



THE LAW AFFECTING COMPARATIVE ADVERTISING IN SOUTH AFRICA



Adidas's subtle and critical reference to the 1998 soccer world cup victory of the Adidas sponsored French team over the Nike sponsored Brazilian team

RESEARCH DISSERTATION BY PHILIPP KADELBACH IN FULFILMENT OF THE
REQUIREMENTS TO OBTAIN THE MASTER OF LAW (LLM) DEGREE

THE UNIVERSITY OF CAPE TOWN (UCT)
SUPERVISOR ASSOC. PROF. A.G. FAGAN

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Cape Town Berlin (2003)

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Preface

Reasons for choosing 'comparative advertising', as the subject for investigation, were two-fold. Shortly before I arrived in Cape Town in 1999, the German Bundesgerichtshof ('German High Court') handed down a surprising decision, ruling in favour of comparative advertising. This judgment *Testpreis-Angebot* ('test price offer')¹ marked a complete turnaround to its previous jurisprudence on comparative advertising.

By chance, during the first few weeks of my Cape Town stay, I shared a flat with a friend working in the advertising agency of TBWA Hunt Lascaris. This agency produced South Africa's first comparative advertisement, followed by a nation-wide debate on the issue. This encouraged me to explore my interest in the field of advertising, which, in turn, confirmed that comparative advertising deserved further attention.

The Europeans decided to liberalise their laws on comparative advertising as they believe it will lead to positive effects on the market structure. Preliminary research showed that: firstly, South Africa's policy on comparative advertising is restrictive, and, secondly, that the country has a market structure where such advertising has the potential for a very positive effect on the market.

Realising the potential role comparative advertising could play in South Africa, the concept was born; not only to present South Africa's policy on the issue, but also to embark on an abstract analysis of the advertising regulation structure. The analysis provides the opportunity to present the reasons for the present restrictive policy, and provides an essential background to pinpointing why policy changes might be necessary, and the changes required to reach a more satisfactory conclusion, based on literature and case reports available to me as at July 2002.

Recent developments back up major conclusions in this dissertation. A central argument focuses on the cohesion between advertising regulation and competition law. When I researched in 1999 on the interaction between competition and intellectual property law, I found this legal field to be uncharted territory in South Africa. From a viewpoint beyond the confines of the South African legal system, I predicted a future influence of competition law on advertising regulation. Subsequently, an article on INTELLECTUAL PROPERTY LAW AND COMPETITION LAW aroused my interest, as it confirmed my conclusions on the conflict between these Laws. The article was referenced as current IP issue in 2002 under the headline: 'IP and Competition law does not yet lubricate' (<http://www.burrells.co.za/issues.asp>).

I must thank all who have helped me in the compilation of this dissertation. Special thanks must go to Associate Professor Anton Fagan (UCT) who supervised my dissertation and to Professor Danie Visser (UCT) for his verdict on my work. John Harris undertook an invaluable service in proofreading the final product.

Special thanks must also go to Abrie du Plessis, (British American Tobacco) for providing information on the history of comparative advertising and policy matters; Professor Piet Delport, Association of Advertising Agencies (AAA) for answering questions on advertising self-regulation; and Paddie Pirow, Namibian Breweries (NBL) for providing information on the 'beer war'.

Thanks to my friends Alina, Caro, Dany, Martin and Stahn for their understanding and support. Last, but certainly not least, I must thank my family, Achim, Petra, Hendrik, Kathrin and Pitt Lutterbeck for their understanding and support. They made this wonderful stay in South Africa possible.

Philipp Kadelbach

Berlin, February 2003

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ABBREVIATIONS OF JOURNAL TITLES

BB	Der Betriebs-Berater
BML	Businessman's Law
Cath. U.L. Rev.	Catholic University Law Review
Duke LJ	Duke Law Journal
EIPR	European Intellectual Property Review
ETMR	European Trade Mark Review
GR	Gewerblicher Rechtsschutz und Urheberrecht, Zeitschrift der Deutschen Vereinigung für gewerblichen Rechtsschutz und Urheberrecht
GR Int	Gewerblicher Rechtsschutz und Urheberrecht, Zeitschrift der Deutschen Vereinigung für gewerblichen Rechtsschutz und Urheberrecht – Auslands und Internationaler Teil
Harvard LR	Harvard Law Review
Int'l Law	International Lawyer
JoA	Journal of Advertising
JoAR	Journal of Advertising Research
Lexis-Nexis	U.S. Legal Internet Database www.lexisnexis.com
NJW	Neue juristische Wochenzeitschrift
SA Mercantile LJ	South African Mercantile Law Journal
SALJ	South African Law Journal
Stellenbosch LJ	Stellenbosch Law Journal
Int'l Rev. of Indus. Prop. & Copyright L.	International Review of Industrial Property and Copyright Law

Suffolk Transnat'l L. Rev.	Suffolk Transnational Law Review
Tul. Eur. & Civ. L. F.	Tulane European and Civil Law Forum
TR	The Trademark Reporter
U.P.A.J.Int'l Bus.L.	Journal of International Business Law
UCLA L.Rev.	UCLA Law Review
Westlaw	U.S. Legal Internet Database www.westlaw.com
WRP	Wettbewerb in Recht und Praxis
ZRP	Zeitschrift für Rechtspolitik

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1 Introduction

This dissertation outlines the South African law that affects the advertising strategy known as 'comparative advertising'. To analyse South Africa's current approach towards comparative advertising, the author, in Chapter 2, gives a brief overview of South Africa's advertising history, with particular emphasis on comparative advertising. The different groups with interests in the matter and the institutional mechanisms regulating comparative advertising are discussed.

In Chapter 3, existing definitions of comparative advertising are analysed, and the conclusion reached that these definitions are insufficiently specific to assess which principles of South African law are applicable. A definition of comparative advertising is then given, which draws a distinction between direct, implied and non-comparative claims, and between differentiative and associative comparisons.

Chapter 4 identifies interests involved, including the reference brand competitor, the comparative advertiser, the consumer, and the interests of the public at large.

The author analyses, in Chapter 5, how comparative advertising affects these interests and the dissertation, *inter alia*, addresses the question of whether comparative advertising can make a contribution to South Africa's highly concentrated market structure by enhancing competition in the market.

After outlining parallel and conflicting interests, the author analyses how and the degree to which, the mechanisms regulating comparative advertising protect these interests. The dissertation approaches this question from a legal perspective to analyse assumptions on the weighting of interests reflected in legal doctrines.

The question that must ultimately be asked is whether the existing system of advertising regulation, with its emphasis on self-regulation, is sufficient to ensure that increasing demands from consumers and public policy are satisfied.² The dissertation looks at similar situations in the United Kingdom, the United States and Germany to establish how these countries balance conflicting interests in this area of the law.

The dissertation addresses the instrumental mechanism of trade mark law in Chapter 6, followed by an analysis of the system of self-regulation in Chapter 7, and by a discussion of the potential role of competition law in the regulation of advertising in Chapter 8. Finally, Chapter 9 deals with the law of unlawful competition.

This examination leads to the conclusion that the system of advertising regulation in South Africa needs to be altered, as the existing mixture of instrumental mechanisms cannot ensure that enough weight is attached to consumer and public interest. While a somewhat abstract analysis of the regulation structure, the dissertation then examines, in detail, South Africa's current approach to comparative advertising.

In Chapter 10, the author looks at the trade mark law, and analyses the crucial section 34 of the Trade Marks Act, highlighting how the recent decision in *Abbott Laboratories and Others v UAP Crop Care (Pty) Ltd and others*³ clarifies the situation. It was held in this decision that comparative advertising, in its most common form of direct comparative advertising, contravenes the Trade Marks Act, 1993. The dissertation also looks at section 10(6) of the British Trade Marks Act, 1994, which has substantially liberalised the law relating to comparative advertising in the United Kingdom.

The dissertation, in Chapter 11, addresses the question of comparative advertising and unlawful competition law in general. In *Post Newspapers (Pty) Ltd v World Printing and Publishing Co Ltd*⁴ the decision was in favour of comparative advertising, but, at that time, the law of 'unlawful competition' was not well developed. Since then, the understanding of the law has changed to the extent that this position has been overtaken by subsequent events and decisions.⁵

The dissertation presents the concepts legal authors utilise in their approach to the problem of comparative advertising, and concludes that comparative advertising should generally be regarded as lawful competition. A principle for the determina-

² *Woker Advertising Law (1999) v.*

³ 1999 (3) SA 624 (F).

⁴ 1970 (1) SA 454 (W).

⁵ Van Heerden/Neethling *Unlawful Competition* (1995) 303.

tion of wrongfulness ('competition principle') is presented, which strikes a new balance between interests in the competitive sphere. In terms of this principle comparative advertising must be regarded as *per se* lawful. However, Van Heerden and Neethling lay a solid theoretical foundation for the development of the law of unlawful competition, believing that comparative advertising falls foul of various forms of unlawful competition law. Therefore the dissertation examines, in Chapter 12, whether comparative advertising, in its various forms, conflicts with unlawful competition law.

After analysing statutory and common law positions on the issue, the dissertation addresses, in Chapter 13, the regulation of comparative advertising through self-regulation – the Code of Advertising Standards of the Advertising Standards Authority (ASA). The author looks at the position in the United Kingdom to consider how that country approaches comparative advertising and self-regulation,⁶ while similarities between the South African Code of Advertising Standards and the European Directive On Comparative Advertising are noted. The dissertation reaches the conclusion that the ASA policy on comparative advertising tends to inhibit true competition.

In Chapter 14 the conclusion is reached that South Africa's self-regulation policy must be altered, and that the trade mark law should be amended to effectively allow comparative advertising.

⁶ Boddewyn/Marton *Comparison Advertising: A Worldwide Study* (1978) 23.

2 The Significance of Comparative Advertising

'Comparative advertising' is a technique where a product is compared to a 'competing' product, with the intent of proving its superiority or equivalence. In contrast, the traditional advertising approach promotes sales based solely on the merits of the particular product or service.⁷ It is, in particular, the reference to a competitor that *makes the technique* of comparative advertising unique and worthy of discussion. However, this reference to a competitor makes it a technique that presents the most difficult legal problems in the wide field of intellectual property law. The complexity of the problem arises from the fact that comparative advertising affects different fields of the law based on a wide set of legal principles and goals.

Additional complications arise in comparative advertising, as it is quite different to the classical situation in intellectual property law controversies, and not only involves two contrasting interests, but four interest groups whose interests must be balanced. The balancing of this dichotomy is the crux, and this dissertation aims to present this dichotomy of various interests, and has to examine the different fields of law, to decide if the doctrinal approach has the potential to achieve a sufficient balance of interests.

Unfortunately, it lies within the nature of such a broad subject that a certain degree of superficiality arises, but this price is acceptable for a comprehensive analysis, and a sound starting point is the history of comparative advertising in South Africa.

2.1 The History of Comparative Advertising

The Advertising Standards Authority (ASA) has a significant influence on advertising regulation in South Africa.⁸ The ASA's position on comparative advertising in the early 1970s was similar to most Western European countries. Comparative ad-

⁷ Charney 'ASA-Who is it really protecting?' (1983) 8 *Management* 48; 'Comparative advertising: Red in tooth and claw' *The Economist*, 18 May 91, 79.

⁸ Judin and Dickens 'Advertising in the Dock' (1996) 5 *Marketing Mix*.

vertising was not allowed in any form whatsoever, but it was not an important issue as the South African advertising industry was still in a development stage. Due to South Africa's economic isolation, competitive advertising in general was not much used, and only in a rather conservative way. Vigorous advertising competition was something to be avoided,⁹ and, as a result, it was long accepted that comparative advertising is unlawful competition in South Africa.

In the 1980s, comparative advertising became commonplace in the United States. The ASA, at that time, emphasised that comparative advertising was still not acceptable in South Africa. Nonetheless, the Code of the ASA did allow certain comparisons to be made, but only in circumstances where it was necessary to illustrate the benefits of a product, by comparing it to a group of products in the same field. Such comparisons had to be restricted to statements of fact and could not contain embellishment. Moreover, no brand within the group could be directly identified, nor by implication. The line taken by the ASA, in the 1990s was that the Code bans any advertisement that attacks or discredits its competitors or their products, either directly or by implication.

This changed with the appearance of the first high profile television commercial containing a subtle, but obvious, comparison, known as the 'BMW beats the bendz' advertisement, produced by the Cape Town agency TBWA Hunt Lascaris, in 1990.¹⁰

This advertisement subtly referred to a Mercedes-Benz advertising campaign. Mercedes-Benz based their advertisement on a Chapman's Peak incident, in which a Mercedes-Benz was filmed driving down a cliff. It was purported that the occupants somehow survived the accident. TBWA Hunt Lascaris responded for their client BMW with an advertisement that showed a BMW negotiating the bends of

⁹ Ibid.

¹⁰ Woker op cit 186.

Chapman's Peak faultlessly. The scene was underlined with the caption '*Doesn't it make sense to drive a luxury sedan that beats the bendz?*'¹¹

The discussion following the 'Beat the bendz' advertisement was a controversial nation-wide issue, which in 1994 was finally resolved in a change to the Code. It was O. H. Dean who, in response to the 'Beat the bendz' controversy, legally addressed the issue in 1990. He concluded that, in view of the attitude of the advertising industry and of the legislature, comparative advertising, '*whether utilising a registered trade mark or some other means to identify the product of another, is an unfair trading practice and is in South Africa contrary to established norms of unlawful competition.*'¹²

Since then, there have been various articles in newspapers and journals suggesting that the South African law should be amended to make comparative advertising permissible. O. H. Dean, for instance, in 1996 concluded:

*'It would seem that the approach of South African intellectual property law to the subject of comparative advertising is out of step with modern international developments. Perhaps our legislature needs to look afresh at this question.'*¹³

Nonetheless, with stringent ASA regulations and legal restrictions, there are very few examples¹⁴ of attempts at comparative advertising in South Africa. The government, when drafting the Trade Marks Act, 1993 had plans to explicitly allow direct comparative advertising by implementing a particular provision from the UK

¹¹ Ibid.

¹² Dean 'Comparative Advertising as Unlawful Competition' (1990) 2 SA *Mercantile LJ* 40 48.

¹³ Dean 'Intellectual Property and Comparative Advertising' (1996) 7 *Stellenbosch LR* 25 28.

¹⁴ The 'Beat the bendz' campaign was the first and most famous one. The ASA ordered the withdrawal of the advertisement from television and print media, although the agency, which devised the Mercedes-Benz advertisement, did not bring any complaint before the ASA. The ASA had acted of its own volition, in keeping with its regulatory powers. Wille Sonnenberg, a prominent supporter of comparative advertising, stated in response to the ASA decision: 'If comparative advertising is badly or tastelessly done, then it serves nobody's interest. But if it draws attention to the difference between products with style and humour, then there's a place for it.'; see Peagram *Comparative Advertising* 30. The reaction of the Newspaper Press Union (NPU), a founder member of the ASA, was surprising. The NPU stated: 'The to-ing and fro-ing between the two car manufacturers was in good spirit and did not constitute knocking.' The NPU sent a letter of protest to the ASA over the decision taken.

trade marks draft, but the provision was not adopted, due to pressure from influential marketers.

2.2 Interest Groups involved in Comparative Advertising

This dissertation separates four different groups with parallel and, or conflicting interests on the issue of comparative advertising. These interest groups are:

- Advertisers; the undertakings who wish to compare their own product or service with a product of a competitor ('comparative advertiser'),
- The competitor who serves as reference for the comparative advertisement ('reference brand competitor'),
- Consumers, and
- The public at large, with particular interests in the issue.

2.3 Institutional Mechanisms regulating Comparative Advertising

Advertising can be self-regulated, and South Africa strongly relies on this system. Additionally, the common law of unlawful competition typically plays a major role in the regulation of comparative advertising, although its importance is rather theoretical due to the factual influence of the self-regulation system, so the majority of advertising cases seldom come to court. Furthermore, comparative advertising can be regulated through statute, for instance the Trade Marks Act. Usually the regulation of advertising is a mixture of these methods. A public body, like the Competition Commission, can supervise advertising regulations, but this option, has not, as yet, been used in South Africa.

3 Definitions of Comparative Advertising

The author analyses existing definitions of comparative advertising to consider if they are specific enough for the purpose of this dissertation. Comparative advertising is usually defined in terms of three features:¹⁵

- two or more specifically named, or recognisably demonstrated, brands of a product or service are compared;
- the comparison is based on one or more attributes of the products or services; and
- it is stated, implied or demonstrated that factual information has been used as a basis for comparative claim(s).¹⁶

De Jager and Smith define comparative advertising in South Africa:

*'Comparative advertising is a technique of advertising containing visual, print or audio material, which has the effect of making direct or indirect comparisons between products or services of identifiable competitors or non-competitors as to the price, qualities, attributes or characteristics of these products or services.'*¹⁷

This definition by De Jager and Smith highlights that references can be either direct or indirect, and it is a question of the intensity of reference, which is crucial in trade mark law.

Comparative advertisements can be critical of a competitor, or could seek to associate their performance with that of a well-known competitor. This distinction is crucial, when it comes to the law of unlawful competition and the Code of the ASA. It is therefore worthwhile to consider the definition of Webster and Page, which ad-

¹⁵ Boddewyn/Marton op cit 7.

¹⁶ Ibid.

¹⁷ De Jager/Smith *Advertising and the Law* (1995) 67.

vances this distinction and is the only definition that has received legal recognition in South African law to date,¹⁸ as follows:

*'Comparative advertising, as the name suggests, is advertising where a party (the advertiser) advertises his goods or services by comparing them with the goods or services of another party. Such other party is usually his competitor and is often the market leader in the particular trade. The comparison is with a view to increasing the sales of the advertiser. This is typically done by either suggesting that the advertiser's product is of the same or a superior quality to that of the compared product or by denigrating the quality of the compared product.'*¹⁹

From this definition, it is clear that comparisons can be categorised by the degree to which the competitor is identified (direct versus implied),²⁰ but also with respect to the direction in which the comparison is made (associative versus differentiative).²¹

Clear distinctions between these forms are not yet drawn in South Africa. This lack of a clear distinction between the different forms of advertisements referring to competitors, and the indeterminate distinction between comparative and non-comparative advertisements, is recognised as a major legal stumbling block when dealing with comparative advertising. The Association of Marketers (AOM) argues that comparative advertising is against the trade marks law, but this would only be the case where direct comparative advertising is concerned,²² as it is not necessary for the comparison to name a product directly.²³

¹⁸ Cleaver J referred to the definition in *Abbott Laboratories and Others v UAP Crop Care (Pty) Ltd and Others* 1999 (3) SA 624 630 (I).

¹⁹ Webster/Page *South African Trade Marks* (4ed) (1998) 12-35.

²⁰ Dean 'Intellectual Property and Comparative Advertising' op cit 25. The author distinguished between direct and indirect comparisons; Woker stated in this regard that 'it is not necessary for the comparison to name a product directly. It may be that the comparison is by the way of inference only.' (Woker *Advertising Law* op cit 186).

²¹ As stated in James/Hensel 'Negative advertising: the malicious strain of comparative advertising' (1991) 20 *JoA* 53 63.

²² Woker 'Comparative Advertising – A Change in Attitude?' (1995) *Mercantile LJ* 239 245.

²³ Meyer *Die kritisierende vergleichende Werbung* (1991) 12.

Some comparative advertisements refer subtly to a competitive brand (like 'Beats the bendz'), while others explicitly name and show the competitor.²⁴ Some legal authors criticise comparative advertising for its offensive character, especially where it is disparaging to other competitors. However, this argument may not hold water against the special form of comparative advertisements known as the associative comparative advertisement. Non-comparative claims can be permitted as 'puffery',²⁵ but a comparative claim will be regarded as a 'statement of fact' and therefore has to be true and not deceive a consumer.

Clear distinctions can help overcome uncertainty as to the common law principles applicable, and whether comparative advertising amounts to trade mark infringement.

3.1 Comparative versus Non-Comparative Advertising

Comparative advertising²⁶ must be distinguished from related non-comparative approaches such as 'superiority' claims or 'puffery' advertising.²⁷ This is because the common denominator of all advertising practices associated with the term 'comparative advertising' is some kind of reference to another product or service being included. In many ways all advertising is comparative. Ultimately, all advertisements include some reference point, and are, at least implicitly, comparative. To state that 'BMW gives you a smooth ride' suggests that other cars do not, or at least not to the same extent.²⁸ The test, whether an advertisement is comparative, and what specific form of comparison is used, depends on the type of reference.

The differentiation based on the intensity of reference can be seen as a three-step model. In the first step you have a low intensity and the reference is non-comparative. In the second step you have a higher intensity, because a reasonable

²⁴ Ibid 13.

²⁵ Van Heerden/Neethling op cit 157.

²⁶ Some authors use the term 'comparison advertising' instead of 'comparative advertising'.

²⁷ Meyer *Die kritisierende vergleichende Werbung* op cit 15.

²⁸ Example taken from Boddewyn/Marton op cit 6.

consumer would identify the competitor and the reference is implied as comparative. The judge in *De Beers Abrasive Products v International General Electric Co of New York*²⁹ categorised comparative statements as statements directed against the plaintiff's goods where a reasonable man would 'take the statement as being a serious claim.' In the third step you have the highest intensity of reference: a direct comparison. The intensity of reference depends on the potential objectives of the comparative phrase, and whether any particular competitor or consumer can identify it as a reference to the competitor's goods or services.

To draw a line between comparative and non-comparative claims, the distinction between 'statements of fact' and 'puffery' can help. A 'puffing' defence has been accepted for non-comparative claims, i.e. which apply to claims not capable of measurement (e.g. 'Bayer Works Wonders'; 'Coca Cola is the "Real Thing"') or not intended by the advertiser to be taken seriously (e.g. 'Esso puts the tiger in your tank'). Sensible consumers are not deceived by such claims, and usually do not regard such examples of 'puffing' as product claims.³⁰ Van Schalkwyk J in the *Elida Gibbs* case³¹ quoted the following remarks with approval:

*'If I say that my pills are 'worth a guinea a box' (though this again is, in a sense, a statement of fact), no one could possibly understand the expression as referring to anything but my confident opinion of the intrinsic merits of the pills, or a 'guinea' as more than a mere laudatory phrase, but if I say my 'bile beans' contain a new ingredient discovered by such and such an explorer in such and such a tropical country, or that my 'carbolic smoke ball' is a prophylactic against catching a cold, if used so many times, I am stating facts, and cannot escape liability, if the facts are false, by urging that they were embedded in a mass of encomiastic generalities.'*³²

Such 'puffery' will often be non-comparative advertising. Obvious examples of non-comparative references are so-called own-price references. Advertisers com-

²⁹ [1975] FSR 323 329.

³⁰ Pitofsky 'Beyond Nader: Consumer protection and the regulation of advertising' (1977) 90 *Harvard LR* 661 677.

³¹ *Elida Gibbs (Pty) Ltd v Colgate Palmolive (Pty) Ltd* 1988 (2) SA 350 (W).

pare their old prices with their new prices, or advertise product discounts compared to the market price. In such cases no competitor can be singled out by the reference. When reference claims appear to be 'statements of fact' they must be regarded as comparative claims.

The differentiation can be even more difficult in determining what constitutes an implied reference against a non-comparative reference. This is particularly true in the context of oligopolistic markets. Advertisers are fond of using comparative and superlative language without express reference. Expressions such as '*a better class of car*' and '*the best restaurant in Cape Town*' are commonplace in advertising puffery, and in many cases these 'puffs' cannot be construed as a reference to a particular competitor.

In other cases, such 'puffs' do constitute references to goods or services of a competitor. In the UK case *Lyne v Nicholls*,³³ the claims that the circulation of a local newspaper was '*20 to 1 of any other weekly paper*' in the district, and that the paper had the '*largest guaranteed circulation in the mining and china clay district in Mid Cornwall*', were taken to be representations regarding the circulation of the only other paper in the district.

The crucial difference between these two situations is that in the first, there are simply too many potential objects of the comparative phrase for any particular competitor to identify it as a reference to his goods or services. In the second case, the reference could easily be implied, because there was only one competitor to whom the comparison applied. In a German case, a television advertisement that compared Pepsi Cola and several unidentified cola drinks was held to imply a reference to Coca-Cola.³⁴

³² Ibid 359.

³³ [1906] 23 TLR 86.

³⁴ *Cola-Test* BGH GR 87 49 50.

Another example is MTN's³⁵ reference to Vodacom *via* using the slogan 'The Better Connection'.³⁶ Vodacom said that the slogan breached the comparative advertising rules contained in the Code, as it had not been substantiated. The ASA ruled that the slogan did indeed contravene the Code. However, consumers who saw the claim stated that they regarded the use of the slogan as simple puffery.³⁷

FedEx, a carrier service ran an advertisement with the slogan 'Absolutely, positively the best in business'. Two competitors UPS and DHL, international operating carrier services, lodged a complaint against this advertisement. They argued that the claim made was not subjective puffery, because 'best in business' could only refer to speed and reliability and any company doing so should be able to support its claim with quantifiable data.³⁸ The ASA regarded the reference to the 'business' as a reference to the competitors.³⁹

From these examples it can be crucial whose opinion is decisive, the opinion of consumer or of a professional body, like the ASA.

3.2 Direct vs. Implied Comparisons

The above-mentioned definition by De Jager and Smith highlights that a reference can be either direct or indirect, depending on the intensity of reference.⁴⁰

Jackson, Brown and Harmon⁴¹ were the first to classify comparative advertisements into two categories. They hold that references to a competitor are direct⁴² when the advertisement explicitly names or shows two or more competing products. This

³⁵ MTN and Vodacom compete in the South African cellular phone service provider market.

³⁶ *The Star* 21 July 95.

³⁷ *Ibid.*

³⁸ *ASA Rulings & Reasons no.14 (1999) 2.*

³⁹ *Ibid.*

⁴⁰ De Jager/Smith op cit 67.

⁴¹ Jackson/Brown/Harmon 'Comparative Magazine Advertisements' (1979) 19/6 *JoAR* 21; they conducted a research project, where they assessed 9,471 advertisements from leading US magazines.

⁴² Some authors define this direction of reference as 'explicit'.

will often be achieved *via* identification of the competing product's, package, brand name, slogan or spokesperson. Webster classifies direct references as 'comparative brand advertising' due to the danger of trade mark infringements.⁴³

In contrast, implied or indirect comparisons do not name the competitor and there is thus no danger of infringing the Trade Marks Act, 1993. Such comparisons focus on innuendo, which includes advertisements where one can readily surmise the unnamed competing brand.⁴⁴ If, for instance, the market consists of only two brands, or if there is one well-known brand on the market, such competitors will automatically be in the mind of consumers.

The 'Beat the bendz' advertisement is a good example of an implied reference, as far as the claim of road-holding is concerned. In this advertisement, the reference was achieved through using the same location on Chapman's Peak Drive to shoot the advertisement and by the use of 'bendz' instead of 'bends', so that consumers could easily identify Mercedes-Benz as the referred competitor.

The definition of comparative advertising offered in the EC Directive on Comparative Advertising is extremely broad and likely to give several difficulties of interpretation.⁴⁵ To constitute comparative advertising, an advertisement must identify 'a competitor or goods or services offered by a competitor'. Article 2(2a) makes it clear that the Directive covers both direct and implied references to a competitor or his goods or services.

The author proposes the following definition to differentiate between non-comparative, direct and implied comparisons:

An advertisement is comparative when it claims that the advertised product or service is as good as, or better than, the competitor's product or service and refers to the competitor in a manner that a reasonable consumer would identify as

⁴³ Webster 'Beware trade mark infringement' *Mail and Guardian*, 27 Sept 96.

⁴⁴ As in the famous Avis slogan 'We're Number 2!' or in an American advertisement for cigarettes, in which Carlton compared itself to brands M,V,K which obviously referred to Marlboro, Viceroy and Kent.

⁴⁵ In this dissertation, the author refers to the Directive on Comparative Advertising simply as the 'Directive'.

the competitor. If the reference explicitly shows a trade name or symbol, the reference is direct, while in any other case it is implied.

3.3 Differentiative vs. Associative Comparisons

It is necessary to distinguish between 'differentiative' and 'associative'⁴⁶ comparisons, as the distinction is of relevance when it comes to the protection of goodwill in the law of unlawful competition and in the Code of the ASA. Countries that explicitly authorise comparative advertising, like the United States, do not make such a distinction. Nonetheless, in South Africa, it is imperative to make this distinction.

3.3.1 Differentiative Comparisons

While the definition of De Jager and Smith⁴⁷ does not classify the direction in which the comparison is made, Webster and Page⁴⁸ advances this distinction; Differentiative comparative advertisement adversely refers to a competitor by stating that the advertised products or services are somehow superior to that of the competitor.⁴⁹

Probably the most famous case of differentiative comparative advertising comes from the 'Cola wars' in the United States, which produced some of the country's most creative commercials.⁵⁰ The Cola wars have locked Coca-Cola and Pepsi-Cola in an expensive advertising battle for many years.

In the 'chimps' advertisement, two chimpanzees are shown participating in an experiment on the effects of Cola on intelligence. After a six-week diet of Coke, the first chimp successfully pounds pegs into holes with a hammer. The second chimp, a regular Pepsi drinker, loses interest in the experiment, and is seen careering down

⁴⁶ The German law uses the term 'anlehrende vergleichende Werbung' for 'associative comparative advertising'.

⁴⁷ De Jager/Smith op cit 67.

⁴⁸ Webster/Page op cit 12-35.

⁴⁹ For instance, 'more effective', 'have a better image', 'less side effective', 'Cheap washing power, it washes cleaner and brighter than Omo'.

a sunny beach in the company of several beautiful women, with music blaring. Another remarkable commercial was a Pepsi advertisement in which young people in the distant future find a relic (a Coke bottle) so ancient they cannot identify it.⁵¹

Differentiative comparisons can, but need not disparage the referred competitors. Recently, Daimler-Chrysler, of Germany, launched a direct differentiative comparative advertisement. This was made possible after the German Bundesgerichtshof⁵² ruled in favour of comparative advertising in implementing the European Directive.

The Mercedes-Benz commercial shows a Volvo cruising through a little village with the copy: '*The security drivers-cell was invented in 1951.*' It then shows a Porsche negotiating between some rocks with the copy: '*The electronic stability program (ESP) was invented in 1991.*' Finally it shows a BMW with the copy: '*Automatic Braking System (ABS) was invented in 1978.*' No Mercedes car or trade symbol was seen until this point. The screen fades black showing: '*Everybody who drives a car knows how important our inventions are!*' and shows the Mercedes-Benz symbol. None of the competitors complained about the advertisement. In fact, Porsche appreciated the free publicity as their car was presented as a high-profile secure car, while Volvo felt upgraded as their car appeared first.

3.3.2 Associative Comparisons

Where a reference is not differentiative it is associative, namely when the advertiser refers to another competitor's product or service to claim substitutability or something very similar.⁵³ This form of comparative advertising does not contain any disparagement of the rival's goodwill,⁵⁴ because it relies on claims of equivalence.

⁵⁰ 'Comparative advertising: Red in tooth and claw' op cit 80.

⁵¹ Ibid.

⁵² German High Court.

⁵³ *Woker Advertising Law* op cit 185.

⁵⁴ Van Heerden/Neethling op cit 202; Baumbach/Hefermehl op cit §1 para 604.

This method is often employed to share in the good reputation of a competitor's product.⁵⁵

A good example is the *Klep Valves (Pty) Ltd v Saunders Valve Co Ltd*⁵⁶ case, where the advertiser stated that his product is a substitute, using the phrase 'all KLEP diaphragm valve parts are interchangeable with SAUNDERS diaphragm valves'.⁵⁷ In this scenario, the advertiser claimed that its product is 'as good as' the competitor's product, or that it is made the same way.⁵⁸

The author suggests the following definition to distinguish between differentiative and associative comparisons:

A comparative advertisement is differentiative when it claims that the advertised product or service is as good or better than, the competitor's product and when the reference is intended to be negative, critical or disparaging. If the advertiser claims substitutability or equivalence, the comparison is associative.

