

## UNFAIR COMPETITION UNDER COMMON LAW AND STATUTE

I intend to discuss two aspects of a theme that becomes central to any self-respecting course on intellectual property rights.<sup>1</sup> The theme is the extent to which rights in this general category — rights excluding competitors from trading in particular types of subject matter (inventions, aesthetic works, etc.) or from trading by use of particular signs, get-up or advertising — should be defined by elaborated legislative regimes; and how far the range and scope of protection should be left to elaboration by courts. Examples of each are common enough in the law as we know it: legislation on patents, copyright, registered designs and trade marks define their purposes *in extenso* by specifying the duration of rights, the scope of monopoly, the method of acquisition, the disposition of ownership, and so on; whereas common law protection is used to sustain the reputation attaching to trade marks and names and to prevent breaches of confidence.

The particular aspects on which I want to concentrate attention concern the notion of “unfair competition” as a rubric under which judges may “concretize” the law on two fronts:

- (i) actions by one competitor against another to prevent marketing, advertising and the like which may mislead consumers — *unfair competition and consumer protection*;
- (ii) actions by one person to prevent another from copying design elements to industrial products — *unfair competition and product design*.

The common law of the British commonwealth has notoriously been reluctant to launch out on the sea of “unfair trading” or “unlawful competition”, beyond the safe harbours of passing off, injurious falsehood and breach of confidence. That resistance continues and I shall examine it by some brief comparisons between developments in Australia, the United Kingdom and continental Western Europe, notably in West Germany. Australia has become the “old” Commonwealth country which is most ready to alter the inherited patterns of intellectual property law, patterns which originally contoured the claims of Imperial industry. The cousinage of intellectual property, while increasingly international, remains curiously inbred. Developments in the Australian branch are

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1 This paper was written to provoke, rather than to inform. There is an admirable literature available for those seeking detailed accounts of the relevant law and further references. On the relation between unfair competition and consumer protection, see in particular, M Blakeney, “Old Wine in New Bottles: Influence of the Common Law in the Interpretation of Section 52 of the Trade Practices Act” (1984) 58 ALJ 316; J J Garnsey, “Unfair Trade Practices and Intellectual Property Rights — the Australian Experience” in M Crew *et al*, *Intellectual Property Law in New Zealand and Australia* (1985), Paper 2; F-K Beier, “The Law of Unfair Competition in the European Community — Its Development and Present Status (1985) 16 IIC 139 and [1985] EIPR. On the relation between unfair competition and industrial design, see especially, Christine Fellner, *The Future of Legal Protection for Industrial Design* (1985).

accordingly of great interest everywhere, for the whole family is pre-occupied with fitness for survival.

## UNFAIR COMPETITION AND CONSUMER PROTECTION

As we are all aware, consumers may be protected by giving them individually rights of civil action, or by making civil or criminal sanctions open to consumers *en groupe* or bureaucracies such as the Trade Practices Commission here, the Trading Standards authorities of British local government, the Fair Trade Commission in the United States or the Services de la repression des fraudes et de controle de la qualité in France. My question is how far competitors can and should be harnessed to the cause of consumer protection by giving them a civil right of action to object to conduct which will mislead (or possibly "confuse" or otherwise be "unfair to") consumers.

Britain has shown no interest in such a development beyond the scope of her traditional torts — competitors' actions are not admitted under the *Trade Descriptions Act* 1968. By contrast countries such as France, Italy, the Benelux countries and many US jurisdictions have used pure common law or very general code provisions on delictual liability to develop this aspect of unfair competition. And West Germany, the US and other countries have employed unfair competition legislation, particularly of the general clause type, to give the judges considerable discretion in developing similar principles.

In the *Trade Practices Act* 1974, the Commonwealth has followed this last pattern of development. Inspired by the Wheeler-Lea amendments to the Clayton Act in the US, but not following exactly the same formula, this Act has created what are, *inter alia*, competitors' actions, not only on the relatively specific grounds of s 53 et seq, but on the general ground that "a corporation shall not, in trade or commerce, engage in conduct that is misleading or deceptive or is likely to mislead or deceive" (s 52).

