Passing Off and Unfair Competition: Conflict and Convergence in Competition Law

Mary LaFrance

University of Nevada, Las Vegas -- William S. Boyd School of Law

Follow this and additional works at: http://scholars.law.unlv.edu/facpub

Part of the Intellectual Property Commons, and the Torts Commons

Recommended Citation
http://scholars.law.unlv.edu/facpub/784
PASSING OFF AND UNFAIR COMPETITION:
CONFLICT AND CONVERGENCE IN COMPETITION
LAW

Mary LaFrance*

2011 MICH. ST. L. REV. 1413

TABLE OF CONTENTS

INTRODUCTION.......................................................................................... 1413
I. TRADITIONAL AND EXPANDED CONCEPTS OF PASSING OFF............. 1415
II. UNFAIR COMPETITION..................................................................... 1420
III. CONFLICT AND CONVERGENCE: THREE CASE STUDIES............ 1423
   A. Copycat Products and Comparative Advertising ........................... 1423
   B. Merchandising Rights................................................................. 1428
   C. The Latest Battleground: Keyword Advertising............................ 1435
CONCLUSION.................................................................................................. 1440

INTRODUCTION

With respect to both registered and unregistered trademarks, there is a distinct cultural difference between legal regimes that give primary importance to the policy of preventing consumer deception, and those that treat this goal as subsumed within the larger goal of regulating competition. For the most part, the narrower goal of consumer protection predominates in the common law countries, while civil law countries have embraced the broader concept of unfair competition.1 However, approaches to competition are more nuanced than this, and such a two-part classification oversimplifies the cultural conflict. Within the common law and civil law sectors,
there are a variety of approaches, and some common law jurisdictions have interpreted the common law doctrine of passing off more broadly than others, although stopping short of a full-fledged law of unfair competition.

In general, the approach of civil law countries elevates the goal of fairness above that of competition, and thus it has been criticized as anticompetitive. The common law approach tends to make competition the primary goal, treating fairness as a consideration only when a competitor’s conduct is particularly extreme. Such extreme conduct may be found, for example, where the competitor’s actions are likely to mislead or confuse consumers about the origin or nature of the goods on offer. While both approaches consider the interests of both consumers and competitors, under the common law approach the interests of consumers have generally been considered to be of primary importance. In contrast, discussions of unfair competition in the civil law countries tend to focus less on consumers and more on generalized, and typically ill-defined, notions of “fair and honest” behavior by market competitors. In some instances, broad interpretations of unfair competition law display such a reverence for trademarks as to imbue them with something approaching moral rights.

Judge Jacob of the United Kingdom recognized the tension between the common law tort of passing off and the broader doctrine of unfair competition in *Hodgkinson & Corby Ltd. v. Wards Mobility Services Ltd.*:

> Never has the tort shown even a slight tendency to stray beyond cases of deception. Were it to do so it would enter the field of honest competition, declared unlawful for some reason other than deceptiveness. Why there should be any such reason I cannot imagine. It would serve only to stifle competition.

The culture clash between passing off and unfair competition has come to a head most recently in a series of cases involving comparative advertising, but it can also be seen in the laws pertaining to character and

---

2. See, e.g., L’Oreal SA v. Bellure NV, [2010] EWCA (Civ) 535, [20], [2010] R.P.C. 23 (U.K.) (noting that the “healthy attitude [toward] competition law” in the United States would not prohibit the use of a competitor’s trademark in truthful comparative advertising); Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 231-32 (1964) (holding that state unfair competition laws may not prohibit competitors from copying an unpatented article but may take steps to prevent consumers from being misled as to the source of the goods); Smith v. Chanel, 402 F.2d 562, 566 (9th Cir. 1968) (courts have generally protected only a “trademark’s source identification function for reasons grounded in the public policy favoring a free, competitive economy”); Societe Comptoir de l’Industrie Cotonniere Etablissements Boussac v. Alexander’s Dep’t Stores, Inc., 399 F.2d 33, 37 (2d Cir. 1962) (suggesting that aggressive enforcement by trademark owners reflects anti-competitive motives).


4. See infra Part II.

personality merchandising. A similar conflict appears to be emerging in the context of keyword advertising. The divergent approaches to passing off and unfair competition law illustrated by these examples must be taken into account by all trademark owners, in the United States and elsewhere, that hope to engage in cross-border marketing of their goods or services.

While significant differences between the passing off and unfair competition regimes remain, the gap has been narrowing. In a piecemeal fashion, case law in common law countries has broadened the concept of passing off to apply to an ever-broadening group of activities. Within the European Union (EU), the conflict between these doctrines has been highlighted—and their convergence hastened—by decisions of the European Court of Justice (ECJ), which has interpreted several harmonization directives in a manner consistent with a broad concept of unfair competition, thus creating pressure on the United Kingdom to interpret “passing off” in a manner far removed from its original meaning. In common law countries that are not bound by EU policy, trademark owners have used their influence over lawmakers to steadily broaden the scope of trademark protection (for both registered and unregistered marks) to avoid the consumer deception requirement for traditional passing off claims, leading in some cases to legislative recognition of dilution and cybersquatting claims. Even where such specific legislation does not apply, trademark owners have often succeeded in persuading courts to give ever-broader scope to the concept of passing off. If this trend continues, many of the differences between the passing off and unfair competition regimes may eventually disappear.

I. TRADITIONAL AND EXPANDED CONCEPTS OF PASSING OFF

The concept of passing off lies at the heart of the system of trademark protection in the common law countries. It is rooted in the common law action for deceit. Although intent to deceive was originally an element of the action, it is no longer required, as the focus of the tort has shifted to the effect on consumers. While the tort has expanded considerably over time, causing observers to remark on its “protean qualities,” it still does not approach the broad concept of unfair competition law as recognized in conti-
nental Europe, because it is not a general action for misappropriation of the intangible value of a mark.\textsuperscript{12}

The essential elements of a traditional passing off claim (often called the "classic trinity") are: (1) goodwill—an ill-defined term that refers to the consumer's desire to purchase goods because of their association with a mark, (2) misrepresentation as to source, and (3) a likelihood of damage to goodwill as a result of the misrepresentation.\textsuperscript{13} In its classic form, passing off occurs when a merchant places a competitor's trademark on goods or services in order to deceive or confuse the rival's customers into purchasing the mislabeled goods.\textsuperscript{14}

However, different common law jurisdictions have expanded the traditional tort of passing off in a variety of ways. While these expanded versions still fall short of a general law of unfair competition, in some cases they appear to be influenced by similar principles, such as unjust enrichment or free riding.