3.4 Truthful vs. False Comparisons

A final distinction has to be made as to the degree of truthfulness versus falsehood in comparisons.⁵⁹ This dissertation focuses solely on true comparative advertising, as only true claims can provide information that serves consumer and public interests. Therefore the guiding principle for this dissertation is clause 4.2 of the Code, which specifically states that:

'advertisements should not contain any statement or visual presentation which, directly or by implication, omission, ambiguity, or exaggerated claim is likely to mislead consumers about the product advertised, in particular with regard to characteristics such as the nature, composition, method and date of manufac-

⁵⁵ *Klep Valves (Pty) Ltd v Saunders Valve Co Ltd* 1987 (2) SA 1 (A).

⁵⁶ *Ibid.*

⁵⁷ *Ibid.*

⁵⁸ Bodewig 'The Regulation of Comparative Advertising in the European Union' (1994) 9 *Tul. Eur. & Civ. L.F.* 179 184.

ture, fitness for purpose, range of use, quantity, commercial or geographical origin.⁶⁰

It is necessary to mention clause 7.1.2 of the Code, the so-called substantiation clause, as supplementary criteria, in terms of this dissertation, that comparative claims have to meet. The apparent intention of the substantiation clause is to prohibit claims that cannot be proved as truthful. Substantiation means claims must be capable of proof, for example that they are true, with an acceptable scientific base. Unsubstantiated claims fall foul of the provision and are not a subject of this dissertation.⁶¹

Nonetheless, criticisms of comparative advertising are often based upon the fact that relatively few instances of comparisons can provide an absolutely true reflection of the relative merits of the respective performances.⁶² Comparisons can be true, but may still mislead a consumer.

If for instance an advertiser compares his own prices with the prices of his competitors, he may create the impression that his product has the same quality as that of his competitor, but is cheaper. Therefore, clauses 7.1.3 and 7.1.7 of the Code requires a 'like with like' comparison, and to only use facts which are relevant, objective, determinable, representative and verifiable to prevent misrepresentations.

⁵⁹ Van Heerden/Neethling op cit 283; these instances may also be described as 'deception or misleading the public as to a rival's performance'; Baumbach/Hefermehl op cit §1 para 372.

⁶⁰ *Woker Advertising Law* op cit 101.

⁶¹ The ASA carried a report on the BMW skid pan television commercial. This advertisement drew a comparison between a BMW fitted with automatic stability control, and a masked vehicle, which looked like an Audi and led to a complaint against BMW by Audi. The commercial ended with a visual of skid marks that looked like the circles of the Audi logo. Audi complained that the commercial exploited its name and goodwill, contravened the comparative advertising clause of the Code and disparaged the Audi brand. (*Rulings and Reasons* No 10 August 1997).

The ASA asked BMW to provide independent third party substantiation proving that the skid pan visuals were in accordance with research findings. BMW replied by stating that it had conducted its own research, but failed to provide details. This substantiation was found to be unacceptable by the ASA and the advertisement had to be withdrawn.

In terms of the Code, advertisers are required to provide available substantiation provided by an independent, credible source. In-house research or other documentation emanating from within the advertiser's company or closely related associated companies will not normally be regarded as sufficient. (*Rulings and Reasons* No 3 Jan/Feb 1995).

⁶² Van Heerden/Neethling op cit 304.

Hence, all general comparisons and superlative claims will fall foul of this article, as such claims do not '*objectively compare one or more material, relevant, verifiable and representative features of those goods and services*'.⁶³

Clause 7.1.7 of the Code require that the 'basis of the comparison must be the same'. The clause does not require that the goods or services must be identical, but only that they meet the same needs, or be intended for the same purpose. Furthermore, this must be clearly stated in the advertisement, so that it can be seen that like is being compared with like. For instance, a comparison between 'apples and oranges' could be seen as potentially misleading. Another example would be a price comparison between two insurance packages, but the packages do not cover the same risk. The crucial test in this regard depends on the substitutability of the compared products or services.

The justification for these clauses is that comparisons that are not 'like with like', or are not in accord with the above criteria, provide no information that might be important for a rational purchasing decision and have a higher probability of misleading consumers. The ability to provide valuable information plays a significant role, and the subject of this thesis is consequently limited to comparative claims within the dissertation criteria.

Can a 'puffing' defence apply in cases of comparative advertising? The courts outline a distinction between 'puffing statements' and 'fundamental misrepresentations'.⁶⁴ This dissertation does not deal with this question, as 'puffing statements' or 'minor misrepresentations' do not assist rational consumer choice or have positive effects on the market structure.

3.5 Conclusion

The focus of this dissertation is limited to 'comparisons', where the intensity of the reference allows a reasonable consumer to identify the competitor. When analysing

⁶³ Tilmann 'Richtlinie vergleichende Werbung' (1997) 11 GR 790 795.

⁶⁴ *Woker Advertising Law* op cit 97.

the trade mark law, the dissertation only deals with direct comparisons. In Chapter 9 (the law of unlawful competition) and Chapter 13 (the system of self-regulation) the dissertation looks at associative and differentiative advertising separately. Finally, it is emphasised that the dissertation only addresses truthful comparisons meeting the above-mentioned criteria of the Code.

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4 Interest Groups in Comparative Advertising

This Chapter highlights conflicting and coincidental interests of advertisers, competitors, consumers and the public at large involved in comparative advertising. This is necessary to assess, in Chapter 5, the question of whether, and how, comparative advertising serves, or conflicts, with these interests.

4.1 Interests of the Public At Large

4.1.1 Protection of Intellectual Property Rights

'Intellectual property' is of great importance to many businesses. The rights given by intellectual property statutes consider this a distinct type of property. They may be some of the most valuable assets owned by many businesses, which make substantial investments in creating prestigious brands. The public at large is therefore interested in guaranteeing, and in the protection of, these intangible rights. However, the nature of intellectual property is such that it is restrictive of competition. Granting monopolies inevitably restricts what others can do. However the law recognises that, in certain circumstances, monopolies can be beneficial, provided they are strictly defined and are not permitted to stray outside their boundaries. Where intellectual property law inhibits competition in the market, the public interest in the protection of such rights is two-fold.

4.1.2 Enhancement of Competition in the Market

Competition in the market seems inherently desirable. It describes a market condition in which rivalries between sellers prevent the existence of discretionary monopolistic market power over price and output. In the *Dallas* case,⁶⁵ Van Dijkhorst J describes:

⁶⁵ *Lorimar Productions Inc v Sterling Clothing Manufactures (Pty) Ltd; Lorimar Productions Inc v OK Hyperama Ltd and Lorimar Productions Inc v Dallas Restaurant* 1981 (3) SA 1129 (T).

*'In general terms competition involves the idea of a struggle between rivals endeavouring to obtain the same end. It may be said to exist whenever there is a potential diversion of trade from one to another. For competition to exist the articles or services of the competitors should be related to the same purpose or must satisfy the same need.'*⁶⁶

Competitive markets are regarded as economically efficient in that they produce optimal use and allocation of resources. The concept of competition is based on the assumption that consumers will always choose the better performance.⁶⁷ The underlying theory is that, the more fully consumers are informed, the better equipped they will be to make purchasing decisions, thus facilitating consumers in the proper allocation of their economic resources to maximise benefits and pleasure.⁶⁸ By contrast, in the absence of competition, inefficiency will prevail. Consumers will not be able to express their preference by sending messages *via* choice between competing products or services.

Therefore, the public must ensure that, within the overall framework of competition policy, the marketplace operates efficiently and consumers' purchasing decisions are not affected by misleading or deceptive practices. Hence, it is in the public interest to provide a framework of rules which function in such a way that advertising is effectively regulated without being unnecessarily stifled.⁶⁹

4.1.3 Creation of Public Welfare and Promotion of Market Transparency

Competition promotes public and private welfare, as competition lowers prices and thereby redistributes income from producers to consumers.⁷⁰ Many major companies in South Africa have maintained, and still maintain a highly concentrated and

⁶⁶ 1981 (3) SA 1129 1141.

⁶⁷ Murphy 'Competition Act and Comparative Advertising in Real Estate' (1996) at <http://www.reca.ab.ca/advertis.htm>.

⁶⁸ Macildowie *Consumerism: The rights of the consumer* (1990) 18.

⁶⁹ Boddewyn/Marton op cit 71.

⁷⁰ 'A New Competition Law for South Africa: The View of Business' <http://www.ahi.co.za/complaw.htm>.

non-competitive market structure and have built high barriers to entry for new competitors.⁷¹ Dr. Pierre Brooks, Head of the Competition Board, stated in 1996:

*The South African economy is characterised by (a) a high degree of economical concentration (dominance) and consequential absence of competition parity in a number of markets, (b) extensive corporate conglomeration and vertical integration which enables a relatively small number of white persons to exercise control over a substantial portion of the country's resources, and (c) wide disparities in the wealth of the country's citizens and high levels of unemployment.*⁷²

To a certain degree, these barriers to entry are related to advertising, *inter alia* resulting from practices of proliferating brands, differentiating similar products and promoting trade marks through intensive image advertising. Such a highly concentrated, anti-competitive structure of the economy creates an environment in which anti-competitive conduct, such as restrictive horizontal and vertical practices, are more likely to occur.

Such monopolistic structures may be, and frequently are, abused to the detriment of consumers, potential and actual competitors, small firms and new entrants to the market.⁷³ Accordingly, the Competition Act, 1998 stresses the Competition Commission's responsibility in implementing measures to increase market transparency.⁷⁴

4.2 Consumer Interests

It is easy to draw on individual experience to realise that the idea of 'perfect competition' cannot exist. Consumers have a choice, which is much more evident in theory than in practice. Consumers often simply do not know the nature of the

⁷¹ Pauke *Die kartellrechtliche Erfassung konglomerater Konzentration in der Republik Südafrika* (1998) 16 – 21; <http://www.cosatu.org.za/docs/1998/competbi.htm>.

⁷² Competition Board, Report No. 50, 1996, 21.

⁷³ Department of Trade and Industry (DTI), Explanatory Memorandum To Competition Bill, 1998, May, *Government Gazette* No.1891361.

⁷⁴ Section 21(1)(a).

products on offer. They want to buy the 'best' product, yet may well be unable to make an informed choice. What does the consumer know of the qualities of the individual product on offer? The perfectly operating market system makes assumptions about informed stimuli delivered from the market 'demand-side', the consumer, which are unrealistic in an era of bewildering technological advance. Such lack of information affects the message sent by consumer purchase to producers.

4.2.1 Commercial Information

Consumers have an interest in being as completely informed as possible, and are increasingly demanding further rights to information.⁷⁵ Research has shown that consumers perceive an information gap between available information, and the amount and quality needed for good-decision making. A study conducted in the United States revealed that about 45 per cent of respondents considered that '*most advertising today tries to deceive people rather than inform them*', and 70 per cent stated that the government should provide product information, as producers and distributors do not give all essential information.⁷⁶

Nowadays, consumers want to know what they are buying, what they are eating and drinking, how long a product will last, what it will do and whether it will be safe for them and the environment. The United States Supreme Court went on to observe that:

*'A particular consumer's interest in the free flow of commercial information ... may be as keen, if not keener by far, than his interest in the day's most urgent political debate.'*⁷⁷

⁷⁵ Bodewig op cit 184.

⁷⁶ Boddewyn/Marton op cit 60.

⁷⁷ *Virginia State Bd. of Pharmacy v. Virginia Citizens Consumer Council Inc.* 425 U. S. 748 (1976), the United States Supreme Court ruled that the First Amendment to the United States Constitution, which guards freedom of speech, protects advertising that conveys truthful, non-deceptive messages to consumers.

To sum up, as long as consumers are given information, which is believed to be true, comprehensive, relevant and focused on objective properties in a verifiable way, consumers value information.

4.2.2 Education

Consumers also want to be educated about the products they buy, as they are often unaware of their rights, of product features, or of side effects.⁷⁸ This is particularly true for poorly educated consumers. Proper advertising serves a legitimate and important purpose in the market by educating the consumer as to available alternatives and to overcome brand loyalty. It is submitted that South African consumers are very brand loyal, as markets are dominated by few, strong and heavily advertised brands.⁷⁹ Generally, in situations where producers can gain nothing more through cost-cutting or objective qualitative improvement, they use image advertising to differentiate their brands. If consumers are brand loyal, a product or service can have such an entrenched position that consumers might not even think of a competitor's performance as a viable alternative. Even if a competitor provides a better performance consumers will often not consider this product, as they are so attached to their usual buying habits. This however, creates irrational brand preferences that

⁷⁸ One example may bring this into focus: 'Some years ago, producers of many products conducted both their manufacturing and packaging processes without regard to their effect on the air, water and other aspects of the world in which we live, and they made products that themselves were harmful to the environment. Spurred on by public interest groups and others, consumers became aware of the harm that some of these products and processes were inflicting on the environment. Their newly acquired knowledge fueled concern that, in turn, became reflected in their purchasing decisions. Within a relatively short time, products changed, production and packaging methods were altered, and today, markets throughout the United States and much of the rest of the world are filled with products touting their "environmentally friendly" attributes. These changes in products and methods of production and packaging occurred almost entirely because consumers began to demand products less likely to damage the environment, and market forces compelled manufacturers to respond to that demand. Such changes would be rare and, at best, much slower to occur in a managed economy in which decisions have been made, perhaps years ago, based on assumptions that protecting the environment was not important or was too costly and in which neither consumers nor producers can exercise sufficient influence to compel the changes absent of government fiat.'; Azcuenaga 'Advertising Regulation and the Free Market', at <http://www.utexas.edu/coc/adv/research/law/Free.html>.

⁷⁹ Judin 'Bright prospects and hidden pitfalls for legal profession' *Financial Mail (online)* at <http://www.fm.co.za/Top100/tc47.html>.

mislead consumers as to actual differences between products.⁸⁰ Hence, consumers have an interest in education to overcome such irrational brand loyalty.

4.2.3 Competition in the Market

According to neo-classical economic theory, the consumer is best protected when conditions of perfect competition exist.⁸¹ Research has shown that vigorous competition provides low prices, enhances product improvement and delivers high quality goods.⁸² Where intellectual property law inhibits competition, consumers are against it. This can be seen from the statement of the European Consumers' Organisation (BEUC) regarding the prohibition of parallel imports through the trade mark law:

*'The current EU legislation leads to a situation in which the use of trade marks favours anti-competitive behaviour. It provides Trade Mark holders with the possibility to segment global markets and to maintain high prices. Furthermore, competition is limited and the price level held artificially high in the Community, to the detriment of European Consumers.[...] Competition in the EU and on a global level will lead to lower prices and better quality for consumers.'*⁸³

Competition can ensure a greater freedom of choice between types and qualities of goods and services, and can provide consumer satisfaction.⁸⁴ Competition policy can spur economic growth, and is an incentive for business efficiency and innovation.⁸⁵ In this sense competition policy is a form of consumer protection, and consumers are interested in effective advertising regulation.

⁸⁰ *FTC v Procter and Gamble Co* 386 U.S. 568 (1967) 603.

⁸¹ See in general Langen/Bunte *Kartellrecht* (1994).

⁸² Mensch/Freemann 'Frontiers of Legal Thought: Efficiency and Image: Advertising as an Antitrust Issue' (1990) *Duke LJ* 321 326.

⁸³ 'Trade Marks – the Principle of Exhaustion – a BEUC position' at www.beuc.org.

⁸⁴ Van Heerden/Neethling op cit 3.

⁸⁵ Van Heerden/Neethling op cit 19; see also the case *FTC v Indiana Fed'n of Dentist*, 476 U.S. 447 (1986).

4.2.4 Protection against Deception and Unlawful Practices

Consumers wish to base purchasing decisions on rational information and not to be deceived or misled by advertisements or other unlawful practices. Comparisons involving irrelevant aspects of performance can distort a decision, which is not in the interest of consumers.

4.3 Reference Brand Competitors Interests

4.3.1 Intellectual Property Protection

The reference brand competitor has a strong interest in intellectual property protection. Brands have become the new 'currency', and strong brands can be a company's most important asset. For example, the value of the Coca-Cola Company is made up primarily of goodwill - around 97%. Hence, a potential buyer would have to spend \$56 billion to end up with a name.⁸⁶ The advertiser's brand name may be an assurance of quality, and the value of this benefit is demonstrated by the general willingness of consumers to pay a premium for the advertised brand.⁸⁷ Justice Frankfurter describes the value of trade marks:

*'The protection of trade-marks is the law's recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them. A trade-mark is a merchandising short-cut which induces a purchaser to select what he wants, or what he has been led to believe us what he wants. The owner of a mark exploits this human propensity by making every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol. Whatever the means employed, the aim is the same - to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trade-mark owner has something of value.'*⁸⁸

⁸⁶ Penstone 'Brand Ownership' (1999) *Marketing Mix* 37.

⁸⁷ Mensch/Freemann op cit 330.

⁸⁸ *Mishawaka Rubber and Woollen Mfg Co v SS Kresge Co*, 316 U.S. 203 205; see in general Mostert 'Trademark Dilution and Confusion of Sponsorship in the United States, German and English Law' (1986) 17 *ICC* 80 86.

Competitors with strong or leading brands fear comparative advertising as it may dilute,⁸⁹ or infringe on the advertising and distinguishing value of their brands.

4.3.2 Suppression of Comparative Information

Competitors whose performance serves as a reference point in comparative advertisements will often be market leaders. Market leaders usually have a specific interest in revealing a minimum of information about their products or services in their advertisements. A monopolist, or near monopolist, concentrates promotional efforts on image advertising on the basis that it has nothing to fear from competition, and therefore needs not discuss product qualities to maintain its position.⁹⁰ This is a further reason why competitors fear the disclosure of information in comparative advertisements.

4.3.3 Fair Competition

The reference brand competitor also has an interest in having products and services judged by consumers on their own merits, as comparison to a competitor will almost always be biased. At least, the competitor has, at a minimum, an interest in assuring that the comparative advertisements are true, that they are in no way misleading, and that they do not disparage its reputation.

4.4 Interests of the Comparative Advertiser

4.4.1 Free Commercial Speech

The comparative advertiser has a general interest in free commercial speech in telling consumers and the public its own opinion on matters considered important.⁹¹ The advertiser wants to inform consumers about their performance, wishes to highlight the positive characteristics of its products or services, and to persuade con-

⁸⁹ Later on the dissertation will explain the 'dilution concept'.

⁹⁰ Pitofsky op cit 665.

⁹¹ Bodewig 'The Regulation of Comparative Advertising in the European Union' op cit 179 186.

sumers to buy its products or services.⁹² If comparative advertising should happen to be the best method for the advertiser to compete, then the advertiser wishes to directly compare its products and services with this competitor.⁹³

4.4.2 Performance Merit Competition

An advertiser is interested in the most effective means of relaying information to advertise products or services, as it reduces marketing costs and allows real performance competition, while the advertiser might be able to share in some of the reference brand competitor's good reputation.

4.5 Conclusion

Reference brand competitors who serve as the 'background' in comparative advertisements have a strong interest in not being exploited by others for gain. They have an interest in the protection of intellectual property, namely the goodwill and distinguishing value of their brands. If they are market leaders, they also have a specific interest in revealing little information about their products or services. At the very least, they have an interest in comparative claims not being biased, and that the claims are objective, verifiable and not misleading.

The comparative advertiser has an interest in informing consumers about its products and services, to persuade them to buy its products and services, and wishes to use the most effective marketing technique available.

Consumers have an interest in the free flow of information so as to be as completely informed as possible. Consumers value information acquired through advertising as it makes decisions easier and reduces current or later search efforts.⁹⁴ They want to be educated about the products they buy and about the actual differences

⁹² This is the constitutional interest in free commercial speech.

⁹³ Bodewig op cit 186.

⁹⁴ Muehling/Stoltman/Grossbart 'The impact of comparative advertising on levels of message involvement' (1990) 19/4 *JoA* 43: A study conducted in the United States and Germany showed that advertising is the most important source of product and purchasing information available to consumers in industrial societies with market economies.

between products. Consumers value commercial information that is representative, objective, relevant and verifiable.

The public has an interest in intellectual property protection but also in effective advertising regulation so that markets can operate freely, and the allocation of resources is not affected by misleading or deceptive advertising practices. It therefore has an interest in utilising the competitive effects of informative advertising if it leads to lower prices, better quality, to the introduction of new products and services, or if it can lower barriers to entry for new competitors.

University of Cape Town

5 How Comparative Advertising Affects Interests

Following on the analysis of the various interests, in Chapter 4, this Chapter considers how comparative advertising serves or conflicts with each of these interests.

5.1 Affected Interests of the Public At Large

5.1.1 Comparative Advertising's Competitive Effects

Comparative advertising can be an incentive for enhanced competition in South Africa. It is important, therefore, to realise that comparative advertising is an integral part of competition. This is particularly important for South Africa, as many ANC members who returned to South Africa from exile came from advertising-free former Eastern-block states, and they expressed the opinion that advertising was an unnecessary activity, adding to cost for the consumer.⁹⁵ However, this view has changed and today the ANC is more committed to free-market principles as shown by the Competition Act, 1998.⁹⁶

The story of the Federal Trade Commission (FTC) in the United States underlines the ability of comparative advertising to contribute to a public competition policy. It was in the 1970s that the Federal Trade Commission (FTC) in the United States 'discovered' advertising's desirable side effects. The FTC became aware of the possibility of utilising advertising regulation as a measure to enhance their anti-trust policy,⁹⁷ and found that informative advertising could have positive effects, while non-informative image advertising has the ability to increase concentration in the market.⁹⁸ They found that the proper functioning of the concept of 'competition'

⁹⁵ Information from Abrie du Plessis, former lecturer at Stellenbosch University, who was involved in the issue before Parliament in 1993.

⁹⁶ Act 96 of 1998.

⁹⁷ Sullivan *Antitrust* (1977) 308.

⁹⁸ See in general Menke 'Die moderne funktionsökonomische Theorie der Werbung und ihre Bedeutung für das Wettbewerbsrecht, dargestellt am Beispiel der vergleichenden Werbung' (1993) *GR*

depends on the ready availability of truthful information and the suppression of misleading information.⁹⁹

5.1.2 Promotion of Market Transparency

Comparative claims include significantly more information than non-comparative advertising, and the information furnished is more useful to consumers. The higher information value comes from the reference to a competitor.¹⁰⁰ This greater flow of information brings more firms into competition with each other, and provides greater rivalry between competing firms.¹⁰¹ Marketers and advertisers considered the former ban on comparative advertising as a '*set-up to shield the inferior*'.¹⁰² Comparative advertising provides information about the product and competitors for free which lowers the overall cost of the product. Reasoned and informed purchasing decisions increase market efficiency, optimise resource allocation, and enhance transparency in the market.

Image advertising, to the contrary, must be sceptically regarded, as it has the ability to artificially differentiate products and services from competitors' performances. Such advertisements try to create psychological differentiation between brands where physical differences are hardly perceived by the consumer.¹⁰³ Such brand differentiation prevents the concept of competition from working, and raises barriers to entry through the proliferation of brands.¹⁰⁴ Image advertising campaigns can be expensive and costs can serve to deter competitors or small businesses from en-

718; Mettang 'Die vermeindliche Liberalisierung des kritischen Werbevergleichs' (1988) *GR* 106; Moeser 'Neue Rechtsprechung zur vergleichenden Werbung' (1987) *NJW* 1789.

⁹⁹ *Woker Advertising Law* op cit 9.

¹⁰⁰ Meyer gives the example, that the information in an advertisement concerning the fuel consumption of a car is much more worthwhile, when it is presented in comparison to the competitors' fuel consumption; Meyer op cit 291.

¹⁰¹ Azcuenaga op cit.

¹⁰² 'Comparative advertising: Red in tooth and claw' op cit 80.

¹⁰³ See in general Boddewyn/Marton op cit 7.

¹⁰⁴ Mensch/Freemann 'Frontiers of Legal Thought: Efficiency and Image: Advertising as an Anti-trust Issue', (1990) *Duke LJ* 321 351.

tering the market.¹⁰⁵ Image advertising campaigns have been attacked for containing little information and for saying 'sweet nothings', e.g. '*Things go better with Coke!*', coupled with unspecific, unsupported claims of superiority, which do not allow direct verification by the consumer.¹⁰⁶

If, for example, a market leader's competitor provides the same product at a lower price, his performance is better in the light of competition policy. This puts competitive pressure on the high-priced market leader, who might, in reaction, lower prices. Brand loyalty, resulting from non-informational image advertising, can make consumers unwillingly to change to the better performer. This means that the market leader's competitor, assuming he is a new entrant into the market, may have to spend substantially more to make the same impact, which effectively increases the capital needed for entering the market.¹⁰⁷ The explanatory memorandum to the 1991 draft¹⁰⁸ of the European Directive on Comparative Advertising emphasises that comparative advertising can stimulate competition, especially if it enables newcomers to challenge leading brands.¹⁰⁹

Vigorous advertising competition resulting from comparative advertising has the ability to put competitive pressure on the market leader, and the concept of competition will again come into play.¹¹⁰

Comparative advertising can overcome artificial product differentiation by stressing measurable, objective and verifiable facts, and allowing more effective advertising campaigns for new entrants into the market.¹¹¹

¹⁰⁵ Costs to enter into a market are 'barriers to entry' for potential competitors. The lower the barriers to entry, the better it is in the light of competition policy.

¹⁰⁶ Boddewyn/Marton op cit 61.

¹⁰⁷ Mensch/Freemann op cit 326.

¹⁰⁸ COM(91) 147 final-SYN 343.

¹⁰⁹ Ibid, paras 3.7. and 3.8.

¹¹⁰ Meyer 'Vergleichende Werbung und Markttransparenz' (1993) ZRP 294 294.

¹¹¹ Boddewyn/Marton op cit 7.

5.1.3 Ability to Spur Innovative Activity

Comparative advertising encourages innovative activity.¹¹² Comparative advertising is basically a marketing technique for new products and services, but makes little sense for an established brand.¹¹³ Market leaders usually gain nothing by giving their rivals free exposure, while new products and services can gain a lot by referring to the market leader,¹¹⁴ and comparative advertising is an effective marketing tool with a significant effect on the development of new products and services. For example, the company General Mills successfully launched its breakfast cereal 'Total' by advertising it was the same as Kellogg's 'Corn Flakes' but with more vitamins.¹¹⁵

5.2 Affected Consumer Interests

Consumers have an interest in the free flow of commercial information when the information is representative, objective, relevant and verifiable. Furthermore, consumers want to be educated about the products they buy and about the actual differences between them. Consumers have an interest in competition, as competition might lower prices, or bring out better product features. The informational, educational and competitive effects of comparative advertising are further analysed in turn.

5.2.1 Informational Aspect

The use of comparative advertising provides the opportunity to inform consumers more fully.¹¹⁶ It can be argued that consumers are only informed through the process of comparisons - either directly, through personal experience in shopping for

¹¹² Ibid 80.

¹¹³ McGraw and Hill *Advertising Communications and Promotion Management* (1996) 254.

¹¹⁴ 'Comparative advertising: Red in tooth and claw' op cit 80.

¹¹⁵ Ibid 79.

¹¹⁶ Jackson/Brown/Harmon op cit 21.

and using products - or indirectly through comparative data obtained from trusted friends and acquaintances, from advertising and from consumer reports.¹¹⁷

Comparative advertising is informative, as it points out real advantages by contrasting products side-by-side, thereby reflecting the real-life situation of a competitive, multi-brand market situation.¹¹⁸ This side-by-side comparison makes consumers more aware of a product's features. As consumers associate brands with quality, the only meaningful way to compare them is by referring to other trade marks.¹¹⁹

Wilsenach, a South African marketing director makes the following comment: '*Ads should be informative, so a ban of comparative advertising is a big lie. You are withholding information.*'¹²⁰ Here, there is a distinction between direct and implied references. A direct comparison provides the consumer with the best information. When the references are implied, the value of the information decreases, because the consumer has to research further, or cannot be sure which competitors are meant.¹²¹

Robert Pitofsky, FTC chairman, stated, in respect of the informational effects of comparative advertising, that:

'Comparative advertising substitutes for search costs by consumers by providing in a convenient and usable way information necessary for consumers to make choices among available brands, and in the process facilitates the func-

¹¹⁷ Beller 'The Law of Comparative Advertising in the United States and around the World' (1995) 29 *Int'l Law* 917 921; see in general Meyer 'Vergleichende Werbung und Markttransparenz' (1993) *ZRP* 290 291

¹¹⁸ Muehling/Stoltman/Grossbart 'The impact of comparative advertising on levels of message involvement' op cit 43.

¹¹⁹ Ibid 73.

¹²⁰ Charney op cit 48; the author referred to a Datsun car advertisement where a car was dropped 15 stories and remained in working order: 'In a place like America, the opposition would have an advertisement which shows you can't drive off in the Datsun. Here [in South Africa] you can get away with crap like that'.

¹²¹ This was realised by the FTC chairman Pitofsky in 1972, who then encouraged 'brand comparisons' instead of the usual 'Brand X' comparisons.

*tioning of a market economy. There is no other way to communicate enough information about enough products to enough people with enough speed.*¹²²

5.2.2 Educational Aspect

Comparative advertising has the ability to educate consumers by making them more conscious of their responsibility to compare before buying.¹²³ Research has shown that consumers' perceptions of comparative advertising is significantly more critical compared to non-comparative advertisements.¹²⁴ The result is a changed consumer mindset, as consumers perceive the claims in a comparative advertisement as potentially misleading. The outcome is a consumer that carefully checks information provided and questions his brand perceptions.¹²⁵

A good example relates to a Kellogg's breakfast cereal advertising campaign in the 1980s. Kellogg ran an advertisement highlighting the relationship between eating more fibre and lowering the risk of cancer. As more people learned of this, they modified their eating habits; an example of how advertising inspired the development and acceptance of healthier foods. A Federal Trade Commission (FTC) study found that, after the introduction of advertising claims discussing the relationship between fibre and cancer, the number and the fibre content of new product introductions in the high fibre cereal market increased. The informational content of the fibre-related advertisements led, in turn, to greater consumption of high fibre cereals and to a greater consumer awareness of the benefits of fibre in the diet.¹²⁶

¹²² Pitofsky op cit 677; for the German law, *Kuppelmuffenverbindung* BGH GR 67 596 598; *Schornsteinauskleidung* BGH GR 1969 283 285; *40% können sie sparen* BGH GR 68 443 445; Wenzel 'Wettbewerbsäußerungen und Informationsinteresse' (1968) GR 626.

¹²³ Boddewyn/Marton op cit 60.

¹²⁴ Meyer 'Vergleichende Werbung und Markttransparenz' op cit 297.

¹²⁵ Ibid.

¹²⁶ Complaint, *Kellogg Co*, 99 F.T.C. 8, 11 (1982).

5.2.3 Competitive Effects

Comparative advertising is a very competitive form of advertising, particularly when compared to image advertising. Price comparisons stimulate price competition, which often result in 'price wars', to the consumers' benefit. Hence, comparative shopping by consumers spurs competition between sellers to cut prices and develop new products that satisfy consumer demands.

An example of comparative advertising which stimulated competition was the so-called 'cellular war'¹²⁷ between the competitors Vodacom and MTN in South Africa. MTN conducted several comparative advertisements to prove that they run the better GSM cellular network. Vodacom, in turn, was not complacent, and responded with an advertising barrage that attempted to counter MTN's claims that research showed it had the better network. Vodacom also announced that its subscribers would receive free access to their voicemail feature. MTN was not willing to fall behind in consumer preference and followed quickly with a similar announcement.¹²⁸ In this manner, the consumer benefited as competition made this particular product feature available for free.