Michael Blakeney has recently lamented that s 52 has largely been employed in competitors' actions (at least in reported litigation)<sup>2</sup>. These actions were of course attempts to wriggle out of the foundation garments of the passing-off action and slip into something altogether looser. To Mr Blakeney's dismay the judges have been resistant to novel prospects of hanging free; instead, as he says, there has "emerged a corpus of law which is little different in thrust from the *Gesellschaft* attitudes it was supposed to replace".<sup>3</sup>

He most usefully demonstrates that, despite protestations that s 52 liability is not just liability for passing off, certain ideas that have operated as significant limits for the common law have now been introduced into the statutory territory. In particular: the Federal courts have proved reluctant to protect descriptive words (such as "building information centre" in the *Hornsby* case)<sup>4</sup> as indications of the origin of goods or services; they have refused to take account of trading reputations in foreign jurisdictions (such as that of the *Taco Bell* chain

2 Above, n 1.

3 *Ibid*, p 317, as amended.

4 *Hornsby v Sydney* (1978) 140 CLR 216.

of Mexican restaurants in the US);<sup>5</sup> they have required a high standard of proof that the consuming public have to a significant extent been misled or deceived, tending to say that mistakes will amount at most to confusions or will mislead only the dim-witted; and in particular they have been reluctant to find danger in the dilution of a trade mark, i.e. its adoption in a wholly different field (as in the diversification of "*Big Mac*" from burgers to burgundies);<sup>6</sup> they have been reluctant to give much account to subsidiary aspects of get-up and advertising, when the main trade marks are clearly distinguishable and they have been particularly reluctant to treat the design of the product itself (such as the "Custom Built" and "Rawhide" furniture in the *Puxu* case)<sup>7</sup> as a source of customer deception.

I would not myself take quite so gloomy a view of the incapacity of s 52 (taken together with s 53 et seq) for new developments that might assist the "ambitious consumerist objectives" of the *Trade Practices Act*. I detect in the case-law a willingness to treat as actionable conduct which is at or beyond the farthest reaches of passing-off or injurious falsehood: such as misrepresentations about the sponsorship of products,<sup>8</sup> so-called "inverse" passing-off (using the picture of someone else's new product),<sup>9</sup> deceptions of the "as seen on TV" type,<sup>10</sup> threats to sue customers upon groundless claims,<sup>11</sup> advertising which makes false comparisons;<sup>12</sup> and — much the most important — false statements about the qualities of a product, as evidenced by the interlocutory injunction against advertising AIM toothpaste as "inhibiting dental plaque" when there was no evidence that it did.<sup>13</sup>

Nonetheless, the burden of Mr Blakeney's analysis remains significant. Without going into details, I might summarise what it shows by suggesting that the judges have continued to require of a competitor-applicant under s 52 (as of a plaintiff in a passing-off action) that he prove a protectable interest built up through trade which is being harmed (or is likely to be), other than an interest to license the defendant's conduct or not as he chooses.

I would, however, draw rather different object lessons from this short history than does Mr Blakeney.

(i) The Australian experience demonstrates to a striking extent the readiness of competitors to engage in competition by litigation: the limits of the law act as a floodgate; any indication that they are being opened a little will bring a surge of expectant water. Most intellectual property rights fall under the same sort of pressure at most times.

(ii) I detect in the s 52 judgments an appreciation that to relax the constraints would be to create a murky swamp in which the outcome of cases would depend on subjective assessments of the degree of harm being done to the consuming public. This appreciation is necessarily

<sup>5</sup> *Taco v Taco Bell* (1982) 2 TPR 48.

<sup>6</sup> *McWilliam's Wines v McDonald's System* (1980) 49 FLR 455.

<sup>7</sup> *Parkdale v Puxu* (1982) 56 ALJR 715.

<sup>8</sup> eg *Pine Trees v Atlas* (1981) 38 ALR 187.

