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Case Comment

Perfume by Any Other Name May Smell as Sweet . . . But Who Can Say?: A Comment on *L’Oreal v. Bellure*

*Carys J. Craig**

1. INTRODUCTION

Like much of intellectual property law, trade-mark law can be a strange and contradictory creature. Its existence is typically justified in light of the public purpose that it serves: in the case of trade-mark law, protecting consumers from the confusion that may be caused by traders’ misrepresentations in the marketplace. At the same time, the means and mechanisms by which the law is meant to further this public purpose often seem to work against it or to extend beyond it. Such is the case, for example, when the law protects against uses of trade-marks that may not cause confusion in the marketplace, and which may in fact provide valuable information to consumers. When this comes to pass, one suspects that the public purpose of the law does not paint the whole picture. As with other areas of intellectual property, the proprietary structure of trade-mark law and the exclusive rights that it grants can create the misperception that a trade-mark is a piece of property that is owned like any other. Regarded in this way, protection expands, tending towards absolute, while the rights and freedoms of others (the buying public, the market competitor) tend to pale in comparison. In my opinion, this tendency towards the proprietization of trade-marks and the corresponding relegation of the public interest is well illustrated by the recent ruling of the European Court of Justice in the case of *L’Oreal SA v. Bellure NV*⁸⁴, as (reluctantly) applied by the Court of Appeal of England and Wales.⁸⁵

In this comment, I will begin by explaining, in section 2, the facts of the case, the ruling of the ECJ and its unenthusiastic reception by the British court. Section 3 will identify and explore the primary concerns raised by the ECJ ruling and identified by the British court, focusing in particular on its effective prohibition of “free-riding” and its disregard for the principles of free expression. In section 4, I will canvass some lessons that should be drawn from this unfortunate case and heeded in the Canadian context.

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⁸⁴ *L’Oreal SA v. Bellure NV*, [2009] EUECJ C-487/07 (CA (Civ Div) 2009) [*L’Oréal (ECJ)*].

⁸⁵ *L’Oreal SA v. Bellure NV*, [2010] EWCA Civ 535, [2010] E.T.M.R. 47, [2010] R.P.C. 23, 107(22) L.S.G. 17, 154(21) S.J.L.B. 30 (CA (Civ Div) 2010) [*L’Oréal (EWCA 2)*].

2. THE L'ORÉAL CASE

(a) Background, Facts and Issues

The *L'Oréal* case concerns the marketing of so-called “smell-alike” perfumes. The L'Oréal Group manufactures well-known, high-end perfumes including “Anaïs-Anaïs,” “Miracle,” “Noa” and “Trésor.” The defendants produced and distributed a range of fragrances each of which was designed to emulate a famous, luxury brand perfume. Of course, Bellure's perfumes were sold at significantly cheaper retail prices, at more “downmarket” outlets and to a different clientele. Thus, for example, a fine fragrance like L'Oréal's Trésor will sell at £60 or more, while a corresponding replica would go for £2-4 on a market stall.

It should already be clear from these facts that consumer confusion is not at issue in this case. As the Court of Appeal noted in its initial ruling, “[t]he public are not stupid. It is not suggested that anyone ever thinks a “replica” product of [this] kind is the original or comes from or is approved by the same commercial source as the original. Nor is it suggested that anyone thinks a replica is anything other than a cheap imitation of the original or is likely to be of the same quality as the original, even though it may smell somewhat the same.”⁸⁶ Nor is there any harm or loss suffered by the plaintiff of the kind typical in trade-mark infringement cases: there is no likely diversion of trade away from the plaintiff because, as the court noted, “the parties' products are not in competition with each other. They are in different price and market sectors.”⁸⁷ Those consumers who are willing and able to pay for the luxury brand perfume are unlikely to regard the cheap replica as a desirable substitute.

Notwithstanding the absence of confusion or diversion of trade, however, L'Oréal objected to the defendant's use of the registered trade-marks “Anaïs-Anaïs,” “Miracle,” “Noa” and “Trésor” in comparison lists, which were distributed by the defendants to retailers in order to indicate the particular famous brand that each of its products were designed to imitate. It further objected to the use of allusive packaging, which was designed to give “a wink of an eye to existing branded product.”⁸⁸

It is important to stress, first, that the copying of the fragrances themselves was agreed by all parties to be perfectly lawful, and second, that the replica packaging was found at trial not to resemble that of the brand product to the extent that it could constitute a misrepresentation to the public (a conclusion with which the Court of Appeal agreed). As such, the remaining issues concerned the lawfulness of the comparison lists bearing the plaintiff's registered trade-marks, and the general question of whether the defendant's marketing practices (the use of similar names, product packaging and comparison lists) took “unfair advantage” of the reputation attached to the plaintiff's marks.

These issues were to be determined under the European Trade Marks Direc-

⁸⁶ *L'Oréal SA v. Bellure NV*, [2007] EWCA Civ 968, [2008] E.C.C. 5, [2008] E.T.M.R. 1, [2008] R.P.C. 9 (CA (Civ Div) 2007) [*L'Oréal EWCA I*] at para. 6, Jacob J.

⁸⁷ *Ibid.* at para. 7.