Compare an associative comparative advertisement between generic and branded drugs. Information about chemical composition is indisputably important to decisions about drug purchase, as it relates centrally to the function that the product is designed to serve. Making such information as widely available as possible is compatible with the goal of the patent system that, once a patent has elapsed, competition in the production of the drug is encouraged. Such competition in both the production and advertising of drugs will often keep drug prices low, with lower community healthcare costs.¹²⁹

¹²⁷ A similar 'cellular war' took place between AT&T and BT in the UK. BT has failed in a legal bid to block a comparative advertising campaign by rival AT&T. AT&T claimed a ruling in BT's favour would have prevented effective promotion of alternative services in the residential market; see <http://www.totaltele.com/cwi/177/177news6.html>.

¹²⁸ Seen at <http://www.gadget.co.za/people/061998/15061998.html>.

¹²⁹ Ohly/Spence *The Law Of Comparative Advertising* (2000) 85.

The claims and counter-claims made in comparative advertising, as frequently seen in the United States, often force manufacturers to build 'consumer-wanted attributes' into products, - as the best way to effectively neutralise a competitor's comparative advertisement is to produce a better product, and deprive the competitor of the comparative advertising opportunity.¹³⁰ An example shows comparative advertising's ability to stimulate innovation - A manufacturer of a cooking spray attacked a competitor's product smell as its weak point. The latter reacted with the reformulation of its product to eliminate the offensive smell, obviously to consumers' benefit.¹³¹

It is important to distinguish between informational and non-informational advertising, as advertising and competition have a clear bond. Comparative advertising is a form of informative advertising, which is desirable for consumers, as it helps ensure that the promotional advertising increase useful information available to consumers.

5.3 Affected Reference Brand Competitor Interests

"How does direct comparative advertising affect the competitors' interest in trade mark and goodwill protection?"

5.3.1 Infringement of Intellectual Property

Direct references explicitly naming a competitor's brand name, can infringe on the value of trade marks. Trade mark law stresses that marks are indications of origin, though, for many years now, the actual source of goods has mattered less and less to consumers: for example, people continue to buy Smarties irrespective of Nestlé's takeover of Rowntree Mackintosh.¹³² Trade marks' most appreciated function presently is their ability to distinguish an entrepreneur's own performance from similar competitive performances. Therefore, the value of modern trade marks has three

¹³⁰ Tannerbaum 'Better Products Through Comparative Advertising' (Speech before the San Francisco Advertising Club, 6 October 76).

¹³¹ Boddewyn/Marton op cit 71.

¹³² Groves *Intellectual Property Law* (1997) 511.

different functions: to indicate the origin of the product or service, to distinguish the product or service from others, and to advertise trade marks.¹³³

The following from A. W. Langvardt indicates that comparative advertising does not infringe on the origin-function of a trade mark:

*'Infringement cases arising from the comparative advertising setting are similar to the New Kids case [New Kids on the Block v News America Publishing Inc 971 F2d 302, 23 USPQ2d 1534 (CA 9 1992) – no infringement was found], and would normally be expected to lead to the same result reached there. Assume that you and I are competitors and that in an advertisement in which you adversely compare my product to yours, you use my trade mark as a way of identifying my product. You are using my trade mark in the course of expressing a point or conveying information about the products, without creating a risk that consumers will become confused about whose product is whose. Your comparative advertisement thus does not trigger legitimate trade mark law concerns.'*¹³⁴

Jacob J came to the same conclusion in the British case of *British Sugar plc v James Robertson & Son Ltd*,¹³⁵ when stating:

'Second, I think one must distinguish between a use of the mark by way of an honest comparison and other uses. I see no reason why the provision does not permit a fair comparison between a trade mark owner's goods and those of the defendant. The comparison would have to be honest, but provided it was part of, for instance, quality or price, I think it would be within the provision. Such honest comparative use might well upset the mark's proprietor (proprietors particularly do not like price comparisons, even if they are true) but would in no way affect his mark as an indication of trade origin. Indeed the defendant would be using the proprietor's mark precisely for its proper purpose, namely to refer to his goods. I can see nothing stated in the purpose of the Directive indicating that trade mark monopoly should extend to the point of enabling a proprietor to suppress competition by use of its trade mark in this way. Nevertheless, direct comparative advertising can affect the competitors' interest in

¹³³ *Woker Advertising Law* op cit 126.

¹³⁴ Wheeldon 'Brand-Comparative Advertising' (1996) 9 *De Rebus* 585 588.

¹³⁵ [1996] RPC 281.

*the protection of the distinguishing-function of his trade mark. Precisely because the trade mark or trade name individualises and consequently distinguishes the product or undertaking – the mark or name therefore has distinguishing value.*¹³⁶

The ability of direct comparisons to interfere with competitors' interests in trade mark protection, is given by Schechter in his dilution concept, a concept to protect trade marks' distinguishing and advertising value, which he describes as *'the gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use on non-competing goods.'*¹³⁷

Dilution succeeds in harming a mark when (i) it is repeatedly used by others in a way that causes it to lose its distinctiveness and association with the trade mark owner and his goods, or (ii) because it becomes, in some way, 'tarnished' by its use in an inappropriate context.¹³⁸ Schechter explained the trade mark infringement as follows: *'If you allow Rolls Royce restaurants, Rolls Royce cafeterias, Rolls Royce pants and Rolls Royce candy, in ten years you will not have the Rolls Royce mark any more.'*¹³⁹

Direct comparative advertising is partially prone to dilution, when advertisers use competitors' names or trade marks as a reference point. On the other hand, implied comparisons do not interfere with a competitors' interest in intellectual property protection.

5.3.2 Infringement of Goodwill

The competitor has an interest in goodwill protection. This can be affected by all forms of comparative advertising, no matter whether the reference is direct or indirect or whether it is differentiative or associative.

¹³⁶ Ibid 298.

¹³⁷ Schechter 'The Rational Basis for Trademark Protection' (1927) *Harvard LR* 813 815 and reprint 60 *TR* 334 342.

¹³⁸ Ohly/Spence op cit 25.

¹³⁹ Salmon 'Dilution as a Rationale for Trade-Mark Protection in South African Law' (1987) 104 *SALJ* 647 648.

The competitors' interest in goodwill protection is affected through differentiative comparative advertising when the comparative advertiser disparages or denigrates a competitor's performance.¹⁴⁰ Interests can also be affected through an associative comparison, as is the case where advertisers' associate their performance with that of a competitor, even though this performance is of a lower quality.

5.3.3 Disclosure of Comparative Information

The competitor's interest in avoiding the disclosure of information can be affected through comparative advertising, as it provides significantly more information than non-comparative claims. To sum up, comparative advertising affects the competitors' interests. The interest in intellectual property protection is affected by direct comparison, while the interest in goodwill protection can be affected through all forms of comparative advertising.

5.4 Affected Interests of the Comparative Advertiser

The comparative advertiser has a particular interest in informing consumers about its products and services using the most effective marketing technique available, and it is concluded that comparative advertising serves the interests of advertisers. It enables the competitor to effectively present his performance to consumers, in the most effective way to be included in the 'mental mindset' of a consumer, by referring to a product or service which already holds an entrenched market position.

The comparative advertiser can point out his own lower prices¹⁴¹ or his superior product features.¹⁴² It is a particularly effective way for new brands to break into markets, or for established but tired brands to regain lost market share.¹⁴³ ASA legal advisor Michael Judin states:

¹⁴⁰ Van Heerden/Neethling op cit 302.

¹⁴¹ This could be done with 'associative comparative advertising'.

¹⁴² This could be done with 'differentiative comparative advertising'.

¹⁴³ 'Comparative advertising: Red in tooth and claw' op cit 79.

*'During the sanctions era we became a very brand loyal consumer society. Without comparative advertising, newcomers to the market will find it difficult to explain to those consumers the advantages of their product. We believe the restriction in the Trade Marks Act will find its way before the Constitutional Court, who will find it is not constitutional. The industry should get itself ready for comparative advertising.'*¹⁴⁴

5.5 Conclusion

From this examination, the author concludes that there is potential for substantial conflict between reference brand competitors' on the one hand, and advertisers', consumers' and the public at large on the other.

However, the public interest is diverse, as the interest in intellectual property and goodwill protection conflicts with the interest of effectively regulating advertising.

The author submits it should be the function of the law to effectively balance and delimit these diverging interests. The analysis of the institutional mechanisms regulating comparative advertising in Chapter 6 shows, that some of the legal mechanisms regulating comparative advertising in South Africa are structured in a way, or reflect legal doctrines, that cannot safeguard an effective balancing of interests. This leads to the conclusion that the current regulation framework cannot effectively regulate comparative advertising.

¹⁴⁴ Judin 'Bright prospects and hidden pitfalls for legal profession' op cit.

6 Trade Mark Law to Regulate Comparative Advertising

Comparative advertising is regulated through a mixture of institutional mechanisms. The most important legal mechanism is the South African Trade Marks Act, 1993 that only comes into play in cases of direct comparative advertising. It cannot cover the whole field of comparative advertising, and trade mark law is only a complementary means of regulating comparative advertising. An analysis of the South African Trade Marks Act, 1993, shows the current doctrinal approach is inconsistent with the goal of effectively balancing divergent interests. The South African courts interpretation of the crucial section 34, of the Trade Marks Act, 1993, leaves no room to consider advertisers' or public interests.

The corresponding position in German and British trade mark legislation, and the first Directive of the European Community, to bring legislation concerning trade marks of member countries into agreement - the 'EC Trade Mark Directive',¹⁴⁵ shows how these countries achieve a balance of interests in the field of trade mark law, more in line with a goal of achieving an effective balance.

6.1 The Protection of Trade Mark's Distinguishing Function

The trade mark law does not protect the different functions of a trade mark to the same extent. The 'traditional function', i.e. to indicate the origin of a product or service, is always protected, while the 'distinguishing function' is not necessarily protected. Hence, the author concludes that the scope of trade mark protection is crucial in balancing the various interests in the light of trade mark law.

¹⁴⁵ First Council Directive of 21 December 1988 on the Laws of the Member States Relating to Trade Marks (89/104/EEC).

The doctrinal approach a trade mark law follows, depends mainly on the question whether a reference to another trade mark, (which itself does not infringe upon the origin function of a trade mark, including a reference through comparative advertising), amounts to the 'use of a mark'.

The emphasis of South African trade mark legislation has shifted away from the function of merely indicating the origin of goods,¹⁴⁶ and, in fact, the current South African Trade Marks Act, 1993 extends the scope of protection of a trade mark, thereby also unconditionally protecting the distinguishing function of a trade mark.¹⁴⁷

6.2 British Trade Marks Act of 1938

To fully understand this change in trade mark legislation, it is necessary to also consider South Africa's trade mark history. Several South African trade mark statutes have, to a greater or lesser degree, been based on corresponding British statutes. For a proper interpretation of the South African statutes it is imperative to look at the corresponding British Trade Marks Acts.

Historically, the United Kingdom dealt with the problem of comparative advertising through the trade marks law. The British case of *Irvings Yeast-Vite Ltd v FA Horsenail (t/a The Herbal Dispensary)*¹⁴⁸ highlighted a shortcoming in the British Trade Marks Act, 1938. The plaintiff claimed the respondent's 'use' of the trade mark, in the context of the claim '*yeast tablets as substitute for Yeast-Vite*'¹⁴⁹ constituted an infringement of a registered trade mark. The claim was dismissed as the British Trade Marks Act, 1938 only protects against 'use' of a mark 'as a trade mark'.¹⁵⁰ The court held that to constitute infringement, the 'use' of the mark must be for the purpose of indicating the origin of goods and that the respondent with the

¹⁴⁶ *Woker Advertising Law* op cit 153.

¹⁴⁷ *Webster/Page* op cit 12-9.

¹⁴⁸ [1943] 51 RPC 110 (HL); Dean 'Comparative Advertising as Unlawful Competition' op cit 41.

¹⁴⁹ An associative comparative advertisement.

¹⁵⁰ *Wheeldon 'Brand-Comparative Advertising'* op cit 585.

substitution claim did not infringe upon the origin function.¹⁵¹ The British Trade Marks Act, 1938, at that time, solely protected the origin function of a trade mark.

To eliminate this shortcoming the British Trade Marks Act, 1938 broadened the scope of a registered trade mark proprietor's exclusive right. A provision was made in this Act for a registered trade mark to be infringed by the use of it or a confusingly similar mark in such a manner as to render the use of the mark upon or in physical relation to goods, or in an advertising circular or other advertisement issued to the public, as 'importing a reference' to some person having the right. The wider scope of protection was confirmed in the case *Bismag v Amblins (Chemists) Ltd*,¹⁵² where the defendants produced a chart comparing products. The court found that the new subsection did indeed prevent the 'use' of a registered trade mark in comparative advertising, where such use obtained for the defendant a benefit from the reputation enjoyed by the plaintiffs' goods. Here the broader definition of the Act also protected the distinguishing function of a trade mark.

6.3 South African Trade Marks Act of 1963

The South African Trade Marks Act, 1963 was closely based on the British Trade Marks Act, 1938. It is important to describe the way in which the former Trade Marks Act, 1963 dealt with the 'use' of a registered trade mark, before going on to analyse the position under the current section 34(1) of the Trade Marks Act, 1993.

To overcome problems as seen in the *Yeast-Vite* case¹⁵³ the South African Trade Marks Act, 1963 covered two forms of infringements.

The relevant section 44(1) reads:

The rights acquired by registration of a trade mark shall be infringed by:

¹⁵¹ Dean 'Comparative Advertising as Unlawful Competition' op cit 43; This was also the position in the South African law under the Trade Marks Act of 1916.

¹⁵²[1940] RPC 209.

¹⁵³ Supra.

-
- (a) unauthorized use as a trade mark in relation to goods and services in respect of which the trade mark is registered, of a mark so nearly resembling it as to be likely to deceive or cause confusion;
- (b) unauthorized use in the course of trade, otherwise than as a trade mark, of a mark so nearly resembling it as to be likely to deceive or cause confusion, if such use in relation to or in connection with goods or services for which the trade mark is registered and is likely to cause injury or prejudice to the proprietor of the trade mark;

Section 44(1)(a) covered classical infringements when the trade mark was 'used as a trade mark' and infringed on the origin function.¹⁵⁴ Section 44(1)(b) was enacted to overcome the shortcomings of the *Yeast-Vite* case, and covered infringements when the trade mark was used 'otherwise than as a trade mark'.

The *Klep Valve case*¹⁵⁵ was the first case concerned with comparative advertising under the Trade Marks Act, 1963. The court held that the use by Klep Valves of the registered trade mark 'Saunders' in the context of the phrase '*all KLEP diaphragm valve parts [...] are interchangeable with SAUNDERS diaphragm valves*' breached section 44(1)(b). Since then, it has been accepted that comparative advertising amounts to an infringement of section 44(1)(b). Here the South African Trade Marks Act, 1963 achieved the protection of the distinguishing function through the enactment of this special provision.

6.4 South African Trade Marks Act of 1993

The intention of South Africa's Trade Marks Act, 1993 was to bring South African trade mark law into line with the European Community.¹⁵⁶ In 1991, when it became clear that South Africa would be re-admitted as a member of the international

¹⁵⁴ This means using the mark to denote the origin or trade source of the goods which are the subject of the infringement claim; see *Berman Brothers (Pty) Ltd v Sodastream Ltd & another* 1986 (3) SA 209 (A); *Protective Mining & Industrial Equipment Systems (Pty) Ltd (formerly Hampo Systems (Pty) Ltd v Audiolens (Cape) (Pty) Ltd* 1987 (2) SA 961; *Miele et Cie GmbH & Co V Euro Electrical (Pty) Ltd* 1988 (2) SA 583 (A); and Webster/Page op cit 12.18.2.

¹⁵⁵ *Klep Valves (Pty) Ltd v Saunders Valve Co Ltd* 1987 (2) SA 1 (A).

¹⁵⁶ Dean 'Quo vadis South African Trade Marks?' (1998) 10 *SA Mercantile LJ* 96 91.

*and Others*¹⁶⁵ that the primary function of a trade mark is to distinguish the goods and services of one person from those provided by someone else in circumstances where they are involved in similar businesses. This meant a change from the 'badge of origin' element to the protection of the distinguishing capability of a trade mark.¹⁶⁶ Cleaver J says:

*'The 'badge of origin' element of the trade mark is no longer at the forefront and has been replaced by the distinguishing capability of the mark. It would seem that, in seeking to persuade me that the respondents have not infringed the applicant's marks, Mr. Louw has in effect highlighted the 'origin' element of the mark, which is clearly acknowledged in the brochures, but has overlooked the distinguishing element of the marks.'*¹⁶⁷

Ron Wheeldon criticised the decision and believes that Cleaver J misconstrued the meaning of the word 'use' in the context of section 34 in particular and in the Act as a whole,¹⁶⁸ and that the South African Trade Marks Act, 1993 does not protect the distinguishing function. He argues further that *Abbott Laboratories and Others v UAP Crop Care (Pty) Ltd and Others* places the South African trade marks law out of step with European trade marks law, although harmonisation was intended.¹⁶⁹ He argues that South Africa has always closely followed the law of the United Kingdom, and that United Kingdom authority was much used over the last 100 years in the interpretation of various Trade Mark Acts. In fact, although there is a marked degree of similarity between the South African Trade Marks Act, 1993¹⁷⁰ and the current British Trade Marks Act, 1994 Cleaver J, in his judgment in the *Abbott Laboratories*¹⁷¹ case, found:

¹⁶⁵ 1999 (3) SA 624 631(F-G).

¹⁶⁶ Ibid.

¹⁶⁷ Ibid.

¹⁶⁸ Wheeldon 'Is our law now out of step with the EC' (2000) 9 *De Rebus* 21.

¹⁶⁹ This follows from a memorandum on the objectives of the Trade Marks Bill 174 of 1993 published in the Government Gazette.

¹⁷⁰ Dean 'Trademarks in South Africa – the 1993 Act' at <http://www.spoor.co.za>.

¹⁷¹ *Supra*.

*'As I have already pointed out, there has been a shift in our legislation to elevating the distinguishing feature of a trade mark as its main purpose.'*¹⁷²

He then goes on to state:

*'Finally, when comparing the United Kingdom legislation with our own, it must be remembered that the United Kingdom Act of 1994 implemented an EC Directive which makes simple comparisons of the Act with our Act somewhat hazardous. For the above reasons, and having regard to the changes brought to our law in the 1993 Act and the reasons for these changes, I am not prepared to accept this portion of Jacob J's judgment as basis for finding that comparative advertising is permitted in terms of our law.'*¹⁷³

This view was recently confirmed by Van Dijkhorst J in the case *Abdulhay M Mayet Group (Pty) Limited v Rennassa Insurance Co Limited and another*.¹⁷⁴

'Although Section 2(2) of the Act deals with the use of a mark it does not give a definition of the word 'use'. The word 'use' therefore bears its ordinary meaning namely 'the Act of using a thing for any (esp. a profitable) purpose; Utilisation or employment for or with some aim or purpose.'

To sum up, the courts interpreted the South African Trade Marks Act, 1993 in a manner which extends the scope of protection of trade mark legislation, and also unconditionally protects the distinguishing function of a trade mark.¹⁷⁵ The author concludes that the trade mark law, in its current version, adopts a doctrinal approach and attaches more weight to the reference brand competitor's interest.

It is also necessary to examine how German and British trade marks legislation seek to balance diverging interests in comparative advertising. Although these countries implement the EC Trade Mark Directive, to modernize and harmonize their trade mark legislation, these countries follow a different doctrinal approach to achieve an effective balancing of interests.

¹⁷² 1999 (3) SA 624 635 (C).

¹⁷³ 1999 (3) SA 624 636.

¹⁷⁴ 1999 (4) SA 1039 (T).

¹⁷⁵ Webster/Page op cit 12-9.

6.5 British Trade Marks Act of 1994

The Trade Marks Act, 1938, was amended after the *Yeast-Vite* decision, and section 4(1)(b) prohibited any use of a competitor's trade mark intended to identify the trade mark owner's goods.¹⁷⁶ Direct comparative advertising was almost unknown in the United Kingdom while the Trade Marks Act, 1938 remained in force, and although implied references were frequent, these rarely led to complaint.

The Trade Marks Act, 1994 has significantly liberalised the law in relation to the use of trade marks in comparative advertising. The preamble of the EC Trade Mark Directive notes the function of a trade mark is 'in particular to guarantee the trade mark as an indication of origin'. The application of the British Trade Marks Act, 1994 on the regulation of comparative advertising has, however, never been a problem for British courts.

This is due to section 10(1) of the Trade Marks Act, 1994 which simply provides that it is an infringement of a registered mark to use it in relation to goods identical to those for which the trade mark is registered. One must conclude that 'trade mark use', according to section 10(1), encompasses infringements of the origin and the distinguishing function of a trade mark. Quite different to South Africa's approach, the British trade marks legislation enacted a special subsection 10(6), to explicitly allow for comparative advertising.¹⁷⁷ Subsection 10(6) is derived neither from the European Union nor from international law. It reads:

Nothing in the preceding provisions of this section shall be construed as preventing the use of a registered trade mark by any person for the purpose of identifying goods or services as those of the proprietor or a licensee.

But any such use otherwise than in accordance with honest practices in industrial or commercial matters shall 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 repute of the trade mark.

¹⁷⁶ *Bismag Ltd v Amblins (Chemists) Ltd* [1940] 57 RPC 209.

¹⁷⁷ *Cable and Wireless plc v British Telecommunications plc* [1998] FSR 383; Webster/Page op cit 12-36.

The effect of the section has been clarified by two decisions of the High Court, *Barclays Bank Plc v RBS Advanta*¹⁷⁸ and *Vodafone Group Plc v Orange Personal Communications Services Ltd.*¹⁷⁹

Vodafone, a telecommunications company, brought an action against Orange for infringement of its registered trade mark 'Vodafone' in a comparative advertisement. Orange claimed that its users would, on average, save 20 per cent. Jacob J dismissed the claim and held that under the Trade Marks Act, 1994 subsection 10(6) comparative advertising was permitted, provided that it was not detrimental to, and did not take unfair advantage of a registered trade mark and Jacob J held that this was not the case.¹⁸⁰

These decisions were summarised, and a gloss added, in *British Telecommunications Plc v AT & T Communications Services Ltd*¹⁸¹ in a passage that has subsequently been approved.¹⁸² The summary constitutes the first 9 of 13 points made in this case, with the gloss adding a further four:

- (1) *The primary objective of s 10(6) ... is to permit comparative advertising*
- (2) *As long as the use of a competitor's trade mark is honest, there is nothing wrong in telling the public of the relative merits of competing goods or services and using registered trade marks to identify them....*
- (3) *The onus is on the registered proprietor to show that the factors indicated in the proviso to s 10(6) exist...*
- (4) *There will be no trade mark infringement unless the use of the registered mark is not in accordance with honest practices...*
- (5) *The test is objective: would a reasonable reader be likely to say, upon being given the full facts, that the advertisement is not honest?*
- (6) *Statutory or industry agreed codes of conduct are not a helpful guide as to whether an advertisement is honest for the purpose of s 10(6). Honesty has*

¹⁷⁸ [1996] RPC 307.

¹⁷⁹ [1997] FSR 34.

¹⁸⁰ [1997] FSR 34 39

¹⁸¹ Ch. D, 18 Dec. 1996, Mr Crystal QC, unreported.

to be gauged against what is reasonably to be expected by the relevant public of advertisements for the goods or services in issue...

(7) It should be borne in mind that the general public are used to the ways of advertisers and expects hyperbole....

(8) The 1994 Act does not impose on the courts an obligation to try and enforce through the back door of trade mark legislation a more puritanical standard than the general public would expect from advertising copy...

(9) An advertisement which is significantly misleading is not honest for the purposes of s 10(6)....

(10) The advertisement must be considered as a whole....

(11) As the purpose of the 1994 Act is positively to permit comparative advertising, the court should not hold words used in the advertisement to be seriously misleading for the purposes unless on a fair reading of them in their context and against the background of the advertisement as a whole they can really be said to justify that description....

(12) A minute textual examination is not something upon which the reasonable reader of an advertisement would embark....

(13) The court should therefore not encourage a microscopic approach to the construction of a comparative advertisement on a motion for interlocutory relief.

It is clear from the summary that the courts have dramatically liberalised the trade mark law in relation to comparative advertising. From the remarks of Laddie J in *Barclays Bank Plc v RBS Advanta*¹⁸³ and Jacob J in *Vodafone Group Plc v Orange Personal Communications Services Ltd*¹⁸⁴ it is clear that only misleading advertising meets the dishonesty requirement of section 10(6).¹⁸⁵

It can be concluded that, due to subsection 10(6) and its requirement that the reference must be in accordance with honest practices, the United Kingdom follows a more flexible concept to balance the various interests in comparative advertising.

¹⁸² *Cable and Wireless v British Telecommunications plc* [1998] FSR 383.

¹⁸³ [1996] RPC 307 315.

¹⁸⁴ [1997] FSR 34.

The examination of point 2 - '*... there is nothing wrong in telling the public of the relative merits of competing goods or services ...*' - clearly shows that the consumers' interests should be decisive. Furthermore, point 6, with its reference to industry-agreed codes of conduct, and point 8, '*... enforce through the back door of trade mark legislation a more puritanical standard ...*', are clear signs that the traditional understanding of trade mark legislation has shifted away from the mere recognition of the competitor's interest in intellectual property protection. The High Court realised that it needs to attach more weight to public and consumer interests and the summary is a clear signal pointing in this direction.

6.6 German Trade Marks Act (Markengesetz)

Historically, Germany dealt with the problem of comparative advertising through the law on unlawful competition. The German law regulating trade marks is the Markengesetz, which was passed in Germany in compliance with the EC Trade Mark Directive. German courts interpreted the infringement section 14, of the Markengesetz, that the 'use of a mark' in comparative advertising is not 'markenmäßige Benutzung', which means it is not 'use as a mark'. Here it was accepted that the German trade mark law did not protect the distinguishing function of a trade mark.

The European Court of Justice's (ECJ) in *BMW v Deenik*¹⁸⁶ interpreted the scope of application of article 5(1) of the EC Trade Mark Directive as dependent on whether the trade mark is used for the purpose of distinguishing the goods or services in question as originating from a particular undertaking, that is to say, as a trade mark as such, or whether it is used for other purposes. Accordingly, the reference to a trade mark in a comparative advertisement cannot be regarded as a classical trade mark infringement, but rather, according to article 5(5), as the use of a sign other than for the purposes of distinguishing goods or services. The Court emphasised that classifying the reference under one, or another, specific provision of article 5

¹⁸⁵ Ibid 40.

does not necessarily determine whether the use in question is permissible. In fact, articles 6 and 7 of the EC Trade Mark Directive contain rules limiting the right of the proprietor of a trade mark, under article 5, to prohibit a third party from using his mark.

Article 6 provides *inter alia* that the proprietor of a trade mark may not prohibit a third party from using the mark, where it is necessary to indicate the intended purpose of a product, provided it is used in honest practice in industrial or commercial matters. The court found that in *BMW v Deenik* the reference falls within the provisions of article 6 of the EC Trade Mark Directive which permits the use of a trade-mark by persons other than the owner or those having the owner's consent '*where it is necessary to indicate the intended purpose of a product or service ... provided ... (the use is) ... in accordance with honest practices ...*'. The use was, therefore, also legitimate as use of the mark was the only way for Deenik to describe the services rendered.

The *Hölterhoff*¹⁸⁷ is a recent case where Advocate General Jacobs of the ECJ, in September 2001, offers an exhaustive discussion on use of a third party's registered trademark to describe characteristics of goods, and, in particular, how articles 5 and 6 of the EC Trade Mark Directive should be applied. The Higher Regional Court of Düsseldorf (Oberlandesgericht) asked the ECJ for guidance in a dispute between the owners of trademarks SPIRIT SUN and CONTEXT CUT - registered in Germany for diamonds and precious stones respectively - and another producer of precious stones who, during negotiations with a dealer, made oral reference to those trade marks to describe characteristics of his own products. The trade mark owners sought a restraining order and damages on the grounds of trade mark infringement. The Oberlandesgericht found that, although the defendant had certainly made oral reference to the plaintiffs' marks, the origin of the goods had always been clear during negotiations, and the buyer was not under the impression that the goods being offered were produced by the plaintiffs. The Oberlandesgericht asked the ECJ to

¹⁸⁶ Case C-63/97 [1999] 1 CMLR 1099 1110.

¹⁸⁷ Case C-2/00 [2002].

indicate whether trade mark infringement, in terms of article 5 (1) of the EC Trade Mark Directive, occurs where the defendant uses the plaintiffs' trademark solely to describe particular characteristics of the goods for sale, and reveals the origin of the goods produced, with no question of the trade mark being perceived as a sign indicative of the firm of origin.

In his opinion, Mr Jacobs refers to the ECJ's judgement in *BMW v Deenik*,¹⁸⁸ examines the relevant provisions of law, and concludes that a trade mark owner cannot rely on article 5 (1) of the EC Trade Mark Directive to prevent a third party from referring orally to the trademark when offering his own goods for sale, provided the third party makes it clear that the trade mark owner did not produce the goods and there can be no question of the mark being perceived in trade, whether at that stage or subsequently, as indicating the origin of the goods offered for sale. Even in other circumstances where article 5 (1) does give the trademark owner the right to prevent use, article 6 (1) precludes the exercise of that right if the use is for the purpose of indicating characteristics of the goods in question, as long as such use is in accordance with honest practice in industrial or commercial matters. Interestingly, for a definition of what must be considered 'honest practice in commercial matters', Mr Jacobs refers to the Directive, which allows advertising to identify goods offered by a competitor, provided the advertising is not misleading, confusing, does not discredit or denigrate the trade marks, or goods, of a competitor and does not present goods as imitations or replicas of goods or services bearing a third party's trade mark.

In the light of this judgment, the conclusion is that use of a trade mark in comparative advertising can constitute trade mark infringement under section 14(2) No 1 of the Markengesetz, but only if the use is contrary to honest practice. It is concluded that the European Community Law, and the harmonised German trade mark legislation, seeks to balance the various interest by implementing unlawful competition law principles in trade marks law. The doctrinal approach appears to be more flexi-

¹⁸⁸ Ibid.

ble and courts are enabled, through the interpretation of vague terms, such as 'honest practice in commercial matters' to effectively balance the various interests.

6.7 Conclusion

The examination of South African, British and German trade mark legislation shows that each of these countries follow different legal doctrines. The South African approach is not aligned with either the German or the British position on the issue. The outcome of South Africa's unconditional protection of the distinguishing function of a trade mark is the prohibition of any form of direct comparative advertising. The underlying doctrinal approach creates a legal monopoly, which curtails the informational aspect of comparative advertising and can therefore not effectively balance the various interests.

The British and German approach is different. These countries implement the EC Trade Marks Directive, and provide a similar scope of protection focussing on the origin function of trade marks. This approach tips the scale in public and consumer interests. It seems that Europeans seek to balance the divergent interests with a concept based on the open-textured 'unjustified manner' test, which is similar to the concept of goodwill from the law on unlawful competition.

The British trade mark legislation chooses to explicitly allow comparative advertising, only protecting the trade marks distinguishing function under exceptional circumstances. The position adopted by British courts is significantly different from the South African position, and is mainly due to subsection 10(6) of the Trade Marks Act, 1994, which the courts interpret liberally and in favour of comparative advertising. This seems to be the better concept, as a flexible balancing of interests is more likely. Prof Piet Delpont stated in this regard '*My opinion is that South Af-*

*rica's Trade Marks Act, 1993 will have to be amended to clearly provide for brand comparisons.*¹⁸⁹

University of Cape Town

¹⁸⁹ Statement in response to a question from the author (September 1999).

7 System of Self-Regulation to Regulate Comparative Advertising

Self-regulation is a phrase that can encompass a range of distinctive techniques. It is possible to entirely eliminate State involvement in the conduct of trade. Any regulation that then occurs is purely private, and is, perhaps, the product of the activities of a trade association. Such State withdrawal may occur on the explicit or implicit understanding that, if the market generally, or the industry's own self-regulation in particular, proves ineffective, then the State will intervene.

