The Bubbles Return: Much Needed Clarification Sought from the ECJ on the Extent to which Europe will Tolerate Comparative Advertising

The Court of Appeal recently handed down its long awaited decision in the dispute between O2 and Hutchison (O2 Holdings Limited (formerly O2 Limited), O2 (UK) Limited and Hutchison 3G Limited (2006) EWCA Civ 1656). The Court has decided to stay its decision pending a preliminary ruling from the European Court of Justice on three questions, the answers to which will provide crucial guidance on the type of comparative advertising which EU law will permit. As Jacob LJ commented in his judgment, “the question deep down involves a decision based upon the philosophy of how competitive the law allows European industry to be.”

Background Facts

The case involves the two mobile phone providers, O2 and Hutchison 3G (“HG3”). In 2002, O2 launched its “O2” brand which was based on the concept of oxygen, for which “O2” is the chemical abbreviation, and comprised four key components: the O2 name, the stylised O2 logo, various bubble imagery and a blue graduated background. O2 owned a number of UK and Community Trade Mark registrations in respect of this get-up in Classes 9 and 38, covering telecommunications apparatus and services.

H3G was a late entrant to the UK mobile phone market, starting its “3” service in 2003, by which time the four other providers, Vodafone, Orange, O2 and T-Mobile were all well established and H3G did not find the going easy. In 2004, H3G launched its “pay as you go” service “Threepay” and decided to highlight the brand by a series of television and radio advertisements comparing its service against those of its competitors. Their stated intention was to do so in a “robust but fair way”. The advertisements featured O2’s bubble imagery, which O2 claimed infringed two of its “bubble” trade mark registrations, images of which are set out below:

- “Technical” (Reg. No. 2360558)

- “Fizz” (Reg. No. 2298347)
At first instance, Lewison J held that the use of the bubble images in the advertisements infringed O2’s registrations under s10(2) of the Trade Marks Act 1994 (“TMA”); the bubble images used by Hutchison were confusingly similar to O2’s registrations “Technical” and “Fizz”. However, it was also held that H3G’s use of its bubble imagery fell within the ambit of Article 3a(1) of the Comparative Advertising Directive 97/55 (“CAD”) and therefore qualified for the defence provided by Article 6(1)(b) of the Trade Marks Directive 89/104 (“TMD”).

Significantly, Lewison had held that in order for comparative advertising to fall outside the ambit of trade mark infringement, it must comply with the provisions of the CAD. This decision was contrary to the judgment in British Airways Plc v Ryanair Limited (2001) FSR 32 where Jacob J had held that the “comparative advertising” defence was contained in S10(6) of the TMA, subject to the proviso that it was carried out in accordance with honest practices. Lewison J held that S10(6) of the TMA must be interpreted as permitting comparative advertising so long as it was conducted in accordance with honest practices, but only insofar as those practices have been defined for the purposes of the CAD.

Article 3a(1) of the CAD sets out a checklist of conditions to which comparative advertising must adhere to be permitted. Lewison J considered the relevant parts of the checklist with the following conclusions:

- **Was it misleading?** No. The two service providers were adequately distinguished.
- **Did it compare goods or services meeting the same needs or intended for the same purpose?** Yes
- **Did it objectively compare prices?** Yes
- **Did it create confusion in the market place between the advertiser and a competitor?** No, at the end of Hutchison’s advertisement, a viewer would be left in no doubt as to which part related to which service provider and whose marks were represented in each part.
- **Did it discredit or denigrate O2’s trade marks or services?** Although O2 argued that the poor quality of H3G’s “bubble” imagery created the impression that O2’s service was of poor quality, Lewison J argued that a certain level of robustness in comparative advertising had to be expected and that H3G’s imagery was not so poor as to discredit O2’s marks.
- **Did it take unfair advantage of the reputation of O2 or its trade marks?** Lewison J rejected O2’s arguments that H3G had “piggy-backed” on the success of its brand.

Lewison J concluded that Hutchison’s advertisement had complied with the CAD, emphasising that comparative advertising was necessarily robust and that, within the confines of the CAD, advertisers should be permitted to do what was necessary to make the comparative advertisement effective. As a result, the CAD did provide Hutchison with a defence to infringement under S10(2) of the TMA.
O2 appealed against the finding that there was a defence to infringement and H3G appealed on the grounds that Lewison J had been wrong to find that the advertisement was infringing and that in any case, there did exist a defence to infringement.