⁸⁸ *Ibid.*

tive [TMD].⁸⁹ Specifically, Article 5(1)(a) of the TMD entitles the owner of a trade-mark to prevent unauthorized third parties “from using in the course of trade any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered.” Article 5(2) offers broader protection against the use in trade of any identical or similar sign having “a reputation in the Member State . . . where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.” Also relevant were provisions relating to comparative advertising under the Misleading and Comparative Advertising Directive [CAD].⁹⁰ Article 3a of the CAD provides that comparative advertising is permitted where certain specified conditions are met, including: (a) it is not misleading; (d) it does not create confusion in the marketplace; (g) it “does not take unfair advantage of the reputation of a trade-mark . . . of a competitor”; and (h) it “does not present goods or services as imitations or replicas of goods or services bearing a protected trade mark.”⁹¹

(b) The Ruling of the ECJ

The Court of Appeal referred five questions to the European Court of Justice by way of preliminary reference: questions 1 and 2 concerned the scope and applicability of Article 5(1)(a) to the use of the plaintiff’s trade-marks on the comparison lists; questions 3 and 4 related to the potential availability of a comparative advertising defence; and question 5 asked whether the use of a sign could amount to the taking of an “unfair advantage” within the meaning of Article 5(2) simply because the trader enjoys a “commercial advantage” by virtue of that use.

Regarding the first and second questions, the ECJ concluded that the defendant’s use of the plaintiff’s trade-marks in the comparison lists could amount to an infringement of the plaintiff’s right under Article 5(1)(a). It reasoned that the lists made use of trade-marks identical to those registered and in relation to identical goods for which the marks were registered. It was agreed that not every such

⁸⁹ First Council Directive 89/104/EEC of 21 December 1988 to Approximate the Laws of the Member States relating to Trade Marks OK 1989 L40/1 (unmodified in Directive 2008/95/EEC of 22 October 2008 OJ 2008 L299/25). The national UK legislation implementing these provisions is s. 10 (for Art. 5) and s. 11 (for Art. 6) of the *Trade Marks Act 1994*, c. 26.

⁹⁰ Council Directive 84/450 EEC of 10 September 1984 Concerning Misleading and Comparative Advertising (OJ 1984 L250/17) as amended by Directive 97/55/EC of the European Parliament and of the Council of 6 October 1997, OK 1997 L290/18. The provisions of Article 3a Directive 84/450 were transposed into national law by the *Control of Misleading Advertisements (Amendment) Regulations 2000* (SI 2000/914), which introduced a new regulation 4A into the *Control of Misleading Advertisements (Amendment) Regulations 1988* (SI 1988/915).

⁹¹ A use in comparative advertising that meets the conditions set out in Article 3a of the CAD will escape infringement by virtue of Art. 6(1)(b) of the TMD, which provides: “The trade mark shall not entitle the proprietor to prohibit a third party from using, in the course of trade . . . indications concerning the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of goods or of rendering of the service, or other characteristics of goods or services.”

“double identity” use would infringe the owner’s exclusive right as “the exercise of that right must be reserved to cases in which a third party’s use of the sign affects or is liable to affect the functions of the trade-mark.”⁹² A purely descriptive use would therefore be excluded from the scope of Article 5(1) as it would not “affect any of the interests which that provision is intended to protect” and so would not constitute “use” within the meaning of that provision.⁹³ An unlawful use, however, need not be a use that affects the “essential function of the mark,” namely the indication of origin of the goods or services; the use will also be prohibited if it affects a trade-mark’s “other functions, in particular that of guaranteeing the quality of the goods or services in question and those of communication, investment *or advertising*.”⁹⁴ The Court was seemingly of the opinion that the defendant’s use in this case implicated the advertising function of the protected marks.⁹⁵

With regard to the third and fourth questions, the ECJ agreed that the comparison lists could nonetheless be permitted as comparative advertising if they satisfied the conditions set out in Article 3a of the CAD. The Court found, however, that the defendant’s comparison lists “present the goods marketed by the advertiser as being imitations of goods bearing a protected trade-mark within the meaning of Article 3a(1)(h),” thereby removing them from the protective scope of the comparative advertising defence. It further opined that the advantage gained by the advertiser as a result of this unlawful comparative advertising must therefore be considered “an advantage taken unfairly of the reputation of that mark within the meaning of Article 3a(1)(g).”⁹⁶

Finally, in response to the fifth question, the ECJ broadly interpreted the meaning of “unfair advantage,” finding that, even in the absence of confusion or likely damage to the distinctive character or reputation of the mark, Article 5(2) of the TMD may be infringed by the use of a similar mark where a third party “seeks by that use to ride on the coat-tails of the mark with a reputation.” In this way, advantage is unfairly taken where the third party aims “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 of the mark in order to create and maintain the mark’s image.”⁹⁷ The ECJ thus appeared to favour a prohibition on “free-riding” or “parasitism” *per se*,⁹⁸ which “relates not to the detriment caused to the mark but to the advantage taken by the third party.”⁹⁹

⁹² *L’Oréal (ECJ)*, *supra* note 1 at para. 58.

⁹³ *Ibid.* at para. 61; citing *Holterhoff v. Freiesleben (C2/00)*, [2002] All E.R. (EC) 665, [2002] EUECJ C-2/00, [2002] E.C.R. I-4187, [2002] E.T.M.R. 79, [2002] F.S.R. 52, ¶16 (ECJ 2002).