The South African advertising industry formed the Advertising Standards Authority (ASA) as a self-regulatory body in 1969, when rumours spread in the advertising industry that Parliament was contemplating the introduction of stringent advertising controls in South Africa.¹⁹⁰ Under the guidance of the Association of Accredited Practitioners in Advertising (AAPA), parties involved in advertising joined forces and formed a committee to negotiate with the government. The government was persuaded that it would be in the best interests of consumers, the industry and the country for control of advertising to be self-regulated and not at the mercy of the courts.

The power of the ASA has been strengthened by recognition of their Code in the Independent Broadcasting Act, 1993.¹⁹¹ This recognition, in effect, imposes a legal duty to comply with the Code in respect of all broadcast advertisements.¹⁹² The Independent Broadcasting Act, 1993 stipulates that adherence to the Code is a licensing condition for all broadcasters,¹⁹³ and it enables the ASA to report non-conformance to the Broadcast Monitoring and Complaints Committee of the Inde-

¹⁹⁰ Sinclair/Barenblatt *The South African Advertising Book* (1997) 238.

¹⁹¹ Act 153 of 1993.

¹⁹² Section 57; Jeena 'Don't cry over spilt milk – be a tough competitor' (1995) *BML* 170.

¹⁹³ Section 57.

pendence Broadcast Authority.¹⁹⁴ The ASA does their part for free, as they see their position strengthened by official recognition.¹⁹⁵

Other types of 'self-regulation' do not involve the same depth of State withdrawal. The State may set standards, but leave it to the industry concerned to police compliance. Alternatively the State may require that standards be set by the industry, check the adequacy of those standards, and then leave policing compliance to the industry.

Self-regulation, in its several manifestations, has both costs and benefits. The European Union (EU), for example, believes that self-regulation by the advertising industry is not as effective as external regulation, as it lacks deterrent effects and the necessary public transparency.¹⁹⁶ The EU therefore decided to publish the Directive, which all member countries have to implement in their national law, and which may require careful revision of national trade mark, unlawful competition law and even copyright law. Otherwise, the European Court of Justice may condemn member states for not making the necessary changes to their national laws.¹⁹⁷ The Directive requires most member states to substantially liberalise their attitudes towards comparative advertising,¹⁹⁸ while trading partners, like South Africa, are also encouraged to harmonise their law.

For the purpose of this Chapter, to analyse the instrumental mechanism of self-regulation requires two steps. In the first step, it is necessary to discuss the advantages, and disadvantages, of self-regulation in general. In the second step, the author discusses the structure of South Africa's self-regulation authority, the ASA,

¹⁹⁴ Section 65(1).

¹⁹⁵ Du Plessis op cit.

¹⁹⁶ Reader 'Comment 'Is Self-Regulation The Best Option For The Advertising Industry In The European Union ? An Argument For The Harmonisation Of Advertising Laws Through The Continued Use Of Directives' (1995) 16 *U.P.A.J.Int'L Bus.L.* 181 200.

¹⁹⁷ Greece and Belgium were condemned in 1989 by the European Court for not making the necessary changes to their national laws. Greece enacted a new ordinance to comply with the Directive in 1990, see Schriker, 'Law and Practice Relating to Misleading Advertising in the Member States of the EC' (1990) 21 *Int'l Rev. of Indus. Prop. & Copyright L.* 620 638.

¹⁹⁸ Bodewig 'The Regulation of Comparative Advertising in the European Union' op cit 181.

and examines whether the existing structure can minimise self-regulatory disadvantages while maximising benefits. The author also briefly reviews the British ASA.

7.1 Advantages of Self-Regulation

7.1.1 Cost of Advertising Regulation

The main argument in favour of self-regulation is that it can overcome many difficulties associated with statutory and common law regulation. It is usually faster and less expensive than government regulation, as it operates outside the legal system and does not have to deal with the procedural problems of court actions.¹⁹⁹

The Department of Industry and Trade (DIT) chose to hand the function of advertising control over to the ASA, as it felt that it would be expensive to regulate an area that does not cause many problems.²⁰⁰

Furthermore, self-regulation can be efficient, as it is more easily adaptable to changing social and economic conditions.²⁰¹ An example of a self-regulatory body's rapid response to a particular event was recently demonstrated in the United Kingdom, during the broadcast of the funeral, following the death of Diana, Princess of Wales. The event was broadcast free of advertisement breaks and for a certain period after the funeral, special attention was given to scrutinising advertising to identify potentially inappropriate campaigns, with special reference to cars and alcohol.²⁰²

¹⁹⁹ *Woker Advertising Law* op cit 16.

²⁰⁰ Du Plessis op cit.

²⁰¹ *Woker Advertising Law* op cit 10.

²⁰² *ASA Rulings and Reasons* no 11.

7.2 Disadvantages of Self-Regulation

7.2.1 Uncompetitive Advertising Regulation

The self-regulation system has to be critically viewed in the light of public competition policy. The industry uses restraints, sometimes introduced by influential members, which can handicap real advertising competition and innovative advertising.²⁰³ Self-regulation associations are typically conservative in their policy on comparative advertising,²⁰⁴ and industry codes often go beyond the minimum standard required by law. Later, in Chapter 13, it is noted that the enforcement of the Code, in particular through ASA rulings, goes further than required by common and statutory law.

An example of this is given in Chapter 8.2.3 on the extensive protection of advertising goodwill through ASA rulings.²⁰⁵ This wide scope of protection was not acceptable to the courts,²⁰⁶ as it was found that the extension of the scope of intellectual property protection creates a legal monopoly that prevents the working of the concept of competition. Professor Delpont believes that '*... there is a possibility that something like the Code could be seen as against the competition policy.*'²⁰⁷ Pitofsky, of the Federal Trade Commission (FTC), states that:

*'Industry self-regulation must be carefully designed if problems under the anti-trust laws are to be avoided. Where groups of self-regulators exclude new entrants or significantly deter competitive opportunities they run the risk of government or private suits charging an illegal boycott.'*²⁰⁸

²⁰³ *Woker Advertising Law* op cit 17.

²⁰⁴ Cranston *Consumers and the Law* (1978) 62.

²⁰⁵ See infra Chapter 8.2.3, the so-called 'Beer war' case.

²⁰⁶ This was emphasised from Van Deventer J in the *Union Wine Ltd v E Snell and Co Ltd* 1990 (2) SA 189 (C).

²⁰⁷ Statement from Professor Piet Delpont of the Association of Advertising Agencies (AAA) and Freedom of Speech Trust in reply to a personal question from the author (September 1999).

²⁰⁸ Pitofsky op cit 669.

Impartiality has always been a problem in self-regulation. For example, it is thought that the majority of members of the Advertising Properties Committee (APC), which ruled on a dispute between Namibian Breweries Ltd (NBL) and South African Breweries (SAB), had a vested interest in the adjudication of the dispute.²⁰⁹ They included major suppliers to SAB, members of SAB's major advertising agency, and a former marketing director of SAB.²¹⁰ This case indicates that impartiality in self-regulatory bodies is a difficult concept.

Self-regulation often lacks in transparency and coherence in its decisions. Therefore, it is often impossible to precisely determine the policy adopted by a self-regulatory body like the ASA, *inter alia* because the ASA does not publish all its decisions.²¹¹

7.2.2 Representation of Public and Consumer Interests

There are many consumer arguments against self-regulation. Private consumer organisations and regulators have never really accepted South Africa's self-regulatory approach to advertising, and believe that self-regulation systems are basically designed to pre-empt more stringent legislative alternatives.²¹² Furthermore, they doubt that the ASA will properly serve consumers' interests, as the body is purely industry-funded. Consumers level the criticism that the ASA's activities involve too few consumers and too many industry-selected representatives, sometimes 'token' outsiders, and meek participants in the self-regulatory process.²¹³

²⁰⁹ See *infra* Chapter 8.2.

²¹⁰ Situation reported by Paddy Pirow, Marketing Director of Namibian Breweries Limited (NBL).

²¹¹ The ASA publishes a brochure called *Rulings & Reasons* every 3 months. In this publication, the ASA reports briefly on recent decisions. The South African ASA and their rulings have been criticised for not being transparent. An ASA executive told the author in 1999, that the ASA is working on an Internet page, which was finally launched in October 2002. The page can be accessed via www.asasa.org.za. Online research requires ASA online library membership, which costs R785.00 for a yearly subscription fee.

²¹² The statement of a former legal advisor of the ASA, in 1995, that 'the self-regulation system in the form of the ASA has functioned as a buffer against advertising legislation for 25 years' demonstrates that these are very real concerns.

²¹³ Boddewyn *Global Perspectives on Advertising Self Regulation* (1992) 17; due to pressure from consumer groups, the ASA, in 1997, finally became aware of the consumers: 'Note was taken of

In fact, the Code is designed to protect the interests of practitioners and advertisers,²¹⁴ and the ASA has been accused of being a tool of its large and established members.²¹⁵ Interest groups represented in the ASA reflect the views of their most important clients, who are often market leaders or have a strong market position. Such clients have built strong brands, dislike comparative advertising, and do not want to be targeted by aggressive competitors.²¹⁶ Many agencies and clients scrutinise their competitors' work with a view to using the ASA as a tactical weapon.²¹⁷ Consequently, competitors allege that '*... a lot of complaints aimed at knocking out competitors' campaigns tactically prevent competitors from advertising.*'²¹⁸

7.3 Structuring and Functioning of Self-Regulation Authorities

7.3.1 South Africa

The ASA is governed by a board of directors, representative of all major marketing organisations, and is staffed by a full-time directorate. Supported by more than 20 industry bodies, with a combined membership of more than 4.000 companies and organisations,²¹⁹ the ASA is a non-statutory, industry-funded, self-regulatory body.

The ASA investigates complaints received from any source and can identify problems in advertising. If a complaint is upheld, the ASA can administer a range of sanctions against the offending advertiser. As a first step, the advertiser is asked to withdraw or to amend the advertisement. If the advertiser refuses to comply, the ASA publishes a so-called 'Media Alert'. ASA members, associated with advertising in the media, give effect to rulings, by, for example, refusing to publish offend-

growing consumerism and participation and co-operation of consumer bodies was encouraged. Consumer representatives were invited to serve on the Advertising Standards Committee and the ASA Board.'

²¹⁴ Charney op cit 48.

²¹⁵ Ibid 45.

²¹⁶ Ibid.

²¹⁷ Ibid.

²¹⁸ Ibid.

ing advertisements. The ASA issues a regular report ('Rulings and Reasons') in which offenders are identified by name, and can expel members for violation of the codes, while it can also impose a 'pre-clearance requirement' on an advertiser.²²⁰ The Advertising Properties Committee (APC) has the duty to consider all matters concerning comparative advertising, exploitation of advertising goodwill and imitation.²²¹

7.3.1.1 Examination of the ASA Structure

South Africa's major companies, in the main, govern the ASA, while consumer organisations have little substantial influence in the ASA, and particularly not within the APC.

As the ASA is industry funded, it is probably fair to assume that funding companies are the ASA's most influential members, and are able to determine ASA policies. Such lobbying was seen in 1991, when the government had plans to implement a provision from the UK trade marks draft to explicitly allow comparative advertising.²²² Overseas experts alerted some of the major marketing companies to the effect these words would have towards legalising comparative advertising. The Association of Marketers (ASOM), which represents most major marketers of consumer goods as members (e.g. Toyota, Unilever, Nestle, Parker Pen, and Edgars), immediately drew a distinction between 'comparative advertising' and 'comparative brand advertising'. They came out in favour of implied comparisons and stated that this form of comparison would still enable advertisers to provide sufficient information, and that direct comparisons are unnecessary to pass on the information.²²³ They argued that use of a competitor's trade mark would generate little additional information.

²¹⁹ Ibid.

²²⁰ BMW/Hunt Lascaris 'Skid Pan Visuals' *Ruling and Reasons* no 9 1997.

²²¹ *Woker Advertising Law* op cit 23.

²²² This provision became section 10(6) of the Trade Marks Act, 1994.

²²³ Information in reply to the researcher's question from Abrie du Plessis, former lecturer at Stellenbosch University, who was involved in the issue before Parliament in 1993.

The author considers the Code is mainly designed to protect the interests of the advertising community,²²⁴ although the ASA itself describes the main purpose as two-fold.²²⁵ As comparative advertising has the ability to infringe on industry interests, it is clear why the ASA adopts a restrictive policy on this issue.²²⁶

The ASA defends its restrictive approach with the argument that its main concern relates to advertising credibility. It stresses its key objective is to promote and uphold standards of fairness and ethical dealing amongst marketing and advertising practitioners.²²⁷ The ASA relies on the argument that, through the protection of advertising's credibility, the consumer is also protected. This argument is valid in the case of misleading and deceptive advertising that serves nobody's interests. Deceptive advertising, if not controlled, can eventually undermine the whole competitive system by reducing the extent to which consumers rely on product claims and descriptions.

Nonetheless, it is clear, from the analysis in Chapter 5, that this argument does not hold water in the case of comparative advertising, as it was found that high standards of advertising credibility can prevent information disclosure and advertising competition to the detriment of public and consumer interests.

7.3.2 United Kingdom

It appears that the British system of self-regulation has several structural advantages. Self-regulation has a long tradition in United Kingdom commerce, and plays an essential role in advertising practice. Comparative advertising has been used in the United Kingdom at least since 1968, and self-regulation has had a strong impact on the development of comparative advertising in the United Kingdom.²²⁸

²²⁴ Charney op cit 48.

²²⁵ Section I clause 1 of the Code.

²²⁶ *Woker Advertising Law* op cit 17; infra Chapter 13.

²²⁷ *ASA Review 99*.

²²⁸ *Woker Advertising Law* op cit 167.

Besides various professional organisations, the Committee of Advertising Practice (CAP) and the British Advertising Standards Authority ('British ASA') provide self-regulation.²²⁹ They monitor the two most important codes of advertising self-regulation, namely the British Code of Advertising and the Code of Sales Promotion.²³⁰

The British ASA is classified as the largest, most active, and best-financed self-regulatory system in the world. It is, contrary to the South African ASA, governed by a minority of advertising industry members, and a two-thirds membership of people from outside the industry, chosen by the Chairman of the Authority, to reflect a diversity of backgrounds.²³¹

The CAP and the ASA publish all their decisions,²³² and also issue regular reports, where offenders are identified by name, expel members for violation of the codes and refer members to the Office of Fair Trading.

7.4 Conclusion

Self-regulation can be an effective mechanism in regulating advertising. It has several important advantages, but can also have important disadvantages and must therefore be critically examined. The self-regulatory system functions reasonably efficiently when the interest of the advertising industry, consumers and public interests coincide, as in the prevention of misleading advertising. However, comparative advertising, in particular, is a field where a substantial conflict of interest can occur. In such a situation the mechanism of self-regulation will not generally adopt an approach where interests are equally balanced. The state is primarily concerned

²²⁹ Meyer op cit 298.

²³⁰ The Codes and the decisions of the British ASA can be accessed via Internet at <http://www.asa.org.uk>.

²³¹ Petty 'Advertising law and the social issues. The global perspective' (1994) 17 *Suffolk Transnat'l L. Rev.* 309 319 available via Lexis-Nexis Database LR.

²³² All decisions of the British ASA can be accessed via Internet at <http://www.asa.org.uk>.

with protecting consumers and competitors, whereas self-regulation is the means by which the advertising industry can internalise high advertising standards.²³³

From the examination of the British ASA, the structure of the self-regulation body itself is of major importance to achieve effective regulation. The British system of self-regulation has certain administrative advantages over the South African system. The most important one seems to be the better representation of consumer and public interests. Furthermore, unlike South Africa, British self-regulation is based on various self-regulation authorities, including the Radio Authority (RA), the Independent Television Commission (ITC) and the British ASA and CAP. This safeguards the self-regulatory system against a monopolistic approach, and represents a diversity of interests.

To achieve effective advertising regulation and an effective balancing of interests, self-regulation should function as one, of several complementary, means of achieving constructive regulation.²³⁴ The author therefore considers that South Africa's current approach, with the strong emphasis on self-regulation, needs to be altered. In the following Chapter it is noted that supervision by a competition authority can act as a mechanism towards overcoming the structural shortcomings of self-regulation.

²³³ Boddewyn op cit 14.

²³⁴ Woker *Advertising Law* op cit 18.

8 Competition Law to Supervise Advertising Regulation

8.1 General Principles

Public competition policy has had little influence, to date, on the regulation of comparative advertising in South Africa. Nonetheless, it is submitted that competition policy is a significant element in shaping the operation of the market in the consumer and public interest. As competition laws deal with commercial parties, they are typically viewed, at most, as an indirect form of consumer protection. The enforcement and implementation of competition policy is in the public and consumer interest, and competition law is an instrumental mechanism with the ability to counteract disproportional balancing of interests, *inter alia* arising from the strong influence of self-regulation authorities.

There is a clear link between comparative advertising and competition policy, and it is clear that the consumer and the public stands to benefit from the effective implementation of competition policy. The strong cohesion between public competition policy and private law,²³⁵ leads countries to link the goal of maintaining inter-firm rivalry with broader economic and social objectives.²³⁶ The author therefore looks at the position of the FTC in the USA, which played a role in implementing competition policy in advertising regulation, particularly through supervision of self-regulation authorities.

²³⁵ Pitofsky op cit 669.

²³⁶ Department of Trade and Industry (DTI), Explanatory Memorandum to Competition Bill, op cit 61.

8.2 Competition Policy

South Africa's new Competition Act, 1998 introduces several fundamental changes to the existing competition law regime.²³⁷ It is strongly influenced by the competition laws of the United States and the European Union. Precedents from those jurisdictions, including the Federal Trade Commission (FTC), the European Commission and the Office of Fair Trading, will provide guidance in interpreting and applying its provisions.²³⁸

The Competition Act, 1998 seeks to promote a competition policy for public benefit.

*'Apartheid and other discriminatory laws and practices of the past resulted in excessive concentration of ownership and control within the national economy, weak enforcement of anti-competitive trade practices, and unjust restrictions on full and free participation in the economy...[and that these] high levels of economic concentration in South Africa have major negative consequences on social equity.'*²³⁹

The overriding objective of competition policy and associated instruments, is the promotion of competition to enhance efficiency, adaptability and development of the economy, to stimulate international competitiveness, to lower access barriers for small new entrants into the market,²⁴⁰ to create new employment opportunities, and to provide consumers with competitive prices and product choices.²⁴¹ The Competition Commission is *inter alia* responsible for implementing measures that increase market transparency.²⁴² Bearing in mind the competitive effects of comparative advertising, it becomes obvious that that they are in line with the above-mentioned goals of the Competition Act, 1998.

²³⁷ Rutherford 'The new Competition Act' (1999) 7 *BML* 2.

²³⁸ *Ibid* 8.

²³⁹ Preamble of the Competition Act 89 of 1998; <http://www.cosatu.org.za/docs/1998/competbi.htm>.

²⁴⁰ Section 2(a),(b),(d).

²⁴¹ Section 2.

²⁴² Section 21(1)(a).

8.2.1 Harmonisation as a Measure to Enhance International Competitiveness

A major objective of the new Competition Act, 1998 is to stimulate international competitiveness. The biggest step in enhancing competitive forces is to lower trade barriers. The Marrakesh Agreement²⁴³ binds South Africa to such a process of trade liberalisation. Allowing comparative advertising could act as an incentive and expand the opportunities for South African participation in world markets.

The process of convergence is clearly gathering pace. Advertising law, once a purely domestic affair, is being transformed by the need for competition authorities to co-operate, and international principles are being developed.²⁴⁴ World-wide globalisation, new technologies like the Internet and the need for global brands are of relevance. With ongoing globalisation, multi-national companies have to develop global communication programmes.²⁴⁵ The ASA states:

*'As we approach the Millennium, advertising regulation is set to become a global concern. The latest forms of international communication, via satellite broadcasting, have little respect for national or geographic boundaries and present a new challenge for existing advertising control mechanisms.'*²⁴⁶

It is of significance that the European Court of Justice emphasises that different national laws on advertising are restrictions on trade between member states.²⁴⁷ The preamble of the Directive reads:

'Given that consumers can and must make the best possible use of the internal market, the use of comparative advertising must be authorized in all member

²⁴³ An international trade agreement *inter alia* regulating the liberalisation and harmonisation of international trade.

²⁴⁴ Bodewig op cit 208.

²⁴⁵ Kotler *Marketing Management* (1997) 614; the fact that satellite TV and the Internet can reach worldwide audiences has led more advertisers to favour global brands for example, 'Nike' favours a standard global advertising programme designed at corporate headquarters, with some slight adjustments in each market. Gillette chose a standard global advertising campaign when it launched its Sensor Shaver in 19 countries.

²⁴⁶ ASA *Annual report* (1999) 1.

²⁴⁷ For a recent decision, see Case 362/88, *GB-Inno-BM v Confederation du commerce luxembourgeois*, 1 ECR. 667 (1990), 2 CMLR 801 (1991).

*states since it will help demonstrate the merits of the various products within the relevant range.*²⁴⁸

The memorandum²⁴⁹ notes that cross-border advertising is increasing and will continue to do so after the establishment of a single European market. Differing advertising laws could force adaptations by companies to enable alignment of their global campaigns within specific legal restrictions. This functions as a barrier to entry for these companies, as differing national standards for advertising make cost-effective advertising campaigns difficult, or sometimes impossible.²⁵⁰ These companies are then forced to develop different promotional campaigns tailored to different national rules.²⁵¹ A specific strategy for one country may not be successful in more restrictive countries. In these situations, the only way for a company to be safe is to follow the strictest rules and to bring its advertising in line with the law of the most restrictive state, or to decide not to partake in that market.

South Africa's strict rules on comparative advertising are barriers to entry for foreign companies,²⁵² and Judin is succinct, when pointing out:

²⁴⁸ Bodewig op cit 208.

²⁴⁹ COM(91) 147 final-SYN 343.

²⁵⁰ This argument is expressly put forward by the Commission to support the need for harmonisation in Directive No. 84/450 On Misleading Advertising, European Economic Community, (1984) preamble, reprinted in 1984 O.J. (L 250) 17.

²⁵¹ The case of a United States comparative advertisement conducted by Pepsi exemplifies the need for global companies to change their global campaigns in order to align it with the more restrictive rules of other countries. The campaign had to be changed *inter alia* in Germany, Japan and the United Kingdom. The advertisement can be described as follows: 'M.C. Hammer, a famous rap singer, is performing on stage for thousands of enthusiastic fans in his usual macho rap style. During a brief break, someone in his crew hands him a can of Coca-Cola. Much to the chagrin of his fans, Hammer suddenly lapses into a soft rendition of 'Feelings'. Just as Hammer gets to the sappy chorus, a fan saves the day by opening and handing him a can of Pepsi, a sip from which returns Hammer to his upbeat, rhythmic style.'; example taken from Beller op cit 917.

In the United Kingdom, the Coke can had to be replaced with an anonymous soft drink under the Trade Marks Act. In Germany, Hammer was handed a white cup containing a mystery cola drink due to the German law of unlawful competition. The commercial was the first direct comparative advertisement in Japan and a shock to the Japanese culture. Coke was successful with an interdict, preventing Japanese television stations from broadcasting the advertisement; see Beller op cit 917-937; Comparative advertising: Red in tooth and claw' op cit 79.

²⁵² For instance, one of Pepsi's most important weapons is comparative advertising, particularly through the so-called 'Pepsi Challenge'. However, South Africa's 'restrictions on the use of comparative advertising may mean this device will not be used, and Pepsi may have to brace itself for

*'Consumers with access to the Internet are bombarded every day with comparative advertising. US and European corporations are used to operating in a climate of comparative advertising and they find the inability to do so is a barrier to entry, particularly in a country in which a few companies dominate.'*²⁵³

It is submitted that restrictions on comparative advertising can also amount to discrimination against South African companies. South African companies expanding their activities into international markets like the United States or the European Union are suddenly targeted by competitors who use vigorous comparative advertising claims to prevent these companies from entering the market. Clearly a global alignment of advertising laws is not only pro-competition, but is also necessary to strengthen the position of South African companies in the world-wide market.²⁵⁴

In summary, South Africa's restrictive approach to comparative advertising is a barrier to entry for foreign companies who wish to advertise their products or services world-wide and to penetrate the South African market, while South Africa's ban on comparative advertising might also disadvantage South African companies in global trade.

Comparative advertising can function as an associative measure of public competition policy, with the ability to increase market transparency by providing better information, generally lower prices²⁵⁵ and enhanced international competitiveness.

8.2.2 Application on Advertising Regulation

The application of the Competition Act, 1998 to advertising regulation is important, as this Act governs all economic activity that has an effect within South Africa.²⁵⁶

a long, hard struggle.'; see Adfocus: 'Cola wars' Supplement to the *Financial Mail*, 12 May 95, 86.

²⁵³ Judin 'Bright prospects and hidden pitfalls for legal profession' *Financial Mail (online)* at <http://www.fm.co.za/Top100/tc47.html>.

²⁵⁴ Bodewig op cit 184.

²⁵⁵ Research conducted in the United States on the sunglasses market showed significant differences in the price structure affected by comparative advertising. The study compared the price structure of sunglasses before and after comparative price advertising was allowed. It showed that prices were effectively 20 percent lower after comparative advertising became commonplace.

The Competition Commission is the executive authority for the implementation of an altered competitive approach in South Africa, and will publish competition guidelines²⁵⁷ which will indicate the policy the Commission intends to adopt.²⁵⁸ The Commission has executive power to negotiate agreements with any regulatory body, and authority to co-ordinate and harmonise the exercise of jurisdiction over competition matters.²⁵⁹ The Commission therefore has the power to participate in the proceedings of any regulatory authority,²⁶⁰ and to advise or receive advice from this authority.²⁶¹ Furthermore, it has the responsibility to review legislation and public regulations to ensure compliance with the competition policy.²⁶² The listing of executive powers indicates that the Commission can play a vital role in the regulation of comparative advertising in South Africa.

The ASA Code and its rulings clearly fall within the ambit of the Competition Commission, including the aspect of comparative advertising. Hence, the ASA Code, and its rulings, must be reconciled with the approach adopted by the Competition Commission, and the Commission can supervise the ASA Code and its rulings to ensure the consistent application of the principles of the Competition Act, 1998.

Hypothetical examples of an investigation by the Competition Commission, as it might relate to the ASA are:

- (a) Advertiser A lodges a complaint with the ASA against competitor B because of comparative advertising. The ASA then rules against B in terms of clauses 6, 7, 8 or 9 of the Code. B may then approach the Competition Commission and allege that the ASA is party to a restrictive practice²⁶³ through the application of sanctions on B, and

²⁵⁶ Section 3(1).

²⁵⁷ Section 79(1).

²⁵⁸ Guidelines have not yet been published; the Commission has launched a website in late 2002, which can be accessed via www.compcom.co.za.

²⁵⁹ Section 21(I)(h).

²⁶⁰ Section 21(I)(i).

²⁶¹ Section 21(I)(j).

²⁶² Section 21(I)(k).

restrictive practice²⁶³ through the application of sanctions on B, and is therefore preventing or restricting B from competing lawfully in the ordinary course of his business.

- (b) The Commission may investigate the ASA as a whole, i.e. as an arrangement adopted for the purpose of, or in connection with, the creation or maintenance of a restrictive practice, for example the ASA's stance on comparative advertising, or ASA rulings in terms of the exploitation clause or disparagement clause.²⁶⁴

8.2.3 The 'Beer War' Case

A pertinent case for analysis is the case known as the 'beer war' between Namibian Breweries Limited (NBL) and South African Breweries (SAB). The case shows how ASA policy prevented the opening of markets, and curtailed information to educate and assist consumers in their purchase decisions. The ASA policy was clearly against the objectives of competition policy.

NBL alleged that ASA *'incorrectly robs and unjustly prejudices NBL of a marketing tool and competitive advantage'* and that the ASA was *'not allowing market forces to operate'*.²⁶⁵

To understand how the ASA was instrumental in preventing competition, it is necessary to also consider the market structure in this case. SAB holds a virtual monopoly in South Africa, with 97% of the market, in that it brews and distributes most beers in the country. Advertising played its part, historically, in building consumer preferences for brands like 'Castle'. SAB has clearly established high barriers to entry through its heavy image advertising and strong product proliferation.²⁶⁶

A small company like NBL usually does not have the funds to spend huge amounts on image advertising to challenge a monopolistic competitor like SAB. Further-

²⁶³ Section 4(1).

²⁶⁴ Examples taken from De Jager/Smith op cit 32.

²⁶⁵ ASA ruling on the Case, unpublished.

more, it will often be difficult to compete on the basis of price, as SAB has the potential to achieve economies of scale in their production and advertising.²⁶⁷ The last resort is therefore to compete on the basis of quality.²⁶⁸ This, however, needs effective marketing and successful advertising competition. Comparative advertising can be very cost-effective in this regard, allowing a small, unknown firm to successfully compete against much larger firms.²⁶⁹

NBL, with its 3% market share, is a typical small competitor, struggling to include a brand like 'Windhoek Lager' in the 'mental portfolio' of the consumer. NBL therefore embarked on a marketing strategy promoting its pure beer. To promote the quality of its beer and make use of their competitive quality advantage, NBL launched their 'No additives, no secrets, no hurry' campaign targeting premium beer drinkers in South Africa. The campaign was intended to promote the fact that NBL brews its beer according to the German Purity Law.²⁷⁰

Unfortunately, most South African consumers do not know of the advantages of beer brewed in terms of the German Purity Law. NBL intended with its campaign to educate consumers as to why this is an important criterion, as beer brewed under the German Purity Law has *inter alia* a positive influence on blood and bone formation and the enhancement of protein breakdown. There can be little doubt that a German Purity Law beer has definite advantages over beer that has additives, as in all SAB products. The company also intended, with its 'No additives' campaign, to force SAB to disclose the ingredients of their products.

²⁶⁶ Sinclair *The South African Advertising Book: Make the other half work too?* (1997) 57.

²⁶⁷ This is because after a certain level of domination, there is an increased return for every rand spent on advertising from media discounts and consumer loyalty.

²⁶⁸ Its inroads into the South African market is solely achieved by focusing on quality.

²⁶⁹ Muehling/Stoltmann/Grossbart op cit 41.

²⁷⁰ In the case of beer, the German Purity Law (Reinheitsgebot) dates back to 1516 as one of the oldest food laws in Germany. The art of beer brewing requires a beer brewed only from Barley Malt, Hops and Water. This is still the case with any brewer in Germany. Any other beer imported into Germany and not complying with the criteria of the German Purity Law (Reinheitsgebot), need to successfully disclose its ingredients and additives on label packaging. Worldwide, approximately 20 % of the brewing industry produces its beer according to this (Reinheitsgebot) method.

Paddy Pirow, NBL's marketing manager stated:

*'We don't want to upset a company like SAB, but we are willing to discuss the quality of our beer and promote our unique selling proposition. We only want SAB to tell the consumers about the additives in its beer.'*²⁷¹

It must be stressed that strong market leaders, like SAB, usually have a specific interest in revealing a minimum of information about their products or services in advertisements. A monopolist or near monopolist usually concentrates his promotional efforts on image advertising, on the basis that it has nothing to fear from competition and therefore need not discuss product qualities to maintain its position.²⁷² The same occurs in tight oligopolistic markets where sellers may shy away from disclosures about product characteristics; for the same reasons they avoid price-cutting and emphasis on price terms – a fear of triggering mutually disadvantageous competition. By emphasising undesirable attributes of rival products, an 'octane war', a 'tar and nicotine derby', a 'beer war' and 'competitive safety claims for pesticides' or 'flammable fabrics', may be as destructive of mutual oligopolistic interests as a price war. Thus, when no one company has a decisive competitive advantage over others, all may reach the conclusion that the avoidance of certain product claims are mutually advantageous.²⁷³

NBL's 'No additives, no secrets, no hurry' campaign was effective and consumers started to discuss the issue of beer quality. SAB, not used to such vigorous advertising competition, tried to counteract the NBL campaign. Firstly, SAB launched its 'Project Natural', a 20 million Rand image advertising campaign, where SAB promoted its beer as natural with the words *'Not every brewer in the world can turn water, hops and malt into gold'*. The campaign was an implied reaction to the NBL campaign and intended to create the impression that SAB products are purely natural. Secondly, SAB lodged a formal complaint to the ASA, claiming that NBL's

²⁷¹ Personal statement after being questioned by the author.