<sup>9</sup> *Marlbro Shelving v ARC Engineering* (1983) 5 TPR 271.

<sup>10</sup> *Nostac v New Concept* (1981) 4 TPR 402.

<sup>11</sup> *Englander v Ideal Toy* (1981) 54 FLR 227.

<sup>12</sup> *Stuart Alexander v Blenders* (1981) 53 FLR 307.

<sup>13</sup> *Colgate-Palmolive v Rexona* (1981) 58 FLR 391.

coloured by the fact of our highly competitive systems of civil litigation, in which the burden of preparing the case (in these instances often involving such cumbersome things as opinion polls) falls on the parties and the financial risks of losing are so very considerable. Litigation of the intellectual property type is specially prey to the danger that victory will go to the contestant who swaggers more convincingly. This is an ever-present hazard and one that must so far as possible, be combatted by rules that have a hard edge, and therefore a straightforward application.

(iii) A competitor taking action about the deception of consumers is not generally engaging in altruistic endeavour. He, she or it will constantly be assessing the benefits to the business — and the factors to be weighed may be complex. As Mr Blakeney points out, a compromise in these cases leads to the suspicion that the two sides have struck a deal which suits them. At worst, it will result in the public being deceived by both of them: both will say (to take a purely hypothetical example) that their toothpaste inhibits dental plaque. In other words, the attacker's main motive may be to gain power to license the defendant's conduct.

(iv) If competitors are being relied upon to police consumer protection, the results must be patchy and skewed. It is surely no accident in the recent Australian developments that very few cases seem to have concerned misrepresentations about the qualities of products and so much more attention has been given to matters where the competitor's own interest seems more central than the customer's — the protection of foreign reputation, the dilution of trade marks by transferring them to another field, and so on. In a word, I believe that the competitor is no adequate substitute for consumer protection conducted by a public authority or a banding together of consumers themselves (I do not enter into the respective merits of these two courses). One way or another, consumers must provide the resources for their protection against predatory traders. It is a misleading hope that the self-interest of competitors can satisfactorily be harnessed to the work, but a hope which is all too easily espoused.

(v) There is in this a special lesson for the UK and the countries of the EEC. It is that, if a general clause allowing competitors' actions to police false and misleading marketing is imposed on all the member states of the Common Market, it is likely to lead to a distracting and unprofitable conflict of laws. British and Irish reactions to such a novelty are likely to be similar to those of Australian judges and so very different from those of judges in some of our partner states. To explain calls for at least a word of background.

The West German law of unfair competition is highly developed and has come to provide the central plank of consumer protection by admitting consumers and consumer associations alongside competitors as plaintiffs in such proceedings. It is now a wide-ranging law covering not only misappropriation of marks and names and all forms of deceptive advertising and labelling but predatory practices of monopolies and cartels such as rebating, loss leading and the like. Competitors make regular use of it as a weapon in the commercial process.<sup>14</sup>

Within the EEC the Germans have pressed for this model to be imposed upon the whole Common Market, the major initiative being a

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<sup>14</sup> See, eg Beier, above, n 1.

multi-volume study for the EC Commission of the existing laws of unfair competition, by the Max-Planck Institute for Patent, Copyright and Competition Law in Munich, led by the great Professor Eugen Ulmer.<sup>15</sup> It was Ulmer's ultimate proposal that all states should adopt an unfair competition law with a general clause restraining conduct contrary to honest business practice, and that this should allow for competitors' or consumers' actions for injunctive relief and monetary compensation, including rapid interlocutory relief. The only outcome of this initiative so far has been a squib — a Directive to Member States last year, purely on the subject of misleading advertising. This in effect adopts a "lowest common denominator" approach and allows, for instance, the United Kingdom to continue with its existing consumer protection laws.<sup>16</sup>

