

COMPARATIVE ADVERTISING IN NEW ZEALAND¹

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Introduction

Comparative advertising is the marketing practice of referring to a competitor's product to promote the goods or services of the advertiser. Comparisons typically focus on relative benefits, or the absence of flaws in the advertiser's product. Often the target of the comparison will be unhappy with the emphasis of the advertisement, and may explore its legal options to seek redress. This article considers those legal options, namely under the Trade Marks Act 1953 and the Fair Trading Act 1986, and the future legality of the practice in New Zealand.

Trade marks

Inclusion of a competitor's trade mark in a comparative advertisement may amount to trade mark infringement in New Zealand. Advertisers who intend to make comparisons should therefore be aware of the effect of the Trade Marks Act 1953, although the position is likely to change when the Trade Marks Bill is enacted.

Comparative advertising did not amount to trade mark infringement in New Zealand or Britain until the late 1930s. In the well-known case *Irving's Yeast-Vite Limited v Horsenail* (1934) 51 RPC 110 (HL), the House of Lords held that a reference to the defendant's product as being "a substitute for Yeast-Vite" was not use of the plaintiff's "Yeast-Vite" mark in the trade mark sense, being a necessary element of trade mark infringement. In response to that case, the United Kingdom's *Departmental Committee on the Law and Practice relating to Trade Marks* (known as the Goschen Committee) proposed amendments to the UK trade mark legislation to prevent a third party from exploiting the goodwill in a mark and injuring the reputation of the registered proprietor.

In the New Zealand Court of Appeal in *Villa Maria Wines Limited v Montana Wines Limited* [1984] 2 NZLR 422 (CA), Somers J summarised the recent legislative history of amendment to the infringement provision (and also to the definition of "trade mark") following the Goschen Committee (at 428) as follows:

Both these points were taken up by the United Kingdom Parliament in the Trade Marks (Amendment) Act 1937 which, before it came into force, was consolidated with previous trade mark legislation in the Trade Marks Act 1938 (37 Halsbury's Statutes of England (3rd ed) p 887). Similar amendments to those in the 1937 Act were made in New Zealand in the Patents, Designs, and Trademarks Amendment Act 1939 and consolidated in the Trade Marks Act 1953.

The relevant part of section 8 of the Trade Marks Act 1953 currently provides:

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8 Right given by registration in Part A, and infringement thereof

...

- (1A) Without limiting subsection (1) of this section, the right conferred by that subsection shall be deemed to be infringed by any person who, not being the proprietor of the trade mark or a registered user of it using by way of the permitted use, uses in the course of trade—
- (a) A sign identical with it in relation to any goods or services in respect of which the trade mark is registered; or
 - (b) A sign identical with it in relation to any goods or services that are similar to any goods or services in respect of which the trade mark is registered, if such use would be likely to deceive or cause confusion; or
 - (c) A sign similar to it in relation to any goods or services that are identical with or similar to any goods or services in respect of which the trade mark is registered, if such use would be likely to deceive or cause confusion,—

and in such manner as to render the use of the sign likely to be taken—

- (d) As being use as a trade mark; or
- (e) In a case in which the use is use upon goods or in physical relation to goods or in an advertising circular or other advertisement issued to the public relating to goods, as importing a reference to some person having the right either as proprietor or as registered user to use the trade mark or to goods with which such a person is connected in the course of trade; or
- (f) In a case in which the use is in relation to services or in an advertising circular or other advertisement issued to the public relating to services, as importing a reference to some person having the right either as proprietor or as registered user to use the trade mark or to services with which such a person is connected in the course of trade.

(The original section 8 was amended slightly by the Trade Marks Amendment Act 1987 and the Trade Marks Amendment Act 1994, although section 8(1A) remains substantially identical to section 8(1) as originally enacted.)

The mischief that Parliament sought to cure in enacting what is now section 8(1A)(e) of the Trade Marks Act was that smaller traders might otherwise seek to use the reputation of their more famous competitors to sell their own goods. As subsequent case law indicates, however, the amendment to the Trade Marks Act in effect “overcorrected” the position, to the point of preventing comparisons of quality and features between goods and services where those comparisons include a registered trade mark. In essence, if the name of a business or product which is the subject of a comparison is also a trade mark, simply referring to the trade mark in the course of the advertisement may infringe the rights of the registered proprietor of the mark under section 8 of the Act.