²⁷² Pitofsky op cit 665.

²⁷³ Ibid.

campaign had created the impression that other beers competing in the South African market contained harmful additives.

Unfortunately, the 'Project Natural' campaign was not successful. NBL lodged an ASA complaint about the campaign, as NBL regarded it as misleading. The campaign created the impression that SAB products are natural or even brewed according to the Purity Law, which was untrue, as there are additives in SAB products. The ASA agreed with NBL's view and ruled that the campaign had to be withdrawn, as it was likely to create the impression that only the ingredients specifically mentioned are used in the brewing process of the product. The ASA ruling, consumer concerns and media publications finally forced SAB to reveal, in their own advertising, that the company adds other ingredients to their beer. However, SAB was unwilling to be attacked by such vigorous implied comparisons, and insisted that NBL's 'No additives, no secrets, no hurry' campaign infringed the disparagement clause of the Code. SAB stated that such '*a campaign is disparaging and not directed at drawing consumers' attention to the merits of NBL's products, and that 'it sought to highlight the demerits of SAB products'*.

NBL relied on the classical market force argument, stating that: '*SAB could launch a similar campaign, if they can substantiate the claims. But, the Project Natural campaign showed that they could not substantiate their claims [and] that if SAB did not comply with the criteria, they had no right to complain, and should not be protected by the ASA.*'²⁷⁴

Nonetheless, the ASA regarded the campaign as disparaging,²⁷⁵ and ruled that words such as '*unlike others, we declare all of the ingredients on our label*' and '*because we brew according to the German Purity Law, we don't have to hide anything*' amounted to an implication that SAB's beer is of an inferior quality, and thus the

²⁷⁴ Ibid.

²⁷⁵ The Appeal Committee of the ASA decided that the 'No additives' campaign was disparaging and misleading and therefore in contravention of clauses 6.1, 6.2 and 4.2.1 of section II of the Code.

campaign infringes on SAB's goodwill, and breaches the Code's disparagement clause.

This case clearly indicates that comparative advertising is, in fact, advertising for the 'underdog', as a small competitor was able to force a monopolist like SAB to disclose information about its products. On the other hand, the ASA, through the interpretation of the Code's disparagement clause, was instrumental in maintaining the monopolistic position of SAB and protected the monopolist against sound claims. The ASA deprived NBL of an opportunity to gain market share by stressing the merits of its products to promote their brand.²⁷⁶ The result could have been an improvement to SAB's brewing process, to counter the claims or to counter any market share gained by NBL. The outcome could well have been enhanced competition on the basis of quality or price; and of benefit and education to consumers through the increased competition. The ASA did, however, do a good job in preventing misleading claims by SAB.

8.3 Competition Law and Advertising Regulation in the U.S.A.

It is worthwhile to have a closer look at the role of the Federal Trade Commission (FTC), to realise the potential role the Competition Commission could play in the regulation of comparative advertising.

The law of comparative advertising in the United States is regulated by the Federal Trade Commission Act and section 43(a) of the Lanham Act. Like the Competition Commission, in terms of the South African Competition Act, 1998, the FTC has responsibility for enforcing the nation's competition laws, and is the agency that administers the federal statute designed to protect consumers from unfair or de-

²⁷⁶ Pitofsky op cit 665; in the United States, only one major integrated oil company based an advertising campaign on octane content, even though octane content varied considerable from brand to brand. One reason for avoidance of octane disclosure was that it would have highlighted the substantially equivalent octane ratings of high-priced advertised brands and low-price unadvertised brands. Since the market survival of independents depended on their maintaining a cost advantage by saving on advertising and other marketing expenses, they could not easily have undertaken an expensive advertising campaign to educate consumers and offer comparative data about octane ratings.

ceptive practices. The FTC works towards ensuring that advertisers do not disseminate false, unsubstantiated or otherwise deceptive advertising claims.²⁷⁷

Comparative advertising is commonplace in the United States. About 30% of the 25,000 advertisements shown each year on network television are comparative; most of which are direct comparisons. However competitors challenge less than 1% of the advertisements, mainly as a result of a sophisticated substantiation policy, which was introduced by the FTC.²⁷⁸ Pitofsky, chairman of the FTC, found the typical 'Brand X' comparisons²⁷⁹ deceptive to the consumer.²⁸⁰ He believed that the consumer could be misled through 'Brand X' comparisons, as consumers could never be certain of the reference. The FTC conducted an investigation of industry trade associations and the advertising media concentrating on their comparative advertising policies. In the course of this investigation, numerous industry codes, statements of policy, interpretations and standards were examined, many of which contained language that was interpreted as discouraging the use of comparative advertising.²⁸¹

8.3.1 Endorsement of Comparative Advertising

The FTC reacted accordingly, and endorsed comparative advertising to promote a greater disclosure of product differences to place additional buying information in the public's hands.²⁸² The FTC published a statement, calling upon the advertising community to name competing brands in commercials rather than using the traditional 'Brand X' comparisons,²⁸³ which reads as follows:

²⁷⁷ *Sears, Roebuck & Co. v. FTC*, 258 F. 307 311.

²⁷⁸ Beller op cit 918.

²⁷⁹ When advertisers made comparisons, they claimed superiority over an unknown 'Brand X'.

²⁸⁰ Jackson/Brown/Harmon op cit 16.

²⁸¹ Ibid.

²⁸² Beller op cit 921.

²⁸³ Jackson/Brown/Harmon op cit 21.

*'Commission policy in the area of comparative advertising encourages the naming of, or reference to competitors, but requires clarity, and, if necessary, disclosure to avoid deception of the consumer. Additionally, the use of truthful comparative advertising should not be restrained by broadcasters or self-regulation entities. The Commission has supported the use of brand comparisons where the bases of comparison are clearly identified. Comparative advertising, when truthful and non-deceptive, is a source of important information to consumers and assists them in making rational purchase decisions. Comparative advertising encourages product improvement and innovation, and can lead to lower prices in the marketplace. For these reasons, the Commission will continue to scrutinise carefully restraints upon its use.'*²⁸⁴

The Guidelines, set out in 1974, stipulate that the identified products must actually compete; competitors must be fairly and properly identified; related or similar properties or ingredients should be compared; the compared property must be 'significant' in terms of product 'value or usefulness' to the consumer; the difference must be measurable and significant;²⁸⁵ and advertisers must not discredit, disparage or unfairly attack competitors, their products or services. Identification of the competitor must be for comparative purposes and not simply to upgrade 'by association'.

The acceptance of comparative advertising by the major television networks was the major breakthrough for comparative advertising in the United States.²⁸⁶ Emboldened by the federal regulatory viewpoint, advertisers overcame the fear that using the name of a competitor's product in an advertisement would give the competitor free publicity, or that using it in an unflattering way would result in an emotional swing of support back to the competitor.²⁸⁷

It was solely through the endeavours of the FTC that comparative advertising became commonplace in the United States. When unlawful claims are identified, the

²⁸⁴ The FTC Statement – 'Pitofsky-Memo' - regarding comparative advertising can be viewed in Pompeo, *Cath. U.L. Rev.* Vol. 36 (1987), 556 (566, Fn.7).

²⁸⁵ Peagram op cit 16.

²⁸⁶ Ibid 21.

²⁸⁷ Meyerowitz 'The Developing Law of Comparative Advertising' (1985) 70 *BM* 81.

FTC, after adjudicating formal allegations of wrongdoing, or obtaining voluntary consent of the alleged wrongdoer, may impose orders, enforceable through the courts, requiring the advertisers to halt their false or deceptive advertising. If such an order is violated, the advertiser risks being required by the courts to pay monetary civil penalties, which can be substantial. In some instances, the FTC's 'cease and desist' orders may also require the respondents to make affirmative disclosures in future advertisements to prevent further harm to consumers, or to make corrective statements about their earlier claims, to eliminate lingering false impressions they may have created.²⁸⁸

8.3.2 California Dental Association vs. Federal Trade Commission

The United States case *California Dental Association v. Federal Trade Commission*²⁸⁹ is instructive in considering an approach to implement informational advertising against the constraints of a self-regulatory body. The case involved advertising restrictions imposed, as a condition of membership, by a United States professional association. The association's code of conduct prohibited false and misleading advertising, which the association had so broadly interpreted and enforced that it effectively prohibited all comparative advertising. The association had made it clear that it regarded virtually all advertising about quality of services as 'likely to be false or misleading', as it is not 'susceptible to measurement or verification'.²⁹⁰

The FTC issued an administrative complaint charging that the petitioner had restrained competition between dentists in California by restricting truthful, non-deceptive advertising about price and quality of dental services. The complaint alleged that these restraints were 'unfair methods of competition' in violation of section 5 of the Federal Trade Commission Act. The FTC found that the association's 'illegal conspiracy' had injured those consumers who rely on advertising to choose

²⁸⁸ Azcuenaga op cit.

²⁸⁹ *FTC v Indiana Fed'n of Dentists*, 476 U.S. 447, 460 (1986) (IFD).

²⁹⁰ Ibid.

dentists, and that 'broad categorical prohibitions' were enforced, '... without any enquiry as to how prohibited claims might be construed by consumers and whether, as construed, they are true of the particular practitioner making the claim'.²⁹¹ The association appealed against the FTC ruling, but the court found that the association applied its advertising rules to systematically ban a vast range of advertising valued by consumers. It also concluded that the restraints significantly interfered with the proper functioning of the market and were therefore anti-competitive.²⁹² It found that the association's advertising bans were not tailored to the purpose of preventing misleading claims, but instead 'swept aside' price and quality advertising with 'broad strokes', without regard to its potential for deception.²⁹³

This case clearly indicates the significance of information dissemination through advertising for the anti-trust policy, and the FTC was instrumental in facilitating transparency and honest competition in the market.

The examination of FTC policy shows a method of implementing a competition policy, despite a restrictive policy by a self-regulatory body. This was achieved through an investigation conducted by the public body in combination with the dissemination of guidelines to outline an acceptable approach towards comparative advertising in the light of the competition policy.

8.4 Conclusion

The Code, and rulings based on the Code, fall within the ambit of the Competition Act, 1998. The author strongly recommends that the Competition Commission should recognise comparative advertising's potential, and should scrutinise the ASA policy on advertising regulation. The ASA policy on comparative advertising must be reconciled with the approach adopted by the Competition Commission.

²⁹¹ Ibid.

²⁹² *Bates v State Bar of Arizona*, 433 U.S. 350, 364 (1977); see also *Virginia State Bd of Pharmacy v Virginia Citizens Consumer Council Inc*, 425 U.S. 748, 765 (1976); *AMA*, 94 F.T.C. 1004; *Massachusetts Bd. of Registration in Optometry*, 110 F.T.C. 549 (1988); *American Dental Ass'n*, 94 F.T.C. 403, 405-406 (1979), modified, 100 F.T.C. 448 (1982).

²⁹³ *FTC v Indiana Fed'n of Dentists* op cit.

From the examination of the FTC policy, encouragement is needed to introduce comparative advertising.

It is suggested that the Competition Commission should agree on a standard to endorse comparative advertising to prevent the informational effects of comparative advertising being curtailed. Such a standard should be published in specific guidelines, in accordance with section 79.1 of the Competition Act, 1998.

The self-regulatory system should be supervised by the Competition Commission, to ensure that ASA policy does not go beyond the minimum standard required by the proposed guideline. This aims to safeguard that an adequate priority is given to consumer and public interests, and that the ASA does not possibly 'abuse' its power. The Competition Commission should also ask the ASA to change its administrative structure to ensure consumers are sufficiently represented, and require the ASA to make its decisions more transparent.

9 Unlawful Competition Law to Regulate Comparative Advertising

9.1 South Africa

It is the function of the law of unlawful competition to recognise and to protect interests involved in competition, and to delimit them in relation to each other.²⁹⁴ In the majority of cases, the conflicting interests of competitors are, on the one hand the right to free economic activity, and, on the other, the overlapping right to goodwill.²⁹⁵ The major objective of the law of unlawful competition is to weigh these divergent interests, which are, *ex post facto*, a balancing of that which the defendant promoted through his act, and that which he actually infringed.²⁹⁶

The law of unlawful competition is delict law, based on the general principles of the *lex Aquilia*.²⁹⁷ The general principle of South African law, to weigh-up interests, is the *boni mores* yardstick, and this Chapter focuses on the underlying principle in determining the *boni mores* yardstick, and whose interest must be considered. The crucial question is whether the *boni mores* yardstick also considers public and consumer interests, or if the law's doctrinal approach is limited to the conflicting interests of competitors.

9.1.1 General Principles

The lack of common law references initially decided the courts, in cases of competitive conflict, to seek assistance and guidance from English law, without trying to base their decisions on the general principles of the law of delict.²⁹⁸ At a certain

²⁹⁴ Van Heerden/Neethling op cit 4.

²⁹⁵ Ibid 16.

²⁹⁶ Ibid 123.

²⁹⁷ Neethling/Potgieter/Visser *Law of Delict* (1999) 313.

²⁹⁸ Van Heerden/Neethling op cit 53.

point, however, courts started to base their decisions on the general principles of the *lex Aquilia*, with all delict elements of the *Aquilian* action needing to be present to find liability. Thus, it needs a wrongful act or omission;²⁹⁹ fault, which may arise, either by negligence or by intention, causation that must not be too remote, and patrimonial loss must have occurred.³⁰⁰

The wrongfulness lies in the infringement of a competitor's right to goodwill ('werfkrag') of his business.³⁰¹ Van Heerden and Neethling lay down a solid theoretical foundation for the development of the law of unlawful competition, when they reach the conclusion that unlawful competition is invariably characterised by the infringement of a competitor's goodwill.³⁰² The goodwill is an immaterial-property right, which they term the 'reg op die werfkrag'; 'the right to the drawing power or attractive force of an undertaking'.³⁰³

The author adopts the description of goodwill given by Lord Macnaghten in the British case of *Commissioners of Inland Revenue v Muller & Co's Margarine Ltd*:

'It is the benefit and advantage of the good name, reputation, and connection of a business. It is the attractive force which brings in custom. It is the one thing which distinguishes an old-established business from a new business at its start. The goodwill of a business must emanate from a particular centre or source. However widely extended or diffused its influence may be, goodwill is worth nothing unless it has power of attraction sufficient to bring customers home to the source from which it emanates. Goodwill is composed of a variety of elements. It differs in composition in different trades and in different businesses in

³⁰⁰ Van Heerden/Neethling op cit 66.

³⁰¹ In *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd* 1981 (2) SA 173 (T) 186; *Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd* 1968 (1) SA 209 (C) 216; *Stellenbosch Wine Trust Ltd v Oude Meester Group Ltd* 1972 (3) SA 152 (C) 161; *Stellenbosch Wine Trust Ltd v Oude Meester Group Ltd* 1977 (2) SA 221 (C) 248; Van Heerden/Neethling op cit 117.

³⁰² Van Heerden/Neethling op cit 59; See in general Domanski 'The Nature of the Right Infringed in Cases of Unlawful Competition in South African Law' (1993) *SA Mercantile LJ* 127.

³⁰³ See in general Van Heerden: *Grondslae van die Mededingingdreg* (1961).

*the same trade. One element may be preponderate here and another element there.*³⁰⁴

An infringement of goodwill is, in itself, insufficient to create liability. The infringement of this goodwill must be accompanied by the violation of a legal norm, as the objective of competition, particularly of comparative advertising, is to draw customers away from a specific competitor, which will naturally infringe on a competitor's right to goodwill, but, in itself, cannot be unlawful, as the objective of advertising, and competition in general, is to create a market, and by doing so the markets of competitors are often eroded. It is necessary to ascertain the limits of the right to goodwill. It was correctly stated in *Matthews v Young*³⁰⁵ that:

'In the absence of special legal restrictions a person is without doubt entitled to the free exercise of his trade, profession or calling. But he cannot claim an absolute right to do so without interference from another. Competition often brings about interference in one way or another about which rivals cannot legitimately complain.'

A crucial question, at this juncture, is how this legal norm should be determined. Firstly, the norm of fairness and honesty, in trade and competition, is applied to limit the scope of the protection of goodwill. In *Stellenbosch Wine Trust Ltd and Others v Oude Meester Group Ltd*³⁰⁶ Diemont J comments:

*'It must be conceded that these phrases, fairness in competition and honesty in trade, have an old-fashioned ring about them which may cause the cynic in business to smile, but it is right that the courts should have regard to and emphasise these virtues. Moreover the phrases are somewhat elastic, as difficult to apply in some cases as the concept of the reasonable man is difficult to apply. Nevertheless, if our law is to develop and is to offer the commercial man protection from unlawful competition in his business, the courts will not disregard the words fairness and honesty.'*³⁰⁷

³⁰⁴ [1901] AC 217 (HL) 223-4.

³⁰⁵ 1922 AD 492 507; last sentence added by Van Heerden/Neethling: op cit 119.

³⁰⁶ 1977 (2) SA 221 (C).

³⁰⁷ 1977 (2) SA 221 247.

9.1.2 Boni Mores Principle

This approach is subject to criticism, and Van Dijkhorst J rejected fairness and honesty as criteria for determining wrongfulness in the decision *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd*,³⁰⁸ where he stated:

*'I have come to the conclusion that the norm to be applied is the objective one of public policy. This is the general sense of justice of the community, the boni mores, manifested in the public opinion. In determining and applying this norm in a particular case, the interest of the competing parties have to be weighed, bearing in mind also the interest of society, the public weal. As this norm cannot exist in vacuo, the morals of the market place, the business ethics of that section of the community where the norm is to be applied, are of major importance in its determination.'*³⁰⁹

Since *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd*³¹⁰ the limits of the right to the goodwill have been ascertained as being the *boni mores*, or the general sense of justice of the community. The court said that the sense of justice must be interpreted as that of the community's legal policy makers, e.g. the legislature and the court. The court found that various factors are of relevance in determining the *boni mores*. The courts should regard (i) the protection already afforded by statutes, and by established remedies such as 'passing off' ii) the morals of the market place, and especially that section of the community where the norm is to be applied. In doing so, courts should regard (iii) the importance of a free market and strong competition in the economic system.³¹¹ Finally, it is stated (iv) that the question of whether the parties concerned are competitors, is of importance. This approach was adopted in subsequent cases,³¹² and finally approved by the Appellate Division in *Schultz v Butt*.³¹³

³⁰⁸ 1981 (2) SA 173 (T).

³⁰⁹ 1981 (2) SA 173 186-187.

³¹⁰ *Supra*.

³¹¹ *Lorimar Productions Inc v Sterling Clothing Manufacturers (Pty) Ltd* 1981 (3) SA 1129 1153.

³¹² *Lorimar Productions Inc v Sterling Clothing Manufacturers supra*.

³¹³ 1986 (3) SA 667 (A).

9.1.3 Policy Considerations

The general *boni mores* criteria provide a judge with a mandate to ascertain, in each case, which interests are worthy of legal protection and what the extent of such protection should be.³¹⁴ The doctrinal approach with the *boni mores* concept is flexible enough to adapt the protection to changes in social and economic relations or to developments in culture and technology.³¹⁵ This leads to the conclusion that the determination of wrongfulness, based on the open-ended *boni mores* concept is, in fact, a policy decision in instances where a clearly recognisable illegal activity is absent.³¹⁶

Van Zyl J in *Payen Components SA Ltd v Bovis Gaskets CC*³¹⁷ stated in this regard:

*'However esoteric it may sound, it is, in my view, the general considerations of justice, equity, reasonableness, good faith and public policy which underlie the value judgement required of a Court when it is called upon to establish whether or not a competitor has indulged in unfair or unlawful competition. These considerations are all relevant to what Chief Justice Corbett refers to as 'policy decisions'... Such decisions must be made when circumstances demand it, since they are essential for maintaining the vibrant dynamism of any growing, living legal system.'*³¹⁸

And, on the question, of whether such policy considerations in the law of unlawful competition will not create legal uncertainty, Van Zyl J answered:

*'Potential legal uncertainty and the traditional judicial reluctance to indulge in any form of law-making must bow before the community's desire and right, to see justice being done. If policy considerations are applied with the necessary insight and restraint, they must have an eminently salutary effect on legal development, on the one hand, and on the dispensing of justice, on the other.'*³¹⁹

³¹⁴ Van Heerden/Neethling op cit 127

³¹⁵ Ibid.

³¹⁶ Ibid.

³¹⁷ 1994 (2) SA 464 (W).

³¹⁸ 1994 (2) SA 464 474 - 476.

³¹⁹ Ibid.

O. H. Dean, who was one of the first to legally address the issue of comparative advertising, demonstrated his uncertainty on how to weigh interests, when asking the question: *'Does one protect the host producer's goodwill or does one benefit the consumer by providing him with the opportunity of being given greater information?'*³²⁰ This question highlights that the issue of comparative advertising depends on policy considerations to determine which interests should be decisive.

It also exemplifies that the general *boni mores* concept is too vague and wide, and can not, in itself, provide a rational yardstick for the delimitation of the right to goodwill in the area of conflicting interests.³²¹ For this reason, courts developed a principle to be employed in a proportional balancing of interests.

9.1.4 Competition Principle

Surprisingly, it would appear that the principle was recognised with the particular situation of comparative advertising in mind. Called the 'competition principle',³²² the principle is based on the assumption that the violation of the crucial legal norm must be ascertained with reference to this principle.³²³ It is of primary importance to realise that there is a strong link between public competition policy and the law of unlawful competition,³²⁴ and that the competitive effects of comparisons are of major importance in determining this legal norm. Courts realise that competition is necessary to prevent the exploitation of the public and to promote the growth of the national economy.³²⁵

³²⁰ Ibid.

³²¹ Van Heerden/Neethling op cit 127.

³²² Ibid 128, *Van der Westhuizen v Scholtz* 1992 (4) SA 886 (O).

³²³ Ibid 117.

³²⁴ Van Heerden/Neethling op cit 13; see in general Brooks: 'Unfair Competition and the Maintenance and Promotion of Competition Act 1979' in Neethling J(ed) *Onregmatige Mededinging/Unlawful Competition* (1990) 125.

³²⁵ *De Jager/Smith* op cit 25; *Taylor and Horne (Pty) Ltd v Dentall (Pty) Ltd* 1991 (1) SA (412) (A) 421 422 the court stated: 'It has often been said that competition is the life blood of commerce. It is that availability of the same, or similar, products from more than one source that results in the public paying a reasonable price therefore.'

Van Dijkhorst J in *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd*³²⁶ emphasises 'the importance of a free market system and strong competition'.

Page J in *Silver Crystal Trading (Pty) Ltd v Namibia Diamond Corporation (Pty) Ltd*,³²⁷ is succinct, when stating that:

*'It is not the function of the courts to stifle healthy competition which, in a free enterprise society, can only redound to the benefit of the public.'*³²⁸

Van Dijkhorst J also adopts a competitive approach in the well-known *Dallas* case.³²⁹

*'One must of course bear in mind that commercial enterprise develops and that, when competition becomes keen, competitors are forever seeking new and more attractive methods of presenting their goods to the public. Consequent upon the new and altered methods of advertising a change may have taken place in the attitude of the community to new and altered standards of conduct which have developed. These new and altered standards of conduct must be accepted by the courts once it is apparent that they have been accepted by the community.'*³³⁰

He went on:

*'The blatant copying of words and characters made popular by Lorimar may shock the sense of fair play of some members of the community, but is it that the courts can declare it contra bonos mores? Would undue restriction upon imitation not unduly inhibit a free market and the advertising necessary to bring about full and adequate competition.'*³³¹

In terms of this principle, competitors who deliver the best and fairest performance must be victorious in the competitive struggle,³³² while those who offer the poorest

³²⁶ Supra.

³²⁷ 1983 (2) SA 884 (D) 888.

³²⁸ Ibid.

³²⁹ *Lorimar Productions Inc v Sterling Clothing Manufacturers (Pty) Ltd; Lorimar Productions Inc v OK Hyperama Ltd and Lorimar Productions Inc v Dallas Restaurant* supra 1154.

³³⁰ Ibid.

³³¹ Ibid.

³³² Van Heerden/Neethling op cit 127; Neethling/Potgieter/Visser op cit 300.

performance must suffer defeat.³³³ Van Heerden and Neethling refer to the consumer as a final arbiter in the market, who ultimately decides which competitor's performance is the best.³³⁴ They state that:

'It is clear that advertisement competition is merely a form of performance merit competition, since its purpose is to direct the attention of potential customers to the performance and to persuade them of its merits or excellence.³³⁵ It therefore enables the customer to make a proper comparison of the advertised performance and other similar performances; it stands to reason that he can only make such a comparison if he is acquainted with all the competing performances.'³³⁶

The 'competition principle' was expressly recognised and applied in *Van der Westhuizen v Scholtz*.³³⁷ Hattingh J held that the informational right of the consumer must be indicative in the determination of wrongfulness. The judgment exemplifies the judge's policy consideration of attaching more weight to the consumers' interests in information and to the public interest in healthy advertising competition.

The case involved advertising by certain pharmacists who, it was alleged, contravened the Advertising Code of the Pharmacy Board. The court refused to accept that the infringement of the advertising amounted to unfair competition, and found that the Advertising Code, and especially the prohibition on pharmacists advertising discounts on prescription medicines to the public, is not only *contra bonos mores* as it prevents the public from being informed, but is also in conflict with the 'competition principle'. It prevents the competitor, who renders the fairest performance, from achieving victory in the competitive struggle.³³⁸ Furthermore, Hattingh J held

³³³ Van Heerden/Neethling op cit 127.

³³⁴ Ibid 133.

³³⁵ Ibid 134.

³³⁶ Ibid.

³³⁷ 1992 (4) SA 886 (O).

³³⁸ At 874.

that the prohibition is also in conflict with the principle of free competition and trade, as advertisements promote healthy competition in the public interest.³³⁹

Van Reenen J followed this approach in *Kellogg Co v Bokomo Co-operative Ltd.*,³⁴⁰ and found that, as long as conduct is actuated by the advancement of the advertisers' own economic interests, it is a legitimate motive for acting, and cannot be to the detriment of a competitor.³⁴¹

As long as a competitor has a competitive advantage, he has an interest in effectively presenting this to the public, and as long as the information is in the consumers' interest, the 'competition principle' mandates that these interests should prevail.

9.2 Germany

Germany is considered exceptional in its recognition of public and consumer interests when determining the wrongfulness of a competitive act.³⁴² In the National Socialist period the courts emphasised the interest of the people and the community at large. However, the concrete interests and problems of the consumer were not singled out from general considerations of national interest. This is illustrated by the activities of the Advertising Board, an administrative body founded in 1933 to review all advertising prior to publication: the Board maintained such strict control over all advertising that dissemination of information useful to the consumer was often prevented.³⁴³ In the 1930s, the Reichsgericht held that comparative advertising was a violation of the general clause, even when information provided was

³³⁹ Ibid; see in general for the German law Wenzel: 'Wettbewerbsäußerungen und Informationsinteresse' (1968) *GR* 626.

³⁴⁰ 1997 (2) SA 725 (C); see also *Payen Components SA Ltd v Bovic Gaskets CC* 1994 2 SA 464 (W) 474; *Aetiology Today CC t/a Somerset Schools v Van Aswegen* 1992 (1) SA 807 (W) 819 where the court referred to the lawfulness of competition on merit.

³⁴¹ 1997 (2) SA 725 (C).

³⁴² Roth *NJW* 89 1467 1470.

³⁴³ Jagberger *Grenzen der wirtschaftlichen Werbung* (1967) 12 16. Perhaps the primary example of this strict regulation of advertising was the policy of prohibiting all types of comparative advertising.

true.³⁴⁴ This changed after World War II with the addition of section 13 to the law of unlawful competition (UWG), which extended the right for injunctive relief, under sections 3 and 1 of the UWG, to specified consumer organisations. Since then, the interests of the consumer and public have been explicitly recognised in all decisions, and the German Bundesgerichtshof has enlarged the number of exceptions to the general prohibition of comparative advertising. The underlying legal doctrine is that additional commercial information serves consumers' interests, which is a crucial component when dealing with comparative advertisements.³⁴⁵

The concept is based on the recognition of the link between public competition law and the private law of unlawful competition.³⁴⁶ Therefore, the German concept is based on the assumption that it is imperative to consider the competitive effects of conduct in the weighing-up of involved interests. As, it is submitted, the transparency of a market is a prerequisite for effective competition, the additional information resulting from comparative advertising is a relevant criterion in the determination of wrongfulness in German law.³⁴⁷ The German law therefore adopts a position that the law of unlawful competition *inter alia* protects the individual and consumers' interest in information, and the public interest in market transparency.

9.3 Conclusion

The examination of South African and German legal sources illustrates that both systems are flexible and take into account interests other than those of the competitors, namely public and consumer interests. Both systems use an open approach, and the weighting of interests involves a policy consideration as to which interests should be decisive and receive priority. The German approach shows that consumer

³⁴⁴ The first decision of the Reichsgericht against comparative advertising appeared to be based on the theory that it would mislead the public. Judgement of March 1, 1927, 116 *RGZ* 227.

³⁴⁵ Meyer 'Vergleichende Werbung und Markttransparenz' op cit 296.

³⁴⁶ Ibid.

³⁴⁷ Ibid.

information and enhanced market transparency is an important argument in supporting the legality of comparative advertising.

From this examination of the South African authorities, it is concluded that, in the light of the 'competition principle', as in *Van der Westhuizen v Scholtz*,³⁴⁸ consumer and public interests in information and advertising competition will receive priority over the competitor's interest in protecting his goodwill, outside of clearly recognisable illegal activity. This principle serves to prevent the informational effect of comparative advertising from curtailment or elimination by rules that place more emphasis on the protection of reference brand competitors.³⁴⁹

³⁴⁸ Supra.

³⁴⁹ We will see later that the ASA policy reflects a goodwill-orientated weighting of interests, being clearly detrimental to the 'competition principle'.

10 Comparative Advertising and Trade Mark Law

10.1 South Africa

Following on the examination of instrumental mechanisms, the author analyses how structural or doctrinal shortcomings affect the regulation of comparative advertising in South Africa, and how South Africa's different mechanisms approach comparative advertising.

This Chapter starts by enquiring how the South African trade mark law copes with direct comparative advertising. The main question about comparative advertising and trade mark law focuses on 'use' in the trade mark sense of the word. South African trade mark law adopts an approach of attaching substantially more weight to the protection of the distinguishing function of a trade mark, and the current Trade Marks Act, 1993 covers the form of trade mark infringement that occurs in the case of comparisons.

10.1.1 Section 34 of The Trade Marks Act of 1993

The leading case is *Abbott Laboratories and Others v UAP Crop Care (Pty) Ltd and Others*.³⁵⁰ In this case the applicant was the proprietor of the registered trade mark 'Promalin', and the respondents were the distributors of 'Perlan' products in South Africa. 'Promalin' and 'Perlan' are competing fertiliser products used in the apple-farming sector. The respondent produced a brochure in which 'Perlan' and 'Promalin' were compared, and indicated that 'Perlan' was the better product. It was stated that: '*In trials Perlan has never been outperformed by Promalin*'.³⁵¹ The applicants sought an interdict against the respondents for infringement of the 'Promalin' trade mark in terms of section 34(1)(a).

³⁵⁰ 1999 (3) SA 624 (F).