⁹⁴ *L’Oréal (ECJ)*, *ibid.* at para 58 [emphasis added].

⁹⁵ *Ibid.* at para. 62.

⁹⁶ *Ibid.* at para. 80.

⁹⁷ *Ibid.* at para. 50.

⁹⁸ Dev Gangee & Robert Burrell, “Because You’re Worth It: L’Oréal and the Prohibition on Free Riding” (2010) 73 Mod. L. Rev. 282 at 288.

⁹⁹ *L’Oreal (ECJ)*, *supra* note 1 at para. 41.

(c) The Court of Appeal's Reluctant Ruling

Jacob L.J., writing for a unanimous Court, followed the ECJ's judgment with explicit regret.¹⁰⁰ On the first issue, Jacob L.J. understood the ECJ to have said that, in same mark/same goods cases, a defendant can only take his use outside of Article 5(1)(a) by showing that his use is "for purely descriptive purposes."¹⁰¹ If any of the trade-mark functions of communication, investment or advertising are liable to be affected by the use, then the Article 5(1)(a) prohibition is activated. Because the defendant's use here is use for advertising, it is not "purely descriptive" and is therefore prohibited. Jacob L.J. also declared, however, that he had "real difficulty with these functions when divorced from the origin function. There is nothing in the legislation about them. Conceptually they are vague and ill-defined." He speculated about the difficulty of drawing a line between a would-be seller's discussion with a potential buyer in which the trade-mark is referenced and a general purpose advertising aid. Ultimately, it was held that the defendant's comparison lists fell on the wrong side of this elusive line, but only "[b]ecause the [ECJ] has said so."¹⁰²

With regard to the availability of a comparative advertising defence, the Court of Appeal again felt obliged to follow the ECJ's judgment and give the conditions required of comparative advertising a "wide meaning."¹⁰³ Thus the Article 3a(1)(h) condition, which prevents the representation of goods "as imitations or replicas," could not be confined to counterfeit products as the defendants had argued. Rather, the truthful statement that the defendant's product shares an "essential characteristic" (*i.e.* the same smell) with the trade-mark owner's product "amounts to saying the product is an 'imitation or replica' and so outside the protection of the CAD."¹⁰⁴ While Jacob L.J. felt "forced to so conclude,"¹⁰⁵ he questioned the rational basis for such a rule, asking, "[i]f a man trades in lawful replicas or in lawful copies, why should he not be able to inform the public what they are? And why should the truth be kept from the public?"¹⁰⁶ Jacob L.J. was also unimpressed by the composite approach taken by the ECJ to conditions 3a(1)(h) and (g). While the ECJ had held that a comparative advertisement that did not comply with (h) necessarily took "unfair advantage" of the plaintiff's trade-mark within the meaning of (g), Jacob L.J. opined that telling the truth about a lawful product does not involve any "unfair advantage." However, because the comparative advertising did not comply with Article 3a(1) of the CAD, the Court of Appeal held that the comparative lists were unlawful under Article 5(1)(a) of the TMD.

Regarding the final issue, the scope of Article 5(2) and the meaning of "unfair

¹⁰⁰ *L'Oreal (EWCA 2)*, *supra* note 2 at para. 7: "My duty as a national judge is to follow EU law as interpreted by the ECJ. I think, with regret, that the answers we have received from the ECJ require us to so hold."

¹⁰¹ *Ibid.* at para. 28.

¹⁰² *Ibid.* at para. 31.

¹⁰³ *Ibid.* at para. 37.

¹⁰⁴ *Ibid.* at para. 38.

¹⁰⁵ *Ibid.*

¹⁰⁶ *Ibid.* at para. 39.

advantage,” Jacob L.J. again objected to the ECJ’s judgment but felt duty-bound to apply it. In particular, he noted that the ECJ effectively rendered the word “unfair” meaningless when it assumed that all “free-riding” or “exploitation on the coat-tails” of a mark with repute is *ipso facto* unfair. He criticized the conclusion that free-riding is always unfair as one that is “high in moral content (the thought is clearly that copyists, even of lawful products should be condemned).”¹⁰⁷ The result, according to Jacob L.J., is the creation of “a pointless monopoly.”¹⁰⁸

3. SOME DEEP WRINKLES IN L’ORÉAL’S LOGIC

(a) The Rule Against Free-Riding: Propertizing the Mark

The *L’Oréal* ruling has proved to be extremely controversial on a number of fronts. Perhaps the most fundamental problem posed by the case is the introduction of an apparent “free-riding rule” through the ECJ’s interpretation of Article 5(2) of the TMD,¹⁰⁹ and the implications of this rule on the possibilities for comparative marketing in Europe. Jacob L.J. was clearly troubled by the language of free-riding even in his first judgment in this case, in which he remarked: “Although that expression [“free riding”] has crept into European Trade Mark law . . . it is, to me at least, subtly and dangerously emotive: It carries the unwritten message that it ought to be stopped.”¹¹⁰ As Jacob L.J. went on to note, there is no clear reason why free-riding should be regarded as necessarily unlawful or even undesirable. It is typically assumed that imitation is permitted unless there is a good reason for the law to intervene to prevent it, not least because “[r]eferencing activity and building on the efforts of others are fundamental to creative and competitive processes.”¹¹¹ The ECJ failed to provide any clear explanation for why free-riding should be prevented in the absence of confusion or harm to the mark’s reputation. Rather, it adopted language (“deprecatory metaphorical expressions”¹¹² such as “parasitism” and “riding on the coattails”) that implied an inherent evil or moral failing in the act of taking advantage of another’s labour or success.

