it functions as no effective limitation at all.

Another problem with the idea that the mixing of labour and input is able to grant a property right is that it is most persuasive in relation to the work of human hands. In this author’s opinion the moral case for accepting that a corporation has natural rights is not a particularly strong one. This is principally because a corporation acts through human agents who are acting, voluntarily, within their own natural rights. Any attempt to form a theory of labour mixing has to deal with the fact that the labour is mixed in a way that is once removed. What is argued here is that this reduces the moral force of the argument, if not fatally, certainly appreciably. Perhaps this is implicitly recognised by Isaac as she has to resort to combining this argument with the principles of restitution to demonstrate its full applicability.\textsuperscript{43}

\textbf{b. Economic justification?}

Whether or not protection against free riding is justified by reference to an economic viewpoint will now be considered. Griffiths advises us that ‘whilst extending legal protection would clearly generate benefits for the owners of trade marks, \textit{an economic case} for doing so requires account to be taken of the adverse impact on consumers and

\textsuperscript{40} Id., at 225 commenting upon Gordon, note 34 at 1565.
\textsuperscript{41} Spence, note 34 at 493.
\textsuperscript{42} Isaac, note 31 at 226.
\textsuperscript{43} Id., 229.
third parties, including that resulting from any restriction of competition.\(^{44}\) (emphasis added)

Intellectual property protections in general have been defended from an economic point of view as providing by operation of law either an economic incentive or an economic reward to or for particular kinds of conduct deemed by society as being of value. Viewed as a concession from a free market norm, intellectual property laws exist in order to generate economic incentives to produce goods and services or artistic works (e.g. copyright) and allowing the inventor, author or artist the resulting gain. Thus in patent law the inventor can reap the rewards of her invention for a period of years. In the trade mark context, however, it is the view of Ohly that ‘broad-antidilution laws […] are more difficult to justify because consumer interests are only marginally affected because there is no evident need to create incentives for the creation of luxury images.’\(^{45}\) These luxury images were traditionally outside of trade mark protection and Senftelben has argued that ‘investment in brand creation … is an individual selfish marketing decision for which the trade mark owner cannot expect a reward from society as a whole.’\(^{46}\)

**Trade marks and search costs**

Trade marks have been justified economically as a way to reduce transaction costs inherent in commerce.\(^{47}\) In particular, Landes and Posner, writing within Chicago economic thought, have focused on a trade mark’s ability to limit or reduce consumer ‘search costs’ as one of their chief economic benefits.\(^{48}\) Griffiths, commenting on this long-accepted idea, states that ‘this rationale justifies awarding property rights to trade mark owners to ensure that their trade marks are effective and reliable at guaranteeing and indicating origin, but does not justify extending them any further.’\(^{49}\) Griffiths defines search costs as ‘the costs of acquiring information about products or of having to incur the risks of uncertainty … increasing the total price that consumers pay for a product and

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45 Ohly, note 30 at 1.
49 Griffiths, note 44 at 246.
[thus,] reducing them is a competitive advantage.\textsuperscript{50} The use of a legal mechanism such as a trade mark which can guarantee origin and signal reliably the source of goods therefore helps to reduce the costs incurred by a consumer of the produced goods and is, consequently, justified economically. Griffiths puts the result of this sign and signified mechanism as giving the owner the ‘incentive to maintain or improve’\textsuperscript{51} the reputation of the goods sold under the mark which in turn improves quality and makes subsequent transactions both more likely to occur and less costly.

Trade mark law has responded to this danger of consumer confusion by offering protection to mark owners through a likelihood of confusion test. The law must not allow consumers to be confused as to who has produced the goods (otherwise the economic reward goes elsewhere) and so this is justified. Ohly summarises this: ‘there are evident and undisputed economic reasons for protecting consumers from deception as to trade origin’\textsuperscript{52}. He also believes that ‘rules against confusion safeguard against transparency’\textsuperscript{53}. Griffiths sends a warning to us that ‘as a general proposition, the benefits of property rights are likely to decrease and the costs increase once they extend beyond the boundary at which neighbouring signs cease to be likely to confuse consumers about origin’\textsuperscript{54}.

A possible justification for non-confusing associations based on the reduction of ‘imagination costs’ for consumers has been put forward.\textsuperscript{55} This is said to help ‘to preserve the clarity of brand messages and preventing consumers from making burdensome associations between unconnected products’.\textsuperscript{56} Austin states that ‘without prohibitions against dilution consumers would incur the ‘cost’ of having to filter from their minds a wide variety of different uses of the same trademark’.\textsuperscript{57} Interestingly, serious doubt has been cast on the empirical validity of this by Tushnet though sadly reasons of space preclude further consideration of this point.\textsuperscript{58}

\textsuperscript{50} Id., at 247.
\textsuperscript{51} Id., at 248.
\textsuperscript{52} Ohly, note 30 at 6.
\textsuperscript{53} Id., at 6.
\textsuperscript{54} Griffiths, note 44 at 258.
\textsuperscript{55} See e.g. the view of the famous US jurist Posner J in \textit{Ty v. Perryman} 306 F3d 509 at 511 (consumer protection rationale considered in a case about the famous Beanie Babies).
\textsuperscript{56} Gangjee and Burrell, note 2 at FN 2. See also \textit{supra} Gangjee and Burrell note 116 at 7.
Trade marks and property rights

One of the other economic theories that could perhaps justify the extension of trade mark protection to cover free riding is a fuller application of the principles of property rights to trade mark law in this area. One of the defining characteristics of real property is that there is a finite amount of it available. It has to be accepted that there are important differences between real property and intellectual property and particularly with regard to trade marks as these are not as clearly finite as real property.

The implications of a fuller property rights analysis are important as there appears to be a strong desire on behalf of those who would seek to increase trade mark protection to move towards a fuller propertisation the concept of a trade mark. The benefits of a casting broad trade mark protection in property language are obvious and well outlined by Lemley when he states that ‘the role of property theory is an important one, both because it provides intellectual heft to justify the expansion [of trade mark protection] and because it offers an attractive label ‘free rider’ that [courts] can use to identify undesirable conduct and to justify its suppression.’ Following this logic, if it is accepted that a trade mark can be viewed as piece of property in a similar way to real property (or land), then it is much clearer that any interference with this without consent is to be enjoined and prohibited. Nevertheless, Lemley does remind us of the nuance in this position; ‘the rise of property rhetoric in intellectual property cases is accordingly closely identified not with common law property rules in general, but with a particular view of property rights as the right to capture or internalize the full social value of property.’ The potential effect of this propertisation is the granting to the trade mark proprietor control over his mark. The clear aim of trade mark proprietors who see themselves as brand owners is to be in a position to control all aspects of their brands and in particular to control allusive use of their marks.