³⁵¹ At 628 (C).

The respondents relied on the argument that they made it clear that 'Abbott' and 'Promalin' were the registered trade mark of the applicant, and that the mark had been used with reference to the genuine goods to which they related. This argument was based on a principle established under the Trade Marks Act, 1963 that the use, with reference to genuine goods, could never amount to a trade mark infringement.³⁵²

Cleaver J did not accept this argument as the facts in this case were different, and because the case was decided under the Trade Marks Act, 1963, in which the 'badge of origin' function but not the distinguishing function of the trade mark was protected.³⁵³ Cleaver J found that to succeed in establishing an infringement of a right under section 34(1)(a) an applicant must establish the following in respect of the trade mark registered:

- (a) use is unauthorised;
- (b) use is in the course of trade;
- (c) use is in relation to the goods or services for which the trade marks are registered,
- (d) use of the registered mark or of a mark so nearly resembling it, is likely to deceive or cause confusion.³⁵⁴

In this case requirement (d) was crucial and Cleaver J supported the position that 34(1)(a) encompasses comparative advertising, and found that:

'Section 34(1)(a) of the 1993 Act effectively incorporates all the provisions of s 44(1)(a) and (b) of the 1963 Act, but it should be noted that there is no longer reference to the 'use of a mark as a trade mark' and 'otherwise than a trade

³⁵² This principle was set out in *Protective Mining & Industrial Equipment Systems (Pty) Ltd (formerly Hampo Systems (Pty) Ltd) v Audiolens (Cape) (Pty) Ltd* 1987 (2) SA 961 (A). Grosskopf JA '... I have no doubt that, in view of the historical background, the intention of the legislature was that the expression 'use as a trade mark' in s 44(1)(a) of the Act should be interpreted to exclude use in respect of so-called genuine goods. This means that in a case like the present, the seller of goods is not infringing the manufacturer's trade mark for the simple reason that the seller's conduct is not covered by s 44(1)(a). The lawfulness of the seller's conduct consequently does not depend on any implied authority by the trade mark proprietor as was argued on behalf of the appellant.' 992 B-C.

³⁵³ *Abbott Laboratories and Others v UAP Crop Care (Pty) Ltd and Others* 634 (E).

³⁵⁴ At 636 (F).

mark' and, most importantly, the 1993 Act contains no provision in s 34(1)(a) that the use of the offending mark must 'be likely to cause injury or prejudice'. It seems clear from the foregoing that s 34(1)(a) of the 1993 Act has greatly increased the ambit of trade mark infringement.³⁵⁵

The respondents also relied on the argument where Jacob J, in the case *British Sugar plc v James Robertson & Son Ltd*,³⁵⁶ concluded that comparative advertising is acceptable. Cleaver J refused to follow Jacob J's approach, because of two significant differences between the British and the South African current trade mark law.³⁵⁷ Firstly, the British Trade Marks Act, 1994 has, in section 10(6), a special provision explicitly permitting comparative advertising and secondly, the British Trade Marks Act, 1994 implemented the Directive which noted that the function of a trade mark is: 'In particular to guarantee the trade mark as an indication of origin'. Cleaver J thus found that

*'the point of departure for interpreting the South African Trade Marks Act, 1993 is accordingly not the same as that for interpreting the British Trade Marks Act, 1994.'*³⁵⁸

Ron Wheeldon criticises this conclusion:

'This judgment, in stating that the UK law can no longer be used as a compass to the interpretation of ours, serves only to multiply those uncertainties and, in direct conflict with the Constitution of South Africa, muzzles the right of freedom of commercial speech. It must be incorrect. With South Africa emerging from its isolation and rejoining the world as a whole it is difficult to believe that the legislature – while stating its intention to harmonise South African trade mark law in accordance with the EC Directive – actually sets about taking

³⁵⁵ At 631 (B); Cleaver J referred to Dean 'Intellectual Property and Comparative Advertising' (1996) op cit 28; Job 'The Infringement of Trade Mark Right' in Visser (ed) *The New Law of Trade Marks and Designs* op cit ; Woker 'Comparative Advertising – A Change in Attitude' op cit 239.

³⁵⁶ [1996] RPC 281.

³⁵⁷ *Abbott Laboratories and Others v UAP Crop Care (Pty) Ltd and Others* 635 (A-J).

³⁵⁸ *Abbott Laboratories and Others v UAP Crop Care (Pty) Ltd and Others* 635 (C).

*South Africa, for the first time in her post 1820 history, out of step with her most important trading partners!*³⁵⁹

However, Cleaver J found that the use of the applicants' trade mark had met all the above requirements, and accordingly that comparative advertising falls within the purview of section 34(1)(a) of the Trade Marks Act, 1993.³⁶⁰ The judgment was recently confirmed by Van Dijkhorst J in *Abdulhay M Mayet Group (Pty) Limited v. Rennassa Insurance Co Limited and another*.³⁶¹

10.2 Conclusion

To summarise, Cleaver J emphasises the different ways of interpreting the 'use of a trade mark'. The South African Trade Marks Act, 1993 grants extensive protection to the distinguishing function of a trade mark, so that the 'use of a mark' not only includes the 'use of a mark to indicate the origin', but also the 'use of a mark to distinguish the mark from related performances', and comparative advertising therefore infringes section 34(1)(a). This approach is in line with findings on the shortcomings of South African trade mark legislation as an instrumental mechanism to regulate comparative advertising.

However, comparative advertisements must not use identical trade marks for reference, as advertisers will often rely on a play on words, or innuendo. Where this is the case, and the use of the trade mark is not in relation to identical goods, but in re-

³⁵⁹ Wheeldon 'Is our trade mark law now out of step with the EC?' op cit 26.

³⁶⁰ *Abbott Laboratories and Others v UAP Crop Care (Pty) Ltd and Others* 637 (D).

³⁶¹ 1999 (4) SA 1039 (T).

lation to similar goods, section 34(1)(b) comes into play,³⁶² and such reference constitutes an infringement in terms of section 34(1)(b) under similar considerations as for 34(1)(a).³⁶³

³⁶² Webster/Page op cit give the following example: 'CHEAP soap, it is the OMO of soaps'.

³⁶³ See in detail Webster/Page op cit 21-38.

11 Comparative Advertising and The Law of Unlawful Competition

This Chapter focuses on whether comparative advertising is *per se* illegal in the light of unlawful competition laws.

11.1 South Africa

The advancement of a competitor's interest in drawing attention to his goods or services *via* comparative advertising must be lawful within the 'competition principle'. Under this principle, comparative advertising must be considered, *per se*, as being lawful, irrespective of an infringement of goodwill against the competitor referred to and their interest in intellectual property protection.

However, South Africa's strong reliance on self-regulation and the trade mark law means one has difficulty in finding previous law cases dealing with comparative advertising and unlawful competition law. *Post Newspapers (Pty) Ltd v World Printing and Publishing Co Ltd*³⁶⁴ was decided in favour of comparative advertising, but, at the time, the law of unlawful competition was not well developed. Since then, the interpretation of the law has changed to an extent where this position has been overtaken by subsequent events and decisions.³⁶⁵

Therefore, this dissertation also presents suggestions by various authors, as to how the South African law of unlawful competition should approach the problem. Few of these authors, have as yet, followed the 'competition principle', and the approaches are examined in the light of this principle.

³⁶⁴ 1970 (1) SA 454 (W).

³⁶⁵ Van Heerden/Neethling op cit 303.

11.1.1 O. H. Dean's Approach

After the 'beat the bendz' advertisement, comparative advertising became a controversial issue. O. H. Dean was, in 1990, one of the first legal authors to discuss the problem. The crucial question, at that time was, whether the general principles of the law of unlawful competition *per se* disallow comparative advertising. Dean suggested that the crucial yardstick to determine the *boni mores*, when it came to comparative advertising, should be the Code of the ASA. He based his argument on the fact that the ASA Code, at that time, precluded comparative advertising in its general forms, and he stated:

*'It is submitted that both the ethical standards of the advertising and marketing community and the interpretation of the boni mores in the field of marketing of consumer goods by the legislature and the courts have determined that the general forms of comparative advertising constitute misconduct on a part of an advertiser. That being so, in general comparative advertising is contra bonos moros and, provided that abovementioned conditions for constituting the delict are met, constitutes unlawful competition under common law.'*³⁶⁶

Thus, according to Dean, comparative advertising is *per se* wrongful. The Code in its current version liberalises its attitude towards comparative advertising, and the crucial section 7 of the Code now states that '*advertisements in which factual comparisons are made between products and/or services are permitted.*'³⁶⁷

One could, therefore, argue that in terms of Dean's approach, comparative advertising must now be lawful. Nevertheless, Dean concluded that comparative advertising remains unlawful in South Africa. He stated with regard to the changed Code:

*'Although the ASA Code is somewhat negative to the whole question of comparative advertising; the current version of the Code takes a somewhat more benign view of the matter than the earlier version.'*³⁶⁸

³⁶⁶ Dean 'Comparative Advertising as Unlawful Competition' op cit 47.

³⁶⁷ Introduction of section 7 of the Code.

³⁶⁸ Dean 'Intellectual Property and Comparative Advertising' op cit 28.

Dean based his contention on the unconditional prohibition of comparative advertising in the Trade Marks Act, 1993, as it would be *'incongruous that these two expressions of principle should appear to be moving in opposite directions.'*³⁶⁹ To align these principles, he concluded:

*'Given the very tentative and equivocal sanction of comparative advertising in the ASA Code in contrast to the unequivocal and unconditional prohibition of comparative advertising in the Trade Marks Act, 1993, it is submitted that as a general proposition the boni mores are adverse to the practice of comparative advertising and that there is a strong risk that comparative advertising will be found to be contra bonos mores and could therefore give rise to a claim of unlawful competition on the part of the producer of the host product.'*³⁷⁰

To summarise, according to Dean the Code functions to determine wrongfulness in the case of comparative advertising, supported by the prohibition in the Trade Marks Act, 1993. This leads to the conclusion that a reference to a competitor in the case of comparative advertising is *per se* wrongful. According to Dean, references that do not even refer to a registered trade mark are unlawful.

11.1.1.1 Examination of Dean's Approach

From this project's perspective, the Code cannot be the reference point for the *boni mores*, as it is entirely determined by the industry. Industry codes are restrictive and trade associations tend to further dampen aggressive competition.³⁷¹ Self-regulatory codes of conduct go beyond statutory and common law requirements.³⁷² In Chapter 8 it is noted that the law of unlawful competition also protects public and consumer interests, and that, in the case of comparative advertising, these interests are not aligned with industry interests.³⁷³

³⁶⁹ Ibid.

³⁷⁰ Ibid.

³⁷¹ Boddewyn/Marton op cit 16.

³⁷² Boddewyn *Global Perspectives on Advertising Self-Regulation* (1992) 6.

³⁷³ Woker *Advertising Law* op cit 18; Boddewyn *Global Perspectives on Advertising Self Regulation* (1992) 14.

It has also been noted that the common law of unlawful competition and the trade mark law serve different purposes. The Trade Marks Act, 1993 disallows direct comparative advertising, but does not forbid implied comparisons. The author therefore cannot see any reason why these two expressions of principle have to be aligned, as suggested by Dean. The Trade Marks Act, 1993 aims exclusively at the protection of the proprietor of a trade mark, while the law of unlawful competition must also regard consumer interest and, as emphasised by Van Dijkhorst J, must take regard of the importance of a free market and strong competition.³⁷⁴

It is important to note that, in *Barclays Bank plc v ABS Advanta*,³⁷⁵ Laddie J rejected the suggestion that the courts should look to statutory or industry agreed codes of conduct to determine whether advertising was honest.

It clearly cannot be the law for interested industries to determine how far the standards are to extend.³⁷⁶ Dean's approach is not only incorrect it also highlights a shortcoming in the South African law of unlawful competition. Reference to the business ethics of the community for the determination of the *boni mores*, was based on the assumption of a convergence of interests between consumers and competitors.³⁷⁷ The public and consumers are thought to be indirectly protected by maintaining high standards of market morals. This approach can only be satisfactory as long as the interests of the competitor and the consumer are not in conflict.

If the business ethics of the community are indicative of the *boni mores* in the case of comparative advertising, consumer and public interests are insufficiently considered. It would appear that Dean recognises the shortcoming of his approach. At the end of the article he raises the question: '*Does one protect the host producer's*

³⁷⁴ *Atlas Organic Fertilizers (Pty) Ltd v Pikkewyn Ghwano (Pty) Ltd* supra.

³⁷⁵ [1996] RPC 307.

³⁷⁶ Cornish 'Unfair Competition and the Consumer in England' (1974) *ILC* 87.

³⁷⁷ *Ibid* 89.

*goodwill or does one benefit the consumer by providing him with the opportunity of being given greater information?*³⁷⁸

There are strong indications that Dean's approach to comparative advertising cannot be the law in South Africa. To reach a final conclusion, it is worthwhile to analyse the general approach countries like the United Kingdom and Germany have on the issue.

11.2 United Kingdom

The United Kingdom does not have a distinct branch of unfair competition law.³⁷⁹ In the UK unfair competition law is split into some recognisable legal actions ('torts'), developed under different theories. These include actions for malicious falsehood,³⁸⁰ actions for passing off,³⁸¹ and actions for injurious falsehood or libel and slander³⁸² or defamation. Consequently, comparative advertising can only be prohibited if it falls under one of these recognised branches of unfair competition law.³⁸³

11.3 Germany

Germany relies on advertising law that authorises private litigation to control misleading advertising and comparative advertising, through the Gesetz gegen den unlauteren Wettbewerb (UWG). The most important provision for the regulation of comparative advertising, section 1 of the UWG, reads:

³⁷⁸ Ibid.

³⁷⁹ Ohly 'Die vergleichende Werbung im britischen Recht' (1993) *GR Int* 730 731.

³⁸⁰ The case *Vodafone Group Plc v Orange Personal Communications Services Ltd* was based on an action for malicious falsehood and infringement of its registered trade mark Vodafone.

³⁸¹ *Ciba-Geigy plc v Parke Davis Co* [1994] FSR 8 (Eng. C.A. Mar. 19, 1993), available via LEXIS INTLAW, UKCASE File.

³⁸² Ohly 'Die vergleichende Werbung im britischen Recht' op cit 731; Ulmer/Westerhoff *Das Recht des unlauteren Wettbewerbs in den Mitgliedstaaten der Europaeischen Wirtschaftsgemeinschaft, Vereinigtes Koenigreich von Grossbritannien und Nordirland* (1981).

³⁸³ The dissertation will analyse these different torts in Chapter 12.

Any person who, in the course of business activity for purposes of competition, commits acts contrary to honest practices, may be enjoined from continuing such acts and held for damages.

The term 'honest practices' has become, in German unlawful competition law, a term which connotes the honest or moral practices of businessmen. It is considered an ethically-based restriction like the South African *boni mores* concept. Courts have developed an extensive case law while interpreting 'honest practices', and precedents are applied in a manner reminiscent of common law practice. Under the umbrella of section 1 of the UWG there are a number of categories of unfair practice similar to the forms of unlawful competition in South Africa.³⁸⁴

11.3.1 Section 1 Of The UWG

Unfair comparative advertising previously constituted a particular category under section 1 of the UWG,³⁸⁵ and the courts developed a restrictive regime for comparative advertising under this section of the UWG. Even superiority claims like '*probably the best lager in the world*' were banned in Germany,³⁸⁶ and the headline '*We offer more*' in a local newspaper advertisement was held unlawful on the grounds that readers would relate this claim to two nearby competitors.

In its *Hellegold*³⁸⁷ decision of 1931, the Reichsgericht held that comparative advertising would normally be contrary to honest business practices. The decision was based on two arguments. Firstly, no trader need suffer usage as a competitor's promotional tool. Secondly, nobody can judge his own case.

In subsequent decisions, the court recognised four exceptions to this rule:

³⁸⁴ Baumbach/Hefermehl op cit §1 para 562; *Preisvergleich* RG GR 27, 486; *Hellegold* RG GR 31, 1299; *Konfektionsware* RG GR 34, 473, *Lindes Verkaufshelfer* RG GR 39 982 986; *Kondensableiter* RG GR 40 50 53; *Förderanlagen* RG GR 42 364.

³⁸⁵ On comparative advertising in German law before the Directive see generally – Meyer: *Die kritisierende vergleichende Werbung* (1991); Baumbach/Hefermehl: op cit §1 para 329ff.

³⁸⁶ Beller op cit 933.

³⁸⁷ RG GR 31 1299.

- Firstly, comparisons were allowed if they referred to different methods of manufacture or different systems of distribution rather than to particular products ('Systemvergleich').³⁸⁸
- Secondly, comparative advertising was considered legal if it was the only way to inform consumers of a technological advance ('Fortschrittsvergleich').³⁸⁹
- Thirdly, a trader was allowed to answer when a customer explicitly asked for a comparison ('Auskunftsvergleich').³⁹⁰
- Fourthly, comparative advertising was permitted in the case of self-defence ('Abwehrvergleich').

By 1961 the law had reached the stage where comparative advertising was not considered unfair if the advertiser had a reasonable cause for the comparison, and if the comparison did not exceed the limits of what was necessary to reach this aim.³⁹¹

However, both the Bundesgerichtshof and the appeal courts applied the reasonable cause exception in a rather restrictive way, so that comparisons were still, *prima facie*, regarded as unfair until 1998. The Bundesgerichtshof distinguishes between critical claims ('differentiative comparative advertising'), claims of equivalence ('associative comparative advertising'), and personal references (such as 'A is German while B is a foreigner').³⁹² The Bundesgerichtshof restricted the term 'comparative advertising' to critical claims.³⁹³ Associative comparative advertisements were categorised as cases of taking unfair advantage of a competitor's good-

³⁸⁸ Droste 'Das Verbot der bezugnehmenden Werbung und ihre Ausnahmefälle' (1951) GR 140 142.

³⁸⁹ Bohnengerät BGH GR 58 343 344.

³⁹⁰ Buchgemeinschaft RG MuW 1927/28 345; Backhilfsmittel BGH GR 67 308 310.

³⁹¹ Tauchkühler BGH GR 70 422 423; Vorsatz-Fensterflüge BGH GR 86 618 620; Generikum-Preisvergleich BGH GR 89 688 689.

³⁹² Peschel: *Die anlehrende vergleichende Werbung im deutschen und französischen Recht* (1996) 113 123.

³⁹³ Bioäquivalenz-Werbung BGHZ 107 136 138.

will ('Rufausbeutung'), a category that is similar to the form of unlawful competition, discussed as 'misappropriation of an advertising value'.³⁹⁴

Whereas differentiative comparisons were sometimes considered legal, associative comparisons were usually prohibited.³⁹⁵ The Bundesgerichtshof regarded all attempts to exploit a competitor's reputation very critically. The court therefore disallowed restricted references to another trader's mark or product even where these references would have provided consumers with necessary information.

The *Bioäquivalenz-Werbung*³⁹⁶ decision is remarkable in this regard, and was concerned with claims of therapeutic equivalence in drug advertisements. Although the generic drugs in question could be freely distributed because patent protection for the brand products had elapsed, the Bundesgerichtshof nevertheless regarded claims of chemical identity as an unfair exploitation of the brand owner's reputation.³⁹⁷

11.3.2 The Implementation of The Directive on Comparative Advertising

The wide assortment of rules on comparative advertising in European countries created a need for a uniform proposal on comparative advertising, to align policies within the European Community. For misleading or disparaging comparisons, one finds nearly unanimous condemnation in the European Union.³⁹⁸ The liberation of the rules regulating comparative advertising have been discussed within the European Community for some 15 years.³⁹⁹ Regulators believed that free-market arguments supporting the free-flow of consumer information and lower barriers to market entry must be balanced against the dangers of deceptive or misleading advertising. In 1976 the Commission presented a draft Direc-

³⁹⁴ Baumbach/Hefermehl: op cit §1 para 541ff.

³⁹⁵ Peschel: op cit 129.

³⁹⁶ BGHZ 107 136 139.

³⁹⁷ Peschel op cit 129.

³⁹⁸ Ibid.

³⁹⁹ See in general Henning-Bodewig *Das Recht der Werbung in Europa* (1995).

tive on Misleading and Unfair Advertising⁴⁰⁰ that contained, *inter alia*, a provision on comparative advertising.⁴⁰¹ However, in subsequent years it became clear that no agreement could be reached on the question of unfair advertising. After several years of discussion, the European Commission finally agreed to liberalise their rules on the issue.⁴⁰² The rejection of the draft and subsequent negotiations led to the presentation of a further draft Directive in 1991, which was finally adopted in 1997.

The new Directive has been in operation since March 2000, and courts in Europe are already considering the Directive's impact in their decisions.⁴⁰³

In February 1998, while there was still considerable debate, about the liberalisation of comparative advertising, on the Directive and on means for implementation,⁴⁰⁴ the Bundesgerichtshof handed down a surprising decision. This judgment *Testpreis-Angebot* ('test price offer')⁴⁰⁵ marked a complete turnaround to its previous jurisprudence on comparative advertising.⁴⁰⁶ The Bundesgerichtshof used the first case it had to decide after the Directive came into force, to announce that it would apply the Directive immediately, even before the legislature had acted. The court pointed out that after the end of the implementation period it would be obliged by general principles of the European Community law to construe section 1 of the UWG in the light of the Directive. Before this date there was no such obligation, but, while no specific statutory provision to the contrary existed it was better to interpret section 1 of the UWG in conformity with European law, rather than continue with cases in conflict with the Directive.

⁴⁰⁰ OJ 1978 C 70/4.

⁴⁰¹ *Ibid*, article 4.

⁴⁰² 'Comparative advertising: Red in tooth and claw' op cit 79.

⁴⁰³ *Preisvergleichsliste II* BGH GR 99 69; *Vergleichen Sie* GR Int 99 453; *McDonald's Burger King* OLG München NJW-RR 99 1423.

⁴⁰⁴ Henning-Bodewig 'Vergleichende Werbung – Liberalisierung des deutschen Rechts?' (1999) GR Int 385 394.

⁴⁰⁵ BGH GR 98 824.

⁴⁰⁶ NN 'Reklame gewinnt mehr Spielraum' (1998)
<http://www.welt.de/archiv/1998/05/25/0525wi07.htm>.

The case itself involved an advertisement by a distributor of tennis racquets that compared two methods of production. While recommending the racquets distributed by the defendant, the advertisement referred to the production method used by his competitors by saying: '*We do not expect you to accept cheap composite rackets (graphite fibre glass).*'⁴⁰⁷ The Bundesgerichtshof decided that this advertisement fell within the scope of the Directive as it identified competitors that manufactured and sold composite racquets. Notwithstanding the fact that the court completely changed its jurisprudence on comparative advertising, by finding that this form of advertising was not *per se* unlawful, it found that the advertisement in question was not allowed under article 3a, as the statement claiming the inferiority of composite racquets was a denigration within the meaning of article 3a(1)(e) of the Directive. Unfortunately, the court did not elaborate on its interpretation of the Directive. Subsequent decisions adopted this approach and emphasise that the Directive must be applied.⁴⁰⁸

In the case *Vergleichen Sie*,⁴⁰⁹ the defendant sold costume jewellery through a pyramid-selling system. The defendant sent letters to potential sales representatives, claiming that the products sold by the defendant were high-quality designer jewellery, and inviting the recipients of these letters to compare the jewellery sold by the defendant with products offered in the catalogue of a well-known competitor. The Bundesgerichtshof considered this letter permissible under the Directive. The defendant compared '*goods meeting the same needs or intended for the same purpose*' as required by article 3a(1)(b). The comparison was also verifiable since everyone who received the letter had the opportunity to obtain the plaintiff's catalogue. Finally, the letter neither denigrated the plaintiff nor took unfair advantage of its reputation.

⁴⁰⁷ Ibid.

⁴⁰⁸ *Preisvergleichsliste II* BGH GR 99 69; *Vergleichen Sie* supra; *McDonald's Burger King* supra.

⁴⁰⁹ Supra.

11.3.3 The Implementation Of Section 2 UWG

As the Bundesgerichtshof, with its judgment in the *Testpreis-Angebot* ('test price offer')⁴¹⁰ case, had already considered the impact of the Directive, there was a debate as to whether it is still necessary to implement the Directive in the UWG.⁴¹¹ However, the German legislature felt that it was necessary to change the law, and implemented section 2 UWG, which has been in operation since September 2000. The wording of section 2 UWG is very similar to the relevant article 3a of the Directive.

How far-reaching the impact of the implementation will be, depends mainly on an interpretation of the restrictive clauses *inter alia*, the denigration clause 3a(1)(e), which became section 2(2) Nr.5 UWG and the exploitation clause 3a(1)(g), which became section 2(2) Nr.4 UWG.

11.3.4 The Goodwill Clauses Of The UWG

11.3.4.1 Denigration Clause

Section 2(2) Nr.5 UWG which stipulates a restriction on 'discrediting or denigrating advertising', reads:

Comparative advertising is contrary to honest practices in the sense of section 1 UWG, when the comparison discredits or denigrates the trade marks, trade names, other distinguishing marks of a competitor.

It is questioned whether the prohibition of section 2(2) Nr.5 UWG makes any sense, in the light of the underlying policy of the Directive, as it is difficult to imagine that an advertisement will meet the extensive requirements of section 2(2) Nr.1 UWG and section 2(2) Nr.2 UWG, thereby denigrating a competitor, in a way which is not aligned with the purpose of the Directive. The requirements are similar to those in the South African Code of the ASA, namely that the com-

⁴¹⁰ Supra.

⁴¹¹ Henning-Bodewig 'Vergleichende Werbung – Liberalisierung des deutschen Rechts?' op cit 394.

parison has to 'compare goods or services meeting the same needs or intended for the same purpose' and that it has to 'objectively compare one or more material, relevant, verifiable and representative features of those goods and services, which may include price.'

It is important to note where the courts draw the line between 'normal' and 'discrediting' comparative advertisements.⁴¹²

One decision which considered the denigration clause was that of the Bundesgerichtshof in *Testpreis-Angebot* ('test price offer').⁴¹³ The court suggested that any advertisement, which claims that a competitor's product is inferior, is denigratory.⁴¹⁴ Such an interpretation of the denigration clause therefore has the potential to render nugatory the intended effect of liberalising comparative advertising in Europe.

However, the Bundesgerichtshof recognised, in a subsequent decision, *Vergleichen Sie*,⁴¹⁵ that every differentiative comparative advertisement necessarily claims a rival product is either of an inferior quality or overpriced. It has been suggested that the denigration clause only apply when the denigration goes much further than necessary to inform consumers.⁴¹⁶ This could well lead to a more satisfactory approach.

In this interpretation, comparative advertising would have to be 'tolerated' when denigration is not the main motive, and only a side effect of an otherwise perfectly legal comparison. Hence, it should only apply in situations where a 'comparison is

⁴¹² Tilmann op cit 790.

⁴¹³ *Supra*.

⁴¹⁴ Menke 'Die vergleichende Werbung in Deutschland nach der Richtlinie 97/55/EG und der BGH-Entscheidung *Testpreis-Angebot*' WRP 98 811 816.

⁴¹⁵ *GR Int* 99 453 455.

⁴¹⁶ See in general Tilmann op cit 790; Tritell 'Regulation of Misleading and Comparative Advertising by the European Community' (1992) via Westlaw INT-TP Database 797.

*expressed in a manner that is denigrating, though not so exaggerated as to make the advertisement lacking in objectivity, or misleading.*⁴¹⁷

This will probably be the case (i) where the language of the advertisement is not acceptable,⁴¹⁸ (ii) when an otherwise acceptable comparison uses 'images that have an emotional impact that denigrates the competitor's product, and is not proportionate to the probative value of the objective comparison that is being drawn' and (iii) a particular product is parodied.⁴¹⁹

Until further case law has emerged, it is difficult to predict the boundaries of comparative advertising in Germany.⁴²⁰ The European Court of Justice (ECJ) will interpret the Directive, particularly the scope of the restrictive clauses based on article 3a(1)(e) and 3a(1)(c), while it is fair to assume that the ECJ will interpret the provisions in a manner consistent with the underlying policy of assisting rational consumer choice, and German courts will give effect to these rulings in their decisions.

11.3.4.2 Exploitation Clause

Section 2(2) Nr.4 UWG stipulates a restriction on comparisons that '*take unfair advantage of the reputation of a trade mark, trade name or other distinguishing marks of a competitor*' (the so-called 'exploitation clause'). Section 2(2) Nr.4 UWG is potentially of limited scope, and it is not easy to give the article content. It is difficult to see when a permissible comparative advertisement – one that relates to verifiable, relevant and representative features of the goods or services, and compares in a manner that is objective and not misleading – could be said to take unfair advantage of a competitor's reputation.

There are only two situations in which section 2(2) Nr.4 UWG makes sense in the light of the Directive's underlying rationale of assisting rational consumer choice.

⁴¹⁷ Ohly/Spence op cit 81.

⁴¹⁸ For example, an advertisement which claims that: 'Drink A is twice as !?%!%*! sweet as drink B'.

⁴¹⁹ Ibid 82.

Firstly, section 2(2) Nr.4 UWG should apply when an otherwise permissible comparison is expressed in a way that unnecessarily takes advantage of a competitor's goodwill.⁴²¹ The Association pour la Protection de la Propriété International (AIPPI) has suggested that the use of logos and picture marks in a comparison can take unfair advantage of a competitor's goodwill.⁴²²

A second situation where section 2(2) Nr.4 UWG may be operative is when a factual comparison is drawn between two products in a context in which consumer choice is usually based on image associations rather than objective, verifiable and material criteria. In particular, the clause may prohibit claims concerning the equivalence of some generic and luxury goods:⁴²³ for example, an associative comparative advertisement where the advertiser claims that his generic perfume is chemically identical with a particular branded perfume. In this case the exploitation clause may be operative, as the advertiser is, in fact, unfairly exploiting the reputation of a well-known fragrance. This is because the purpose of the advertisement would not be to inform consumers that the two products could perform the same function; it would be parasitic, because the advertiser seeks to appropriate the cachet of luxury goods without paying the premium that association with a luxury image requires. This might be held to unfairly appropriate the reputation of a particular luxury brand.

The question, whether it was necessary to make the exploitation clause a mandatory condition for allowing comparative advertising, remains valid. It is probably fair to assume that the ECJ will interpret the clause as restrictively as possible with the policy of the Directive in mind.

Real harmonisation will only come when the ECJ interprets the Directive. For this reason, it will be exciting to follow the development of comparative advertising in

⁴²⁰ Ibid.

⁴²¹ Ohly/Spence op cit 83.

⁴²² Henning-Bodewig 'Vergleichende Werbung – Liberalisierung des deutschen Rechts?' op cit 393.

⁴²³ Ohly/Spence op cit 84.

the future. A number of precedents clustering around open-textured provisions such as 'denigration' or 'unfair advantage' will help create a common understanding among European judges and lawyers.

11.4 Conclusion

This examination of the South African and German approach to comparative advertising indicates that the law of unlawful competition has reached a position where comparative advertising must generally be regarded as lawful competition. The South African law reaches this position through its reference to the 'competition principle', whereas Germany reaches this point through the implementation of the Directive into the UWG.

12 Comparative Advertising and the Special Forms of Unlawful Competition Law

Following on the general approach of the different countries towards comparative advertising, it is worthwhile to examine whether the South African law of unlawful competition, in its various forms, and the British law of torts prohibit comparative advertising, and whether they function as supplementary criteria to ascertain the limits of goodwill.

Like Dean, Van Heerden and Neethling basically regard comparative advertising as *per se* unlawful in South Africa, but place more emphasis on the various grounds for justification. According to Van Heerden and Neethling, the various forms of unlawful competition, including (i) misrepresentation, (ii) disparagement, (iii) passing off and (iv) leaning on,⁴²⁴ disallow different forms of comparative advertising.