As Gangee and Burrell argue, there is little in terms of economic theory that would justify a broad prohibition against taking advantage of another’s reputation or market presence. From an economic perspective, the “problem” of free-riding is typically associated with the existence of a “positive externality” — a benefit enjoyed by a third party outside of any economic transaction. The risk is that the benefit-generating activity will not receive adequate incentivization through the market unless its full value is captured by the market; hence, the drive to “internalize” externalities. However, as Mark Lemley reminds us, not every positive externality needs to be internalised — the enjoyment we may take in a neighbour’s

¹⁰⁷ *Ibid.* at para. 49.

¹⁰⁸ *Ibid.* at para. 50.

¹⁰⁹ See Mats Björkenfeldt, “The Genie is Out of the Bottle: the ECJ’s Decision in *L’Oréal v. Bellure*” (2010) 5 J. Intell. Prop. L. & Practice 105.

¹¹⁰ *L’Oréal (EWCA 1)*, *supra* note 3 at para. 27; quoted in *L’Oréal (EWCA 2)*, *supra* note 2 at para. 16.

¹¹¹ Gangee & Burrell, *supra* note 15 at 282; quoted in *L’Oréal (EWCA 2)*, *ibid.* at para. 18.

¹¹² *L’Oréal (EWCA 2)*, *ibid.* at para. 17.

beautiful garden, for example, is a social gain whose value need not be captured by the market.¹¹³ Moreover, the level of protection afforded by the law, where it does intervene, should be no more than that required to incentivize the benefit-producing activity; in the case of trade-mark law, “given the advantages that accrue to the owner of an established brand it is difficult to see that there is any danger of ‘undersupply’ that trade mark law needs to guard against.”¹¹⁴

There are plenty of examples in trade-mark (and other intellectual property) jurisprudence where a second-comer clearly reaps the benefits of the efforts that have been made by those who first entered the marketplace and created demand for a particular kind of product. In such cases, courts have generally recognized that there is no inherent wrong in taking advantage of this benefit; on the contrary, such activities are part of a healthy competitive market. In the case of *Cadbury-Schweppes Pty Ltd v. Pub Squash Co Pty Ltd.*, for example, the court famously stated that “[a] defendant does no wrong by entering a market created by another and there competing with its creator. The line may be difficult to draw; but, unless it is drawn, competition will be stifled.”¹¹⁵ (The absence of any misrepresentation or confusion placed the defendant’s marketing strategies on the right side of the line in that case.) As Lemley notes, intellectual property law has traditionally been “chock full of opportunities to free ride” as a result of limits on the kinds of works that are protected, the kinds of rights that are granted, their limited duration, as well as exceptions and defences to infringement claims. If the goal of intellectual property is to prevent free-riding, however, then these essential limits begin to look like loopholes that should be excised wherever possible.¹¹⁶

The tendency towards absolute protection of a trade-mark against free-riding by competitors is intrinsically tied to an understanding of the trade-mark owner as a bearer of property. As trade-marks take on the character of property, the scope of the owner’s rights grow, such that they prevent various kinds of uses of the mark that cause no confusion or increase in consumer search costs.¹¹⁷ If the trade-mark (or the reputation that it embodies) is regarded as a property right, then any incursion on, or benefit gained from, that mark or its reputation begins to look like unlawful trespass (or “unfair advantage”). The role of the law shifts from one of safe-

¹¹³ See Mark Lemley, “Property, Intellectual Property, and Free Riding” (2005) 83 Tex. L. Rev 1032 at 1048-49.

¹¹⁴ Gangee & Burrell, *supra* note 15 at 290. See also D. Barnes, “Trade-mark Externalities” (2007) 10 Yale J. Law & Tech. 1.

¹¹⁵ 1980 WL 254827 (NSWSC); [1980] 2 NSWLR 864 (Privy Council 1980). In this case, the plaintiff had successfully launched and widely advertised a lemon-flavoured soft drink. Its market was undercut by the defendant who quickly launched a similar product, sold in similar cans and marketed along similar lines. There was no evidence of consumer confusion, however, and so no tortious act.

¹¹⁶ Lemley, *supra* note 29 at 1041-42. See also Annette Kur, Lionel Bently & Ansgar Ohly, “Sweet Smells and a Sour Taste — The ECJ’s L’Oreal Decision,” Max Planck Institute for Intellectual Property, Competition & Tax Law Research Paper Series No. 09-12 at 3: “To hold that imitation is free where it is not precluded by intellectual property is a basic tenet of the system — generations of law professors have taught that rule.” [Kur et al.]

¹¹⁷ *Cp. Ibid.*

guarding the public interest to protecting private property. This would explain why, “in the ECJ’s decision in *L’Oréal*, one may look in vain for a discussion of any possible negative impact of social welfare,” and why “the court did not take any note of the imposed costs to the other traders or the consumers” that would result from restricting the use of the mark in the comparative lists.¹¹⁸ As Gangee and Burrell note, “[i]n effect, the ECJ has recognised property rights in reputation *per se*.”