A further claim is sometimes made in relation to a junior user of a mark free riding on the reputation of a brand to enter a new market which the brand owner has not yet. This is particularly controversial. Lemley and McKenna, in their article ‘Owning Mark(et)s’, state that a brand owner is only legally harmed by this situation where one accepts in the first place that they have the legal right to control the market in the first place. As they rightly

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59 Of course, it is true that real property can be and is created e.g. by reclamation from the sea.
61 Id., at 1038.
point out this is entirely circular.\textsuperscript{62} To decide question this we must work out the whether it is economically efficient to allow the trade mark owner this right or whether the ‘problem’ is best dealt with by the market itself.\textsuperscript{63}

**Externalities**

A property rights analysis is especially concerned with the identification and reduction of what are known as externalities. An externality can be defined as ‘a side effect or consequence of an industrial or commercial activity that affects other parties without this being reflected in the cost of the goods or services involved.’\textsuperscript{64} A positive externality then is ‘a benefit that is conferred upon another person by an economic actor outside of any transaction between the parties.’\textsuperscript{65} Lemley sees the goal of the creation of property rights:

> to equate private and social costs and benefits by having the property owner internalize the social costs and benefits, those who ‘free ride’ – obtain a benefit from someone else's investment – are undermining the goals of the property system. The professed fear is that property owners won't invest sufficient resources in their property if others can free ride on that investment. To be efficient, logic would seem to suggest, we must eliminate free riding.\textsuperscript{66}

Lemley highlights that the professed fear is underinvestment so it is natural then to seek to see whether encouraging further investment would be beneficial in the context of trade marks and brands. It might be pointed out that there is currently no shortage of branded goods on the market and that the situation is not similar to that which pertains in copyright or patent protection. These protections are much more clearly possessive of a benefit that society should incentivise. Brands are not generally thought of as creating as clear a social benefit.

Whether or not protection against free riding is necessary to ensure that there is less risk of underinvestment in the good concerned is not the same as assessing whether such protection is necessary to promote investment in brands. Do we even want to promote investment in brands themselves? To this end it might be useful to point out that the United States has no prohibition in its trade mark dilution laws on free riding as such in


\textsuperscript{63} \textit{Id}.

\textsuperscript{64} New Oxford American Dictionary definition.

\textsuperscript{65} Gangjee and Burrell, note 289.

\textsuperscript{66} Lemley, note 60 at 1039.
the way that the EU law is now cast. It might be thought then that there is an underinvestment in brands. The statement merely needs making to show the scope for an unthinking application of the underinvestment argument, as most observers will realise that the US is, perhaps, the Western nation most associated with the development of brands and advertising.

The key issue, it would seem, is to be mindful of the role that incentives play in determining the economic behaviour of firms. It is clear that free riding must have some impact upon this but it is also true to say that free riding is not limited to reducing incentives in trade mark law. For example Lemley cites Areeda and Hovenkramp on the reality of economic and social free riding viz; ‘free riding on the positive externalities created by others is everywhere, and society does little to eliminate it.’ Gangjee and Burrell offer the useful practical example of ‘the person who maintains an attractive front garden has no claim against neighbours who see their property values increase’ and conclude that ‘the point we want to stress is that legal intervention is the exception, not the rule.’ Overall, then with respect to free riding, ‘society does little to eliminate it’ and it is ‘the exception, not the rule.’

Given that we accept that there exist positive externalities which generally are not prohibited why is it that we would not want firms to capture these within their property? The answer lies in the fact that to do so would be excessive; Lemley argues that ‘we don’t need to fully internalize positive externalities in order to invest – just to capture enough of the benefits of their investment to make it worthwhile. The remaining social surplus from their investment will be dissipated by the market’ Lemley and McKenna have referred to such surplus as ‘spillovers’ and are of the view that recent empirical evidence actually ‘suggests that these spillovers drive further innovation’. In addition, Lemley and McKenna later write that ‘even if we did think that the incentive-to-create argument motivated trademark law, we would probably design that law rather differently, granting

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67 See Björkenfeldt, ‘The Genie Is Out Of The Bottle: The ECJ’s Decision In L’Oréal v Bellure’, (2010) 5(2) Journal of Intellectual Property Law and Practice 105 at 106. It should be noted that the scope of the US federal law on dilution (inc. Trademark Dilution Revision Act 2008) is different and has different contours as well as its own quirks e.g. the doctrines of initial interest confusion and post-sale confusion. In addition Franklyn has argued that a surprising amount of decisions seem to protect against free riding under the rubric of blurring, see generally Franklyn, ‘Debunking Dilution Doctrine: Toward A Coherent Theory Of The Anti-Free-Rider Principle In American Trademark Law’, (2004) 56 Hastings Law Journal 118.
68 Lemley, note 60 at 1049
69 Gangjee and Burrell, note 2 at 289.
70 Id.
71 Lemley, note 60 at 1050.
72 Lemley and McKenna, note 62 at 70.
trademark rights to the marketing firms that come up with names, not to the companies that happen to use them.\footnote{Id., at 53.} This of course is not a serious suggestion but merely illustrates the potential longstop of the incentives argument. The incentives inherent within trade mark law then are justified only when they ‘ensur[e] that creators are able to charge a sufficiently high price to ensure a profit sufficient to recoup their fixed and marginal expenses.’\footnote{Lemley, note 60 at 1057.} The high point of Lemley’s argument is then buttressed by reference to Lessig when he stated that sufficient incentive ‘is something less than perfect control’.\footnote{Id.}

One of the interesting things in retrospect after the decision in \textit{L’Oréal} is that comments could be found within the academic literature highlighting a gap in legal protection for brand owners that could lead to their marks being free ridden upon.\footnote{See \textit{e.g.}\ Grassie who states: ‘Practitioners in the area of IP rights enforcement are all too often frustrated to be advising clients that they cannot stop commercial activity that is clearly designed to ride on the back of their client’s reputation … because there is no clear legal remedy that allows them redress.’ Grassie, ‘EU Directive On Unfair Commercial Practices – A UK Perspective’, (2005) 1(2) \textit{Journal of Intellectual Property Law and Practice} at 107.} Another view of this, and one which this paper supports, is that such a gap can be seen as a free space which allows the contributions of other competitors within the competitive marketplace.\footnote{Ohly, note 30 at 1} This free space/gap has perhaps now been filled in by the ECJ in \textit{L’Oréal} and is not justified according to an economic analysis of property rights and runs the risk of giving full control to trade mark owners to prevent all unauthorised and unwanted use of same or similar signs on same or dissimilar goods. Overall it can be stated then that an economic analysis does not justify the extension of trade mark law to cover pure free riding.