12.1 Misrepresentation or Injurious Falsehood

This dissertation is limited to comparative claims that are not misleading, that is advertisements in terms of the criteria mentioned in the Code (e.g. 'relevant' and 'objective'). It is likely that comparative advertisements meeting these criteria will not fall foul of misrepresentation or injurious falsehood. Nevertheless, it is still necessary to examine this form of unlawful competition law to see if these criteria really safeguard and do not conflict with the law in this respect.

12.1.1 South Africa

In *Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd*⁴²⁵ Corbett J identifies 'the publication by the rival trader of injurious falsehoods concerning his competitor's business' as a recognised form of unlawful

⁴²⁴ A synonym for the form of unlawful competition is the 'misappropriation of the advertising value'.

⁴²⁵ 1968 (1) SA 209 (C).

competition.⁴²⁶ Therefore, untrue comparative claims relating to a competitor's undertaking, his business, goods or services will undoubtedly be unlawful competition.⁴²⁷

A misrepresentation is unlawful because as it is in conflict with the *boni mores* yardstick or the 'competition principle', and the misrepresentation prevents customers from making a proper comparison between performances.⁴²⁸ Van Heerden and Neethling consider '*it will very seldom be possible to prove the absolute truth or falseness of a comparison*',⁴²⁹ if the advertiser gives a misleading and confusing image of the true state of affairs, for example, by omitting the disadvantages of his own performance, or the advantages of his rival's performance,⁴³⁰ and they state that those advertisers who compare their products or services with their competitor's cannot be impartial.⁴³¹ These authors believe that comparative advertisements convey misleading information by using non-representative product-test methods, and often compare unimportant product features.⁴³²

It is true that, if a comparative advertiser associates his inferior product with a product of a competitor, it amounts to a misrepresentation, as it may violate or damage the reputation of the competitor's performance.⁴³³ The public forms a lesser opinion of the host's performance from the association between the two performances.⁴³⁴

⁴²⁶ 1968 (1) SA 209 216.

⁴²⁷ Van Heerden/Neethling op cit 283; These instances may also be described as 'deception or misleading the public as to a rival's performance'; Baumbach/Hefermehl *Wettbewerbsrecht* § 1 para 372.

⁴²⁸ Van Heerden/Neethling op cit 150.

⁴²⁹ Van Heerden/Neethling op cit 305.

⁴³⁰ De Jager/Smith op cit 72.

⁴³¹ Ibid.

⁴³² Boddewyn/Marton op cit 63; Van Heerden/Neethling op cit 305; Baumbach/Hefermehl op cit § 1 para 514.

⁴³³ Van Heerden/Neethling op cit 203 concerning the dilution of an advertising value, a concept which has not yet been recognized by the courts.

⁴³⁴ Neethling 'Passing off and Misappropriation of Advertising Value of Trade Names, Trade Marks and Service Marks' (1993) 5 *SA Merc LJ* 306 309.

However, when a comparison meets the requirements relating to misleading advertising, stipulated in the Code or the Directive, the facts or criteria used in the comparison must be fairly chosen and like must be compared with like. Furthermore, it is submitted that consumers have become more sophisticated and knowledgeable in recent years,⁴³⁵ and they regard comparative advertising more sceptically than any other advertisement. Consumers are, these days, aware of 'partiality' and are used to all kinds of advertisements. Guidance can be found in the British case: *Vodafone v Orange*.⁴³⁶ The advertisement did not contain all the facts for a completely fair comparison, but it was not false, nor was it significantly misleading to those members of the public likely to read it. Accordingly Jacobs J held:

*'The public are used to the ways of advertisers and expect a certain amount of hyperbole. In particular the public are used to advertisers claiming the good points of a product and ignoring others.'*⁴³⁷

As long as the claims are factually true and the advertiser compares 'like with like' this author can see no specific reason why comparative advertisements should be considered a 'misrepresentation'.

This point of view is supported by the remarks of Van Schalkwyk J in *Elida Gibbs (Pty) Ltd v Colgate Palmolive (Pty) Ltd*,⁴³⁸ when he stated, in respect of misrepresentation in advertising claims:

'A merchant might have implicit faith in a home-remedy which he begins to market in competition with an established brand at a fraction of the price of the latter. If the home-remedy has the attributes claimed for it, then the competition remains fair although potentially ruinous to the competitor. If, however, it transpires that the home-remedy has none of the attributes claimed, then the public, who are being induced to buy the cheaper commodity, are being misled and the ruination of the competitor is, in a fundamental sense, unfair ... I do not intend to convey that every minor misstatement would be actionable at the suit of a

⁴³⁵ *Federation Internationale de Football v Bartlett* 1994 (4) SA 722 (T).

⁴³⁶ [1997] FSR 34.

⁴³⁷ [1997] FSR 34 39.

⁴³⁸ 1988 (2) SA 350 (W).

*competitor who is aggrieved thereby. To do so would be an invitation to trade rivals to extend the arena of their competition into the courts of law. Where, however, a misstatement of fact relates to a fundamental or intrinsic quality of the wares to be sold, thereby providing the advertiser with a competitive advantage, a plaintiff should not be non-suited merely because the deception was innocent.*⁴³⁹

And again Van Schalkwyk J:

*'It cannot be the law that it constitutes unlawful competition merely for a seller to express opinions in advertising material which he does not honestly hold.'*⁴⁴⁰

It can be concluded that Van Heerden and Neethling treat comparative advertising differently from other advertising claims. The requirement of absolute truthfulness and objectivity is not a true reflection of the law, and the criteria in the Code and the Directive, in particular, are instrumental in preventing misrepresentations.

12.1.2 United Kingdom

If a comparative advertisement contains incorrect information about a competitor's goods, then the tort of injurious falsehood may apply. This tort can be brought against any type of false claim; there is no limitation on the claim being made in the course of trade, nor does the tort require the existence of competitive relations between the plaintiff and the defendant.⁴⁴¹ The distinction between 'injurious falsehood' and 'passing off' is to be found in the following statement by Professor Fleming:

*'While it is injurious falsehood for a defendant to claim that your goods are his, it is passing off for him to claim that his goods are yours.'*⁴⁴²

It will, however, be very difficult to base a claim against comparative advertising on injurious falsehood. There are three requirements, (i) that there has been a false-

⁴³⁹ 1988 (2) SA 350 359.

⁴⁴⁰ Ibid.

⁴⁴¹ For example: *Kaye v Robertson* [1991] FSR 62.

⁴⁴² *Markesinis/Deakin op cit* 647.

hood, (ii) that it was made maliciously,⁴⁴³ and (iii) that the plaintiff has suffered special damage.⁴⁴⁴ When considering the requirements for falsehood, the courts developed the so-called 'one meaning' rule. A statement complained of must be false in its 'ordinary and natural meaning'. There can only be one interpretation, and the fact that the statement could reasonably be interpreted by a substantial number of readers in a way which would render it false is insufficient.⁴⁴⁵ Furthermore, the plaintiff has the onus to prove that the advertiser acted maliciously.⁴⁴⁶ Malice is established where it can be proved that the defendant either knew that, or was reckless about whether, the statement was false.⁴⁴⁷ The third requirement is that the plaintiff must show 'special damage',⁴⁴⁸ which is a requirement generally difficult to meet. From this exposition of the requirements of injurious falsehood, and from an examination of the recent *British Airways v Ryanair*⁴⁴⁹ case, the action is of relatively narrow scope in the English law of torts, and it is not an effective weapon against comparative advertising.

12.2 Disparagement

12.2.1 South Africa

According to Van Heerden and Neethling disparagement is a special form of unlawful competition in South Africa, and that disparagement should be understood in the widest sense of the word and not be equated with 'defamation'. They define disparagement as:

⁴⁴³ *Serville v Constance* [1954] 1 WLR 487 490.

⁴⁴⁴ *Royal Baking Powder Co. v Wright Crossley & Co.* (1901) 18 RPC 95 99.

⁴⁴⁵ *Vodafone Group Plc v Orange Personal Communications Services Ltd* [1997] FSR 34.

⁴⁴⁶ *Vodafone Group Plc v Orange Personal Communications Services Ltd* was based on an action for malicious falsehood and infringement of its registered trade mark Vodafone.

⁴⁴⁷ *Mc Donald's Hamburgers Ltd v Burger King (UK) Ltd* [1986] FSR 45 61.

⁴⁴⁸ *Bestobell Paints Ltd v Bigg* [1975] FSR 421 430.

⁴⁴⁹ [2001] ETMR 24, where Jacob J refused to base a claim upon injurious falsehood.

*'Any allegation concerning a competitor's performance which has the effect of turning away the public or part of the public from the performance must be considered as a disparagement of the performance.'*⁴⁵⁰

It is stressed that only differentiative comparative advertisements can fall foul of this special form of unlawful competition. The only South African case, to date, on differentiative comparative advertising is *Post Newspapers (Pty) Ltd v World Printing and Publishing Co Ltd*.⁴⁵¹

Nicolas J supports the view that statements which involve mere comparisons or which constitute true disparagement are not actionable. The judge referred with approval to the English precedent *White v Mellin*⁴⁵² where the general maxim 'comparison – yes, but disparagement – no' was stressed.⁴⁵³ It was held that the statement must relate to the goods of the plaintiff, while false claims in relation to the defendant's own goods are not actionable. The courts argue that the general public is sceptical of advertising claims, and that too close a scrutiny of comparative advertisements could confer an official 'seal of quality' upon the product found to be superior – a 'seal of quality' that could, in itself, be used for advertising purposes.⁴⁵⁴ In this case the House of Lords dismissed an action brought by a baby food manufacturer against a retail trader who had affixed stickers to the manufacturer's products claiming that the trader's own products were considerably more nutritious.⁴⁵⁵ Even the reproduction of a chemical comparison test suggesting that the defendant's colours were equal to or better than those of the plaintiff was considered, in *Hubbuck v Wilkinson*,⁴⁵⁶ to be mere puffing of the defendant's goods.

In *Post Newspapers (Pty) Ltd v World Printing and Publishing Co Ltd*, the proprietor and publisher of the 'Post' sought an interim interdict restraining the proprietor

⁴⁵⁰ Van Heerden/Neethling op cit 283.

⁴⁵¹ 1970 (1) SA 454 (W).

⁴⁵² [1895] AC 154 (HL).

⁴⁵³ 1970 (1) SA 454 456.

⁴⁵⁴ *White v Mellin* [1895] AC 154 165, per Lord Herschell LC.

⁴⁵⁵ Ibid.

⁴⁵⁶ [1895] All ER 244.

and publisher of 'The World' from circulating to advertising agents a market review that unfavourably compared the 'Post' with 'The World'. Both newspapers aim at the same market and compete in recruiting advertising.

The application for the interdict was based on the following grounds:

- The marketing review and accompanying documentation misrepresented the relative merits of the rival newspapers; these representations were false and maliciously made; they were calculated to cause patrimonial loss to the proprietors of the 'Post' newspaper and were, therefore, an injurious falsehood.
- The data on which the marketing review was based were, to the knowledge of the proprietors of 'The World', unreliable: with the effect of filching advertising from the 'Post'; and this conduct amounted to unfair competition.

The court found that the applicant had failed to show that any statements in the reports were false, and the applicant had not made out a case. The court held:

*'To the extent that the statements complained of involved merely a comparison of 'The World' and 'Post', they were not actionable. There are, however, [...] statements which amount to a disparagement of 'Post' as an advertising medium. [...] If these statements were shown prima facie to be untrue, the applicant would be entitled to relief.'*⁴⁵⁷

The court defined the rule, that

*'it is commonly accepted that an advertiser frequently paints what he has to offer in glowing and exaggerated colours, and with extravagantly laudatory phraseology.'*⁴⁵⁸

In terms of this case, differentiative comparative advertising will only be unlawful if false statements disparage a competitor.⁴⁵⁹ In the light of this decision, references, in terms of the requirements in the Code and the Directive, will therefore be lawful.

⁴⁵⁷ 1970 (1) SA 454 459.

⁴⁵⁸ 1970 (1) SA 454 459; see also *Fichardt Gibbs (Pty) Ltd v Colgate Palmolive (Pty) Ltd (1)* 1988 (2) SA 350 (W) 359.

12.2.1.1 Van Heerden and Neethling's Approach

Van Heerden and Neethling disagree with this decision.⁴⁶⁰ To promote their approach, the authors criticise the 'blind reliance' on English and American precedents in *Post Newspapers (Pty) Ltd v World Printing and Publishing Co Ltd*,⁴⁶¹ while remarking that the case '*had been overtaken by subsequent events and decisions*' as it preceded the development in case law of the *boni mores* as a criterion for determining the unlawfulness of competition.⁴⁶² These authors come to the conclusion, by obtaining guidance from German decisions,⁴⁶³ that differentiative comparative advertising should be regarded as *per se* unlawful, but can be justified on a broad basis.⁴⁶⁴

Germany formerly adopted an approach where the law only allows comparative advertising if the advertiser is able to invoke a sufficient or reasonable cause for using it, if the advertisement was restricted to true and objective information, and did not go beyond what was necessary.⁴⁶⁵ Van Heerden and Neethling's approach is based on concern about unsubstantiated comparative advertising claims which cannot be proven true, but also cannot be proven false. In adopting the former German approach they cope with this situation. The 'justification' construction changes the onus of proof from the plaintiff, which was the case in *Post Newspapers (Pty) Ltd v World Printing and Publishing Co Ltd*⁴⁶⁶ to the comparative advertiser, as, according to Van Heerden and Neethling, it would be '*very unfair to place the burden of proving the falseness of the comparisons on the prejudiced competitor*'.

⁴⁵⁹ Van Heerden/Neethling:op cit 302.

⁴⁶⁰ Ibid 302.

⁴⁶¹ Supra.

⁴⁶² Van Heerden/Neethling op cit 303.

⁴⁶³ Ibid 304.

⁴⁶⁴ Ibid 303.

⁴⁶⁵ Baumbach/Hefermehl op cit §1 para 577; *Betonzusatzmittel* BGH GR 62 65, where the ground of justification with 'reasonable cause' was emphasised.

⁴⁶⁶ Supra.

Van Heerden and Neethling hold that comparisons can be justified either by private defence, necessity or public interest. 'Private defence' justifies a comparison, when an advertiser launches a comparative counter-attack directed at a competitor to correct falsehoods that result from a falsely disparaging advertisement.⁴⁶⁷

Secondly, successful reliance on 'necessity' merely requires that the advertiser was unable to properly display or put forward the merit of his own performance without directly infringing the goodwill of a competitor.⁴⁶⁸ These authors give the following example for a comparative advertisement justified by necessity:

*'Suppose that A and B both place dry-cell batteries on the market: A Longcell batteries and B Duracell batteries. As a result of some or the other technical defect the life-span of these batteries is very limited. Suppose further that B overcomes the problem through research and markets an improved Duracell battery. Perhaps B can now bring the merit of this technical improvement to the attention of the public only by comparing his new Duracell battery with the orthodox Longcell battery. It will probably not be sufficient merely to point out the difference between his old and his new battery, since the merit of a performance is always relative as a result of the dynamic character of competition – that is, it is co-determined by reference to the merits of other similar performances.'*⁴⁶⁹

The example relates to the typical German ground of justification in section 1 UWG, the so-called 'Fortschrittsvergleich'. A further situation in which the comparison of products or services is justified, is where a prospective client expressly requests information, which can only be adequately given by referring to a competitor.⁴⁷⁰ This is an adoption of the German 'Auskunftsvergleich'.

According to Van Heerden and Neethling, comparative advertising can also be justified by public interest, when it enables the consumer to make a discriminating or

⁴⁶⁷ Van Heerden/Neethling op cit 330.

⁴⁶⁸ Ibid 331.

⁴⁶⁹ Ibid 332.

⁴⁷⁰ Ibid 333.

informed choice between the performances involved. If a comparison meets the following requirements, it should, in principle, be justified by public interest:

- The comparison must be true, and the claims made must be capable of substantiation.⁴⁷¹
- The public must have an interest in being informed; therefore the public must be informed in a relevant, useful and meaningful manner of the differences between the performances involved.⁴⁷² This is the case when the comparison indicates an improvement, an innovation, a difference or an economic benefit of performance.
- The comparison must not go further than public interest requires; thus the comparison must not disparage the competitor's performance in an unnecessary way.

12.2.1.2 Summary

The court, in *Post Newspapers*⁴⁷³ clearly regards true differentiative comparative advertising as not actionable. The concept advocated by Van Heerden and Neethling must be criticised, as it is based on the maxim of the *per se* unlawfulness, which cannot be considered within the 'competition principle'. Furthermore, the advocated reliance on German principles is outdated, as the German Bundesgerichtshof has ruled in favour of comparative advertising, making its own justification doctrine obsolete. The focus of this dissertation is limited to comparative advertising claims in terms of the requirements of the Code and the Directive, and references in these terms will inevitably meet the above-mentioned criteria for justification in the public interest, and must therefore be regarded as lawful. It is concluded that the maxim stressed in the *Post Newspapers* case is still the law, and true claims, in terms of the above-mentioned requirements, would not be actionable.

⁴⁷¹ For instance, claims concerning the taste of similar food products cannot be objectively judged.

⁴⁷² Van Heerden/Neethling op cit 305.

⁴⁷³ Supra.

12.2.2 United Kingdom

Disparagement should not be equated with 'defamation'. British law is split into different torts and disparagement is 'unknown' in the British legal system, as differentiative comparative advertising may only fall foul of the legal action of defamation. Defamation takes two forms:

- libel, referring to publications that are in permanent form or that are broadcast on stage or screen or over airwaves; and
- slander, referring to publications in transient form.

To establish an action for defamation, a comparative advertisement would have to contain a statement, which might tend to '*harm the reputation of the competitor so as to lower him or her in the estimation of the community or to defer third parties from associating or dealing with him or her*'.⁴⁷⁴ Defamation can protect trading companies as well as individuals.⁴⁷⁵ The plaintiff needs to prove that the statements have a tendency to lower his reputation, but does not need prove they are false. The defendant then bears the burden of raising defences to defamation, for example, the statements were statements of opinion regarding a matter of public interest (the defence of 'fair comment'),⁴⁷⁶ or that the statements were statements of fact and were true (the defence of 'justification').⁴⁷⁷

However, there are limitations on this tort. First, to be defamatory, a statement must constitute a '*personal imputation upon the competitor, either upon their character, or upon the mode in which their business is carried on*'.⁴⁷⁸ Simply to disparage a rival trader's goods does not give rise to an action for defamation. Secondly, in the great majority of cases statements such as '*A is better than B*' will be so obvi-

⁴⁷⁴ Milmo/Rogers *Gatley on Libel and Slander* (1998) 23.

⁴⁷⁵ *South Hetton Coal Co v N-E News* [1894] 1 QB 133.

⁴⁷⁶ Lunney/Oliphant *Tort Law* 612, *London Artists v Littler* [1969] 2 QB 375, *Kemsley v Foot* [1952] AC 345.

⁴⁷⁷ Lunney/Oliphant *op cit* 607, Markesinis/Deakin *Tort Law* (1998) 624, *Derbyshire County Council v Times Newspapers Ltd* [1993] 1 All ER 1011, 1018, *Spring v Guardian Assurance plc* [1994] 3 All ER 129, *Sutherland v Stopes* [1925] AC 47.

⁴⁷⁸ *Griffiths v Benn* (1911) 27 TLR 346 350; *per* Mr Cozens-Hardy.

ously an expression of opinion within the scope of fair comment, that no action will be brought.⁴⁷⁹

As this dissertation is limited to comparative advertisements meeting the criteria of the Code, the comparative advertiser will be able to defend himself if statements, and the underlying facts, are true. In the light of these limitations on the application of the tort, defamation is a rather limited weapon against comparative advertising under British law.

12.3 Passing Off

12.3.1 South Africa

The underlying rationale of the special form of unlawful competition known as 'passing off', is that no company should be allowed to represent its goods as those of another.⁴⁸⁰ The chief characteristic of passing off is that the general public is misled into believing that a particular entrepreneur's business is that of another, or that there is a business connection between them. A definition of 'passing off' is to be found in the leading South African decision of *Capital Estate and General Agencies (Pty) Ltd v Holiday Inns Inc*,⁴⁸¹ where Rabie J states:

*'The wrong known as passing off consists in a representation by one person that his business (or merchandise, as the case may be) is that of another, or that it is associated with that of another, and, in order to determine whether a representation amounts to passing off, one enquires whether there is a reasonable likelihood that members of the public may be confused into believing that the business of the one is, or is connected with, that of another.'*⁴⁸²

⁴⁷⁹ Milmo/Rogers op cit 30.

⁴⁸⁰ Woker Advertising Law op cit 105.

⁴⁸¹ 1977 (2) SA 916 (A).

⁴⁸² 1977 (2) SA 916 929; see also *Kellogg Co v Bokomo Co-operative Ltd* 1997 (2) SA 725 (C) 732-3.; *Royal Beech-Nut (Pty) Ltd t/a Manhattan Confectioners v United Tobacco Co Ltd t/a Willards Foods* 1992 (4) SA 118 (A) 122C-D; *Reckitt & Colman SA (Pty) Ltd v S C Johnson & Son SA (Pty) Ltd* 1993 (2) SA 307 (A) 315A-C; *Beecham Group plc v Southern Transvaal Pharmaceutical Pricing Bureau (Pty) Ltd and Another* 1993 (1) SA 546 (A) 554 (H-J).

To prove a case as 'passing off', a plaintiff must show (i) that the products or services the plaintiff supplies to the public enjoy a particular 'goodwill', in that they are recognised in the market to be distinctively associated with the plaintiff, (ii) a misrepresentation which, it is reasonably foreseen, will damage that goodwill, (classically the misrepresentation that the defendant goods or services are those of the plaintiff), and (iii) actual damage to the plaintiff's goodwill.

The second requirement is not easy to establish, and Van Deventer J found in *Union Wine Ltd v E Snell and Co Ltd*⁴⁸³ that the copying of an unregistered trade mark is lawful unless confusion is proved. The exploitation of a market established by competitors for a particular product has never been regarded, in itself, as unlawful competition. In the words of Russel J in *Dunhill v Bartlett and Bickley*:⁴⁸⁴

'The principles which govern passing off cases are clear. Apart from monopolies conferred by patents, and apart from protection afforded by registration, it is open to anyone to adopt the ideas or devices of his neighbour and apply them to his own goods, provided he clearly distinguishes his goods from those of his neighbour. What amounts to clear distinction depends upon the facts of each case.'

Therefore, it is relatively rare that comparative advertising will give rise to 'passing off'. Differentiative comparative advertising usually cannot amount to passing off, as the advertiser is trying to differentiate his product from the competitor, and makes it clear to the consumer that no connection exists between the products. Thus, no danger of confusion exists as to where the products or services originate.

Associative comparative advertising can only give rise to 'passing off' when there is the likelihood of confusion around the origin of the product. This can only occur under special circumstances, as associative comparative advertisers normally also point out the different origins of their performances.⁴⁸⁵ An example in this regard is

⁴⁸³ 1990 (2) SA 180 (D).

⁴⁸⁴ [1922] RPC 426 438.

⁴⁸⁵ *Woker Advertising Law* op cit 109.

the *Sea Harvest Corporation (Pty) Ltd v Irvin and Johnson Ltd* case.⁴⁸⁶ The company, Sea Harvest Corporation, used the words 'prime cut' to describe their hake products for several years. The company Irvin and Johnson decided to use the same words to describe their kingklip products.⁴⁸⁷ The court found that advertisers may not claim a monopoly over descriptive words used in campaigns, and that it does not become unfair to use these words because another advertiser first realised that they were appropriate and made extensive use of them.⁴⁸⁸ From this decision the author proposes a hypothetical example of an associative comparative advertisement. If, Irvin and Johnson claimed in an advertisement: 'I&J Prime Cut – The better alternative to Sea Harvest', there would have been significantly less danger of confusion than in the decided case.

Be this as it may, if associative comparative advertisers point out the different origins properly, no confusion of sponsorship can occur. The only chance that associative comparative advertisement can amount to 'passing off' is when an advertiser refers to his competitors in a confusing way.

A good example of how comparative advertising can give rise to 'passing off' is found in the British *McDonalds v Burger King*⁴⁸⁹ case. McDonald's uses the trade mark 'Big Mac' in relation to hamburgers while Burger King uses the trade mark 'Whopper'. An advertisement, placed by Burger King, included a reference to the McDonald's product in the form of a pun. They used the phrase 'Not Just Big, Mac' in an advertisement for their Whopper. Whitford J, assisted by survey evidence, concluded that a majority of those at whom the advertisement was directed would assume that the 'Big Mac' was available at Burger King as well. On this basis, Burger King was found to have 'passed off' their product as produced by McDonald's.

⁴⁸⁶ 1985 (2) SA 355 (C).

⁴⁸⁷ At 361.

⁴⁸⁸ At 355.

⁴⁸⁹ [1986] FSR 45; see also *Kimberley-Clark Ltd. v. Fort Sterling Ltd., Ch. D., 21 Apr. 1997, Laddie J.*, unreported.

In general, an associative comparative advertiser uses statements like 'is similar to' or is 'as good as' to make the public aware that his product is a substitute for a specific need for which the host product is well-known. This is not confusing, and generally associative comparative advertising will not be 'passing off'.⁴⁹⁰

12.3.2 United Kingdom

To prove a case of 'passing off'⁴⁹¹ in the United Kingdom, a plaintiff must show (i) that the products or services enjoy 'particular' goodwill,⁴⁹² and are recognised to be distinctively associated with the plaintiff, (ii) a misrepresentation⁴⁹³ which, it is foreseen, will damage that goodwill, (classically the misrepresentation that the defendant's goods or services are those of the plaintiff), and (iii) actual damage⁴⁹⁴ to the plaintiff's goodwill. We have seen in *McDonalds v Burger King*⁴⁹⁵ that comparative advertising can be 'passing off'. The position does seem to be similar to the South African law of unlawful competition, namely that the plaintiff will in the case of comparative advertising usually not succeed with an action based on 'passing off'.

12.4 Misappropriation of the Advertising Value

12.4.1 South Africa

A major argument levelled against associative comparative advertising is its ability to exploit the advertising value of the competitors' trade mark. Concepts of 'leaning

⁴⁹⁰ Ibid.

⁴⁹¹ Groves op cit 673, *Spalding v Gamage* [1915] 32 RPC 273, *Erven Warnink BV v John Townend and Sons (Hull)* [1979] AC 731.

⁴⁹² Groves op cit 703, *Warwick Tyre Company Ltd v New Motor and General Rubber Co Ltd* [1910] 1 Ch 248, *Erven Warnink BV v John Townend and Sons (Hull) Ltd* op cit, *Star Industrial Co Limited v Yap Kwee Kor* [1975] FSR 256.

⁴⁹³ Groves op cit 680, *Reddaway v Banham* [1896] AC 199, *Cadbury Schweppes Pty Ltd v The Pub Squash Co Ltd* [1981] RPC 429.

⁴⁹⁴ Groves op cit 715, *Taittinger v Allber* [1992] FSR 641.

⁴⁹⁵ Supra.

on',⁴⁹⁶ 'misappropriation of the advertising value',⁴⁹⁷ and 'dilution',⁴⁹⁸ all have a very similar meaning in this respect. Contrary to 'passing off', which is concerned with protecting the origin function of a trade mark, these concepts are all based on the recognition of the advertising value of trade marks as rationale for common law protection. Rutherford illustrates the basis of protection:

*'The greater the advertising value of a trade mark, the greater the risk of misappropriation. Any unauthorised use of the trade mark by other traders will lead to the gradual consumer disassociation of the trade mark from the proprietor's product. The more the trade mark is used in relation to the products of others, the less likely it is to focus attention on the proprietor's product. The reputation and unique identity of the trade mark will become blurred. The selling power becomes eroded and the trade mark becomes diluted.'*⁴⁹⁹

However, South African courts have always refused to grant common law protection of advertising value. Van Heerden and Neethling criticise this approach and consider associative comparative advertising as *per se* wrongful. They suggest that the common law should protect the advertising value of trade marks and term the wrongful act 'leaning on' ('aanleuning' or 'aanhaking').⁵⁰⁰ According to these authors the associative advertiser attempts to draw customers, not through the merit of its own performance, but through the merit of the competitor's performance,⁵⁰¹ and makes an '*attempt to capitalise upon the competitor's advertising device*'.⁵⁰² They explain the wrongful conduct as follows:

⁴⁹⁶ Van Heerden/Neethling op cit 203 suggest this expression for this form of commercial conduct.

⁴⁹⁷ Rutherford 'Misappropriation of the Advertising Value of Trade Marks, Trade Names and Service Marks' in Neethling (ed) *Onregmatige Competition* 56.

⁴⁹⁸ Salmon op cit 657; Schechter op cit 813.

⁴⁹⁹ Rutherford 'Misappropriation of the Advertising Value of Trade Marks, Trade Names and Service Marks' op cit 56.

⁵⁰⁰ Van Heerden/Neethling op cit 203; Mostert 'The Parasitic Use of the Commercial Magnetism of a Trade Mark on Competing Goods' (1986) 11 *EPIR* 342.

⁵⁰¹ *Ibid.*

⁵⁰² Van Heerden/Neethling op cit 202; Callmann *Unfair Competition* (vol 3A) 21:95 '[I]t is arguably inequitable to allow a defendant, in competition with the plaintiff, to capitalise upon the plaintiff's own advertising device. It seems only fair that the defendant should be required to bring this product to the attention of the public by means of his own effort, expense and ingenuity'.

*'Open leaning on takes place where an entrepreneur – usually through comparative advertising – in an overt and concealed manner misappropriates the advertising value which for example the trade mark of a rival has in regard to his own product, so that it may serve as a springboard or prestress ('voorspan') for his first entrepreneur's own similar performance; in doing so the perpetrator diverts the positive association which the trade mark enjoys in relation to the proprietor's product to his own product.'*⁵⁰³

The concept of dilution is basically the same. Salmon describes this concept as:⁵⁰⁴

*'[Comparative advertising] usurps a quantum of the selling power that the original mark previously possessed; because the desirable images are now shared, the selling power they evoke no longer accrues solely to the original trade mark.'*⁵⁰⁵

According to Salmon the associative comparative advertiser diverts the images of the trade mark to a competitor's products.⁵⁰⁶ The consumer's response to that trade mark is no longer that desired solely by the trade mark owner.⁵⁰⁷ The trade mark owner loses control over its image, when the mark is viewed both in its intended context and in an unintended context. This exploits the advertising value, as a particular trade mark will evoke in consumers' minds not only the owner's products, but that of others as well.⁵⁰⁸

Van Heerden and Neethling state that, even if *'the perpetrator's performance has the same or better quality'*,⁵⁰⁹ associative comparative advertising is unlawful, as *'factual interference with the goodwill of the complainant is probable.'*⁵¹⁰ This approach is not consequent, and is an attempt to grant extensive common law protec-

⁵⁰³ Van Heerden/Neethling op cit 202.

⁵⁰⁴ Salmon op cit 657; Rutherford op cit 56; Schechter op cit 813.

⁵⁰⁵ Salmon op cit 650.

⁵⁰⁶ Salmon op cit 657; Schechter op cit 813.

⁵⁰⁷ Ibid.

⁵⁰⁸ Ibid.

⁵⁰⁹ Van Heerden/Neethling op cit 203.

⁵¹⁰ Ibid.

tion, bearing in mind that the same authors determine advertising competition as follows:

*'As long as advertising competition has the effect of providing the customer with a true picture of the advertiser's own performance, it remains the nature of performance competition and is accordingly lawful, no matter to what extent a rival's goodwill has been infringed.'*⁵¹¹

South African courts have always been reluctant to grant protection of the advertising value. One reason for this reluctance to recognise advertising value as a ground for protection is that such recognition merely serves the interests of the business community, rather than the interest of the consumer and the public.⁵¹² As the Trade Marks Act, 1993 in section 34(1)(c) only provides protection against dilution for well-known trade marks, the legislation provide a clear signal on where to draw the line in terms of intellectual property protection.