The connection between the expansive protection and the conceptual proper-tization of trade-marks is also important to the extent that it offers some insight into the moral dimension of the ECJ’s ruling. As stated above, the language employed by the Court reveals a conviction that free-riding is inherently wrong. While there is no discernable economic rationale for its position, the tone of moral disapproba-tion in the Court’s judgment is readily apparent. This would suggest that the judg-ment was informed not by economics but by a greater sense of right and wrong, which was in turn informed by a certain perception of the plaintiff’s “ethical entitle-ment.”¹¹⁹ The owner’s entitlement, as perceived by the ECJ, appears to flow from the “marketing effort expended. . . in order to create and maintain the image of that mark.”¹²⁰ The notion that the investment of effort or labour creates an entitle-ment over the fruits of that labour is closely connected to a vision of intellectual property as a matter of natural right. As I have argued elsewhere, the consequence of such a vision is the overprotection of the owner, and the failure to adequately consider competing rights and interests.¹²¹ In this case, the user of the mark is cast as someone who reaps without sowing, someone who seeks to benefit from an-other’s pains to which he has no right. At the same time, the public interest that may be served by the defendant’s activities (here, the consumer’s interest in know-ing of a cheaper equivalent product) drops out of the picture.

In sum, the rule against free-riding that appears to have emerged from the *L’Oréal* case is overly restrictive of the activities and competitive practices of third parties, and lacks any sound basis in traditional trade-mark law or economic theory. Rather, it is indicative of the kind of overprotection of intellectual property rights that results from a moral perception of trade-marks as a species of private property. A broad prohibition against “taking advantage” of the reputation of a protected mark does not serve, but rather undermines, the interests of consumers, market competitors and the public in general.

(b) Trade-mark Law and the Right of Free Expression

A further source of controversy surrounding the *L’Oréal* case is the clear but unacknowledged restriction that the judgment imposes on good faith competitors’ commercial speech; at its core, the ruling prevented the defendant trader from mak-ing honest statements about his lawful products. Under traditional, common law trade-mark principles, a defendant does no wrong by selling a lawful competing

¹¹⁸ Björkenfeldt, *supra* note 26 at 106.

¹¹⁹ Gangee & Burrell, *supra* note 15 at 291.

¹²⁰ *L’Oréal (ECJ)*, *supra* note 1 at para. 50.

¹²¹ See Carys Craig, “Locke, Labour and Limiting the Author’s Right: A Warning Against a Lockean Approach to Copyright Law” (2002) 28 *Queen’s L.J.* 1.

product where the public is correctly informed about the source and quality of the product being sold. Thus, in the famous *Seiko* case, the Supreme Court of Canada chose not to deprive the Canadian public of the right or option to purchase the defendant's Seiko watches without a warranty and for a cheaper price.¹²² Because the public knew what they paying for (and not paying for), there was no basis for the law to intervene to establish the plaintiff's monopoly on the sale of Seiko watches. To find otherwise would have produced "startling results," according to the Supreme Court, given the "benefits to the community from free and fair competition."¹²³ In the *L'Oréal* case, there was no question that the defendant was within its rights to manufacture and offer for sale the smell-alike products; the only real question, then was "whether he was entitled to inform the public about what he was actually offering, or whether he had to leave it to his customers to find out — for instance by sniffing the available brands. . ."¹²⁴

Jacob L.J. honed in on this question, casting the problem in the following terms: "Does trade mark law prevent the defendants from telling the truth? Even though their perfumes are lawful and do smell like the corresponding famous brands, does trade mark law nonetheless muzzle the defendants so that they cannot say so?" To this he answered: "[T]he ECJ's ruling is that the defendants are indeed muzzled."¹²⁵ If he were able to decide the case free from the opinion of the ECJ, Jacob L.J. confessed to a "strong predilection" that "trade mark law did not prevent traders from making honest statements about their products where those products are themselves lawful."¹²⁶ By way of explanation, Jacob L.J. declared himself to be in favour of free speech, especially when someone wishes to tell the truth, and even if that truth is told with a motive of commercial gain because "truth in the market place matters."¹²⁷

Of course, freedom of expression (including commercial expression) is guaranteed by various international human rights documents including Article 10(1) of the European Convention on Human Rights. Furthermore, this right is guaranteed not only to the speaker who wishes to tell the truth, but also to those who would wish to hear it. In Jacob L.J.'s view, "the hearer's right to receive information translates into the right of the consumer to make an informed choice about products on the market."¹²⁸ From this it follows that the ECJ's decision in the case denies to consumers "their right to receive information which would give them a little bit of pleasure; the ability to buy a product for a euro or so which they know smells like a famous perfume."¹²⁹ Of course, the trade-mark owner may not want the buying public to know that the essential characteristic of its wares can be imitated for a

¹²² *Consumers Distributing Co. v. Seiko Time Canada Ltd.*, 1984 CarswellOnt 869, 1984 CarswellOnt 801, [1984] 1 S.C.R. 583, 1 C.P.R. (3d) 1, 10 D.L.R. (4th) 161, 54 N.R. 161, 29 C.C.L.T. 296, 3 C.I.P.R. 223 (S.C.C.).