In the United Kingdom, the concept of "extended form passing off" applies to misrepresentations about the qualities or characteristics of goods.\textsuperscript{15} It expands the passing off concept beyond protecting the goods of a particular merchant, instead protecting all merchants who produce a particular category of goods, if the defendant has made a misleading use of the word or phrase that identifies the category.\textsuperscript{16} Thus, a likelihood of confusion is still required.\textsuperscript{17} However, the goodwill in question is not attached to a trademark and does not belong to a single trader; it belongs collectively to all of the traders who offer goods possessing the qualities characteristic of the category.\textsuperscript{18} While only a small number of cases have addressed this form of passing off, plaintiffs have succeeded in claims arising from the misleading use of such terms as "advocaat,"\textsuperscript{19} "champagne,"\textsuperscript{20} "sherry,"\textsuperscript{21} "Scotch

\begin{itemize}
  \item \textsuperscript{12} Lionel Bently & Brad Sherman, Intellectual Property Law 711, 726-27 (3d ed. 2008).
  \item \textsuperscript{15} This concept has gained a foothold in Canada as well. See John McKeown, Vodka, Champagne and Passing Off, CASSELLS BROCK & BLACKWELL LLP (Apr. 14, 2010), http://www.casselsbrock.com/Doc/Vodka__Champagne_and_Passing_Off.
  \item \textsuperscript{16} See id.
  \item \textsuperscript{17} See id.
  \item \textsuperscript{18} See id.
  \item \textsuperscript{19} Vennootschap v. J Townsend & Sons, (Hull) Ltd., [1979] A.C. 731 (H.L.) 742 (appeal taken from Eng.).
\end{itemize}
whisky,"22 "Harris tweed,"23 and "Swiss chocolate."24 Recently, a maker of vodka succeeded in bringing such a claim against the manufacturer of VODKAT, an alcoholic beverage that did not meet the legal requirements to be marketed as "vodka" under European law.25 The term VODKAT did not resemble the trademark used on any particular brand of vodka, and thus could not be challenged under a traditional passing off theory.26 Nonetheless, it was actionable under the broader theory because it implicitly misrepresented the nature of the product.27 The VODKAT case is particularly notable because it was the first to hold that extended form passing off is not limited to prestige or luxury products.28 Even a generic term such as vodka, in the court’s view, has a reputation sufficient to give rise to goodwill.29 In a separate opinion, Lord Justice Rix expressed concern that, by applying the concept of extended form passing off to a generic product such as vodka, the court had improperly broadened the doctrine, which had previously been applied only to prestige products (champagne), highly specialized products (advocaat), or products with specific geographic origins (champagne and Swiss chocolate).30 In Rix’s view, “passing off should not by dint of extensions upon extensions trespass beyond the legitimate area of protection of goodwill into an illegitimate area of anti-competitiveness.”31 Lord Justice Rix’s concerns echo the concerns that have been voiced by other United Kingdom judges who perceive a cultural shift in the English law of passing off, away from the traditional focus on protecting marks as source indicators, and toward embracing a general law of unfair competition.32

Extended form passing off is not recognized in the United States. Instead, the Lanham Act provision on “false advertising” provides a federal

26. See id. ¶ 6.
27. Id. ¶ 15.
28. Id. ¶ 51.
29. Id.
30. See id. ¶ 76.
31. Id.
remedy for merchants who are injured by a competitor’s false statements about the nature of either the competitor’s goods or the goods of the complaining merchant. However, a false advertising claim under the Lanham Act can succeed only if the competitor’s statements are literally false or likely to deceive or confuse consumers; if the claim is not literally false, the plaintiff must prove that consumers were actually misled. Thus, false advertising does not apply to the sale of sparkling wine from California as “champagne”—which consumers in the United States perceive as a generic term—although it would apply if the merchant explicitly claimed, or strongly implied, that the wine was made in France. Similarly, it is unlikely that the VODKAT mark would be actionable as false advertising, unless evidence showed that the name led a substantial number of consumers to believe that the product was 100% vodka.

Another branch of passing off—known as “false endorsement”—has been recognized in the United States, the United Kingdom, and Australia. Whereas traditional passing off occurs when the defendant’s unauthorized use of an origin indicator makes consumers likely to believe that the plaintiff is the source of the goods or services offered by the defendants, false endorsement may be found where consumers are likely to believe that the plaintiff endorses, approves, or is somehow affiliated with the defendant’s goods or services. In the United Kingdom, false endorsement has allowed some celebrities to prevent the unauthorized commercial use of their names or likenesses in spite of the United Kingdom’s refusal to recognize a true right of publicity as is recognized in the United States. In the United States false endorsement claims may be combined with right of publicity claims; however, they can also be used to prevent unauthorized merchandising activities using origin indicators other than names and likenesses—for example, unregistered trademarks. One problem with the false endorsement concept is that courts have had difficulty defining the exact nature of the connection that consumers must perceive between the defendant and the

Passing Off and Unfair Competition

plaintiff. In the United Kingdom, for example, Sir Michael Kerr suggested that it was sufficient if the public perceived the plaintiff as somehow "mixed up" in the defendant's business. In contrast, Lord Justice Millett has suggested that the public must perceive the plaintiff as responsible for the quality of the defendant's goods; a perception of financial support was not enough. The Australian courts struggled with the same question, without finding a clear resolution, in Hogan v. Koala Dundee and subsequent cases. It is clear, however, that false endorsement can be found even if the goods or services are dissimilar. Increasingly, courts rely on the public's familiarity with merchandising practices to bolster a finding that false endorsement confusion is likely. For example, in 1991 a United Kingdom court found passing off where a defendant used images of the Teenage Mutant Ninja Turtles on clothing without a license; the court reasoned that a substantial portion of the public knows that reproducing characters on goods generally involves a license, thus making it likely that the public would believe the defendant's goods to be licensed.

Passing off has also been extended to misrepresentations regarding the quality of a plaintiff's goods. For example, a United Kingdom court found passing off where the defendants sold merchandise that the plaintiff manufacturer had discarded as substandard while representing that it was the plaintiff's new, improved product. While the defendants were truthful in representing the plaintiff as the source of the goods, their representation was misleading because it failed to disclose that the goods were not of first quality. This application is widely accepted in the United States as well, where it is also used to prevent importation of gray market goods.

40. HAZEL CARTY, AN ANALYSIS OF THE ECONOMIC TORTS 194 (2001) [hereinafter ECONOMIC TORTS].
44. ECONOMIC TORTS, supra note 40, at 194-95.
48. See, e.g., Davidoff & Cie, S.A. v. PLD Int'l Corp., 263 F.3d 1297, 1301-02 (11th Cir. 2001).
Another expansion of traditional passing off recognized in several common law jurisdictions is a concept known as "reverse" (or "inverse" or "upside down") passing off, which applies when the defendant offers the plaintiff's goods to the public while falsely identifying them as the defendant's own goods, or where the defendant falsely attributes to its own goods qualities that are present in the plaintiff's goods, such as by using photographs or samples of the plaintiff's goods or by quoting testimonials from customers referring to the plaintiff's goods.\(^5\) The United Kingdom courts have only reluctantly embraced this tort;\(^5\) it has been more frequently invoked in the United States.\(^2\) In both the United Kingdom and the United States, however, the most common application does not involve the actual sale of the plaintiff's goods under the defendant's name; rather, it involves a type of false advertising that misrepresents the quality of the defendant's goods.\(^3\) This activity does not utilize the plaintiff's goodwill at all, because it does not mention the plaintiff's trademark or trade name. Arguably, it is not passing off at all.\(^4\) The concept of reverse passing off seems much closer to an unfair competition claim, because what is being appropriated is not the plaintiff's goodwill (since the defendant does not even refer to the plaintiff as the source of the goods), but rather the plaintiff's creativity and effort in creating a quality product. This amounts to a claim of misappropriation,\(^5\) which common law regimes have generally been reluctant to recognize. On the other hand, reverse passing off fits within the overall purpose of passing off law, which is to prevent consumer deception.