The Montana case

The Court of Appeal addressed this point in *Villa Maria Wines Limited v Montana Wines Limited* [1984] 2 NZLR 422 (CA). In that case, Villa Maria successfully applied to the Court of Appeal to discharge an interim injunction relating to references to “Montana” (and other of the

plaintiff's trade marks) in its advertising, although the Court held that the defendant had committed trade mark infringement by importing a reference to the goods of the plaintiff. The case ultimately turned on the fact that the marks were registered in Part B of the Register. The crucial point was the application of section 9(2), which provided that "no injunction or other relief shall be granted to the plaintiff if the defendant establishes to the satisfaction of the Court that the use of which the plaintiff complains is not likely to deceive or cause confusion or to be taken as indicating a connection in the course of trade between the goods and some person having the right either as proprietor or as registered user to use the trade mark", but the important point for the present discussion is that the use of the mark in a comparative trade mark was caught by section 8 and was prima facie an infringement.

The Court of Appeal considered that *Villa Maria's* object was (at 424) to "promote its wines by equating their quality with those of a better known competitor whose products have an established reputation and thereby enlarge its share of the market". Applying the English Court of Appeal's decision in *Bismag Limited v Amblins (Chemists) Limited* [1940] Ch 667, the New Zealand Court observed that although this did not amount to use in a manner likely to be taken as use in the trade mark sense, the *Villa Maria* advertisements nonetheless infringed Montana's trade marks through importing a reference to Montana and that company's wines. The Court noted (at 430):

In the instant case *Villa Maria* have used Montana's marks in a trade mark sense - that is as pointing to Montana's goods. It has done so in order to advertise its own wine, to get a benefit from the reputation which has accrued to Montana's wines sold under those marks which identify it by indicating its origin. We are of opinion that by its advertisements *Villa Maria* has used the marks in such a manner as to render their use likely to be taken as importing a reference to wine with which Montana is connected in the course of trade - that it has infringed under s 8(1)(b).

The PC Direct case

A more recent example of New Zealand case law on comparative advertising is *PC Direct Limited v Best Buy Limited* [1997] 2 NZLR 723. In that case, Elias J (as she then was) held that the defendant advertiser had breached the Trade Marks Act, but refused to grant relief. The facts of the case were important, although the Court also placed importance on rights to freedom of expression and the importance of giving effect to international obligations.

The case arose due to a dispute over the accuracy of the defendant's advertisement, which referred to products sold by its competitor, PC Direct Limited. The plaintiff had also registered the words "PC Direct" as a trade mark. Her Honour summarised the possible effect of the decision (at 726) as follows:

The present application for interlocutory injunction, if successful, would effectively prevent comparative advertising because identification of PC Direct by name would be stopped. This rather startling fetter upon free speech is said by the plaintiff to be compelled by ss 8 and 9 of the Trade Marks Act 1953.

Elias J reviewed the legislative history referred to above, and also the context of amendments to the Trade Marks Act (effective from 1 January 1995). The amendments were essentially enacted in order to comply with New Zealand's obligations under the agreement on Trade-Related Aspects of Intellectual Property Rights (or TRIPS Agreement). Her Honour concluded that the amendments had not added anything to the law in relation to comparative advertising since the *Villa Maria* case.

Elias J ultimately followed the Court of Appeal's decision in *Villa Maria*, and held that on the wording of the section, section 8 of the Trade Marks Act 1953 was infringed where the trade mark was used to refer to the proprietor's goods in a comparative advertisement. Although not

relevant to the question of infringement, the Court considered that the interests of justice were better served by declining the injunction in the absence of any evidence of confusion. This conclusion was essentially based upon two grounds. The first was the existence of remedies at general law, and recognition that the plaintiff was seeking to exploit its trade mark rights for an ulterior purpose:

[I]n this case I am concerned in particular that the public interest in both effective competition and free speech is affected. Because of the coincidence of the plaintiff's name and trade mark, identification of its products for comparative purposes by a competitor is virtually impossible. The plaintiff is protected from misstatements by the common law and by the Fair Trading Act 1986. If at the end of the day infringement of its trade mark is established then it will have a remedy in damages or a basis upon which to seek permanent injunctive relief after more full consideration than it has been possible for me to give to the matter. (at 733)

Secondly, and possibly more importantly, the Court was concerned as to the implications for free speech if the injunction were granted:

In considering the question of interim relief, I am concerned not to cut across the rights to freedom of speech and to receive information protected by s 14 of the New Zealand Bill of Rights Act 1990. I am not able to assess at this stage of proceedings whether the comparative information supplied to the public is of value, but I cannot assume that it is not. (at 733)

The Court's approach in the *PC Direct* case was pragmatic and laudable. The relative lack of comparative advertising cases in New Zealand in light of the broad wording of section 8 of the Trade Marks Act 1953 could reflect either a reluctance of traders to engage in the practice in the first place; the chilling effect upon free speech to which Elias J referred. Alternatively, it may simply point to a level of maturity amongst competitors, who are happy to engage in comparative advertising on the assumption that their business rivals will do the same, provided that all comparisons are truthful and accurate. In either case, the legislation would appear to be out of step with the needs and expectations of traders, who risk being sued for trade mark infringement if they refer to their competitors' products by name.