\footnotetext[73]{Id., at 53.}
\footnotetext[74]{Lemley, note 60 at 1057.}
\footnotetext[75]{Id.}
\footnotetext[76]{See \textit{e.g.}\ Grassie who states: ‘Practitioners in the area of IP rights enforcement are all too often frustrated to be advising clients that they cannot stop commercial activity that is clearly designed to ride on the back of their client’s reputation … because there is no clear legal remedy that allows them redress.’ Grassie, ‘EU Directive On Unfair Commercial Practices – A UK Perspective’, (2005) 1(2) \textit{Journal of Intellectual Property Law and Practice} at 107.}
\footnotetext[77]{Ohly, note 30 at 1}
c. Spence’s expressive autonomy

Spence has suggested that there might be an alternative approach to a property type view of dilution protections. Before offering his alternative he refers to something which this author thinks runs through almost all of the commentary and indeed some judicial thinking on this whole area of trade mark law. He says that there exists ‘the intuition that trade mark owners ought sometimes to be protected against allusion to their marks, even in contexts in which no consumer confusion is involved’ and he describes this intuition as ‘remarkably powerful’. This intuition that trade mark owners ought to be protected in this way finds expression in the moral theories above and also, it is submitted, underlying the reasoning of the European Court in L’Oréal. Spence’s attempt to articulate a convincing basis for justifying protecting allusion to a famous trade mark is to develop a theory relating to what he calls the ‘expressive autonomy’ of the brand owner. He highlights four claims which he says follow from this expressive autonomy – the fourth of which is the most apposite here: ‘freedom of speech may entail freedom from compulsion to subsidize a message with which the person from whom the subsidy is sought chooses not to be associated.’ Spence explains this subsidy of speech thus:

When someone uses a sign that alludes to a mark, they may be involved either in compelling speech, or in an activity analogous to compelling a subsidy of speech. This consists either: in altering the meaning of a mark so that it subsequently bears a meaning with which the owner of the mark will be associated each time it is used, but from which she would wish to be disassociated; or in forcing the owner of the mark to participate in, or promote, speech with which she would disagree by providing the material upon which that speech is built.

It is this forcing of the owner of the mark to participate in speech with which he or she would disagree with that seems to form the bedrock of Spence’s justification for protection against allusion. It is clear if we apply this theory for example to the facts of L’Oréal that L’Oréal would clearly not want their products alluded to by the manufacturers of the lower cost fragrance as it would to their minds cheapen the L’Oréal products in some way. For the manufacturers of the smell alike products to use the building blocks of similar packaging and their products on comparison lists would clearly

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79 Id.
80 Id., at 308.
81 Id., at 311.
be viewed by L’Oréal as providing the low cost competitor with material upon which that speech (i.e. the commercial message of Bellure etc.) is built.

Interestingly Spence is aware of at least one potential flaw in his argument for a justification built on expressive autonomy as it relates here to commercial speech. He admits, in the usual context of the trade mark owner as an incorporated entity, that it is not at all clear that it makes sense ‘to protect the personal autonomy of legal persons’ [such as corporations] whereas to speak of expressive autonomy seems to make more sense in relation to the rights of natural persons. It is probably the case that at some level we do perceive the speech of a natural person to be of greater worth than that of a corporation, but rather like the impulse to protect against allusive uses of trade marks, it is difficult to rationalise why this is the case. However, it might be said that a corporation’s capacity to feel like it is compelled into the service of another against its own wishes cannot be as strong as the equivalent reaction of a natural person under the same circumstances. Certainly it is true, as Spence mentions, that a company is at one level a collection of individual natural persons, but it is also much more than that for it will outlast those persons and exists even when the shareholding undergoes a complete change of ownership. Perhaps the best that can be said is that the theory’s power to justify protection for allusive use is diminished as applied to companies.

Defining the scope of the outer boundaries of his theory he states that ‘the law cannot, and should not, try to control all of the ways in which vehicles of expression such as trade marks are used and acquire new meanings.’ In summary ‘[r]espect for the expressive autonomy of the trade mark owner does not require that the law give her such complete control over her mark’ (emphasis added)

Ohly suggests that another problem with the expressive autonomy justification is that ‘[it] does not explain why the law should grant such an autonomy right in the first place.’ While this is true to an extent, the theory can, at least, be said to be grounded with

82 Spence, note 78 at 313.
83 This finds parallel in the comments regarding the moral rights of corporations above.
84 The author is reminded of a scene in an episode of the BBC sitcom Only Fools and Horses. ‘In this classic scene, Trigger claims that he’s had his road sweeper’s broom for 20 years. But then he adds that the broom has had 17 new heads and 14 new handles.’ From 'Heroes and Villains' (1996). Quoted from http://uktv.co.uk/gold/stepbystep/aid/579394 (last accessed 23/8/2010).
85 Spence, note 78 at 313.
86 Id., 87 Ohly, note 30 at 11.
reference to a fundamental human right.\textsuperscript{88} Spence is aware of an overbroad protection and does describe some limitations on the protection he seeks to justify. For instance he states, in a way that foreshadows most clearly the discussion of the comparison list issue in \textit{L’Oréal}, that allusion to the mark should be permitted ‘in order adequately to comment upon, or even identify, the mark, its owner or her goods and services.’\textsuperscript{89} Spence states that it is ‘reasonable to allow allusion to the mark for this purpose because there may be no effective way in which to make such comments other than to use, and sometimes to alter the meaning of, the mark.’\textsuperscript{90} In addition this is acceptable because it does ‘not undermine, but recognises, the nexus between the mark and its owner.’\textsuperscript{91}

Overall then it can be said that expressive autonomy can only partially justify the current free riding protections.

\begin{flushright}
\textsuperscript{88} Tending to reinforce the problems with wholesale application of the theory to companies. \\
\textsuperscript{89} Spence, note 78 at 314. \hfill \textsuperscript{90} \textit{Id.} \hfill \textsuperscript{91} \textit{Id.}
\end{flushright}
IV. Locating the limits: key influences affecting scope of unfair advantage protection

It is said that no man is an island\textsuperscript{92} – perhaps too this is true of trade mark law. Trade mark law has always operated at the intersection of various influences. This section will examine those influences to assess their potential effect upon the scope of protection offered in particular by the protections of trade mark unfair advantage. Trade mark law is buffeted from one side by competition law and the competition impulse to create a marketplace which enables competitors compete in as free a manner as possible in order to enhance overall consumer welfare.\textsuperscript{93} Trade mark law has also been shaped by the needs of producers to be able to give, and consumers to receive, accurate information about their products to consumers in particular to signal origin, quality and price.