II. UNFAIR COMPETITION

Article 10bis of the Paris Convention for the Protection of Industrial Property requires signatories to provide protection against unfair competi-

\(^{50.}\) ECONOMIC TORTS, supra note 40, at 195-96.
\(^{52.}\) A larger number of courts in the United States have purported to apply it, but on closer inspection these cases have actually involved false advertising. See Mary LaFrance, When You Wish Upon Dastar: Creative Provenance and the Lanham Act, 23 CARDOZO ARTS & ENT. L.J. 197, 207-09 (2005).
\(^{54.}\) BENTLY & SHERMAN, supra note 12, at 755.
\(^{55.}\) In the United States, the misappropriation tort has largely been limited to "hot news," based on the facts of International News Serv. v. Associated Press, 248 U.S. 215 (1918).
Passing Off and Unfair Competition

Passing off is defined as "any act of competition contrary to honest practices in industrial or commercial matters." The only acts expressly proscribed by Article 10bis are those that create confusion with the business of a competitor, those that falsely discredit a competitor’s business, and those that mislead the public as to the characteristics of the goods being offered. All three of these activities involve deception, which is the basis for the doctrine of passing off as recognized in common law jurisdictions. Yet most civil law jurisdictions interpret unfair competition to include many practices that do not involve deception. According to the ECJ, the requirement of "honest practices in industrial or commercial matters," as reproduced in Article 6(1) of the EC Trade Marks Directive, implies "a duty to act fairly in relation to the legitimate interests of the trade mark owner," language that leaves much room for interpretation, and that has been criticized as "circular." The ECJ has identified as "unfair" not only those uses that misleadingly suggest a commercial connection between two parties, but also those that take "unfair advantage of [the] distinctive character or repute" of a mark, those that discredit or denigrate a mark, and those that present a "product as an imitation or replica of the" trademark owner’s product.

The term “free riding” has been used to describe the kinds of non-deceptive activities that may constitute unfair competition. The World Intellectual Property Organization (WIPO) has defined free riding "as any act that a competitor or another market participant undertakes with the intention of directly exploiting another person’s industrial or commercial achievement for his own business purposes without substantially departing from the original achievement."

Civil law jurisdictions have used different mechanisms to develop their unfair competition doctrines. Some countries have developed their unfair competition law through judicial interpretation of a general provision in the civil code (France, Italy, and the Netherlands). In other countries, unfair competition doctrines are based on specific legislation (Austria, Belgium, Germany, and Spain).
In France, unfair competition law derives from a general tort liability statute, Article 1382 of the French Civil Code. Two categories of unfair competition have been recognized: (1) concurrence déloyale—interference with competition, and (2) concurrence parasitaire—free riding. Concurrence déloyale generally requires confusion, but it does not require competition. Concurrence parasitaire does not even require confusion. For example, a French court found concurrence parasitaire when a candy company began marketing its candy bars in 3-packs of 300g bars, the same configuration already in use by the plaintiff, its more established competitor, which held a forty-two percent market share. Without finding any confusing similarity in the brand names or trade dress, the court relied on the principle of unjust enrichment to hold that the defendant was unfairly “profiting from the success” of the plaintiff.

As the French decision illustrates, deception and confusion are not required in order to establish a claim of unfair competition in most civil law regimes. Indeed, some civil law jurisdictions treat “slavish imitation” of product features as actionable unfair competition, regardless of whether those features are protected by intellectual property laws or whether the imitation leads to consumer confusion. For example, German unfair competition laws have protected fashion designs even though they are not eligible for protection under more specific intellectual property laws. The application of unfair competition laws to otherwise-lawful imitations seems to be based on the notion that the imitator is improperly appropriating (usually with minimal cost or effort) the benefits of another party’s creative invest-

64. Id. at 23 & nn. 54-55.
65. Id. at 24.
66. Id. at 26.
67. UNFAIR COMPETITION LAW, supra note 63, at 26-27.
70. Id. at 28 n.75.
72. UNFAIR COMPETITION LAW, supra note 63, at 27, 39, 49; CHRISTOPHER HEATH, THE SYSTEM OF UNFAIR COMPETITION PREVENTION IN JAPAN 120-40 (2001) (comparing approaches to slavish imitation in Europe and Japan).
73. HEATH, supra note 72, at 122-23.
Passing Off and Unfair Competition

In Spain, imitation is unlawful if it is "systematic" and designed to impede a competitor to a degree beyond "the natural market response." Not surprisingly, the line between lawful and unlawful imitation has often been difficult to draw.

III. CONFLICT AND CONVERGENCE: THREE CASE STUDIES

Within the EU, the culture clash between the narrower common law concept of passing off and the broader scheme of regulation under unfair competition law has led Lord Justice Jacob of the United Kingdom to lament that "European trade mark law is in danger of becoming a forest of case law where everyone loses their way." As discussed below, three areas of litigation provide useful case studies of the conflicts and convergence between passing off regimes and unfair competition regimes—(1) copycat products and comparative advertising, (2) merchandising, and (3) keyword advertising.

A. Copycat Products and Comparative Advertising

The application of trademark law to "copycat" products and comparative advertising illuminates the divide between the Anglo-American approach to unfair competition and the approach that predominates in civil law countries. Passing off regimes tend to encourage relatively unbridled comparative advertising, except where it is misleading. They also impose no restrictions on products that imitate other products, provided that the imitation does not mislead—for example, by imitating a competitor’s trade dress in a way that misleads consumers as to the origin of the goods—and does not infringe rights protected by copyright and patent laws.

In the United States, comparative advertising is a highly valued type of commercial speech. The only requirement is that it be truthful—or at

74. Id.
75. Id. at 123 (quoting Unfair Competition Prevention Act 3/1991 § 11, Spain’s unfair competition statute).
76. See generally id. at 128-29, 136-40.
80. See Sony Computer Entm’t Am., Inc. v. Bleem, 214 F.3d 1022, 1027 (9th Cir. 2000); August Storeck K.G. v. Nabisco, Inc., 59 F.3d 616, 618 (7th Cir. 1995); 16 C.F.R. § 14.15 (2012); Charlotte J. Romano, Comparative Advertising in the United States and
least not demonstrably false in its assertions of fact. There is a high tolerance for "puffery"—vague claims that one product is superior to others, without any specific factual assertions to support those claims. In truthful comparative advertising, it is acceptable to identify competitors by their trademarks. This policy applies regardless of whether the advertising claims that the products are similar or that one party's product is superior to the other party's. It is also acceptable to ridicule or disparage a competitor's products, so long as there is no factual misrepresentation.

In television ads aired during Super Bowl broadcasts, rivals Coke and Pepsi, and Miller and Anheuser-Busch, frequently ridicule their competitors' products (and sometimes their customers); in a popular and long-running series of television ads, Apple Computer has stereotyped Microsoft products (and implicitly their loyal customers) as stodgy, overweight, conventional, and bland.

Copycat products are permissible in the United States as long as they do not violate intellectual property rights (patents, copyrights, trade dress, or


81. See, e.g., Castrol, Inc. v. Pennzoil Co., 987 F.2d 939, 941 (3d Cir. 1993); Calvin Klein Cosmetics Corp. v. Parfums de Coeur, Ltd., 824 F.2d 665, 668 (8th Cir. 1987).

82. See, e.g., Pizza Hut, Inc. v. Papa John's Intern., Inc., 227 F.3d 489, 498-99 (5th Cir. 2000); Southland Sod Farms v. Stover Seed Co., 108 F.3d 1134, 1145 (9th Cir. 1997).