Trade Marks Act 2002

The trade mark infringement provision under the recently enacted Trade Marks Act 2002 no longer refers to "importing a reference". Section 89 provides:

89 Infringement where identical or similar sign used in course of trade

- (1) A person infringes a registered trade mark if the person does not have the right to use the registered trade mark and uses in the course of trade a sign—
 - (a) identical with the registered trade mark in relation to any goods or services in respect of which the trade mark is registered; or
 - (b) identical with the registered trade mark in relation to any goods or services that are similar to any goods or services in respect of which the trade mark is registered, if that use would be likely to deceive or confuse; or
 - (c) similar to the registered trade mark in relation to any goods or services that are identical with or similar to any goods or services in respect of which the trade mark is registered(,) if that use would be likely to deceive or confuse; or

- (d) identical with or similar to the registered trade mark in relation to any goods or services that are not similar to the goods or services in respect of which the trade mark is registered where the trade mark is well known in New Zealand and the use of the sign takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the mark.
- (2) Subsection (1) applies only if the sign is used in such a manner as to render the use of the sign as likely to be taken as being use as a trade mark.

Section 94 of the new Trade Marks Act specifically addresses the issue of whether referring to a trade mark in the course of an advertisement breaches the rights of the registered proprietor of that mark, by providing that use of a mark in comparative advertising does not infringe the rights of a registered trade mark proprietor. The Act is not yet in force, but when effective it could well lead to an increase in the number of comparative advertisements. The wording of the relevant section was reasonably wide on introduction to the House:

94 No infringement for comparative advertising of registered trade mark

A registered trade mark is not infringed by the use of the registered trade mark for the purposes of comparative advertising.

Theoretically, the section could have permitted a rival advertiser to make a sustained attack on a registered trade mark with a view to making the registered mark generic. For example, manufacturers of personal audio equipment could repeatedly refer to features of their product as opposed to other “walkmans”. Such action would have the effect over time of making Sony’s WALKMAN trade mark generic, although there would be nothing that the registered proprietor could do to protect this abuse of its mark.

As a result of the Select Committee’s report on the Bill, section 94 (as enacted) has been amended in a somewhat piecemeal manner. The section is now less than satisfactory, with convoluted drafting and lack of certainty. Section 94 now provides:

94 No infringement for comparative advertising of registered trade mark

A registered trade mark is not infringed by the use of the registered trade mark for the purposes of comparative advertising, but any such use *otherwise than in accordance with honest practices in industrial or commercial matters* must be treated as infringing the registered trade mark *if the use, without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.*

[Emphasis added]

The amended section might have the effect of preventing the hypothetical rival trader from attempting to make a mark generic (as in the WALKMAN example above), but this has been at the expense of clear legislative drafting. The Select Committee’s amendment is at odds with the simple “plain English” drafting approach which the remainder of the Act otherwise exemplifies. (At the very least, the drafters could have made section 94 more readable by splitting it into more than one sentence.) Even then the amended section 94 would still appear to be a bonanza for lawyers, with huge scope for litigation to explore the ambiguities of the emphasised words above.

The wording of section 94 also means that the use of a trade mark in a comparative advertisement **will** constitute trade mark infringement if it is “otherwise than in accordance with honest practices in industrial or commercial matters”, even though such use would not otherwise amount to trade mark infringement under section 89 (in light of the deletion of the

provision relating to “importing a reference”). As such, the definition of “comparative advertising” might also become important under the Trade Marks Act 2002 when in force.

Position under the Fair Trading Act

While the Trade Marks Act currently governs whether comparative advertisements are permitted in the first place, the Fair Trading Act complements this regime by providing rules that can be used to regulate the substance of such advertisements. There are four sections of the Fair Trading Act potentially relevant to the practice of comparative advertising. These are:

- (a) Section 9 (misleading and deceptive conduct in the course of trade);
- (b) Sections 10 and 11 (conduct liable to mislead in relation to goods or services respectively); and
- (c) Section 13 (which prohibits false or misleading representations as to a number of matters).