\textbf{a. Freedom to compete or freedom to trade}

The first main constraining influence to be examined is the role of free competition. It is well accepted that trade mark law intersects with competition concerns in that the granting of an IP right confers a degree of monopoly (defined loosely) that interferes with other market participants use of same or similar marks. Lemley highlights this as follows:

\begin{quote}
Intellectual property rights are an exception to that norm [free competition], and they are granted only when - \textit{and only to the extent that} - they are necessary to encourage invention. The result has historically been intellectual property rights that are limited in time, limited in scope, and granted only to authors and inventors who met certain minimum requirements.\textsuperscript{94} (emphasis added)
\end{quote}

One of the chief concerns of product manufactures or suppliers of services is to be able to effectively market, promote and eventually sell their good or service. Trade mark law makes a contribution to this goal but it is also constrained by the market which it serves. Important within this competitive market is the ability for sellers within that market to signal that their goods are substitutable for the goods of another. It is this substitutability and its ability to be signalled by a trade marked product that is key to competition within the European marketplace. Spence suggests that ‘competition consists in the offering of substitute products or services, and I will often need to imitate in order to ensure that my

\textsuperscript{92} John Donne (1572-1631), \textit{Devotions upon emergent occasions and severall steps in my sicknes} - Meditation XVII, 1624.
\textsuperscript{93} Other functions of competition law have been identified though this is the one that currently finds favour with the EU Commission in particular at the Directorate General for Competition.
\textsuperscript{94} Lemley, note 60 at 1031.
product or service is, or to show that it is, an acceptable substitute for the product or service of my competitor.\textsuperscript{95} It is also important to bear in mind that any extension in trade mark law protection changes and shapes the actions that competitors are able to lawfully undertake in that market. Thus we should be particularly concerned if trade mark law extends to cover conduct \textit{e.g.} imitation which would otherwise be acceptable, or even necessary, in the context of a free market economy.

It might seem strange at first glance to suppose that there exists a freedom to imitate but Spence reminds us of the relevance of this principle in connection with economic competition when he states that imitation is the ‘lifeblood of competition’.\textsuperscript{96} He also offers us an interesting example:

Imagine … that I choose to open a fast food store. I do so in a competitive environment in which a fast food culture--a taste for fast food and a certain modern style of fast food restaurant--has been developed by other traders. … In order to enter that market I will need to imitate much about the pre-existing culture, even though I may intend to improve upon and develop the way that the business of fast food restaurants is carried out. For it is by imitation that I can produce, and be seen to produce, fast food meals that are acceptable alternatives to those of my rival.\textsuperscript{97}

If we are to curtail the limits of legal imitation we must do so with a clear idea of what is being affected by that curtailment. If it is the freedom of the actions of other competitors then this has a bearing on the competitive market that trade mark law seeks to serve. Dogan and Lemley remind us of the baseline principle that ‘our competitive economy is based on the premise that competitors can generally appropriate ideas for products and services, as long as they are doing so in a non-deceptive way and are not infringing some other exclusive right, such as copyright or patent.\textsuperscript{98} Applying this, it could be argued that as it is lawful to copy to a large extent the food served in the fast food restaurant in a particular similar fashion, it was perfectly lawful in the \textit{L’Oréal} factual matrix for Bellure to copy to a large extent the fragrance of the perfumes. In addition, Klerman in his article dealing with dilution and search costs asserts that not only is it ‘socially desirable’ for the junior user to be able to use the mark, but that it is Pareto superior ‘given that the junior

\textsuperscript{95} Spence, note 34 at 482.
\textsuperscript{96} \textit{Id.}
\textsuperscript{97} \textit{Id.}
user and its customers benefit.” Breakey also implicitly challenges the definition of free riding given by the ECJ in *L’Oréal*, being based as it was partly on the defendant’s failure to pay compensation to L’Oréal, thus: ‘Ordinary market agents allow all manner of information and ideas to be drawn from their novel products or practices, they allow their discussion and critique, and they allow myriad derivative, competitive and complimentary ideas to occur to enterprising persons *without reimbursement needing to be paid*.’ (emphasis added)

Nevertheless, modern competition law does place much greater store on the impact of certain practices on consumer welfare to determine whether there has been a restriction of competition and does not focus solely on the effects on competitors. Ultimately this leads us to consider the competition impact of any IP protection that effectively restricts the choice of products available on the market. Consumer welfare is mainly measured through an examination of whether prices are lowered and supply increased. As Jacob LJ identified consumers of products ‘want the best deals they can get’ and competition law seeks through its focus on consumer welfare to achieve this. Ohly applies this to the context of imitation or free riding, which is classically the focus of complaints of unfair advantage, by reminding us that ‘competition by imitation drives down prices’. Dogan and Lemley warn us that ‘overly restrictive trademark law has the potential to stifle competition rather than to facilitate it. Particularly when trademark holders have economic power, giving them absolute control over uses of their marks could erect significant barriers to entry for competitors.’ Barriers to entry are a particular worry in competition law, as Chicagoan antitrust scholars currently understand it, as these thinkers rely on the absence of significant barriers to entry to discipline a firm, which would otherwise have market power, from behaving in an anticompetitive manner.

One further ancillary benefit to an acknowledgement that competition concerns have a greater role to play than currently is the case in ECJ case law is that competition law

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101 *L’Oréal* CoA I at [139].
102 Ohly, note 30 at 3.
103 Dogan and Lemley, note 98 at 70.
might be able to share some of its insights into market definition.\textsuperscript{104} For example under a competition law analysis of relevant markets it is fairly clear that people who purchase cheap perfume are not consumers who L’Oréal might have reasonably expected to have purchased their product and therefore are not consumers that L’Oréal has lost in any sense.\textsuperscript{105}

Another point little considered is this; it might conceivably be the case that the joined efforts of L’Oréal and Bellure for example in some sense create additional consumer demand for the entire perfume sector (defined in this sense broadly). For instance, it could be for that consumers who pass a street market and see a stall keeper offering Bellure’s product go on another day to Selfridges department store to purchase the ‘real thing’ having been prompted by ‘imitation’. The point is merely made to highlight the possibility that the economic relationship between two products is more complex than a linear one-way relationship of imitation.

In summary it is hard to disagree with the conclusion of Lemley and McKenna that ‘owning marks should not mean owning markets’.\textsuperscript{106} Ultimately the issue is quite a broad one in these days of increasing global trade. The legal framework within the European Union impacts upon Europe’s competitiveness and any law that hinders competition within Europe also hinders Europe’s ability to compete with the rest of the world.


\textsuperscript{105} This was acknowledged by AG Mengozzi. See \textit{L’Oréal AG} at [21].

\textsuperscript{106} Lemley and McKenna, note 62 at 77.
b. Freedom of speech – of a commercial nature

Dreyfuss has provocatively suggested that ‘trademark and free expression are on a collision course.’\footnote{Dreyfuss, ‘Reconciling Trademark Rights And Expressive Values: How To Stop Worrying And Learn To Love Ambiguity’, in Dinwoodie and Janis (eds.), Trademark Law And Theory: A Handbook Of Contemporary Research, 2008, Edward Elgar at 262.} This is likely an exaggeration but it is this author’s view that trade mark law in its unfair advantage guise needs to pay greater heed to free expression’s role in creating free markets. Freedom of speech, of course, is one of our most cherished freedoms in a democratic society and is protected in a European context by Article 10 of the European Convention on Human Rights (ECHR) and in the US under the 1st Amendment to the US Constitution.