Passing Off and Unfair Competition

Where a vendor offers a non-infringing product that is identical to the product of a famous brand, it is lawful to advertise it as such and to identify the famous brand by its trademark. Thus, for example, generic or “house brand” medications that contain the same active ingredient as the products offered by brand-name competitors may be advertised as such. This policy applies equally to “copycat” perfumes. Thus, it is lawful to sell a copycat perfume and to identify, in advertising or any other promotional materials or labels, the famous perfume that it imitates. The comparative advertising right is, however, limited by the passing off concept that underlies the law of trademark infringement—the famous maker’s trademark must not be used in a way that would confuse consumers about the origin of the copycat product. Thus, if the famous “Chanel No. 5” trademark were featured too prominently on the label of the copycat perfume bottle, this could lead some consumers to believe the copycat product and genuine Chanel No. 5 are offered by the same maker. This would be a classic case of passing off.

Civil law regimes have historically taken a highly restrictive approach to comparative advertising, sometimes prohibiting it altogether. For example, Germany traditionally “took the view that practically all forms of comparative advertising, even if true, [are] unfair competition—the notion was that the newcomer should not ‘piggyback’ on the established reputation of another.” A similar approach long prevailed in Italy. In France, truthful comparative advertising is permitted only if it objectively compares “essential, pertinent, verifiable, and representative characteristics of” the products; a claim of unfair competition will arise if the defendant’s advertising, even if truthful, makes derogatory or personal attacks against the plaintiff.

89. Chanel, 402 F.2d at 566.
94. CONSUMER CODE ART. L. 121-8 (U.K.).
95. 1-9 DOING BUSINESS IN FRANCE § 9.04[4] (2010). Until 1992, the law was even more restrictive. See Romano, supra note 80, at 379-84.
The recent trend in the EU, however, has been toward liberalization.\textsuperscript{96} This trend culminated in the 1997 Comparative Advertising Directive (CAD), which instructs member states to permit comparative advertising under specified conditions.\textsuperscript{97} Several of these conditions are directed toward the narrow goal of preventing consumer confusion as to the origin or qualities of goods and services and thus are entirely consistent with the approach of passing off regimes.\textsuperscript{98} Others, however, go well beyond this goal and reflect the values of unfair competition law. Most notably, Article 4 of the CAD permits comparative advertising provided that:

\begin{enumerate}
\item[(c)] it objectively compares one or more material, relevant, verifiable and representative features of those goods and services, which may include price;
\item[(d)] it does not discredit or denigrate the trade marks, trade names, other distinguishing marks, goods, services, activities or circumstances of a competitor;
\item[(f)] 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; \text{[and]}
\item[(g)] it does not present goods or services as imitations or replicas of goods or services bearing a protected trade mark or trade name.\textsuperscript{99}
\end{enumerate}

Until recently, the United Kingdom encouraged comparative advertising as fundamentally pro-competitive.\textsuperscript{100} That was before the case of \textit{L'Oreal SA v. Bellure NV}. At issue was the question of whether the makers of copycat perfumes could name the famous perfumes they imitated on comparison lists that disclosed to consumers which of the defendants’ products corresponded to each of the famous perfumes. The Court of Appeal of England and Wales referred several questions to the ECJ concerning the precise relationship between the EC trademarks directive—which grants broad protection to trademarks against those who would denigrate or take “unfair advantage” of their reputations—and the CAD.\textsuperscript{101} There was no question of consumer confusion and, thus, no passing off.\textsuperscript{102}

\begin{itemize}
\item[96.] \textit{The Law of Advertising} § 31.04 (2011).
\item[98.] CAD, supra note 97, art. 4(a), (h).
\item[99.] \textit{Id.} at art. 4(c), (d), (f), (g).
\item[102.] “Consumers are not stupid. They will not see the cheap copy as being the same in quality as the original. They will see it for what it is and no more.” \textit{Id.} at [63].
\end{itemize}
The ECJ ruled that the prohibition against using a competitor's trademark in comparative advertising was prohibited not only in the case of counterfeit goods but in the case of "any imitation or replica," that such use was prohibited even if the advertisement was not misleading or likely to confuse consumers, and that such use, by its very nature, took "unfair advantage" of the competitor's trademark. The court noted that the policy of EU trademark law was to protect all of the functions of a trademark—not only its function as an origin indicator and a guarantee of product quality, but also the functions of communication, investment or advertising.

This ruling was not well-received in the United Kingdom, where Lord Justice Jacob declared that the ECJ had placed a "muzzle" on lawful competitive activity, infringing the defendants' rights of free speech and impairing the consumer's right to receive information about competing products. He also labeled the ECJ's policy anticompétitive. In particular, he suggested "that countries with a healthy attitude to competition law, such as the US, would not keep a perfectly lawful product off the market by the use of trade mark law to suppress truthful advertising." He accused the ECJ of failing to define what constitutes "unfair" advantage and allowing its disapproval of the defendants' business to influence its decision:

I regret that the ECJ in this case has not addressed the competition aspects of what it calls "riding on the coattails." The trouble with deprecatory metaphorical expressions such as this ("free-riding" is another), containing as they do clear disapproval of the defendants' trade as such, is that they do not provide clear rules by which a trader can know clearly what he can and cannot do.

Finally, he questioned the ECJ's assertion that the law should protect the "communication, investment or advertising" functions of a mark, as distinct from its function as an origin indicator; Jacob saw no basis in the legislation for protecting these functions, and found them "vague and ill-defined." He also saw "no rational . . . basis" for the ECJ's holding that lawful imitations should be treated the same as counterfeits under the comparative advertising directive.

The ECJ's ruling was promptly criticized by researchers at the Max Planck Institute, who noted, with respect to the court's restriction of truthful commercial speech, that "[w]hereas French courts would probably not have
blinded at the suggestion, English judges are harder to convince.\textsuperscript{111} One Max Planck researcher called for repeal of Article 4(g) of the CAD.\textsuperscript{2} As Lord Justice Jacob pointed out with evident satisfaction, the ECJ’s opinion has been roundly criticized in other quarters as well.\textsuperscript{113}

B. Merchandising Rights

In the analysis of disputes over unauthorized merchandising, a similar tension exists between the narrow approach of passing off and the broader concept of unfair competition. However, the concept of passing off in some common law jurisdictions has expanded to more closely resemble unfair competition law.

Generally speaking, the concept of merchandising involves using a mark on goods not specifically to identify their origin, but to capitalize on consumers’ affection for the mark.\textsuperscript{114} Merchandising often involves placing a popular mark on goods that are different from the goods for which the mark is famous—for example, placing the Ferrari mark on a T-shirt.\textsuperscript{115} A merchandising right may be asserted with respect to a registered mark or a wide variety of unregistered marks—for example, the titles of films, television shows, or videogames; the names or likenesses of athletes, entertainers, or other celebrities; and the names and likenesses of fictional characters.\textsuperscript{116} In some instances, unauthorized merchandising involves the use of copyrighted images—for example, where the use involves the image of a fiction-

\textsuperscript{111} Annette Kur, Lionel A.F. Bently & Ansgar Ohly, \textit{Sweet Smells and a Sour Taste – The ECJ’s L’Oreal Decision}, (Max Planck Inst. for Intell. Prop., Competition & Tax Law Research Paper No. 09-12, Univ. of Cambridge Faculty of Law Research Paper No. 10/01 2009).


\textsuperscript{114} Stacey L. Dogan & Mark A. Lemley, \textit{The Merchandising Right: Fragile Theory or Fait Accompli?} 54 EMORY L.J. 461, 472 (2005).