There are no reported New Zealand decisions on comparative advertising under the Fair Trading Act. There are, however, Australian decisions decided under the similar wording of the Trade Practices Act.

The Duracell case

There have been a number of cases in Australia resulting from comparative advertising in the retail consumer battery industry. In *Eveready Australia Pty Ltd v Gillette Australia Pty Ltd (No 4)* (2000) ATPR 41-751, the advertised comparison was between dry cell batteries. Gillette ran a series of advertisements to promote its “Duracell” brand of batteries. Advertisements for Duracell batteries contained claims that “Duracell lasts four times longer” or “Duracell lasts up to four times longer”. The Duracell advertisements contained a statement that the comparison was intended to be made against zinc carbon batteries. “Duracell” batteries used alkaline technology, which was more advanced than zinc carbon technology. Gillette’s dry cell battery competitor, Eveready, sought declarations that the advertising misled consumers to think that the comparison was between Duracell batteries and all other types of batteries.

In the Federal Court, Lindgren J discussed the effect of the advertisements (and the comparisons contained within the advertisements) within the context that a member of the public would have seen them, and observed:

- (a) The advertisements would not have the viewer’s complete attention;
- (b) Most viewers would probably fail to read the qualification that “ordinary batteries = zinc carbon batteries”;
- (c) Even if viewers did pick up on this qualification, most people would be unlikely to attach any importance to it, or appreciate which batteries were “alkaline” and which were “zinc carbon”.

Accordingly Lindgren J held that the comparison was intended to be with products which represent an alternative or substitute for the advertised product. His Honour held that “the commercials clearly invite a comparison between Duracell and competing brands”, and adjourned the matter to hear argument on what orders would be appropriate in the circumstances.

Another of Gillette's competitors, Energizer Australia, successfully applied to permanently restrain a different comparative advertisement on the basis of the Trade Practices Act in separate proceedings in the Federal Court of Australia: *Energizer Australia Pty Limited v Gillette Australia Pty Limited* [2001] FCA 1887; reported at (2001) 54 IPR 465 and (2001) 189 ALR 480. The essence of Gillette's advertisement was that its Duracell Alkaline batteries lasted three times longer than the plaintiff's Eveready Super Heavy Duty batteries. At first instance Conti J granted the injunction on the basis that the advertisement was misleading because:

- (a) The Eveready Super Heavy Duty battery was only the fifth most powerful battery in Energizer's product range;
- (b) The advertisement did not reveal that there was a substantial price differential between Duracell and Eveready Super Heavy Duty batteries and thus consumers would be misled in comparing the value of the two; and
- (c) The advertisement did not adequately identify the brand of battery to which Duracell batteries were being compared.

The Full Court of the Federal Court of Australia took a more robust approach to the advertisements on appeal, however, and lifted the injunction (see *Gillette Australia Pty Limited v Energizer Australia Pty Limited* [2002] FCAFC 223). The Full Court, being comprised of Merkel, Heerey and Lindgren JJ, did not consider the comparison to be misleading or deceptive. The Full Court found that the subject of the comparison was clear; the Eveready Super Heavy Duty battery had a reputation of itself, and it was legitimate for Gillette to make a direct comparison between the power of its Duracell batteries and those of its competitor's product. Furthermore, the absence of price information from the advertisement was not misleading since "the thrust of the advertisement was to compare the power of the two batteries, not their value for money" (per Heerey J, at para 24).

Finally, the Court heard submissions on whether special rules should apply in relation to comparative advertisements apart from the usual Trade Practices Act considerations. The Court held that no such considerations should apply, with Heerey J holding (at para 20):

The characterisation of advertising as comparative does not of itself have legal significance, or create any kind of presumption in favour of a party alleging a breach of Pt V of the TPA. There is no basis in the TPA for regarding comparative advertising as an inherently disreputable form of commercial conduct, to be viewed with suspicion by the courts. On the contrary, to the extent that comparative advertising provides consumers with accurate hard facts about competing products, it assists in the making of better informed consumer choices and thereby results in more effective competition. Of course, the more actual comparisons that are used, the more potential there is for error (and half-truth). So advertisers have to be careful. ... Assertions of factual inaccuracy have to be carefully considered by courts in comparative advertising cases, no differently from any other cases.