The right to express oneself is however, like many other such constitutional or fundamental rights, not an absolute one. Free speech is a qualified right and sophisticated jurisprudence has been built up under the ECHR and also more fully by the US courts who have explored in detail the content of that right.\footnote{In particular the US Supreme Court has developed and allowed restrictions on speech based on considerations such as time, place and manner of speech.} However in general it is accepted, although not without question,\footnote{See e.g. Justice Thomas (concurring opinion) in 44 Liquormart, Inc v. Rhode Island 517 US 484 (1996) ‘I do not see a philosophical or historical basis for asserting that "commercial" speech is of "lower value" than "noncommercial" speech’ around FN 4.} that free speech as applied to commercial situations is in some sense less worthy of constitutional protection than e.g. traditional political speech. Commercial freedom of speech is, though, fundamentally useful, as it is the way in which market participants are able to communicate with their prospective purchasers. The need to communicate with customers gives focus to a multi-billion pound advertising industry worldwide and this demonstrates its value to producers of goods and services. The ability then of a firm to use commercial speech to inform about its products is a key potential important limiting influence on the scope of trade mark law.

Whilst it was indicated above that human rights such as free speech are more difficult to fully apply to companies and businesses, it is the case that the right to free expression encompasses not only the right to impart information but also the right to receive that information.\footnote{See e.g. Article 10 of the ECHR. See also Jacob LJ in L’Oréal SA v. Bellure NV [2010] EWCA Civ 635 (hereafter L’Oréal CoA II) at [12].} In the context of commercial speech, which is usually not as extensive as non-commercial speech, it is probably constitutionally acceptable to allow this class of legal person to take advantage of the whole of the commercial speech right. This is

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because the receiving of information about products is necessary in a commercial context in order that consumers can make informed choices. In order to sell products and services producers must inform or communicate to consumers; first of the existence of the product and secondly that it is worthy of purchase.

The trade mark with a reputation is a powerful tool in the hands of a seller to sell its goods. Through the trade mark a producer can give meaning and information about the product. The sign therefore becomes a holder for what is signified. Senftelben declares that ‘as well-known marks are used as a means of communication, competing expression interests must be satisfied with appropriate limitations.’\textsuperscript{111} However, competitors or even non-competitors of the brand owner might view the use of the brand owner’s famous packaging or get up (or a mark which is similar) which has a reputation is a potentially attractive marketing strategy in order to either enter a market\textsuperscript{112} and to signal that the product that they are selling is in some respects similar in quality, function or value. Bradford has spoken of this relationship in a school of thought she calls ‘advertising as information’ and highlights that this school ‘acknowledge[s] the value the that ‘simple, familiar brands offer to consumers in a crowded marketplace, and recognize[s] similar competing value offered by others who free-ride on those symbols for their own purposes.’\textsuperscript{113}

This message of communication with a view to a commercial benefit to the junior user is the essence of commercial speech. The commercial speaker does it for no other reason other than to gain a commercial benefit. Accordingly, consumers can actually benefit from blurring or free-riding using through finding out other alternatives to the product sold by first or senior mark owner.\textsuperscript{114} This is a most basic aspect of what a capitalist market economy dictates. Products which are currently successful will be insulated from the chill winds\textsuperscript{115} of the competitive process if others are not allowed to signal that they are substitutable for that the current brand leader. Ultimately then if the freedom to signal substitutability is reduced, the shape and contour of trade mark law can actually allow a brand owner to free ride on the protections the law offers to insulate itself from the

\textsuperscript{111} Senftelben, note 46, at 8.
\textsuperscript{113} \textit{Id.}, at 49.
\textsuperscript{114} \textit{Id.}, at 50.
\textsuperscript{115} Lewison J in \textit{O2 (Holdings) v. Hutchison} [2006] ETMR 677 at [9].
competitive process. This is a most unwelcome situation and a risk that must be zealously guarded against.

The freedom of expression interest in limiting trade mark unfair advantage does not only lie in the need to allow other competitors to freely express that their products are in some sense substitutable, but also pertains to considerations of parody and other non-commercial aspects of speech. While these would be important angles to free speech considerations in any reconfiguration of the law on unfair advantage they are, sadly, beyond the scope of what can be examined here.\footnote{This is well analysed in a forthcoming article. See Gangjee and Burrell, ‘Trade Marks and Freedom of Expression: A Call for Caution’ (April 20, 2010). University of Queensland TC Beirne School of Law Research Paper No. 10-05. Available at SSRN: \url{http://ssrn.com/abstract=1604886}.}

c. The role of the consumer in authoring trade marks

An additional potential influence is to be found in recent research that has highlighted that it is not only so called brand owners which have an input into what makes up a brand. Indeed, it could be said that the brand defined widely exists only in the mind of consumers. This is particularly true with regard to famous or well known marks which often seek to convey something that transcends the physical, technical or functional and moves into the emotional and aspirational. A scepticism regarding the automatic right of a trade mark proprietor to be able to appropriate all of the value resulting from their brands finds support in the work of Gangjee and Burrell who have pointed out that the creation and maintenance of a brand image are not solely the result of the efforts of a trade mark proprietor. They state that:

\[ E \]ven the premise that brand creation generates an entitlement over image cannot be taken at face value. While the brand owner certainly initiates the process, a brand ultimately exists in the minds of consumers, where it fluctuates and is reconstituted, sometimes in unpredictable ways.\footnote{Gangjee and Burrell, note 2 at 291.}

This is an important statement on the functioning of the current marketplace in which well known or famous marks are located. Further support for these ideas can by found in a recent article by Gerhardt who has highlighted and advocated a consumer investment model of trade mark law. This model would seek to give greater recognition to the split public/private nature of trade marks and attempts to break with an idea held by some brand owners that trade marks are fully private. Gerhardt reminds us of the ‘common narratives associated with certain marks [which] contribute to public knowledge and
cultural identity’.\textsuperscript{118} She goes on to argue that ‘trade mark discourse too often ignores both the extent to which consumers shape trade mark value’.\textsuperscript{119} In addition, Bently and Sherman correctly argue that ‘while the associations between the mark and a source of good will may be instigated and nurtured by the trader, they are as much created by the customers and the public’.\textsuperscript{120}

Taking together the idea that a brand exists almost independently of the trade mark in the mind of the consumer and the idea that a consumer has a role to play in the authoring of the trade mark value then it might not be too much to suggest that we ought not to allow the emotions, feelings and perceptions captured within that brand to be appropriated or owned by the one who began the process. It is not difficult to think of other examples in life where one person instils an idea in another but has no resulting claim over the end result. Perhaps one can think of a teacher in the classroom sparks a thought in a pupil’s mind but has no claim to the future success if any of the child.

The point of this section is not to conduct a wholesale examination of the role of consumers in trade mark law but rather to highlight one aspect of the fallacy of any suggestion that by expending effort in creating a brand the trade mark owner can capture, or is entitled to capture, all of the benefits of that trade mark. It is surely the case that we should also give some acknowledgement, when apportioning rights emanating from trade marks, to the group which really holds the balance of power in a market economy – the consumers – without whom the product would perhaps not even exist.


\textsuperscript{119} Id., at 436.