Nevertheless, Van Heerden and Neethling state that

*'the fact that there is no legal precedent for the protection of the advertising value of trade marks, etc in our law does not detract from the merit of a need for such protection.'*⁵¹³

Van Deventer J in *Union Wine Ltd v E Snell and Co Ltd*⁵¹⁴ had to decide whether, in the absence of 'passing off', and therefore a likelihood of deception or confusion, the proprietor of an unregistered trade name, trade mark or service mark which has advertising value, should be protected against the misappropriation of this advertising value.

The case involved two competitors in the wine market: Bellingham Johannisberger is a well-known and popular South African white wine. The wine had been advertised for many years and became the best selling wine in its price bracket. The re-

⁵¹¹ Ibid 314; emphasis of the author.

⁵¹² *Woker Advertising Law* op cit 131.

⁵¹³ Van Heerden/Neethling op cit 203.

⁵¹⁴ 1990 (2) SA 189 (C); see also *Moroka Swallows Football Club Ltd v The Birds Football Club* 1987 (2) SA 511 531.

spondent launched a wine called Edward Snell Johannesburg. The applicant applied for an interdict on the ground of unlawful competition in order to prohibit the respondent from using the name Johannesburg.

Van Deventer J summarised the issues in regard to the merits by questioning:

- Has the name Johannesburg *per se* attracted goodwill in consequence of its use by the applicant?
- Is the applicant likely to suffer erosion of such goodwill in consequence of the respondent's conduct?
- If the foregoing questions are to be answered affirmatively, does the respondent's conduct constitute unlawful competition?

The judge found that the name Johannesburg had acquired a reputation or goodwill in connection with the applicant's wine,⁵¹⁵ and that the applicant was likely to lose customers as a result of the respondent's conduct.⁵¹⁶ He nevertheless decided that the conduct complained of could neither be classified under a recognised form of unlawful competition (such as 'passing off'), nor could it be branded as delictually unlawful in the form of unfair competition. Van Deventer J came to the conclusion:

'However great a reputation and goodwill it [the name Johannesburg] may have built up and however much money and energy may have been expended to achieve its share of the market, an unregistered trade mark or name has no statutory or judicial protection and it may be appropriated by competitors provided they do not mislead the public by passing off or compete unlawfully in some other manner.[...] The principle of free and active competition in the market is public policy in South Africa and monopolies are regarded with disfavour.[...] My conclusion is that in the absence of dishonesty, unfairness per se cannot serve as a criterion for unlawfulness.[...] To the extent that the public

⁵¹⁵ Van Deventer J emphasises the fact that as a result of 'considerable effort and expenditure' in the promotion of the wine for more than thirty years, the name acquired a reputation, which has attached to the applicant's business, *Union Wine Ltd v E Snell and Co Ltd* 1990 (2) SA 189 198.

⁵¹⁶ 'Others will buy the respondent's wine in the belief that it is either a similar or a sufficiently similar wine for their purpose, that is a wine falling within the same 'taste spectrum' ...especially if it is offered as a cheaper wine.', *Union Wine Ltd v E Snell and Co Ltd* 1990 (2) SA 189 189.

*policy and the interests of society may be relevant in this case, I do not think that the respondent's use of the name 'Johannisberger' could be seen to be contra bonos mores or against the public policy.*⁵¹⁷

Woker states the

*'legal principles are at present inadequate to deal with the problem, notwithstanding the fact that the conduct involved serious ethical questions. Dilution in South Africa is a new concept and is, therefore, obviously uncharted territory.'*⁵¹⁸

12.4.2 United Kingdom

Taking unfair advantage of a competitor's reputation under British common law is only actionable if it operates through a misrepresentation under the action for 'passing off', and there is no special tort that could function as a weapon to protect the advertising, or distinguishing value of trade marks under common law.

12.5 Conclusion

This Chapter deals with the analysis of comparative advertising, in terms of the four crucial forms of unlawful competition, to ascertain the extent to which forms of comparative advertising can be unlawful. It is concluded that the position of this author, namely that comparative advertising is an advertising technique within the 'competition principle' and that it must, *per se*, be regarded as lawful, remains valid.

The examination showed that the South African and British approaches are similar. Differentiative and associative comparative advertising will only be wrongful if misleading, and comparative advertising under the criteria of the Code or the Directive will not fall foul of these form of unlawful competition law.

⁵¹⁷ *Union Wine Ltd v E Snell and Co Ltd* 1990 (2) SA 189 203.

⁵¹⁸ *Woker Advertising Law* op cit 137.

Comparisons can give rise to 'passing off', with associative comparative advertising having a higher probability of falling foul of this aspect, but this will probably only occur if the advertisement is not properly designed.

Concepts based on the recognition of an advertising value are *de lege lata* not an established concept in South Africa and the United Kingdom, so that associative comparative advertising will not fall foul of this form of unlawful competition law.

University of Cape Town

13 Comparative Advertising and the System of Self-Regulation

13.1 Basic Principles

The regulation of comparative advertising in South Africa relies heavily on the instrumental mechanism of self-regulation administered by the ASA. The British Code of Advertising and the International Code of Advertising Practice, prepared by the International Chamber of Commerce (ICC), forms the basis of the South African Code, which lays down standards of professional conduct. The Code is reviewed annually and amendments, which may be submitted by any member, are subject to the majority vote of all members.⁵¹⁹ The ASA determines the Code and its provisions in line with the needs of the industry.⁵²⁰

The examination of this self-regulatory system shows that it has several structural shortcomings, which can have the effect of the policy on comparative advertising being rather restrictive.⁵²¹ Such policies can be implemented, either through restrictive industry codes, or through a restrictive interpretation of the typically open-textured provisions of such codes. The outcome of such policies is that the regulation of comparative advertising often goes beyond the minimum standard required by the law. An analysis of the ASA regulation on comparative advertising shows that the enforcement of the Code's provision aimed at the protection of goodwill, in particular, goes further than the requirements of the common law of unlawful competition.

After the political debate following the 'Beat the bendz' campaign, the South African advertising industry in 1994 agreed not to stigmatise comparative advertising. The Code now positively states in section 7.1 that comparative advertising is per-

⁵¹⁹ De Jager/Smith op cit 3.

⁵²⁰ Ibid 8.

⁵²¹ Cranston op cit 62; supra Chapter 7.

mitted.⁵²² Restrictions on comparative advertising, are, however, still so drastic that Woker asks 'whether there is any change at all.'⁵²³ Quite recently, the ASA implemented several procedural and material changes, supposedly to align the ASA Code with the South African Constitution,⁵²⁴ but the restrictive policy on comparative advertising has not, as yet, been altered. Prof Piet Delpont, as legal advisor to the Association of Advertising Agencies (AAA) (in charge of previewing and clearing comparative advertisements), stated, in reply to the researcher's question on current developments in the field of advertising:

*'There are new developments and the debate on comparative advertising is heating up again. I think that it would be revisited by many of the members (as well as the ASA and the Freedom of Commercial Speech Trust) within the next 12 months.'*⁵²⁵

There are, however, no Constitutional Court cases on the issue, and there was thus no need for the ASA to change the Code. However, Judin, legal advisor to the ASA, recently stated that he believes that the restrictions on comparative advertising will eventually be addressed by the Constitutional Court, who will find these restrictions unconstitutional.⁵²⁶

The Code, as far as its impact on comparative advertising is concerned, can be divided into three components and the author considers the relevant clauses in turn, focussing on the clauses based on the principle of goodwill.

⁵²² Section 7.1. of the Code reads: 'Advertisements in which factual comparisons are made between products and/or services are permitted provided that:'

⁵²³ Woker *Advertising Law* op cit 193.

⁵²⁴ See *inter alia* the parody clause 8.2 of the ASA Code.

⁵²⁵ This opinion was expressed by Prof. Delpont in response to a fax from the author (September 1999).

⁵²⁶ Judin 'Bright prospects and hidden pitfalls for legal profession' op cit.

13.2 Clauses Referring to Common and Statutory Law Requirements

The Code contains clauses that refer to common law and statutory law requirements, that is, requirements with which every advertisement has to comply. This should safeguard that compliance with the provisions of the Code precludes a breach of other legal duties.

The Code refers, in clause 7.1.1, to the Trade Marks Act, 1993 and states:

All legal requirements are adhered to. Attention is drawn to the provisions of the Trade Marks Act 194 of 1993;

Comparisons may therefore not directly identify the product or service being compared. It is however possible to make an implied comparative reference to a competitor without using a trade mark,⁵²⁷ as analysed in Chapter 6 of this dissertation.

13.3 Clauses Referring to Misleading Advertising

There are also clauses dealing with misleading advertising, and all clauses relating to the substantiation of comparative claims must be grouped here. Only claims that are objective and substantiated can be considered true and provide objective information. Clause 4 and Guideline 6 of the ASA Code set extensive requirements for research regarding comparative claims. As mentioned in Chapter 3, the focus of this dissertation is limited to claims in terms of these requirements.

13.4 Clauses Referring to Goodwill

A substantial conflict of interest occurs when comparative advertising meets the above-mentioned criteria of the Code (to compare 'like with like'; claims should e.g. be 'objective' and 'relevant') capable of assisting rational consumer choice and stimulating competition in the public interest, but against the interests of the reference brand competitors.

⁵²⁷ De Jager/Smith op cit 71.

Such advertisements are outside the area of clearly recognisable illegality, and can only be prohibited through clauses relating to goodwill protection.⁵²⁸ The Code prohibits advertising that either disparages a competitor's goods or services, or exploits his advertising goodwill.⁵²⁹ Such infringements are prohibited in clauses 7.1.5 and 7.1.6 of the Code. These clauses implement principles of the law of unlawful competition in the Code. The interpretation and the depth of enforcement is basically a political question, and the policy depends on the central question of how to balance the various interests in the field. These open-textured provisions allow the ASA to implement a restrictive policy often thought to align with its members' interests.

13.4.1 Disparagement

A critical claim could disparage a competitor, thereby infringing his goodwill. Clause 7.1.6 deals with disparagement and reads: '*no disparagement takes place as governed by Section II Clause 6*'. Section 6 of the Code stipulates:

- 6.1 *Advertisements should not attack or discredit other products, advertisers or advertisements directly or by implication.*
- 6.2 *Advertisers shall not disparage the products and/or services of other advertisers directly or by innuendo.*
- 6.3 *Comparisons highlighting a weakness in an industry or product will not necessarily be regarded as disparaging when the information is factual and in the public interest.*
- 6.4 *In considering complaints under this Clause, the ASA shall take cognisance of what it considers to be the intention of the advertiser.*

The ASA reveals its interpretation of the disparagement clauses in the *Fat Cat Campaign* case.⁵³⁰ According to this ruling, a disparagement takes place, '*when the*

⁵²⁸ Especially clauses 7.1.5, 8.1 and 9.1 relating to the protection of advertising goodwill must be classified hereunder.

⁵²⁹ Clause 7.1.5 and 8.1 refer specifically to advertising goodwill. Clause 8.1 is a clarification of clause 7.1.5, but the protection envisaged in this clause goes even further, and also protects a campaign in its entirety. Clause 9.1 also aims at the protection of the advertising value and must be read in conjunction with clauses 7.1.5 and 8.1.

⁵³⁰ The case dealt with the 'Yellow Fat Cat' campaign of the Rainbow Pages, a new entrant in the market of telephone directories. The campaign was found to be disparaging towards the Yellow

product of the competitor is treated in a way which the advertisers would find objectionable were their own products involved,⁵³¹ or when there is a possibility of loss of repute or commercial harm, or *'when an advertisement blackens another advertiser or is wilfully destructive*.⁵³² It is difficult, assuming a proper construction of the Code, to give these clauses any content, as both clauses are based on an infringement of goodwill and every competitive act usually infringes on a competitor's goodwill,⁵³³ which is within the nature of competition. Woker is succinct when stating:

*'There is therefore an anomaly within the Code and it must be questioned whether any significant form of comparative advertising will be allowed, given the ASA's attitude to interference with goodwill.'*⁵³⁴

Due to the restrictive interpretation of the disparagement clause, nearly all differentiative comparative claims clearly fall foul of this provision. It must be argued that the ASA should not compare true, unfavourable comparisons with disparagement cases.⁵³⁵ It is difficult to imagine an advertisement in which a comparison is made that (i) disparages a competitor in a way that is disproportionate to the goal of assisting rational consumer choice, assuming that this is the goal of the Code, but (ii) relates to material, relevant, verifiable and representative features of the goods or services in a way that is not misleading, is objective and compares 'like with like'.

It is submitted that the ambit of goodwill protection through the Code is not in line with the position of the South African law of unlawful competition. In the light of

Pages. Rainbow Pages conceded that most people familiar with directory advertising would think of the Yellow Pages when there was a reference to yellow. The ASA Review Committee felt that the primary purpose of the 'Flattening the Fat Cat' campaign was to discredit the Yellow Pages and ruled that the campaign had to be withdrawn. A decision on whether or not a statement is disparaging requires an evaluation of the offending advertisement, *Rulings and Reasons* No 10 August 1997.

⁵³¹ Ibid.

⁵³² Ibid.

⁵³³ Ohly/Spence op cit 25.

⁵³⁴ Woker *Advertising Law* op cit 123.

⁵³⁵ This is the position adopted by the ASA in the UK and seems to be the position of the ECJ.

the 'competition principle', as in *Van der Westhuizen v Scholtz*⁵³⁶ consumer and public interests in information and advertising competition will receive priority over the competitor's interest in protecting his goodwill outside of misleading and 'passing off' cases.

In the light of the ASA's interpretation of the disparagement clauses, it becomes obvious, why Jacob J in *Vodafone Group Plc v Orange Personal Communications Services Ltd.*⁵³⁷ made the following remarks:

'Statutory or industry agreed codes of conduct are not a helpful guide as to whether an advertisement is honest for the purpose of s 10(6).

13.4.2 Advertising Goodwill

An associative comparative advertisement could infringe on the advertising goodwill of the competitor referred to. Therefore, clause 7.1.5 deals with advertising goodwill protection and reads: '*no infringement of advertising goodwill takes place as governed by Section II Clause 8*'. To gain protection of goodwill it is necessary for the advertiser to first show that goodwill is vested in the trade mark or symbol, and/or the campaign or advertising property. Once established that goodwill is vested in the trade mark, symbol, campaign or advertising property, the second leg of inquiry is to determine whether the advertising takes advantage of such goodwill. Section 8.1 of the Code stipulates:

Advertisements may not take advantage of the advertising goodwill relating to the trade name or a symbol of the product or service of another, or advertising goodwill relating to another party's advertising campaign or advertising property, unless the prior written permission of the proprietor of the advertising goodwill has been obtained. Such permission shall not be considered to be a waiver of the provisions of other clauses of the Code.

The ASA has always maintained that interference with another's goodwill is not an acceptable form of advertising.⁵³⁸ An associative comparative advertisement usu-

⁵³⁶ Supra.

⁵³⁷ [1997] FSR 34.

ally infringes clauses 7.1.5 and 8.1, as it *'exploits the advertising value of the referred competitor, irrespective of whether [the comparison] is true or not'*.⁵³⁹ The ASA therefore generally regards associative comparative advertising as 'parasitic'.

Because of the ASA's restricted interpretation of the disparagement clause, nearly all differentiative comparative claims clearly fall foul of this provision. The Code and particularly its enforcement goes much further than common law requirements, thereby implementing a policy which clearly tips the scale in the reference brand competitor's favour.

13.5 United Kingdom

As the South African Code is, to a large extent, based on the British Code of Advertising, it is worthwhile considering the principles that govern comparative advertising in the United Kingdom,⁵⁴⁰ as there are several specific rules in this Code of Advertising which directly impact on comparative advertising practice.

The difference in the Code of Advertising's approach, and its different underlying policies of assisting rational choice, becomes obvious in clause 19.1, where *'the interests of vigorous competition and public information'* are emphasised. British cases of comparative advertising are judged in this light and the question of 'unfairness', in particular in clauses 21.1 and 20.1, is interpreted through this policy consideration. Rulings by the British ASA on 'denigration' and 'exploitation' of goodwill are liberal, and show that restrictions on comparative advertising, based on the goodwill concept, do not enjoy wide acceptance in the United Kingdom.⁵⁴¹

⁵³⁸ *Woker Advertising Law* op cit 123; the problem of infringement of advertising goodwill is frequently dealt with by the ASA. See the example, of the ASA, which reported a complaint by South African Breweries (SAB) against Vivo African Breweries' slogan: 'The Beer, The Taste, the Time', alleging that it was an unfair imitation of the Castle Lager slogan 'The taste that stood the test of time' and that it took advantage of the goodwill acquired by the Castle Lager campaign; (*Rulings and Reasons* No 3 Jan/Feb 1995).

⁵³⁹ *Woker Advertising Law* op cit 94.

⁵⁴⁰ *Woker Advertising Law* op cit 197; *British Codes of Advertising and Sales Promotion*. All rulings of the British ASA can be accessed at <http://www.asa.org.uk>.

⁵⁴¹ Ohly/Spencer op cit 79.

The British approach to comparative advertising is considered the most liberal policy in Europe, and, as a result, the United Kingdom has not had to make any major changes in their policy on comparative advertising to align it with the European Directive.

13.5.1 Summary

We can see that the British Code of Advertising, like the South African Code, does not allow disparagement or the exploitation of goodwill. However, the crucial difference seems to be that such disparagement or exploitation of goodwill must be by unfair means. Furthermore, it is submitted that the British ASA has a different understanding of these provisions. It means that if a comparative advertisement under the British Code of Advertising is true and substantiated, but is nevertheless disparaging or amounts to exploitation of another's goodwill, it is not unfair and will be permitted.⁵⁴² This ensures that the self-regulation policy considers consumer and public interests in competitive and effective advertising regulation.

13.6 Conclusion

The ASA have stated that their rules on comparative advertising are aligned with the European Directive. The basic principles underpinning the South African Code reflect those of the Directive. Nevertheless, it appears, from recent observation that the South African approach differs substantially from the European approach.

It is difficult to interpret open-textured provisions, such as 'disparagement' or 'exploitation of an advertising value', and the interpretation of these provisions is a policy consideration. It is, therefore necessary to look beyond the confines of the South African legal system, to find possible principles for a more meaningful future method of applying the Code. The examination of the Directive is seminal in this regard. The analysis of the German section 2 UWG, and particularly the suggested way of understanding the provisions focussing on 'exploitation' and 'denigration',

⁵⁴² The British ASA cases can be accessed under <http://www.asa.org.uk>.

reflects a proportional assumption about the weighting of interests to assist rational consumer choice and to provide a framework to effectively regulate comparative advertising.

The ASA applies the crucial provisions with a different understanding as to 'an infringement of goodwill'. The ASA's negative approach to comparative advertising comes from the different levels for the protection of goodwill. The underlying policies in Europe and South Africa are different and reflect different assumptions about the weighting of interests. This arises because the ASA is merely concerned about the credibility of advertising, and it is, in many cases, interested industries that determine how far the standards extend.⁵⁴³

Although the Code has shown some advances in the consumers' favour in recent years, notably in its abandonment of the general disallowance of comparative advertising, the obstacles presented by the 'disparagement clause' and the extensive protection of advertising goodwill are so onerous that the change in the Code appears irrelevant.⁵⁴⁴ The ASA emphasises that an 'interference' with goodwill is unacceptable, probably knowing, full well, that a comparative advertisement must, by nature, interfere with another's goodwill. It is obvious under clause 8.1 of the Code that such an extensive protection of advertising goodwill would not enjoy protection under formal law.

In common law, it has always been an accepted principle that goodwill eroded by normal and healthy competition in the market place is not wrongful.⁵⁴⁵ Nevertheless, the ASA, through its ruling, protects advertising goodwill to a degree that almost amounts to the creation of a new exclusive right. The change in the Code is considered to be a face-lift without material effects. The ASA has set up a web of regulations, which only appear to have liberalised the law relating to comparative advertising, possibly to prevent pressure from outsiders in favour of comparative

⁵⁴³ Boddewyn op cit 6.

⁵⁴⁴ Woker *Advertising Law* op cit 199.

⁵⁴⁵ This is the 'competition principle'.

advertising. Seen from a consumer's viewpoint and a public policy of competition, the ASA's approach is unsatisfactory.

The vague terms in the Code allow ample room for interpretation so that, through the interpretation of the 'disparagement clause' and the 'exploitation clause', the ASA is able to adopt a more liberal approach without significantly changing the Code.

It seems unlikely that the ASA will willingly change its policy,⁵⁴⁶ and pressure from external forces, for example, a public body like the Competition Commission, is required to alter the self-regulation policy, to effectively regulate comparative advertising, to prevent the informational effect of such advertising from being curtailed, and to enhance competition in the market.

⁵⁴⁶ Jeena op cit 173 who states: 'I predict that any challenges under the new Constitution or Bill of Rights will not have a major influence in the advertising field, because too many big players in the industry would prefer self-regulation to a legal regime.'

14 Conclusion

The author has analysed comparative advertising and its legal implications. Comparative advertising is found to be desirable, provided it meets certain requirements. The requirements are basically that;

- comparative advertising should not be misleading,
- it should compare 'like with like', and
- should objectively compare material, relevant, verifiable and representative features, and claims must be verifiable.

14.1 Findings

14.1.1 Self-Regulation

The ASA Code, the British Code of Advertising and the Directive all stipulate the above-mentioned requirements. Furthermore, it is found that comparative advertising meeting these criteria will not infringe a competitor's goodwill, assuming a competitive understanding of the goodwill concept.

It is found that South Africa's approach to advertising is determined through a self-regulatory system and the trade mark law. South Africa's trade mark legislation and the strong reliance on a self-regulatory system are considered major stumbling blocks to any reasonable form of comparative advertising. The self-regulatory system adopts a policy that disallows comparative advertising, in its common forms, through its interpretation of the goodwill clauses.

The self-regulatory system will, no doubt, remain in place, as it is quicker and less expensive than government regulation, and because courts are overburdened with serious criminal matters.⁵⁴⁷ Nevertheless, this critical examination of the self-regulatory system indicates that the industry cannot, on its own, ensure that adver-

tising is effectively regulated. The structure of the South African market, illiteracy among black consumers, and strong brand loyalty arising from South Africa's earlier isolation, underlines that some form of government regulation of the advertising process is warranted to provide consumers with sufficient information.⁵⁴⁸

14.1.2 Trade Mark Law

The trade mark law disallows direct comparative advertising, and provides extensive protection to the distinguishing function of trade marks.

14.1.3 Law of Unlawful Competition

The law of unlawful competition is, to the contrary, no stumbling block to comparative advertising. The common law of unlawful competition is flexible enough to cope with the issue of effective advertising regulation. It is a dynamic branch of the law, and capable of keeping up with modern developments.

14.2 Necessary Measures

A more competitive, and consumer-orientated, approach to advertising regulation requires two measures:

14.2.1 The Competition Commission to Endorse Comparative Advertising

The Code and rulings based on the Code fall within the ambit of the Competition Act, 1998.

The author strongly recommends the Competition Commission should recognise comparative advertising's potential and scrutinise the ASA policy of advertising regulation. The ASA policy on comparative advertising must be reconciled with the approach adopted by the Competition Commission. From the examination of the FTC policy, encouragement to introduce comparative advertising is clearly needed.

⁵⁴⁷ *Woker Advertising Law* op cit 12.

⁵⁴⁸ Pitofsky op cit 669.

The author therefore suggests that the Competition Commission should agree on a standard to endorse comparative advertising to prevent the curtailment of the informational effects of comparative advertising. Such a standard should be published in specific guidelines in accordance with section 79.1 of the Competition Act, 1998. Furthermore, the self-regulatory system should be supervised by the Competition Commission to ensure the ASA policy does not go beyond the minimum standard required by these guidelines. Open-textured provisions should be interpreted in a controlled manner. This dissertation provides a system for interpreting these provisions, and how to balance interests in the underlying policy of assisting rational consumer choice and enhancing competition on the market. This ensures that public interests receive adequate priority and that the ASA does not act to the detriment of consumers.

The Competition Commission should seriously consider requesting the ASA to change its administrative structure, so that consumers are sufficiently represented, and should request that the ASA make its decisions more transparent.

14.2.2 Amendment of the Trade Marks Act

Secondly, the Trade Marks Act, 1993 should be amended, with a provision similar to section 10(6) of the British Trade Marks Act, 1994, to overcome the unconditional prohibition of direct comparative advertising.

In accordance with the findings of this dissertation, R. Wheeldon considers:

*'The original draft of the Bill made it clear that brand comparative advertising was lawful. In view of the grave doubts created by this judgment and its inevitably far reaching consequences, it is time for the legislature to make its will known by amending this Act intelligently to ensure that it can only be interpreted as being in harmony with the EC Directive.'*⁵⁴⁹

One crucial question cannot be answered in this dissertation.

⁵⁴⁹ See Wheeldon 'Is our trade mark law now out of step with the EC?' op cit 26.

To quote Abrie du Plessis:

'In the end this may be a political issue. Most marketers believe the issue is dead, with some of the original protagonists, like Hunt Lascaris trying to revive it. The problem is how to get it back on the political agenda.'

University of Cape Town

15 Abstract

Comparative advertising is a special form of advertising strategy as another competitor is identified in comparing product features. Various forms exist, as there are direct or implied comparisons; true or misleading comparisons; and claims that are positive ('associative') or negative ('differentiative') towards the competitor.

Comparative advertising is different to the classical situation in intellectual property law controversies, as the interests of four different groups must be balanced. These interest groups are: the 'comparative advertiser'; the competitor who serves as reference, the 'reference brand competitor'; consumers and the public at large. These different groups can have parallel or conflicting interests on the issue of comparative advertising. The instrumental mechanisms regulating comparative advertising protect the various interests in different ways and to different degrees.

South Africa's system of advertising regulation is based on a mixture of methods, as there is the system of self-regulation, the common law of unlawful competition and the Trade Marks Act. Competition law has the potential to play a vital role in the regulation of comparative advertising, as can be seen from the examination of the Federal Trade Commission's policy in the United States.

South Africa relies heavily on the system of self-regulation, and on regulation through trade mark law, with insufficient representation of public and consumer interests.

South Africa's policy on comparative advertising is, as a result, restrictive. The Trade Marks Act disallows all forms of direct comparisons, while the self-regulation system extensively protects the reference brand competitor's goodwill through open-textured provisions. The South African approach is not aligned with either the German or the British position, but the examination of South African and German legal sources in the field of unlawful competition law illustrate that both systems are flexible and have a more liberal approach towards comparative advertising.

Two measures are required for a more competitive and consumer-orientated approach to the regulation of comparative advertising. The self-regulation policy must be improved, while the trade mark law should be amended to allow comparative advertising.

University of Cape Town

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Certificate of Originality

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<i>Betonzusatzmittel</i>	BGH GR 62 45
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Directive 84/450/EWG On Misleading And Unfair Advertising

Directive 89/104/EEC To Approximate the Laws Relating to Trade Marks

(EC Trade Marks Directive)

Directive 97/55/EC On Comparative Advertising And Misleading Advertising (Directive)

University of Cape Town

19 Appendix I Advertising Code (South Africa)

Comparisons

- 7.1.2 *only facts capable of substantiation are used;*
- 7.1.3 *one or more material, relevant, objectively, determinable and verifiable claims are made;*
- 7.1.7 *the facts or criteria used are fairly chosen (significant, relevant, and representative; basis of comparison must be the same; compare like with like);*
- 7.1.8 *the contextual implications be strictly limited to the facts;*
- 7.1.9 *Where claims are based on substantiated research, the express consent and accuracy and scope of such claims be obtained from the relevant research body; the advertiser accepts responsibility for the accuracy of research and claims.*
- 7.2 *It should be noted that reference to claims above shall be deemed to include all visuals and aural representations.*
- 7.3 *Group comparisons and comparisons which identify competitors by implication are acceptable subject to the criteria contained in this clause.*
- 7.4 *The guiding principle in all comparisons shall be that products and/or services should be promoted on their own merits and not on the demerits of competitive products.*
- 7.5 *In considering matters raised under this clause, cognisance will be taken of the intention of the advertiser.*

Disparagement

- 6.1 *Advertisements should not attack or discredit other products, advertisers or advertisements directly or by implication.*
- 6.2 *Advertisers shall not disparage the products and/or services of other advertisers directly or by innuendo.*

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- 6.3 *Comparisons highlighting a weakness in an industry or product will not necessarily be regarded as disparaging when the information is factual and in the public interest.*
 - 6.4 *In considering complaints under this Clause, the ASA shall take cognisance of what it considers to be the intention of the advertiser.*
 - 7.1.6 *no disparagement takes place as governed by Section II Clause 6;*

Misleading Advertising

- 7.1.4 *the claims are not misleading or confusing as governed by Section II Clause 4.2;*

Exploitation of Advertising Goodwill

- 7.1.5 *no infringement of advertising goodwill takes place as governed by Section II Clause 8.*
- 8.1 *Advertisements may not take advantage of the advertising goodwill relating to the trade name or a symbol of the product or service of another, or advertising goodwill relating to another party's advertising campaign or advertising property, unless the prior written permission of the proprietor of the advertising goodwill has been obtained. Such permission shall not be considered to be a waiver of the provisions of other clauses of the Code.*
- 8.2 *Parodies, the intention of which is primarily to amuse and which are not likely to affect adversely the advertising goodwill of another advertiser to a material extent, will not be regarded as falling within the prohibition of paragraph 8.1. above.*
- 9.1 *An advertiser should not copy an existing advertisement, local or international, or any part thereof in a manner that is recognisable or clearly evokes the existing concept and which may result in the likely loss of potential advertising value. This will apply notwithstanding the fact that there is no likelihood of confusion.*

20 Appendix II

Advertising Code (United Kingdom)

Comparisons

- 19.1 *Comparisons can be explicit or implied and can relate to advertisers' own products or to those of their competitors, they are permitted in the interests of vigorous competition and public information.*
- 19.2 *Comparisons should be clear and fair. The elements if any comparison should not be selected in a way that gives the advertisers an artificial advantage.*

Denigration

- 20.1 *Advertisers should not unfairly attack or discredit other businesses or their products.*
- 20.2 *The only acceptable use of another business' broken or defaced products in advertisements is in the illustration of comparative test, and the source, nature and results of these should be clear.*

Exploitation of Goodwill

- 21.1 *Advertisers should not make unfair use of the goodwill attached to the trade mark, name, brand, or the advertising campaign of any other business.⁵⁵⁰*

⁵⁵⁰ A full set of the British Codes of Advertising and Sales Promotion is available free from The Committee of Advertising Practice website at www.cap.org.uk and the ASA Advertising Code can be accessed at <http://www.asa.org.uk>.

21 Appendix III

Directive on Comparative Advertising

Directive 94/450/EEC is hereby amended as follows:

1. The title shall be replaced by the following:

'Council Directive of 10 September 1984 concerning misleading and comparative advertising';

2. Article 1 shall be replaced by the following:

Article 1

The purpose of this Directive is to protect consumers, persons carrying on a trade or business or practising a craft or profession and the interests of the public in general against misleading advertising and the unfair consequences thereof and to lay down the conditions under which comparative advertising is permitted;

3. The following point shall be inserted in Article 2:

'2a. 'comparative advertising' means any advertising which explicitly or by implication identifies a competitor or goods or services offered by a competitor;'

4. The following Article shall be added:

Article 3a

1. Comparative advertising shall, as far as the comparison is concerned, be permitted when the following conditions are met:

- (a) it is not misleading according to Articles 2 (2), 3 and 7 (1);*
- (b) it compares goods or services meeting the same needs or intended for the same purpose;*
- (c) it objectively compares one or more material, relevant, verifiable and representative features of those goods and services, which may include price;*
- (d) it does not create confusion in the market place between the advertiser and a competitor or between the advertiser's trade marks, trade*

names, other distinguishing marks, goods or services and those of a competitor;

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

University of Cape Town