This is highly unsatisfactory to Ulmer's torch-bearers. The current director of the Max-Planck Institute, Professor Beier, in this year's Herschel Smith Lecture in London,<sup>17</sup> advocated a return to the Ulmer approach. He did so in very general terms which scarcely spelled out what he found so unsatisfactory about the present position. He warned of the danger of a law that leant too strongly towards consumer interests. The future law, he said, "must give equal effect to the interests of all market participants, be they agricultural producers, industrial manufacturers, wholesalers or retailers, commercial customers or private consumers, large medium size or small business". That is all very well for a peroration but it gives little away about what is so unsatisfactory in the present position. Only one hint of this came incidentally — in the course of a reassuring demonstration that German courts do follow precedent, just like common law courts. We were invited to admire a decision of the German Supreme Court sustaining an objection to use of the Rolls-Royce grille to advertise whisky;<sup>18</sup> and a consequential decision of the Munich Appeal Court enjoining the marketers of Perrier water from claiming either that it was *the* champagne of mineral waters or even *a* champagne of mineral waters: the former because consumers would be misled, Perrier being an ordinary mineral water; the latter because it involved a serious dilution of the champagne producers' name.<sup>19</sup>

I have little doubt that British courts would treat claims of this nature with the same suspicion that Australian courts have been showing to some of the actions launched by competitors under s 52. I would have every sympathy. This illustration from West Germany seems to show an overheated concern that none shall benefit from another's reputation without licence in any way whatsoever. It has very little to do with significant interests of consumers. To allow such claims in the name of providing them protection is a distraction from what should be the thrust of legal intervention — which should be to ensure that the buying public is not directly misinformed or led on by highly suggestive claims that play unduly upon their sensitivities and inadequacies. These are not matters which competitors can be relied upon to police systematically or satisfactorily. My hope for the Common Market is that we will develop

15 E Ulmer (with F-K Beier) *Das Recht des unlauteren Wettbewerbs in den Mitgliedstaaten der EWG* (6 vols, 1965-81).

16 Council Directive, 20.9.84, OJ, European Communities, No L250/20.

17 Above, n 1.

18 *Rolls-Royce*, BGH, 9 December 1982, [1983] GRUR 247; (1984) 15 IIC 240.

19 *Perrier*, OLG Munchen, 24 January 1985.

the machinery that is directly concerned with the consumer's welfare without any distracting overlay of competitive advantage.

For Australia, I would suggest that the only real hope lies in doing the same, however slender the resources for doing so. It is scarcely likely that, competitors' actions having been conceded, they will be withdrawn. It would also be unfortunate if judicial reactions to them (such as the insistence on high standards in proving deception of consumers) were to make actions by consumer authorities unduly difficult. There is, fortunately, as yet no substantial indication that this happens in practice. The severe run on financial resources for consumer protection should be halted so far as that is achievable. That effort should not be deflected by the complacent pretence that competitive self-interest is a real substitute.

## UNFAIR COMPETITION AND PRODUCT DESIGN

I now turn to an aspect of unfair competition which deals in commercial rivalry untrammelled by considerations of consumer interest. The industries of many developed countries are today preoccupied with copying of products, as distinct from copying of their get-up or marking. There is constant pressure for wider-ranging protection and more efficient enforcement mechanisms. This is true not only of the industries traditionally associated with copyright — the educational and entertainment industries — but also includes the modern manipulators of information such as the computer industry, and any industry which puts out articles that have distinctive shape. Some extension of the traditional types of intellectual property right have, in my view, become inevitable as technical change has made the process of direct imitation easier and more tempting, and the often considerable investment in distinctive products has been exposed to cheap corner-cutting that may destroy its value.

I want to talk only about the last category just mentioned, the protection given to the shape and decoration of industrial products, because its scope is particularly broad and because decisive choices about the future law are beginning to be made in numerous countries. Again there proves to be an interesting comparison to be made between Australian, British and West European approaches to the problem, and again I will start with Australia, in this case because it strives for the moderation and precision that I consider cardinal virtues in intellectual property protection.