V. Unsatisfactory aspects of post-\textit{L’Oréal} unfair advantage and some suggested ways forward

Section III, having examined some possible justifications for a prohibition on free riding, found that arguments based on natural rights or on economic theory (or even expressive autonomy) do not fully legitimise the current anti-free riding stance of EU trade mark law. Given that the current level of trade mark protection is therefore largely unjustified it is necessary to outline and summarise some of the problems which are consequent on this new legal reality. After this, an examination is undertaken of how some of these influences might be translated into the legal framework as we seek to examine the possible ways forward.

\textbf{a. Summarising the problems with current protection}

First, perhaps at the most general level it is clear that the current direction of travel within ‘dilution’ protection for well known marks is expansionist. Starting with the ‘refinement’ of the scope of the goods and services from referring only to dissimilar goods to now include similar goods post Davidoff. This was a clear expansion of trade mark law. Similarly having defined the reputation required to avail of the protections of the unfair advantage provisions as encompassing even niche reputation the ECJ further extended the protection offered. The third key expansion is the development of the \textit{per se} prohibition on free ‘riding on the coat tails’ of a reputed mark as defined by the Court in \textit{L’Oréal}. We have seen that the standard which is used in cases such as \textit{L’Oréal} is particularly low – with almost a presumption of advantage following the ‘riding on the coat tails’ – subject to a global assessment as defined by the Court in \textit{Intel} and \textit{L’Oréal}.

This combination of a low entry point to the well known marks protection combined with a clear protection against free riding on the mark of a trade mark proprietor means that the extensive protections of unfair advantage are engaged more readily and more easily than might be preferable – especially given the concerns highlighted in the influences section. This might be acceptable if the judgement was properly reasoned and a firm basis was able to be located for these enhanced protections. This was and is not so. The ECJ in \textit{L’Oréal} did not attempt to rationalise the enhanced protection in a way that would be justifiable – it really only said that ‘riding on the coat tails’ was actionable \textit{per se} with further sophisticated analysis rendered superfluous. As we have seen from the section above dealing with justifications, it is not easy to find one fully convincing explanation for
the path the European court chose. A court with a better appreciation of its role in finding a happy accommodation between the rights of disparate groups affected by the expansion of trade mark law in this area would have hesitated, or at least better attempted to explain the development.\textsuperscript{121} Particularly worrying was the interpretation given to the Misleading and Comparative Advertising Directive sections at issue.\textsuperscript{122} It seems that the rights ensuring clear channels of commercial speech that this Directive seeks to allow were undermined by the ECJ’s interpretation of the two provisions at issue there Article 3a(1)(g) and (h); if there is implicit or explicit reference by an advertiser to the fact that his product is an imitation of a product with a well known mark then this is by itself taking unfair advantage within the meaning of Article 3a(1)(g).\textsuperscript{123} This seems to import the unsatisfactory definition of unfair advantage from a trade mark context into the MCAD. Jacob LJ is thus understandably disappointed that the ECJ ruling means that traders cannot tell the truth about their products: ‘if a man trades in lawful replicas or lawful copies, why should he not be able to inform the public what they are?’\textsuperscript{124} This must be re-examined.

Secondly, it is the view of this author that the current protection against free riding goes too far in substance in one particular way. That is where a mark has a very extensive reputation it is almost certain that any similar use by any other competitor could be said to take unfair advantage of the brand owner where that brand has a particularly strong reputation. This is particularly so given that the phrasing of unfair advantage seems, in this author’s view, to leave the word unfair with little or no independent meaning following the definition of the ECJ in \textit{L’Oréal}. What is more, the scope of the protection was developed in \textit{L’Oréal} in a very particular situation - that of an established perfume maker being imitated by a manufacturer and importer of a smellalike perfume. But this will not always be the case. Also, it cannot have been an intended outcome of the decision of the Court to provide the strongest brands with the greatest level of protection. This would be a very inequitable outcome.

Thirdly, and connected to the above concerns, the effect of giving established brands the ability to claim both infringement of a trade mark in the manner described above and/or opposition to a trade mark in such wide scope seems to lead to a risk of brand

\textsuperscript{121} The qualification of the ECJ to undertake the analysis and evaluation required in these cases is disputed by Björkenfeldt. See Björkenfeldt, note 67 at 109.
\textsuperscript{123} \textit{L’Oréal} ECJ at [80].
\textsuperscript{124} \textit{L’Oréal} CoA II at [39].
entrenchment. Thus, the current leading players within a market are in effect shielded from being challenged in the market by upstart manufacturers who are attempting to compete legally. It is this shielding through use of the defensive use of the leading brands’ trade marks to stifle competition in the market that is particularly worrying from a free market perspective. Further, this could be said to privilege those who got there first as against those who might well provide better goods or services. Bradford, in a paper featuring a number of similar anecdotes, recounts the story behind the creation of the Santa Claus traditionally used in Coca-Cola advertisements.

A third example is Coca-Cola, who in the 1930s used illustrations of Santa Claus to persuade consumers to drink its beverage even in cold weather. Not only was Coca-Cola ‘free-riding’ off of St Nicholas’ positive emotional associations, it was not even the first company to do it. White Rock Ginger Ale, the brand leader for mineral water and ginger ale, had already used Santa Claus in its advertising for 15 years. Coke’s advertising campaign may have been an attempt to create associations with a more successful beverage company.125

Allowing brands to shield themselves under the protection of unfair advantage provisions allows them a competitive advantage over and above the quality and other characteristics of their products when faced with e.g. a new entrant into the market. As we have discussed this is a classic barrier to entry in an economic sense and stifles the competitive market for the goods or services concerned.

Moving from the effect on competitors to the effect of these redefined provisions on the consuming public, it is clear that the concern of the ECJ is not as strong for this interest group as its concern for the well being of the brand owner. Commentators have warned of the provisions of EU unfair advantage are now in danger of being viewed as ‘divorced (or at least estranged) from the traditional consumer information rationale for trade mark protection’.126 This is a very real problem because it highlights that the protections offered have begun to become imbalanced as between brand owners and their consuming public.127 This is especially worrying given that the court has allowed double identity infringement on the basis of effect on the other functions of a mark including ‘in particular that of guaranteeing the quality of the goods or services in question and those of

125 Bradford, note 112 at 52.
126 Gangjee and Burrell, note 2 at 282.
127 Especially if we reject an imagination costs justification.
communication, investment or advertising’. It is understood at the time of writing that the Commission may be in favour of a review of this part of the ECJ’s ruling in particular.\textsuperscript{128}

Lastly, the expanded functions combined with a prohibition on free riding in the manner currently conceived of by ECJ risks being viewed as a small step away from a full propertisation of trade marks. With this, the ultimate goal of the brand owner would not be far away – that of total control over their intellectual property in the trade mark or the brand it represents. The possibility of granting that control over the use of the trade marks would be a very substantial development in the history of trade mark law and so far the weight of what has been considered above does not indicate that such a development would be justified.\textsuperscript{129}

**b. What options exist for a rebalancing of the interests?**

An attempt will be now be made to offer some options for a realignment of trade mark law. Dreyfuss sets the scene for any possible re-examination through observing two possible options through which adjustments can be made to protections. She states, albeit in the context of creating space for expressive speech, that ‘[i]n some places [around the world], judges exploit statutory language and the facts of the case to limit the ambit of trademark protection and preserve space for free (or free-er) speech; other jurisdictions recognize very strong trademark claims, but courts will balance these rights against constitutive norms.’\textsuperscript{130} Thus she gives us two options; limit the statutory provision’s application in the first place or, secondly, to perform an almost constitutional type balancing exercise. These two solutions are examined.