¹²³ *Ibid.* at 595 [S.C.R.].

¹²⁴ *Kur et al.*, *supra* note 33 at 3.

¹²⁵ *L'Oréal (EWCA 2)*, *supra* note 2 at para. 6.

¹²⁶ *Ibid.* at para. 8.

¹²⁷ *Ibid.* at para. 9.

¹²⁸ *Ibid.* at para. 12.

¹²⁹ *Ibid.* at para. 15.

fraction of the price at which it sells its luxury brand, but there needs to be a stronger reason than that in order for the law to suppress the truth.¹³⁰

The relationship between the protection of trade-marks and the guarantee of freedom of expression is one that is typically obscured by the separate legal silos in which these rights operate, and it is therefore seldom acknowledged by courts or lawmakers. It is undeniable, however, that the enforcement of intellectual property rights including trade-mark rights frequently imposes a legal limitation upon a defendant's expressive activity. As trade-mark rights expand beyond the protection against consumer confusion, the tension between these rights and free speech values become harder to ignore. Jacob L.J. cited with approval the case of *Laugh it Off Promotions v. South African Breweries*, in which the Constitutional Court of South Africa warned: "Courts must be astute not to convert the anti-dilution safeguard of renowned trade marks usually controlled by powerful financial interests into a monopoly adverse to other claims of expressive conduct of at least equal cogency and worth in our broader society."¹³¹

Under European law, any encroachment onto the freedom of expression guarantee must be justified and proportionate.¹³² The ECJ, however, apparently gave no consideration to the human rights issues presented by the *L'Oréal* scenario. It was seemingly blind to the question of whether the restriction on advertising of lawful goods was consistent with consumers' rights to receive relevant commercial information or traders' freedom of commercial speech. As I have argued elsewhere, this seeming blindness to the tensions at play is symptomatic of a larger problem with the conceptualization of intellectual property rights; specifically, the intuition that trade-marks are property obscures the conflict between trade-mark law and the freedom of expression guarantee.¹³³ Perhaps the most illustrative example of this is found in the Canadian case of *Cie Générale des Etablissements Michelin-Michelin & Cie v. C.A.W.-Canada*,¹³⁴ in which the court dismissed a defendant's freedom of expression defence in an action for copyright and trade-mark infringement on the ground that "the Defendants' right to freedom of expression was not restricted. The Charter [of Rights and Freedoms] does not confer the right to use private property. . . in the service of freedom of expression."¹³⁵

Similarly, in *L'Oréal*, the ECJ's perception of the defendant's comparison lists

¹³⁰ *Ibid.*

¹³¹ 27 May 2005, Case CCT 42/04 at 48; quoted in *L'Oréal (EWCA 2)*, *supra* note 2 at para. 13.

¹³² *Kur et al.*, *supra* note 33 at 4, citing: ECHR, *Markt Intern Verlag GmbH v. Germany* (1990), 12 E.H.R.R. 161, ¶34 (ECHR 1989); *Hertel v. Switzerland (25181/94)* (1999), 28 E.H.R.R. 534, 5 B.H.R.C. 260, [1998] H.R.C.D. 817, [1998] ECHR 77, (2001) 33 EHRR 3, 28 EHRR 534, 33 EHRR 3, ¶47 (ECHR 1998); and *Krone Verlag GmbH & Co. KG v. Austria (39069/97)*, (2006) 42 E.H.R.R. 28 (ECHR 2003) at paras. 30 *et seq.*

¹³³ I have written more extensively about this tension elsewhere. See Carys Craig, "Putting the Community in Communication: Dissolving the Conflict between Freedom of Expression and Copyright Law" (2006) 56 U.T.L.J. 75.

¹³⁴ (1996), 1996 CarswellNat 2297, 1996 CarswellNat 2711, [1997] 2 F.C. 306, 124 F.T.R. 192, 71 C.P.R. (3d) 348 (Fed. T.D.).

¹³⁵ *Ibid.* at para. 79.

as merely an instance of “free-riding” on the plaintiff’s mark blinded it to the expressive nature of those comparison lists and the free speech aspects of the case. In the U.K., it has at least been acknowledged that intellectual property rights will not always trump free expression. In *Ashdown v. Telegraph Group Ltd.*,¹³⁶ Lord Phillips M.R. wrote that “rare circumstances can arise where the right of freedom of expression will come into conflict with the protection afforded by the *Copyright Act*. . . In these circumstances, we consider that the court is bound, insofar as it is able, to apply the Act in a manner that accommodates the right of freedom of expression.”¹³⁷ Unfortunately, in light of the ECJ’s ruling, the Court of Appeal did not feel free to interpret the provisions of the TMD or the CAD in a way that would cohere with the principles of free expression. The result is that “the interest of perfume makers in preserving their image of exclusivity is preferred to that of consumers in receiving information of relevance to their purchasing decision.”¹³⁸ Fundamentally, this means that the protection of exclusive trade-mark rights is preferred over the social goals and values embodied by the freedom of expression guarantee.

4. LESSONS FROM L’ORÉAL

While the *L’Oréal* ruling was reasoned and decided on the basis of European trade-mark law, it is important to stress, by way of conclusion, that there are some valuable lessons to be learned from this case, which Canadian courts and lawmakers would be well-advised to heed. Fortunately, unlike the British court, a Canadian court hearing a similar case would not be bound to follow the ECJ’s lead — and nor should it. Indeed, the case stands for what not to do. In this final section, I will set out three lessons that can be learned from *L’Oréal*, and which have the potential to positively inform and influence the future interpretation and development of trade-mark law in Canada.