Put very summarily, Australia has reacted to pressure for more complete protection against design copying by extending its established systems of patent and registered design protection. Not only may inventions be protected by fully-fledged patents, granted after Patent Office examination, for a maximum term of sixteen years; they may now be the subject of a less formal petty patent which is granted without systematic prior examination, for a maximum of six years. This new development follows in broad terms the short protection for "utility models" to be found in West German, Japanese, Italian, French and other legal systems. At much the same time, Australia has confirmed that its registered designs system (which gives protection for a maximum of 16 years), is open to any complete article which can be judged by the eye, regardless of whether or not it serves a wholly functional purpose.

Whether a patent, a petty patent or a registered design is used, the protection granted is defined in advance by the process of application and the rest of an industry can, by searching the register, in principle discover what they may not copy. The approach has the attraction of limited scope and some precision, but it has its drawbacks. It gives protection not only against copying but against independent devising of the same notion, and as a concomitant requires the application for protection to be lodged before commercial prospects have been tested by marketing. It thus has in-built advantages for the large-scale organisation aware of the significance of a regular system of seeking protection and able to absorb the not inconsiderable costs of application. Inevitably the Australian developments are the product of an environment in which those with professional interests in the business of application and registration have made much of the running in the legislative process.

By contrast the British, presaged by the New Zealanders, and drawing in their wake the Irish, the South Africans, the Hong Kongese and others in the Commonwealth net (but not the Australians) have made their largest extension in industrial design protection through the medium of artistic copyright. This has been possible, above all, because in the British conception — but certainly not the continental European — two-dimensional artistic works protected by copyright may not be reproduced in three dimensions without licence. The UK used to have, as Australia still has, a provision apparently abnegating this consequence when an artistic work such as a product design is reproduced as part of industrial mass production. By an extraordinarily inept piece of legislation, showing the British Parliamentary process in a most unflattering light, the *Design Copyright Act* 1968 apparently lifted this exemption, at least for a period of 15 years from first marketing. After this Act, copyright entered the industrial field in a dramatic way, covering not only obviously decorative elements but also entirely functional items — it might apply to every part of a car or a camera or an atomic power station. To claim it in practice it is necessary to show ownership of copyright in a production drawing, which is substantially reproduced in the alleged infringement and is copied, directly or indirectly, from the drawing; no registration or other formality is required to gain copyright.

It takes at least an hour to describe the errors and omissions of this legislative adventure. There is a quarter-chance that the House of Lords will resolve the most egregious of them all, when the British Leyland exhaust pipes case reaches them in October.<sup>20</sup> Today, I want only to say, that I have come to think that the inadequacies concern non-essentials. Serious consideration still needs to be given to the central notion of using copyright protection, with appropriate limitations, in this sphere. Certainly this was the approach that a majority of the Whitford committee in 1977<sup>21</sup> and it seems still to be in the minds of some parts of the British government machine.<sup>22</sup>

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20 This is the reading of the legislation which gives registrable designs copyright for 15 years from first marketing, but unregistrable designs copyright for the artist's life and 50 years thereafter: held (absurdly) to be the law by the Court of Appeal in *Armstrong v British Leyland* [1984] 3 CMLR 102.

21 *Reform of Copyright and Designs Law* Cmnd 6732, 1974, paras 181-93.

22 But cf the Green Papers, Cmnd 8302, 1981, and 9117, 1983.

By way of further contrast, continental European countries had dealt with the same problems by placing considerable emphasis upon general unfair competition law, through the development of notions such as disloyalty, slavish imitation and direct misappropriation of moulds, master copies, etc. The law has been carried to different lengths in different jurisdictions, but the thrust has undoubtedly been to broaden its impact. I cannot begin on details, but I can recommend to you an excellent study by Christine Fellner, *The Future of Legal Protection for Industrial Design*.<sup>23</sup> Through her pages you can trace the fortunes of claims in a splay of jurisdictions, against copying of Rubik's cube, Lego toy parts and many other familiar friends. By way of example, an Italian spare parts case must stand proxy for all else: Citroen sought to enjoin a competitor who was supplying replacement brake pads for its cars. The competitor's pads had copied Citroen's in all details, such as finned supports which had a lattice upon them. The Tribunale di Milano refused to find slavish copying, holding instead that the spares were functional items which in the interests of competition and the absence of specific industrial property rights could be freely copied. However, the Appeal Court, relying on the report of its expert, found that there was no need for the imitation to adopt precisely the design features of Citroen's and that therefore there was unnecessary and improper copying.<sup>24</sup>