**Balancing the identified limiting influences as against the trade mark rights**

Courts are used to performing a weighing or balancing exercise between two (or more) rights or interests. The classic construction of the balancing scales of justice highlights this reality as inherent in the common law legal system. Therefore it is conceivable that in order to more appropriately limit the scope of the unfair advantage provisions it might be possible to advocate a balancing exercise to be undertaken by judges in each case to determine where the balance of the interests at stake lies. In our context we can conceive of a free speech response to a (property) claim of unfair advantage or a claim that to adopt

\textsuperscript{128} See *Interflora Inc & Anor v Marks and Spencer Plc & Anor* [2010] EWHC 925 (Ch) at [18].

\textsuperscript{129} Gangjee and Burrell, note 2 at 282.

\textsuperscript{130} Dreyfuss, note 107 at 266.
a similar packaging style to a brand leader was necessary in order to compete in the market.

Indeed, such a balancing exercise was undertaken by the Constitutional Court in South Africa in the renowned *Laugh it Off* case, albeit in the case of dilution by tarnishment. In dealing with a parody on a garment of a famous beer Moseneke J there stated his view on the general relationship between the constitutional guarantee of free speech and the trade mark law at issue ‘[i]t is trite that under our constitutional democracy, the requirements of the section ought to be understood through the prism of the Constitution and specifically that of the free expression guarantee’. The Constitutional Court there reprimanded the lower court thus ‘the SCA was obliged to balance out the interests of the owner of the marks against the claim of free expression for the very purpose of determining what is unfair and materially harmful to the marks’. Thus it rejected a two-stage approach where the conduct would first find infringement of the trade mark right and then seek to examine a defence. Finally, having completed the balancing exercise and given decisive weight to the expressive interests at stake (even though in some sense they were commercial as t-shirts were sold) the court concluded that in this case the injunction obtained in the lower court ought to be discharged.

Reflecting on this case it is tempting to advocate that a balancing of constitutional rights is an appropriate way to solve these issues being as it is flexible and open textured. The danger, of course, is that there is no guarantee of consistent application. This is because any weighing of interests will inevitably be very fact specific (as much can be seen from the juicy and interesting facts in *Laugh it Off*) and will probably tend to protect political and satirical speech to a greater degree than commercial speech. Thus an explicit balancing approach is found wanting in providing the requisite levels of transparency and legal certainty. Legal certainty is required in the market as businesses need to be able to order and to arrange their affairs with sufficient precision in accordance with trade mark law. One of the (few) merits of the *L’Oréal* case is that as it stands it is quite simple for legal advisers of a business to give practical legal advice on the legality of a similar marketing strategy to that of Bellure.

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132 *Laugh It Off* at [43].

133 *Laugh It Off* at [44].
In addition, Gangjee and Burrell have noted ‘the (understandable) reluctance of commercial courts to reach for free speech principles.’ Whilst Gangjee and Burrell are correct to suggest that most judges are reluctant to use free speech principles to actually decide cases, the beginnings of a greater focus on this right and a greater commitment to a freedom to trade can be identified in at least two recent cases. In particular, support for an implicit balancing approach towards interests such as freedom of speech and free competition in the market and the needs of trade mark owners may be found in the recent case before the ECJ concerning Google AdWords.

Although this case focuses for the most part on the double identity infringement potential of the use of Google’s AdWords system, one of the interesting things about the Advocate General opinion in Google France is the fact that AG Maduro, in an excellent opinion, seemed to grasp, perhaps more than other ECJ opinions and opinions of Advocates General the importance of the effect that trade mark protection has. Specifically in the context of examining the potential Article 5(2) infringement in the case AG Maduro stated ‘[n]evertheless, whatever the protection afforded to innovation and investment, it is never absolute. It must always be balanced against other interests, in the same way as trade mark protection itself is balanced against them. I believe that the present cases call for such a balance as regards freedom of expression and freedom of commerce.’ Further he appreciated that the effect of this when he stated that he was ‘concerned that if trade mark proprietors were to be allowed to prevent [keyword use] on the basis of trade mark protection they would establish an absolute right of control over the use of their marks.’ In addition, the ECJ itself seemed very mindful of the great potential of internet searching to bring benefits to consumers and to the market generally and seemed very reluctant to expand trade mark owners rights to include a right to automatic prohibition of the use of their marks in search engine keywords. The European Court decided, albeit under double identity, that ‘the use of a sign identical with another person’s trade mark in a referencing service … is not liable to have an adverse effect on the advertising function of the trade mark.’ The court did though set down some limits on this in that such use could affect

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134 Gangjee and Burrell, note 116 at 22.
136 Google France Sarl v Louis Vuitton Malletier SA (C-236/08 to C-238/08) Opinion of Advocate General Maduro, (delivered on 22 September 2009). (hereafter Google AG)
137 Google AG at [102].
138 Google AG at [108]. This echoes the thoughts of Lemley above, note 60.
139 Google ECJ at [98].
the essential function of guaranteeing origin if the use was vague as to origin to the reasonable internet user. In addition, the ECJ concluded that storage and display of adverts using famous mark keywords was not ‘use’ within the meaning of the unfair advantage provision.\(^{140}\) In conclusion, it could be said that the ECJ implicitly recognised the importance of the Internet search engines as a tool to aid consumers in finding products that are substitutable for that of a particular brand owner thus furthering commercial freedom of speech.

While neither AG Maduro nor the ECJ really engaged in any substantive balancing exercise, such as that undertaken in *Laugh It Off*, in order to decide the case they seemed to demonstrate a welcome hesitation\(^{141}\) and an awareness of the relevance of background influences in locating the legal limits of the AdWords system. Such an approach hints at the fact that the ECJ might well be aware, as the Commission seems to be,\(^{142}\) that the protection afforded to well known brands in *L’Oréal* had gone too far. Thus what has been achieved here is an implicit balancing exercise which was able to refine the application of trade mark law based on background considerations and influences. Such an approach has much to recommend it.

Furthermore, a concern for the freedom to compete and the freedom to express oneself as a commercial entity is forcefully emphasised by Jacob LJ at the Court of Appeal in the conclusion to the long running *L’Oréal* saga. In the course of finding infringement under Article 5(1)(a) (and under Article 5(2) had it been necessary), he made a series of comments which sought to raise the profile of the interests at stake; namely free speech and truth in the marketplace and freedom to compete honestly.\(^{143}\) Heed should be paid to this on the part of both lower judges in England and also, more importantly, policymakers in Europe during the ongoing review by the Max Plank Institute.