First, it is important to note the concerns that have been raised regarding the ECJ’s identification of trade-mark functions beyond the essential function of a trade-mark as an identifier of source (these functions included guaranteeing the quality of goods or services and those of communication, investment or advertising). In Canada, the *Trade-Marks Act* (TMA)¹³⁹ creates, in section 19, an exclusive right to the use of a registered mark in association with the same wares or services for which the mark is registered (effectively equivalent to Article 5(1)(a) of the TMD). The Canadian case of *Clairol International Corp. v. Thomas Supply & Equipment Co.*¹⁴⁰ involved the comparative advertising of hair dyes. The defendant in that case claimed that its colours were “so close to Clairol’s as to be just as good,” and in order to substantiate that claim, it produced a colour comparison

¹³⁶ [2001] EWCA Civ 1142, [2002] Ch. 149, [2001] 3 W.L.R. 1368, [2001] 4 All E.R. 666, [2002] E.C.C. 19, [2002] E.C.D.R. 32, [2001] E.M.L.R. 44, [2001] H.R.L.R. 57, [2001] U.K.H.R.R. 1242, [2002] R.P.C. 5, (2001) 24(9) I.P.D. 24058, (2001) 98(33) L.S.G. 29, (2001) 145 S.J.L.B. 201 (CA (Civ Div) 2001).

¹³⁷ *Ashdown (CA)*, *supra* note 90 at para. 45.

¹³⁸ *Kur et al.*, *supra* note 33 at 3.

¹³⁹ RSC 1985, c. T-13.

¹⁴⁰ 1968 CarswellNat 32, [1968] 2 Ex. C.R. 552, 55 C.P.R. 176, 38 Fox Pat. C. 176 (Can. Ex. Ct.).

chart to identify equivalent dye colours. The plaintiff, of course, objected to the use of the CLAIROL mark that appeared on the packages and promotional brochures for the defendant's REVLON products. The plaintiff's section 19 action failed, however, because the defendant's use "was not a use for the purpose of distinguishing the goods as goods of the defendants and for that reason alone was not a use the exclusive right to which had been conferred on the plaintiffs by section 19."¹⁴¹ The court was concerned only with the essential function of the trade-mark as an indicator of source.

This is an important limitation on the plaintiff's exclusive rights in relation to the registered mark. Implicit in this limitation is the recognition that a trade-mark is not a piece of property but rather is protected only because of, and to the extent of, its capacity to identify source in the marketplace. In order to avoid the undue expansion of the trade-mark owner's exclusive right to control the use of its mark, not to mention the ambiguity introduced by the additional, undefined functions identified in *L'Oréal*, it is crucial that the application of both sections 19 and 20¹⁴² of the Canadian TMA continues to be limited to cases where the origin-identifying function of the mark is implicated.

Second, it is necessary to consider the appropriate limits on the expansive rights protected by section 22 of the Canadian TMA (which essentially corresponds to Article 5(2) of the TMD). Section 22 gives to the registered owner the right to prevent another person from using the mark "in a manner that is likely to have the effect of depreciating the value of the goodwill attaching thereto" even where that use is not confusing. The potential scope of this right is enormous, and clearly capable of restricting basic competitive practices as well as commercial (and other) speech. A use that falls foul of section 22 need not be use "as a trade-mark" to identify source; it is enough that the use depreciates the value of the mark's goodwill. Unless the meaning of section 22 is kept in check, its capacity to prevent all kinds of expressive, nominative or descriptive uses is a cause for concern.

In *Clairol*, Justice Thurlow found that the comparison charts on the defendant's packaging were in violation of section 22 because they used the plaintiff's registered mark "for the express purpose of taking away custom enjoyed by competitors."¹⁴³ This conclusion followed from Justice Thurlow's understanding of what it means to "depreciate the value" of goodwill: "Depreciation of that value in my opinion occurs whether it arises through reduction of the esteem in which the mark itself is held or through the direct persuasion and enticing of customers who could otherwise be expected to buy or continue to buy goods bearing the trade-mark."¹⁴⁴ This definition, which invokes the idea of diminishing demand for the trade-mark owner's wares or usurping his custom, falls dangerously close to the ECJ's understanding of what it means to take "unfair advantage" of another's reputation. While it was accepted that, as a matter of fact, purchasers of L'Oréal's ex-

¹⁴¹ *Ibid.* at para. 33.

¹⁴² Section 20 of the TMA prevents a person not entitled to the use of a trade-mark from selling, distributing or advertising wares or services in association with a confusing trade-mark. It is therefore essentially equivalent to section 5(1)(b) of the TMD.

¹⁴³ *Ibid.* at para. 45.

¹⁴⁴ *Ibid.* at para. 42.

pensive fragrances would be unlikely to buy the cheap equivalents in their place, the defendant in *L'Oréal* was clearly trying to entice if not would-be then “wannabe” purchasers of those brands. Furthermore, no consideration was given to the truthfulness of the comparison in determining its lawfulness.