Passing Off and Unfair Competition

al character, such as Mickey Mouse—in which case the complaint would probably include both copyright and trademark claims. This discussion, however, focuses solely on trademark claims (registered or unregistered) that arise from unauthorized merchandising.

Under the approach of the civil law countries in the EU, the unauthorized use of a trademark, a fictional character, or a celebrity’s name or likeness will often be actionable even if consumers would not believe there was any endorsement or licensing arrangement, because under the law of unfair competition this is a type of free-riding on the reputation of the celebrity or the owner of the mark. In France, even if there is no competitive link between the parties’ goods, unauthorized merchandising is addressed under the doctrine of “agissements parasitaires.” In Germany, both registered and unregistered marks that have prestige value are protected against actions that exploit their reputation. Unfair competition remedies for unauthorized merchandising have been especially strong in Austria. When the emblem of an English football club was used on merchandise without the club’s consent, the Austrian Supreme Court held the defendant liable for parasitic exploitation of the club’s image and reputation, emphasizing that the reason the emblem was attractive to consumers was because it signified the club’s achievements, which were the result of the club’s efforts and expenditures. The Court has consistently applied the same effort/expense/achievement rationale in later cases involving noncompeting goods and services.

Nonetheless, there are exceptions, even in countries where the civil law ordinarily provides strong protection for the reputations of well-established marks. In 2010, Germany’s highest court refused to find either a likelihood of confusion or the taking of “unfair advantage” where a defendant sold remote-controlled scale-model replicas of the Opel Astra that featured the Opel logo (a registered trademark) affixed to the grille. Even though Opel had registered this mark both for motor vehicles and toys, the Bundesgerichtshof (BGH) considered the fact that the replica car market in

---

118. Patrick Martowicz, France, in CHARACTER MERCHANDISING IN EUROPE, supra note 116, at 121-22. This doctrine is also called “concurrence parasitaire.” UNFAIR COMPETITION LAW, supra note 63, at 28.
121. Id. at 23-24 (collecting cases).
Germany had existed since the late nineteenth century, and concluded that German consumers would perceive the presence of the mark simply as one of the details necessary to making an accurate replica of the Opel Astra. A European commentator notes, however, that in other civil law jurisdictions the same facts might lead to a different conclusion, "taking into account 'local' customs and views relating to (toy) cars."  

In some civil law regimes, unfair competition laws do not encompass every instance of unauthorized merchandising, because the laws impose a secondary meaning requirement or require a competitive relationship between the parties. The International Association for the Protection of Industrial Property (AIPPI) has urged these countries to expand their unfair competition laws in order to eliminate these restrictions.

Under the traditional English law of passing off, a mark is not infringed unless it is used to misrepresent the origin of goods or services. A series of cases in the 1970s established that unauthorized merchandising was not passing off, because the mark appealed to consumers without indicating the origin of the goods; passing off would occur only if consumers would infer that quality control was being exercised by the party authorized to license the mark. Unlike the United States, the United Kingdom does not recognize a right of publicity; thus, English courts generally do not recognize a cause of action for unauthorized commercial appropriation of a celebrity's name or likeness, even where the plaintiff disguises the claim as one of "false endorsement." For example, members of the musical group Abba could not prevent the use of their images on T-shirts and other products, and the Spice Girls could not win a passing off claim against a defendant that made stickers featuring their likenesses. However, a well-known racing car driver had a passing off claim when a radio station used his likeness in an ad that implied that he endorsed the station; the court used the false endorsement branch of passing off, believing that consumers might actually believe that the driver endorsed the station. And

124. See BENTLY & SHERMAN, supra note 116, at 8.
125. Id. at 9.
126. See BENTLY & SHERMAN, supra note 12, at 713-14.
129. See Halliwell v. Panini, (Lightman, J.) (June 6, 1997) (Ch.D.) (LEXIS) (U.K.); BBC Worldwide Ltd., [1998] F.S.R. 665 (High Ct., Ch.D) (U.K.) (failure to label stickers as "not authorized" was not implicit misrepresentation that they were authorized).
while the traditional English approach to passing off allowed a football club's insignia to be used on clothing as a "badge of allegiance" when there was no likelihood of confusion as to source, under the expanded approach to passing off this conclusion was no longer tenable.\footnote{As these cases illustrate, the line between false endorsement and "mere" commercial appropriation is difficult to discern. As recently as 1999, however, English courts continued to reject the claim of a merchandising right in a celebrity’s image.}\footnote{In general, the United Kingdom courts have been reluctant to expand the passing off doctrine to create a merchandising right in fictional characters. While the use of a celebrity’s name or likeness might in some cases imply endorsement of a product, it is more difficult to make that argument with respect to the names or images of fictional characters, since their fictional existence makes it impossible that such a character would literally "endorse" a product. For many years, English courts rejected character merchandising claims on the ground that the plaintiff and the defendant were not engaged in a "common field of activity." More recently, English courts have relied less on the "common field of activity" restriction, but have still declined to find misrepresentation unless the defendant affirmatively represents that the use of the character is authorized—for example, by claiming that the merchandise is "official." Even this may be changing, however. In the 1991 case of \textit{Mirage Studios v. Counter-Feat Clothing Co., Ltd.}, an English court found that the unlicensed use of the Teenage Mutant Ninja Turtles on clothing constituted passing off; the court reasoned that a substantial portion of the public is aware that reproducing characters on clothing constitutes passing off because the defendant made clear that his goods were not official Arsenal merchandise; see \textit{MACQUEEN, WAELEDE, LAURIE & BROWN, supra} note 78, at 779.} As these cases illustrate, the line between false endorsement and “mere” commercial appropriation is difficult to discern. As recently as 1999, however, English courts continued to reject the claim of a merchandising right in a celebrity’s image.\footnote{As these cases illustrate, the line between false endorsement and “mere” commercial appropriation is difficult to discern. As recently as 1999, however, English courts continued to reject the claim of a merchandising right in a celebrity’s image.} In general, the United Kingdom courts have been reluctant to expand the passing off doctrine to create a merchandising right in fictional characters.\footnote{In general, the United Kingdom courts have been reluctant to expand the passing off doctrine to create a merchandising right in fictional characters. While the use of a celebrity’s name or likeness might in some cases imply endorsement of a product, it is more difficult to make that argument with respect to the names or images of fictional characters, since their fictional existence makes it impossible that such a character would literally "endorse" a product. For many years, English courts rejected character merchandising claims on the ground that the plaintiff and the defendant were not engaged in a "common field of activity." More recently, English courts have relied less on the "common field of activity" restriction, but have still declined to find misrepresentation unless the defendant affirmatively represents that the use of the character is authorized—for example, by claiming that the merchandise is “official.” Even this may be changing, however. In the 1991 case of \textit{Mirage Studios v. Counter-Feat Clothing Co., Ltd.}, an English court found that the unlicensed use of the Teenage Mutant Ninja Turtles on clothing constituted passing off; the court reasoned that a substantial portion of the public is aware that reproducing characters on clothing constitutes passing off because the defendant made clear that his goods were not official Arsenal merchandise; see \textit{MACQUEEN, WAELEDE, LAURIE & BROWN, supra} note 78, at 779.}
goods generally involves a license, thus making it likely that the public would believe the defendant’s goods to be licensed, even though the owner of the characters did not at that time license them in the United Kingdom.\textsuperscript{137} Commentators have noted that it is difficult to distinguish between use of a character as a source indicator and use of the character as mere product decoration.\textsuperscript{138} This is almost the same distinction as the elusive one, noted earlier, between false endorsement and mere appropriation of a celebrity’s likeness.\textsuperscript{139}