\(^{140}\) *Google* ECJ at [105].

\(^{141}\) See e.g. ‘before analysing whether this use [display of ads through AdWords alongside natural search results] constitutes trademark infringement, it is important to address the possible implications of the present cases for Google’s search engine. *Google* AG at [70].

\(^{142}\) See *supra* note x.

\(^{143}\) See *L’Oréal* CoA II at [9] and [16].
Greater care to locate the unfairness in the advantage

Another option exists to help us to reset the balance as between the various interests of producer, consumer and market generally. In this author’s view the ECJ could reinterpret the substantive provisions to outline with much greater care what is unfair about the advantage.

As highlighted in the section relating to commercial speech, it is clearly the motive behind every commercial allusion to a famous mark to seek to benefit financially from this. If we have accepted that some form of allusion is actually economically beneficial then we must be able to allow that to take place within reason. Conversely we must also be ready in appropriate cases to deal with unfairness in an explicit way rather than just a general reference to ‘riding on the coat tails’. Cases such as pure counterfeiting of goods seem to fall within unfairness, but the challenge will be for the courts to locate unfairness that is less clear cut. These are difficult decisions but are ones which must be taken with a clear sense of what is at stake.

One of the ways in which the unfair advantage provisions could be reined in, given the importance of the previously identified influences, would be to redefine the test for what is meant by unfair advantage and possibly the evidential standard used in proving that a junior user has taken unfair advantage of the well known mark. Recall that following L’Oréal all that is required is that the defendant in some way ‘ride on the coat tails of the famous mark without paying any financial compensation’ and that this could be examined using a global appreciation. This is not the only standard that could be employed. Indeed the Court of First Instance had articulated at least two different tests for unfair advantage in a series of cases prior to L’Oréal and ones that were highlighted, though not adopted, by AG Mengozzi in L’Oréal. The CFI had stated that:

‘the concept of the unfair advantage… [relates to] the risk that the image of the mark with a reputation or the characteristics which it projects are transferred to the goods covered by the mark applied for, with the result that the marketing of those goods is made easier by that association with the earlier mark with a reputation’ (emphasis added)

The CFI had also, rather confusingly in the same judgments, mentioned another test:

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144 Some movement in the right direction was in evidence in Whirlpool v. Kenwood [2009] EWCA Civ 753 at [153] to [158] where an extra added factor was held to be needed, aside from mere benefit. See also Middlemiss, ‘Protecting Valuable Brands’, PLC Magazine, November 2009 at 5.
145 L’Oréal AG at [99] to [101].
146 Sigla SA v OHIM (T-215/03) [2007] ECR II-00711. (hereafter VIPS) at [40].
'the risk that the use [...] would take unfair advantage [...] where the consumer, without necessarily confusing the commercial origin of the product or service in question, is attracted by the mark applied for itself and will buy the product or service covered by it on the ground that it bears that mark, which is identical or similar to an earlier mark with a reputation.' (emphasis added)

This paragraph, as AG Mengozzi correctly pointed out148, is a ‘but for’ test and is accordingly quite a strict one in that it restricts liability on the part of the defendant to situations where the unfair advantage is the only reason the consumer buys the allegedly infringing product. While strict, it does address our concern above that the provisions might now be invoked too readily and is, perhaps, a good starting point. We could begin to relax its stringency a little in order to find a better balance between our interests. A test could be envisaged and adopted which instead looked at whether the consumer buys the product ‘primarily for’ the reason that it bears a similar mark to a mark with a reputation. Alternatively, or in conjunction to this change, we could adopt the Intel evidential test in the unfair advantage context and require the plaintiff to prove a change in economic behaviour of the consumers of the allegedly infringing good. If this was found to be difficult to prove in many cases then perhaps the benefit to the alleged infringer is not so great to merit legal protection at all. Surely we ought not to protect what we cannot quantify?149

Either of these two approaches might be able to provide a better balance between the interests of the brand owner and any junior use (especially if we accept that such use is actually economically efficient) than a test which only looks at whether there existed riding on the coat tails, or where the marketing of the defendants goods is made easier; both of which are quite low thresholds for liability. The suggestions here are not, of course, fully road tested but they do seek to make sure that the protection offered by the unfair advantage provisions is limited to situations where there is some greater level of economic unfairness than merely the drawing of some benefit or the receiving of some ‘boost’.

Finally, it should be noted that the Commission has recently launched a review of the whole European trade mark system to assess its effectiveness. It is to be hoped that the ongoing (at time of writing) review by Max Planck Institute will attempt to comment on

147 VIPS at [42].
148 L’Oréal AG at [102].
149 The author is grateful to Dr Dev Gangjee for highlighting this point.
the expanding scope of the unfair advantage provisions. However, it must be noted that the questions, delineating the focus of the view, in the tender document do not seem geared to deal specifically with this concern.

VI. Conclusion

This essay has dealt with an area that is admittedly fairly specialised. However, the protection offered against free riding or the taking of unfair advantage is very significant as it impacts upon both the freedom of competitors to brand owners and the welfare of consumers in the EU.

It has been argued that, as it stands, the scope of the unfair advantage provisions is both unjustified and undesirable. IP rights should not allow the proprietor of a well known mark to evade or be insulated from the effects of the competitive process. In this author’s view the legal framework now in place, supplemented by the decision in L’Oréal, provides an effective shield against the forces of competition that would otherwise prevail.

It has been argued that the scope of the unfair advantage provisions should, therefore, be limited by these competition concerns, by reference to concerns based on freedom of expression and also the fact that consumers are, in part, generators of brand value.

These concerns, combined with the recent comments of Jacob LJ along similar lines, in the concluding judgment of the L’Oréal saga, along with a slight change in tenor of the European Court in Google from L’Oréal, ought to provoke efforts to redress this imbalance away from a focus on the rights of the brand owner alone. Greater emphasis must begin to be placed on the freedom of other traders to compete and especially on their freedom to impart information. This is so even if this means allowing allusion to the brand owner’s marks in a way that is uncomfortable for the brand owner. The European court should also be cognisant of the fact that, as not all of the value within a trade mark is necessarily created entirely by the brand owner, all of that brand value should not necessarily be owned by that brand owner.

At the end of the article it was suggested that this rebalancing could be done by balancing of influences or raising the threshold of what is understood to be an unfair advantage either substantively or evidentially. In addition, the Max Planck Institute ought to look carefully at the case law as well as the responses to its consultation to see whether it too believes that the scope of unfair advantage is now unjustifiably broad.

Much is uncertain, not least the outcome of the Commission’s review, however what is clear is that to do nothing is to continue to allow brands to free ride on the protection of trade mark law thereby insulating themselves from the effects of the market’s invisible hand.
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**Other resources**


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