In *Veuve Clicquot Ponsardin c. Boutiques Cliquot Ltée*, the Supreme Court of Canada had the opportunity to weigh in on the scope of section 22. The Court cited with approval the definition of goodwill adopted in *Clairol*, defining it as “the positive association that attracts customers towards its owner’s wares or services rather than that of its competitor.”¹⁴⁵ In identifying the kinds of activities that could depreciate the value of a mark’s goodwill thus defined, the Court mentioned “disparagement” or “tarnishing” of the mark through the creation of a negative association, as well as “blurring” or “whittling away” its power to distinguish the owner’s products.¹⁴⁶ The Court took care, however, to emphasize that the notions of blurring and tarnishment were not limiting but merely illustrative of the kinds of uses that could cause “depreciation” within the meaning of section 22, as “Canadian courts have not yet had an opportunity to explore its limits.”¹⁴⁷

In my opinion, Canadian courts would be well-advised to restrict the prohibition in section 22 to cases of blurring or tarnishment causing or likely to cause measurable harm. Certainly, learning from the *L'Oréal* decision, Canadian courts should take care to avoid the conclusion that any advantage gained by the non-confusing use of another’s trade-mark amounts to depreciating the value of goodwill in that mark. There is no default presumption that “free-riding” is unlawful, and reaping the benefit of another’s goodwill in some way does not necessarily translate into depreciating its value. It would be most regrettable if section 22 were permitted to become a “catch-all” for any use of a well-known trade-mark that a court may regard as taking unfair advantage of the distinctive character of reputation of another’s mark.

Finally, in light of the *L'Oréal* case, Canadian courts and lawmakers should have a new appreciation of the dangers that accompany the overprotection of trade-marks in terms of undesirable restrictions on both free competition and free expression. In Canadian trade-mark law there is, for example, no exception to liability for the fair use of a protected mark. The doctrinal limits of trade-mark protection (such as the need for a plaintiff to establish confusion in the marketplace, or the inability to control non-commercial or non-trade-mark uses) typically do a decent job of drawing the boundaries around the registered owner’s rights. Section 22, however, threatens to offer more expansive control. In the United States, protection against the dilution of the distinctive quality of a famous mark is limited by section 1125(4) of the *Lanham Act*, which shields from liability non-commercial uses, uses

¹⁴⁵ *Veuve Clicquot Ponsardin c. Boutiques Cliquot Ltée* (2006), 2006 SCC 23, 2006 CarswellNat 1402, 2006 CarswellNat 1403, [2004] C.S.C.R. No. 324, [2006] S.C.J. No. 22, [2006] 1 S.C.R. 824, 49 C.P.R. (4th) 401, 349 N.R. 111, 270 D.L.R. (4th) 1, ¶50, 52 (S.C.C.).

¹⁴⁶ *Ibid.* at paras. 63–67. The Court drew on examples of uses that have been found to unlawfully “dilute” the “distinctive quality” of famous marks in the U.S. context. See the U.S. *Lanham (Trademark) Act*, 15 U.S.C. §1125 (2002).

¹⁴⁷ *Ibid.* at para. 67.

in news reporting, and “fair use of a famous mark by another person in comparative commercial advertising or promotion to identify the competing goods or services of the owner of the famous mark.”¹⁴⁸ In my opinion, the *L'Oréal* case reveals the wisdom of inserting into Canada's TMA a similar exception from liability for fair (which must include truthful) comparative advertising that makes good faith use of registered trade-marks to identify the subject of the comparison. In the absence of a legislative exception, courts should be prepared to read one in as a matter of principle.

As a related point, it is hoped that Canadian courts heed the concerns raised around the *L'Oréal* case regarding the tension between trade-mark rights and the right of freedom of expression, which is of course guaranteed by section 2(b) of the *Canadian Charter of Rights and Freedoms*.¹⁴⁹ It is time to depart from the notion of trade-mark as property and to acknowledge the expressive function of trade-marks in the marketplace and in our culture at large. A renewed awareness of the limitations imposed by trade-marks on the expressive activities of competitors and the general public would permit (indeed demand) the incorporation of free expression principles in the development and application of trade-mark law. These principles should inform the limits of the rights that trade-mark law affords.

5. CONCLUSION

L'Oréal v. Bellue is a remarkable case. The ruling of the ECJ, as reluctantly applied by the Court of Appeal of England and Wales, protects the plaintiff's trade-mark rights against free-riding and prohibits the defendants from taking any commercial advantage of the reputation attaching to the plaintiff's famous perfume brands. In doing so, it limits free competition and commercial expression without identifying any real harm (consumer confusion, blurring or tarnishment of the marks) or providing any clear public benefit that would justify such intervention. In this way, the case reflects a perception of trade-mark rights as private property, and the owner of a valuable trade-mark as morally entitled to absolute protection due to his investment in the creation of the brand. In Canada, we should seize the opportunity to learn from this ruling, prepare to avoid the mistakes of the ECJ in future comparative advertising cases, and aim to protect the rights and interests of Canadian traders and the public against any similar expansion of trade-mark protection in Canada — because we're worth it!

¹⁴⁸ *Supra* note 61, §1125(4)(A).

¹⁴⁹ Part I of the *Constitution Act, 1982*, being Schedule B to the *Canada Act 1982* (U.K.), 1982, c. 11.