Under the more liberal approach to passing off embraced in the United States, unauthorized merchandising activity is typically actionable under a false endorsement theory even if consumers would be unlikely to believe that the trademark owner (or celebrity) is the actual source of the defendant’s goods.\textsuperscript{140} One of the broadest endorsements of this application of passing off came from the Fifth Circuit, in a case that upheld a university’s right to prevent the use of its distinctive colors and insignia on unauthorized merchandise.\textsuperscript{141} While acknowledging that consumers might not care whether the merchandise they purchased was officially licensed by the university, the court held that they would in fact believe that this merchandise was licensed.\textsuperscript{142} The court’s reference to “free riding” suggests that its broad notion of passing off is strongly influenced by unfair competition concepts:

[ Defendant’s] use of the Universities’ colors and indicia is designed to create the illusion of affiliation with the Universities and essentially obtain a “free ride” by profiting from confusion among the fans of the Universities’ football teams who desire to show support for and affiliation with those teams. This creation of a link in the consumer’s mind between the t-shirts and the Universities and the intent to directly profit therefrom results in “an unmistakable aura of deception” and likelihood of confusion.\textsuperscript{143}

\begin{itemize}
  \item[138.] Character Merchandising, supra note 7, at 293.
  \item[139.] It has been predicted that the UK will have to broaden its protection for merchandising rights in order to comply with § 5(2) of the EU Trademark Directive, which provides that member states may forbid the use of registered marks, even on dissimilar goods, when (1) the mark has a reputation, and (2) the use of the mark “takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.” Character Merchandising, supra note 7, at 292. It should be noted, however, that this language is permissive rather than mandatory, and it applies only to registered marks.
  \item[141.] Louisiana State Univ. v. Smack Apparel, 550 F.3d 465 (5th Cir. 2008).
  \item[142.] Id. at 485.
  \item[143.] Id. at 483-84. This language echoes a passage from the same court’s prior decision in Boston Professional Hockey Ass’n v. Dallas Cap & Emblem Mfg., 510 F.2d 1004 (5th Cir. 1975), which held that the sale of patches bearing another’s trademark could infringe even if the patches were not already attached to other merchandise. The court held that
However, there is some conflict even among the federal courts. While many courts are willing to infer some likelihood of confusion in these cases,\textsuperscript{144} others have held that no infringement exists when the consumer is likely to perceive the mark simply as ornamentation or as a badge of allegiance. Some courts have reached this result by applying an exception for the \textit{“functional”} use of a mark,\textsuperscript{145} or by finding that there is no likelihood of confusion as to source or sponsorship.\textsuperscript{146}

Australia has yet to choose between the stricter and more liberal interpretations of passing off. There is conflicting case law on unauthorized merchandising, with some courts adopting an approach close to that of the civil law countries, under which the owner of the mark can recover if consumers make some sort of association between the defendant’s goods and the owner of the mark, even if they do not believe there is a commercial arrangement.\textsuperscript{147}

However, the Australian courts have not reached a consensus on the nature of the association that consumers must perceive. In the 1960 case of \textit{Henderson v. Radio Corp. Pty. Ltd.},\textsuperscript{148} the New South Wales Supreme Court

\begin{itemize}
  \item the patches themselves were the infringing goods, and that it was \textit{“irrelevant”} whether or not the consumers were confused about the source of the patches: \textit{“The argument that confusion must be as to the source of the manufacture of the emblem itself is unpersuasive, where the trademark, originated by the team, is the triggering mechanism for the sale of the emblem.” Id. at 1012; accord \textit{Boston Athletic Ass’n v. Sullivan}, 867 F.2d 22 (1st Cir. 1989).}
  \item Smack Apparel, 550 F.3d at 484-85; \textit{Boston Athletic Ass’n}, 867 F.2d 22; \textit{Univ. of Ga. Athletic Ass’n v. Laite}, 756 F.2d 1535 (11th Cir. 1985); \textit{Dallas Cap & Emblem Mfg.}, 510 F.2d at 1004.
  \item See, e.g., \textit{Int’l Org. of Job’s Daughters v. Lindenburg & Co.}, 633 F.2d 912, 917-19 (9th Cir. 1980); \textit{Univ. of Pittsburgh v. Champion Prods., Inc.}, 566 F. Supp. 711, 720-21 (C.D. Pa. 1983). The Ninth Circuit initially applied the \textit{Job’s Daughters} analysis to reject a merchandising claim involving the \textit{“Betty Boop”} character in \textit{Fleischer Studios, Inc. v. A.V.E.L.A., Inc.}, 636 F.3d 1115 (9th Cir. 2011), but it later withdrew this part of the opinion without explanation. Fleischer Studios, Inc. v. A.V.E.L.A., Inc., 654 F.3d 958 (9th Cir. 2011). The withdrawn opinion in \textit{Fleischer Studios} also cautioned that extending trademark protection to the merchandising of public domain character images would allow an end-run around the limited term of copyright protection. \textit{Fleischer Studios}, 636 F.3d at 1124.
  \item [1960] SR (NSW) 576 (Austl.) (rejecting \textit{“common field of activity”} requirement).
\end{itemize}
held that the unauthorized use of two dancers' images on a record sleeve constituted passing off because consumers would believe that the dancers endorsed or approved the recording. However, the court also advanced a second ground for its decision—that the dancers' reputation had been wrongfully appropriated. This "wrongful appropriation rationale" is comparable to the right of publicity recognized in the United States and also suggests a "free riding" or "unjust enrichment" rationale characteristic of unfair competition regimes. Later case law, however, utilized the narrower false endorsement rationale, finding that unauthorized merchandising of character images or distinctive elements of a motion picture may lead consumers to believe there is a licensing arrangement. In a 1988 decision involving merchandising rights in the film Crocodile Dundee, the Federal Court of Australia criticized the false endorsement rationale as "artificial" and as overly dependent on the public's perceptions (or misperceptions) as to the state of the law on merchandising. Instead, the court invoked the broader misappropriation rationale:

The essence of the wrong done in the [character and celebrity merchandising] cases . . . is not in truth a misrepresentation that there is a licensing or sponsoring agreement between the applicant and the respondent; it is in the second ground taken in the Henderson case, namely wrongful appropriation of a reputation or, more widely, wrongful association of goods with an image properly belonging to the applicant.