Appeal Decision

LJ Jacob decided that the position on infringement was not clear and therefore decided to stay his judgment and seek guidance from the ECJ on the extent to which comparative advertising infringed the rights of a trade mark owner. The questions posed were as follows:

1. Where a defendant uses a sign in the course of trade purely for the purpose of comparing the merits (including price) of his goods or services with those of the trade mark owner and in such a way that it cannot be suggested that the essential function of the trade mark to guarantee the trade mark as an indication of origin is in any way jeopardised, can his use fall within Article 5 of the TMD?

2. Where a defendant uses, in a comparative advertisement, the registered trade mark of another, in order to comply with EU legislation on comparative advertising, must that use be “indispensable” and if so, what are the criteria by which indispensability is to be judged?

3. If the answer to question 2 is “yes” does that requirement of indispensability preclude any use of a sign so similar to the registered trade mark as to be confusingly similar to it?

Jacob LJ offered his own view, namely that he thought the answer to question 1 was “no” on the basis that this conclusion was consistent with the key function of trade marks. Jacob’s opinion was that H3G’s use of O2’s marks was not so as to indicate the trade origin of H3G’s own goods or services. If the comparative advertising failed to comply with the provisions of the CAD, then the appropriate enforcement mechanism was the CAD and not the TMD.

If the ECJ agreed with this view on infringement, then a response to Jacob’s next two questions would not be required, but if it was held that descriptive use of the kind made by H3G did infringe, the Court would need to decide whether a complete defence to infringement was provided by the CAD. Jacob pointed out that the CAD contained no explicit provision as to whether compliance with the conditions laid down in Article 3a of the Misleading Advertising Directive (“MAD”) allowed a defence to trade mark infringement and that this lack of clarity meant that the ECJ would need to decide whether compliance with the Article 3a conditions provided a defence to any action based on a trade mark or other IP right aimed at the prevention of comparative advertising.

Notwithstanding the ambiguity of the CAD, Jacob’s view was that the answer lay in Article 6 of the TMD, which allows the use of “indications concerning the kind, quality…or other characteristics of goods or services”. He could not think of any comparison which would not fall within at least one of these indications, subject to the proviso of honesty which also formed part of Article 6. However, he went on to add that if a comparative advertisement was not honest, it would not comply with the CAD, the flip side to which was that compliance with the CAD would provide a defence to an action based on a trade mark or other IP right aimed at the prevention of comparative advertising.

As to the second and third questions which Jacob referred to the ECJ, the parties had been in dispute over whether it was necessary for H3G to use O2’s “secondary” bubbles imagery in addition to their main O2 brand in their comparative advertisement. O2 had argued that Article 3a of the MAD provided that a competitor’s brand should only be used where “necessary” and that there was no need to use the bubbles imagery, or even a confusingly similar variant thereof, to make the price comparison. H3G had contested that use of this imagery was necessary in order to make the comparison more effective.
Although Jacob felt that it was not clear whether Article 3a of the MAD imposed this requirement of necessity/indispensability, he again offered his own opinion, which was that there was no such requirement. This view was based on the case Pippig Augenoptick GmbH & Co KG v Hartlauer Handelsgesellschaft mbH (C-44/01) which provided that the conditions attached to comparative advertising must be interpreted in the sense most favourable to the party making the comparative advertisement. This view was inconsistent with the notion that any such use had to be indispensable. Jacob’s response to this enquiry effectively dictated his response to the last question he posed, which was that he could not see why a requirement of necessity should include a requirement that the mark be only used in a comparative advertisement exactly as registered. Such a requirement would, he thought, be “absurd” and an unreasonable fetter on comparative advertising.

Comment

The ECJ’s response to these three questions will hopefully provide much needed clarity on what has hitherto been a confusing and ill understood area of the law. It is unfortunate that the CAD has been so badly drafted, by those whom Jacob described as having “no more than a populist understanding of IP” that it falls to the ECJ to fill in the gaps, but their ruling should provide a greater level of certainty, to those who wish to use comparative advertising, as to the extent to which they can include third party marks and still fall outside the ambit of trade mark infringement. Jacob has sought to steer the ECJ towards the position traditionally adopted by the UK Courts, by offering his own rhetorical answers to the questions he has posed. However, it remains to be seen whether the Court will share his robust view, which is at odds with the more restrictive stance on comparative advertising advocated by many of our continental neighbours.