The case is worth noting for the contrast that it presents with both the Australian approach where clearly there would have to be a specific industrial property right (though one might have been available) and the English approach: in the English spare parts cases (British Leyland exhausts, Hoover accessories) the question has simply been, has the plaintiff a copyright drawing of the part in question? and is there substantial reproduction, even to the eye of the non-expert? There is no room for judicial assessment of the overall morality or public interest: no plane for a judge to decide that there should be copying of a part in a certain form because it is justified in the evident consumer interest of price competition. This is of course only one kind of factor which an unfair competition regime might put into a balance of this sort.

Ms Fellner emerges at the end of her comprehensive review as the antagonist of copyright protection for functional designs and the advocate of unfair copying legislation in its place, broadly on the model of the continental developments.

"The fact of copying would be determined by the same tests of similarity and proof of access which are applied in a copyright action; but in deciding whether the copying which had taken place was unfair, the judge would pay particular attention to which features had been copied. Were these such as to confer some special quality of appearance or function, some genuine advantages over the 'prior art', or were they merely standard or well-known features which properly form part of the 'common pool' of knowledge in the industry concerned? Can they be shown to have contributed significantly to the product's success or its superiority over competing products? The 'infringing copy' would also be considered to see how important to its appearance or function the

23 Above, n 1.

24 *Ibid*, paras 512-15; and [1982] 4 EIPR D-76.



copied parts were: if there had been copying but had also been substantial improvements not only in appearance but also in function or material, then the taking of the copied parts would not be unfair. . .

In addition to this, the judge should be directed to have regard to some or all of the other factors taken into account by foreign courts in "slavish imitation" of cases. Of particular importance would be the technical or commercial feasibility of making changes, the public interest (if any) in the ready availability of substitute products, the scale of the plaintiff's investment in developing the product, and the behaviour of the parties."<sup>25</sup>

You will, I hope, be aware by now that I regard this sort of open invitation to balance and to weigh as the direction in which rights of this kind should not turn. I would not deny that even in a patent, copyright or registered design case these sorts of consideration sometimes play upon the judicial psyche as it works up to a decision. But a positive demand that all sides be evaluated must lead — particularly within our judicial systems — to endless complications of evidence and long-winded presentations which deprive many situations of any legal certainty and leave survival to the litigiously fittest. The choice for me therefore is between the Australian type of registered right and the British copyright solution, in which the only "formality" consists in making and recording one's own technical drawings.

No one argues that the present British law, as it was left after 1968, should be allowed to stand and there are those who are looking Australia-wards. These include Sir Robin Nicholson, Scientific Adviser to the Cabinet Office, who wants to see the introduction of a petty patent for 10 years.<sup>26</sup> But if the copyright law was amended by reducing the term of protection for industrial applications of copyright in design to 15 or even 25 years in all cases, if the ludicrously savage rules on conversion damages were removed, and, in my view, if the supply of spare parts for larger machines and apparatus were exempted (possibly along the line to this effect to be found in the Australian designs legislation), the result would be an extension of rights that would be cheap and straightforward to acquire and relatively clear in ambit. It remains the direction in which I hope that British legislation will turn. It has some chance of success because it is nearest to the *status quo*. But I still fear that we may be driven away either from your position or our own current position and into the continental embrace of "slavish imitation" and "unfair copying".

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<sup>25</sup> *Ibid*, paras 669-70.

<sup>26</sup> See Green Paper, *Intellectual Property Rights and Innovation*, Cmnd 9117, 1983.