Emphasizing that "association" could refer to "a connection other than one relating to 'quality or endorsement,'" the court enjoined the respondent's use of any names or images "calculated to induce the public to believe that the first respondent or goods sold by it is associated with the film 'Crocodile Dundee' or the character portrayed by the applicant Paul Hogan in the film." Only one year later, the same court was deeply divided on a decision to uphold a passing off claim arising from a television ad that imi-

149. Id.
150. Id.
151. See, e.g., Children's Television Workshop Inc. v. Woolworths Ltd., [1981] 1 NSWLR 273 (Austl.) (unauthorized use of "Sesame Street" characters on toys likely to mislead consumers into believing there is a licensing arrangement); see also Moorgate Tobacco Co. Ltd. v. Philip Morris Ltd., (1984) 156 CLR 414 (Austl.) (rejection of general tort of unfair competition has not prevented adaptation of passing off tort to unauthorized use of indicia suggesting "association, quality or endorsement" of goods).
152. Hogan v. Koala Dundee Pty Ltd., (1988) 83 ALR 187 (Fed. Ct. Austl.). Christopher Wadlow has described the state of Australian merchandising law as follows: "Misrepresentation must still be shown, and the misrepresentation can be found in the public supposing there to be some sort of commercial arrangement of an unspecified kind between the plaintiff and the defendant." CHRISTOPHER WADLOW, THE LAW OF PASSING OFF 298-99 (2d ed. 1995).
154. Id. (citing Moorgate Tobacco, 156 CLR 414).
155. Id.
tated the famous knife scene from *Crocodile Dundee*. Judge Sheppard, dissenting, found the passing off claim untenable because viewers "could not reasonably conclude that Mr. Hogan had consented to or authorized the advertisement." The other two judges upheld the trial court’s finding of passing off, but applied different rationales. Judge Beaumont believed that the lower court was reasonable to conclude that a significant number of viewers would believe "that a commercial arrangement had been concluded between the first respondent and the appellant under which the first respondent agreed to the advertising." In contrast, Judge Burchett adopted a broader rationale, closer to unfair competition. He noted that "the question becomes whether the vagueness of the message prevents the application of the principles of passing off." In his view, passing off could be found regardless of whether viewers believed that the parties had a commercial licensing arrangement:

In my opinion, the vagueness of the suggestion conveyed in this case is not sufficient to save it. That vagueness is not incompatible with great effectiveness. It would be unfortunate if the law merely prevented a trader using the primitive club of direct misrepresentation, while leaving him free to employ the more sophisticated rapier of suggestion, which may deceive more completely. In my opinion, the deployment in circumstances of the present kind of techniques of persuasion, designed to influence prospective customers in favour of a trader or his products upon the basis of some underlying assumption which is false, may be held to be misleading or deceptive or to be likely to mislead or deceive within the meaning of s 52, and may also be held to constitute passing off.

These cases suggest that Australia may be edging toward a more liberal application of the passing off theory to protect merchandising rights, comparable to that which has developed in the United States, thus blurring the traditional boundaries between deception-based protection and the anti-free-riding concept embraced by unfair competition regimes.

C. The Latest Battleground: Keyword Advertising

The disharmony between the passing off and unfair competition regimes in Europe is being highlighted once again in the context of keyword advertising. The lower courts in France have (with one exception) held advertisers and Google liable for the unauthorized use of trademarks as keywords ("adwords"). In one such case, the Court of Strasbourg found no...
trademark infringement, but held that the use of adwords constituted unfair competition under Section 1382 of the French Civil Code. The trademark claim failed because the court found no likelihood of confusion as to source. The unfair competition claim was based on two assertions: (1) that the advertiser was taking unfair advantage of the reputation of the mark, and (2) that the advertiser’s use of the mark would enable it to attract the trademark owner’s customers. The BGH rejected both of these assertions, finding that (1) it was improbable that an internet user would transfer the perceived qualities associated with the adword to the defendant advertiser’s offer, and (2) the trademark owner had no protectable right to retain its customer base. Although another case involving adwords was referred to the ECJ, that case involved only trademark infringement, not unfair competition.

In March of 2010, the ECJ issued three opinions holding that the use of adwords by advertisers is trademark use and thus potentially infringement if the use is likely to cause confusion, but that the use of adwords by Google is not. However, the questions referred to the ECJ in these cases...
Passing Off and Unfair Competition (referred by France, Austria, and Germany) did not address the question of unfair competition. In a fourth case referred to the ECJ, the Hoge Raad of the Netherlands asked for a preliminary ruling on the question of whether states may prohibit keyword advertising that "takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark." However, the ECJ's ruling in this case, issued in July of 2010, found it unnecessary to reach this question in light of its disposition on the other questions presented.

The question whether the unauthorized use of trademarks in keyword advertising constitutes unfair competition arose again in *Interflora, Inc. v. Marks & Spencer*, an English case that was referred to the ECJ in 2009. Since May 2008, Google had adopted a more aggressive policy on keyword advertising in the United Kingdom and Ireland than in continental Europe, apparently based on the difference between the approaches to trademark protection in the common law and civil law regimes. The Advocate General of the EU issued a preliminary opinion in 2011, stating that, in the adwords context, if the sponsored link mentions the trademark, then the question of free riding "depends on whether we are faced with legitimate comparative advertising, or on the contrary, with riding on the coat-tails of the trade mark proprietor." Accordingly, the trademark owner is entitled to prevent the use of its mark in sponsored links when (1) the mark is used as a generic term for the goods or services, or (2) the advertiser attempts "to benefit from [the mark's] power of attraction, its reputation or its prestige, and to exploit the marketing effort expended by the proprietor of that mark."

In September of 2011, the ECJ issued its opinion in *Interflora*. For the first time, the court considered not only the trademark claims arising from keyword advertising, but also the unfair competition claims. In addressing the trademark claims, the court emphasized that Marks & Spencer's use of Interflora's mark presented a case of "double identity" because Marks & Spencer was using an identical mark in connection with identical

---

172. See id., [20]-[22]; Kate Tebbutt, Recent Changes to the Google Adwords Trade Mark Policy in the UK and Ireland, 2 BLOOMBERG EUR. BUS. L. REV. 398, 400 (2008).
174. Id. at ¶ 107(2).
goods or services.\textsuperscript{176} Under these circumstances, Interflora's mark was entitled to "absolute protection,"\textsuperscript{177} meaning that Marks & Spencer would be liable if its use of Interflora's mark was likely to have an adverse effect on one of the functions of the trade mark, irrespective of whether the function concerned is the essential function of indicating the origin of the product or service covered by the trade mark or one of the other functions of the mark, such as that of guaranteeing the quality of that product or service or that of communication, investment or advertising.\textsuperscript{178}

In contrast, if Marks & Spencer were not offering identical goods or services, then it would be liable only if its use of the Interflora mark gave rise to a likelihood of confusion as to origin\textsuperscript{179}—the same rule that would apply in a passing off regime.

Because the two parties in this case offered identical services, Marks & Spencer's keyword advertising was actionable if it affected the communication, investment, or advertising functions of the Interflora mark, even if consumers were not likely to be confused about the origin of Marks & Spencer's services. The ECJ concluded that, in this case, keyword advertising did not impair the advertising function of the mark,\textsuperscript{180} but left it to the English courts to determine whether the defendant's activity impaired the investment function of the mark—that is, whether it jeopardized Interflora's ability to maintain a reputation capable of attracting consumers and retaining their loyalty.\textsuperscript{181} The ECJ also left it to the English courts to determine whether Marks & Spencer's use of the Interflora mark undermined the distinctiveness of that mark to such a degree that consumers might come to perceive the mark as a generic term for flower delivery services.\textsuperscript{182}