The Eagle Boys case

Comparative advertising may not be limited to comparisons of the relative benefits or advantages of products. The case of *Thompson v Eagle Boys Dial-A-Pizza Australia Pty Limited* [2001] FCA 741 related to advertisements regarding ownership of pizza companies, as opposed to the products which they manufacture and sell. Eagle Boys ran a television advertisement in which its Managing Director, Mr Tom Potter, appeared on screen and stated:

“I reckon there’s one really important thing all Aussies should look for in a pizza. Is it from a 100 per cent Australian company? Because if it’s not, your money’s getting delivered overseas. At Eagle Boys we’re Australian through and through.”

The message in the statement was reinforced by the background images. There was a camera shot of two boxes designed to resemble Pizza Hut pizza delivery boxes. Mr Potter put the boxes on an airport trolley and the trolley was then wheeled towards a United Airlines aeroplane. To emphasise the point, Mr Potter picked up an Eagle Boys pizza box towards the end of his speech.

An Australian Pizza Hut franchisee, Mr Kevin Thompson, and Tricon Australia Pty Limited, the Australian wholly owned subsidiary of the US Pizza Hut company, sued Eagle Boys for breach of section 52 of the Trade Practices Act 1974, and for breach of copyright.

The Trade Practices Act cause of action was based on the fact that not all of the profits of Pizza Hut restaurants in Australia were US-owned. The applicants adduced evidence that just over one third of the 373 Pizza Hut businesses in Australia were owned by Tricon. The remaining restaurants were owned by franchisees, although each franchisee paid an initial fee of A\$60,000 to Tricon with continuing fees amounting to approximately 6% of turnover payable to Tricon each year.

Wilcox J concluded that the applicants had an arguable case, but refused to grant an injunction on the grounds that the case was not strong and the balance of convenience therefore favoured the status quo.

The applicants also sued Eagle Boys for breach of copyright, specifically for using the delivery box. The Court noted the possible implications of the point, although ultimately declined to rule on it. The Court stated (at para 21):

If Mr Nicholas’ argument is correct, it would seem to be an infringement of copyright for any advertiser – or for that matter, any broadcaster – to make use of the logo of a company or product in order to illustrate a matter being discussed. It is not uncommon, for example, for the editor of a television program relating to a particular company or product to use shots of a logo or advertising material used in connection with that company or product; the purpose being to provide recognisable graphic material against an oral presentation.

The Panadol case

In *SmithKline Beecham (Aust) Pty Limited v Herron Pharmaceuticals Pty Limited* [2001] FCA 361, the defendant had engaged in advertising regarding its products which emphasised that it was Australian owned and that its products were manufactured in Australia, such comparison being at the expense of US-owned SmithKline Beecham. Unlike the *Eagle Boys* case, where the applicant sought to defend its own reputation, SmithKline Beecham attacked the accuracy of Herron’s claims. It did so on the basis that the analgesic products containing paracetamol which Herron was advertising (which were sold in competition to SmithKline Beecham’s Panadol products) were in fact manufactured in Australia.

Although the applicant had shown an arguable case, the Court considered that the case was weak. Again, the Court refused to grant an injunction on the grounds that the balance of convenience favoured the respondent since granting the injunction would “deprive Herron of a key part of its commercial weaponry”.

Code for Comparative Advertising

The Advertising Standards Authority has a Code for Comparative Advertising. Generally, the Code provides that comparative advertising:

- (a) Should be factual and informative.
- (b) Should explicitly or by implication make clear what comparison is being made.
- (c) Should not mislead the consumer about other products or services with which comparisons might be made.

This addresses the key problems in the above cases. It also provides that advertisements should not unfairly attack or discredit other products, advertisers or advertisements directly or by implication. The Code also sets out a number of specific guidelines to assist with interpretation of the broad requirements. In substance, they appear to simply provide further content to the obligations of advertisers under the Fair Trading Act. In reality, the existence of a Code for Comparative Advertising makes it easier for complaints regarding practice to be discussed and resolved, rather than requiring the expense of legal action, or the delay that may result in a complaint to the Commerce Commission and subsequent prosecution.

Conclusion

The move towards liberalisation of comparative advertising is positive, and consistent with the Court's approach in the *PC Direct* case. Section 94 of the Trade Marks Act 2002 will finally remove the anomalous situation whereby a trade mark owner can prevent a competitor from advertising an otherwise legitimate and valid comparison between products based on reference to the trade mark. Even in the absence of trade mark protection against unfair comparative advertising, the Fair Trading Act and Code for Comparative Advertising should still provide traders with confidence that their competitors will be honest in their advertising practices, and provide sufficient redress for comparative advertisements which breach the established rules.