In contrast to previous keyword advertising cases, the ECJ in Interflora also considered whether the unauthorized use of Interflora's mark constituted unfair competition—specifically, whether such a use "without due cause . . . takes unfair advantage of the distinctive character of the repute of the trade mark," thus constituting unlawful "free riding."\textsuperscript{183} The court had no difficulty concluding that keyword advertising is designed to capitalize on the distinctive character and repute of a mark, and that the advertiser derives an advantage from its unauthorized use of the mark to attract the attention of consumers who may then decide to purchase the ad-

\begin{enumerate}
\item 176. ld. \textsuperscript{¶} 33.
\item 177. ld. \textsuperscript{¶} 36.
\item 178. ld. \textsuperscript{¶} 38.
\item 179. ld. \textsuperscript{¶} 36.
\item 180. ld. \textsuperscript{¶¶} 57, 59.
\item 181. ld. \textsuperscript{¶¶} 62, 65.
\item 182. ld. \textsuperscript{¶¶} 76-83. The court referred to this process as "dilution," ld. \textsuperscript{¶} 76-77.
\item 183. ld. \textsuperscript{¶} 92. This standard is drawn from the unfair competition provision of the 2008 Trademark Directive, Council Directive 2008/95/EC, Article 5(2), which carries over from Article 5(2) of its predecessor, Council Directive 89/104/EC.
\end{enumerate}
The remaining question was whether this advantage was unfair. Here, the court drew directly from its analysis in the *L’Oreal* case, holding that the use of another party’s mark in keyword advertising can, in the absence of “due cause,”

be construed as a use whereby the advertiser rides on the coat-tails of a trade mark with a reputation in order to benefit from its power of attraction, its reputation and its prestige, and to exploit, without paying any financial compensation and without being required to make efforts of its own in that regard, the marketing effort expended by the proprietor of that mark in order to create and maintain the image of that mark. If that is the case, the advantage thus obtained by the third party must be considered to be unfair.185

Although the ECJ left it to the English courts to apply this standard to the facts, the court observed that unfairness was “particularly likely to be the conclusion” where the keyword advertiser is offering goods which are “imitations” of the goods or services offered by the trademark owner.186 In contrast, if the advertiser merely offers an “alternative” to the trademark owner’s goods or services, then the keyword advertising should be considered fair, because offering consumers an alternative constitutes “due cause” for referencing a competitor’s trademark:

By contrast, where the advertisement displayed on the internet on the basis of a keyword corresponding to a trade mark with a reputation puts forward - without offering a mere imitation of the goods or services of the proprietor of that trade mark, without causing dilution or tarnishment and without, moreover, adversely affecting the functions of the trade mark concerned - an alternative to the goods or services of the proprietor of the trade mark with a reputation, it must be concluded that such use falls, as a rule, within the ambit of fair competition in the sector for the goods or services concerned and is thus not without “due cause.”187

Thus, for purposes of unfair competition, *Interflora* tells us that it is crucial to determine whether the advertiser’s goods or services are “imitations” or “alternatives.” But what is the difference? Unfortunately, the ECJ did not address this question. In a context such as flower delivery services, it is difficult to see what would distinguish an “imitation” service from an “alternative” service. The Advocate General’s opinion suggested that Marks & Spencer’s service was an alternative, and not an imitation, but offered no explanation for this conclusion.188 The ECJ opinion leaves the ultimate application of this principle to the domestic courts. In light of their hostility to *L’Oreal*, it seems likely that the English courts will perceive *Interflora* as a thorny bouquet. Whether or not the imitation/alternative distinction proves

---

184. *Id.* ¶¶ 86-87.
185. *Id.* ¶ 89 (citing *L’Oreal* SA v. Bellure NV, C-487/07, ¶ 49, 79 (June 18, 2009)).
186. *Id.* ¶ 90.
187. *Id.* ¶ 91 (citing Article 5(2) of Directive 89/104/EC); see also *id.* ¶ 95.
viable will have a significant impact on the outcome of future adwords cases throughout the EU.  

In the United States, the application of passing off doctrine to keyword advertising remains unsettled. The federal courts have yet to reach a consensus on whether keyword advertising constitutes "trademark use" at all. The answer may depend on whether the trademark is used simply to trigger the ad, or whether it is actually displayed in the resulting ad. Even if trademark use is found, the question whether that use is likely to cause confusion turns on a fact-intensive multi-factor analysis. It is safe to say, however, that, in determining whether keyword advertising is infringement, American courts will not concern themselves with the question whether the competitor's goods are "imitations" or "alternatives."

CONCLUSION

The common law regime that has come under the greatest pressure to abandon the deception-based concept of passing off in favor of a broader unfair competition law is the United Kingdom. However, courts in that jurisdiction have expressed deep reservations about whole-heartedly embracing the broad notion of unfair competition law that prevails in the civil law regimes of continental Europe, in particular because the quest for "fairness" threatens to undermine the goals of "competition." It remains to be seen whether their concerns will influence the rest of the EU.

Free from these pressures to conform to EU policy, the United States continues to favor free competition over highly regulated markets and abstract notions of fairness and "free riding," and is therefore likely to continue to favor the passing off regime. Even in the United States, however, aggressive litigation by trademark owners has led to considerable expansion of the passing off doctrine, with respect to both registered and unregistered marks, and today the concept of "false endorsement" has been interpreted so


190. See Rosetta Stone Ltd. v. Google, Inc., 676 F.3d 144, 152-53 & n. 4 (4th Cir. 2012) (assuming, without deciding, that keyword advertising is trademark use). The trend, however, is toward recognizing this as a trademark use. See Network Automation, Inc. v. Advanced Systems Concepts, Inc., 638 F.3d 1137, 1145 (9th Cir. 2011); Rescuecom Corp. v. Google, Inc., 562 F.3d 123, 128-29 (2d Cir. 2009).


192. See Rosetta Stone, 676 F.3d at 153-60 (finding triable issues of fact under likelihood of confusion factors); Network Automation, 638 F.3d at 1149-54 (finding district court's multi-factor analysis inadequate).
broadly as to approximate misappropriation. Australia seems to be following a similar path.

In some common law countries, legislative actions have also eroded the traditional requirement of deception or confusion in trademark law. In this regard, the most significant legislative development is the recognition of trademark dilution, which dispenses with the requirement of confusion in certain circumstances. In the United States, the dilution provisions in Section 43(c) of the Lanham Act protect only “famous” marks against two types of non-confusion-related harms—blurring and tarnishment. In Canada, the dilution statute prohibits any use of a registered mark that will “depreciate[] the value of the goodwill attaching thereto.” Dilution statutes afford trademark owners a significant degree of control over non-confusing uses of their marks; even though they apply only to a subset of marks, these laws clearly have the effect of introducing broader unfair competition concepts into common law regimes. In the United States and Canada, however, dilution claims generally require some evidence of harm (or potential harm) to the goodwill or reputation of the mark; thus, pure “free riding” is typically not sufficient—at least, not yet.

In the common law regimes, passing off has increasingly become disconnected from its moorings in the law of deceit. Countries that place a high value on vigorous competition have resisted this trend with varying degrees of success. In the context of copycat products and comparative advertising, their resistance has been especially strong; the United Kingdom, however, cannot maintain its position unless it persuades the rest of the EU to tolerate a less-regulated competitive environment. While the seemingly unstoppable growth of the merchandising right in the United States contrasts sharply with the United Kingdom’s continued refusal to recognize such a right, cracks in the latter’s resistance have emerged, even without pressure from the EU, as the line between false endorsement and free riding has become

194. See Trademarks Act, R.S.C. 1985, c. T-13, § 22. In Canada, unlike the United States, dilution protection is limited to registered trademarks. In addition, the Canadian Supreme Court has interpreted § 22 narrowly. See Veuve Clicquot Ponsardin & Maison Fonfede en 1772 v. Boutiques Clicquot Ltee, [2006] 1 S.C.R. 824 (Can.).
less distinct. This blurring has also become evident in Australia. Although the different approaches to trademark protection continue to reflect the strong cultural difference between legal regimes that prioritize the protection of brand owners' investments and those that prioritize consumer protection, the pressures toward doctrinal convergence will intensify as trademark owners seek to aggressively expand their brand identities without regard to national borders.